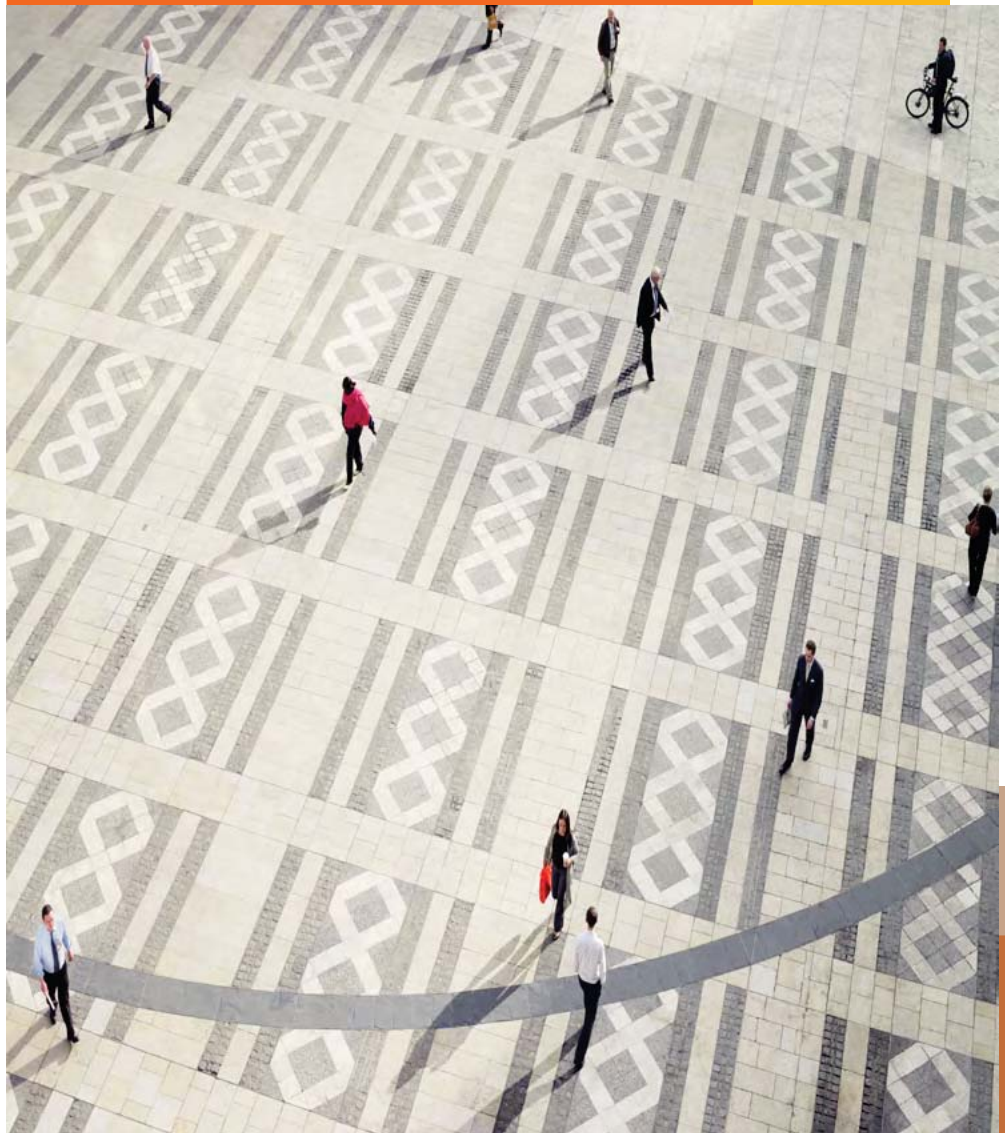


Future of Government

*Tomorrow's leading
public body*

June 2013



Foreword

Six years ago, in the report that launched PwC's Public Sector Research Centre – 'The road ahead for public service delivery' – we called on government and public sector organisations to 'deliver on the customer promise'.

Much has changed since! Financial crisis, a Great Recession and an overhang of debt in the developed world mean that governments face very different futures from those we envisaged.

While the world has moved very quickly, governments have struggled to keep pace. And delivering on the 'customer promise' remains as much of a challenge now as it was six years ago. Not only have expectations risen exponentially with rapid developments in new technology, but the funds for investing in public services have dried up in many countries. And the assumptions underlying apparently successful models of the past, such as New Public Management, are being challenged.

Our original report set out five challenges for government at all levels to deliver the outcomes people want: understanding user needs through 'customer insight'; pulling down the silo walls to create connected government; building capacity to deliver results; realising the benefits; and continuously innovating to sustain them.

Six years on, we review these challenges and the developments that have taken place since. We also pose the new challenges (and potential solutions) for public sector organisations, with the aim of providing a toolbox for practical implementation.

Government and public sector organisations world wide must adjust to the new reality of 'doing more for less' (or 'doing less for less') and focus on the outcomes society needs and wants. Public bodies must also decide if they want to consume the legacy left behind by predecessors, or create a new legacy for the next generation.

In our view, partnering, co-venturing, co-creation and co-design are the new 'must-have' capabilities, and agility, innovation, connectedness and transparency the characteristics and behaviours needed by the public bodies of tomorrow.



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Summary

*Governments and public sector organisations face a future where **dealing with uncertainty while delivering services that are affordable, in the context of deficit-reducing budget cuts, is their new normal.** The challenge for public sector organisations world-wide is to adjust to the new reality of ‘doing more for less’ (or ‘doing less for less’) and focus on the outcomes society needs and wants, while navigating some seismic shifts (Figure 1).*

In our view, tomorrow’s public body will need to act quite differently, more like a living organism, adapting to change and evolving to address society’s needs as they develop.

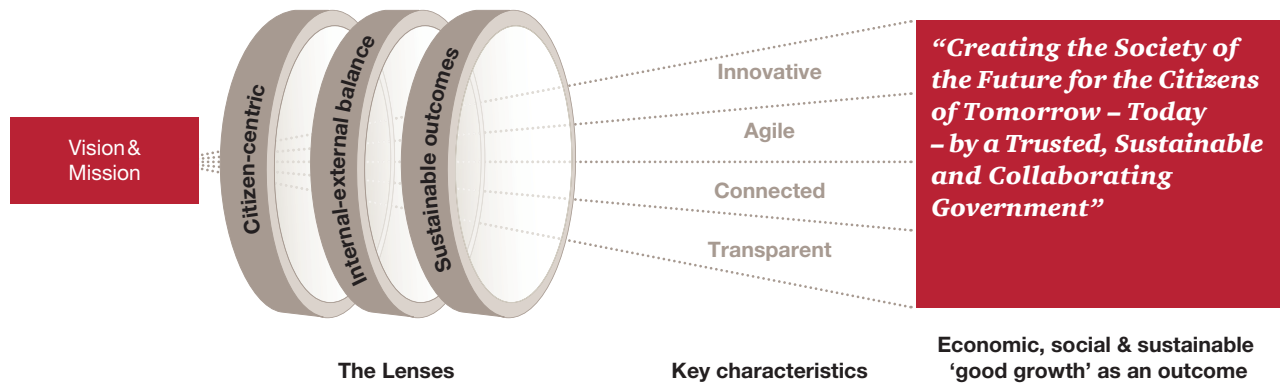
Governments and public sector leaders have a key role in this shift, re-focusing their organisations on their changed environments and projecting a clear and vibrant picture for the future which energises both their internal and external stakeholders. For this to happen, a number of elements need to be aligned to create the desired public body of the future, one that is adaptive to its circumstances and ready to deliver its defined purpose in the face of a world in constant change (see Figure 2).

The starting point is the organisation’s **vision and mission**, which should clearly answer the first key question: where do we need to go? This begins with its purpose, as defined by political leaders, but also needs to be contextualised and encompass internal and external stakeholders’ points of view.

Figure 1: Bridging from now to the future

From...	To...
Citizen under control	Citizen in control
Governing for citizens	Governing with citizens
Organisation silos	Organisation networks
Public sector organisations as big, all-in-one giants	Public sector organisations as small, flexible, purpose-driven entities
Government as service provider	Government as service facilitator/ broker/ commissioner
Government owning inputs and processes	Governments and citizens owning outcomes
Measuring outputs	Measuring outcomes
Forced cooperation based on enforcement	Mutual collaboration based on trust
Trust in the ‘strong leader’	Trust in each other, the ‘servant leader’

Figure 2: Projecting and creating the society of the future



Source: PwC

Delivering its vision and mission, however, requires the organisation to find the ideal size, shape and way of operating. To chart its course will also require the organisation to view itself through the different ‘lenses’ which need to guide its behaviour:

- **Citizen-centricity.** Always keeping the citizen at the very centre, meeting citizen needs effectively, affordably and on a timely basis.
- **Internal-external balance.** Ensuring the right balance between managing internal organisational efficiency and effectiveness and externally delivering ‘good growth’.
- **Sustainable outcomes.** Strategically building the assets for society by managing the ‘capitals’ needed for long term prosperity: social, environmental, cultural, intellectual, infrastructural, ICT and political participation capitals.

In turn, there are four interdependent and reinforcing **key characteristics** which the leading public sector body of the future needs to exhibit and which will affect how leaders and their staff must act and behave in order to deliver the outcomes and impacts required of them:

- **Agile.** Ready to anticipate situations, as well as adapt and react optimally to unforeseen events, in a speedy and cost effective manner providing needed responses in the short term without compromising or sabotaging long term options.
- **Innovative.** Capable of incubating ideas and delivery models and accelerating their impact (scaling up via rapid prototyping).
- **Connected.** Collaborative across sectors, borders and organisations, with partnerships, co-ventures, co-creation and co-design being key features in the service delivery toolbox.
- **Transparent.** Becoming truly accountable for actions and outcomes in today’s era of eroding trust and legitimacy.

Finally, public bodies need to **act and behave differently** from the past and be equipped with the **internal management capabilities** to channel resources effectively and efficiently towards accomplishing the vision. These range from implementation planning to managing finances effectively and prioritising the organisation’s projects, performance, risks, partnerships, assets and human capital. Public leaders also have a key role to inspire and ‘**lift the tone**’, energising staff with their vision.

If all of these elements are in place, the result will be the successful execution of the organisation’s strategy, aligned to its vision and mission, delivering the outcomes and impacts that citizens need. The leading public body of the future will then serve to create a society for the future for the citizens of tomorrow – today – by a trusted, sustainable and collaborating government.

Chapter 1: Delivering on the citizen promise

Six years ago, we set out the case for a fundamental shift in public services to 'deliver on the customer promise'. As the world emerges from the Great Recession, now is a good moment to reflect on the lessons learnt from the past six years and ask: how have the trends driving government changed, and what are the implications for public service delivery?

Delivering on the 'customer promise' has never been more challenging! Six years ago, we identified a set of drivers for change in public services and a set of strategic enablers which we believed were essential to 'deliver on the customer promise' (see Figure 3).

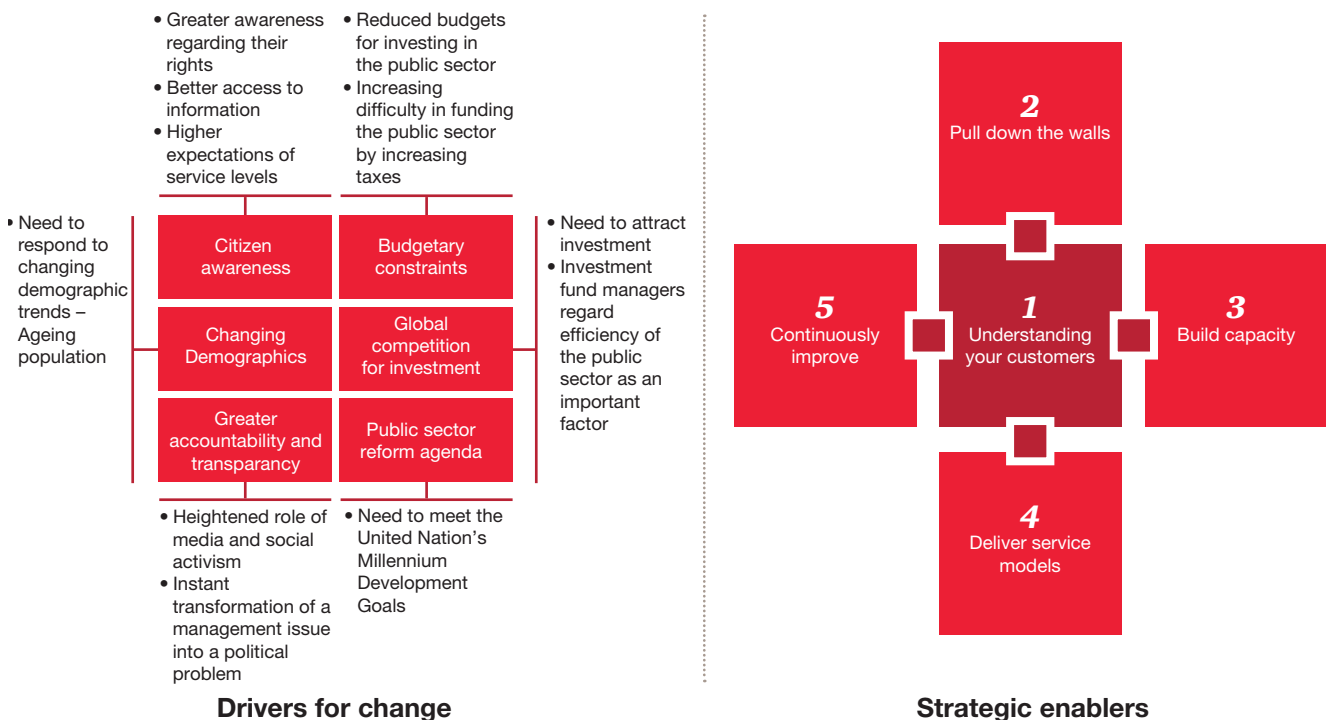
Budgetary constraints, global competition for investment, public sector reform programmes and changing demographics were transforming the environment for public services. Underpinning these were heightened expectations of citizens which transcended economic status, geographies and the different methods of funding and delivering public services.

The 'New Normal'?

Much has happened since 2007! Financial crisis, a Great Recession and an overhang of debt in the developed world mean that governments face very different futures from those we might have envisaged six years ago, with assumptions underlying apparently successful models of the past, such as New Public Management,² being challenged.

How will these, or new, drivers re-define the landscape that government and public sector organisations will face in the next five years? In this section we re-examine the drivers for change in public services and consider some of the implications.

Figure 3: Drivers for change and strategic enablers¹



Source: PwC

¹ PwC, 2007, 'Road Ahead for Public Service Delivery: Delivering the Customer Promise'.

² This refers to the hypothesis that adopting a market-oriented approach to managing the public sector would result in greater cost-efficiency for governments and without negative side-effects on other objectives and considerations.

The demanding citizen

Citizen awareness remains a powerful force for change. Greater awareness regarding their rights, better access to information through technology and higher expectations of service levels have become embedded in many countries. Citizens are expecting quicker delivery and more individualisation of services in today's 'hi touch' society that values personal experience. Sustainability is no longer a 'nice to have', but a 'must have'. And at the same time, citizens are calling out for increased transparency and accountability as governments grapple to rebuild trust and legitimacy at all levels.

Budgetary austerity

The era of budgetary austerity is unlikely to disappear in many countries for some time (see Figure 4). The future is therefore at risk of being consumed by today's debt, at a time when the demands for public services grow daily.

For those in debt (mainly in the advanced G20 economies), there are still years of pain ahead, with fiscal austerity the order of the day, and a priority to reduce their deficits and debts. Other governments, particularly in the developing economies, may be in a more robust fiscal position. But they are still not immune from the risks of contagion from other indebted countries and the need to cope domestically with the consequences of crises in other regions, particularly in the Eurozone.

*"There is an apprehension about a lost decade. In order to clean all balance sheets and let the common budget principles work, there is more time needed. During these difficult times there won't be any fast growth."*³

Kairat Kelimbetov, Deputy Prime Minister in the Government of the Republic of Kazakhstan

Figure 4: Many Eurozone countries are highly indebted



Source: IMF (2012 estimates)

3 PwC, 2013, 'Government and the 16th Annual Global CEO Survey: A new contract between business and the state'.

In the face of recurrent budget cuts to reduce fiscal deficits in many countries, **affordable government** has become the watchword. This means doing more for less – meeting rising citizens’ expectations by doing things differently to deliver services more effectively and efficiently. Indeed, it will often involve going one step further by doing less for less – prioritising the public services that actually matter to citizens, doing different things, and in some cases stopping activities altogether.

Prioritisation is needed to ensure that public service delivery is targeted on achieving maximum outcome and impact, while maintaining affordability (see Box 1).

Demographic change and other global challenges

Global population growth, but with growth imbalances, has important implications, particularly for public services delivered to the young and the elderly.

The world population crossed the 7 billion mark in October 2011, and is estimated at nearly 7.1 billion today.⁵ While developed economies face an increasingly large 60+ population coupled with low birth rates, as set out in Figure 5, developing economies are contending with a population pyramid skewed towards those aged 20+ (although the proportion of those aged between 10 and 24 is already beginning to decline in a number of emerging countries).⁶

Box 1: Affordable government – two sides of the same coin

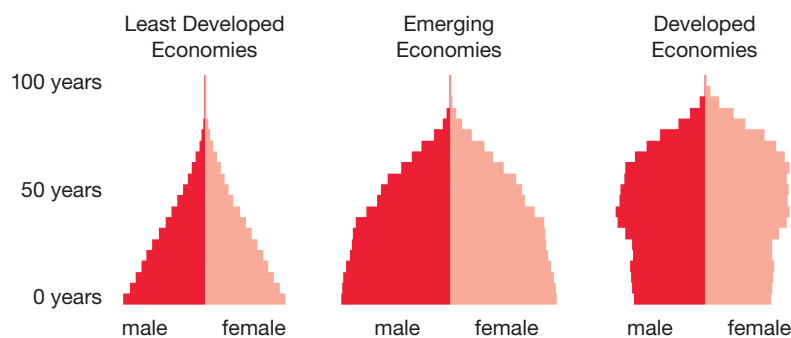
Affordability means different things to different people. Many developed countries are struggling to reduce costs relating to service provision and often seeking to limit demand to do so. For instance, the US and UK are grappling with the provision of free or low cost health services in the face of limited government resources but increasing demand. Solutions include a greater focus on prevention, ‘nudging’ healthier lifestyles as well as the option of greater use of charging and co-payments.⁴

In contrast, developing countries face the challenge of making services more affordable for the citizen so that they are used to deliver the outcomes intended. For example, in Africa and Asia provision of (often subsidised) public services can still end up being too expensive for most citizens. This is because total cost to the citizen includes long travelling times (particularly for those in rural, less connected areas) and long waiting times e.g. for initial diagnoses, which also reduce take-home pay.

When seeking to deliver public services affordably and effectively, cost needs to be calculated based not only on direct service provision (for government), but also on service consumption (for the citizen).

Figure 5: Changing population profiles

Population pyramids showing the percentage of the population using 4-year age intervals



Source: Data from World Population Prospects: 2010 Revision. New York: United Nations Department of Economic and Social Affairs, 2010.

4 Chapter 4 of 'Out in the open', PwC, 2011.

5 <http://www.census.gov/population/popclockworld.html>

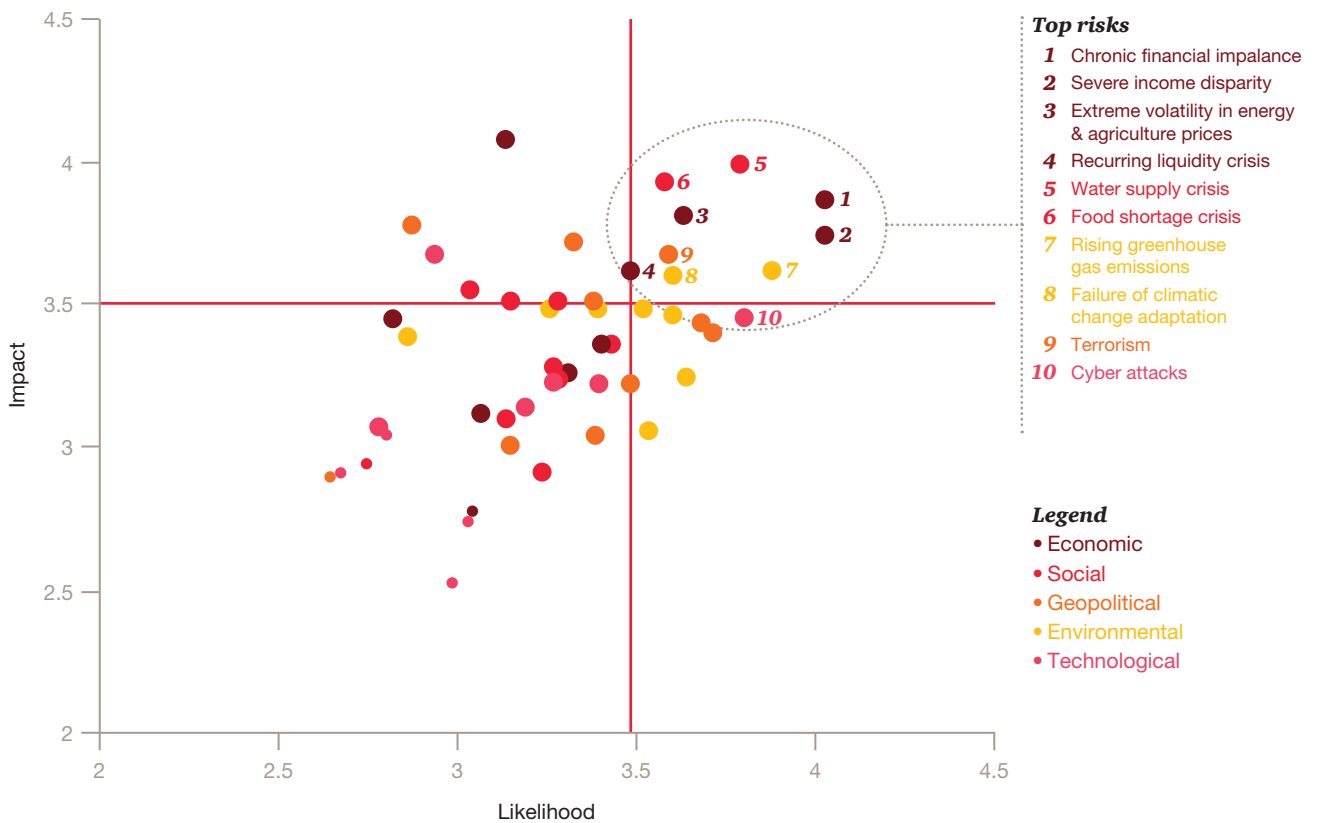
6 United Nations Department of Economic and Social Affairs, World Population Prospects: 2010 Revision. 2010. New York: United Nations Department of Economic and Social Affairs.

There are policy consequences of not meeting the social contracts for both the young and the old. On the one hand, there is a risk of mismatch of the education and skills needed for employment with the International Labour Organisation warning of a ‘lost generation’ of young people.⁷ But there are also opportunities, for example tapping the ‘silver potential’ of older workers via innovative contracts to re-engage and leverage this experienced pool of resources. Demographic change is also being manifested in a shift in mindsets,

attitudes, knowledge and values with the rise of ‘Generation I’ – individualistic, informal, interactive, informed and innovative.

Demographic change is, however, but one of the many global challenges facing nations today. Global warming and environmental issues, scarcity of energy and food resources and public health concerns are just some of the ongoing issues with which politicians and public leaders continue to grapple (see Figure 6).

Figure 6: Global Risks Landscape⁸



Source: World Economic Forum's Global Risks 2012 Report

⁷ International Labour Organisation. *World of Work 2011*. Geneva: International Labour Organisation.

⁸ Source data from World Economic Forum's Global Risks 2012 report.

“I believe that human capital is one of the biggest challenges that we face especially when it comes to recruitment, retaining, and development, as well as performance measurement.”¹¹

Colonel Faisal Al Shueibi, Head of Strategy and Performance Improvement, AD Police HQ, Ministry of Interior in Abu Dhabi

Competing for investment

The global financial crisis accelerated the shift in global economic power to the emerging economies. According to PwC’s latest ‘World in 2050’ study,⁹ emerging economies are set to grow much faster than the G7 economies over the next four decades,¹⁰ with China projected to overtake the US as the largest economy by 2017. We therefore continue to see an intensity of global competition for **talent and investment**, propelled by globalisation, with increased mobility of people and goods, and with technology building virtual bridges for knowledge and innovation.

In PwC’s 16th Annual Global CEO Survey, the lack of availability of key skills is a top three business threat and a particular issue for smaller companies (68% of CEOs surveyed in companies with less than \$100m revenues). This has direct implications not only on education and skills systems but also for the recruitment and retention of people in public services. Where home-grown talent is in short supply, it also means importing talent, knowhow and ideas through developing the right networks and strategic alliances as part of a nation’s ‘structural capital’.

Blurring the boundaries

Globalisation and increased connectivity is also facilitating the rise of **extra-territorial initiatives**. For instance, Qatar made a deal with the French government to invest and regenerate the disadvantaged suburbs of Paris, where youth unemployment can reach beyond 40 percent.¹² Another example is China whose foreign direct investment in Africa reached US\$12 billion in 2011, with trade expected to surpass US\$200 billion in 2012.¹³

While such extra-territorial initiatives may still be just a ‘weak signal’ now, they may become more widespread with greater cross-border connectivity being accelerated by technology. Governments will need to consider the potential implications and opportunities for their ambitions.

Amalgamation will also become another distinctive feature in society looking ahead, with a blurring of boundaries between different spheres (see Figure 7).

Figure 7: Amalgamation at work

Spheres of activity	Living, working, shopping, leisure
Spheres of society	Emerging forms of partnerships for joint wealth creation
Spheres of industry	Industry-based to issue-based clusters ¹⁴

9 PwC, 2013, ‘World in 2050 The BRICs and Beyond: Prospects, challenges and opportunities’.

10 The E7 economies (Brazil, Russia, India, China, Indonesia, Mexico and Turkey) are projected to overtake the G7 economies (France, Germany, Italy, Japan, the UK, the US and Canada) before 2020.

11 PwC, 2013, ‘Government and the 16th Annual Global CEO Survey: A new contract between business and the state’.

12 <http://www.france24.com/en/20120925-france-qatar-fund-invest-suburbs-business-economy-controversy-fears-muslim-unemployment>.

13 <http://www.ibtimes.com/china-daily-newspaper-unveils-africa-edition-sticks-it-west-938734>.

14 Refer to Box 7: The new ‘in-between’ spaces.

Pervasiveness of technology

The **rate of change driven by technology** will continue to impact on public services in a variety of ways. For instance, robotic nurses and 3D-printing of low cost housing and artificial limbs have the power to change the face of public service delivery. Raymond Kurzweil, described as ‘the restless genius’ by the Wall Street Journal, predicts that technological paradigm shifts will become increasingly common, leading to “technological change so rapid and profound it represents a rupture in the fabric of human history”.¹⁵

Probably of most significance, particularly in the light of the ‘Arab Spring’, is the **social media explosion**. The result is a shift of power from big organisations to networked individuals. Wikileaks, Anonymous and the Occupy movements illustrate that anyone has the ability to challenge the state. Governments need to understand how to engage and deal with the emergence of such small, informal, unpredictable yet highly influential groups of activists. As technology disrupts ‘business as usual’, it is more crucial than ever for governments to be in tune with technological change and its implications on citizen expectations, security and public service delivery.

The emergence of the **virtual public body** as a communication platform could be part of the response, changing the way government connects with its citizens. As far back as 2008, recording artist will.i.am of The Black Eyed Peas spoke about his support for Obama using CNN’s ‘hologram’ technology.¹⁶



In addition, technology is driving mobility and connectivity in urbanised societies. We are observing mass, rapid urbanisation in developing economies. The World Economic Forum notes that by the year 2050, there will be a near doubling of the urban population worldwide to 6.2 billion i.e. 70 percent of the projected world population of 8.9 billion.¹⁷ The resulting concerns about sustainability are encouraging the development of technology-enabled smart cities (see Box 2).

There is also, however, a darker side to technology, where a threat arising anywhere in the world has the power to disrupt security everywhere in the world.¹⁹ With the need for security impacting many arenas, including water and natural resources, food, defence, and increasingly importantly, cyberspace (see Box 3), organisations need to find new ways of coping with security risks in an increasingly complex world.

Box 2: Intelligent, agile cities¹⁸

The phrase ‘smart cities’ has become a buzzword for city transformation globally. The marrying together of urbanisation, technology and knowledge transfer has hastened the trend for city managers to focus on making their cities smart.

But between setting the smart city vision and being able to deliver an integrated set of smart solutions and services that enhance the quality of living and enhance a city’s competitiveness lie a set of key success factors. These need definition, investment and nurturing in the context of creative funding, prioritisation and the need to collaborate on delivery with a wide range of stakeholders (private sector, citizens and NGOs).

A holistic approach is needed that combines multiple areas for sustainable (social, economic and environmental) development and requires alignment of definition, design, funding, delivery management and the measurement of outcomes for smart city initiatives.

Box 3: The rise of the ‘Cyber CEO’²⁰

In an interconnected world, government’s ability to deliver efficient, reliable and secure services is a critical factor in business confidence. In turn, governments want a robust and vibrant public sector to generate growth and employment. Neither sector’s objectives can be achieved without paying attention to cyber security.

Organisations need to adopt **new structures, roles and governance**, and a **new mindset** focused not on protecting the organisational entity itself but its wider ecosystem, while still ensuring the organisation’s critical information assets are secure. Embracing the cyber world means opening up systems and processes to external suppliers, customers, partners and employees, and accepting culturally and psychologically that the old boundaries are being swept away. This needs to be driven from the top, with the need for greater board-level awareness of the challenge.

¹⁵ <http://www.kurzweilai.net/the-law-of-accelerating-returns>.

¹⁶ <http://insidetv.ew.com/2008/11/07/william-talks-h/>

¹⁷ World Economic Forum, 2012, ‘Global Risks 2012 – Seventh Edition’.

¹⁸ ‘Good Growth for Cities’, PwC/Demos, 2012.

¹⁹ PwC, 2011, ‘Agile Defence’.

²⁰ PwC, 2011, ‘Delusions of safety – The Cyber Savvy CEO’

Global uncertainty

Underpinning these drivers is a new normal of **global uncertainty**, which influences business confidence, jobs and prosperity. As we saw in PwC's 16th Annual Global CEO Survey, four out of five CEOs surveyed were concerned about uncertain or volatile economic growth, remaining at the same high level as the previous year.²¹

Natural disasters, pandemics, terrorism, disruptive technologies – all of these and more are contributing to a world in constant flux. Governments will need to find new levels of adaptability and flexibility in order to be 'secure with insecurity'. Terrorism, the Japan tsunami and Hurricane Sandy are examples of recent events which are not only unpredictable but also have unforeseen, unintended and unexpected consequences, facilitated by an increasingly connected world.

For instance, the Japan tsunami which led to the meltdown at Fukushima had a ripple effect on Germany, with Chancellor Angela Merkel's pro-nuclear party suffering heavy losses in local elections. This resulted in the German government announcing the immediate decommissioning of the country's oldest nuclear plants, with the remaining plants to be phased out by 2022.²³

It is increasingly difficult to have contingency plans in place for every possible scenario. As we will discuss later, however, the public bodies of the future will need to adopt new approaches and forms that will enable them to be resilient, respond quickly, intelligently and with agility to such unforeseen situations.

“Underlying all these risks are velocity, multiplicity, and interconnectivity – creating a global system where mastering complexities will be the foremost challenge.”²²

Klaus Schwab, Founder & Executive Chairman of the World Economic Forum

Questions to think about

- What are the current and emerging trends that are most impacting your organisation?
- What are the challenges and opportunities related to these trends? Has your organisation been able to address these? Why or why not?
- How is your organisation configured to respond to both expected and unexpected events?
- How will these trends affect the way your organisation delivers its services to citizens?

²¹ PwC, 2013, 'Government and the 16th Annual Global CEO Survey: A new contract between business and the state'.

²² World Economic Forum, 2012, 'Global Risks 2012 – Seventh Edition'.

²³ Adapted from World Economic Forum's Global Risks 2012 report.

Chapter 2: Where next for public services?

Global uncertainty and austerity are propelling governments into a future that becomes increasingly difficult to anticipate. How therefore should the leading public body of the future organise itself for affordability, resilience and continued relevance?

The world has moved quickly over the course of the Great Recession but governments have often struggled to keep pace. As discussed in Chapter 1, public sector organisations need to deal with uncertainty, deliver affordable services while also coping with disruptive changes.

Expectations of public services have risen exponentially with rapid developments in new technology, but the funds for investing in public services have dried up in many countries. The challenge for governments and their public sectors world wide is now to adjust to the new reality of ‘doing more for less’ (or ‘doing less for less’) and focus on the outcomes society needs and wants.

Public bodies must decide if they want to consume the legacy left behind by predecessors, or create a new legacy for the next generation, while navigating some seismic shifts as set out in Figure 8.

Public sector organisations need to re-evaluate their purpose and role and decide if current visions and missions, and ways of operating to achieve them, are relevant enough to ride the waves of these shifts, or be overwhelmed by them. Government and public sector organisations will also need to respond to these shifts proactively and pre-emptively, to avoid falling one or more steps behind.

Figure 8: Bridging from now to the future

From...	To...
Citizen under control	Citizen in control
Governing for citizens	Governing with citizens
Organisation silos	Organisation networks
Public sector organisations as big, all-in-one giants	Public sector organisations as small, flexible, purpose-driven entities
Government as service provider	Government as service facilitator/ broker/ commissioner
Government owning inputs and processes	Governments and citizens owning outcomes
Measuring outputs	Measuring outcomes
Forced cooperation based on enforcement	Mutual collaboration based on trust
Trust in the ‘strong leader’	Trust in each other, the ‘servant leader’

What does the leading public body of the future look like?

The five challenges for government and public sector organisations, or ‘strategic enablers’ as we described them in Figure 3, remain:

- Understanding customers through customer insight;
- Pulling down the silo walls to create connected government;
- Building capacity to deliver results;
- Realising the benefits; and
- Continuously innovating to sustain them.

But the drivers we set out in Chapter 1 pose new challenges for public organisations, and require us to look afresh at how public bodies need to organise themselves for the future. Governments and public sector leaders have a key role in projecting a clear and vibrant picture for the future. For this to happen, a number of elements need to be aligned to create the desired public body of the future, one that is adaptive to its circumstances and ready to deliver its defined purpose in the

face of a world in constant change (see Figure 9).

In our view, the public body of the future will need to act and behave like a living organism, adapting to change and evolving to address society’s needs as they develop. In comparison, many governmental organisations currently can resemble machines with limited ability to evolve without being dismantled and re-shaped with considerable financial and human cost. Gone are the days, if they ever existed, where legislation could be laid down, policy levers pulled and delivery happen automatically as a result.

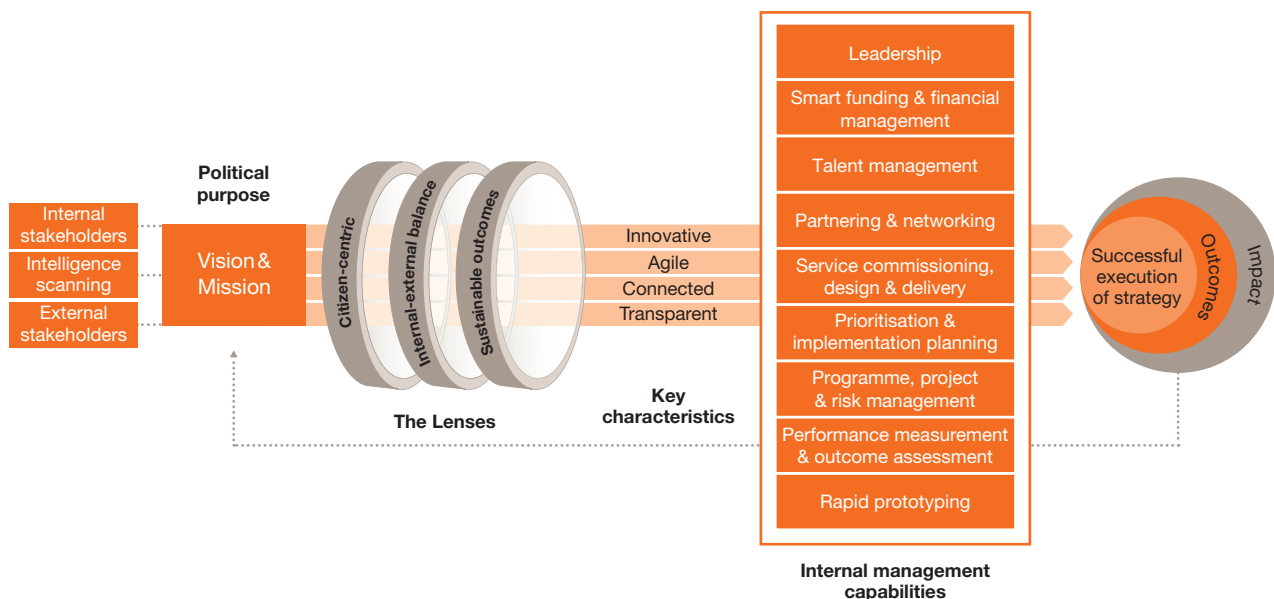
The starting point is the organisation’s vision and mission. Clarity over the vision and mission enables the organisation to answer the first key question: where do we need to go?

This begins with its purpose, as defined by politicians, which should guide the formulation of the vision and set the direction. But this also needs to encompass internal and external stakeholders’ points of view, as well as reflecting changes in the environment through scanning the horizon and absorbing new intelligence.

To deliver its vision and mission, however, requires the organisation to find the ideal size, shape and operating model. The leadership of any public body will need to chart its course by viewing itself through different ‘lenses’ which guide its behaviour:

- **Citizen-centricity.** Always keeping the citizen at the very centre, ensuring that the public sector organisation remains relevant to meet citizen needs effectively, affordably and on a timely basis.
- **Internal-external balance.** Ensuring the right balance between managing internal organisational efficiency and effectiveness and external growth and so enable the delivery of durable, sustainable or what we call ‘good growth’.
- **Sustainable outcomes.** Strategically building the assets for society by managing the ‘capitals’ needed for long term prosperity: social, environmental, cultural, intellectual, infrastructural, ICT and political participation capitals.

Figure 9: The leading public body of the future



Source: PwC

In turn, we have identified four interdependent and reinforcing key characteristics which the future leading public sector body should manifest in both its hardware (structures, processes and systems) and software (leadership, mindsets, organisational culture and people). These will affect how leaders and their staff behave in order to deliver the outcomes and impacts required of them:

- **Agile.** Able to anticipate situations, as well as adapt and react optimally to unforeseen events, in a speedy and cost effective manner providing needed responses in the short term without compromising long term options. Agility in turn reinforces organisational resilience.
- **Innovative.** Both operationally as an organisation (processes, partnerships and financing, amongst others) as well as strategically. Innovative public sector organisations have the ability and capacity to incubate ideas and delivery models and accelerate their impact (scaling up via rapid prototyping).
- **Connected.** The organisation should collaborate across sectors, borders and organisations, with co-ventures, co-creation and co-design being key features in its service delivery toolbox. This further highlights engagement of stakeholders across a variety of platforms, both physical and virtual.
- **Transparent.** This becomes especially important in today's era of eroding trust and legitimacy, particularly in relation to leadership. Transparency helps rebuild trust and keeps all parties accountable for actions and outcomes.

Finally, organisations need to be equipped with the internal management capabilities to channel resources effectively and efficiently towards accomplishing the vision. This goes beyond an inspirational leadership and clear implementation planning. Managing finances effectively is an essential enabler, together with managing and prioritising the organisation's projects, performance, risks, partnerships, assets and human capital.

The result should be the successful execution of the organisation's strategy, aligned to its vision and mission, and delivering the outcomes and impacts citizens need. The rest of this publication provides further detail on the components of the future leading public sector body and provides a toolbox for practical implementation.

Questions to think about

- What is the 'Best Before' date of your organisation? Is your organisation static and 'fixed in time', or is it configured for continued change?
- Are your organisation's vision, mission, processes and operations reflecting current and/or future realities?
- What is the opportunity cost of not doing anything?
- What impact do current activities and models have on current and future generations? Has there been a trade-off made between the welfares of current and future generations?
- What is the role of the citizen in your organisation?
- How connected is your organisation? Is your organisation dependent, independent or inter-dependent?
- How is performance being measured and rewarded in your organisation? Does your organisation distinguish between outputs, outcomes and impact?
- Who are the leaders in your organisation? Who are they now, and in the future?

The source of organisational energy – vision and mission

With change, uncertainty and austerity the new constants, organisations that fail to pause and reflect on where they are going and why they are headed in a certain direction can easily fall into the trap of continuing with a ‘business as normal’ mode – behaving in accordance with tradition and the existing body of regulations but not realising that their world and purpose is changing around them.

As such, tomorrow’s public bodies need to navigate themselves by first **formulating a strong and clear vision and mission**. Together, these will capture the organisation’s strategic ambition and purpose and serve to influence decisions and behaviour within the organisation. A clear, well-formulated and well-articulated vision has the power to energise people internally (employees) and externally (citizens, customers, partners), and steer actions and decisions towards a common shared purpose.

The starting point is the view of the government of the day which will significantly influence the purpose and direction of public sector organisations (see Box 4).

Chapter 3: What guides and shapes the future public body?

There are many influences on any public body and none as important as the political imperative for its existence. But what else influences the vision and mission of a public body? And through what lenses does the future public body need to view itself?

The starting point for any public sector organisation must be to set out a vision and mission which will energise its stakeholders to action.

Box 4: From vulnerability to strength

When the tiny city-state of Singapore declared independence in 1965, then Prime Minister, now Minister Mentor, Lee Kuan Yew had the vision to transform Singapore into a “first world oasis in a third world region”. A critical part of that vision was ensuring the nation’s water self-sufficiency.

As Minister Mentor Lee noted, “This [water] dominated every other policy. Every other policy had to bend at the knees for water survival.”²⁴ Accordingly, one of the first things Lee did post-independence was to set up a unit in his office to coordinate the prioritisation of water at the whole-of-government level. Water policy topped the political agenda and all other sector policies were scrutinised for their alignment with the aim of long term water security.

The Public Utilities Board was created with the mission of ensuring the provision of an adequate and dependable supply of water that would sustain the country’s industrial and economic development as well as the well-being of its citizens. Not long after, in 1972, Singapore became one of the world’s first countries to form a Ministry (today called the Ministry of Environment and Water Resources) dedicated to sustaining a clean and healthy environment for its people.

Once heavily dependent on imported water, Singapore is today on the path to water self-sufficiency, and has turned this area of vulnerability into a strength and source of economic advantage. Its example shows how long-standing commitment and vision at the highest levels of government can direct public sector organisations to collaborate in an integrated way to achieve success.

24 Y. S. Tan et al. 2009. Clean, Green and Blue: Singapore’s Journey Towards Environmental and Water Sustainability. Singapore: Institute of Southeast Asian Studies. p. xxiii.

“Vision without action is a daydream. Action without vision is a nightmare.”

Japanese proverb

While the starting point of the vision is often the political imperative, the latter, as former British Prime Minister Tony Blair notes, is generally conducted in a “completely non-intellectual atmosphere, (while) the best policy actually comes from a clear, rigorous intellectual approach”.²⁵ A good conceptual understanding of the issue at hand is the important first step that leads to a certain policy direction, culminating in specific policies for implementation.

But a good conceptual understanding means that the shaping of the vision cannot occur in a vacuum, and necessitates the **involvement of stakeholders inside and outside the organisation**, creating a shared understanding and picture of the desired future. This involves proactively engaging with employees, partners and citizens in the shaping of the organisation’s stated goals.

The vision should also continually **reflect current and future realities** achieved by regular intelligence scanning (locally, nationally, and globally) to ensure that the organisation remains relevant to current and future times (see Box 5). This will involve:

- Thinking big, new, and sometimes ‘to the contrary’.
- Putting the vision in writing and making it explicit and clear.
- Ensuring that the vision influences organisational behaviour and guides decision-making, by creating alignment with objectives, plans, performance and monitoring.

Viewing the road ahead through three key lenses

While vision and mission sets direction, a public body also needs to chart the way ahead by adopting principles which guide its behaviour. These can be seen as the perspectives, or lenses, through which to evaluate all aspects of the organisation from structure to processes, services and outcomes.

Through our research and experience in working with government and public sector organisations, we have identified three lenses of particular importance: focusing on the citizen; achieving internal-external balance; and achieving sustainable outcomes.

Box 5: Navigating the future²⁶

Governments must increasingly act as navigators, helping to guide their constituents (locally, nationally or internationally) through uncertainty towards a better future. The first concern for any navigator is strategic position – “Where are we right now?” The second consideration is destination – “Where are we going? What are our visions or dreams?” Finally, there is route and speed – “How quickly and by which path will we reach our destination?”

The leaders of tomorrow need to understand and adapt their course according to expected future trends. When conditions change, leaders must respond by developing a ‘mental GPS’ based on intelligence gathered from a variety of sources – ‘knowledge navigation’.

²⁵ Tony Blair, ‘Leading transformation in the 21st century’, from McKinsey’s ‘Government designed for new times’, 2012.

²⁶ PwC, 2005, ‘Cities of the future’.

Centring on the citizen

Citizen-centricity remains key. This is not about giving priority to those who pay for the services (the ‘customer-centric’ approach), but going beyond to focus on the impact of public services on the wider society, with the citizen at the very centre.

The citizen then becomes not just a customer or client, but also a partner, collaborator and co-producer of valued outcomes. The defining shift is from ‘managing the customer’ (hands off approach) to ‘serving the citizen’ (hands together approach). This implies a new contract with the empowered citizen taking personal responsibility for outcomes.

For this to succeed, those who deliver public services need to increase the involvement of the end-user in the design and development of services, rather than just selling a service. This entails iterative dialogue and the use of novel approaches to engage citizens (see Box 6). A by-product of a citizen-centric approach is the building of trust and relevance at a time when mistrust and illegitimacy are threatening the role of public leaders.

Striking the appropriate internal-external balance

Keeping citizen-centricity at the core, public sector organisations should also be configured to face inside-out – getting the balance right between an internal focus on efficiency and effectiveness and an external focus on helping and co-creating value with stakeholders in society (see Figure 10).

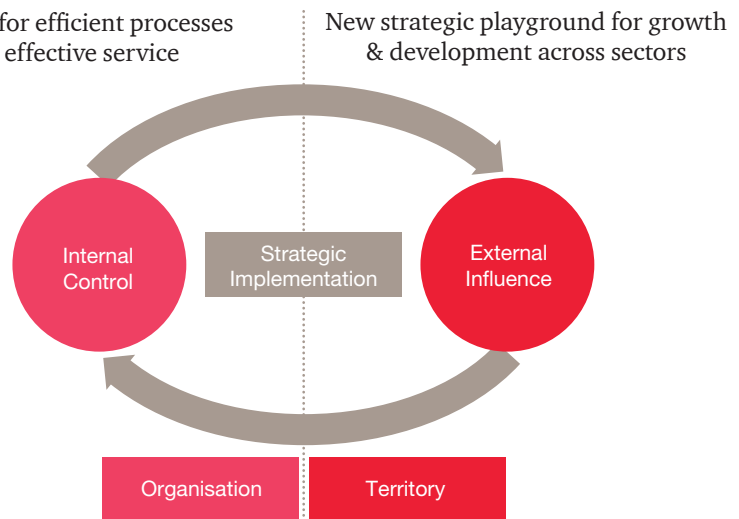
Box 6: Examples of citizen engagement

Canadians, like many citizens elsewhere, see private sector service delivery as the benchmark for customer service experience. PwC created **Citizen Compass**,²⁷ an online platform, to enable Canadians to voice their opinions on e-government services through informed participation and deliberation. Over a three-week period in May 2012, 3,147 Canadians addressed the question “What does the future of government services look like?” The findings have provided insight on how to develop the next generation of government e-services.

In the UK, as part of our response to the Spending Review 2010 consultation, PwC convened a 16-member **Citizens’ Jury**²⁸ with BritainThinks to inform government on the public’s attitudes and views on the UK’s deficit and understand what is important to citizens when selecting where and how to make public spending cuts.

Similar Juries have since been convened to deliberate on a range of public service delivery issues that are relatively complex, and where there is more than one solution. Giving people the time and space to consider complicated trade-offs and look at issues through the eyes of those with different circumstances encourages them to move from a personal to a citizen ambassador perspective and provide new insights.

Figure 10: Maintaining the balance between internal and external focus



Maintaining the balance between internal and external focus

Source: PwC

27 PwC, 2012, ‘Citizen Compass: Paving the way for the next generation of eservices’.

28 PwC, 2010, ‘Dealing with the deficit: the citizens’ view’.

Getting there requires leaders to re-evaluate the type and purpose of public services currently being provided and delivered. Risk and internal control has been the focus for most public service provision and delivery, while the provision of 'core' services continues to be important where the market is deemed either to have failed or is too unreliable as service provider, particularly for the vulnerable and disadvantaged.

These arenas remain necessary to maximise efficiency and effectiveness but are no longer sufficient for public bodies wishing to remain relevant in a rapid and complex ('raplex') world. The future public sector body will need to widen its horizons and focus not only on how it produces its own services but also how it can help drive external growth, including looking to the development of new issue based industries (see Box 7).

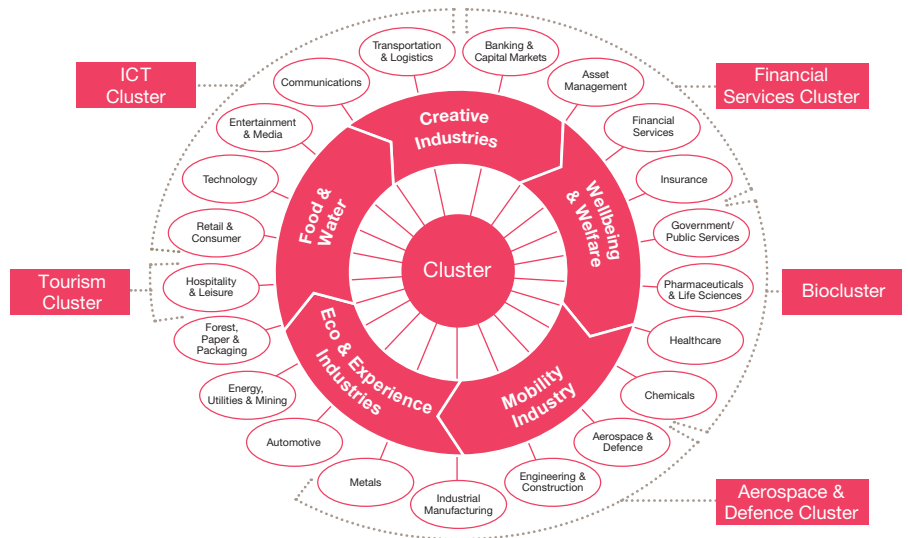
*"I think overall we've got to develop much more of an external focus. From what I understand we're fairly typical of local government, we're quite highly internally focused and the customer's seen as a bit of a nuisance. Even the word 'customer' is foreign here [...] and you can't deliver on the outside if you aren't delivering well from a customer service point of view on the inside."*²⁹

Doug McKay, Chief Executive, Auckland Council, New Zealand

Box 7: The new 'in between' spaces

Through the analysis of more than 20,000 cross-sectoral M&A and equity deals, seven emerging industries – creative, eco, experience, maritime, mobile services, mobility and personalised medicine industries - have been identified under the scope of the European Cluster Observatory Phase III study conducted by PwC.³⁰ This highlights that, in the 'in-between spaces' of traditional sectors, there is a shift from industry to issue based clusters, for example, wellbeing and welfare, mobility, agri-food and water, eco industries and creative industries (see Figure 11).

Figure 11: Issue based industries



Source: PwC

29 PwC, 2013, 'Government and the 16th Annual Global CEO Survey: A new contract between business and the state'.

30 European Cluster Observatory (ECO)-Phase III Study (2011-2013). Conducted by PwC for the European Commission, DG-ENTR.

Achieving sustainable outcomes

Uncertain and volatile economic growth and fiscal deficits/debt top the list of economic and policy threats worrying business today.³¹ Many governments are facing a crossroads of decision – deal with debt now, or do nothing and risk growth tomorrow.

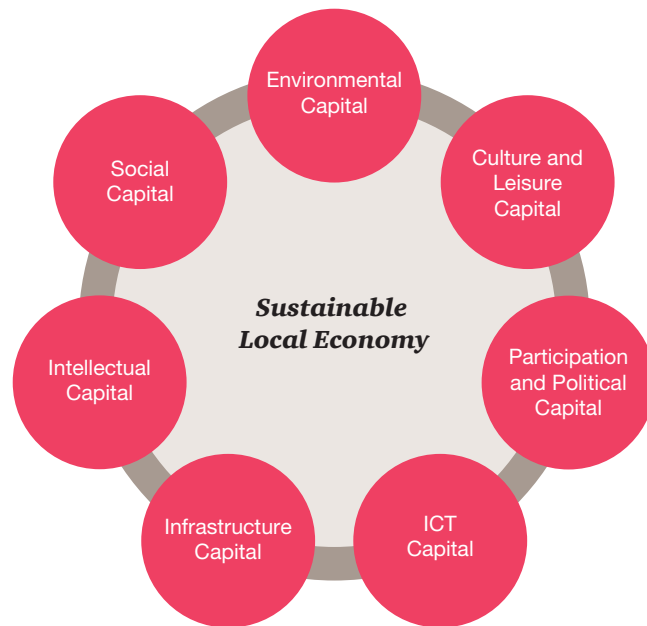
The question of sustainability in its widest sense is a pressing one. Today's leaders need to ask: are we creating or consuming a legacy? Are the decisions being made today contributing to the wellbeing of future generations, or are they satisfying immediate needs at the expense of the future? The future needs to be treated as an asset with government prioritising efforts such that today's citizens are being taken care of, while retaining a view to long term sustainability (see Box 8).

Box 8: Sustainable growth and the climate change challenge³²

“The alternative to decarbonisation would be much slower GDP growth, but the long run price of this would be much higher. The risk is that, if faster progress towards addressing climate change does not begin soon, such restrictions on growth could be forced on future generations...”

...Similar considerations apply to other natural resource issues relating to areas such as food, water and biodiversity – acting now in a measured way should be cheaper in the long run than putting off action until later in the century; but in a time of economic austerity in the West and rapid economic development in the East, this is easier said than done.”

Figure 12: ‘The new capitalism’ – a holistic approach for development



Source: PwC

31 PwC, 2013, 'Government and the 16th Annual Global CEO Survey: A new contract between business and the state'.

32 Excerpt from 'World in 2050 – The BRICs and beyond: prospects, challenges and opportunities', PwC Economics, 2013.

Creating a legacy is also not solely about building financial assets, but requires a holistic approach to other interconnected societal capitals (see Figure 12). This moves the focus beyond growth measured solely in financial terms (e.g. by Gross Domestic Product, GDP), to a wider picture encompassing a new understanding of growth, value creation and sustainability (see Box 9).

It is vital that public sector organisations take the time to clearly define their vision and mission, as well as ensure that the right perspectives are in place to guide decision-making at all levels to achieve the desired outcomes. It is also crucial that these perspectives, or mindsets, be reinforced with the right characteristics, or behaviours, as we set out in the next chapter.

Box 9: Towards ‘good growth’³³

PwC’s research on good growth in the UK, with think tank Demos, has identified that successful growth is not just about GDP or Gross Value Added (GVA), but a broader measure of economic wellbeing encompassing factors such as jobs, income, health, work-life balance, housing and transport infrastructure and the environment. The ten measures comprising the Demos/PwC Good Growth Index are focused on achieving the outcomes that the public really wants.

In our view, only by measuring economic performance in the same way as the public can government focus on the most important pressures in people’s economic lives. This provides an ideal starting point for a set of criteria to guide politicians and officials locally when making decisions on resource allocation and investment. The challenge, then, is for public sector leaders to use this wider scorecard, with its recognition of what counts as success, to formulate more nuanced, appropriate and focused local and national economic development and capital investment strategies.

Questions to think about

- What is the vision for your organisation? How does it deliver its purpose?
- How was the vision formulated? Do stakeholders have a say in it?
- Is the vision consistently and clearly articulated to internal and external stakeholders?
- Does the vision reflect current realities, or has it ‘expired’? Do formal intelligence scanning processes enable the vision to remain relevant?
- Are staff focused on managing the customer or serving the citizen?
- Is your organisation inward or outward focused? How are investments being prioritised in terms of enhancing internal efficiency/effectiveness versus external growth?
- What is the wider scorecard of success for your organisation? Is it focused on ‘good growth’ that is socially, environmentally and financially sustainable?

³³ PwC & Demos, 2012, ‘Good growth for cities’.

Chapter 4: What defines us?

“Given that the global economy and the global pace of life are getting faster in all aspects, one needs to become more agile and efficient about everything – including running a company. It’s essential that you streamline operations and become leaner wherever you can, so as to be able to react more quickly to changing market conditions.”³⁴

Anders Nyrén, President and CEO of Swedish public investment firm Industrivärden AB

“I used to say in speeches in my own country, ‘There’s a race to the future and if you stand still, very well is it going to pass you’. So you have to have a process of continual change and adaptation, set a strategy but you’re continually fine-tuning, adapting, moving it along. You can’t stand still.”³⁶

Helen Clark, Administrator of the United Nations Development Programme

The characteristics and behaviours that the public body of the future needs will differ radically from the past. But what are they? And how can public bodies adopt them?

In our view, there are four interdependent must-have characteristics that future public sector bodies need to embody in order to be effective in terms of outcomes and impact: agility, innovation, connectedness and transparency. We discuss each in turn below.

Characteristic 1: Agile

If uncertainty is the new normal, then **agility**³⁵ is the necessary response. Public sector organisations need to be able to respond quickly to changing circumstances, which means organising

into adaptable, flexible and agile entities resilient in the face of uncertainty.

Agility has been defined as “an organisation’s dynamic capability to achieve renewable competitive advantage through continuous adaptation in a turbulent environment”, and “perpetual awareness and the ability to be decisive and take action in an expedient and well-coordinated manner”. It encapsulates the ability to anticipate situations as well as react and adapt optimally to unforeseen events in a speedy and cost effective manner, providing needed responses in the short term without compromising or sabotaging long term options.

Resilience is a capability that not only goes hand in hand with agility, but is reinforced by it – agility, the ability to adapt and respond to environmental changes, feeds into resilience, the ability to ‘bounce back’ from unexpected circumstances. But what then does an agile public sector body look like in practice?

Agile public bodies are **right-sized** for their context, able to adjust quickly and adapt rapidly depending on what is needed at any point in time to deliver their mission, even when this is apparently tangential to the core purpose of the organisation (see Box 10).

Box 10: Agile defence – Military support for natural disaster response³⁷

Responses to natural disasters in recent years, such as the earthquakes in Haiti and Pakistan and tsunamis in the Indian ocean and Japan, included the mobilisation of multiple foreign militaries (personnel, expertise, and equipment). Such ad hoc and unpredictable events require adaptable platforms that can be tailored to individual and sometimes concurrent crises.

Disaster relief and other forms of military-led humanitarian assistance are likely to gain prominence in the mix of national security tools expected of defence organisations in future as nations view such interventions as building national prestige and influence, in addition to the pure humanitarian value. Agile defence forces that can respond quickly, shift their focus from war fighting to humanitarian operations, communicate effectively in cross-agency and cross-national efforts, while at the same time not degrading military capabilities and readiness, will be critical to fulfilling this role.

34 PwC, 2013, ‘Government and the 16th Annual Global CEO Survey: A new contract between business and the state’.

35 Concepts primarily derived from PwC & University of Melbourne, 2012, ‘Rising to the Agility challenge: Continuous adaptation in a turbulent world’, PwC, 2011, ‘Agile Defence’ and PwC, 2012, ‘Agile Council’.

36 PwC, 2013, ‘Government and the 16th Annual Global CEO Survey: A new contract between business and the state’.

37 PwC, 2011, ‘Agile Defence’.

“Resilience is so much about an attitude, about having an expectation about the world you’re living in is changing all the time and finding that exciting and looking for opportunities within that. Creating mindsets that revel in that environment, creating a culture that looks for opportunities in that environment, maybe even creates uncertainty and change and disruption because disruption is such a key part of reinvention so what goes on in the top two inches is the most important issue for me around the resilience question. In the more practical sense, it’s clearly about your physical resilience, your processes, your physical location and safety and security, ability to perform when something goes wrong.”³⁹

Doug McKay, Chief Executive, Auckland Council, New Zealand

This requires having the **speed and velocity** to recognise and respond with tempo to new circumstances and events by redeploying resources across the organisation’s network in a **goal-directed manner**, including making appropriate use of external relationships. This applies to the full range of public bodies, from national defence forces to local councils.

Agility also requires formal and well-defined processes for **continuous intelligence scanning** of the environment for emergent threats and opportunities, as opposed to an ad hoc, informal approach (see Figure 13). This ensures **situational awareness** so that organisations can respond to emerging ‘weak signals’ before they become pervasive, and enable early intervention and prevention of issues before they get out of hand (instead of reacting after the fact).

However, while ‘hardware’ changes such as a revamp of institutional structures and flatter organisational structures can help facilitate agility, key to the development of an agile organisation are the ‘software’ factors – **strong, courageous and effective leadership promoting a shared agile mindset**.

This mindset, which views responsiveness and efficacy as core elements of performance, necessitates identifying and empowering leaders at all levels of the organisation, and this in turn is crucial for buy-in and execution of strategy.

Furthermore, a supportive human capital strategy is needed that aims to develop an agile workforce – one of the key enablers for an organisation seeking to be truly agile. This means creating an adaptable workforce that can work across boundaries and pursue cross-organisational collaborations to achieve joint outcomes. This might involve a variety of interventions such as job rotations across business units to train employees to approach issues from different perspectives, as well as providing opportunities for engaging in cross-agency projects and secondments, including into the private sector.

Figure 13: Creating an organisational agility blueprint³⁸



Source: PwC

³⁸ PwC, 2008, ‘How to build an agile foundation for change’.

³⁹ PwC, 2013, ‘Government and the 16th Annual Global CEO Survey: A new contract between business and the state’.

“Innovation happens where people have free minds.”⁴⁰

Kairat Kelimbetov, Deputy Prime Minister, Government of the Republic of Kazakhstan

Characteristic 2: Innovative

Tomorrow’s leading public bodies need to be innovative but innovation has different meanings depending on the context. For instance, being innovative is often associated with disruptive technologies and radical innovations driven by the private sector. In our view, however, there are two aspects of innovation of importance to the future public body – operational, at the level of service delivery, and strategic, in terms of local, regional or national innovation capacity. We discuss both in turn below

Operational innovation

Operationally, delivering the promise to the citizen entails having the **right (new) service delivery models for the right results**, with an eye on measurable outcomes and real impact. Especially today, it is about reconfiguring existing models or developing new ones to do more with less and increase productivity.

Innovation enables governments and public sector organisations to deliver services faster, better and more cheaply, as well as address long term challenges (or ‘wicked issues’) arising from social, economic, demographic, environmental and technological change. For instance, digital technology is opening new opportunities to involve citizens in the design and delivery of services, increasing opportunities to engage citizens in jointly producing innovative services and outcomes. It is also creating more secure methods for delivering the services most needed by citizens (see Box 11)

Box 11: Unique Identity (UID) Project of Government of India

Government of India (GoI) operates a number of social welfare and subsidy schemes for the benefit of the needy and with the objective of more inclusive growth. But due to inefficiencies in legacy systems, a major portion of funds totaling in excess of US\$25 billion does not reach the intended beneficiaries. A key reason for this is the lack of a strong mechanism to identify the target beneficiaries and eliminate fake and duplicate identities.

GoI has therefore undertaken an ambitious plan of providing a 12-digit individual identification number to all its residents. This number, titled ‘Aadhaar’,⁴¹ serves as a proof of identity and address anywhere in India by using the biometric data for each enrollee. This will then form the basic, universal identity infrastructure over which Government departments and agencies can build their identity-based applications. It will deliver benefits electronically through direct transfers of cash, subsidies and benefits including for schemes where physical goods are delivered to the beneficiary such as grains and pulses.

The Aadhaar authentication system also allows the identity of a resident to be authenticated in a real-time and trusted manner. Standardised interoperable MicroATMs allow customers to perform financial transactions using only their Aadhaar number and fingerprint. This token-less, paperless infrastructure can be leveraged to provide micro-financial products in future and is a phenomenal example of how technology can be innovatively used to bring in more agility, inclusiveness and transparency in the services being delivered by Government.

⁴⁰ PwC, 2013, ‘Government and the 16th Annual Global CEO Survey: A new contract between business and the state’.

⁴¹ Aadhaar (Hindi language) translates to ‘support’ or ‘foundation’ in English

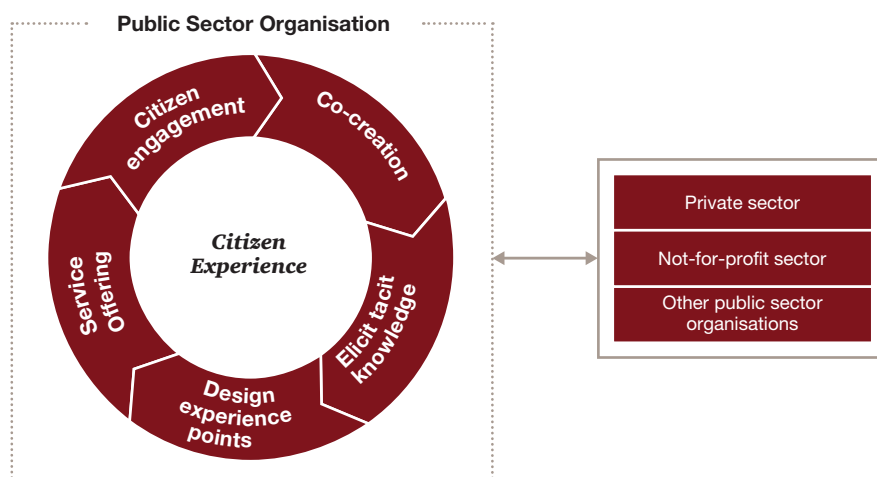
The increasing importance of **open service innovation**⁴² involves a shift that places the user at the centre of innovation. Today, innovation is no longer a purely technological endeavour aimed at developing products and processes, but involves services that create new channels to market, new businesses processes and new organisational and business structures to better meet the consumer's needs and expectations.

The user-centric approach of open service innovation also impacts the way public services are perceived, developed and delivered, in order to meet the demands and expectations of citizens. Co-creation and co-design concepts are now more widely embraced but are not new. In 2008, we had already seen that co-design was an international movement receiving enthusiastic support from public service practitioners across the globe.

At that time, however, we had yet to see a consistent emergence of organisational cultures which supported collaborative service design, with such processes grating against existing methods of top-down service design.⁴³ Now citizens are much more involved in every step of innovation in an ecosystem where different stakeholders within and across sectors can meet to collaborate to achieve outcomes (see Figure 14).

Innovating operationally does not just refer to processes and services, but also includes encouraging an innovative organisational culture which means developing an 'incubating' environment for ideas to grow and flourish. Ideas with potential can subsequently be accelerated for execution and implementation via a rapid prototyping and large-scale demonstrator approach, which tests new concepts and ideas as a transformational project before scaling up for adoption at a wider level (see Box 12).

Figure 14: Open sourcing public services⁴⁴



Source: PwC

Box 12: Large-scale demonstrators⁴⁵

Large-scale demonstrators provide a way of de-risking innovation by providing a staged process in which a range of solutions are initially developed, tested and then selected for further rounds of support. Demonstrators move from small-scale prototypes to a small number of larger-scale near-market projects combining the three vital elements of: infrastructure; market framework; and people and skills. The R&D factor is also present, playing a supporting role. This in turn creates intelligent ecosystems and increased interoperability.

Examples include new health care systems, smart grids, intelligent transport systems and smart cities. For instance, the ongoing LIMES⁴⁶ project is run under the European Mobile and Mobility Industries Alliance. It aims to contribute to the development of sustainable and cultural tourism in all European countries along the Roman Limes, and will support mobility in rural areas through the development of innovative mobile services. The project focuses on developing mobile services and creating new, innovative value chains with the involvement of ten European countries.

42 Drawn from PwC, 2013, 'Transformative Power of Service Innovation: Call for Action on New Policy Framework (Part I/III)'.

43 Demos & PwC, 2008, 'Making the most of collaboration: an international survey of public service co-design'.

44 Inspired by Services Value Chain model, from Service Innovation Yearbook 2010-2011 (2011), European Union: http://files.openinnovation-platform.eu/yearbook/service_innovation_yearbook_2010_2011.pdf

45 PwC, 2013, 'Transformative Power of Service Innovation: Call for Action on New Policy Framework (Part I/III)'.

46 LIMES: <http://mobilise-europe.mobi/limes/>

Strategic innovation

In our 2010 report ‘Seizing the Day’ almost all (96%) of local leaders surveyed believed that nurturing innovation is important or very important to their city/town’s future growth and development.⁴⁷ The future public body needs to consider its role in local and national innovation strategies, based on areas of competitive advantage.

One approach – **smart specialisation** – involves formulating an economic transformation agenda which builds on, and innovatively combines, existing strengths in new ways. This means identifying a place’s competitive advantages and mobilising regional stakeholders and resources around an inspirational vision for the future⁴⁸ (see Box 13).

We are also seeing the rise of **public entrepreneurs** – individuals and organisations within the public sector which create new ventures and ultimately increase local, regional and national innovation absorption capacity. Their efforts are in turn championed by **political entrepreneurs**, who are key in channelling political will and vision to support innovative strategies (see Figure 15).

Box 13: Smart Specialisation Strategy⁴⁹

The smart specialisation strategy concept, which was developed by the European Commission, aims to boost economic growth and prosperity by:

- Promoting efficient, effective and synergetic use of public research, development and innovation (RDI) investments while attracting private investment;
- Supporting countries and regions in strengthening their innovation capacity; and
- Diversifying and modernising existing industries while focusing scarce human and financial resources in select globally competitive areas.

This approach builds on emerging evidence which shows that focusing on areas of real potential has a much better pay-off than spreading investments thinly over unrelated areas. Importantly, smart specialisation asserts that understanding a region’s knowledge assets is achieved not through a topdown approach, driven by public leaders, but by involving key local stakeholders including academia and businesses in a process of ‘entrepreneurial discovery’.

By involving key stakeholders through a consensus-driven process, public leaders can develop a clear and ambitious vision which is widely shared and then agree on a roadmap to deliver the strategy – the critical issue in making things happen as a result.

Figure 15: Definition of entrepreneurship

Individual entrepreneurs	<ul style="list-style-type: none"> • Create new activities • Role model for young generations • Iconic person in and outside the country 	Very Small Companies
Intrapreneurs	<ul style="list-style-type: none"> • Absorb innovation in companies • Create new activities and jobs 	Large Companies
Public entrepreneurs	<ul style="list-style-type: none"> • Match the needs of the private entrepreneurs • Create new ventures • Increase country innovation absorption capacity 	Government & Administration
Political entrepreneurs	<ul style="list-style-type: none"> • Reshape citizen wellbeing • Smart specialisation strategies • Channel political will and vision to support innovative strategies 	Political Leadership

Source: PwC

47 PwC, 2010, ‘Seizing the day: The impact of the global financial crisis on cities & local public services’

48 Drawn from PwC, 2012, ‘Smart specialisation for cities: A roadmap for city intelligence and excellence’, World Financial Review, Mar/Apr 2012.

49 PwC, 2013, ‘Transformative Power of Service Innovation: Call for Action on New Policy Framework (Part I/III)’.

State-owned enterprises (SOEs) can also play a potential strategic role in leading and facilitating innovation activity (see Box 14).

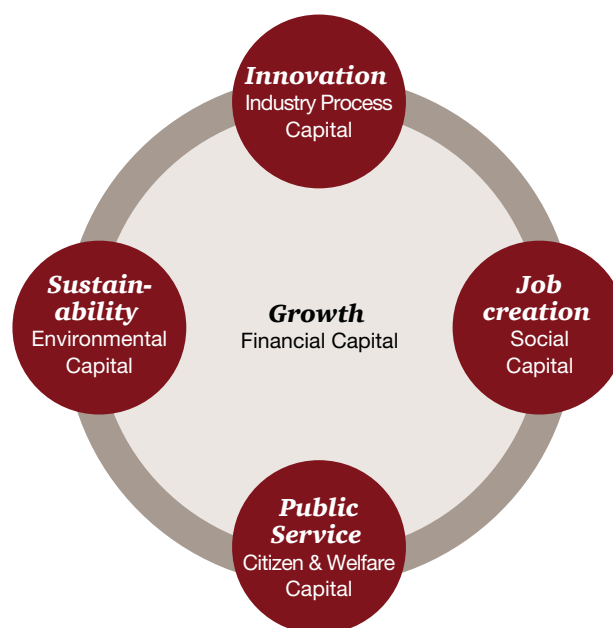
Box 14: A new strategic role for SOEs⁵⁰

SOEs have a new strategic role to drive good growth through their impact on a society's innovation system with respect to wealth creation, job creation and wellbeing (see Figure 16).

SOEs foster collaboration across the public, private, university and not-for-profit sectors and absorb innovation for the economy. To play this role requires some guiding principles:

- SOEs should not be run as a private company given the different business logic and task: their primary task is not just to generate financial return on investment to the government in the short and long term – it is value creation through the right investments creating a long term sustainable and competitive advantage for the nation.
- SOEs need to be actively owned, directed and evaluated in a holistic way including human, social, environmental, intellectual and financial perspectives. Cost-revenues are not enough. Cost-benefit, outcome and societal impact are vital.
- SOEs need new principles for corporate governance – for owner, board, CEO and auditor – regarding their tasks, roles and internal collaboration.
- SOEs must be a bigger strategic player linked to the ambition of creating new jobs, growth and innovation in existing and emerging industries.
- SOEs can be an instrument for exponential value creation, if the right ideas, people and processes are put in place together with mature energising leadership on all levels.

Figure 16: Scorecard of the Future for SOEs?



Source: PwC

⁵⁰ PwC, 2013, 'Government and the 16th Annual Global CEO Survey: A new contract between business and the state'.

Characteristic 3: Connected

By connected, we mean openness to the active involvement of key stakeholders with an impact on public services outcomes. **Partnering and co-venturing** are aspects of this characteristic. With increased resource constraints, the imperative for partnering to jointly secure outcomes is stronger than ever. We are observing a trend towards strategic alliances and a shift from standalone business models to distributed network models,⁵² which are seen as faring better than hierarchical ones in sustained crisis (see Figure 17).

These decentralised organisations are like starfish – able to regenerate severed limbs – which provides them with enhanced capacity to be resilient and competitive in a complex and uncertain world⁵⁴.

Frequent use is also being made of a variety of collaborative partnerships, such as PPPs, outsourcing and shared services, to reduce costs as well as increase revenues⁵⁵ (see Box 15).

Box 15: Infrastructure Partnerships – Independent Sector Treatment Centres

In order to address long waiting times, poor health outcomes, and low staffing levels, the UK's National Health Service (NHS) partnered with private organisations to create Independent Sector Treatment Centres (ISTCs).⁵⁶ These Centres were encouraged to collaborate with local healthcare economies to provide solutions tailored to local needs.

The private sector's responsibilities include delivering clinical services and the infrastructure required to deliver such services. ISTC providers employ clinical staff, manage performance, raise funds for construction, equipment and working capital and maintain facilities to Care Quality Commission standards.

Within four years, ISTC elective procedures accounted for 20% of the overall decline in waiting list numbers, while theatre utilisation measures rose 33% compared with NHS providers. ISTCs remain a small but important element of total NHS care (c.4%-5%) and provide a degree of competition to NHS providers, acting as a spur to quality. Performance metrics have evolved with the ISTC contracts to raise the level of quality for both private and government partners.

“A situation of lower revenue stimulates the definition of new mechanisms for the provision of public services through joint ventures, alliances and public-private partnerships. The impact can be summarised in one sentence: spend less and do more, without compromising excellence.”⁵¹

Enrique Ossorio, Minister of Economy and Finance of the Community of Madrid, Spain

Figure 17: Networked organisations fare better in sustained crisis⁵³

Organisation 1	Organisation 2
Hierarchical	Networked
Centralised leadership	Distributed leadership
Tightly coupled (greater interdependence among parts)	Loosely coupled (less interdependence)
Concentrated workforce	Dispersed and transnational workforce
Specialists	Cross-trained generalists
Policy and procedure driven	Guided by simple yet flexible

51 PwC, 2013, 'Government and the 16th Annual Global CEO Survey: A new contract between business and the state'.

52 PwC, 2013, 'Government and the 16th Annual Global CEO Survey: A new contract between business and the state'.

53 Adapted from Nohria, N. 'The Organisation: Survival of the Adaptive'. Harvard Business Review. <http://hbr.org/web/2009/pandemic/survival-of-adaptive>.

54 Brafman, O., and Beckstrom, R. *The Starfish and the Spider*. New York: Penguin Group, 2007.

55 PwC, 2010, 'Seizing the day: The impact of the global financial crisis on cities & local public services'.

56 PwC acted as advisers for several of the ISTCs.

In fact, a new market is emerging in public service delivery that has the potential to deliver the holy grail of ‘affordable plurality’. Partnerships between enlightened and socially responsible private sector organisations and ‘business-like’ voluntary sector organisations are pointing the way ahead.

But we also realise that we are still seeing the very early days in the next stage of a more open ‘market’ for public services, which requires citizen support.⁵⁷ It will also require politicians and policy makers to hold their nerve if they are to reap the rewards. Governments need to focus on fostering such innovation, and work with officials to reform out-of-date procurement practices which can work against it.⁵⁸

A connected public body is also more **porous**, one that reaches out across organisational levels (local, regional, national/federal), borders (geographical, sectoral) and stakeholders (especially citizens) (see Box 16). Silos need to become a thing of the past. The future public body needs to be **glocal** in outlook – globally aware, locally relevant, and connected on the ground.

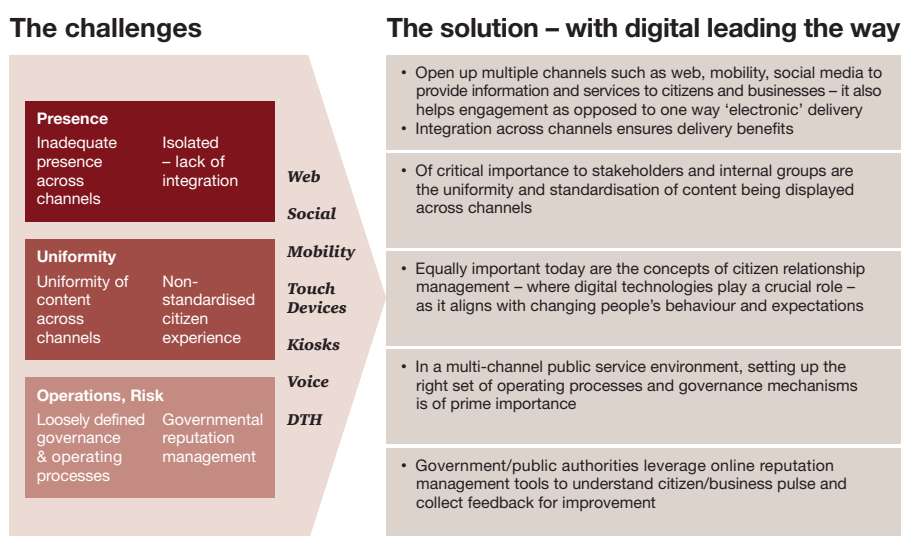
Box 16: Participatory governance through online platforms

Over the last few years, a significant number of countries have been adopting citizen inclusion as part of their e-government agenda, leveraging multiple technology channels to enable e-participation e.g. through online surveys or feedback forms, chat rooms, listservs, newsgroups and social media such as Twitter and Facebook. Some of these initiatives include:

- Have Your Say section (National Portal⁵⁹), Australia – citizens can send their inputs on draft regulations to the respective Ministry by email.
- e-Government Site,⁶⁰ Brazil – Forum section allowing users to send comments regarding accessibility and integration of services and also contains a public consultation section on draft regulations.
- e-Democracy Site,⁶¹ Hungary – Government officials/agencies respond to citizens’ comments and conduct moderation activities.
- Ministry of Education⁶² and Ministry of Health⁶³ websites, Mozambique – online discussion forums for users’ inputs on policy issues.
- Citizen Participation Portal,⁶⁴ Panama – Blog section enabling users to comment on Government programmes.
- e-Petition (National Portal⁶⁵), UK – citizens can lodge online petitions for Governments to propose to Parliament if enough signatures are acquired.
- Civil Society & Government Portal,⁶⁶ Government of Ukraine – calendar showing upcoming events to promote dialogue with citizens.

With an increasing number of people using social networking in their personal lives, online platforms are becoming powerful tools for engagement between governments and their constituents, as illustrated in Figure 18.⁶⁷

Figure 18: Digital – an integrated part of participatory governance

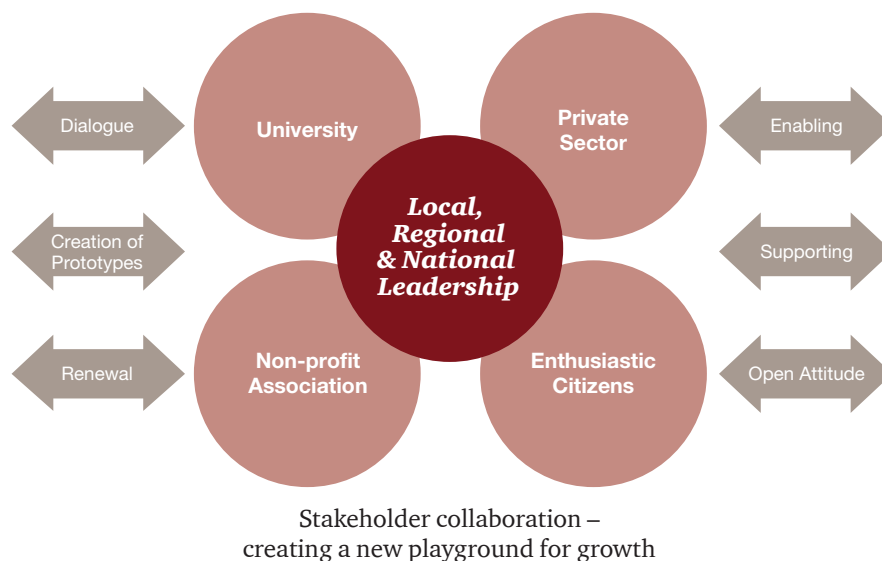


Source: PwC

57 See Box 21: Five tests for opening out public services
 58 PwC, 2012, ‘Under pressure’
 59 <http://www.australia.gov.au>
 60 <http://www.governoeletronico.gov.br>
 61 <https://edemokracia.magyarorszag.hu>
 62 <http://www.mec.gov.mz>
 63 <http://www.misau.gov.mz>
 64 <http://www.participa.gob.pa>
 65 <http://www.direct.gov.uk>
 66 <http://e-gov.net.ua>
 67 PwC India

Through our work around the world, we have seen the benefits of bringing together the ‘penta-helix’ of stakeholders in society – universities, the not-for-profit sector, citizens and the private sector with the local or regional government in new ways of collaborating (see Figure 19). This is clearly one way of doing things differently and shaping the public body of the future – exploring new modes of working with other relevant stakeholders.

Figure 19: Stakeholder collaboration – creating a new ecosystem for growth and renewal



Source: PwC

“I have tried to focus on, for a great extent in my tenure, how to open and broaden that dialogue with industry. To bust the conventional wisdom where things are not exactly right, to make the government more receptive to answering questions from industry and also have industry asking more questions of us. It is finding those safe places outside of a contractual relationship, or a planned contractual relationship during procurement where there are procurement sensitivities. Where are those other places we can engage with industry so that we have a greater mutual understanding?”⁶⁸

Rafael Borrás, Under Secretary for Management, the Department of Homeland Security, US

Characteristic 4: Transparent

In today’s era of individualisation and rising citizen expectations, it is tempting for governments to put in place popular (albeit potentially myopic) policies to retain the majority vote in elections. At the same time, citizens are becoming more informed due to the Internet, which means that governments are being held to account for their actions. Transparency and accountability is an imperative for governments and public sector organisations wishing to rebuild trust and legitimacy in the eyes of the wider public.

The commitment to transparency sends the signal that the government is serious about working for, and with, its constituents and stakeholders for the achievement of desired societal outcomes, and will be held accountable for the part it plays in the process. Concurrently, **a focus on transparency reinforced by accountability** can empower government to devolve powers and responsibility from central to local levels, and from the public sector to the private and voluntary sectors as well (see Box 17). It serves not only to better engage all actors in

society, but is a natural form of ongoing monitoring and evaluation of performance and outcomes.

Further, a transparent government that engages communities and individuals can also re-set expectations and start to **manage the demand for public services**. Accordingly, future public bodies will increasingly need to be transparent with their constituents regarding the difficult choices and trade-offs they face, in order to facilitate a common understanding and consequently buy-in of what must be done.

Transparency can also be enabled by the use of **open data**, which not only allows for accountability (e.g. salaries of public officers), better decision-making (more parties having access to the same information and facts allowing for robust dialogue and formulation of more accurate conclusions), but also empowers communities to act. Crime maps are a good example of this in practice, where citizens in the local community can hold local police authorities to account for crime rates in specific neighbourhoods, as well as engage in ‘community policing’.

⁶⁸ PwC, 2013, ‘Government and the 16th Annual Global CEO Survey: A new contract between business and the state’.

Box 17: Who's accountable?⁶⁹

In our 2009 report 'Who's accountable?' PwC, together with the Institute for Public Policy Research, discovered that while the public tends to hold central government responsible for core parts of public service performance, it is possible to give power away and transfer accountability to other bodies if:

- Devolution is well communicated;
- Devolution is clearly enacted; and
- Real powers are transferred to highly accountable bodies.

When this is not the case – when lines of accountability are unclear, where the public does not know who is in charge, and where the division of power is murky – then the public reverts to holding the central government responsible for the performance of a public service.

At the same time, it can take time for public perceptions of accountability to change once power has been transferred to a new body. The public, it seems, needs time to get used to understanding who is responsible for exercising devolved powers.

This presents a challenge for politicians as it implies that there will be a period of time in which they will still be held responsible for the outcomes of decisions taken by a devolved body once they have let go. Public leaders need to hold their nerve if they are to rise to the challenge of giving power away in centralised political cultures.

Open data can even drive economic growth by creating opportunities for small businesses to come up with new applications and services to meet identified needs from publicly released data. Such a case is NYC Big Apps, an annual competition held by New York City challenging software developers to create apps that use city data to make the city better. Over 140 applications have been yielded to date, made for New Yorkers, ranging from joining pick-up soccer games to finding parking spots. This can be described as the third generation of e-government, in which companies and organisations can participate and develop services with public data or basic e-services as the foundation (see Box 18).

Box 18: Realising the third generation of e-government⁷⁰

Making public data and e-services accessible to other actors so that they can develop new products and services is one of the main ideas behind the third generation of e-government. The intention is partially to increase transparency in public operations and partially to provide more and improved e-services based on public data, but also to create opportunities for new companies to develop within the information sector.

Government agencies at all levels must develop strategies for the way in which they intend to make their data accessible by electronic means. This entails establishing rules for the electronic release of public documents, as well as a portal to make it as easy as possible to obtain information and to have access to public data sources. The government must also oversee the pricing of government data.

From a societal perspective, it would be best to establish a general principle of freely available public data. The importance of universally accessible data may be illustrated in the case of weather risk management. The American market for meteorological services is more than ten times greater than the corresponding market in Europe. This could be due to the fact that the meteorology agency in the United States has for many years been providing free access to the agency's data, while in most European countries, the corresponding agencies charge for their data.⁷¹

⁶⁹ PwC/ipp, 2009, 'Who's accountable? The challenge of giving power away in a centralised political culture'.

⁷⁰ PwC Sweden, 2012, 'A closer look at e-government'.

⁷¹ Yvette Pluijmers (PwC consulting) and Peter Weiss (United States National Weather Service), 'Borders in Cyberspace: Conflicting Public Sector Information Policies and their Economic Impacts, 2002'.

However, transparency is not just concerned about the mere release of information, but rather the **quality and reliability of the information** being made public. Truthful transparency is required for true accountability and sound decision-making (see Box 19).

They cannot stand alone

All four characteristics – agility, innovation, connectedness and transparency – are interdependent and need to be developed together to result in successful outcomes. For example, being an agile body that is right-sized requires bringing in or releasing capacity quickly within a specific time-frame, which in turn may mean relying on new types of partnerships. Collaboration and connectedness is also enhanced through trust, which is a natural outcome when processes and outcomes are transparent, and parties are held accountable for actions and decisions taken.

In other words, the characteristics reinforce one another, and conversely, a weakness in one can undermine strength in another. All four are essential.

Box 19: Improving public finance management

While sound and transparent public accounting does not in itself lead to high-quality public finance management, it is a necessary component of it. Better accounting leads to better reporting and decision-making, which in turn leads to better use of public resources. Public bodies and their stakeholders need to understand the full, long term economic impact of their decisions with respect to their financial performance, financial position and cash flows.

Cash accounting systems fail to capture information on public sector assets and liabilities, and present a very short term view of public finances in the primary financial reports. By introducing accrual accounting, governments demonstrate that they are seeking greater transparency and accountability as well as better information for decision-making.

A major shift to accrual accounting is expected,⁷² in particular in developing countries, with IPSAS (International Public Sector Accounting Standards) serving as a common reference point.

Implementing accrual accounting should not, however, be an end in itself, but a starting point to transform the government's finance function. The CFO role in public bodies should switch from that of a scorekeeper to business partner of senior management and politicians with a view to improving operational and service performance at all levels of the organisation, and providing forward-looking information that is useful for decision-making.

Questions to think about

- Is my organisation agile enough to respond to unforeseen events? Is there a strong culture of agility, flexibility and resilience that is reinforced by leadership?
- Are we able to release and bring in capacity flexibly and in a timely fashion as needed?
- Is my organisation consistently looking for innovative ways to do more with less in order to affordably and effectively meet the needs of citizens?
- Do innovative ideas have a place in my organisation?
- Is my organisation making use of collaborative partnerships to drive affordable and effective public service delivery?
- Are we transparent in our processes, outputs and outcomes? Are the appropriate systems in place to ensure that the right people are being held accountable for actions taken and decisions made?

⁷² PwC, 2013, 'Towards a new era in government accounting and reporting'.

Chapter 5: How can we equip ourselves?

In this chapter, we focus on a few of the most important of the **internal management capabilities** which have arisen from our research over the last six years. We start with the strategic decision-making needed on whether to undertake activities in-house or not, before moving onto the capabilities needed for effective funding and financial management, talent management and outcome assessment.

Make, buy or stop!

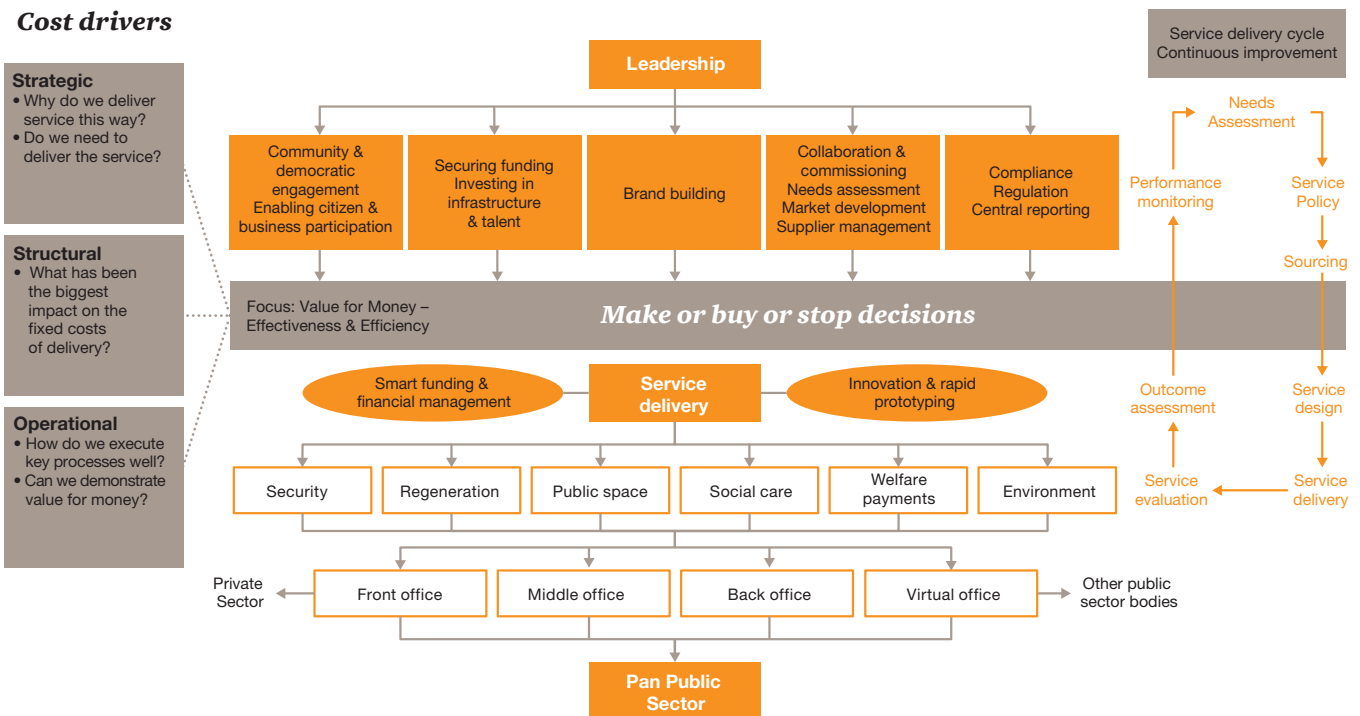
The ideal size and shape for each individual organisation to deliver effectively its mission will vary widely according to its political, economic and social context. Figure 20 sets out a high level view of the key elements for any public body's operating model.

The internal capabilities needed by tomorrow's leading public body will depend first on whether management decides to 'make' (provide in-house), 'buy' (outsource to private or voluntary/not-for-profit enterprises), or 'stop' (cease provision) service delivery in a range of areas within the scope of the organisation.

The future public sector body sets the pace strategically and operationally, conducting itself to the highest standards while ensuring affordable, sustainable and effective public service delivery. But what internal management capabilities are needed?

Public organisations need to be properly equipped to channel resources effectively and efficiently towards accomplishing their vision and mission: from inspirational leadership (next chapter) and clear implementation planning to managing finances effectively and prioritising the organisation's projects, performance, risks, partnerships, assets and human capital.

Figure 20: Internal, organisational perspective⁷³



Source: PwC

73 Adapted from PwC, 2011, 'Making it happen'.

Public sector leaders must decide which functions are critical to performance and too risky to be outsourced. In reality, the list of functions that need to be **made** in-house is short, albeit important. For instance, these might include the provision of social care, children's services and a safety net for the disadvantaged.⁷⁴

At the same time, governments must decide which functions can be borne (willingly) directly by the citizens themselves i.e. self-provision. For instance, the Social Market

Foundation's Health Project found that a majority of the public would like to be more engaged with service provision, though the general preference is for greater information and consultation, with the final decision to be made by professionals.⁷⁵

When the decision is taken to buy in, the role of the public sector body needs to shift from service provider to **service facilitator**. This requires different skills and capabilities from public procurement, requiring the ability not only to set up and monitor contracts, but to:

- Undertake a robust assessment of needs;
- Shape and develop the market of providers to supply the services, particularly if this is under-developed in a locality; and
- Manage relationships with suppliers to ensure quality and value for money is delivered.

Box 20 provides a list of questions to guide this type of 'make', 'buy' or 'stop' decision making,⁷⁶ and Box 21 sets out five key tests to determine when public services should be opened up to other providers.⁷⁷

Box 20: Cost drivers diagnostic

Strategic questions – “Why do we do this?”

- Is the activity essential to meet government priorities?
- Does the government need to fund this activity?
- Does the activity provide substantial economic value?

This might include looking at options for the public to do more for themselves as well as the public sector stopping doing things completely.

Structural questions – “By whom and for whom?”

- Can the activity be targeted to those most in need?
- Can local bodies as opposed to central or federal government provide the activity?
- Can the activity be provided by a non-state provider or by citizens, wholly or in partnership?
- Can non-state providers be paid to carry out the activity according to the results they achieve – payment by results?

This might also include looking to provide many more services online or through other cheaper delivery channels shared across public agencies.

Operational questions – “How can we do this?”

- How can the activity be provided at lower cost?
- How can the activity be provided more effectively?

This might include reducing spending through outsourcing, standardising, simplifying and sharing routine services and boosting staff productivity.

⁷⁴ PwC, 2010, 'Seizing the day: The impact of the global financial crisis on cities & local public services'.

⁷⁵ Social Market Foundation, 2009 'Local Control and Local variation in the NHS; What do the Public Think?'.

⁷⁶ PwC, 2011, 'Rethinking government: Doing things differently'.

⁷⁷ PwC, 2012, 'Under pressure'.

Box 21: Five tests for opening out public services

In the UK, we ran a Citizen's Jury which explored the opening up of public services to a mixed economy of suppliers.⁷⁸ The Jury set out five key tests:

1. Can the public sector **procure the service effectively**, so that we actually get the service we need? This should include the 'reach' of the service – safeguarding vulnerable groups and complex cases.
2. **Will shifting away** from the public sector **deliver value** i.e. the same or better quality, quantity and accessibility at the same or lower cost to taxpayers?
3. **Will a different provider bring expertise or specialism** that is hard to find in the public sector? Other factors valued included innovation, investment and a different attitude to risk.
4. **Will accountability be clear** for users of the service? It must be easy for users to complain, be possible to take contracts away from providers if they fail to deliver the right level of service and there must be independent oversight with sufficient power to ensure quality.
5. **Will continuity of service be secure** if the supplier fails? Appropriate safeguards should be in place, perhaps through competition, to ensure that failed suppliers can be replaced.

Every decision should then be communicated effectively, with policy makers working with the public to co-create solutions which they feel they own.

Box 22: The public's perspective on types of public services

In a PwC survey of city managers globally,⁸⁰ **commissioning/buying external service provision** was seen as important or very important for over half of our respondents when it comes to:

- Transportation and infrastructure.
- Economic development and investment.
- Tourism and cultural promotion.
- Sanitation and waste management.
- Security and safety.
- E-government services.
- Housing.
- Social care.

Further, respondents in a survey we undertook of UK local governments⁸¹ revealed that they were happier to see NFPs deliver 19 out of the 22 services, particularly:

- Libraries.
- Playgrounds.
- Parks and open spaces.
- Arts and cultural services.
- Leisure and sports facilities.

In contrast, the public favoured **private provision** in three areas: public transport; road maintenance; and street lighting.

In determining the **types of partnerships** desired when commissioning or buying external services, we have discovered that the public appears more open to the idea of not-for-profits (NFPs) as alternative suppliers, perhaps because they are perceived as more likely to uphold the public service ethos and have concern for factors beyond efficiency and profit⁷⁹ (see Box 22).

78 PwC, 2012, 'Under pressure'.
79 PwC, 2012, 'Under pressure'.
80 PwC, 2011, 'Making it happen'.
81 PwC, 2010, 'The (local) state we're in'.

Box 23: Incubating new public service delivery – Achievement for All

The Achievement for All (AfA) programme addresses a key challenge in the UK of narrowing achievement gaps, by raising the attainment of the 20% of vulnerable, special needs and disabled pupils within a school. The programme was commissioned by the Department for Education and has been delivered through an innovative partnership between the not-for-profit sector (Achievement for All 3As Ltd) and the private sector (PwC).

While the Department was keen that, in time, the programme was delivered through a not-for-profit structure, the charity lacked the strength and depth of resource, or track record, to navigate the procurement. PwC took the prime risk on the contract and, at the same time, the challenge of supporting AfA as it put in place the building blocks needed to ensure its resilience. This included providing advice and support in a range of areas such as programme management, resource planning, financial management, governance, regulatory compliance and contract management.

The ultimate aim was achieved in May 2012, when the Department and PwC agreed to novate the prime contract in full from PwC to AfA.

However, NFP providers do not always have the capacity and capability to deliver large scale services. Tapping into the increasing role of NFPs in public service delivery therefore requires government to play the part of **service broker**, bringing together the private and voluntary sectors in collaborative partnerships that reduce the cost of publicly funded services.

Collaboration holds the promise of bringing together the commercial acumen and resources of private providers together with the ‘mission focus’, specialist skills and perceived respectability of NFPs. For this to be truly successful requires the quality and commitment of individual leaders in addressing cultural and mindset differences across the private-voluntary divide⁸² (see Box 23).

Further, shared services across organisational boundaries provide the platform for the standardisation, streamlining and simplification of processes to bring about pan-public sector services which maximise value and resources. Increasingly, these services are also not only in the back office (for example, finance, IT and human resources), but in the middle and front office as well.

These services make use of shared assets and staff to meet multiple needs in one facility, such as personal advisors navigating individuals across the range of educational, health and social interventions they need to become productive members of society.⁸³ This may involve structural reforms at international, national, regional or local levels and reshaping the public sector system to enhance efficiencies for both the private and public sector (Box 24).

82 PwC, 2012, ‘Under pressure’.

83 PwC, 2010, ‘Seizing the day: The impact of the global financial crisis on cities & local public services’.

Box 24: Sharing responsibilities across countries

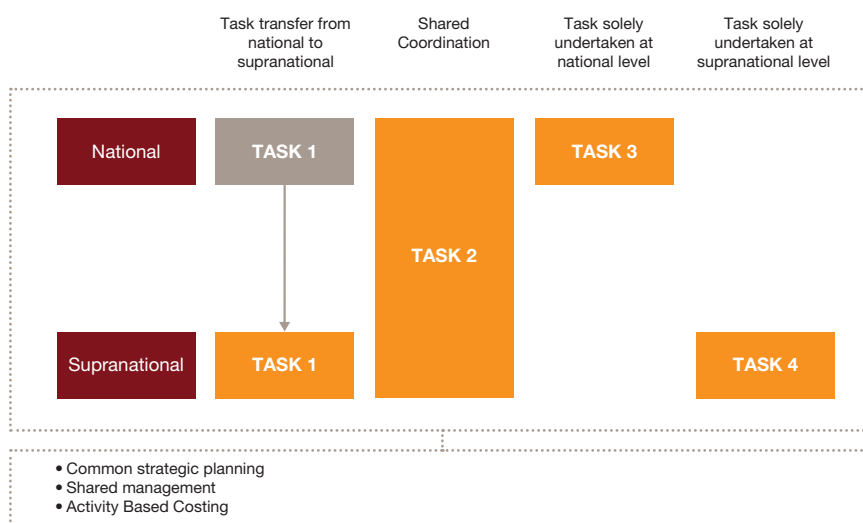
Transferring responsibilities and tasks from one level of the public sector (national) to a higher level (supranational) can improve the efficiency and effectiveness of a particular service while improving competitiveness. The European Aviation Safety Agency (EASA) is one such example. EASA is one of over 30 EU Agencies delivering services for the benefit of member states and aims at promoting the highest common standards of safety and environmental protection in civil aviation in Europe and worldwide.

A recent study into the impact – on both EU and national budgets – of transferring such responsibilities/tasks from the national to the European level through the creation of specialised and centralised Agencies found the following key benefits:

- Harmonised and increased scientific and technical standards across EU Member States, playing an important role in consumer protection.
- Bilateral agreements between these agencies and other countries speed up, and simplify, the commercial relationships between EU and other regions.
- Complementarity, rather than duplication, of tasks between national and supra-national levels (see Figure 21).
- Industry, particularly large companies, benefits from a tangible improvement in competitiveness.

Of course, the budgetary and administrative impact at national level varies depending on factors such as the importance of the industry to the relevant EU member state.

Figure 21: Illustrative task split



Source: PwC

Funding and financial management

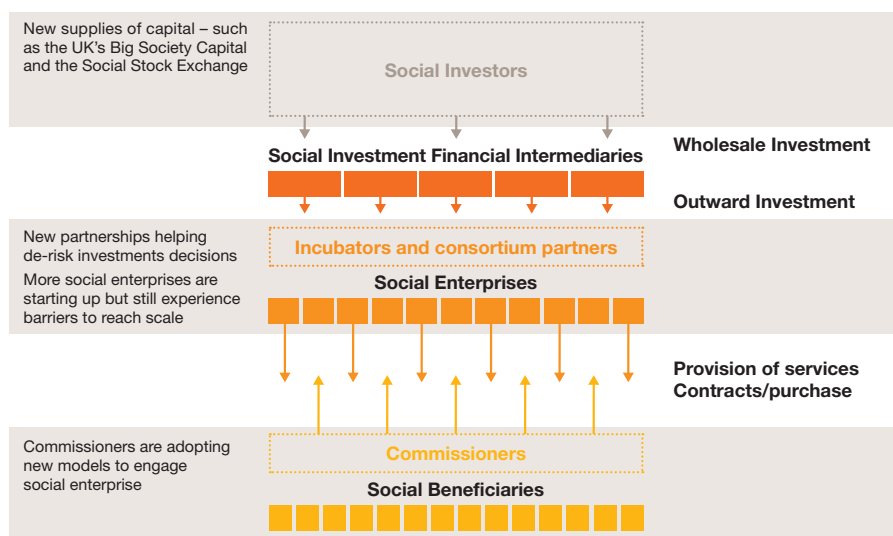
Linked to effective service delivery is the need to have in place **smart funding** and **effective financial management**. Smart funding is our shorthand for exploring innovative financing mechanisms and partnerships with private and NFP stakeholders (see Figure 22 and Box 25), while wisely allocating limited state resources to targeted areas resulting in maximum impact. The former includes, for example, the development of a social investment market which blends financial return with positive social impact, and new financial instruments such as social impact bonds.⁸⁴

Smart funding includes a focus on preventative interventions. For instance, as commented by the Wanless Report in the UK, it is far more cost effective to encourage people not to smoke or drink excessively in the first place, rather than to pay for their treatment once they have become ill from related diseases.⁸⁷

“The best way for us to cooperate is to increase competitiveness via co-financing and cooperation models which drive innovation and research [...] Co-financing related to infrastructure investments is becoming increasingly important.”⁸⁸

Torbjorn Rosdahl, Commissioner for Financial Affairs, County of Stockholm, Sweden

Figure 22: The social economy⁸⁵



Source: PwC

Box 25: New funding mechanisms

Beyond ‘traditional’ PPP mechanisms, emerging in the US are partnerships between the government and non-governmental organisations (NGOs) where the NGOs bring not only knowledge and capability, but also facilities and financial resources (including corporations). While there has been for many years a flow of funds from the government to NGOs in the US, these new types of government-NGO partnerships are paving the way for corporations to get involved through their charitable functions or missions.

For example, IBM is teaming up with the City of New York to open P-Tech, a unique six-year high school which allows students to earn a diploma and an associate’s degree in a computer science-related field. IBM brings technology, mentors, teachers and ‘first priority’ hiring for graduates of the school, while the school district brings the students, basic facilities and other instructors.⁸⁶ The federal government is now looking to replicate this model around the country, including providing some funding.

Further out on this continuum are organisations which are raising money through crowd sourcing or social bonds and putting that money to work through NGOs in cooperation with government entities, or to fill gaps in the social network.

84 PwC, 2012, ‘Under pressure’.

85 PwC, 2012, ‘Under pressure’.

86 PwC’s PSRC, 2012 ‘Taking responsibility: Government and the Global CEO’.

87 PwC, 2009, ‘Towards a smarter state’.

88 PwC, 2013, ‘Government and the 16th Annual Global CEO Survey: A new contract between business and the state’.

Another development is the use of **challenge funds** to enable limited state funds to achieve maximum impact and act as another route to commission outcomes (see Box 26).

While financing continues to be seen as a major issue, public bodies also continue to struggle with exploring, managing and using new forms of finance due to a lack of financial management capability in-house.⁸⁹ Public sector organisations need to work harder to attract and develop a new generation of finance managers capable of stepping up to this new challenge (see Box 27).

Box 26: The Girls' Education Challenge Fund

Improved girls' education can have a direct effect on economic growth. It can significantly reduce under five and maternal mortality, improve literacy and numeracy, enable them to earn more money as adults and have healthier families. Their children are also more likely to go to school themselves.

As such, PwC has been working with the UK's Department for International Development (DFID) to establish the Girls' Education Challenge (GEC) fund. GEC supports non-governmental organisations (NGOs), charities and private sector organisations to find better ways to provide education opportunities to marginalised girls in the poorest countries in Africa and Asia.

Through a competitive process, the GEC funds projects that focus on innovative and cost-effective ways of getting marginalised girls into primary and lower secondary education, keeping them there, and making sure they learn. Applicant organisations have to demonstrate measurable improvements in the quality of education as well as increased numbers of girls going through school. It is expected that the GEC will provide education opportunities to up one million girls in total in Africa and Asia over three years.

Box 27: The future finance professional

People related issues underpin many of the perceived barriers to future success for Finance as shown by our research on the finance function.⁹⁰ People management strategies are essential ingredients of success and need to be in place to manage recruitment, deployment, performance, talent generation, career planning and succession. Finance needs to reflect carefully on the range of skills it needs to fulfill the role of business partner, working in partnership with senior management to enable decisions to be evidence-based with clear financial consequences.

The future finance professional will also need to develop in a different way to the past with a growing expectation for well-developed business understanding and engagement skills, as well as sharp technical and analytical insights. Finance needs to identify those people with the potential to take on insight roles and develop clear career paths.

Identifying, supporting and retaining people with potential is important to the development and success of these operations. One way of developing finance talent is through short secondments both to and from other organisations in either the public or private sectors.

⁸⁹ PwC, 2011, 'Making it happen'.

⁹⁰ PwC, 2012, 'Above the parapet'.

Attracting and retaining talent

The need for best-in-class finance professionals is only one example where **talent** continues to be a major criterion for success. PwC's 16th Annual Global CEO Survey highlights lack of skills as a barrier to success. Indeed 77% of CEOs surveyed plan to revise their strategies for managing talent in the coming year, perhaps due to the realisation that they will not be able to attract and retain new customers without well-trained, highly motivated employees.⁹¹

This focus on talent is also seen among SOEs, with 81% of state-backed CEOs surveyed believing they need to match pay conditions of their peers to retain talent (compared to 67% of the private sector CEOs surveyed). Accordingly, public sector leaders need to consider how best to attract, develop, motivate and retain talent while exploring ways of collaborating with the private sector (e.g. via staff exchanges between government and the industry) to jointly develop talent as opposed to competing for the same talent pool (see Box 28).

Box 28: Managing tomorrow's talent⁹²

The millennial generation, now flooding into employment, will shape the world of work for years to come. Attracting the best of these millennial workers is critical to the future of all sectors, not least the public sector.

In a 2011 survey conducted by PwC,⁹³ we found that millennials are an ambitious generation and generally value the opportunity to progress quickly over monetary reward.

In particular, for government and public services, aside from opportunities for career progression (50% versus 52% across all sectors) and competitive wages and other incentives (48% versus 44%), flexible working arrangements (41% versus 31%) was stated as the third most important factor that makes an organisation an attractive employer, highlighting the desire for flexibility and work-life balance.

Public service bodies may therefore need to reconfigure existing work styles, cultures and preferences to meet the needs and expectations of this emerging generation. This may entail moving away from traditional nine to five working days and embracing flexible work schedules that reward effectiveness and achievement of clearly stated targets. It may also mean creating an easier path between the public and private sectors, so that a career could more easily encompass meaningful assignments in both spheres.

Measuring outcomes and impacts

Payment by results and outcomes is, in our view, the direction of travel when services are delivered by outside providers. But public bodies will only really know if value for money has been delivered if they have the systems in place to measure outcomes and progress towards key milestones. This remains one of the key challenges facing public service delivery in the next few years, especially as budgets continue to be tight.⁹⁴

In fact, outcome assessment along with performance monitoring and needs assessment were found to pose the greatest challenges to effective public service delivery in a recent survey of city managers.⁹⁵ A focus on outcomes and impact can also change perspectives on the best service for the citizen and tax payer. While measuring outcomes is a stated goal, it is easier said than done given their often qualitative nature.

91 PwC, 2013, '16th Annual Global CEO Survey'.

92 PwC, 2011, 'Millennials at work – Reshaping the workplace'.

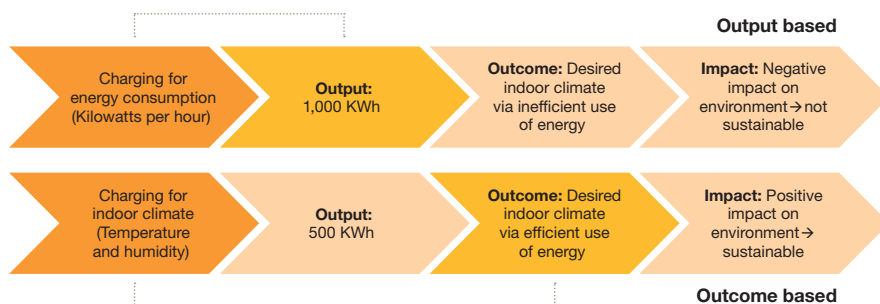
93 PwC, 2011, 'Millennials at work – Reshaping the workplace'.

94 PwC, 2010, 'Seizing the day: The impact of the global financial crisis on cities & local public services'.

95 PwC, 2011, 'Making it happen'.

Figure 23 illustrates this with the example of a state-owned energy company using an output-based business model (charging for energy consumption via kilowatts per hour) versus an outcome-based one (charging for an optimum indoor climate as measured by temperature and humidity). In the first instance, the energy company has no incentive to reduce energy consumption – in fact, the opposite applies! However, in the outcome-based scenario, the energy company partners with building, lighting and appliance companies to supply the desired outcome i.e. an optimal indoor climate.

Figure 23: Output-based versus outcome-based operating models



Source: PwC

Size isn't everything

It is clear that future leading public bodies will need to be designed around collaboration, agility and resilience. Practically speaking, this may mean **smaller, networked** public sector bodies which meet specific needs while governed by a shared purpose.

Indeed, we have found that relatively smaller organisations are more cohesive, feel more successful in strategy implementation, and have stronger financial management.⁹⁶ Most public sector organisations face a future where they will be employing fewer staff and be involved in significant delivery partnerships increasingly in private and NFP organisations.⁹⁷

But while smaller public sector organisations may be the future, being smaller carries its own set of challenges, such as a lack of frameworks to manage risks, with finance as a key obstacle to strategic implementation, and performance monitoring being the biggest challenge in the service delivery cycle.⁹⁸ Going down this route therefore requires a reshaping of processes, particularly in risk management and performance monitoring, to ensure the best outcomes.

Questions to think about

- How is my organisation currently configured? Is it the ideal size, shape and form to meet my organisation's stated vision and goals?
- Where is value being created in my organisation, and how?
- Are we making the appropriate 'make', 'buy' or 'stop' decisions in order to prioritise resources in the areas that matter most to citizens?
- Are we using innovative funding mechanisms, and do we have the financial expertise in place to make best use of them?
- Are we actively managing and developing talent?
- Are performance measurement tools output or outcome based?

⁹⁶ These small organisations are defined as having less than 3,000 employees. PwC, 2011, 'Making it happen'.

⁹⁷ PwC, 2013, 'Government and the 16th Annual Global CEO Survey: A new contract between business and the state'.

⁹⁸ PwC, 2011, 'Making it happen'.

Chapter 6: The bottom line – Leadership

There is a crisis facing the role of leadership today. So what are the challenges facing the leader of tomorrow's public body? And how can these be overcome?

Government (and business) leaders are facing all-time lows in the levels of trust as felt by increasingly empowered citizens who are choosing instead to trust in their peers and 'the regular person' (see Box 29). Societal attributes such as community and societal impact and ethical decision-making are considered essential to building future trust.⁹⁹

Box 29: Erosion of trust

Trust is the lifeblood of any organisation and is a critical asset in ensuring long term survival and success.¹⁰⁰ But according to Edelman's 2012 Trust Barometer report, distrust is growing globally. Among the four institutions surveyed (government, business, media and NGOs), government remains the most distrusted institution, and has seen an even further drop in trust from 2011's 52% to 2012's 43%.

Further, trust in CEOs and in government officials and regulators has declined dramatically from 2011 levels, from 50% to 38% (CEOs) and 43% to 29% (government officials and regulators). This contrasts with an equally impressive rise in trust of peers and regular employees – trust in a 'person like yourself' rose from 43% in 2011 to 65% in 2012, and trust in a regular employee increased from 34% to 50% for the same period.

This may be linked to the rise in social media, which provides a vocal platform for the individual and creates legitimacy and recognition for the opinions of the 'person next door'. Indeed, though traditional media continues to be the most trusted source (32% in 2012), the increase in trust in social media (rising from 8% in 2011 to 14% in 2012) as a source of information underscores the fact that the locus of control is shifting from the organisation to the individual.

As such, there are many **challenges** for today's leaders of the future, who are literally called on to lead and to serve the citizens of tomorrow, in a world and society that faces:

- Accelerating globalisation.
- A need to reach out for more holistic and sustainable solutions.
- Enormous expectations regarding collaboration, co-creation and co-design in the local service delivery process.

The following questions hint at some of the other challenges that are knocking on the door **now** and which we go on to discuss in this chapter:

- How do we handle the 'new normal of disruptive futures'? What does the contingency leadership plan look like?
- Do we focus on the future ('foresearch') or the past ('research') in our leadership team?
- Do we have a reactive/proactive or interactive approach in relation to the surrounding world and our citizens?
- Do we micro manage and administrate, or lead by vision and serve with passion, and at the same time challenge our people – staff and citizens?
- Do we have a good balance between the outside (trends and tendencies) and the inside (motivation, values and vision)?
- Do we send out/give information, or build solid and true relationships, with an internal and external perspective?
- Do we measure inputs and outputs, or do we see the relationship between inputs and societal impact?
- Finally do we, as leaders, together with our leadership team, create or consume a legacy?

⁹⁹ Edelman's Trust Barometer 2012 <http://trust.edelman.com/trust-download/global-results/>
¹⁰⁰ For instance, see <http://www.pwc.co.uk/trust/issues>

The strategic balancing act – inside and outside

Leaders have to be able to balance the need to tackle both internal and external issues. Another way to express this is that leaders need to work from the inside out as well as the outside in. The question is what comes first? Should the leader be reactive, based upon the trends in the surrounding world (such as globalisation, competition, amalgamation, acceleration, urbanisation and individualisation)? Or should he/she be very proactive and dream the dreams of the vision for the organisation and try to fix it independently of what goes on externally?

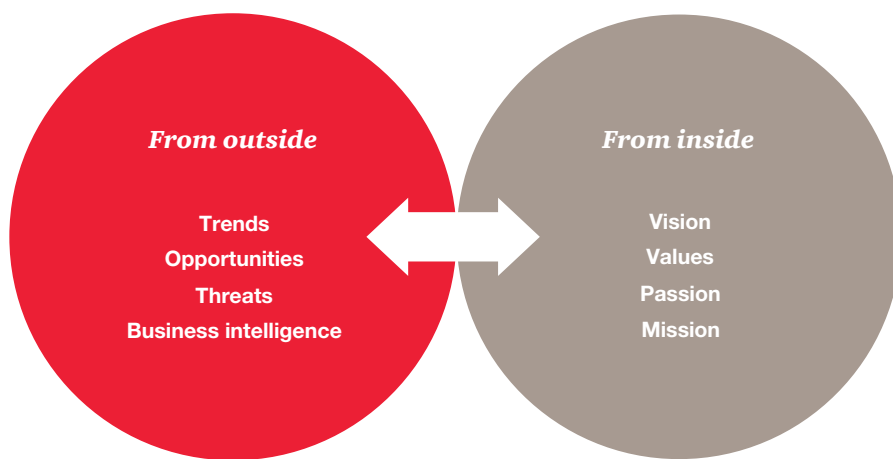
One way of thinking of this is to have an interactive approach, to work in parallel from both the inside out, but also from outside in. This develops both the leaders, and their organisations, in a more strategic way of thinking (see Figure 24). It involves being constantly aware and alert to changes in the external environment, while evaluating new opportunities and threats through the internal lenses of vision, values, passion and mission.

Business Control + Leadership = Management

There is a key difference between leadership and management (Figure 25). Both dimensions need to be present in the public leaders of the future. The control dimension ensures that the organisation adds value to its customers, citizens and stakeholders. The leadership dimension ensures that those who work for the organisation are effective, happy and can develop their personal and technical skills.

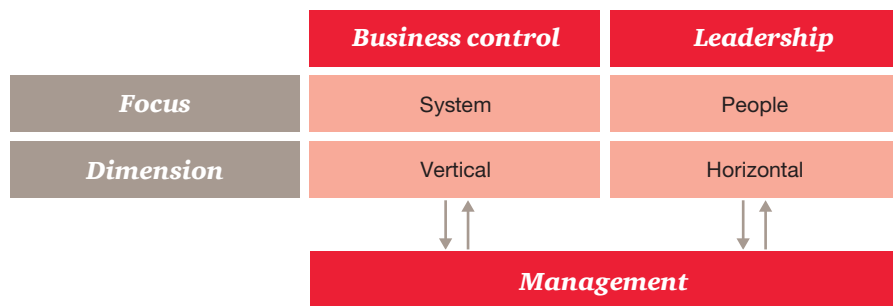
These two dimensions are close but different. Effective business control can exist outside of leadership, but leadership cannot exist without business control. If we take these two dimensions and combine them we get management.

Figure 24: Strategic analysis



Source: PwC

Figure 25: Relationship between leadership, business control & management



Source: PwC

Indeed, the word management comes from the Latin ‘manus’, meaning hand, and the French ‘maneggiare’ meaning ‘to steer by the hands’, and deriving from the context of trotting and the original horserace in Sienna, Italy.

So, to steer and control has to do with direction and focus on the organisation and the system – where are we going – and is the vertical dimension. The rider steers and controls the horse, giving direction. Leadership has to do with the horizontal dimension and is about the relationship between the rider and the horse. So a good manager of the future in the public sector knows the direction and controls it, has great relationships, creates trust and so makes sure we end up at the right spot after an enjoyable journey!

At the same time, a standout internal capability driving strategy, vision and implementation is that of leadership – but not in its traditional sense. While top level sponsorship is an absolute requirement, leadership on its own is not enough. A new paradigm of leadership is emerging, where outcomes are no longer dependent on the one, but the many, both within and across organisations. The leader is not one person, but many people – a team – spread throughout the organisation, leading particular functions and cross-cutting programmes.

So the leaders of the future need to be in control and have great management skills. But leadership must be personally interpreted and utilise the leader’s strengths. We are all different; therefore we must have the ambition to be authentic, honest and self-reflecting in everything we do.

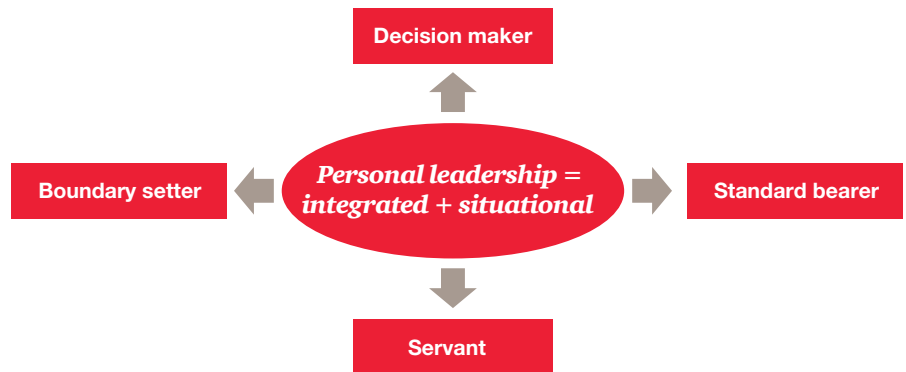
Integrated and situation based leadership

Leaders also need to be agile, taking on different roles when the situation calls for it, and to move across levels and boundaries within and outside of the organisation in a timely and relevant fashion. Leadership must be integrated and situation based, taking into consideration what is needed in the current situation.

To manage and lead in an effective way in complex environments and make a real difference, as we know running leadership programmes for our clients, involves leaders personally executing four different basic roles: as Decision-Maker, Servant, Standard-Bearer and Boundary-Setter (see Figure 26).

It is about energising the organisation and its employees, through a positive culture, creating an open dialogue and healthy relationships. A good leader not only ‘infects’ the organisation with energy, but creates meaning with context, and moves people to action and jointly achieving the shared vision, mission and goals.

Figure 26: Personal leadership built on integration and situation



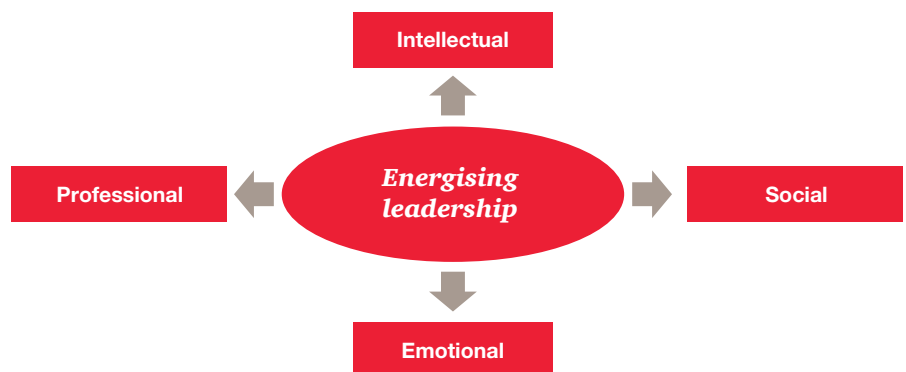
Source: PwC

To make this happen in a natural way, leaders need to improvise. Going back to the metaphor of riding the horse, management is an integrated part of leadership and business control. We can all understand the importance of intuition and improvisation, finding rhythm, flow and timing.

Leadership is concerned with the flow of energy that moves people to do things together in a better and more

meaningful way, creating the desired impact and results. Shaping that flow and rhythm between people in an organisation is more an art than pure science. The flow of social energy is mostly stimulated by our feelings and emotions. Professor Denhardt's conclusion is that where these kinds of things happen, people, groups, organisations and societies are **energised** (Figure 27).

Figure 27: Energising the organisation through personal leadership



Source: PwC

“Leadership is an art rather than science it creates meaning and context, it touches and moves and finally it energises.”

Robert B. Denhardt, Professor of Public Management and Leadership, Arizona State University.

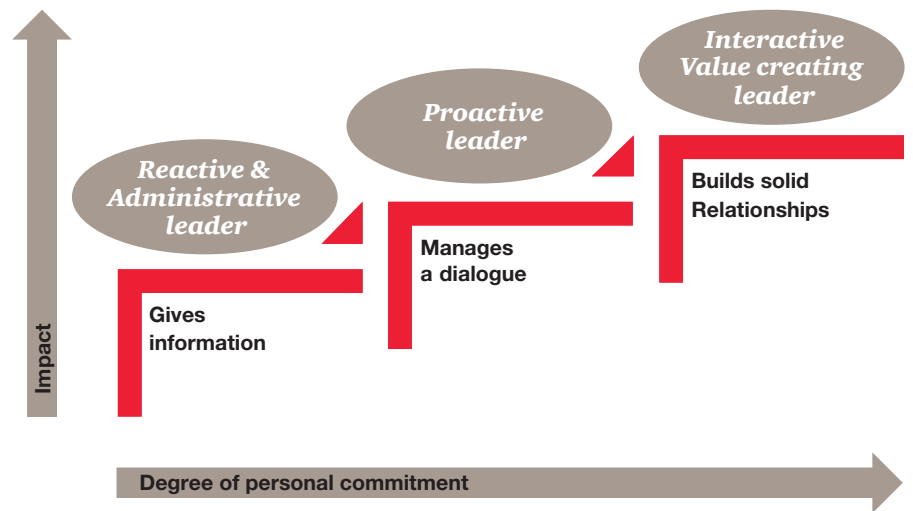
Powerful leadership – a question of culture

To achieve significant impact, leaders have to ask themselves the question – what is my personal ambition? It is easier then to communicate your message and build solid relationships with the team you lead.

An important factor influencing the efficacy of both business control and leadership within an organisation is that of culture. Leadership therefore has a lot to do with managing relationships, especially when conflicting wills, expressed or otherwise, are involved. It is the leader's task to establish a climate or culture where the management of relationships with personnel via dialogue also serve to satisfy the will of the customer and citizen.

The definition below is helpful when it comes to reflecting on culture and the kind of culture you want as a leader to create in your organisation. This is a very important 'soft legacy'. Figure 28 describes the relationship between ambition and impact.

Figure 28: Impact and levels of personal leadership



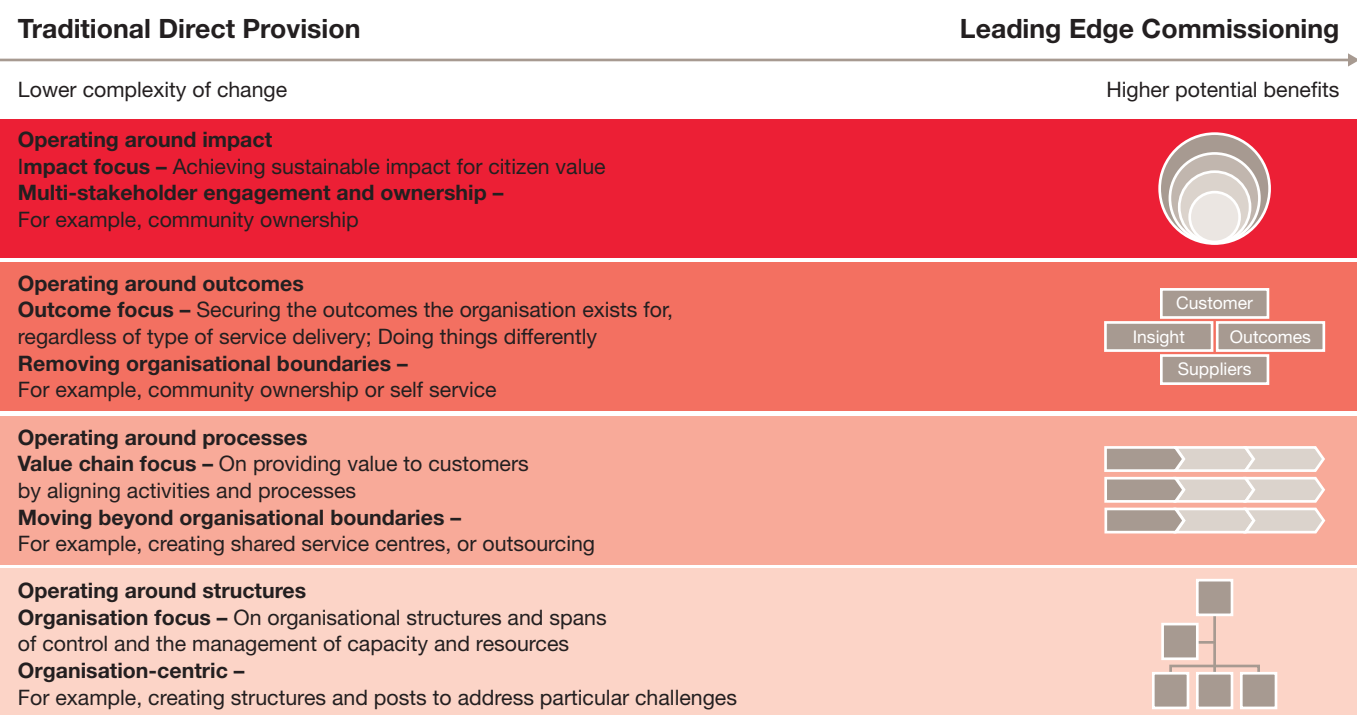
Source: PwC

The future leader will also set out to create a legacy for the long term, ensuring that future generations of employees and leaders can draw on a reservoir of knowledge and assets and build on a sound foundation of integrity, accountability and commitment.

Leadership is the ability to influence both internally and externally. Internally it is about influencing the leadership team and the people in the organisation. Externally it is about the surrounding environment, the customer and citizen and their expectations, but this has to be done through the employees.

An integrated pattern of activities concerning thought, speech, action and the way of approaching a given situation (attitude) and one's ability to learn and transfer knowledge to the next generation. It is about creating a legacy...

Figure 29: Managerial focus: Shift from structures and processes to outcomes and impact¹⁰¹



Source: PwC

Focus on impact, not output

Finally, leaders need to be strong and decisive in pushing through the desired transformation, and setting the tone for taking calculated and well-informed risks in public sector environments which tend to default to risk aversion. An agile leadership is able to balance the risk of not taking action with the risk of making decisions with potentially unknown implications, and be able to think strategically and communicate the vision in a clear, concise and operable manner.

These leaders play an important role in developing a culture and mindset of agility among employees. They also promote performance measurement and incentive structures which reward a ‘whole of enterprise’, ‘whole of government’ and ‘whole of society’ view on outcomes and impact as opposed to a focus on structures, processes and outputs (see Figure 29).

We believe the time has come for leaders to focus more on outcome and impact, not output. This is about seeing things from the client’s perspective!

¹⁰¹ Adapted from PwC, 2012, ‘The agile council’.

*Checklist for leaders of the future public body:
Am I...*

- Creating and developing an organisational culture created through diversity, not through standardisation or 'group think'?
- Managing from the standpoint of relationship, instead of position, and developing management methods based on dialogue?
- Developing the ability to give and take authority with the purpose of creating high legitimacy both outwards, towards the surrounding environment, and inwards, towards the organisation?
- Being an example and role model of leadership?
- Being clear concerning the vision, goals and direction of the organisation which I am leading?
- Developing my employees and their competencies?
- Creating a climate of openness and trust for dialogue even in difficult and complicated matters?
- Being courageous enough to take responsibility for my own and my employees' successes and failures?
- Working from the basis of a strong personal commitment and being prepared to make decisions and be able to reconsider them?
- Being aware of, and alert to, the surrounding environment and inclined to innovation?

Chapter 7: What's next?

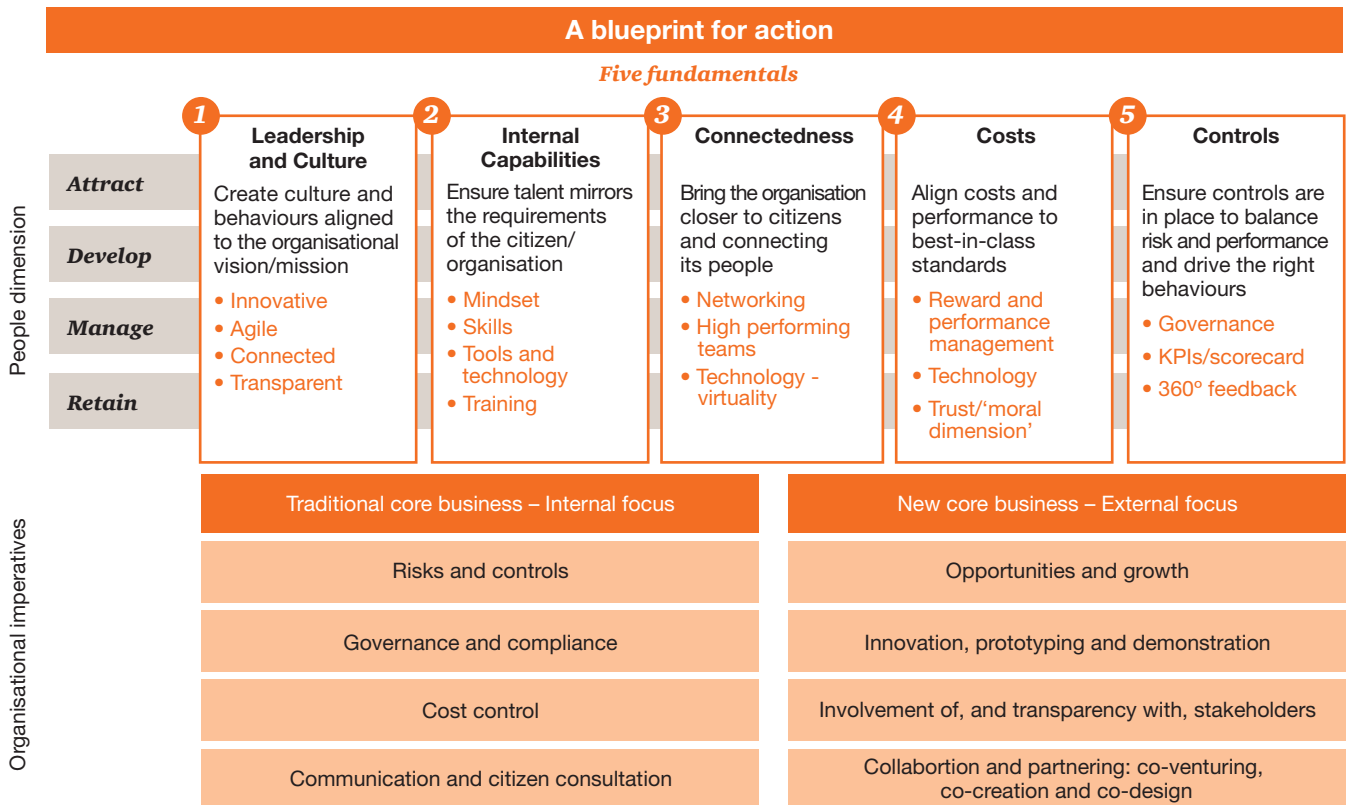
An agenda for action

Affordable government is the new reality for the future public body. Often those in government focus on changes in the machinery of government as a way to improve performance, with an emphasis on changing structures. But is this really enough?

Organisations need the right culture, values and behaviours to survive and thrive in the new normal of uncertainty and constant change. Faced with recurrent budget cuts and a relentless focus on value for money, tomorrow's leading public body must look and feel very different.

In our view, the public body of the future will need to act and behave more like a living organism than a machine (whose parts can supposedly be taken apart and then re-assembled to better effect). The new core competence involves adapting to change and evolving to address society's needs as they develop. In tomorrow's public body, a premium will be put on people who are 'situationally aware', able to adapt and change to the circumstances and be resilient in the face of the multiple internal and external challenges they will face.

Figure 30: Moving the organisation



Source: PwC

This is, however, a significant shift for many organisations currently in the public sector. We do not underestimate the scale of the transition needed, particularly for those with thousands of staff. In tomorrow's public body, collaboration, co-creation and co-design are the new 'must-have' capabilities, while agility, innovation, connectedness and transparency are the characteristics and behaviours needed from both leaders and their staff.

Making change happen will require agile, inspirational leadership and a talent strategy which majors on attracting, developing and retaining people with the necessary attitudes and behaviours. It will require both politicians and officials holding their nerve as they make the transition from old-style static, bureaucratic organisations to dynamic, adaptive entities capable of responding calmly but effectively to disruptive events and rising to new challenges (Figure 30).

To create tomorrow's leading public body, we believe it is necessary to focus on ten key strategic actions (see Box 30). This forms an agenda for action which is extensive and challenging, needs definition and ownership but is essential. Tomorrow's public body will need to **act and behave** differently from the past if the public are to see, and believe in, a trusted, sustainable and collaborating government.

Box 30: Ten strategic actions for tomorrow's public leaders

1. Set out a clear and energising vision to deliver the organisation's political imperative and mission, which buys in all key stakeholders.
2. Create citizen-centricity at the heart of the vision, communicating a focus on meeting citizen needs effectively, affordably and on a timely basis.
3. Develop the organisation's priorities, strategy and channel its scarce resources to deliver the right balance between the necessity of managing internal organisational efficiency and effectiveness while externally delivering 'good growth' for citizens.
4. Develop policies that build the assets for society now, and in future, by managing the 'capitals' needed for the long term prosperity of any society: social, environmental, cultural, intellectual, infrastructural, ICT and political participation capitals.
5. Be ready to anticipate situations (agility), as well as react optimally to unforeseen events, in a cost-effective manner balancing short and long term needs, supported by a talent strategy which attracts, develops and retains staff with this capability.
6. Incubate ideas and delivery models through creating a culture of innovation and prototyping and then scaling up those that are successful.
7. Seek out and connect across sectors, borders and organisations, with partnerships, co-ventures, co-creation and co-design being key features in the service delivery toolbox.
8. Become truly accountable for actions and outcomes through greater transparency particularly of decision-making.
9. Build the internal management capabilities needed to make change happen, from implementation planning to managing finances effectively and prioritising the organisation's projects, performance, risks, partnerships, assets and human capital to deliver on the vision and mission.
10. 'Lift the tone', particularly in tough times, and motivate staff through inspirational leadership and a supporting culture.

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