

Surviving the crunch

**Local finances in the recession and beyond
Appendices to local government report,
March 2010**

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

| | |
|---|-----------|
| Appendix 1: Increased demand in benefits teams | 2 |
| Appendix 2: Examples of local impact and responses | 2 |
| Impact of the recession on council finances | 2 |
| Pressures in council budgets, services and strategies | 3 |
| Variation in impact on individual council finances | 4 |
| A challenging future: responses to financial pressures | 4 |
| Appendix 3: Sensitivity analysis | 6 |
| Comparators used for the maps | 6 |
| Allocating staff numbers to geographical areas | 7 |
| Geographical areas | 7 |
| What the analysis shows | 7 |
| Appendix 4: Issues concerning councils | 14 |

Appendix 1: Increased demand in benefits teams

We visited nine councils where the relative increases had been significant to discuss their responses. All reported a rise in enquiries and unsuccessful applications and ‘a new type of customer... people who have never experienced the benefits system before – they are completely unaware of the process, what help there is and what they need to do to claim successfully’.

The increase in claims has resulted in some short-term performance dips in terms of speed and accuracy, although performance is recovering in those councils visited. Services have managed by employing more staff – often on fixed-term contracts – paying overtime and using more technology including voice-recognition analysis and electronic claim forms.

For all councils, the extra funding provided by the Department for Work and Pensions (DWP) has been important. Only one of those visited, which is just completing a major review and staff retraining exercise, felt it could now cope with more demand without these additional funds.

Those councils that had invested in benefits service improvements before the crunch coped best. Improvements included:

- full service reviews, including the use of lean thinking;
- a focus on right first time, completing as much as possible in one interview, appointment or home visit: ‘we try and ensure no double handling’;
- working with reception staff and empowering them to make certain decisions; and
- shared service arrangements with other councils to minimise overheads.

Appendix 2: Examples of local impact and responses

Impact of the recession on council finances

Development-related income has fallen.

- One small northern district had an £80 million town centre redevelopment scheme. But the funding bank withdrew, the scheme stalled and the private developer is in liquidation. If the scheme is not reactivated the Council will be left with a building site to make safe and no development; this is both a disappointment and a major loss of income.

Income from Section 106 agreements has also fallen.

- In 2007/08, Warrington Council received £2.35 million from developers in Section 106 agreements. Excluding one large development it reports a serious downward trend. In 2008/09 it received only £289,000, and expects only £62,800 in 2009/10.

Capital programmes are being cut back from 2010.

- In Warrington a shortfall in receipts has meant shelving some projects and agreeing to an additional £5.5 million of prudential borrowing.
- Swindon had to borrow to maintain its capital programme when receipts fell. It decided to retain assets until the market improves and use prudential borrowing for ongoing schemes. The programme will be smaller than in recent years from 2010/11.

But some councils are continuing to invest heavily in capital to help local economies.

- In East Riding, right-to-buy receipts are down. The council has decided not to sell certain assets until the market recovers. The council has been able to bring forward parts of its planned capital programme to

help stimulate the local economy by aligning grants, receipts and prudential borrowing. The programme will increase from £76 million in 2008/09 to over £100 million in 2009/10 and around £130 million in 2010/11.

The difficult development market and limited credit has also adversely affected some public private partnership (PPP) and private finance initiative (PFI) schemes.

- Two PPP regeneration schemes in Tower Hamlets have had problems. In one, the borough had to find an additional £13 million to keep the scheme going. The other scheme has been cut back because developers cannot get private sector funding.

There are some factors that are helping to cushion the impact of the recession. Lower interest rates have made borrowing cheaper.

- In Trafford, falling interest rates have meant £425,000 less interest from cash investments in 2009/10. Effective treasury management means lower debt repayments of £400,000.

Pressures in council budgets, services and strategies

The first wave of the recession, particularly the credit crunch, badly affected new developments.

Case study 7

Ashford: growth area management in a recession

Ashford growth area in Kent is managed by a public sector partnership which includes the district council.

Construction of new build housing has slowed and some infrastructure projects have faltered. To support house builders, the council has restructured some development agreements. It has obtained £5.1 million extra public funding from the Homes and Community Agency for new social housing, supported by £3.4 million of prudential borrowing.

There is uncertainty around future funding for planning, housing and infrastructure. A possible option for funding infrastructure, suggested by government, was a tax incremental financings scheme (TIF). Proposals were submitted with Kent County Council but the TIF approach is not being developed.

The delivery company that manages the growth agenda, Ashford's Future, is funded by national growth funds and some partner contributions. It may not remain viable if future government funding is withdrawn.

The planning service is also heavily dependent on external grants that may not last.

Policy changes in child protection following the Baby Peter case have increased costs for almost all ST&CCs.

- In one unitary council the changed approach to child protection following the Baby Peter case, and subsequent Ofsted inspections, resulted in an overspend of £520,000 in children's services social care. There was a 20 per cent year-on-year increase in looked-after children in 2008/09 and a 28 per cent increase in the first six months of 2009/10.
- A metropolitan council reported numbers of looked-after children have increased by 35 per cent since March 08.
- One London borough quoted pressures on children's social care staffing and placements linked to the Baby Peter case leading to a £2.7 million overspend to date in 2009/10

Variation in impact on individual council finances

Councils with higher reserves have used these to provide some breathing space.

- Chichester District Council used £900,000 of reserves to balance the 2009/10 budget. This gave the Council time to look for efficiencies. For 2010/11, reserves are no longer needed to support revenue. The Council has cut £2.2 million from the annual budget. One example of these savings is moving from separate to shared local offices with town councils and the County.
- The City of Westminster does not rely heavily on grant settlement. It has significant reserves that allow it to manage financial pressures. It took £10 million from reserves to cope with major unexpected drops in other income, while continuing to implement a longer-term efficiency programme.

A challenging future: responses to financial pressures

Some councils have made savings to address previous financial problems, but do not have adequate long term plans.

- One council had a serious budget issue before the recession. It has changed

its management structures and pooled administrative support. This efficiency programme included redundancies; over 150 posts went in 2008/09, and another 90 (many vacant) during 2009/10.

A further £20 million needs to be found for 2011/12 and 2012/13. Plans to deliver these savings are not well developed.

Some councils have made efficiencies to deal with the immediate impacts of the recession, but have avoided planning beyond 2011.

- One district reported falls in investments, development-related income, market rents and trade waste, but these were not significant as a percentage of income and reserves covered any immediate problems. From 2011/12, savings of £1 million a year will be needed; the council is 'still considering the areas to be targeted'.
- One metropolitan council had found savings of 1.2 per cent of budget for 2010/11 without making staff reductions. It predicted that, after 2011, savings of 5 to 12 per cent per year may be needed, but had no plans for achieving this.

Some councils have had some success in achieving savings through joint working.

- The London boroughs of Sutton and Merton now share a Human Resources service. Staff from Merton TUPE-transferred to Sutton in October 2009. The two boroughs will save a total of £500,000 through structural reform.
- St Edmundsbury's Borough Council procurement officer led a successful joint insurance arrangement across 11 councils.
- Lichfield Council is working with Tamworth Council on a joint waste service, starting in July 2010, that should deliver up to £750,000 per year in savings across the two councils.

But joint initiatives, either through shared services or partnerships, are not always successful. Some plans have had to be abandoned, or estimated savings.

- One county was working with district and fire authority partners on a major shared support services project covering finance,

human resources, IT and property services. Potential savings were more than £80 million across the partners, with £45 million savings over ten years for the county. However, one district pulled out because of incompatible finance systems and another because of fears of outsourcing jobs from the local area. The project was wound up in December 2009 without delivering any savings.

- One district has an underlying deficit of £300,000 per year. It is relying on the success of a shared revenues and benefits project with a neighbour to deliver savings from 2009/10 onwards.
- In one unitary, around £1 million of PCT income for joint projects will not now materialise.

Some expected savings sound optimistic; others are still vague.

- One unitary sees sharing resources for adult social care with the PCT as the key to efficiencies. There is an existing joint management team and a high-level strategic plan for 2012, but no detail.

Some councils are more ambitious in their plans, and are thinking further ahead.

- Procurement efficiencies in Sunderland City Council saved £1.5 million in 2009/10. The target for 2010/11 is £3 million. This is part of a wider Sunderland way of working efficiency programme with a target of £50 million savings over four years. The council invested in new managers to help deliver the change. The targets increase over a four-year period. This recognises the need to scale up the programme and gives time for the new way of working to become embedded throughout the council. This planned approach should mean redundancies are minimised. The programme includes staff retraining and service redesign.
- The City of Westminster has an ongoing efficiency drive that delivered £6 million savings in 2008/09. It is continuing its efficiency programme and Council restructuring. It works closely with the PCT. For example, 60 of its 140 adult commissioning staff are paid for by the PCT.

The two bodies are looking at further joint contracts.

Some councils are making savings through joining up management teams.

- In 2007, Adur District Council and Worthing Borough Council agreed to enter into a partnership for the delivery of their local services. The councils created a joint senior management structure, including a joint chief executive, three strategic directors and ten executive heads of service. Through a programme of service reviews the two councils expect to save £860,000 in 2009/10, rising to over £1.2m by 2011/12.

Appendix 3: Sensitivity analysis

Some areas are more sensitive than others to any reduction in local public service jobs. Councils and their partners need to understand and take account of this in their economic development work. This Appendix summarises the work done by the Audit Commission on identifying those areas more sensitive to job losses. Full details of the methodology and additional service specific maps will be available on the Commission website .

We have defined local public services as councils, police, fire, schools and health.

Local public service jobs per head of the population are relatively evenly spread around the country. Other private and public jobs are not. So a similar level of local public sector job loss will have different labour market impacts. Areas most sensitive to a loss of local public sector jobs are those with:

- relatively fewer private sector jobs;
- higher levels of unemployment;
- inadequate transport links to alternative centres of employment; and
- greater vulnerability to national public sector job losses, given that these are likely as the next government seeks to reduce debt.

The public sector employs a higher percentage of women and part-time staff. These groups will be relatively more affected by any change. Local and part-time roles may have been chosen to fit with caring responsibilities. In these cases, individuals are less likely to be able to travel longer distances for alternative jobs.

The Audit Commission reviewed existing data sources on employment to identify the relative sensitivity of local job markets to national and local public sector jobs loss in general and by gender. The analysis is shown in a series of maps.

These maps do not take account levels of unemployment or transport to work arrangements. Councils and local partners should consider these alongside this sensitivity analysis.

In areas that are more sensitive to change, a lack of alternative private sector jobs will make it harder for people to find alternative employment if public sector jobs fall. Councils and their partners should consider actions to minimise the impact of pay bill reductions as suggested in Paragraphs 136 to 140.

Comparators used for the maps

The maps in this appendix show numbers of public sector employees as a percentage of the total number of jobs located in the area. The comparison is for the number of people employed (headcount). Jobs may be full or part-time.

The source for the total number of jobs in each area is the Annual Business Inquiry (ABI) workforce figure, which is calculated from the ABI dataset. The ABI is a survey of businesses and is regarded by the Office for National Statistics as the best estimate of jobs at a detailed geographical and industrial level.

Figure 17 shows the groups included in the maps, and the sources for the data.

Councils, police, fire, education and health work together in local strategic partnerships (LSPs). The maps look at local public service employment with and without health staff. The Audit Commission website will also show school staff separately from other council staff, using Department for Children, Schools and Families data.

Figure 17: **Source data for public sector employment**

| | |
|----------------------------------|---|
| Total public service employment | This is taken from the ABI dataset. As well as local public service employment it includes central government departments and non-departmental public bodies such as regional development agencies. |
| Local public service employment | |
| Local councils including schools | Quarterly Public Sector Employment dataset, available at www.lga.gov.uk/lga/core/page.do?pageld=1955843 |
| Fire and rescue service | Fire and rescue service operational bulletin for England 2008/09 (March 2009). |
| Police | Home Office statistical bulletin: Police service strength, England and Wales (March 2009). |
| The NHS | NHS information centre. Provided at Strategic Health Authority level (September 2008). Allocated to smaller geographical units pro-rata using the relevant specific industry code in the ABI. |

Allocating staff numbers to geographical areas

Headcounts for fire, police and health services sometimes relate to administrative areas larger than individual councils. Numbers have been allocated to relevant council areas using the ABI data set to determine relative percentages. For district level maps such as Figure 16, county council jobs have been allocated across constituent district councils on the basis of relative percentages of working-age population in each district.

Geographical areas

In rural regions with limited transport it can be useful to look at sensitivity at district council level. However, bigger geography better reflects travel-to-work areas. The maps in this Appendix are at a level used in comparative European geography known as NUTS 3.ⁱ In many cases it relates to a unitary or county boundary. In metropolitan areas neighbouring boroughs may be combined. In London there are five borough groupings.

What the analysis shows

Areas with a high percentage of jobs in the public sector have weaker private sector economies. They are often areas of higher unemployment and relative deprivation. But this is not always the case. In some areas the relative lack of local private sector jobs does not mean deprivation, but is due to high levels of commuting to other employment centres.

Figure 18 shows that the areas where public sector employment is most important as a percentage of total employment include the North East, Humberside, Sheffield, Birmingham, Merseyside, the South West and East Sussex. Up to 38 per cent of total employment in these areas is in the wider public sector. In London, public sector jobs are relatively more important in the east than in the west.

The maps highlight some particular concentrations of central government jobs; for example, naval-related employment in Portsmouth or DCSF employment in Sheffield.

ⁱ NUTS 3 is *Nomenclature d'Unités Territoriales Statistiques*. 3 refers to the level of geography being used.

Figure 19 covers all local public sector employment including fire, police, councils, schools and health. It shows that local public sector employment is important across wider geographical areas. It provides between 18 and 26 per cent of local jobs in most areas north and west of a line between the Humber and the Bristol Channel. Important exceptions include Leeds, Manchester and Trafford, which have a strong private sector. Local public sector employment is also important in the South West and in East Anglia.

Figure 20 has local public sector employment without health. The pattern is broadly the same as Figure 19.

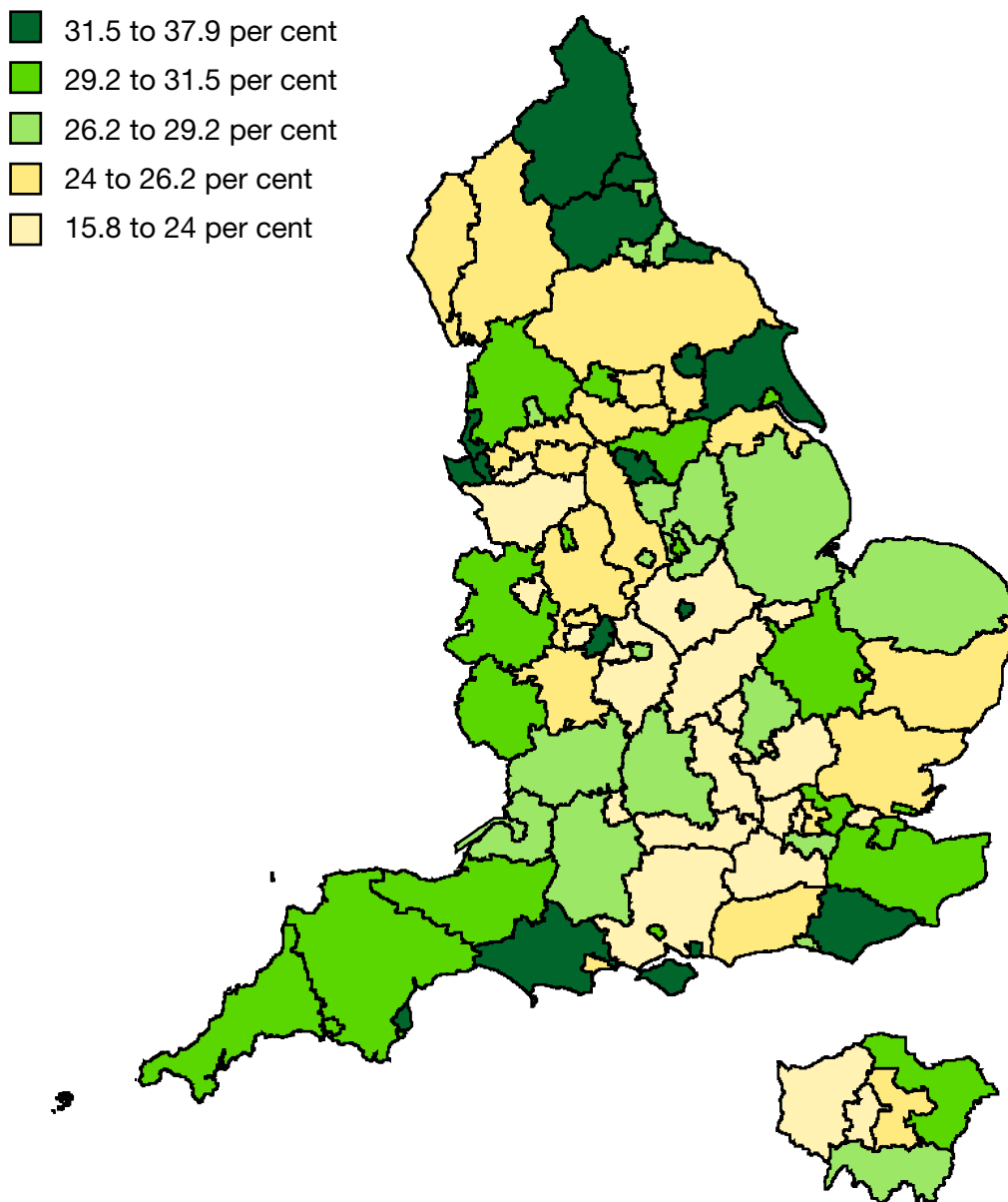
Figures 21, 22 and 16 in the main report show that women are far more reliant on local public sector jobs.

- In some areas of the North East, Humberside, South Yorkshire, Merseyside and the South West, local public sector employment accounts for between 26 and 38 per cent of local female employment.
- In the same areas, local public sector employment is only half as important for men, providing between 9.5 and 14 per cent of all male employment.

Figures 21 and 22 show this at NUTS 3 level. Figure 16 in the main report shows this at district and single-tier council level.

Figure 18: Public sector employment including national government and government agencies as a percentage of all employment in an area

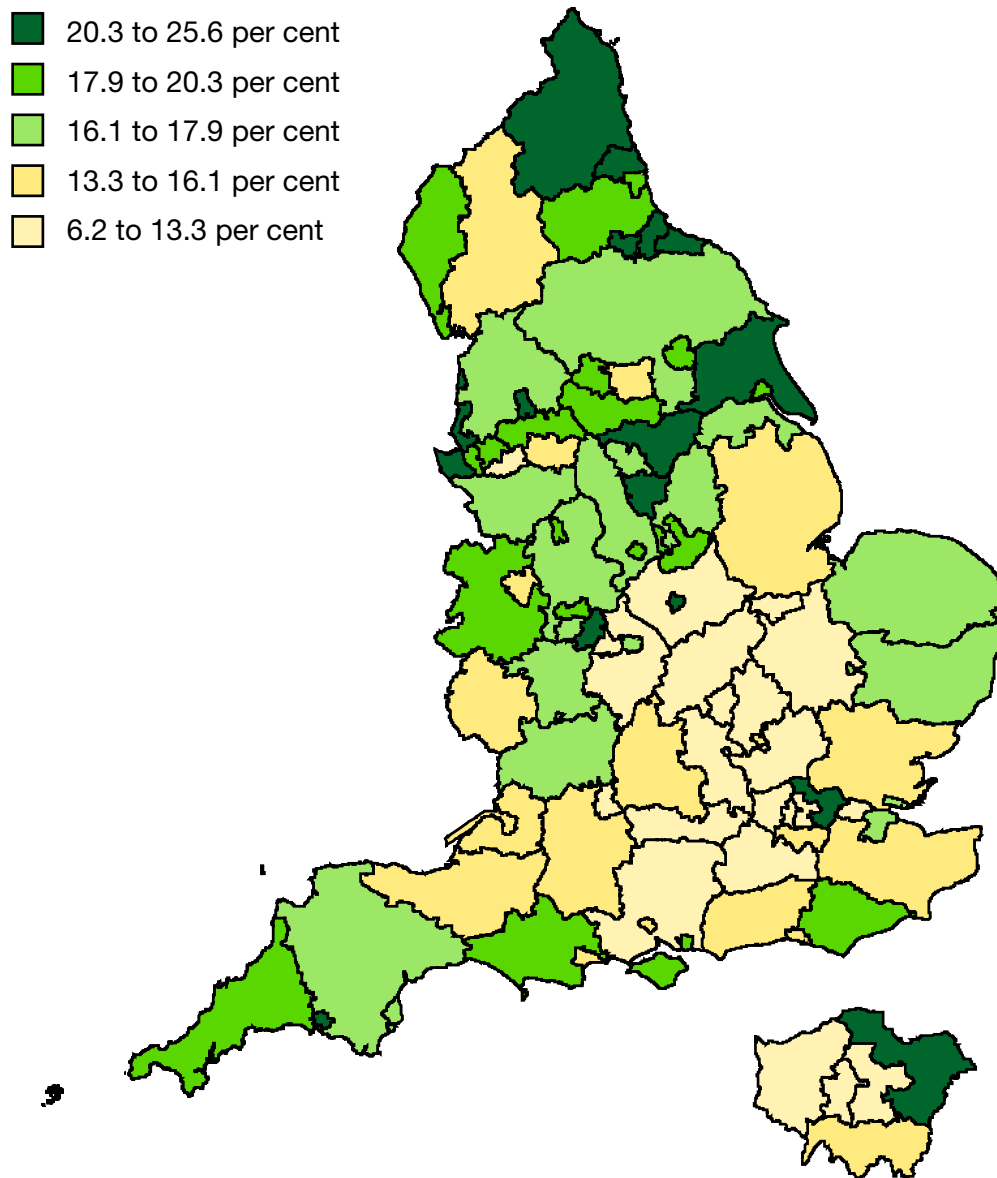
Areas with a higher percentage of public sector employment are most sensitive to a reduction in public sector jobs.



Reproduced by permission of Ordnance Survey © Crown Copyright and database right. 2009.
All Rights Reserved Ordnance Survey Licence Number 100043998.

Source: Audit Commission

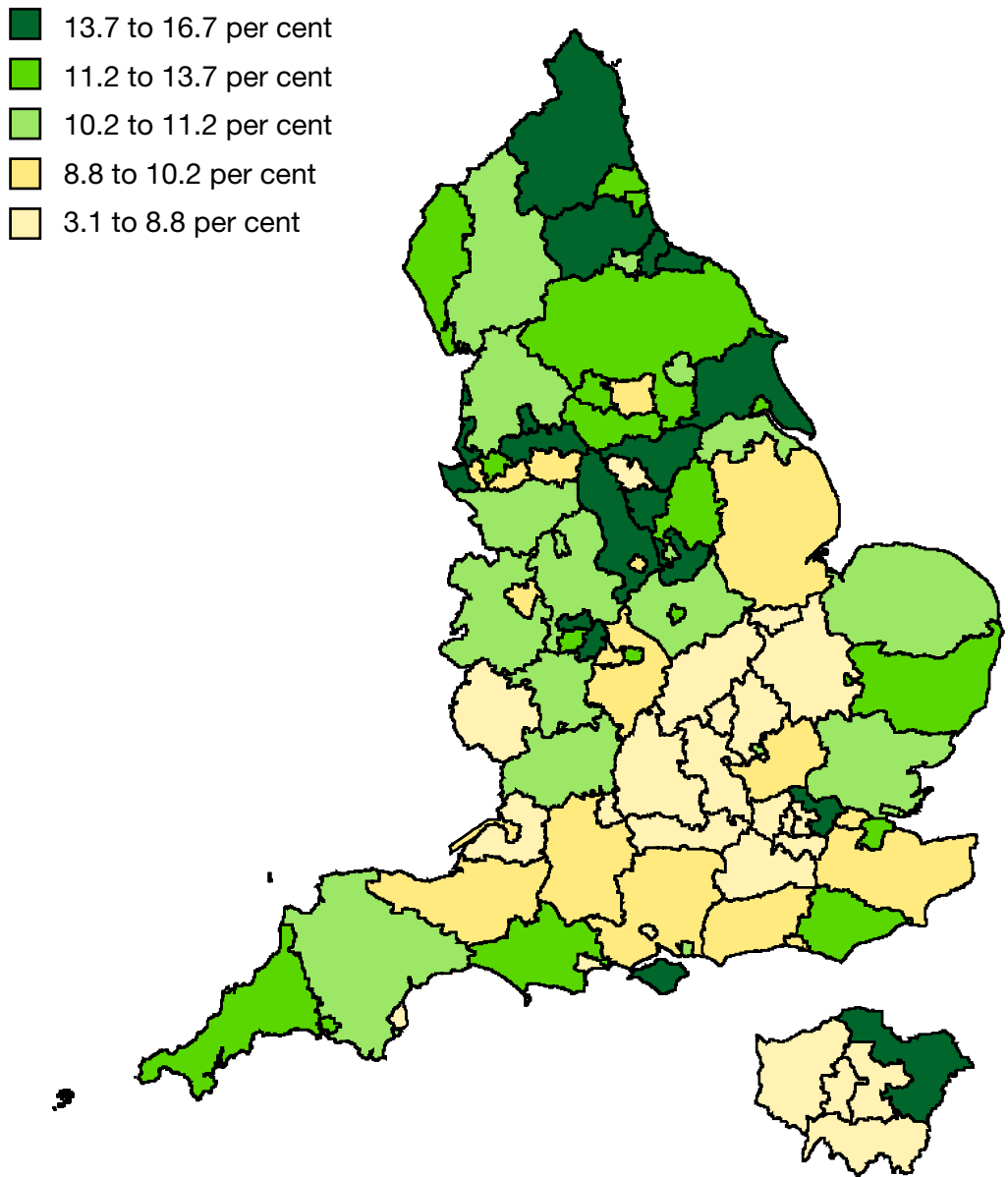
Figure 19: All employees in local public sector employment – councils, schools, fire, police and health as a percentage of total employment in the area



Reproduced by permission of Ordnance Survey © Crown Copyright and database right. 2009.
All Rights Reserved Ordnance Survey Licence Number 100043998.

Source: Audit Commission

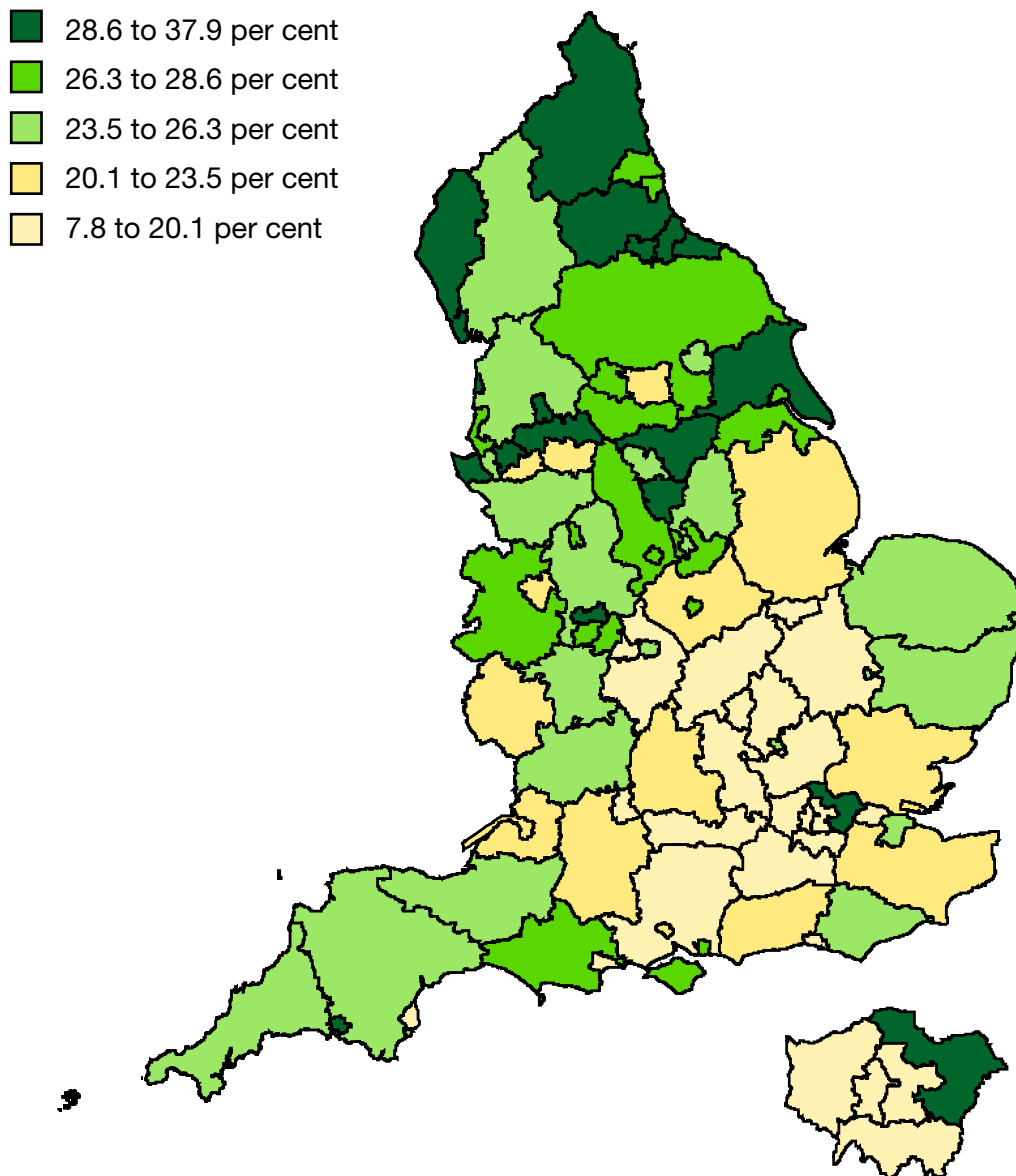
Figure 20: **Employment in fire, police, councils and schools as a percentage of all employment in an area**



Reproduced by permission of Ordnance Survey © Crown Copyright and database right. 2009.
All Rights Reserved Ordnance Survey Licence Number 100043998.

Source: *Audit Commission*

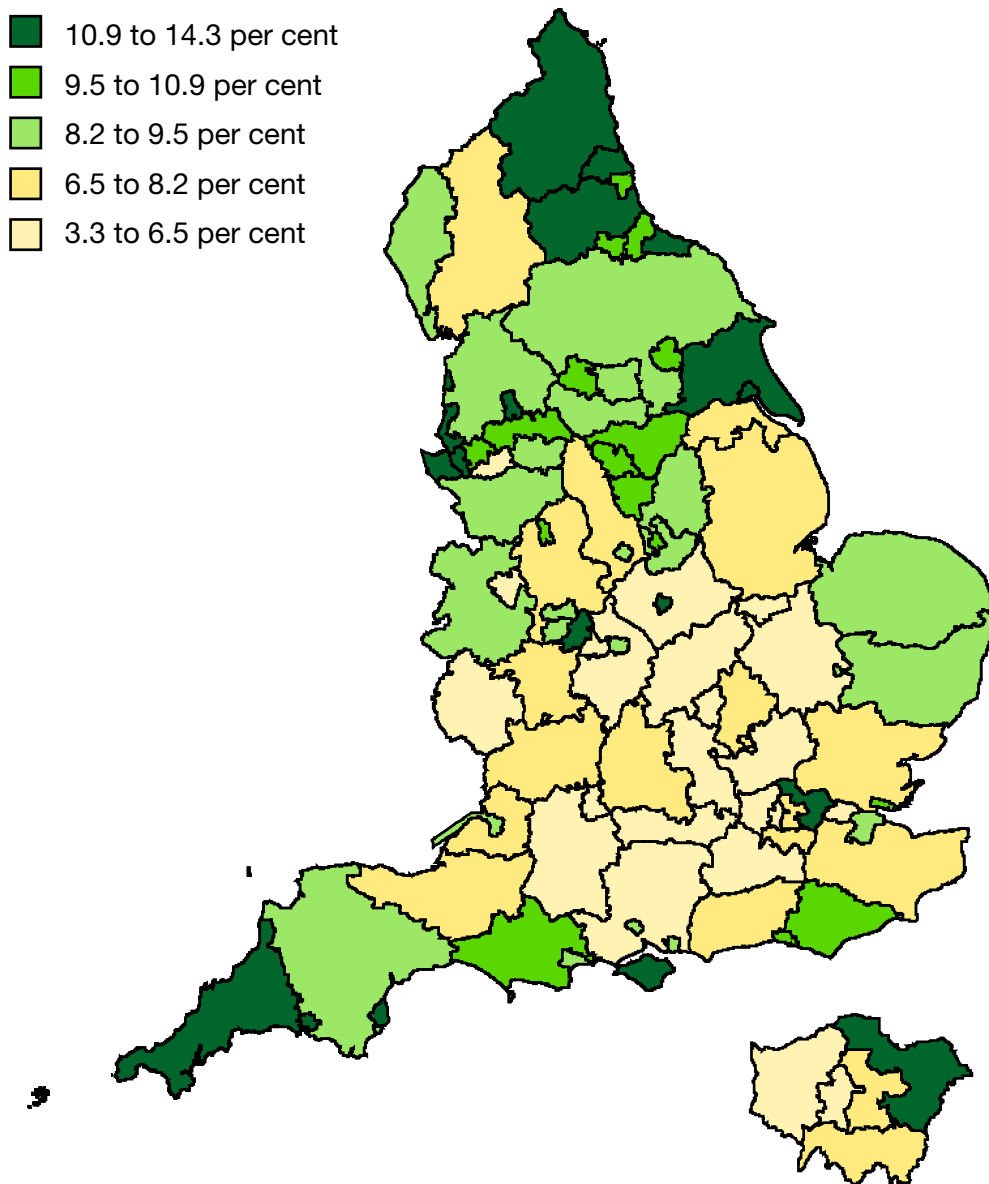
Figure 21: All females in local public sector employment – councils, schools, fire, police and health – as a percentage of total female employment in the area



Reproduced by permission of Ordnance Survey © Crown Copyright and database right. 2009.
All Rights Reserved Ordnance Survey Licence Number 100043998.

Source: Audit Commission

Figure 22: All males in local public sector employment – councils, schools, fire, police and health – as a percentage of total male employment in the area



Reproduced by permission of Ordnance Survey © Crown Copyright and database right. 2009.
All Rights Reserved Ordnance Survey Licence Number 100043998.

Source: Audit Commission

Appendix 4: Issues concerning councils

Unprompted responses from councils in our research group

| | District councils | | Single-tier and county councils | |
|---|-------------------|------------|---------------------------------|------------|
| Total number of councils submitting details | 17 | 100% | 22 | 100% |
| Income falls | | | | |
| Planning, building control, land charges | 15 | 88% | 18 | 82% |
| Investment income | 15 | 88% | 16 | 73% |
| Capital | 14 | 82% | 20 | 91% |
| Other including car parking | 9 | 53% | 8 | 36% |
| Commercial rents | 7 | 41% | 10 | 45% |
| Leisure | 4 | 24% | 2 | 9% |
| Falls in 09/10 worse than 08/09? | 14 | 82% | 15 | 68% |
| Specific future concerns | | | | |
| Demographic related – adult ⁱ | 2 | 12% | 20 | 91% |
| School age population increases | n/a | n/a | 4 | 18% |
| Children looked after and child protection | n/a | n/a | 14 | 64% |
| Homelessness including associated housing benefit costs ⁱⁱ | 3 | 18% | 5 | 23% |
| Losses from concessionary fares | 11 | 65% | 3 | 14% |
| Inflation, especially for energy | 5 | 29% | 7 | 32% |
| Employment-related – pensions and/or equal pay | 6 | 35% | 9 | 40% |
| Waste/landfill costs | n/a | n/a | 5 | 23% |

i District council demand is for disabled facilities grants (DFGs). ST&CC demand is for adult care services.

ii Changes to the benefit regulations mean that in some circumstances individual councils will have to pay for more of the costs of temporary accommodation for homeless families.

If you require a copy of this document in an alternative format or in a language other than English, please call: **0844 798 7070**

If you require a printed copy of this document, please call: **0800 50 20 30** or email: ac-orders@audit-commission.gov.uk

This document is available on our website.

We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: **0844 798 3131**
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk