

# **Work in progress: meeting local needs with lower workforce costs**

**A briefing for elected members**

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**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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# Introduction

**This is a briefing for elected members about meeting community needs with lower workforce costs. The Audit Commission and the Local Government Association produced it to support the joint report on the local government workforce *Work in progress*, published in 2011.**

**1** The 2010 Spending Review set out a cut of 26 per cent in government funding to local government over four years. This overall cut produced different savings targets across English councils. Councils are trying to save money in all areas. The Commission's report *Tough Times* (2011) explains how councils are making savings.

**2** But because staff costs account for up to half of all council spending, nearly all must reduce the costs of employing people. Councils have wide discretion in how to do this. Local choices fit local circumstances.

**3** The questions in this briefing should help you assess how well your council is tackling this important and difficult task efficiently and effectively.

**4** We have based this briefing on *Work in progress*, the joint national study report from the Audit Commission and the Local Government Association, published in December 2011.

**5** The full report, and supporting briefings and tools are at: [link to follow]

**6** In *Work in progress*, we said:

- The 353 councils in England employ about 1.6 million people, excluding teachers, firefighters and police. This equals just under 1 million full-time equivalents (FTEs).
- The workforce and the pay bill are shrinking. The number of FTEs has fallen by over 50,000 since 2007, while the pay bill fell by 6 per cent in real terms since 2008/09. In 2010/11, the pay bill for staff directly employed by councils was £29.2 billion, including overtime and bonuses. Workforce and pay bill will continue to reduce in the next two to three years.
- Common measures to save money include freezing posts, increasing part-time hours, and removing extra payments. Most councils are also cutting spending on agency workers and consultants.
- For some councils these measures will be enough to meet savings targets. But others will have to make bigger changes involving new

ways of meeting people's needs that may require restructuring and redundancies.

- Councils must not lose sight of the longer term. Council services are heavily reliant on skilled and committed people who commission or deliver them. Councils will need to invest in staff to make sure they have the right mix of skills to meet community needs in demanding economic circumstances.
- Good data will help. Councils can benchmark pay and other spending on staff, and improve the link between performance and rewards. Councils can offer packages of rewards that highlight the wider benefits of employment, to improve recruitment and retention.

**7** We have designed the questions in this briefing to help you assess how well your council decides the size, shape and cost of its workforce and how these decisions will affect services and communities.

**8** The questions are in two parts: the first deals with the information that should be available to you about the workforce; and the second covers the savings strategies your council could follow in the light of that information.

**9** The questions are comprehensive; we don't suggest you should know the answers to all or even most of them without asking others for help. But they should help you discuss with colleagues and officers the important aspects of your council's approach to reducing costs associated with the workforce. For more help with this topic, you can contact your external auditor, or the [LGA source here??].

# Part 1: What do you know about the costs of employing the workforce and the savings your council has to make?

## 1. How much does your council have to save in the period covered by the 2010 Spending Review?

1 Government funding to councils will fall by 26 per cent between 2011/12 and 2014/15. Each council has to find savings, but some face a larger decrease in their spending power than others. Councils can raise some money from charges, fees, council tax, and investments to lessen the impact of loss in grant. Councils can also use reserves and balances, which have risen in recent years.

2 Liabilities remain. The local government gender pay gap has stayed about 4 per cent since 2008. This is better than other sectors, but equal pay is a core issue for many councils, and tackling it has implications for both capital and revenue budgets. Historical anomalies, caused by different performance rewards and bonuses, or to aid recruitment and retention, drove claims for equal pay that can be backdated for six years. In 2011, about a quarter of councils were defending equal pay cases.

- What is the overall decrease in your council's spending power, as measured by the Department of Communities and Local Government (DCLG)?
- What is the proportion of your council's revenue budget that came from government grant funding before the 2010 Spending Review? How much does it represent now?
- How much of the fall in income from the government will your council offset by drawing on reserves, or raising charges or fees? How will this affect your communities?
- What is the potential cost of any outstanding equal pay claims to the council?
- Following job evaluation, what steps is your council taking to manage and meet current and future equal pay claims?

## 2. How many people does your council employ directly?

3 Nationally, the local government workforce increased until 2007, and then started to fall. Most of the increase in the past ten years came from employing more teachers and teaching assistants. In most other services, the numbers of staff only grew slowly.

4 Around half (54 per cent) of the staff working in local government are part-time. Around the same proportion (53 per cent) of the local government workforce in England and Wales (by FTE) earn below the annual UK median basic pay of £19,620<sup>i</sup>.

- How many people does your council employ directly in each service?
- What are the characteristics of your workforce, for example, the numbers of full-time and part-time staff, men and women, minority ethnic groups and people with disabilities?
- What is the median salary for these groups in each service?
- How has the size and profile of your council's workforce changed over the past five years?
- What is the projected size and profile of the workforce in the next five years? How will this change with less funding from central government?
- What is the age profile of the workforce? How many staff are nearing retirement in the next five years in each service?
- How will the councils' workforce profile affect your council's capacity to make savings and deliver services?

<sup>i</sup> Office for National Statistics, Annual Survey of Hours and Earnings (2010)  
– table 1.3a weekly basic pay multiplied by 52.14 weeks in a year

### 3. What are the costs of directly employing staff?

5 Total pay has three elements: basic pay and salaries; extra pay, including overtime and bonus payments; and employment related on-costs (national insurance, employer pension contributions, and location allowances). In 2010/11 this amounted to £29.2 billion across local government in England.

6 The pay bill (adjusted for inflation) for the roughly 1 million FTE staff excluding teachers increased by 22 per cent from 2004/5 to 2009/10, but has started to decline. Between 2008/09 and 2010/11 the local government pay bill in England fell by six per cent in real terms.

7 Most councils are in the National Joint Council (NJC) for Local Government Services, whose terms and conditions of employment are governed by the Green Book. Whether in or out of the national agreement, councils have local discretion about pay and rewards. London pay rates (with London weighting) are usually highest.

8 Spending on staff as a proportion of total service expenditure varies widely across councils and services. In corporate functions like management and central support services, staff costs account for up to half of all spend, while for direct services they are often much lower. Outsourcing explains much of the variation. When councils outsource services, significant staff costs disappear into the contract price.

- How much is your council spending on the workforce in 2011/12? What proportion of total revenue spend is on staff?
- What are the most costly services in terms of staff expenditure? Why?
- How does your council compare with others on the proportion of spend on pay in each service?<sup>i</sup>
- What proportion of the total pay bill is for overtime and bonuses? How has this changed in the past five years?
- What proportion of the total pay bill is for additional payments like honoraria, or other terms and conditions of employment, like transport allowances?
- How does your council's pay compare with others in similar labour markets, whether locally or farther afield?<sup>ii</sup>
- How have workforce costs in all these areas changed over the past five years?

<sup>i</sup> For further help, please see the pay benchmarking tool at [\[link to follow\]](#)

<sup>ii</sup> For further help, please see the labour market guidance at [\[link to follow\]](#)

## 4. How much does your council spend on agency workers and contractors?

**9** Council spending on bought professional services, which includes consultants, legal, accountancy and audit, increased by 50 per cent between 2004/05 and 2009/10, from £3.0 billion to £4.5 billion (at 2010 prices). Over the same period, councils' spending on agency workers increased by 46 per cent from £0.6 to £0.9 billion at 2010 prices.

**10** Most councils are renegotiating contracts, or changing contractors, to save money. Around a fifth say they plan to do so within the next two years.

**11** Agency workers have a role in providing flexibility to respond to local and national labour shortages. But the variations between, and within, councils suggest that, for some managers, employing agency workers has become a habit rather than a response to an assessed need.

- How much does your council spend on agency workers, temporary or casual workers and consultants? How have these payments changed over the past five years?
- Which services spend more on agency workers and consultants? Why?

## 5. How good is your council's workforce data?

**12** The Commission has reported on the role of good data in improving council performance ([Is there something I should know, 2009](#)), and for good workforce management ([Tomorrow's People, 2008](#)). Good data about workforce pay, skills and performance help councils get maximum value from the pay bill. It also helps Overview and Scrutiny perform more effectively.

**13** Councils could usefully benchmark their pay with others in similar labour markets. Comparator councils may not be neighbours or even in the same region. But by benchmarking against councils with similar labour market conditions, councils can better understand the forces driving pay in their areas, and assess whether they are paying above or below the market rate.

Most councils continue to reward staff through pay progression by annual pay increments. Incremental pay progression rewards staff with greater experience, but does not require evidence of performance. Linking pay to performance requires good data about individual performance in appraisals. It will help councils manage costs and improve performance.

Better management of sickness absence can bring significant financial benefits, improve staff morale and management control. The average sickness rate in local government is 9.2 FTE days for each employee. This is lower than for the wider public sector (9.7 days) but higher than the 6.4 days in the private sector. Better data about patterns of sickness absence (for example, short- and long-term sickness, or frequently occurring days of the week) helps councils to identify and manage problems.

Good data about pay, costs and performance provide the basis for a greater understanding of efficiency and productivity, as both depend on an understanding of inputs and outputs. And comparing and benchmarking data with other councils will lead to greater improvement.

- How good is the performance and cost information reported to members? How could this be improved?
- Does your council benchmark pay in local and national labour markets? If so how is this information used?
- How effectively does your council link pay and rewards to individual performance or contribution?
- How well does your council understand the unit costs of providing services, including labour costs? How well can members use this information to make or scrutinise decisions?
- What are your council's short-term and long-term sickness absence rates and how do these compare with others?

## Part 2: How will your council achieve savings and protect services?

### 6. What are the short-term measures your council has taken to make efficiency savings?

**14** Councils can reduce some costs without radical organisational change or making large numbers of staff redundant. They can cut overall staff numbers by removing unfilled posts or not renewing time-limited contracts.

**15** Councils can reduce the ancillary costs of employing people, including additional payments like honoraria and travel expenses. These payments are important to staff, however, and changing them may require renegotiating terms and conditions of employment, or removing privileges that some may regard as a right.

**16** Increasing opportunities for part-time working may also help to lessen the risk of redundancies and be a cheaper way of increasing capacity than employing agency or temporary workers. And although not a saving, reducing sickness absence can bring efficiency gains and increase service outputs for the same cost

- How often are members updated about your council's vacancy management strategy, and what is their role in approving exceptions?
- How many vacant posts has your council decided not to fill?
- Is your council boosting staff turnover to create and 'manage out' these posts?
- How is your council increasing flexible employment, for example, through using short-term contracts?
- How is your council reducing the ancillary costs of employing people? What are the savings it will achieve through this?
- How effective are your council's measures to reduce short- and long-term sickness absence rates?
- How much can your council save by tightening procedures for commissioning agency staff, for example, through vendor-neutral or master vendor arrangements, and renegotiating contracts with agencies?
- How much has your council saved by increasing opportunities for part-time working, for example, by encouraging staff nearing retirement to work part-time to aid the transition?

## 7. How has your council approached redundancies?

**17** Reducing ancillary costs and freezing posts may be enough to make the necessary savings and protect jobs. But the scale of the current financial challenge means most councils have to look at new business models and ways of providing services. These will involve restructuring and redundancies often, although some councils remain committed to avoiding mass redundancies.

**18** Many councils began redundancy programmes with higher paid staff (earning over £50,000). This sent an important signal to all staff about the challenge. Delaying – the removal of entire tiers of senior or management staff – is rare, but likely to increase. It has other benefits, apart from saving money, including improved spans of control for individual managers.

**19** Some councils have offered voluntary redundancy to preserve goodwill. Other councils have chosen to undertake compulsory redundancy because they believe it offers a quicker, planned, and more cost-effective route to reducing the workforce.

**20** Whatever route councils choose, redundancy payments are significant short-term costs to set against a future lower pay bill. Many councils are reducing, or will reduce, local redundancy severance payments. Councils have increasingly turned to central government for financial support through capitalisation to meet these growing costs.

- How many posts will go over the period covered by the 2010 Spending Review?
- Has your council considered delaying to increase spans of management control?
- What are your council's criteria for deciding which staff can have voluntary redundancy, and which will be made compulsorily redundant? How clear and fair are they?
- How is your council funding redundancies, for example, through reserves, or applying for capitalisation awards from DCLG?
- Has your council explored sharing or redeploying staff at risk of redundancy, to protect capacity in the medium-term?
- What help is your council offering to staff at risk of redundancy, including external secondments, job search support, and creating opportunities for staff to start their own businesses?
- What measures has your council put in place to help staff who stay, including re-training or re-skilling?

## 8. How good is your council's decision making on workforce issues?

1 Decisions about services and finance invariably involve the workforce. And the number, skills and location of staff also have consequences for the property portfolio, and ICT investment. Councils should take these decisions as part of a strategic review of priorities with reduced funding, and make the best use of their assets, including staff.

2 But directors of human resources or organisational development do not always have a place on senior management teams. And council executives (cabinets) do not always have a 'workforce' portfolio holder. Even where they do, not all councils can draw on excellent data about the workforce – its costs, skills and configuration – to inform decision making and Scrutiny.

- Are decisions about the workforce taken in the context of your council's broader objectives for services, property and ICT?
- How well has your council updated its key planning documents, like the workforce strategy, to take account of new priorities?
- How often are workforce issues discussed by overview and scrutiny, or called in?
- What contribution does workforce information make to your council's political and managerial decisions? How could better financial and personnel data improve decision making?
- Are workforce issues given sufficient attention by the senior management team?
- Is there an Executive lead for HR and OD?
- How good is the training for members on workforce issues?

## 9. What role will collaboration play in achieving savings in your council?

3 Collaboration – for example, integrating staff within councils, sharing and outsourcing services – is likely to increase. Outsourcing will embrace different models, including partnership arrangements with new types of organisation such as mutuals and social enterprises, as well as more traditional contracts.

4 Some councils are, or are considering, sharing chief executives and management teams to reduce costs and protect front-line services. Shared management teams can prepare the ground for higher efficiency savings through greater integration, but not all initiatives have lasted.

5 The need to make efficiency savings in a short period of time has given shared services extra impetus and nationally there are over 200 examples of existing or planned shared service projects. District councils lead the way in sharing senior staff, and they engage in more shared services than single tier and county councils.

6 Councils will bear costs from these more radical changes, before they achieve savings, so they should build a thorough business case that sets the costs and benefits.

- Has your council reviewed the costs and benefits of outsourcing – or in-sourcing - more services to help achieve savings?
- Has your council reviewed the costs and benefits of partnering or contracting with new organisations like social enterprises and mutuals?
- Has your council promoted collaboration and sharing of functions and services across departments?
- Has your council reviewed the costs and benefits of integrating management tiers, possibly as a prelude to deeper integration of services and roles between councils?
- How well does your council assess the costs, risks and benefits of different forms of partnering and outsourcing?
- Does your council have a collaboration strategy or is sharing services part of a short-term response to financial pressures?
- What is the role of elected members in these sharing arrangements? How has your council considered the implications for local democratic accountability?

## 10. How will you protect capacity for the future?

7 While savings are the immediate priority, councils need to plan their workforce needs to meet future commitments. In the medium- to long-term, councils will be smaller and leaner, and may deliver fewer services directly. They will, however, continue to be major employers, providers and commissioners.

8 New circumstances require new skills. Flatter, leaner structures, collaboration with other agencies, reducing use of agency workers and consultants, and more commissioning, collaboration, and outsourcing all bring new demands on staff. Councils that want to ensure that they have the skills and capacity to meet future needs will need to review how they invest in training and development despite cuts elsewhere.

9 Effective communication and engagement with staff during a transition to new ways of working is vital to ensure they continue to deliver high-quality services. Despite lower terms and conditions, councils will continue to offer attractive rewards. Total rewards statements are useful for councils in highlighting benefits other than pay and compensation. They can be incentives to high calibre candidates to apply to join the council, and to able staff to stay.

- What skills will your council need for the medium- and long-term future?
- What investment is your council making in developing the right mix of skills across different services?
- How well does your council support staff in managing the transition to different ways of working?
- Is your council sharing the costs of training and development with other councils or organisations?
- How effectively does your council communicate and engage with staff to ensure they remain committed during a difficult transitional period?
- Are you familiar with the total rewards your council can offer?
- Does your council produce total rewards statements? If not, why?