

# Surviving the crunch

Local finances in the recession and beyond  
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.**

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# Summary and recommendations

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## Summary

### **The financial impact of the recession has been manageable for most councils up to January 2010.**

- The government has honoured the three-year grant settlement up to 2010/11; on average, grant is two-thirds of council income.
- Staff pay increased by 1 per cent in 2009/10, less than expected.
- Many councils received a windfall VAT refund.
- Many councils, especially districts, have enough reserves to cover short-term funding pressures.

### **However, some councils – often districts – have been hit hard by falling local income.**

- Development-related income has reduced; planning applications are down by 22 per cent.
- Investment income fell by £544 million (43 per cent) in 2008/09, and the fall continued in 2009/10.
- Capital receipts are down from over £3.5 billion in 2007, to just £800 million in the first three quarters of 2009.
- Some districts that rely heavily on local income are struggling.

### **The future for local government finances is challenging, although there is little clarity about the size of any public spending cuts.**

- Public finances have deteriorated in the recession. Cuts in government support to councils are likely, but there is little clarity on the extent of cuts.
- Demand linked to the recession is increasing; for example, housing and council tax benefit claims, child poverty and youth unemployment.
- Housing concerns, the ageing population, the rising birth rate and the cost of child protection are longer-term financial pressures, particularly on single-tier and county councils (ST&CCs).
- Overall, short-term income losses are the major concern for districts. Meeting rising demand for services with shrinking resources is the main worry for most ST&CCs.
- The public-private model of funding regeneration, infrastructure in growth areas and affordable housing, relies on availability of credit for private developers and house buyers, and on rising land and property values. This funding model is not working in the recession, potentially threatening recovery in some areas.

**Councils should be responding now to minimise the impact on frontline services.**

- Some councils do not have financial plans beyond 2010/11. They should be planning their finances for the next three to five years, despite the lack of clarity on future funding.
- Those councils that understand how their different income sources and services could be affected by the aftermath of the recession will be more financially resilient in an uncertain environment.
- Major efficiency projects that preserve services take time and investment; quick savings are more likely to involve cuts.
- 2010/11 will be the last year of prerecession funding levels, after which funding is likely to be squeezed. Councils should use this time to plan and invest in achieving reductions in their cost base.

**Most councils are making some savings and planning more, but the quality of planning is variable.**

- Some councils have plans to cut costs by up to 15 per cent over the next three to five years through efficiencies and constraining demand.
- Efficiencies alone may not be enough; cuts may be needed. Few councils are acknowledging this in current plans.
- Those with a track record of delivering efficiencies are well placed, but others, particularly some districts, lack the capacity for major change.
- Some plans rely too heavily on one initiative, often requiring joint working with other councils or partners to deliver major savings or transform service delivery. There are risks inherent in these more ambitious plans.
- Good leadership from members is important, but some are unwilling to take radical steps without clarity on future funding.

**Public sector job cuts could damage local economies ; all options for reducing the pay bill should be considered.**

- Local public services are major employers, particularly of women.
- In places where the private sector is weak, more than 30 per cent of the female workforce is employed by councils, police, fire, schools and the NHS.
- Half of local government spending is on staff. Efforts to reduce costs have focused on cutting posts.
- But job cuts can damage local economies, redundancies are costly and skills and capacity can be lost.
- Few councils are exploring all the other options to reduce the pay bill, such as more flexible working, reduced expenses and overtime, pay freezes or pay cuts.

## Recommendations

### Councils should:

- prepare now for the leaner times ahead;
- develop a detailed understanding, using scenario planning, of how different levels of grant and income affect their financial resilience;
- ensure that members and officers provide strong leadership over difficult resource allocation decisions;
- engage early with staff and the public about options for coping with shrinking resources;
- develop rolling medium and longer-term financial plans despite the uncertainties. Plans to meet estimated budget gaps should combine basic efficiency measures with more ambitious options to transform service delivery and manage demand;
- ensure they have capacity for financial planning, cost reduction and change-management; and
- consider all options for managing pay bills, not only staff cuts.

### Government should:

- provide early clarity on expected future levels of council, police, fire, health and education funding to enable effective planning; and
- recognise the uncertainty around the future financing of regeneration, sustainable communities and affordable housing strategies in current market conditions, and consider alternative funding models.

### The Audit Commission will:

- continue to publish research on how local public bodies can plan ahead and achieve more with less; and
- consider councils' financial resilience in our audit work, to help those most at risk.