



Briefing 10/62 November 2010

## **Outcomes of the APSE Scotland Round Table Event - Shaping responses in an age of austerity. The impact of the comprehensive spending review/deficit reduction plan on Local Government and its services in Scotland**

To: All Chief Executives, Main Contacts and Email Contacts (Scotland)

CC: All Chief Executives, Main Contacts (England, Northern Ireland and Wales)

This briefing provides information on the recent APSE Scotland round table event which considered how local government and individual Councils are shaping their respective responses in an age of austerity given the comprehensive spending review(s).

### **Key Issues**

- Local councils are faced with managing with less resource and having to deal with the far reaching consequences of the recession which is placing greater demands on services. This is further complicated by increasing internal costs which is adding to the funding gap.
- Public sector management will need to focus on approaches to service prioritisation on a needs basis and providing those services at a lower cost through service review and redesign.
- The salami slicing approach to the budget process lacks the necessary depth and sophistication to help Councils with the forthcoming financial challenges. There is therefore the need to determine and invest in budgetary approaches which support service prioritisation and the delivery of outcomes.
- Councils should be searching for opportunities and be taking the lead role in commissioning area based service reviews in collaboration with partners.
- Councils need to reach new service settlements with their public which reflects the service priorities to be delivered.
- Councils need to consider establishing a 'new wave' of implementable shared services which can deliver results over both the short and longer terms.
- Councils considering implementing alternative business models need to be fully aware of the strategic, operational and financial costs and risks involved and manage them appropriately.
- Councils need to have in place well advanced workforce development plans which address issues associated with restructuring, redeployment, re-skilling, remodelling and appropriate rewards package for employees in line with the financial climate.

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| <ul style="list-style-type: none"><li>- Councils need to have a coherent approach in place for maximising income through fees and charges</li></ul> |
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## **Background**

Directors and Heads of Service from across Scotland held a round table event on 17<sup>th</sup> September 2010 in Dunblane Hydro, Stirling to discuss the impact of the UK and Scottish spending reviews which will be announced in October and November 2010 respectively. This event was chaired by the Scottish Secretary Paul Jukes, North Lanarkshire Council.

The event explored the immediate and long term implications for local government and its services as a consequence of the forthcoming spending reviews. Participants recognised the crucial role that local government and its services play in both safeguarding and developing the economic and social welfare of both places and people, particularly during these recessionary times. Local government expenditure is significant in terms of access to services, supporting local supply chains, and as a source of direct and indirect employment. However, from 2011 there will be real budget reductions of at least 12.5% to 26% over the next four years. There was recognition amongst participants around the table that this could be even greater if other public services were to benefit from ring fencing e.g. Health. The impact of the cuts on traditional frontline services could be even more severe.

## **Policy Context**

The context for the event was the recently produced Scottish Independent Budget Review Report (see previous APSE briefing 10/46) The Independent Budget Review Report was commissioned by the Scottish Government in order to: -

- Assess the implications of forecasts in reductions in public spending in Scotland in both the short and medium term.
- Gauge the impact of the reductions on current and planned spending programmes in the future.
- Highlight options for delivering public services within a tighter fiscal climate.

The event considered that the Independent Budget Review Report provided a useful starting point for informed discussions.

Participants recognised that at the same time as Councils are seeing their funding reduced, they are forced to deal with the far reaching consequences and often stubbornly persistent social and economic consequences of the current recession. This being characterised by: -

- Increasing unemployment/ youth unemployment
- Increasing benefit dependency
- Increasing demand for social housing and social care

The event also noted that at the same time, Councils also needed to deal with the wider national/local policy objectives and stretching targets including, Carbon reduction commitments, waste targets, the Scottish Quality Housing Standard together with a whole range of other planned outcomes as detailed within the respective Single Outcome Agreements. Participants felt that this mismatch of rising demand and shrinking resources will be further compounded by specific internal costs such as pay increases, annual increments, pension contributions, single status and equal pay claims.

The event identified a range of transformational orientated options which are available to Councils. Many of the options are however politically sensitive, managerially complex, require sophisticated planning, new working arrangements and upfront investment. Many of the options will take time if they are to be pursued.

### **How are councils preparing for the new financial climate?**

Participants recognised that the future '**holy grail**' of public sector management (as part of any wider transformational change programme), will centre around service prioritisation and delivering services at a lower cost.

A range of approaches to transforming local government and service delivery were identified. This included the 'mechanics' of service delivery and organisational management; restructuring management layers and integrating departments and services; introducing new target operating models, more disciplined procurement, process improvements and their subsequent automation. The guiding principle is you influence what you directly control in order to engineer change and save money!

An alternative approach to delivering transformational change centred around workforce development including developing the capacity and capability of employees through leadership development programmes, behaviour change, enhanced appraisal and training.

In order to deliver real and tangible transformational benefits there was a need to integrate different approaches and methods into a single corporate programme.

### **Policy based forms of resource management**

Underpinning approaches to managing in a climate of austerity was the need to rethink and reconfigure the local authority budget process in order to support service prioritisation. It was recognised that the **traditional salami slice approach** to budget formulation and one often favoured by Finance Departments lacked the necessary depth and sophistication given the severity of the challenges which lie ahead!

Councils needed to invest in approaches which analysed current and future demands for services, which in turn would inform the budget. Alternatively, Councils could start to fully utilise their respective Single Outcome Agreements and Corporate Plans as the basis for making informed choices about resource deployment. Such an approach would signal a

move away from traditional forms of budgeting to a programme/performance led approach to budget formulation which was linked to the delivery of outcomes by services.

A number of Councils were integrating their current corporate plans and financial strategies into a single business plan which had a longer shelf life and had the potential to drive savings out of the system in a coherent and planned manner over a period of time.

### **Service prioritisation including reduction and withdrawal**

Given the nature, scale and size of the local government deficit or funding gap facing Councils there will be a need for radical change which addresses in full issues around service prioritisation. Participants felt that there was need for local Councils to develop their respective service settlements and agree them with their communities. A range of questions were posed by the participants in framing service settlements including:-

- What are the key service priorities for the Council?
- How is the budget bent or skewed to support the delivery of the priorities?
- What happens to the services which are no longer priority?
- What alternative service delivery arrangements can be put in place for services which are considered to be surplus to requirements?

Councils would need to design and apply robust corporate criteria to fully evaluate and prioritise services. This would need to go beyond the statutory/non statutory or core/ non-core considerations and be linked to policy priorities and agreed outcomes.

A key challenge for the sector and individual Councils is the need to actively engage with the public about the financial challenges and the difficult choices and decisions that they will have to make. There was a recognition that Councils and their local communities must arrive at a **feasible and affordable service settlement** about what services can be provided directly/indirectly and what citizens and community groups could take on themselves.

### **Opportunities for aligning/reconfiguring services**

Participants felt that there was considerable scope to further integrate and align services through restructuring existing Directorates and Services. In addition, opportunities may present themselves to reconfigure services with public sector partners in terms of creating a more seamless public sector service supported by an integrated single management structure, either in a single area or across a number of areas.

Participants felt there was a need to not only integrate the management of services within Councils but across partners via approaches to service reconfiguration. This needs to extend to both front and back office services.

## **Property/Asset management**

Property can either be viewed as an expensive overhead or as a valuable asset, which enhances service performance.

There was a recognition that in response to changing working styles, technologies and evolving corporate cultures, Councils could do a lot more to develop and implement property/asset strategies. Such strategies need to be flexible to changing service demands whilst delivering greater space benefits, sustainability and cost/efficiency gains. The issue of property/assets in terms of their utilisation across partners operating within an area was identified as an issue that offered potential in terms of generating savings.

## **Shared Services**

There was recognition that progress on shared services had at best been slow. The financial climate may assist the sector in addressing the institutional barriers to shared services which were considered to be both political and managerial.

There was a recognition that establishing a fully functional shared service may take a degree of time given the range of political, managerial and operational complexities involved, however this could be overstated!. There was a need for a **'new wave'** of more practicable and implementable shared service arrangements which focused on creating single service solutions. Developments in England where Councils were using joint chief executives, joint corporate and service management teams and were noted as a further approach to delivering shared services, particularly in smaller Councils.

## **Alternative Models of Service Delivery**

Participants indicated that their respective Councils to varying degrees were actively considering alternative models of service delivery in response to the financial climate as a potential way of generating efficiency savings.

APSE is of the view that alternative delivery models have a role to play but are not without inherent risks which need to be actively managed. As a consequence robust business cases need to underpin any movement in this direction by member Councils.

APSE has a wealth of experience and information in this area. Further information can be obtained via:-

- APSE's Competitiveness Continuum and efficiency briefing 10/55

## **More for less from the workforce**

Participants recognised the impact the forthcoming spending squeeze would have on the local government workforce. The local government sector in Scotland employs approximately 270,000 people and costs £6.8 billion. This equates to over 50% of local

government revenue expenditure. In some service areas, employee costs can be as high as 75/80% of revenue budgets. As a consequence some Council's were:-

- Actively restructuring their organisations particularly the corporate management teams in the search for efficiency savings. Most participants indicated that there Councils were targeting senior and middle management posts as part of any restructuring proposals/savings exercises.
- Actively managing vacancies with in effect a recruitment freeze being introduced across the organisation. However, this was recognised as a short term option for saving money as there were implications for talent, the spread of talent and the age profile of the workforce given the arbitrary timing of the freeze

Participants recognised that the sector may need to invest in people in order to equip them with the necessary skills to thrive in a changing environment and perform new roles. Identifying the right skills required is vital to workforce planning and needs to be embraced by the whole organisation.

A further area Councils were reviewing related to the overall rewards package made available to employees. Whilst it was unlikely for real growth in the overall pay bill there was a need to develop the overall reward framework in line with the changing financial climate.

Consideration needed to be given to the sustainability of Single Status Agreements and conditions in the 'red book'.

Redundancy is receiving more attention throughout the sector, with many Councils contemplating and introducing voluntary redundancies with senior and middle management posts being particularly vulnerable.

It was recognised that job loss is inevitable however there was a need to make full use of redeployment, re-skilling, rationalising service conditions and voluntary redundancy prior to compulsory redundancy programmes.

### **Maximising sources of revenue/ income**

Participants addressed the issue of self generated revenue/income which falls into the following categories:-

- Council Tax
- Fees and charges
- Investment income

There was a view that Councils required the ability to generate as much local revenue/income as possible and the Council Tax freeze removed discretion and flexibility in terms of a local authorities ability to fund service priorities.

Councils needed to address the question what should be paid for through general and local taxation and whether individuals are prepared to pay for a service or an enhanced

service. Councils may need to be more proactive and commercial in outlook in terms of levying charges for a whole range of services in order to generate much needed income.

In addition, there was a need for Councils to trade with each other as a way of generating revenue/income. There was considered to be significant 'mileage' in this area particular in the context of alternative models of service delivery.

### **Spend to save**

Spend to save was viewed as being crucial particular in terms of its ability to reduce service expenditure and protect services over the medium to longer term. It was being actively used in a number of Councils to protect services whilst reducing costs over the medium/longer terms.

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