



Councils responding to the economic downturn

Standfirst: Mo Baines looks behind the Audit Commission's latest report on the impact of the downturn on local government and argues that, rather than panicking and making cuts, public sector employment can be a way to buoy up local economies

A recent Times survey suggested that 40 councils across the country had each identified 7000 jobs as being at risk of redundancy. The Audit Commission report '*Crunch time; The impact of the economic downturn on local government finances*' has identified that one in seven councils plan compulsory redundancies. And a further one in six are looking to make some cut backs.

According to the Audit Commission, the pressure has mounted on councils because of a range of reasons. Some of these are directly related to the economic downturn. But others were already starting to bite as a result of the public sector funding strategy.

The most obvious, and some would argue predictable, drop in council income have come from planning fees and 'S 106' agreements that generate income from private developments. The Construction Industry Products Association reported in December last year that the industry was set for its biggest decline in nearly 30 years. New private housing fell by 43% in 2008 and is expected to fall another 32% in 2009. Taken with a reduction in retail developments and new offices it makes grim reading for those councils that had been relying upon fee income to top up their main settlements.

Councils have also been affected by increased costs in fuel, utilities and even food. Gas, electricity and food rose by between 7% and 31% between April and October 2008 – rises that found many councils with unexpectedly high bills in areas such as their vehicle fleet and transport, facilities management and even increased costs of producing and supplying school meals. Whilst as a proportion of overall spending this represents just 2% of overall council budgets it has nevertheless had a disproportion effect on some front line service areas.

In terms of local government finance, overall the estimated growth for 2008/09 for local government was set at 3.75% but in the wider economy this has fallen from an anticipated growth of 2.5% to a downturn position of minus 0.25%. The Audit Commission report therefore argues that this reduction, in anticipated inflation levels, will help councils cope with the current downturn and make the settlements worth more in the short to medium term.

The overall slowdown in public sector expenditure levels followed, as Government is keen to point out, unprecedented growth in public sector spending; arguing that growth in

central government settlements to councils over the last ten years has risen by 39% in real terms.

So as Mervin King, Governor of the Bank of England said 'this is the 'end of the NICE age'. If as predicted this is truly the end of 'Non-Inflationary Consistent Expansion' in settlements for the Uks public sector it is nevertheless a rather abrupt end! The end of local government's own 'NICE age' could signal the beginning of a new ice age whereby we can anticipate the need to freeze budgets, recruitment and any planned additional services in an attempt to bridge the gaps between expenditure, loss of anticipated income and the need to generate efficiencies. Efficiencies alone now stretch to some £6 billion by 2010-2011 across the public sector.

Increasing efficiencies savings is, of course, a means to support the longer term recovery of the UK's economy; paying back through efficiencies some of the money used to bring forward public sector investment in infrastructure projects such as housing, schools and hospitals. But little of this money ends up on the plate of front-line day to day council's services such as housing, refuse collections, parks, libraries and leisure centres, meaning there is still a gap for councils to meet and cuts are therefore firmly on the agenda.

No one would deny the need for local authorities to make the greatest possible efficiency savings. But APSE would argue that now is not the time for swingeing public sector cuts and in particular the role of local government as a stable force in local economies must not be forgotten. Indeed, providing effective services using directly employed council staff is a way to ensure the best possible value is achieved for every taxpayers' pound. And we have done the sums to prove it.

APSE research 'Creating resilient local economies: exploring the economic footprint of public services' provides a useful insight into spending by local councils. Our research has found that up to £1.64 is returned into the local economy for every £1 spent by the council. Local government employees living within the council area can spend over 52 pence in every pound in the local area. Even those living outside the council area spend up to 30 pence. This is a significant source of trade and income for local businesses.

So talk of widespread redundancies in local government, greeted with glee in some areas of the media, do not accurately reflect the broader impact of this on the local economy. A buoyant public sector can help to provide much needed customer stability within turbulent times, supporting local businesses, particularly small to medium enterprises.

Tough times lie ahead. However it is essential that local authorities don't panic themselves into drastic measures that could have a long term damaging impact on both public services and the local economy. Being prepared to react is one thing. Exacerbating a crisis in the local economy by cutting local services and jobs is another.

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