

The impact of the economic downturn on councils

Economy Efficiency and Effectiveness:
APSE 22 January 2009

Lee Heley
Regeneration Policy Lead




The headlines have been bleak

Councils forced to cut jobs
- Financial Times. January 2009

Credit crunch heaps pressure on councils
- MJ. January 2009

Rates drop costs councils
- LGC. January 2009




The economic context

- **Inflation:** at levels not seen since 1992
- **Near-collapse of the financial system:** impact on credit availability and property values
- **Downturn:** in UK and global economy

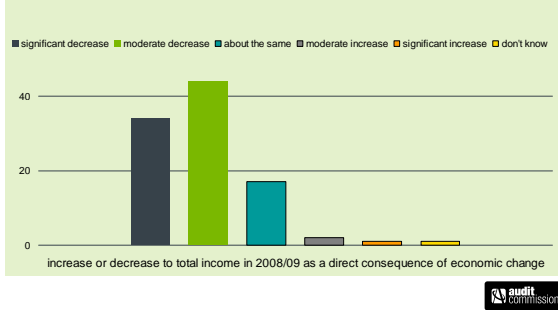
Leading to:

- Increased costs for councils
- Higher demand for services
- Reduced income

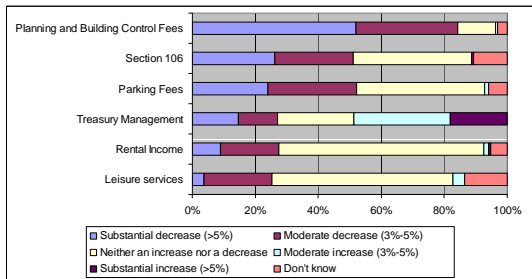


78 per cent of councils have seen a decrease in income

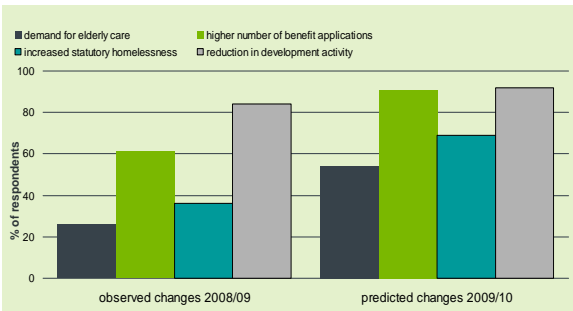
What, if any, increase or decrease have you seen in the level of total income of your authority so far in 2008/09 as a direct consequence of economic change?



Income levels are falling



Councils have seen, and expect to see further changes in demand for services



Councils are making hard choices to manage in-year pressures

Activity	Per cent Action Taken	Per cent with firm plans in place
Recruitment freeze across authority	20	19
Recruitment freeze in specific departments/staff groups	34	33
Redundancies across authority – Voluntary	14	17
Redundancies across authority – Mandatory	6	4
Redundancies in specific departments/staff groups – Voluntary	18	19
Redundancies in specific departments/staff groups – Mandatory	6	7
Service cuts	13	9
Efforts to reduce transport fuel consumption	40	36
Efforts to reduce gas consumption	46	39
Efforts to reduce electricity consumption	48	44
Compensatory savings elsewhere	36	23
Increased fees and charges	23	24
Use of reserves	43	47

All figures are percentages



It's not all doom and gloom

- Councils have adequate reserves
- The biggest cost increases have been on items that do not form big parts of councils spending
- Inflation is coming down rapidly
- Pressures on retirement and pay will reduce
- Councils borrow more than they lend so will benefit from lower interest rates
- And the cash value of future grant settlements has been maintained - the real value will be higher



Councils are coping well

The impact on council finances is real

But councils are coping well:

- Many anticipated pressures
- Most have adequate reserves to cushion the impact
- Effective action is being taken to cut costs

And there are positives as well as negatives:

- Council finances will benefit from lower inflation
- Benefit lower borrowing costs



And what are the wider implications for CAA?

CAA is the right approach in an economic downturn because it is:

- cross-cutting
- focused on partnerships
- focused on long term outcomes

Councils must remain *equally aspirational*, which means being resourceful, innovative and determined

Some may consider revisiting local priorities, but all must remain committed to the principles set out in their SCS and LAA

Through the downturn councils are getting on with the job of protecting their communities