

Work in progress

**Meeting local needs with lower
workforce costs**

December 2011



The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

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

Local Government Association

The Local Government Association is here to support, promote and improve local government. Local government is facing the most radical changes, as well as the most significant opportunities, in a decade.

We will support councils through challenging times by focusing on our top two priorities:

- **representing and advocating for local government and making the case for greater devolution;**
- **helping councils tackle their challenges and take advantage of new opportunities to deliver better value for money services.**

We aim to set the political agenda and speak in the national media on the issues that matter to council members.

The LGA covers every part of England and Wales, and works with the individual political parties through the political group offices.

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Summary

***Work in Progress: Meeting local needs with lower workforce costs* is for councils as employers. It shows how councils in England are reducing workforce costs. It describes how they are making immediate savings and the transformations that require more time.**

The financial challenge means workforce costs must continue to come down

Government funding for local government will fall by 26 per cent, or £5.5 billion, over the period covered by the Spending Review (2011/12 to 2014/15), and councils must find most of the savings in the first two years. Because staff account for nearly half of all spending by councils, workforce costs have to come down.

The 353 councils in England employ about 1.6 million people, excluding teachers, firefighters and police. This is just under 1 million full-time equivalents (FTEs). The workforce is shrinking from its 2007 peak. The number of FTEs fell by 5 per cent between 2010 and 2011 (quarter 2). It will decline further in 2012.

Councils are already cutting pay bills without job losses

Common savings measures include freezing recruitment, freezing pay, increasing part-time working and reducing additional payments and recruitment and retention bonuses. Councils are also saving by spending less on agency workers and consultants.

But job losses are inevitable

Local government has already lost about 145,000 jobs. Voluntary redundancy, early retirements, a freeze on recruitment, and vacant posts removed from budgets accounts for much of this figure. Compulsory redundancy is likely to increase in future years.

Many councils are reducing the numbers of higher-paid staff, including managers. We calculate that, in 2009/10, staff who earn over £50,000 represented 3 per cent of the workforce and 7 per cent of the pay bill. In 2011, most councils (90 per cent) reported that they have reduced the costs of higher-paid staff, by employing fewer, or paying them less. Demonstrating that senior posts are not immune to workforce reductions is a powerful signal to the entire workforce.

For many, adapting to less funding means restructuring and transformation

Reducing management numbers usually follows restructuring. Most councils (83 per cent) either are, or anticipate, transforming their organisations to make savings and reduce management numbers. Redeployment can also accompany restructuring, as councils try to avoid adding to unemployment figures. Sharing staff across councils and other organisations also helps to keep capacity in the sector and reduce agency spend.

Outsourcing helps to explain why the pay bill reduced by 5.6 per cent in real terms between 2008/9 and 2010/11. Outsourcing will increase as councils look to a mixed economy, including mutuals, cooperatives, and community interest companies, alongside traditional suppliers to deliver services. But outsourcing will not bring quick savings and will generate set-up costs. Any decision to outsource should be taken after a proper evaluation of service requirements, delivery options and their costs and benefits

Councils can use better data to protect future capacity

To identify savings opportunities, councils should benchmark pay rates based on reliable labour market data. Better data on workforce costs can help improve efficiency – for example, by managing sickness absence more effectively.

Finding savings is the immediate priority, but councils should not lose sight of the longer term. Many will continue to be major local employers that depend on committed and skilled staff to deliver valuable services to users and communities. Training and development will remain important to help councils improve skills and retain staff. Maintaining good workforce relations will be difficult, but vital, as councils carry out measures that directly affect staff terms and conditions and ways of working.

The tools with this report will help councils meet community needs with lower workforce costs

Some councils are better placed than others to respond to falls in their funding. No single approach can tackle all the issues faced by councils, and this report does not recommend one. The Audit Commission and the Local Government Association (LGA) have produced practical tools and guidance to help councils manage their workforce costs more effectively, while continuing to provide or commission good quality services. These tools include:

- five case studies of different councils' use of the methods described in this report;
- guidance on pay benchmarking and tools to assess spend on agency staff and employee spend by service;
- a methodology for comparing local labour markets for use in pay benchmarking; and
- scrutiny guidance and checklists for elected members.

Recommendations

Councils will make their own choices about the workforce in response to the falls in income. These choices should fit their local circumstances and objectives, and will involve detailed negotiations with trade unions and engagement with the workforce. The recommendations in this report will help councils achieve the best possible outcomes, without impairing their local discretion.

The recommendations address short- and longer-term measures. Councils should consider them now, if they haven't already.

We recommend councils should act quickly to:

- decide on the most effective and equitable approach to reducing staff numbers (such as the mix of voluntary and compulsory redundancies), while protecting capacity to meet community and service users' needs;
- assess the costs and benefits of retraining, redeploying, and sharing staff, against those of making staff redundant; and
- complete any redundancy programmes, with due regard to legal duties and affordability.

Other immediate savings will come from a review of existing organisational practices. Councils should:

- set clear corporate rules for savings in, and control over:
 - overtime, bonus payments and honoraria; and
 - agency workers and consultants;
- use the most cost-effective mechanisms for employing agency staff and contracted professional staff;

- make savings by freezing recruitment to all vacant posts not needed to deliver frontline services or manage organisational risks, and remove non-essential posts from the organisation;
- carry out a full review of local reward strategies;
- review and reduce the scope for qualification for essential car-user allowances; and
- review mileage rates as part of a more strategic, sustainable approach to on-the-job travel.

We recommend that councils should, over the next year:

- integrate workforce data across departments to improve the quality of corporate decision making about the workforce;
- assess how to reward staff equitably for their performance and contribution to organisational objectives;
- benchmark pay rates with public, private and voluntary organisations in similar labour markets, to understand how their own rates compare;
- use a range of data, including the Commission's Value For Money (VFM) Profiles, to understand their relative spend on staff costs;
- use a total rewards approach (pay, pensions, flexible working, and other benefits) to attract prospective, and keep existing, employees; and
- reduce reliance on overtime and spot contracts by negotiating a more flexible approach to hours and pay.

Over the same period, councils should also:

- review the full range and scale of services they can offer alone and in partnership with others, including neighbouring authorities who provide similar services, withdrawing or sharing some services where necessary to protect others;
- complete departmental and service reviews to assess how best to meet community needs with fewer resources;
- use those reviews to decide on future workforce numbers, skills and configuration; and
- review current organisational structures to create leaner, flatter structures with increased spans of management control.

Introduction

This report describes different savings strategies, with illustrative examples. Further help and guidance comes from detailed case studies and practical tools.

The scope of this report

This report covers all staff whose pay and rewards are controlled by councils (including agency workers and consultants whom they do not directly employ). It does not address others (for example, teachers) who work in local government but have separate pay review bodies, or people employed in fire or police services. The Commission has recently published briefings on the most effective organisation and use of the school workforce (Ref. 1). School and education staff other than teachers are in the scope of this report.

Unless otherwise stated, the report covers councils in England.

1 The 2010 Spending Review cut central funding to local government by 26 per cent between 2011/12 and 2014/15 (Ref. 2). The Commission's report *Tough Times: Councils' Responses to a Challenging Financial Climate* (Ref. 3) identifies the financial challenges this poses for councils. Councils are trying to save money in all areas. They are revising corporate and area strategies, reviewing their property portfolio, and rationalising information and communications technology (ICT) requirements, as well as reducing staff costs.

2 Following the Spending Review, each council has to find savings, but each has to find a different amount. Some face a larger reduction in their spending power than others.ⁱ Councils can raise some money from charges, fees, council tax, and investments to reduce the impact of loss in grant. Councils can also use reserves and balances, which have risen in recent years, (Ref. 3). LGA research suggests about a

ⁱ The government's assessment of changes to councils' 'revenue spending power' is an average fall of 4.4 per cent for the 2011/12 financial year with no more than 8.8 per cent for any one council (Ref. 4).

third of all councils plan to use reserves to balance the 2012/13 budget, rising to almost half (48 per cent) of district councils (Ref. 5).

3 Equal pay remains a core issue for many councils, and tackling it has implications for both capital and revenue budgets. Unpublished research by LGA estimates that, in April 2011, about three-quarters of councils in England and Wales had fully or largely completed equal pay reviews, and that about a quarter were defending equal pay cases.

4 Although finding savings is the immediate priority, councils should not lose sight of the longer term. Many will continue to be major local employers that depend on committed and skilled staff to deliver valuable services to users and communities. Maintaining good workforce relations will be difficult but vital as councils carry out measures that directly affect staff terms and conditions and ways of working.

5 Some councils' preparations started in 2008, as they anticipated the consequences of the banking crisis for public finances. Others may struggle to keep a longer-term view, as they reduce their budgets to meet immediate savings needs. This report aims to help all councils, regardless of their current position.

This report

6 Chapter 1 describes how the local government workforce and pay bill are changing, and Chapter 2 shows how councils are trying to make savings but also protect services and jobs. Chapter 3 outlines more transformational approaches, including restructuring and redundancies. Chapter 4 looks at how councils can continue to meet the needs of communities with fewer staff and less income by using better data on pay and the workforce.

7 This report draws on several data sources about the size and cost of the local government workforce. A note on the research and analysis methods in this study is available on the Audit Commission and LGA websites.

8 Accompanying this report are further information, guidance and tools to help councils make decisions about the future shape and size of the workforce, including:

- five case studies of different councils' use of some of the methods described in this report;
- guidance on pay benchmarking and tools to assess spend on agency staff and employee spend by service;
- a methodology for comparing local labour markets for use in pay benchmarking; and
- scrutiny guidance and checklists for elected members.

9 The data and metrics on the Commission's VFM Profiles and the LGA's LG Inform Prototype tool will also help councils benchmark services effectively. This free and open online service allows anyone in the sector to access, analyse and compare data and present their findings: see the LGA website www.local.gov.uk/about-lginform

Chapter 1: The workforce will continue to reduce

Workforce numbers have fallen and will continue to fall, but councils are still large employers. The pay bill is affected by a combination of national policy and local decisions. How much councils spend on staff varies across the country, and outsourcing explains much of this variation.

Key facts

In 2010/11, England's 353 councils employed about 1.6 million people (excluding teachers) – equivalent to just under 1 million FTEs (Ref. 6).

Over half of those employees (54 per cent) worked in social care and schools support roles. The others worked in: libraries; culture; recreation and sport; housing; roads and transport; environmental services; planning and development; other local services; and the administration that supports them (Ref. 7).

In 2010/11, the total pay bill in England had three elements: basic pay and salaries of £23.3 billion; £1 billion of additional pay elements, almost half of which is overtime payments (Ref. 8); and employment-related on-costs (national insurance, employer pension contributions, and location allowances) of £4.9 billion. The total pay bill was about £29.2 billion (Ref. 9).

Around half (55 per cent) of the staff working in local government are part-time (Ref. 10). 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.ⁱ

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ⁱ Office for National Statistics, Annual Survey of Hours and Earnings – table 1.3a weekly basic pay multiplied by 52.14 weeks in a year.

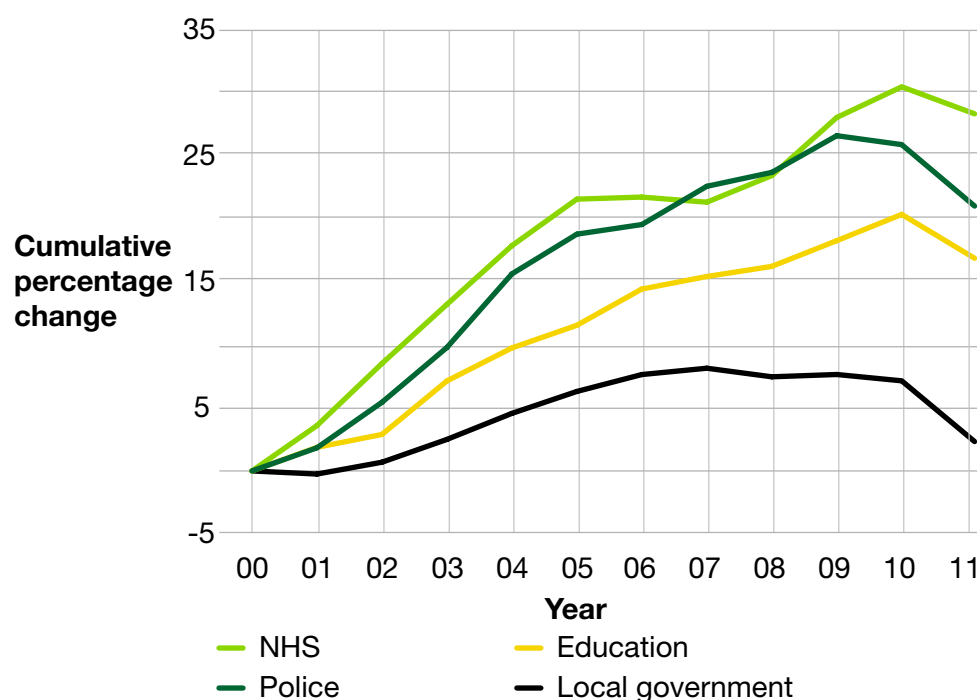
The local government gender pay gap has stayed at about 4 per cent since 2008 (it was 4.3 per cent in 2010/11). This compares favourably with other sectors. In 2010/11 the whole public sector gender pay gap was 20 per cent. In the private sector it was nearly 40 per cent (Ref. 11).

Workforce numbers and costs have peaked

10 Across the UK as a whole, public sector employment rose between 2000 and 2010 (Figure 1) (Ref. 6). The increase was lowest in local government (7.1 per cent) and highest in the NHS (30.4 per cent).ⁱ The number of FTE posts in local government increased from about 960,000 in 2000, peaking at 1,036,000 in 2007.ⁱⁱ FTE numbers fell by over 50,000 to 984,800 by the first quarter of 2011, and by a further 52,000 in the second quarter of 2011 alone. It will decline further in 2011 and 2012.

Figure 1: **Employment in local government has risen more slowly than the rest of the public sector**

Rates of change in UK public sector employment (FTE) by service



Source: Office for National Statistics, *Public Sector Employment: Statistical Bulletin*, Q2 2011

ⁱ Data is taken from the Office for National Statistics, *Public Sector Employment Statistical Bulletin (QPSES)*. See separate technical note on research methods for further details.

ⁱⁱ Based on the Office for National Statistics QPSES data with the Department for Education teacher data subtracted. See separate technical note on research methods for further details.

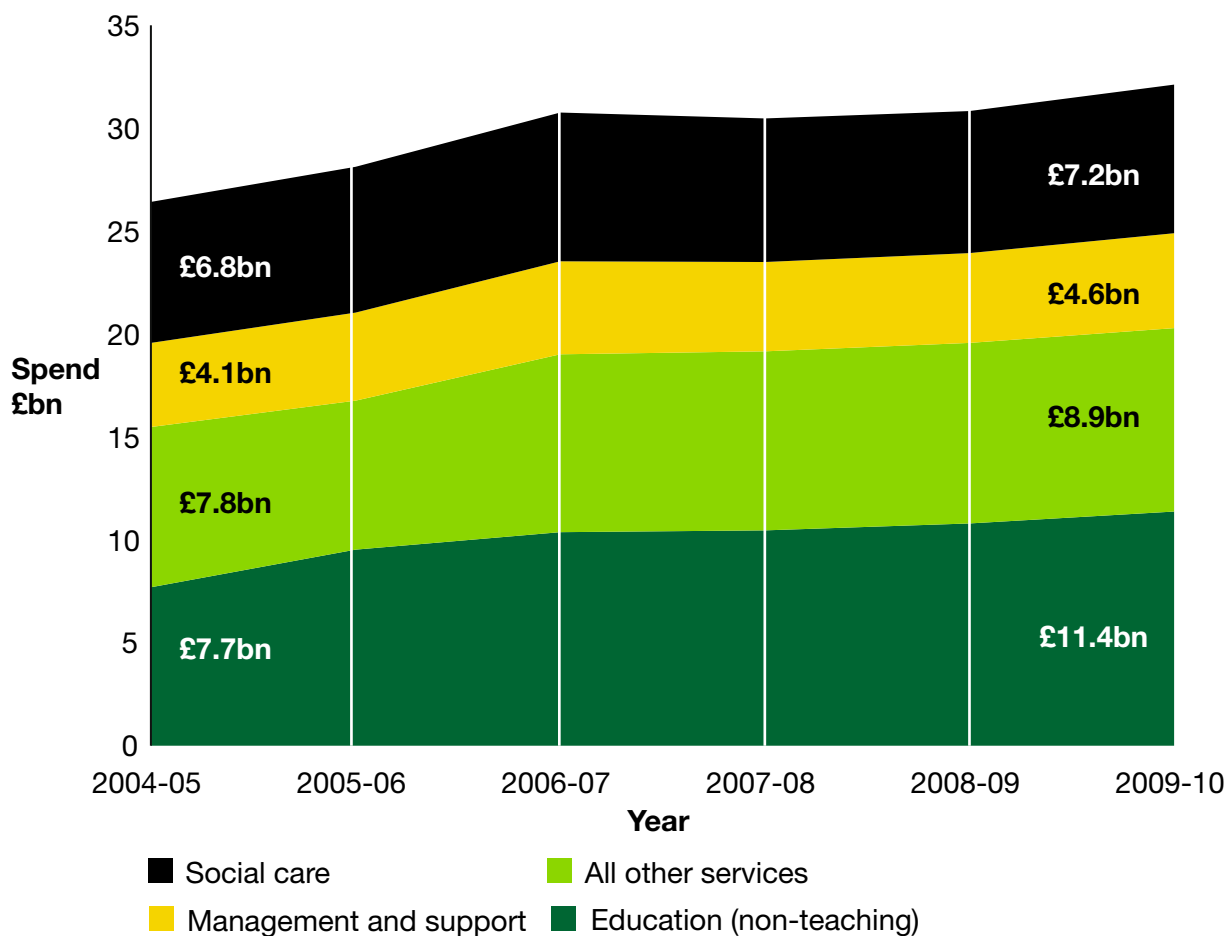
11 The pay bill (adjusted for inflation) for the 1 million FTE covered by this study increased by 22 per cent from 2004/5 to 2009/10 (Ref. 12). It has recently started to decline. Between 2008/09 and 2010/11 the local government pay bill in England fell by 5.6 per cent in real terms (Ref. 9).

12 In 2009/10, as in the previous five years, most spending on pay was on three groups:

- non-teaching staff in education, such as teaching assistants (35 per cent);
- social care staff (22 per cent); and
- management and support services (14 per cent).

13 The remaining 28 per cent of the pay bill covered staff working in all other services. These include: cultural and leisure services; environmental services; planning and development; housing; highways and transport; central services such as tax collection and democratic core; and other more minor services (Figure 2).

Figure 2: **The pay bill increased by 22 per cent in real terms between 2004/05 and 2009/10**
Spend on employees by service – 2004/05 to 2009/10 (2010 prices)



Source: Department for Communities and Local Government (DCLG), Subjective Analysis Returns

14 The main contributor to the increase since 2004/05 is the 48 per cent increase in the non-teaching education pay bill, mainly accounted for by teaching assistants (Ref. 1).

15 Employee spending elsewhere increased, but at a lower rate. In social care, where the private and voluntary sectors deliver more care, the increase was 5 per cent. Spend on management and support staff increased by 13 per cent, but fell slightly as a proportion of the pay bill from 15 per cent to 14 per cent. The increase in spending on staff in all other services was 14 per cent.

National pay bargaining – local pay decisions

16 Nationally, most local government employers and trade unions work through the National Joint Council (NJC) for Local Government Services to agree pay and rewards for the majority of the workforce covered by this report.ⁱ In 1997, the NJC agreed a national framework with potential for local adjustment, known as the Single Status Agreement. The Green Book (Ref. 13) contains the pay and conditions of service agreements.

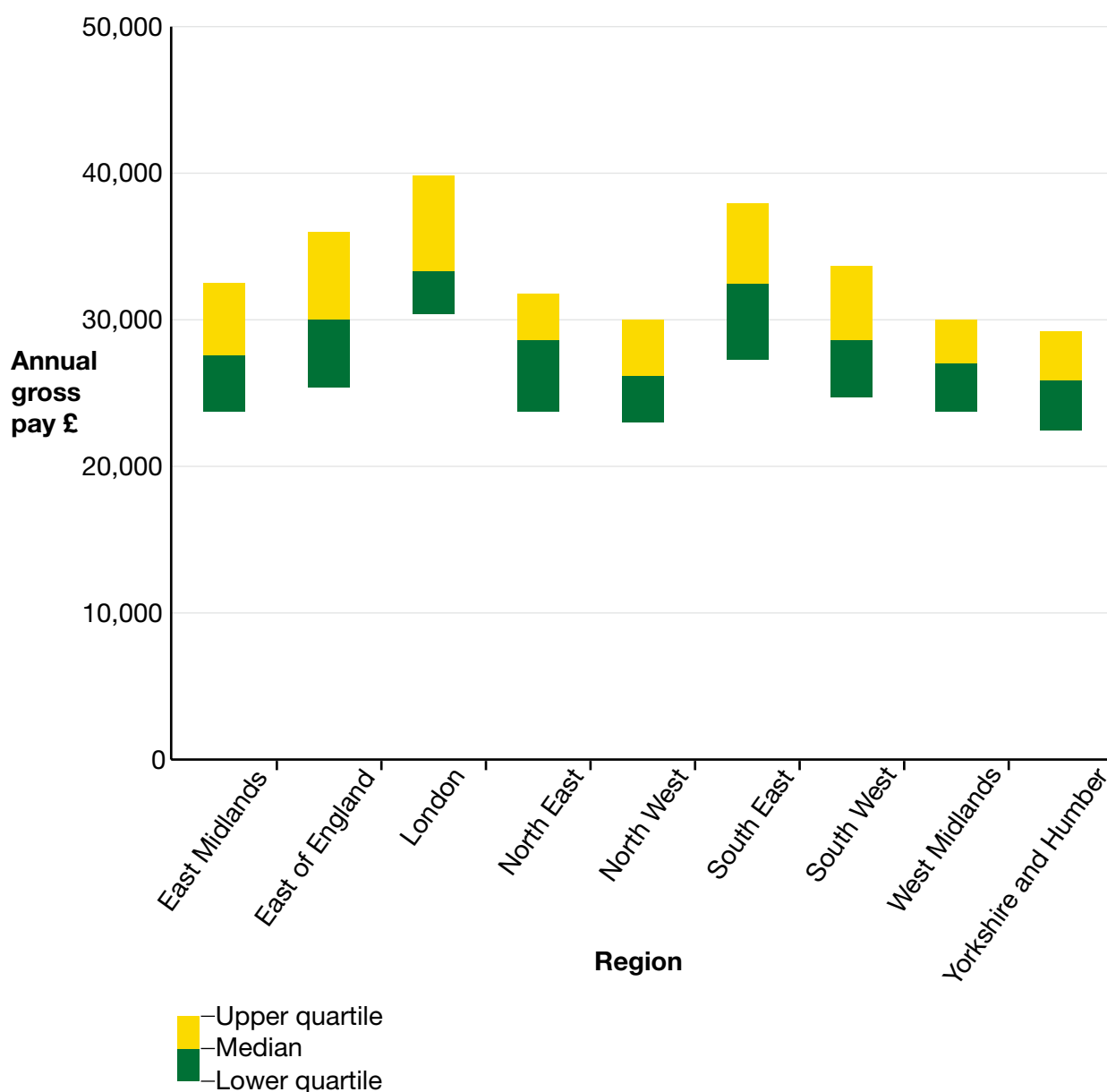
17 Whether in or out of the national agreement, councils are responsible for designing their own grading structures. For the most part, they do this through job evaluation and pay modelling techniques. Where this process does not result in a pay rate adequate to recruit within local labour market conditions, they often use market supplements. London pay rates (with London weighting) are usually highest.

18 LGA analysis shows that regional differences in pay are not significant, other than for London and the South East (Ref. 14). But, as Figure 3 shows, pay rates can vary for the same occupation within regions. Some of this variation is because councils classify jobs differently, but it also reflects their responses to local and regional labour markets.

ⁱ Not all councils are in the NJC. Forty-three councils, mainly county and district councils in the south east of England, have opted out. For a full list of pay negotiation groups see the LGA website: www.lge.gov.uk/lge/core/page

Figure 3: **Variations within and between regions suggest scope for savings**

Gross pay distribution by region – ICT professional



Source: LGA, Local Government Earnings Survey 2010/11

19 Pay variations between and within regions may reflect local conditions. They may also suggest a potential for savings, as councils explore different choices for reducing workforce costs. Fieldwork suggests councils generally don't have good comparative data about labour market pay rates.

Some councils and services spend more on staff than others

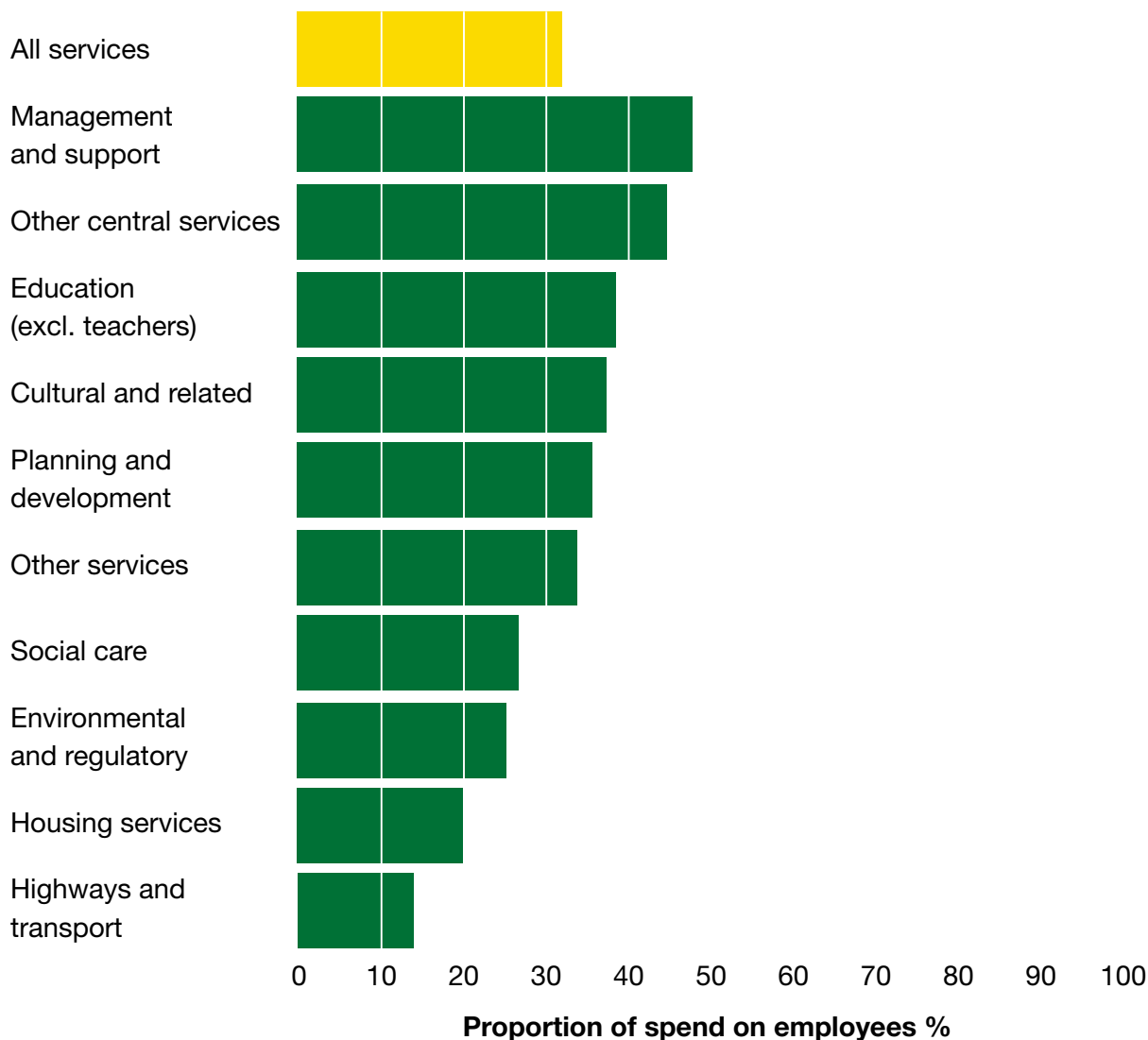
20 Spending on staff varies widely across councils and services. In district councils, for example, the proportion of total expenditure accounted for by staff varies from 22 per cent to 65 per cent. In single tier and county councils, it ranges from 18 per cent to 45 per cent.ⁱ

21 Across all councils, the amount varies, too, by service. 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 (Figure 4). If services are contracted out, significant staff costs disappear into the contract price. These costs are not included in the analysis in this report.

ⁱ Apart from staff, councils spend money on services to buy supplies, utilities, leases, property, equipment, and contracts.

Figure 4: **The proportion of spending on staff varies across different services**
Spend on employees as a proportion of total expenditure – by service 2009/10

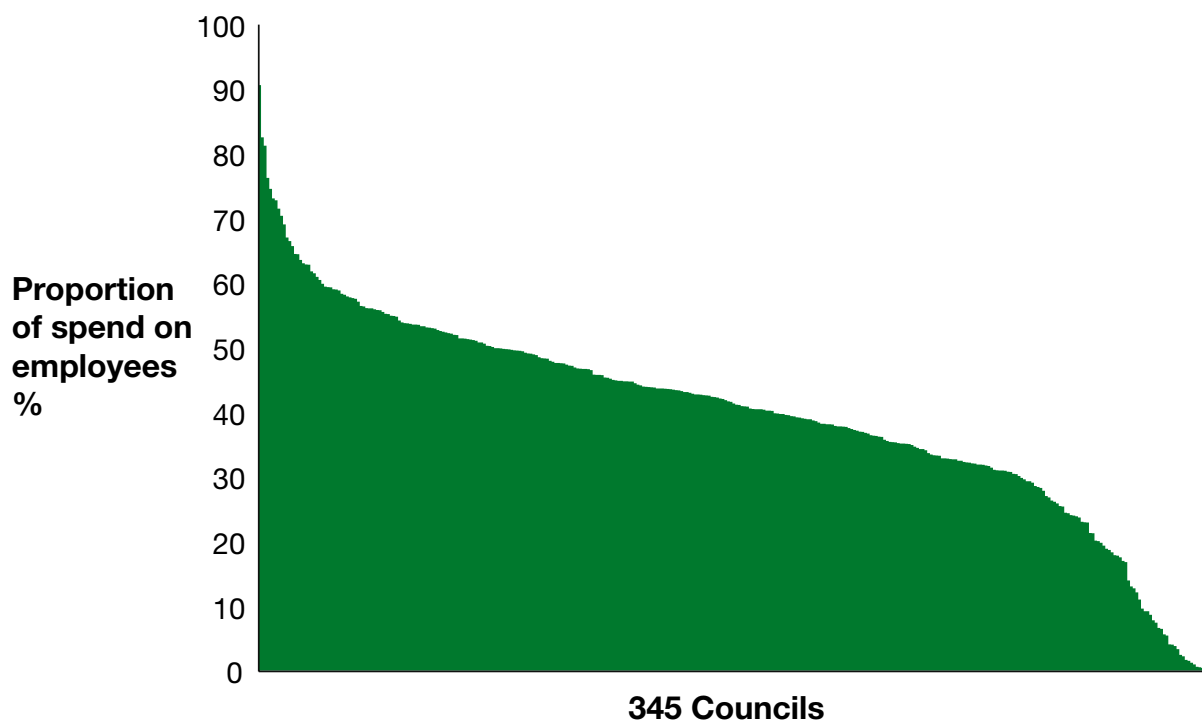
Services



Source: DCLG, Subjective Analysis Returns

22 The extent of the variation in the proportion councils spend on staff becomes more evident when looking at one service, as seen in Figure 5 for planning and development services.

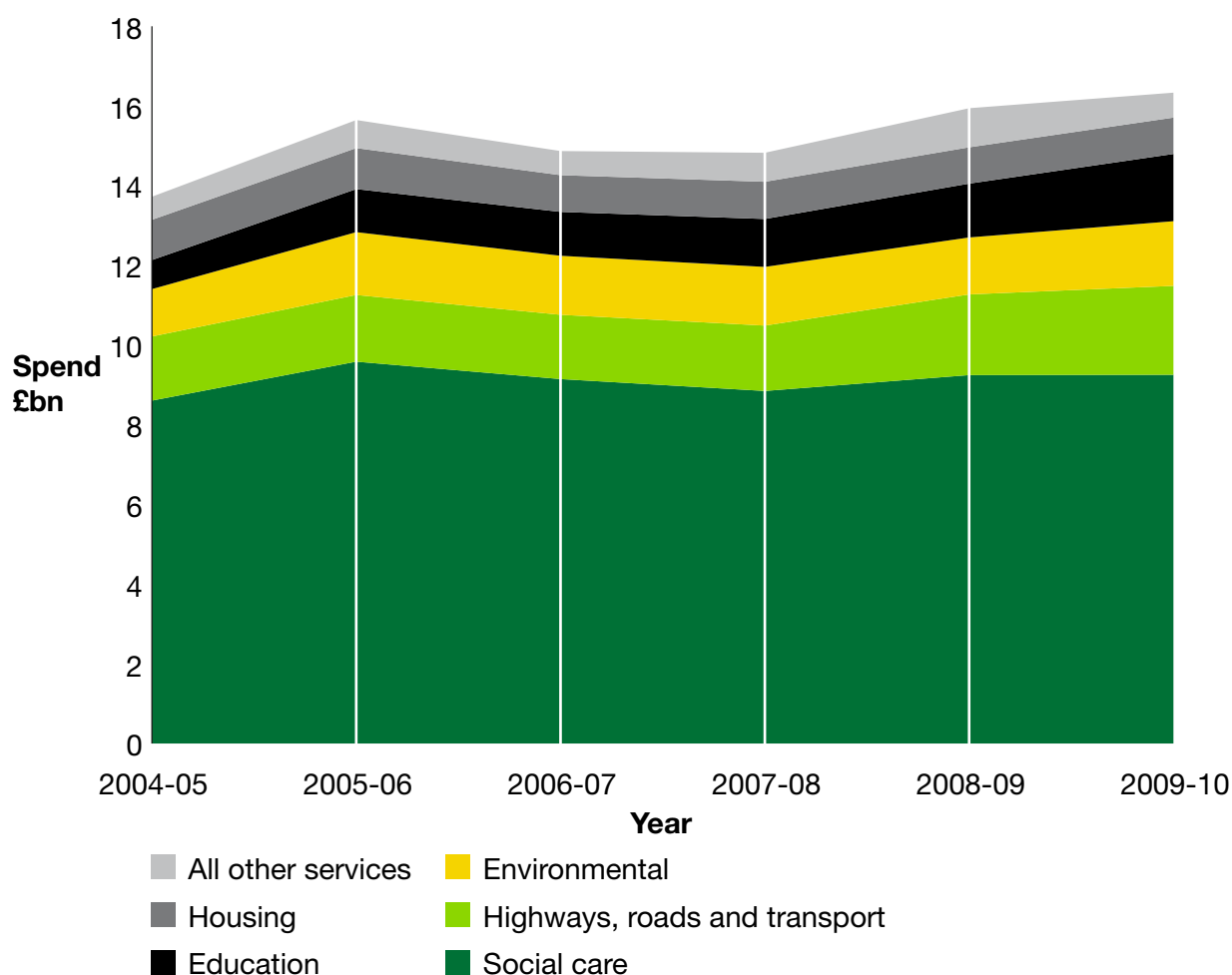
Figure 5: **The proportions spent by different councils on the same services also differ**
Spend on employees as a percentage of total service spend 2009/10 – Planning & Development



Source: DCLG, Revenue Outturn Returns

23 Outsourcing explains much of the variation. Since 2004/5, outsourcing (contracting out of services) has increased in value by £2 billion (Figure 6).

Figure 6: **Councils have outsourced more services since 2004/05**
Spend on outsourcing by service – 2004/05 to 2009/10 (2010 prices)



Source: DCLG, Subjective Analysis Returns

24 The more councils outsource services, the less they spend directly on staff. Outsourcing also helps to explain why employment in councils has increased at a slower rate than in other public bodies.

25 Variation reveals how much discretion councils have about pay and workforce within national agreements and policies. It also suggests that good comparative information about this variation would help councils understand whether they are paying the right amount for the staff they employ. This becomes particularly important as they seek to reduce workforce costs. The next chapter shows how councils are trying to do this without losing staff in the first instance.

Chapter 2: Councils are trying to find savings that protect jobs and services

Councils can reduce costs without radical organisational change or making large numbers of staff redundant. They can amend terms and conditions and reconfigure the profile of the workforce.

Freezing recruitment

26 Recruitment freezes are a typical early strategy to reduce employment costs. Several fieldwork councils have reduced posts without making staff redundant.

Illustration 1

Devon County Council: vacancy management strategy

The Council's vacancy management strategy, which started in November 2009, introduced a recruitment freeze, except for hard-to-fill vacancies like those in children's social care.

The Council has a consistent staff turnover of about 1,200 a year (about 16 per cent of the total headcount excluding teachers), which means they have been able to reduce numbers without making large-scale redundancies. In 2010/11, of the 1,200 staff leaving the organisation, the Council replaced only 480, with new appointments requiring approval by the Chief Executive.

The savings from the strategy's implementation will be about £7 million by the end of 2011/12. This represents 13 per cent of the total savings they need to find to fill a £54 million funding gap.

Source: Audit Commission

27 The effectiveness of freezing recruitment declines in a downturn. One council reported that staff turnover had more than halved in the year between August 2010 and 2011 to 4 per cent. It boosted turnover by not renewing fixed-term contracts; accepting early retirement in older staff; offering external secondments; providing external job search support; and creating opportunities for staff to start their own businesses.

Reducing spend on additional payments

28 The Green Book (Ref. 13) allows discretion over various rates and payments. Councils have removed market supplements, bonuses and honoraria (for extra roles and responsibilities), and reduced overtime payments. They have also restricted qualification for essential car user allowances and introduced charges for staff car parking. Many councils are reducing mileage allowances to the approved rates published by Her Majesty's Revenue & Customs (HMRC); a step that also lessens the administrative task of calculating tax.ⁱ

29 These changes may not lead to substantial savings for all councils, but in some they can be important and will help avoid job losses. Devon County Council is saving £1.6 million a year by removing overtime payments to staff above Spinal Column Point 29, scrapping honoraria, ending broadband supplements to homeworkers' payments, reducing mileage rates and lowering salary protection payments.

Part-time staff are a bigger proportion of the workforce

30 The number of part-time staff has fallen, but it has risen as a proportion of the workforce. At the end of Quarter 2 in 2006, part-time staff comprised 52 per cent of the workforce, five years later they were 55 per cent (Ref. 10).

31 Part-time working can be a flexible alternative to redundancy, as it reduces costs but protects services and jobs. Staff nearing retirement can take advantage of flexible retirement schemes, moving from full-time to part-time working to ease the transition (Ref. 15). It is likely that the trend towards more part-time work will continue as part of councils' strategy for dealing with cuts in income.

32 Private firms used reduced hours contracts as an alternative to redundancies in this recession and councils are adopting the same approach. In the two years to April 2010, full-time working across all councils dropped by 4.1 per cent while part-time working rose by 4.4 per

ⁱ See HMRC website: www.hmrc.gov.uk/mileage

cent. This was to some extent because of ‘many people working shorter hours to help their employers cut labour costs and thereby minimise redundancies’ (Ref. 16). Firms keep skills and capacity ready to take full advantage of improving market conditions.

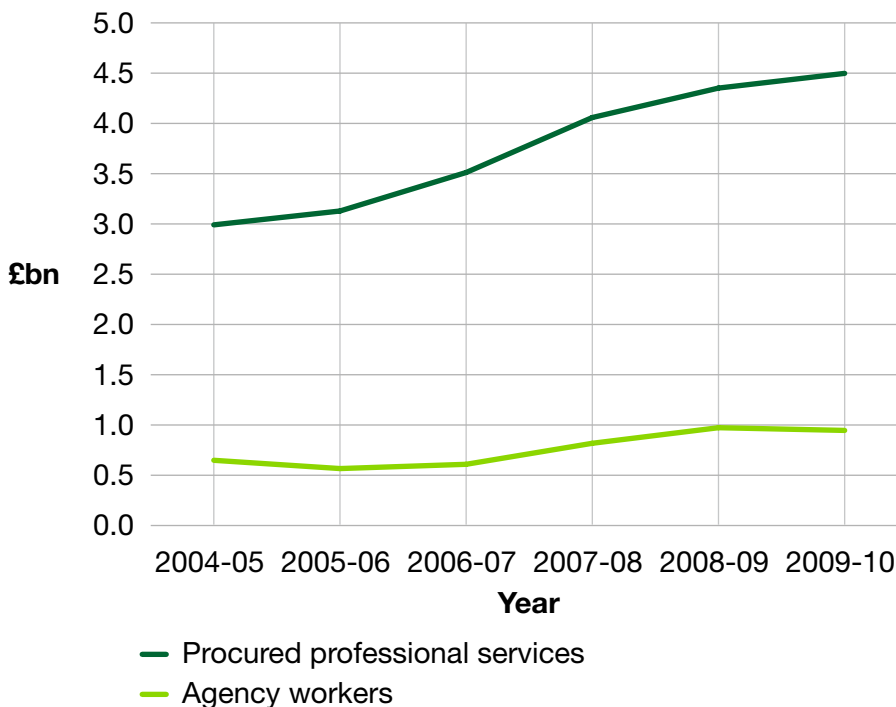
33 In local government, Sunderland City Council offers employees the opportunity to reduce hours temporarily through a range of options such as buying additional annual leave or working term time only. About 300 staff now work on reduced hours, and other flexible working measures, saving the council £660,000 a year.

Reducing spend on agency workers and procured professional services

34 Council spending on procured professional services,ⁱ 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 (Figure 7).

Figure 7: **Spending on procured professional services and agency workers has increased in real terms over five years**

Spend on procured professional services and agency workers (2010 prices)



Source: DCLG, Subjective Analysis Returns

ⁱ Defined in the DCLG Subjective Analysis Returns as ‘private contractors and agency staff – professional services’.

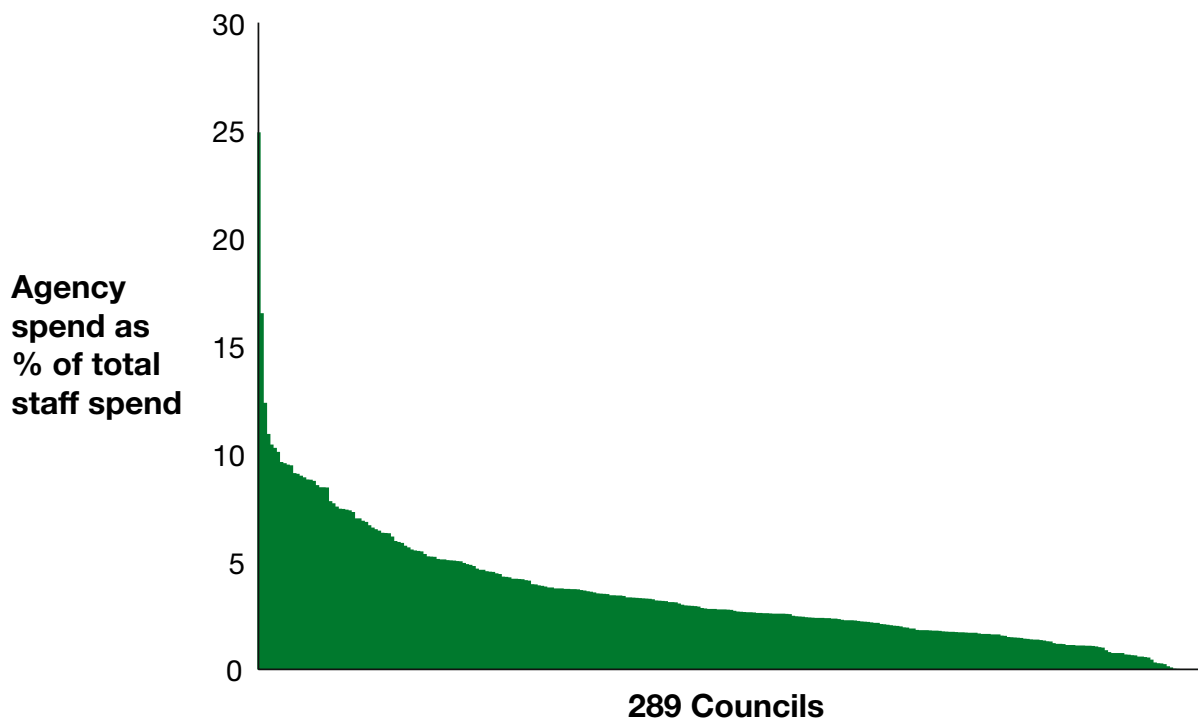
35 In 2011, LGA research shows that a majority of councils (62 per cent) are renegotiating contracts, or changing contractors, in order to save money. Around a fifth (21 per cent) say they plan to do so within the next two years (Ref. 5).

36 Agency workers have a role in providing the 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 (Figure 8).

Rather than developing our people here, if there was something that needed doing we just brought people in... People didn't actually budget for agency workers. If there was a gap, we brought an agency worker in. It was very much short-term thinking.

HR Director

Figure 8: **Councils spend different amounts on agency workers**
Spend on agency workers as a proportion of total staff spend – 2009/10



Source: HM Treasury, Whole of Government Accounts

37 Some of the flexible benefits of employing agency workers have declined following the Agency Workers Directive's implementation in October 2011.ⁱ Agency workers employed for more than 12 weeks are now treated on the same basis as permanent employees for pay, working hours, overtime, breaks, rest periods, holidays, and access to training and collective benefits such as childcare (but not for unfair dismissal, redundancy pay, or maternity pay).

38 Councils reviewing their policies for employing agency workers usually find they can reduce costs. This may require a corporate initiative to establish clear employment criteria for all departments, and better data for HR and finance departments on how many agency workers departments employ and at what cost. Councils can also explore the potential for efficiency savings from corporate procurement of agency workers using framework agreements, call-off contracts, master vendor contracts, and vendor-neutral contracts.ⁱⁱ

ⁱ The [Agency Workers Directive](#) was implemented in the UK on 1 October 2011 through the [Agency Workers Regulations 2010](#). The Directive aims to provide temporary agency workers, after a 12-week qualifying period, with equal treatment in terms of basic working and employment conditions as if they had been employed directly to do the same job.

ⁱⁱ Master vendor contracts are arrangements where one organisation is awarded a contract to provide all agency staff, including staff from other (second tier) suppliers where necessary. Vendor-neutral contracts are arrangements through which agency workers are supplied to organisations through a managed process that does not favour one supplier.

Illustration 2

London Borough of Lambeth: reducing reliance on agency workers

In 2009, Lambeth Council decided to reduce the number of agency workers, which were about a quarter of the workforce, costing the council almost £50 million a year.

The Council collected detailed and reliable data on numbers of agency workers, their service, and their cost. Over nine months, many agency workers assimilated to permanent contracts. Agency workers employed for more than 12 weeks are now treated to standardised day rates, saving £664,000. Internal procedures for appointing agency workers were tightened up. Any appointment for more than three months requires a rigorous business case and sign-off from senior management.

The number of agency workers reduced from over 900 in 2009 to under 300 in April 2011. This has saved the Council £18 million over this period.

Source: Audit Commission

Managing staff absence

39 Managing sickness absence more effectively can bring significant financial benefits (Ref. 17). The average sickness rate in local government is 9.2 FTE days for each employee (Ref. 18). This is lower than for the wider public sector (9.7 days) but higher than the 6.4 days in the private sector (Ref. 19).

40 Better information about levels of sickness leads to quicker identification of underlying issues about staff morale or poor management control. Better information is necessary to reduce staff absence (Illustration 3).

Illustration 3

Fareham Borough Council: reducing sickness absence

The Council reduced average sickness rates from 10.6 days in 2003/04 to 7.2 days in 2010/11 – saving ‘lost days’ worth £446,000. Part of the solution was to develop in-house computer software that brought patterns of absence to managers’ attention. It enabled early action to address problems and helped managers to identify staff who were persistently taking sick days. The system provides information about long- and short-term sickness absence, enabling analysis by grade and service.

Source: Audit Commission

Redeploying staff

41 Staff who are under threat of redundancy can often apply for redeployment. One council with a ‘no compulsory redundancy’ policy to protect the local economy also redeployed staff to produce a better fit between skills and opportunities.

Illustration 4

Sunderland City Council: staff redeployment

An internal jobs market (IJM) helps the Council to fill new vacancies with existing staff – preventing redundancies and keeping local knowledge. The Council recruits to new positions using personality and aptitude tests, rather than just qualifications and knowledge.

People who are displaced after service reviews, and who aren’t immediately given new roles through the IJM, are put into the Staff Working in Transition and Change (SWITCH) team. This pool of employees fills temporary vacancies, works on short-term projects supporting the many change initiatives taking place, and reduces the use of agency staff or external contractors. The SWITCH pool also covers sickness absence and maternity leave.

Source: Audit Commission

Sharing staff

42 Staff pooling or sharing helps keep underused staff in employment and helps employers manage workload peaks and troughs more cost-effectively than using agency workers. Councils can also keep specialist capacity during a transitional period, when it is difficult to judge future staff numbers and skills balance. Pooling and sharing schemes work within councils and between councils and other local public services.ⁱ

43 The measures outlined in this chapter may be enough to make the savings needed in the short term, along with drawing on reserves or raising income from charges. Redundancies will be minimal. But many councils are reconfiguring structures and changing business models to continue to meet community needs with less money. And, for some, this will involve reducing the workforce substantially. The next chapter describes these approaches.

ⁱ See, for example, the Staffshare Skill Exchange, supported by the LGA and the Cabinet Office, among others.

Chapter 3: Many councils will restructure and make staff redundant

This chapter covers some of the fundamental changes councils are making in response to the spending cuts. Councils will bear up-front costs from these more radical changes, before they achieve savings.

Restructuring and delayering

44 Most councils are already transforming structures (57 per cent), or expect to be by 2013 (26 per cent). Single and upper tier councils are more likely to be making the changes this year (67 per cent, against 46 per cent of districts) (Ref. 5).

45 Restructuring can involve the whole council, or individual departments. Lambeth Council restructured from seven departments in 2005 to four in 2011, with a future cut to three likely in the medium term. Restructuring has contributed £40 million of efficiency savings since 2006 (see the longer case study published with this report).

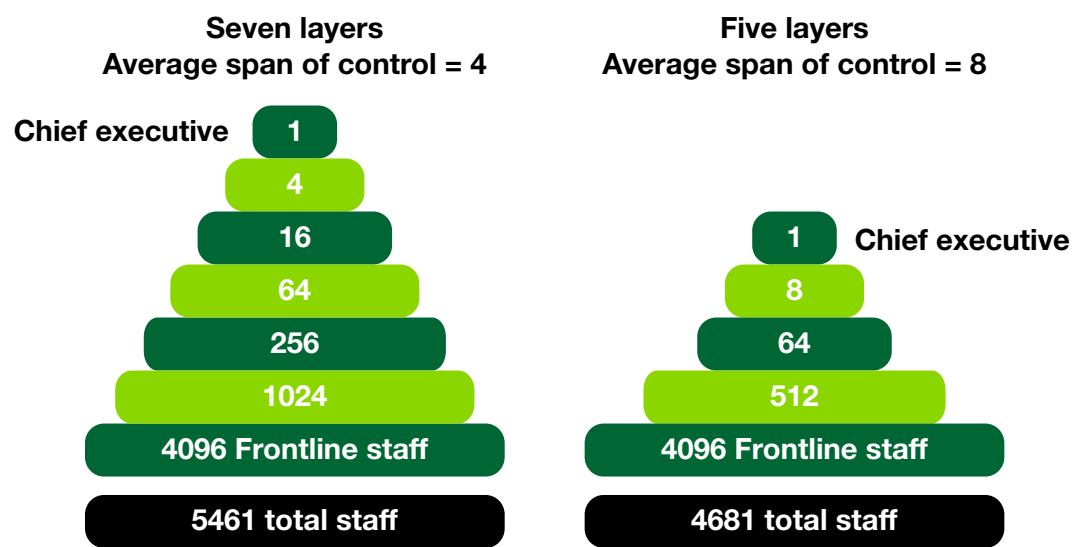
46 Delayering – removing entire levels of staff – creates flatter or leaner arrangements. As well as saving money, delayering can rationalise line management arrangements and create bigger spans of control, measured by the ratio of managers to the staff who report to them. It can improve communication and corporate control of performance.

47 The number of management levels and the span of control for each manager depend on:

- service complexity;
- financial and governance risks;
- legal responsibilities; and
- the extent of outsourcing.

48 Each council will reach its own decision on the appropriate number of layers for a service, but fieldwork councils suggest about six layers will often provide acceptable spans of control with fewer managerial levels. It will depend on the level of risk, but fewer layers results in larger and more effective spans of control for the remaining managers. See Figure 9 which shows 820 fewer staff needed with no reduction in frontline staff numbers.

Figure 9: **Delaying reduces numbers and costs and improves communication through increased spans of control**



Source: Audit Commission

Redundancies

49 Redundancies are inevitable, but it is not possible to predict precisely how many jobs will be lost as councils find savings, because they are determined by local negotiations and decisions. Local government trade unions estimate 151,000 jobs will go (Ref. 20); and a recent report by PricewaterhouseCoopers suggests that 145,000 jobs have been lost in local government in the last year (Ref. 21). Not all job losses mean redundancy: there will be retirements, unfilled vacant posts taken out of budgets, outsourcing and job-sharing.

50 Councils have choices about how to make staff redundant, as well as how many jobs to lose. Some councils have offered voluntary redundancy to maintain goodwill. Other councils have chosen only to undertake compulsory redundancy because they believe it offers a quicker and more cost-effective route to reducing the workforce. They believe it protects staff morale more effectively in the medium to long term.

51 The numbers of compulsory redundancies are likely to increase as councils make further budget cuts following service and departmental reviews.

Next year I couldn't rule [compulsory redundancies] out and . . . this year for the first time members said they couldn't rule them out either

Chief Executive

52 Whatever route councils choose, redundancy payments are significant short-term costs to set against a future lower pay bill. Around 43 per cent of councils say they either are reducing, or will reduce, local redundancy severance payments (Ref. 5). One fieldwork council offered more favourable severance conditions for 2011/12 than for future years, as an incentive for staff to volunteer to go early.

53 Councils have increasingly turned to central government for financial support to meet these growing costs. As redundancies have increased, so have requests to capitalise redundancy costs. Directions from DCLG for capitalisation to meet redundancy costs increased from 20 directions, valued at over £22 million in 2007/08, to 61 directions, with a value of over £83 million in 2010/11 (Table 1).ⁱ The DCLG reports that 55 councils applied to capitalise a total of £219 million for statutory redundancy costs in the 2011/12 main process. DCLG has issued capitalisation directions totalling £207 million for statutory redundancy (Ref. 21).

Table 1: **More councils are making successful requests to capitalise redundancy costs**
Capitalisation requests and directions 2007/08 to 2011/12

	2007-08	2008-09	2009-10	2010-11	2011-12 ⁱⁱ
Number of requests	28	31	35	65	55
Number approved	20	30	33	61	49
Total value (£m)	22.2	36.1	44.6	83.3	206.9
Average council direction (£m)	1.1	1.2	1.4	1.4	4.2
Number of councils	20	29	31	58	48

Source: DCLG: capitalisation directions

ⁱ Capitalisation is the means by which DCLG, exceptionally, issues directions that permit local authorities to treat revenue costs, such as redundancy payments or equal pay liabilities, as capital costs. In March 2011, the government announced that £300 million of capitalisation would be available to local government as a whole in 2011/12 to 'support local authorities to deliver efficiency savings early through organisational restructuring'. These costs may be funded from capital, including borrowing, or use of capital receipts, spread over several years. The government announced that it would take into account the level of an authority's reserves and overall financial position when considering capitalisation requests. DCLG had previously instructed authorities not to make assumptions about capitalisation when setting budgets.

ⁱⁱ Correct at date of publication. These figures relate to the main process and may increase in future rounds by the end of the 2011/12 year.

Reducing the costs of higher-earning staff

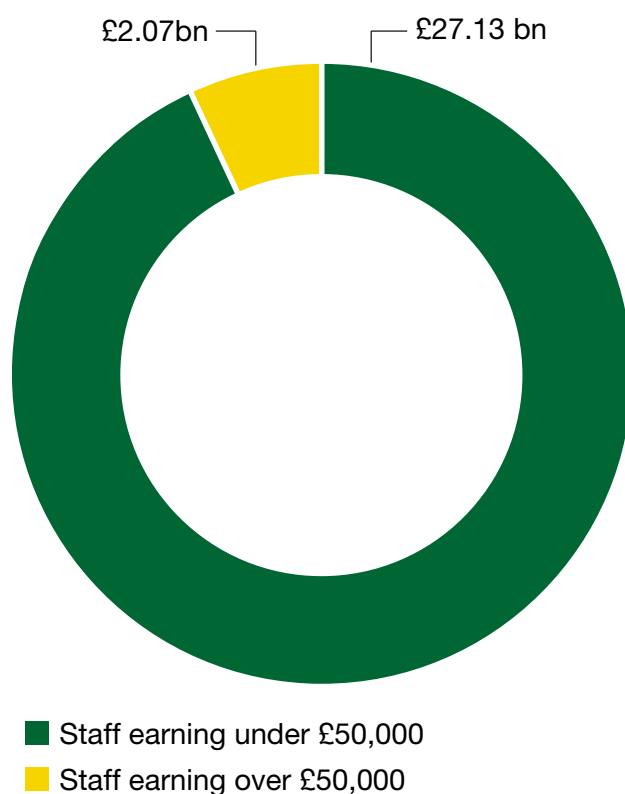
54 In 2011, the LGA reported (Ref. 5) that 90 per cent of councils had reduced senior management costs, by employing fewer people or paying them less. A slightly smaller, but still substantial proportion (79 per cent), had similarly reduced the costs of middle managers. But 73 per cent of all councils had no plans to reduce the pay of other groups of staff.

55 In 2009/10, councils employed about 31,000 staff who earned over £50,000.ⁱ As well as middle and senior managers, these also include professional staff such as lawyers and engineers.

56 Spend on high earners is 7 per cent (Figure 10). Savings from cutting numbers will be relatively small and will need to be part of a wider programme of change, such as delayering and restructuring. However, reviewing senior staff posts and earnings sends a clear message that pay restraint affects everyone.

Figure 10: The proportion of total pay of staff earning over £50,000 is small but should not be overlooked

In scope local government paybill – 2009/10 (£29.2bn)



Source: Audit Commission analysis of accounts data

ⁱ These figures are published in councils' accounts.

57 There are non-financial costs in cutting staff. Councils will lose knowledge and experience, affecting their ‘organisational memory’. Remaining staff will need more help, including training, to help them adjust to new demands. In the transition, staff who leave will need support to cope with redundancy and to find new work. The Chartered Institute of Personnel and Development offers guidance for employers making staff redundant (Ref. 23).

Integrating management teams

58 Some councils are, or are considering, sharing chief executives and management teams to reduce costs and protect frontline services. Shared management teams can prepare the ground for higher efficiency savings through greater integration – district councils have led the way in this. Because they are much smaller than other types of council, this measure can achieve proportionally larger savings.

59 The LGA’s guidance (Ref. 24) suggests the benefits include:

- financial savings from smaller management teams;
- greater opportunities for efficiencies from shared services;
- savings from joint procurement;
- a higher profile for both councils; and
- sharing expertise from both councils.

60 They can provide these benefits without either party losing its identity, particularly where they involve neighbouring and similar organisations.

Illustration 5

Cherwell District Council and South Northamptonshire Council: shared management team

The plan of Cherwell District Council and South Northamptonshire Council to merge management teams is the first step towards more sharing of services and staff, without losing their separate identities or threatening their sovereignty.

The Chief Executive was jointly appointed in May 2011, and the councils have now successfully merged senior management teams. Total management posts have reduced from 31 to 15. After the £1.3 million cost of merging the teams, it should save Cherwell £3.4 million and South Northamptonshire £1.8 million over five years.

The longer term plan is to review each service to find opportunities for sharing. Early scoping of savings from the fourth tier of management suggests savings of £1.1 million for South Northamptonshire and £2.0 million for Cherwell over five years.

Source: Audit Commission

61 On top of redundancy costs, the costs of sharing will include ICT and business systems integration, and the costs of redundant capital and property assets until their disposal.

62 Integration requires long-term political commitment robust enough to withstand electoral cycles and changes of political administration. Some integration initiatives have not survived.ⁱ

Shared services within and across councils

63 The need to make efficiency savings in a short period of time has given shared services extra impetus. In 2011, the LGA found 200 examples of shared service projects set up or planned (Ref. 25). District councils lead the way in sharing senior staff, and more generally are involved in more shared services than single tier and county councils, although they are less likely to involve the private sector (Table 2).

ⁱ For example the London Boroughs of Camden and Islington abandoned plans to share a chief executive in 2010, as did Dover and Shepway District Councils in 2011.

Table 2: **District councils are more likely to share services**

Shared services in councils

Table header	Districts only	Cross-public sector	Top tier and district	Top tier only	Total
Chief Executive	18	2	1	1	22
Senior management	17	4	1	3	25
Back office	37	4	19	16	76
Revenues and benefits	23	0	5	4	32
Planning	8	0	2	4	14
Legal	12	1	9	5	27
Front office	1	13	9	3	26
Building control	15	0	5	3	23
Transport	0	2	0	7	9
Waste	4	3	5	5	17
Property	7	3	1	4	15
Procurement	10	2	2	9	23
Housing	7	1	5	3	16
Social care	0	9	2	9	20
Private sector involved	6	2	11	5	24

Source: Audit Commission analysis of LGA data

64 Some of these arrangements involve significant sums. The ten councils in the Association of Greater Manchester Authorities are planning to collaborate on all areas of work, including procurement, as well as integrating key services such as adult social care and children's services. The partnership aims to realise £578 million in savings over the next three years, with around £116 million achieved through joint working.

65 Counties and single tier authorities are three times more likely than districts to have shared services within their council (75 per cent and 28 per cent respectively). District councils, by contrast, are more likely to set up a shared-services partnership with another council (83 per cent against 58 per cent of single and upper tier councils) (Ref. 5).

66 Partnerships can face challenges. In 2008, the Audit Commission identified the key lesson for setting up effective collaboration as 'the need for time to identify opportunities and negotiate relationships. The fundamental challenges of partnership working – whether they are with

the public sector or the private sector – mean that mutual methods have to be part of a long-term strategy.’ (Ref. 26).

67 But while these potential obstacles may exist, the scale of the financial challenge facing councils means they should explore all opportunities to save money by rationalising and sharing services. There is no legal barrier to considering a radical realignment of services across organisations and sectors.

Outsourcing

68 Just over two-thirds of councils (67 per cent) have outsourced at least some of the services they formerly ran in-house (Ref. 5). As well as the traditional private and voluntary sector suppliers, councils are willing to consider employee ‘buyouts’ of services, mutuals and cooperatives and social enterprises. Media coverage suggests that some councils plan a ‘commissioning-only’ model of service delivery, although this has not yet happened.

69 Lambeth Council’s ‘cooperative council’ approach envisages a much larger role for voluntary and community organisations in future service delivery. Lambeth has commissioned services from the private sector in the past, but will extend competition to cooperatives, social enterprises and mutuals (see the more detailed case studies accompanying this report).

70 Contracting out should be an option when the market can deliver reduced costs, improved quality, greater innovation, or improved access to capital, goods, services or skills. Successful outsourcing requires time to set up and good contract negotiation and management skills, which are often in short supply (Ref. 27). It also requires a good understanding of competition in markets (Ref. 28).

71 Council decisions about restructuring, reorganisation, outsourcing, or sharing should follow comprehensive service reviews that take account of local objectives, needs, and circumstances. That is why there are no ‘right’ answers that apply to all councils. Councils will find different solutions to the same challenge of reduced income. The final chapter sets out the main ways they can manage workforce costs more effectively, now and in the future, as they live with lower funding.

Chapter 4: The challenge is to provide good-quality services with less funding and fewer staff

Savings are the immediate priority, but councils need to plan their workforce needs to meet future commitments. Better data will help them manage in a difficult transition and beyond.

72 Fieldwork councils believe they will look markedly different in the medium to long term. They aim to be smaller and leaner, and may deliver fewer services directly. They will, however, continue to be major employers, providers and commissioners.

Table 3: **Councils envisage changes in size and delivery models over the medium to long term**

The following summaries show what three different types of councils expect to happen.

Single tier authority – currently c.6,000 FTE
Future outlook
Staff numbers will reduce, but it is difficult to estimate by how many. The council aims to diversify the way it delivers services across in-house provision; partnerships and shared services; and outsourcing. There will be more local procurement and more local providers with the council acting as a stimulus for the local economy. Eventually services will be more responsive to, and delivered within, local communities, with local ward councillors supported to take a more active role in their local areas.
County council -currently c.7,500 FTE
Future outlook
By 2014, the council will be a lot smaller and leaner. It will be more flexibly organised with fewer management layers allowing people at the front line to take on more responsibility. It will have fewer locations: the property footprint reducing by 25 per cent, with more home and flexible working. The council will have far fewer care and manual workers in services such as catering, cleaning, residential and domiciliary care. At least 2,000 of these staff are in current outsourcing plans, with the potential to outsource another 2,000-2,500. The remaining core would eventually be about 2,500, supported by arm’s length delivery bodies, including mutuals and social enterprises that will have broken off.

>>>

Future outlook

Extra restructuring and delayering will result in three organisational ‘clusters’: one universal cluster; one delivering targeted services; and one delivering support services. The number of staff directly employed by the council will reduce by at least 25 per cent through restructuring, wider spans of control for managers, and movement to arm’s length delivery. More savings will come from integration of back office functions with local partners, such as neighbouring boroughs and the NHS. The council will move towards a strategic quality assurance role rather than direct hands-on service delivery. It will work to understand local needs and create markets to deliver services.

Source: Audit Commission

73 The transition to new business models and structures requires councils to make difficult decisions. Relations with the workforce and trade unions have been strained in some places. Councils will continue to be major employers, however, and to have much to offer as an employer.

74 Better data will help councils make the most of their employment ‘offer’ as well as manage costs more effectively. Councils should produce total reward statements, link pay and rewards more closely to performance, and benchmark their pay more accurately to local labour market conditions.

Promoting total rewards

75 Reducing the pay bill can create recruitment and retention difficulties and affect staff morale. But pay is not the only motivator of the workforce. Councils can find it useful to produce total reward statements that highlight additional benefits such as work-life balance, recognition and development schemes, and flexible work arrangements. The LGA (Ref. 29) suggests that this approach is often a better and cheaper option for councils than a complex compensation package, as it is easier to administer and leads to a better working environment. It also helps to assure people that the organisation has their welfare in mind during a difficult period of change.

Investing in people

76 New circumstances require new skills. Flatter, leaner structures, collaboration with other agencies, reducing the numbers of agency workers and consultants, and more commissioning and outsourcing all bring new demands on staff. Protecting budgets for training and

development is therefore a priority for councils, to ensure that they have the skills and capacity to meet community needs.

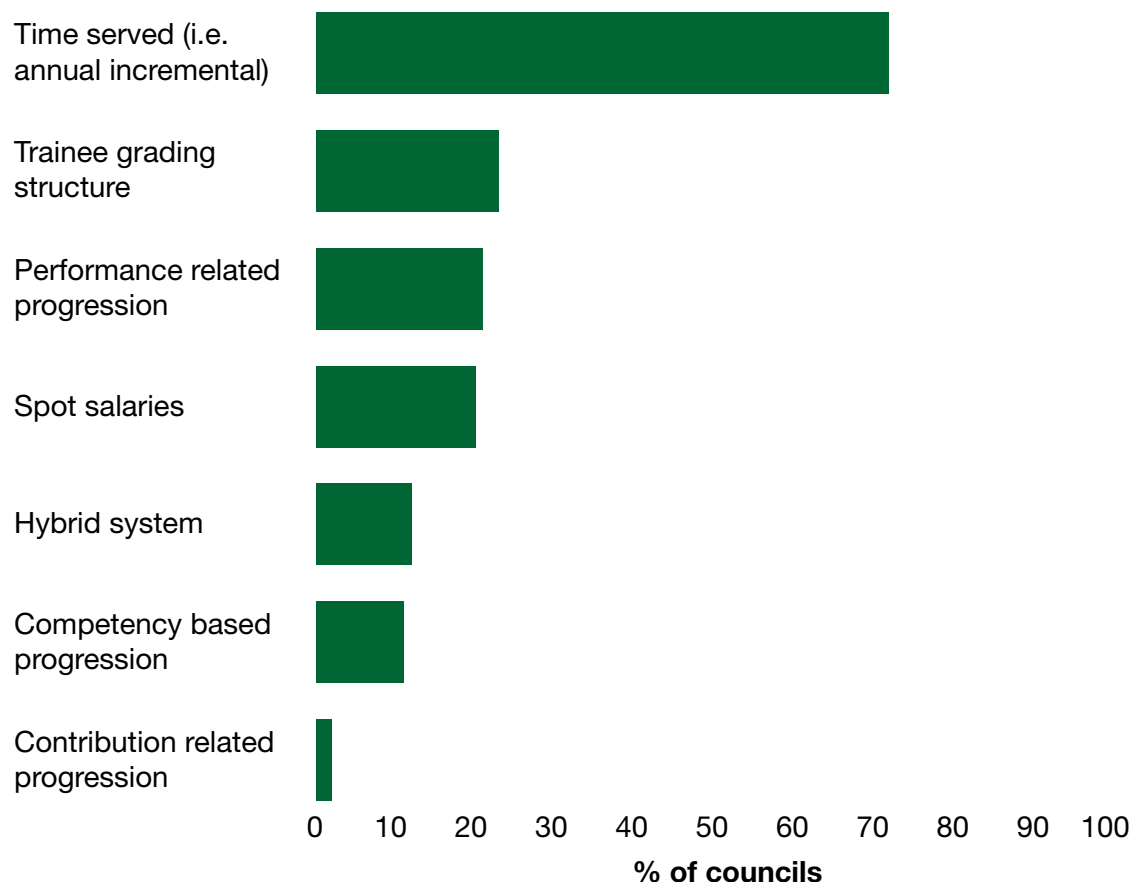
Rewarding performance

77 The Hutton Report on public sector pay states that ‘reward should be proportional to the weight of each role and each individual’s performance; should be set according to a fair process; and should recognise that organisations’ success derives from the collective efforts of the whole workforce’ (Ref. 11).

78 But the 2011 Local Government Workforce Survey (Ref. 30) suggests that most councils (72 per cent) continue to reward staff through pay progression by annual pay increments (Figure 11). Incremental pay progression rewards staff with greater experience, but does not require evidence of performance.

Figure 11: **Incremental pay progression remains the norm in local government.**
Percentage of councils using incremental pay progression

Remuneration method



Source: LGA, Local Government Workforce Survey 2011

Base – 182 authorities

79 Incremental progression also leads to ‘pay drift’ as staff progress up the pay scale until they reach the top. Although most councils have shortened the pay scales for most grades, pay drift increases the national pay bill by up to 2 per cent more than the national award in any one year. Between 2008/9 to 2010/11, which includes one year of the pay freeze, it added 2.93 per cent to the English local government pay bill – equivalent to 1.47 per cent in each year (Ref. 8).

80 Workforce costs can be controlled by linking payment to performance. Some councils are wary of performance-related pay, though. They have concerns that it could still lead to equal pay claims, that it fails to motivate staff, and that it can lead to perverse incentives. Equality risks can be managed by regular monitoring of effects on different groups. But there is no conclusive research evidence that performance-related pay on its own provides a long-term incentive to improving performance.

81 Tunbridge Wells Borough Council uses a competency framework to assess staff contributions and place staff in one of three pay ‘zones’, based on the median local labour market rate. High performers receive above median pay awards (see the detailed case studies accompanying this report).

Benchmarking pay and rewards

82 Pay benchmarking ensures that councils offer equitable pay and rewards across jobs, or job families, within their organisations. It is a common feature of the job evaluations that councils conduct.

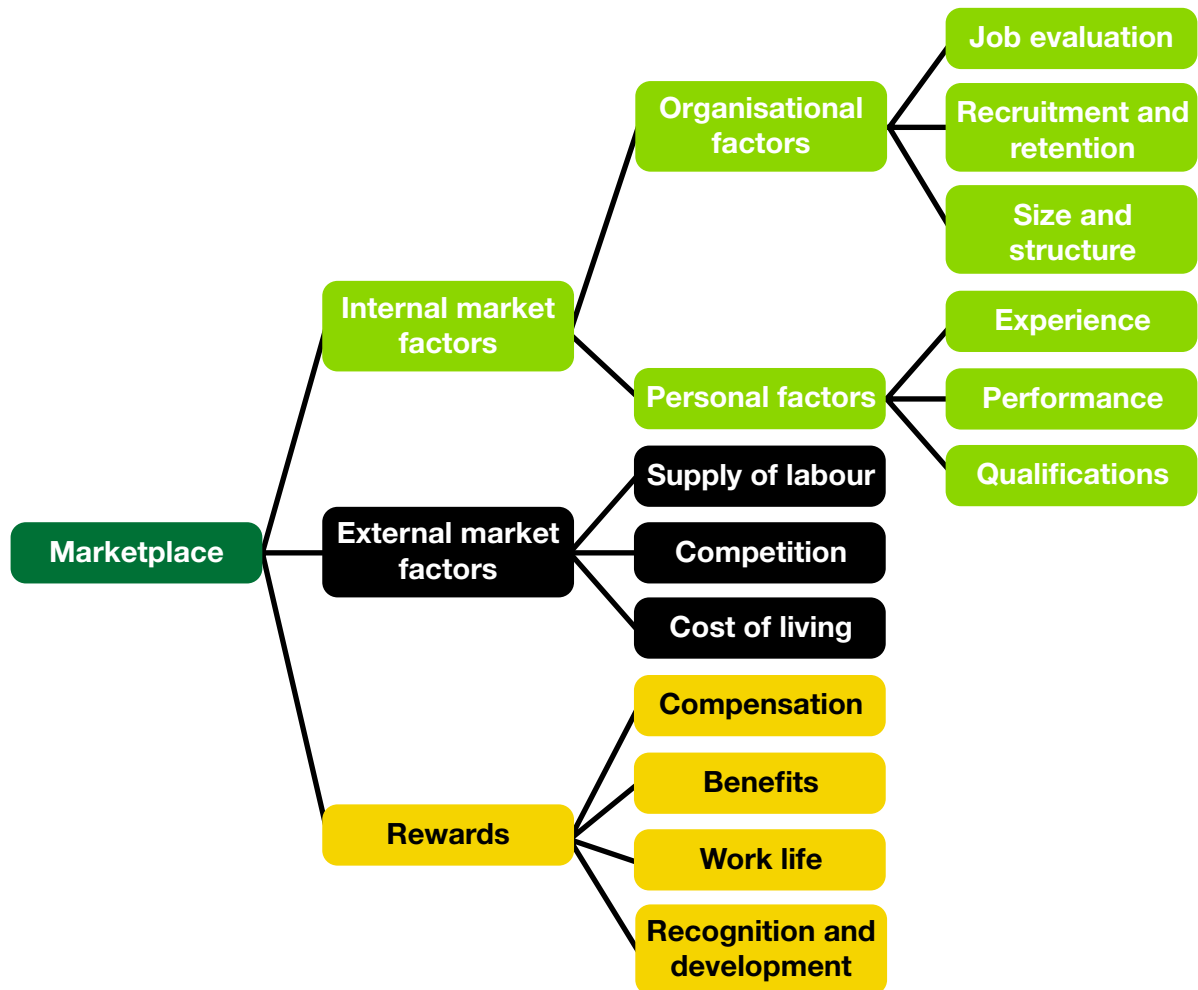
83 Benchmarking pay within local labour markets is rare. Some staff, like social workers or librarians, work in a national labour market where people move between councils. Effectively, advertised rates provide a form of benchmarking. But for other jobs – for example, clerical workers, cleaners or caterers – councils compete with other local employers in the public and private sectors.

84 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.

85 Benchmarking depends on good knowledge of the labour market and can support savings. The LGA has published guidance on pay benchmarking (Ref. 29) and defining local labour markets (Ref. 14) on its website.

86 The pay benchmarking guidance suggests that understanding the mix of influences on wage rates is complex and challenging. They involve internal (individual and organisational) and external (market) factors that together can determine the ‘right’ pay and other rewards in different areas and labour markets. Figure 12 illustrates in more detail the range of factors affecting the market rate for a job.

Figure 12: **Elements of a proposed pay benchmarking model**



Source: LGA

Further help from the Audit Commission and the LGA

87 Accompanying this report are other products that provide further help to councils to reduce workforce costs.ⁱ

- Five detailed case studies show how councils have used different savings strategies: restructuring and redeployment (Sunderland City Council); delayering (Devon County Council); integrating

ⁱ These tools are available on the Commission and LGA websites www.audit-commission.gov.uk/workingprogress and www.local.gov.uk/local-gov-workforce-study

management teams (Cherwell District Council and South Northamptonshire Council); rewarding performance (Tunbridge Wells Borough Council); and reducing reliance on agency workers (Lambeth Council).

- Benchmarking guidance maps out the process that councils should follow to improve their approach to pay benchmarking.
- Labour market methodology defines a way in which councils can identify other councils with similar local labour markets.
- Benchmarking tools show how councils compare in the proportion of service expenditure on staff and in how much they spend on agency workers. These tools allow for comparison by CIPFA's nearest neighbour groupings, the LGA's new labour market nearest neighbour model, and also by median pay rates in similar labour markets.
- Guidance for elected members and scrutiny officials on the information they need to monitor and manage the risks involved in reducing costs associated with the workforce.

88 The Commission and the LGA are working together on a programme of work to improve understanding about productivity. They will publish guidance on how approaches to measuring public sector productivity have developed over the past few years, and identify the differences between productivity and efficiency (and value for money).

Conclusion

This report has described the scale of the challenge facing councils and the implications for managing workforce costs. The pay bill has to come down, and business as usual is not an option for any council.

Councils have discretion in how they achieve savings. No one approach is right for all councils: some will rely solely on short-term measures to reduce costs, while others will mix these with longer-term changes that involve more substantial organisational and service redesign.

The tools and associated products that accompany this report will enable councils to manage their workforce costs more effectively. The LGA and the Audit Commission will continue to work with councils to improve efficiency and productivity so that they deliver effective services in the challenging years ahead.

Appendix: Acknowledgements

The Audit Commission and the LGA are grateful to members of the advisory group who provided comment and challenge during the study. They are:

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Tim Allen (LGA) and Michael Hughes (Audit Commission) directed the study. Other project board members were: Ian Hickman (Audit Commission), Sarah Messenger (LGA), Stephen Moir (LGA), Nick Rigg (Audit Commission), and Nick Walkley, Chief Executive of Barnet Council.

The study analysed quantitative and qualitative data. The quantitative data included data on employment trends, pay levels, and workforce arrangements. The study team visited 15 councils to collect primary qualitative and quantitative data. The fieldwork explored different approaches to managing workforce costs and reconfigurations. A full description of the methods and analysis used in this study can be found on www.audit-commission.gov.uk/workinprogress

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- Oxfordshire County Council
- South Northamptonshire Council
- Suffolk County Council
- Sunderland City Council
- Tunbridge Wells Borough Council
- Wirral Metropolitan Borough Council

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