



12- 05

To all APSE main contacts in England, Wales, Scotland and Northern Ireland

Key issues;

- The Local Government Association and the Audit Commission have issued a paper 'work in progress' which explores how workforce costs can be reduced in local government
- This briefing explores some of the 'quick' savings suggested in the paper and the longer term transformations required
- This briefing also provides an analysis of the issues raised in the context of current industrial relations.

1. Local government workforce costs in context

Local government staff account for roughly half of all spending by councils as many services are labour intensive. The 2010 'austerity budget' and comprehensive spending review saw cuts of around 26 % to local councils and there are reported job losses in local authorities of around 145,000. There are predictions of further job losses as councils grapple to balance budgets.

The report recognises that workforce costs in local government have already peaked and are now declining. Increased workforce costs are attributable to increases in the numbers employed. However, most of the increases, in job numbers overall, have been attributed to non-teaching staff in education (classroom support staff for example) at 35% , social care staff at 22% and management and support services at 14%. The remaining 28% of the pay bill covers staff working across a range of service areas including environmental services, planning and development, culture and leisure, housing, highways and transport and central services, such as tax collection and democratic core, and other services. These are all areas where considerable 'new burdens' have been taken on by local authorities, for example in waste collection to tackle increased recycling activity and mitigate landfill tax penalties.

Some of the increased pay bill is also due to tackling historic pay inequality and the settlement of legal claims, to rectify past claims and to prevent, or diminish, the likelihood of future claims.

Most councils still negotiate pay through the NJC but there are around 43 councils mainly in the South East of England that have opted out of the NJC framework. However there are little regional pay differences with the exception of London weighting, and, in any event, councils determine their own pay spine in accordance with local pay modelling and job evaluation systems.

The amount varies from service to service but staff costs that 'disappear' into contract pricing, as a result of outsourcing, are not considered within the study. This also explains a lower than average rate for job growth in local government when compared to other areas of the public sector (inferring more jobs are outsourced in local government than other sectors such as Health).

2. Reducing workforce costs

The report states that councils can reconfigure the profile of the workforce and amend terms and conditions without making large numbers of staff redundant. APSE briefing [10-57 on workforce productivity which can be downloaded here](#) considered workforce re-profiling and matching resources to service delivery needs and also contains some useful analysis of productivity issues. The LGA and Audit Commission report highlights some of the following examples of reducing workforce costs.

Recruitment freezes

Examples of action taken to minimise costs, highlighted in the report, include use of recruitment freezes. This can be of limited use where staff turnover tends to slowdown during a recession but other factors to this approach may include not renewing fixed term contracts, accepting early retirements (without back-filling posts) and offering external secondment opportunities and supporting staff who want to start their own businesses.

Reducing spend on additional payments

Additional payments can include market rate supplements, bonus payments and honoraria payments and reduced overtime payments. Some council have also restricted qualification for car user allowances and reduced payment rates for car users.

Use of part time workers / reduced hours contracts

The proportion of workers in local government now considered to be 'part time' has risen from 52% in 2006 to 55% by 2011. The report suggests that moving to part time working is a flexible alternative to redundancy and can be a useful tool in flexible retirement.

Some councils have also followed the private sector by asking for reduced hours contracts as an alternative to redundancy. Sunderland Council are cited as an example of offering staff a temporary reduction to reduced hours, such as through buying additional annual leave or working term time only but on a voluntary not compulsory basis, and this has produced a saving of around £600,000 per annum.

Reduced spend on agency workers and procured professional services

Procured professional services include legal, accountancy and audit and consultancy services, as well as spending on agency workers may be a further area for savings. Agency spend has risen to near to £1b since 2004 and to near to £4.5b on professional services in the same period. A survey found that 21% of councils reported to the LGA that they intend to change contractors or renegotiate contracts in this area within the next two years.

The report suggests that there should be assessed needs prior to using agency staff rather than it simply being a matter of 'habit' which can lead to over-reliance on agency staff. Councils are also recommended to use framework contractors or a corporate procurement of agency workers.

In response to the agency worker directive APSE has previously recommended that council's set-up in-house agencies both to ensure compliance with the new directive and to enable better monitoring of use and cost effectiveness of agency based arrangements.

Managing staff absence

Managing sickness absence better can bring about substantial financial savings in reducing the cost of cover and absence management. APSE performance networks data shows significant improvements in sickness absence performance across frontline services. For more information see the trend analysis briefings on the apse website www.apse.org.uk

The LGA and Audit Commission report highlights that absence in local government is averaging at 9.2 FTE days but this is higher than the private sector at 6.4 days. However these figures presented as FTE may be skewed by the growth in part time contracts in local government which the report itself highlights.

One case study highlights better monitoring of absence by use of new technology to flag long term and short term absences. The system also allows analysis of absence by grade of staff and department to allow for early intervention.

Redeployment and sharing staff or 'pooling'

Redeployment can allow a better fit between skills needed and help to protect the local economy from the impact of redundancies. Redeployment can be supported by staff pooling or sharing arrangements where underutilised staff can work in different areas to cover peaks and troughs in workload. This could also work in a broader catchment for example between other local councils or other public services.

APSE has encouraged its members to consider whether underutilised staff could be engaged in income generating activity. For example, providing a service under charging arrangements to another public body. This could be for instance a grass-cutting service for a local police station or hospital grounds or cleaning service for local businesses. For more information on trading and charging activity visit the web portal [here](#) on the APSE website.

3. Restructuring and redundancies

57% of councils have already undertaken some form of restructuring. This can mean reducing the departments to a fewer number. Delaying – to reduce the managerial tiers creating flatter and leaner structures and reducing the ratio of managers to frontline staff.

A critical success factor in delaying is considered to be increasing the spans of controls, to produce the savings, and provide better links to performance and outcomes at a corporate level.

Redundancies may be an inevitable part of restructuring, whether compulsory or voluntary in nature. Councils will determine (in consultation with trade unions) the approach to redundancies. Many councils have however indicated that they are considering reductions in redundancy and severance payments. Requests to capitalise redundancy costs have also increased with over £83 million added to this route in 2010/2011. This is likely to increase further in the future.

Reducing the costs of higher earners is also a feature of restructuring and delaying with 90% of councils reporting that they had reduced senior management costs which account for 7% of the pay bill. This compares to 73% of councils saying that they did not intend to reduce the pay of other groups (of less well paid) staff.

Some councils have shared chief executive arrangements and management teams to reduce management costs and to pave the way for greater integration of services through shared services routes.

The report also references outsourcing suggesting that just over two thirds of councils have outsourced some services. However the report does highlight that contracting is not a quick fix and the more immediate savings will **not** be released through this route.

APSE's own research on councils that have insourced services, through either contract failure of dissatisfaction with the services, also highlighted one particular reason for insourcing was found to be poor staff and customer satisfaction with outsourced arrangements. This suggests that lack of investment in staffing and skills lead to poorer services. It would appear that the Audit Commission / LGA did not ask for any follow up information on councils planning to insource services, to gain better control of costs currently governed by contractual terms, rather than the ability to manage the costs of in-house services and workforce costs directly. APSE's report on insourcing may be downloaded [here](#) from the APSE website.

4. Better data management and benchmarking

The report highlights field work authorities that expect to look very different in the future. Although they will remain major local employers they expect to be much leaner in overall numbers employed and will be supported by arms length delivery models or a multiplicity of different providers. In terms of leaner structures they expect that there will be:-

- Moves towards promoting a total rewards culture such as work life balance schemes, flexible work arranges and recognition and development schemes rather than purely pay rewards
- Investing in people including collaboration with other agencies and protecting budgets for training and better staff development
- Rewarding performance in line with the recommendations made in the Hutton Report on public sector pay
- The 2011 local government workforce survey however found that 72% of councils continue to reward on incremental progression based pay systems.
- Some councils have adopted competency based systems to reward staff for better performance including basing rewards on pay 'zones' based on local median earnings.

Benchmarking pay and rewards

The report suggest that pay benchmarking offers equitable pay and rewards across jobs or job families but that this is rare in local job markets . The report reflects the difficulties of benchmarking pay, because of the different job roles undertaken within different local authorities, but suggests that pay benchmarking could be an effective route to exploring how pay could be more competitive

Understanding the mix of influences on pay benchmarking is complex and challenging and must be understood to determine the right mix of factors to determine pay.

5. APSE analysis

APSE has argued that simplistic reductions in staffing and 'salami slicing' services will damage local public services. Approaches to cost reductions should consider service improvement and transformation issues alongside where efficiencies may be achievable. It is important to be honest about what services can be realistically provided with limited or reducing resources. It may not always be possible to have the same or 'more for less' in service delivery terms.

The Audit Commission report identifies some potential savings on workforce costs but in many frontline areas the services are, by their very nature, labour intensive services. Therefore any reductions need to be carefully managed to avoid damaging services.

APSE has worked with authorities to demonstrate how the workforce resources can be better aligned to ensure that resources are maximised against service need, for example with less resources in quieter times or by reconfiguring services on seasonal or demand basis. However this is not a quick fix solution. This approach needs careful analysis of service demands and budgets and elements of workforce spending, not just in terms of available hours but reliance on overtime or additional payments, shift patterns and other elements of working differently. It can often invoke changes to terms and conditions and should be a collaborative approach with employees and trade union agreement wherever possible.

Some of the suggestions in the LGA and Audit Commission report are not 'painless' savings. Many employees will already feel squeezed as a result of the public sector pay freeze, and in some cases, accepting holiday sacrifice schemes or temporary reductions in pay or any further impact on pay packets will be a sensitive issue, even if it relates to what many will regard as 'add-ons' to take home pay. It will not remove the reliance of individuals on additional payments to 'make ends meet' in an economic environment where UK families are facing pressure from mounting food, utilities and transport costs. Therefore measures that will reduce 'add-ons' to pay bills whilst potentially effective in terms of reducing down pay bills will nevertheless not be universally popular amongst affected members of staff.

A further issue in the report is the exploration of market rates and benchmarking of certain jobs. Although the report acknowledged the difficulties of these approaches, because different employers expect different things from a job that might otherwise be regarded as the same or similar, it does open up, once again, the huge equal pay questions associated with market rate payments and other forms of 'benchmark' pay rates. Many councils are just bedding down new pay spines post the job evaluation process and will be nervous of opening up new pay arrangements to further challenge, for example through indirect pay discrimination that could arise unless such issues are thoroughly equal pay 'proofed'.

The report is also perhaps a little biased in its analysis of national pay structures. Whilst stopping short of calling for an end to national pay bargaining it does consider the differences between private sector pay settlements and the public sector in considering comparators across different employers. However in reality major employers in the private sector operate national frameworks or zonal arrangements for setting pay. Many private companies would view it as inefficient and costly to have separate regional pay structures and require managers to comply with pay and rewards within their companies national framework. This allows for simplicity and avoids the costs of duplication, and at the same time provides national pay bill controls and consistency. Many local authorities would not particularly welcome the need to develop local pay bargaining nor risk good staff being 'poached' by nearby local authorities able to offer greater pay and rewards.

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