

The cuts: UK's damaged future

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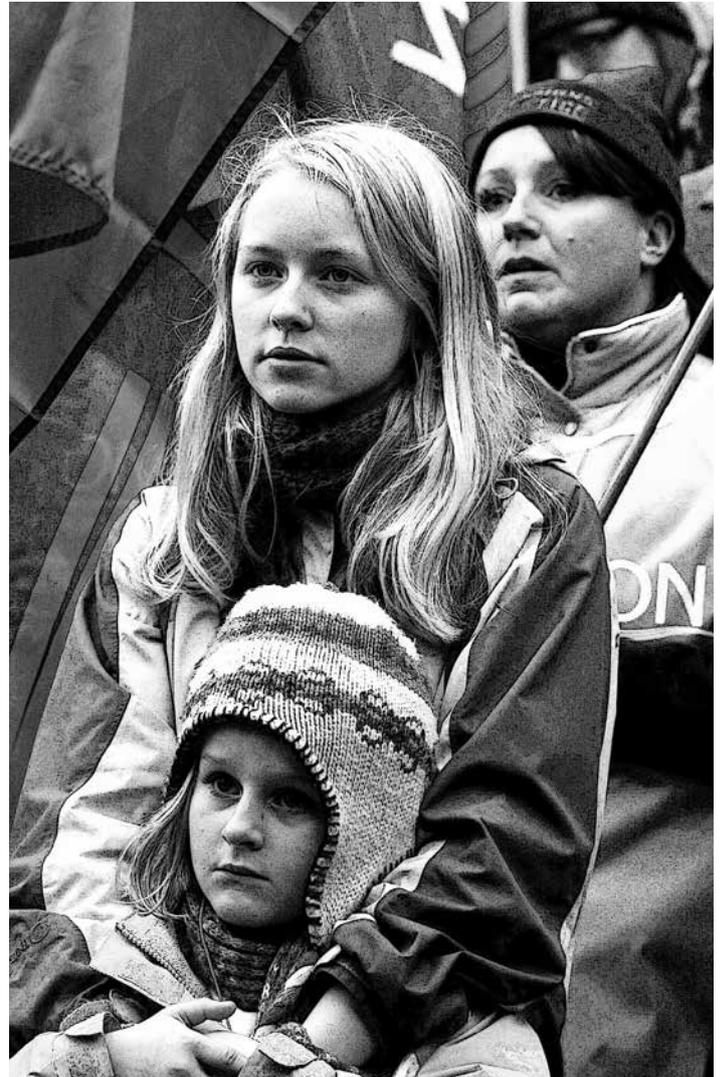
CLES Consulting is a research and consultancy company specialising in economic and community development and regeneration. We undertake a wide variety of projects for regeneration partnerships, local authorities, regional bodies, central government, European institutions and third sector organisations.

1 Introduction

Austerity and cuts to local government are changing the UK. These changes are not restricted to changing the way local government operates and altering the quality of public services. They are fundamentally restructuring UK society, changing the lives of local people and local economies. Britain is becoming less able to take advantage of opportunities, less resilient to shocks and less able to protect the most vulnerable.

This short paper follows the culmination of a larger programme of work that CLES Consulting has been undertaking with UNISON over the past two years. UNISON is the UK's biggest public service trade union with more than 1.3 million members. Its largest membership is within local government, the main focus of this report. UNISON represents members working directly for local government but also those contracted to work on council contracts, and campaigns on behalf of all its members as local citizens, working to ensure universal and quality services for all.

CLES Consulting has explored the economic and social impacts of the cuts in a number of locations, providing an evidence base which highlights the weakening of the UK as a whole and the potential damage these changes are causing to localities. In particular, we have undertaken detailed studies assessing the impacts of locally derived spending cuts. The learning from this work is reflected within this paper which provides a number of key messages for central government, local government and wider society. It analyses the nature of the



Photography: Marcus Rose

cuts and what needs to be done to ensure places remain resilient to change, can take advantage of opportunities and protect the most vulnerable.

2 Local government is central to developing resilient places

Local government is central to the life of local places. Councils are a key element in a network of local relationships and collaborations which support people, communities and business. Services such as education, roads, parks and social services all create a context in which public, social and commercial life can take place.

Local government should be at the centre of facilitating and brokering networks, collaborating and connecting across all sectors within a place. They are the host, ensuring social life and commercial success can get on and do their thing. However, if local government loses the ability to host – to act as a key networker – commercial and social life will suffer. Furthermore, networks are crucial for developing economic, human and social capital. Vibrant economies are predicated on business being connected to other businesses and having skilled, healthy and happy staff. Individuals and communities must feel safe and live in clean and green places.

However, the cuts to local government have weakened two things. On the one hand they have eroded the ability of local government to act as a good host, as councils now have less resource and capacity to support social and commercial life. They can no longer ensure that effective connections and collaborations and relationships are made. Secondly, the cuts have eroded economic, social, and human capital. As a result the UK as a whole, and many local areas in particular, are becoming less resilient and less able to deal with negative change and utilise emerging

opportunities. In short, many local places are losing their ability to bounce back from adverse events, protect the most vulnerable and grow society and the economy.

The irony is that in times of pressure on public spending, we must pay more, not less, attention to local networks and look to see how they can be strengthened. In hard times, there is a need for them to be closer and well connected. Public services, private endeavour, people and communities must rally round. We know that strong networks in a place can improve synergy and come up with innovative ideas.

This important network and place stewardship role of local government is being overlooked by the Coalition Government and if current trends continue, previously strong bonds which bind our society and economies together will merely unravel further. And the UK will be much weaker for it. The government and practitioners must realise that broken and weakened networks are difficult to fix, that we are undermining our future economic and social prospects. They must acknowledge that local government and local public services have a central and crucial role to play.

3 Unravelling of local capacity

We are losing service and strategic capacity in local government. Since the Comprehensive Spending Review (CSR) in 2010 councils have been looking for ways to cut costs. Some pre-empted the CSR and began cost cutting in earnest, with a number attempting a radical reshaping of their functions. Others have been more reactive, in attempts to safeguard their workforce as much as possible. However all councils have to dramatically consider the shape of their staffing and service delivery structures.

At the beginning of 2011 there were 6.17 million employees within the public sector. At the end of 2012 the Office for Budget Responsibility (OBR) forecast a fall of 929,000 employees from the start of 2011 to the beginning of 2018. This would represent a 15% reduction of the total public sector workforce over this period. Local government has lost over 380,000 jobs since 2011.

There is some variation across the countries of the UK. Councils in England are dealing with a 30% cut to central government grants. Wales may be cushioned slightly as the £1.6 billion real-terms reduction in devolved funding represents a lower proportionate cut than elsewhere in the UK.¹ Local government there has experienced a 7% drop in its grant from central government. But Wales has the highest proportion of public sector employees in the UK in its workforce, so the economic

impacts across Wales are likely to be severe. Across Wales the public sector is forecast to lose over 20,000 jobs by 2015. Northern Ireland, another area with disproportionately high levels of public sector employment, may lose up to 26,000 jobs across the public sector between 2012 and 2017, according to the TUC.

Cuts have been ongoing for some time in Scotland, and are likely to reach the same scale as in England in the next 3-5 years when there is an expectation for finances to get very difficult for local authorities. It is likely to be 2014 before the worst of the effects are experienced. The evidence therefore suggests a period of reduction in functions and jobs as councils try to adapt and mitigate towards a new era of significantly lower budgets and an end of many area based grants. The capacity of local government as a key networker, relationship builder and provider of inputs into commercial and social life is significantly denuded.

3.1 Wobbly rebalancing

Unemployment remains historically high. Many places are suffering irreversible damage as a result of the cuts on a scale akin to the industrial restructuring of the 1980s. Unemployment is now at a high of over 8.1% of the 16-64 population – despite recent increases in jobs created – compared with just 4.8% in 2004, a rise in real terms of over 1 million people. There are now nearly 2.5 million people unemployed across the UK. Women's unemployment is at a 25-year high, with three times as many women as men becoming unemployed since the Coalition

¹ *Wales Audit Office (2011) A Picture of Public Services 2011*

took office. With the economy continuing to flat-line, resulting in sustained levels of high unemployment, the prospects for many of those coming out of the public sector are increasingly poor.

Underemployment also remains high. A million more people are under-employed now than before the recession in 2008², an increase of 42% over the past four years to 3.3 million. This accounts for more than one in ten workers across the UK, with women in particular likely to be under-employed (one in eight). Recent research³ indicates that Britons are underemployed by 20 million hours. This is the equivalent of putting another half a million on the unemployment total, taking it well over 3 million.

It's clear – deep and speedy cuts in a context of weak demand, have meant the private sector has not generated enough sustainable full time employment.

The scale of the cuts has stalled and prolonged any recovery period. The lack of targeted investment in industry and lack of effective macro-economic measures to increase confidence suggests that stagnant growth will be the overriding trend for some time yet. Fewer tax receipts into the Treasury, of course means increasing government borrowing.

2 Source: TUC (September 2012)
<http://www.tuc.org.uk/economy/tuc-21363-f0.cfm>

3 Bell, D and Blanchflower, D (2013), *Underemployment in the UK Revisited*. Get from <http://www.dartmouth.edu/~blnchflr/Projects.html>

Many places are therefore enduring a 'double whammy'. A failing national economic policy is increasing demand on public services including local government, just at the very time when local government is losing capacity to help.

3.2 Dis-united Kingdom

Many places are suffering irreversible damage on a scale akin to the closure of the mines and industrial restructuring of the 1980s. However, the challenges may be even more severe. Back then, many of the cuts were not spread widely across geographies but were community specific. Those community support mechanisms which were in place in the 1980s, are now not there at all, or available to numerous but more spatially dispersed groups of people.

The poorest areas of the UK are being disproportionately hit. Public sector employment has been historically high in Northern England, Scotland, Wales and Northern Ireland making them increasingly vulnerable to public sector spending cuts. A report from the Joseph Rowntree Foundation (JRF)⁴, shows that the financial impacts in England are more severe for more urban and deprived local authority areas and less so for more affluent and rural areas. The local authority experiencing the largest fall in income is Liverpool (11.3% of its cash spending power) compared with Richmond upon Thames (0.6%). Other severely impacted areas include northern, urban conurbations, such as Manchester,

4 Joseph Rowntree Foundation (2012) *Serving deprived communities in a recession* <http://www.jrf.org.uk/sites/files/jrf/communities-recession-services-full.pdf>

Knowsley, Blackburn with Darwen, and South Tyneside. Hackney is an example of an area in London losing over 10% of its spending power compared to more affluent neighbours, highlighting local as well as regional inequality. By contrast, other local authority areas which are not as heavily impacted by grant changes – like Richmond – include areas such as Wokingham, Poole, Windsor and Maidenhead, Cheshire East, and Havering.

The austerity programme has been spatially blind (uniformly applied despite different needs of localities). This has created new and deeper divisions across the country. The 2010 White Paper on Local Growth⁵ states that policy should recognise that situations are different for each place when it comes to reductions in public sector spending, and a range of socio-economic factors should be accounted for. The austerity programme has not recognised those differences however, contradicting the Coalition Government's own policy.

It is clear that economically isolated places face a future of increasing hardship. There are uneven impacts, with many coalfield/post-industrial areas which have suffered from entrenched problems since the 1980s and 1990s recessions, faring worse. In those areas (both in the north and south) the scale of the cuts are working to reinforce the divide within counties and sub-regions.

5 *HM Government (2010) Local growth: realising every place's potential* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32076/cm7961-local-growth-white-paper.pdf

3.3 Trickling down of pain for local businesses

In the implementation of the austerity drive, there has been little consideration of local businesses. They are feeling the pain too. Cuts in the public sector are having a significant knock-on effect in the private sector. Multiplier effects are created as public sector workers have reduced incomes or lose their jobs and spend less in their local economies. Local businesses also lose trade through doing less business with the council by way of contracts or sales. This is especially damaging in localities with weak private sectors which rely on the public service sectors.

The OBR forecasts that around 929,000 public sector jobs will have gone between the start of 2011 and the start of 2018. The effects of the multiplier mean this could cause a further 280,000 private sector job losses.⁶ UNISON's own estimates suggest that there has been a loss of 380,000 council jobs up to now. Again applying this multiplier, would imply that around 115,000 private sector jobs could also be lost as a consequence.

Additionally, previous research from CLES⁷ suggests that local government workers are the most likely of any group to live and work in the same area and that public spending has other significant impacts on local economies through supplier and employee

6 *Source: Economic and Fiscal Outlook (December 2012)* <http://cdn.budgetresponsibility.independent.gov.uk/December-2012-Economic-and-fiscal-outlook23423423.pdf>

7 *Source: CLES (2009): Economic Footprint of West Lothian Operational Services & CLES & APSE: More Bang for the public buck*

re-spend. More low earners than high earners live in the same area as they work and therefore will spend more of their income there – for instance in West Lothian, the economic multiplier of the Neighbourhood Environment Team and Land Services is 71 pence re-spent in the local area for every £1 invested. Other primary research undertaken with Swindon Council's Commercial Services examined the contribution the in-house service makes to Swindon's economy. The department was spending £66 million per annum, and our research found that for every £1 Swindon Commercial Services spent, 64 pence found its way into the local economy through supplier and employee re-spend.

3.4 Services buckling under weight of existing and future demand

There is a 'perfect storm' for adult and children's services in the future. The over 65 population is projected to increase at levels which are markedly higher than that for the total population – 43% increase up to 2033 compared with just 14.8% for the total population. Worse, we are only expecting to experience between 1.5% and 1.9% growth in the working age population over the next twenty years.⁸

The demographic challenge is clear for all to see – a rapidly ageing population combined with a growing younger population, together with damaging cuts to local authority services, means a 'perfect storm' for adult and children's services in the future. The rising cost of adult social care will be attributable for most of council spending,

⁸ Source: ONS (2011) *sub-national population projections*

together with other statutory responsibilities. The scenario is concerning – there could be a £16.5 billion funding shortfall by 2020. If trends continue as they are, there will be little left in council budgets for other services as they struggle to meet the demand. The LGA estimates that unless reform is introduced then the money available to fund council services such as road maintenance, libraries and leisure centres will have shrunk by 90% in cash terms by 2020.⁹

Service provision is likely to become ever more basic as services become even more stretched and demands increase. The LGA estimated that the cost of looking after the elderly will increase by £12 billion by 2030, increasing the current cost from £14.5 billion to £26.7 billion, an increase of 84%.¹⁰ They note that every local authority providing adult services will face an additional £79 million of costs per year, at a time when they have to adapt to a £1 billion cut in social care budgets and potentially more to come.

3.5 Private delivery is not delivering

Research has shown that the overall quality of services can decrease through lack of investment in staff and through the provision of minimal standards required as part of a contract.

⁹ Source: LGA (2012) http://www.local.gov.uk/web/guest/publications/-/journal_content/56/10171/3626323/PUBLICATION-TEMPLATE

¹⁰ Source: Local Government Association (2012) *The financial context of adult social care reform*: http://www.local.gov.uk/c/document_library/get_file?uuid=4dc2fbf1-7a9a-45ae-9d33-336b698ad4d1&groupId=10171

Furthermore, the connections between communities and local representative democracy are being weakened by outsourcing. What happens to accountability – who do service users go to, how do concerns get fed back to the councils, and how are problems dealt with?

There is therefore a strong argument for bringing more services back in-house as a financial and efficiency alternative to outsourcing.

More local authorities are beginning to do this¹¹, delivering efficiency savings which align with central government objectives. More local authorities must consider this option in future, and across a greater range of services, so that jobs and the public value of services are protected whilst also delivering savings and improving services.

3.6 Damaged communities

Cuts are weakening civil society. The voluntary and community sector is central to community cohesion, but whilst government rhetoric advocates stronger communities in the Localism Act, its concurrent process of cuts to key funding sources is having irreversible effects on community groups, which are important in making stronger places. Furthermore, drastic reductions in services such as Citizen Advice Bureau (CAB) and welfare rights are impacting on those more deprived areas, reducing capacity to address the issues.

¹¹ APSE(2009), *In sourcing: a guide to bringing local authority services back in house*

Social capital is being eroded, perhaps irreversibly. This contradiction and gap between policy and action from the Government threatens to result in an erosion of social capital, which the sector is central to developing. Lower social capital means people and communities failing to reach their potential, with less ability to contribute to the economy. Implications for society as a result of this damage to communities are considerable – once gone, social capital will take a long time to re-establish.

3.7 Fall in living standards

Cuts are having a severe impact on struggling individuals and households – most occupations within local government are low paid compared with the rest of the public sector. The impact of the Government's pay freezes over the past few years has meant that real pay has fallen by 16% since 2009 and is now 14% lower than it was in 1996, as shown by research by the New Policy Institute and updated by this year's inflation rate.¹²

Families on low incomes are increasingly worse off – the sustained pay freeze combined with high inflation has meant that real pay has fallen significantly. This considerable fall, combined with loss of benefits as part of the welfare reform agenda for those families with low incomes, will impact on quality of life and put households into poverty. This accounts for a large proportion of council employees working part time and/or on low wages.

¹² Source: New Policy Institute (2012) *Living on the EDGE: Pay in Local Government*

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There is a lack of support for people exiting the sector – there is a need to understand the implications of redundancy on people, as this affects individuals in different ways. Most notably, future job prospects are lessened and it is not as simple as transferring people to the private sector. The older age profile and high proportion of women mean barriers to employment will increase, and there is evidence of prejudice against ex-public sector workers by private employers.¹³ The job cuts will also affect mental health together with loss of self esteem and confidence. This all damages the future labour market experiences of individuals and could lead to them needing help from the very public services which are being cut. Those who are not made redundant are also affected, as their job insecurity grows and these fears are reflected in less spending in the local economy.

Women make up the majority of employees within local government – 45% of women's jobs nationally are in the public sector compared to 17% of men, but 65% of public sector workers are women. Indeed in local government this percentage is 77%. Women's unemployment now stands at nearly 1 million, 7.2% of the working age population – the highest proportion of women out of work since 1994. This is largely down to the significant job losses within the public sector.

Furthermore, there is a lack of understanding from the Government of why women pursue local government jobs. The public service ethos, having skills and experience that match many council jobs and family friendly

policies are important in this regard. This lack of appreciation will result in more strains within families.

¹³ Source: *New Economy Manchester (2012): Making the transition beyond the public sector*

4 A new narrative: responding to austerity and creating a resilient future

There has to be an alternative narrative to this unravelling of local capacity. We must restore local government as a central element of the life of local places. Local government should be at the centre of facilitating and brokering networks, collaborating and connecting across all sectors within a place.

Put simply, what we require is the mobilisation of policy levers which create demand within local economies, effectively manage demand for services, and empower local authorities to use their influence to create a resilient future, in partnership with private and social stakeholders. We recommend a six point approach.

4.1 Central government recognition of the place leadership role of local government

The Government needs to consider a broader view for local government – one that embraces a number of wider social, political, economic and environmental benefits, including:

- **Social and cultural value.** Appreciating how it contributes to social cohesion, social relationships, cultural identity, and individual and community health and wellbeing
- **Political value.** Stimulating and supporting democratic dialogue, active public participation and citizen engagement
- **Environmental value.** Stewardship of local land resource, and leadership in the sustainable use of resources, energy, waste and recycling

- **Economic value.** This includes many local economic benefits created by our public services, in terms of direct employment and also through local supply chains.

Any negation of these benefits is hugely important when considering scaling back local government. For us, they all illustrate why the Government should place greater value upon local government. Such an attitude will ensure local authorities are able to continue to build important place stewardship functions, and provide the important support and partnership working with other parts of the public sector, the private and social sectors which is needed for the protection of the most vulnerable and for places to be resilient and prosper.

4.2 Need to promote in-sourcing services to extract maximum value

Despite the drive for increased outsourcing, there is no evidence that private sector delivery improves services or saves money, other than through cuts to pay, conditions and pensions. There is a simple alternative to this, which is to bring more services back in-house. More local authorities are beginning to do this, evidencing the very financial and efficiency savings that it is widely believed privatisation will bring. Privatisation of local government services is shown to be the first step in a process of driving down quality, eroding accountability and surrendering flexibility. The alternative protects the public value of services – higher quality services combined with cost savings can be achieved through bringing back services in-house.

4.3 The worst-off areas need additional support

The depth and scale of the cuts have severely impacted on those areas which have historically relied on higher levels of funding to address deep socio-economic issues. The cuts are disproportionate and unfair.

Whilst not calling for a return of area based initiatives on the scale of the past, a fairer alternative will be a more spatially sensitive approach to how savings are made. There must be a greater recognition by the Government that some localities require further support. Equality impact assessments need to be rigorously used to ensure that there is not a disproportionately negative impact of the cuts on particular groups within localities. So far all the evidence suggests that women have been worst hit by public sector jobs cuts and reductions in services.

4.4 A living wage for hard pressed low income employees

Many local government workers are on low incomes and require these to be topped up by tax credits – the combination of pay freezes, below inflation level increases, and welfare reform is pushing people below the poverty line and creating a working poor. Over 250,000 workers employed by councils earn less than the Living Wage¹⁴. This only serves to increase costs in the long run to the benefit bill, and alternatives need to be pursued. One of these is adhering to the principle of a living wage for council workers

and workers on council contracts which is set at a level that can provide a basic standard of living. Support for this is increasing, with a number of councils across the country adopting it and some also promoting it through procurement practices. Strong support for this by the Government, backed up by regulation for public sector bodies, would help raise living standards and ensure there is more disposable income within households; and it provides an example to the private sector.

4.5 Development of a focused industrial strategy

The 'rising tide lifts all ships' approach has assumed that macro-economic policy, based primarily around tax and regulation, will filter through and support businesses everywhere. However, this approach has failed to stimulate the UK economy, and despite some elements of targeted investment towards specific high performance sectors, this approach needs to be ramped up considerably. It is therefore welcome that the Department of Business Innovation and Skills (BIS) is consulting with industry leaders on what they want in a new industrial strategy and policy.

It is critical to get this right and local government is central to this. Industrial strategy should not be about 'picking winners' and ploughing large amounts of resource into specific sectors through ad hoc policy decisions with limited return. Public funds are limited and this makes it essential that development of a new strategy has a clear focus. A sound strategic vision is critical for rebalancing the economy effectively.

¹⁴ *Figures from National Joint Council for England, Wales and Northern Ireland*

The message is clear – the country cannot recover and be globally competitive if we rely on cost cutting. If we are serious about rebalancing our economy from financial services and influence of the capital alone, and geographically spreading prosperity across the country, then an effective, strategically focused industrial strategy is a must. It must take into account a bespoke local understanding of issues and recognise local skills and experiences of employment. Given the particular impact of austerity on women's jobs, industrial strategy should take into account the need to create jobs which women can undertake.

involvement in driving the economy forward. The lack of genuine workforce engagement in public service reform under successive governments has prevented them benefiting from the knowledge and experience of employees, which is critical to its success.

4.6 The important role for unions

Society and economy are in flux, and UNISON and other public sector unions need to reflect on this and adapt their responses accordingly. Unions must maintain a critical role in making the case for the best use of public money and high quality services. They should be an interface between the employees and service users they represent and public sector bodies. They are key players in local civil society and need to be recognised and nurtured as such. The strong partnerships with local government developed by UNISON branches and regions across the country, are an asset.

There is a strong argument for public sector unions to work more closely together, providing a common front across the key issues facing people and the economy especially in local areas. There is also scope for more of an active role in the economy working to secure good industrial relations, and offering new models for employee

5 Conclusion: a positive, progressive future

Throughout the whole process of the austerity programme, there does not appear to have been any critical thought given to how such major structural changes will affect the UK in the future. The scale of the cuts means that expertise, networks and services which have been built up over many years will be eroded away and much of the damage is irreversible. To achieve higher levels of social capital, strengthen communities and increase levels of partnership working and collaborative activities, commitment and resources are needed. Scaling back the public sector presence to such an extent, with particularly deep cuts imposed on local government, will in the long term have counterproductive effects, making it more difficult than ever to serve the needs of the population and create a resilient future.

A positive future requires a fundamental recognition of the vital role that local government, its employees and unions play in these networks. We need a new central local relationship, founded on trust and a genuine localism which appreciates the wider value of local government activity and nurtures and strengthens local capacity to act in the interest of local people, communities and places. Local government services are central and we must have direct local accountability to them through local elected politicians, allowing people to vote for change – not contracts. We must recognise that some poorer areas need extra support and central government must act to readdress a society which is riven with divides between the 'haves' and 'have-nots'. We need a speeding up of Living Wage policies so we can start to push back on the chronic inequalities and poverty that undermine households and local economies. Through this a positive, progressive future may be found.

➤ This paper is based on a comprehensive report, *The Cuts: UK's damaged future*, prepared for UNISON by CLES Consulting. The full report can be downloaded from unison.org.uk/localgov

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voices
for
public
services

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