

THE IMPLICATIONS OF LOCAL GOVERNMENT CUTS AND CHANGES TO SERVICE PROVISION

Background and overview

The Comprehensive Spending Review (CSR) has outlined in more detail the severity of the cuts and what it means for local authorities – 28% cuts in local government finances over the next four years. The scale of this is particularly severe. Local government is confronted with a need to fundamentally rethink the future for public services; however CLES believes that councils must carefully think through the implications of changing the ways in which they deliver these.

Suffolk County Council is one such body which is planning major changes in its service delivery methods. It plans to transform its activities and become a 'strategic body' which encourages a range of provision for its services (a process of divestment). These plans are ambitious, in that they are fit for the present circumstances; however the significance, challenges and far reaching ramifications of such proposals are considerable.

CLES was commissioned by UNISON to consider the proposed changes which may take place within Suffolk. This gave us an opportunity to use this as a case study to consider a range of potential considerations for all those working within local government at a time when major step changes are to be made across the public sector.

Services not being delivered directly by local government

Many councils will now be considering the future of their service delivery activities, and it is likely that there will be an increasingly important role for social sector organisations, as well as those within the private sector. In Suffolk County Council's case, it plans to use the social sector to deliver the bulk of its services in the future, with a process of building community capacity central to this ambition. Councils will need to be aware of several issues when considering future service provision, highlighted below.

Issues for accountability and democracy

A reduced local authority not directly delivering services is not always necessarily a problem. However there are a number of key issues to be wary of:

- ❑ reduced direct delivery of services means less strategic capacity, overseeing qualities and ability to be stewards of place destiny;
- ❑ passing on a large scale of responsibility to the community as the role of a local authority recedes is potentially problematic for effective democratic accountability and scrutiny;
- ❑ accountability of services and a transparent and easy link between residents/communities and ward councillors, cabinet portfolio holders and service directorates is a fundamental and key characteristic of local democracy.

Withdrawing from the delivery role at a large scale may reduce the important function of the public sector in creating strong, safe and prosperous places now and in perpetuity.

Issues on caring for the vulnerable population

Within Suffolk, official population projections estimate that the County's dependent population is growing rapidly. This trend is not just confined to Suffolk however, with an ageing population an issue across the UK. Suffolk, as part of the response to this challenge, is proposing to close/sell off some or all of its residential care homes. Considering the scale of the challenge such actions will put considerable strain upon local delivery services, whether delivered by the public, private or social sectors. There is an important consideration here for all local authorities, in that decisions taken now could have huge consequences in both the medium and long term. This also extends to issues such as social care, where councils must be wary of reducing quality of service for efficiencies when it comes to a locality's growing vulnerable population.

Issues for the social sector in delivering services

- ❑ **Building up the capacity of the social sector to deliver services** – local government would need to show long term commitment to capacity building across the sector if it is to efficiently deliver services. This would mean significant financial and social capital at a time when these are being diminished.

- ❑ **Multitude of small providers** – third sector organisations often lack coordination in their activities. This, combined with very many local providers, could result in fragmentation and an incoherent model, an important implication for councils to consider. This could impede the development of community capacity and create a system which does not deliver the important efficiencies and added value that local government intends.
- ❑ **Shifting risk onto new and existing third sector organisations** – in areas in which local government is looking to use third sector organisations to provide the majority or a significant proportion of its services, the risk will be transferred to these providers. The changes will mean that they are having to become more commercial in their approach, and must be more process orientated in order to deliver services. This requires a major shift in how the sector works internally that will put large pressures upon both new and existing organisations. Even when there is intended support to develop capacity, this requires the sector to be able to adapt and change over a relatively short timeframe in order to deliver results. This is at best challenging, at worst a gamble to take with increasingly limited public resource.
- ❑ **Challenges for new start ups in the social sector** – if councils want to increasingly use the social sector to deliver future services, part of the capacity building process in many places would need to be through helping create new social enterprises. In doing this there are a host of potential challenges and questions to account for:
 - the required business skills, acumen and managerial skills within both new and existing social sector organisations;
 - lack of access to finance to grow: this could also mean that many remain too small to effectively deliver contracts appropriately;
 - no guarantee of value for money: moving away from the public delivery model represents a considerable risk in ambitions to maintaining this;
 - resources required for start ups: the resource and commitment required in the case of Suffolk should its divestment plans proceed, are clearly huge;
 - council assets to transfer to new social enterprises and other community organisations – are there enough and are they in appropriate working order and condition?;
 - direction of operations: are there going to be enough individuals across a locality to be on the Boards of new social enterprises, who have the strategic and operational insights required for a relatively new area of operations?;
 - public sector terms and conditions: in cases where public sector employees are transferred to external delivery organisations, how would terms and conditions be incorporated into smaller social sector (and private) organisations in a way which seems favourable to the employees concerned?;
 - lack of economies of scale: there is no doubt that many social sector organisations and their staff will have the knowledge and skills that are required but efficiencies are another consideration for local government to account for.
- ❑ **Implications of the move towards service delivery** – there are a number of potential issues relating to service delivery, outlined below, for practitioners to account for:
 - it will take time for the sector to move away from a reliance on grant funding;
 - the different value sets between the public and social sectors may be difficult to overcome;
 - the social sector still needs grants, as on occasion it is not appropriate to have contracts because their values do not match the onerous conditions applied – making them legally accountable may put people off;
 - social sector activity is often fragmented – it requires a joined up system within the sector to maximise service delivery opportunities, and in its present form this is not the case;
 - the third sector is not used to taking risks: in a new service delivery environment, local organisations will be provided with funding and will be commissioned to deliver services on a wider scale than previously – a significant step change;
 - equal status with the public sector: the sector needs to become more involved as an equal partner to the public sector if elements of services are to be switched;
 - the need to merge organisations: there will be a need to merge a number of social sector organisations or incorporate them into newly emerging ones – this will be complex and difficult on such a large scale;
 - underperforming providers (both social and private providers): whereas delivery issues can be resolved relatively efficiently at present by public sector organisations, if they are tied into contracts with providers it will be inherently more difficult to manage and to ensure that the highest standards are maintained at all levels;

- focus on value for money: focusing on value for money alone (a key driver in the public sector) will not build social capital and is not conducive to progressively engaging with the third sector and community groups.
- **Public sector procurement** – public procurement is a difficult process even for many established businesses to navigate. Therefore for social enterprises and third sector organisations, there are a number of hurdles in the short to medium term, as they will be competing with organisations from the private sector which will already have the skills, experience and understanding of how to successfully bid for public sector work. Furthermore, in many locations, there is limited history of social enterprise consortia which can provide the necessary capacity and economies of scale.

Other issues of note for the impacts of divestment

- **The public sector's role in shaping Big Society** – the Government stated that it must play an active role in shaping its Big Society. If local government draws back its scale of support quickly and deeply it may endanger the ethos of Big Society and its key objective of generating greater levels of social capital. Local government must take the central lead in this process, and that means maintaining a strategic and penetrative role in public service delivery activities, even if these are reduced in some way.
- **Assumption that interventions will effectively build community capacity** – it is a risk for local authorities to assume that all communities will be fully involved in such a process, despite support processes that councils may put in place. Where some communities do appear to be involved, there is a danger that services will be shaped not by need, but by the shaping of services according to the strongest/loudest voices? Failure to fully engage all communities across an area could result in geographical variation, with better services in some places, and perhaps widening existing economic and quality of life inequalities.
- **Chargeable services** – if councils go down the route of increasingly charging for services, or allowing other providers to charge, there may be implications that this could result in a greater concentration of service provision for those living in more affluent areas of a place who can afford to pay.
- **Prospects of using private sector contractors** – even where an authority envisages building up its third sector capacity and the private sector is not viewed as the preferred provider, there is still likely to be private sector influence – for example where local public sector interventions do not build up the community and social sector capacity to a required extent as quickly as it wishes. It could well be that some services would then be delivered by organisations from other parts of the UK, thus affecting the local economy in terms of local jobs and local spend.
- **A slimmed down council's relationship with the local business base** – there are likely to be implications for future collaborative working with private sector partners. If local authority cuts impact in-house capacity and knowledge of business requirements, would there be sufficient staffing resource for local policy makers to play a proactive role within the business community? Also, bespoke business support mechanisms will be important to further develop relationships, and councils with significantly less resource may not be able to provide this as there may not be enough expertise to understand the fine grained concerns and needs of local businesses.

Implications of potential cuts on the local economy

When assessing where cuts need to be made across the local public sector, local authorities must be aware of how they may impact upon the local economy. This requires a nuanced approach which does not necessarily equate budget cuts to job losses (e.g. the economic characteristics outlined below, means the wider economy would struggle to cater for major job cuts in the public sector):

- **small local economy and not entrepreneurial** – if an economy has a relatively small economy, large scale cuts would put severe pressure on the local economic base. There would be limited ability to absorb jobs from across the public sector – this combined with depressed business conditions and a new economic era of lower or sluggish growth would mean that it would be particularly difficult for job seekers. Furthermore if there is a poor entrepreneurial culture, it is unlikely that there will be a host of new businesses starting up. A further consideration is that will many people who have been in the public sector may not necessarily have the required culture of entrepreneurial endeavour;

- ❑ **lack of large companies** – SMEs would need to fill the breach created by public sector job cuts due to the lack of large companies (which have more capacity to create new jobs);
- ❑ **lower value jobs not high end knowledge economy** – in an era of ever increasing competitiveness, sustainable job creation will be ever more focused in those places which have higher value economies. This could potentially mean there is limited scope for new investment in areas with lower value jobs;
- ❑ **impact of cuts upon retail sector** – in areas with a high proportion of retail sector activity there could be problems. This sector will have struggled in the slowdown and major public sector cuts would further dampen local consumer demand;
- ❑ **impacts on the wider economy** – each public sector job is estimated by Insight East¹ to generate between 0.3 to 0.5 jobs in the wider economy – public cuts therefore are not just confined to the sector alone, an important point for all local authorities to note;
- ❑ **many small, self contained rural economies** – some areas like Suffolk, are made up of several small, rural economies, with a number of market towns predominating. These places are not well connected and their local economies are not conducive to agglomeration led growth and significant job creation.

Local authorities therefore need to consider the strength of their own economy, labour market and infrastructure connectivity, as detailed above. Understanding its strengths, weaknesses and key drivers will help practitioners gauge the capacity of the wider economy to compensate for the 'shock' of public sector cuts.

Conclusions

- ❑ A new era of service delivery is required:
 - markets and government are imperfect... there is no easy solution;
 - local government needs to work with all partners and learn and progress iteratively.
- ❑ In these difficult financial times, greater place coordination and accountability is required by local government – not less. This means maintaining appropriate capacity within public sector led service delivery is vital.
- ❑ Impact of cuts:
 - pushing ahead without accounting for local conditions (labour market, economy) could destabilise a local economy
 - for example in Suffolk the impacts of cuts in the retail sector, the lack of connectivity across towns and villages etc.
- ❑ Impact upon long term resilience of the locality has to be accounted for:
 - there are nuanced and specific Suffolk effects;
 - a reduced local public economy has unforeseen ripples and ramifications.
- ❑ How to build capacity at the same time as shifting delivery to community and voluntary sector?
 - i.e. the strain on coping with care provision for an ageing population.

¹ Insight East (2010) Public Expenditure and Employment in the East of England