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# Managing social services in times of crisis

Promoting care and inclusion in a difficult economic and social environment

Report from ESN workshop

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## European Social Network

### Social Services in Europe

ESN is the independent network for social services in Europe. Our mission is to help change the lives of the most vulnerable in our societies through the delivery of quality social services. With Members in local public social services across Europe, we bring together the people who are key to the design and delivery of vital care and support services to learn from each other and contribute their experience and expertise to building effective social policy at European and national level.



The European Social Network  
is supported by the  
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[www.esn-eu.org](http://www.esn-eu.org)

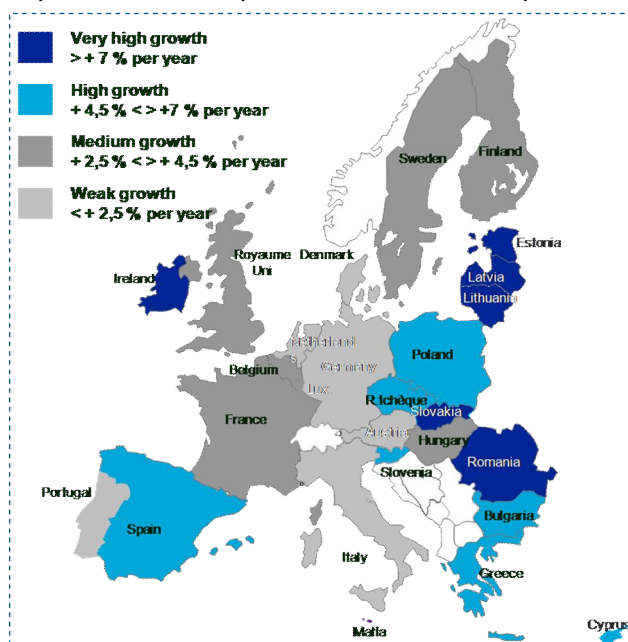
## 1. Introduction

2010 is a time of challenge and change for social services and for Europe. The challenges include those of demographic change and increased service costs on long-term care; rising unemployment, especially amongst the young; and a desire for greater independence and choice for all in need of social care. At the same time, Europe is in the middle of one of the most profound financial crises in recent history with implications for the financing of public services. Such challenges and changes may also, however, present a unique opportunity to review the way we provide services.

What are the impacts of the financial and economic crisis on social services? Are local and regional government facing rising demand for services and benefits with falling revenue? This paper presents evidence from ESN members and other sources about the [impact of the economic downturn on social services](#). Local and regional government is responsible for managing this situation and is re-examining and re-prioritising social expenditure as a result.

## 2. Local and Regional Government in the European economy

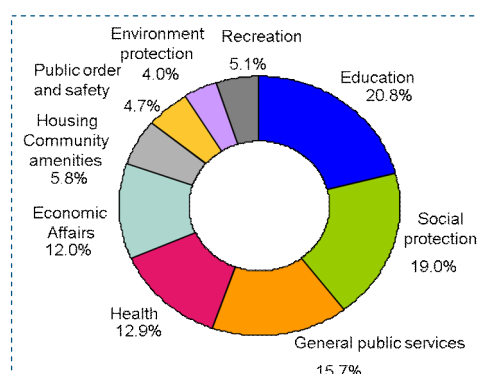
Local and regional government has had strong economic growth . in revenue and expenditure . in the last eight years. It makes almost two-thirds of public sector capital expenditure and spends one-third of all public expenditure. Local government alone



accounts for 62.4% of public sector capital and 27.5% of total public spending. Overall, the sector is worth just under a sixth (15.9%) of GDP in the EU-27, and local government alone is valued at 12.9% of GDP. Its social protection expenditure is valued at 3% (" 378.1 billion) of GDP in the EU-27. Very high to high growth in Central and Eastern Europe is due in part to high capital investment from European funding and also to the attribution of new responsibilities from central government.

Figure 1: Total local and regional government expenditure growth in the EU-27 2000-2008. Source: Dexia

Social protection and health together account for over 30% of expenditure for local and regional government in Europe. Social protection in 2007 accounted for 19%. In addition,



health represented 12.9% and housing & community amenities, including social housing, 5.8%. Social protection expenditure varies significantly between countries, from 10% in most of the Central and East European (CEE) countries to 20-30% in the UK, Germany and Finland, and 53% in Denmark.<sup>1</sup> Housing & community amenities (notably social housing) are significant responsibilities in Cyprus (28%) and Ireland (26%) and various CEE states.<sup>2</sup>

Figure 2: % of local and regional government expenditure on different sectors in 2007 for whole EU. Source: Dexia

<sup>1</sup> Presentation by Dexia to ESN workshop, 11 December 2009

<sup>2</sup> Dominique Hoorens (ed.) et al (2008), *Sub-national governments in the European Union: Organisation, responsibilities and finance, public expenditure*, Dexia Editions, Paris (2005)

### 3. Economic and Financial Crisis: Key Indicators

Local and regional government had experienced high growth since 2000 due to economic growth and significant transfers of competence from central to local level. However, as can be seen from the prognosis for unemployment in Europe, the EU economy is no longer in good health. The European Commission's figures for GDP growth in the EU over three years are sobering too: +0.9% in 2008, -4.0% in 2009 and -0.1% in 2010 (forecast Spring 2009), as is the unemployment forecast in Figure 3 below. As the sector lags behind the business cycle by up to two years, including on tax revenue, the worst is most probably still to come for public social and health services.

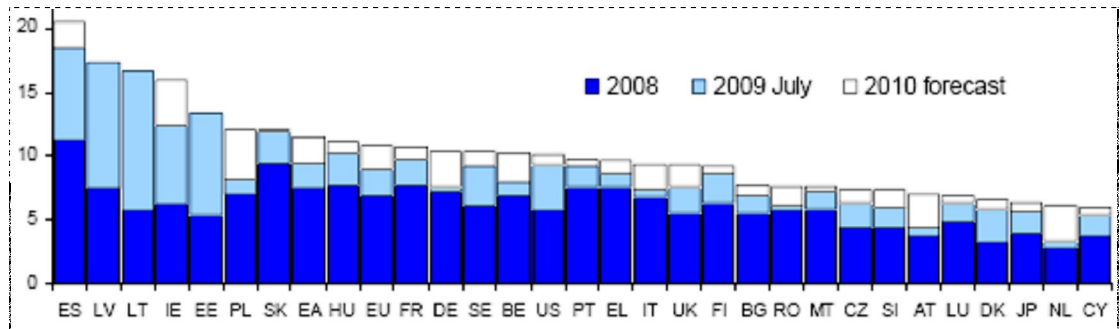


Figure 3: Unemployment in the EU and selected countries from the European Commission's Spring forecast. Source Commission:

### 4. Impact on Local Public Social Services

We can surmise then that revenue for the provision of services and benefits is falling, whilst demand is rising. In order to gain a more detailed picture of the impact of the crisis, we are able to present anecdotal evidence from the local level on three areas: (i) assets; (ii) revenue; (iii) expenditure.

Local and regional authorities in different countries have varying degrees of freedom in managing capital and property assets. Some have made losses on capital invested in failed banks while others have seen real estate value drop and the cost of loans rise:

- Scottish Borders Council (UK), for example, had " 11.2m invested in two Icelandic banks, and are reckoning with 83% recovery.
- The Autonomous Community of Galicia (Spain) has seen an increase in its public debt of over 150%.
- Real estate prices have declined overall by 1.8% across the EU, most dramatically -31% in Spain and -23% in Estonia, suggesting potential losses for local authorities owning property there. (Source: Dexia)

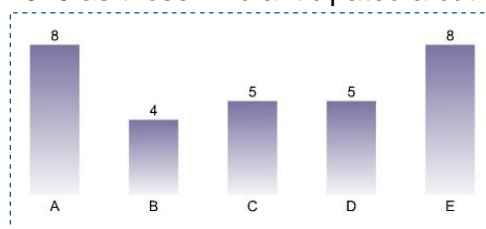
The impact on (ii) revenue has been severe but each country is affected differently depending on the source of revenue they rely on. The situation is not uniform within a country, as one municipality may suffer a big loss of income due to one factory closing, whereas neighbouring towns are not affected. The different revenue sources may be sensitive to the economic cycle at a particular time. Declines in local revenue have been mitigated in some countries, e.g. Sweden, by central government support, itself on high levels of public sector borrowing.

- *Départements* in France are heavily affected by a projected 26% decrease in revenue from property transactions in 2009. (Source: Dexia)
- Germany's municipalities are heavily reliant on company tax receipts for their funding; these could shrink by 10-20% this year, according to *Deutscher Städtetag*, the assembly of German cities. Munich City Council, for example, had projected " 1.6 billion income from this source in 2009, but has now revised this projection down to " 1.2 billion. (Source: [Süddeutsche Zeitung](#))

Demand for services and benefits has risen rapidly leading to (iii) **increased expenditure in some areas**. Simultaneously, the number of households with debt has significantly increased. Martins Moors of Riga City Council (Latvia) reported that new clients were typically lower-middle class families whose wage-earner(s) had lost their job(s) and who have debt problems, an impression shared by other ESN members.

- Three-quarters of OCMWs (local public welfare centres) in Flanders (Belgium) report an increase in benefits expenditure and two-fifths report an increase in services and support. The remainder report no change.
- The Autonomous Community of Galicia (Spain) has budgeted for a 42% increase in benefits expenditure in 2010 compared to 2009.
- The number of housing benefit recipients in Riga (Latvia) increased by 17% (November 2009 compared with November 2008) and the number of benefit recipients has increased by 72%.

Although there is an **assumption that social services are having to do more with less**, the fact that expenditure on social benefits is compulsory means that the situation is more nuanced. Looking back to an ESN survey conducted in May 2009 again, it is noteworthy that the same number of respondents (8) anticipated a larger than normal increase for 2010 as those who anticipated a cut by more than 5%.



**Figure 4: Survey response:** Looking to the future, how do you think the financial crisis may affect social services budgets and delivery in 2010?

Key:

- A) Larger than normal increase
- B) Typical increase
- C) No increase
- D) Budgets may be cut by 0-5%
- E) Budgets may be cut by more than 5%

Respondents anticipating a 5% reduction in 2010 were from Ireland, Sweden, Finland, UK, Poland, Hungary, Serbia, while those expecting a typical or larger than normal increase were from Cyprus, Denmark, Spain, Germany, France, Austria, Switzerland.

A recent ESN workshop (December 2009) allowed us to look in detail at a number of regional and local budgets:

- Social servicesqshare of the funding shortfall for Scottish Borders Council is going to be around " 3.35m in the 2010-11<sup>3</sup> budget.
- The reported overall funding shortfall for the Autonomous Community of Galicia, for example, was " 1400m in 2010 (compared to a shortfall of " 500m in 2009).
- In Sweden, 86% of municipalities expect budgets to be in balance, only 6% expect a deficit and 8% don't know.<sup>4</sup> This is following significant central government tax transfers.
- The association of Flemish OCMW-directors (public social welfare centres) reported the following results from 47 members.

	Increase	Decrease	Same
Staff in social services	40	0	60
Staff in health services	28	4	68
Money for people in need	77	0	23
Services for people in need	43	0	57
Budget for training	5	15	80
Funding from city council to OCMW	40	15	45

(% of respondents saying they expect an increase/decrease/no change in the categories of expenditure above)

<sup>3</sup> UK public authorities operate a budgetary year of April to March

<sup>4</sup> Source: Questionnaire sent out to municipal financial directors by the magazine *Dagens Samhälle*, the magazine of the Swedish Association of Local and Regional Authorities: [www.dagenssamhalle.se](http://www.dagenssamhalle.se)

## 5. Short-term mitigation: reassessing priorities

What is clear is that social services are re-examining and re-prioritising expenditure in the face of [decreasing revenue and increasing demand](#). It is difficult to achieve the perfect balance in meeting the needs of different service user groups, the expectations of the wider population and the employees of social services.

The Galician Regional Government, for example, has reduced expenditure in building new local social services centres (-65%) and in other programmes (-25%). In total, though, expenditure is set to increase by 11.4%, largely due to the increase in compulsory benefits expenditure (+42.7) and home-care (+48.6%) thanks to the introduction of the dependency law in Spain. Overall, Daniel López Muñoz, the Deputy Director of Social Services, says they are  [coping nicely](#).

Riga City Council's 2010 budget foresees a 132% increase in minimum living benefits and 13% in housing benefits, off-set by a 50% reduction health care benefits for low-earners and reductions in social care and rehabilitation. Meanwhile pay cuts of up to 20% for municipal employees have been enforced. The government's emphasis has been on meeting the most basic needs of the large numbers of families whose wage-earners have lost their jobs.

It was clear from early on in the financial and economic crisis that public sector managers would have to re-examine spending plans. A survey of directors of social services in May 2009 had asked how they would recommend making savings of 5%; the responses were, in rank order:

1. Require users to pay more towards the cost of their care
2. Close some 'less essential' services (prevention, day-care, cultural activities)
3. Change the criteria for accessing services so that only those with high needs will receive services
4. Reduce staff training allowances
5. Negotiate with trade union to reduce or freeze annual staff salary rises
6. Use agency staff to fill empty positions
7. Stop planned capital investments (e.g. building new residential homes)
8. Do not recruit permanent new staff to new positions

Passing annual budgets in local and regional authorities is seldom a straightforward process. Political leaders and the finance department work out how much each department must save in the coming year, but this will be [complicated by political considerations](#). Some members received instructions to make savings of x % without making any employee redundant.

Others were asked [not to endanger a flagship policy](#) and consequently restructured the budget around this priority. Ultimately, political leaders at all levels will be held to account by the electorate for the decisions they made based on the recommendations presented by directors of social services.

The question for managers in the short term is how to navigate through a crisis in which they face the potentially conflicting demands of politicians, service users and employees.

## 6. Long-term dilemmas and ways forward

The recession has reinforced questions about the affordability of universal welfare states in Europe. This refers not only to perceived welfare dependency, high public sector pay and pensions, but also to **which services are provided and how they are paid for**, as these examples demonstrate:

- The president of the Association of Directors of Social Work (ADSW) in Scotland, Harriet Dempster, has said: "We are in a very difficult financial situation. It's time to discuss [free personal and nursing care] and to debate whether we are getting the very best outcomes for our older people in continuing this policy. The cost incurred in free personal and nursing care rose (compared to previous year) by 11% in 2008-09 to " 400m.
- Soffía Gísladóttir, head of a regional employment office in Iceland, reported that cuts of 5% in schools, social and health services and 10% in universities are foreseen but that Iceland's cohesive society meant there was a feeling of **being in it together**. Employers and trade unions are cooperating well, and parties to contracts are engaged in renegotiations over prices and time-scales.
- Harri Jokiranta, deputy city manager for social services in Seinäjoki (Finland), noted that the culture of entitlement should be questioned, so that not every citizen would take up services and benefits to which they had a right, but did not necessarily need.

A recession such as this, in which social services are asked to do more with less also reinforces the **importance and urgency of more fundamental questions** about the structure of welfare states in Europe. ESN members meeting for a workshop on the recession sought to think **outside the box** about longer-term challenges and opportunities arising from the crisis:

- What can social services (social work in particular) do that other services cannot do?
- What should be the balance of funding for social services between taxation, insurance, charitable money-raising and payment at point of use?
- How do social services work in partnership with: other public services such as health or education; with external service providers; with neighbouring municipalities?
- Is now the moment to reassess the balance of responsibilities between public authorities and local communities?
- Is it time for a new social contract between citizen and State which sets out the rights and responsibilities of each?

## 7. Continuing the debate: European Social Services Conference 2010

These and other questions will be explored further at the 18th European Social Services Conference on 21-23 June 2010 in Barcelona, entitled **Challenges and Opportunities for Social Services in Europe: Promoting care and inclusion in a difficult economic and social environment**. Essential for those responsible for designing, contracting and providing social services in Europe, it provides a unique opportunity to understand what is happening in social work and care at a time of financial turbulence. In 2010, the European Year for Combating Poverty and Social Exclusion, this is a place to share experiences and expertise in developing effective people-centred strategies during and beyond the recession.

Contact us with your comments and experience on managing social services during the recession: [stephen.barnett@esn-eu.org](mailto:stephen.barnett@esn-eu.org). With thanks to ESN members who responded to the survey and in particular to Daniel López Muñoz, Harri Jokiranta, Andrew Lowe, M rti z Moors, Lars-Göran Jansson, István Miklós, Soffía Gísladóttir, Christian Fillet. Special thanks to Isabelle Chatrte of Dexia for use of data taken from her presentation available via the link above.