The Insight Report

An Experian report - Quarter 4, 2009

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Contents

Introduction

Charlotte Hogg, Managing Director, Experian UK and Ireland

The full aftershock of recession has yet to hit the public sector, which has been largely cushioned by the historic levels of investment made by the Government in public services over the past decade. But it is now coming. The tectonic pressure from rising community needs for public services, combined with reduced funding for those services, presents real challenges for local authorities. However, we believe there is still time to act before a torrent of red ink begins to flow and potentially takes out critical services in its wake.

This report begins to highlight where the pressures will be the greatest, and the types of actions that could make a difference at a local level.

- Mapping the country, local authority by local authority, indicates that councils in the Midlands and Northern England may see the severest pressures, with the South and parts of Scotland escaping the worst of the impact. The index reflects a combination of factors including local business pressures, unemployment risk, household stress (new unemployment added to existing challenges) and local economic growth potential.

    - There is a 'sandwich' pattern in terms of the recession's impact on local economic output and employment. The worst effects of the recession are concentrated in the North East, the Midlands and Wales, with a lesser (but still negative) impact in Scotland and the South.

    - Unemployment stress and household financial stress are more broadly dispersed. However, lower skilled groups have suffered more than the middle classes and the worst affected areas include many with long-standing problems of unemployment and social deprivation.

    - Looking forward, while growth prospects will be stronger down the country's backbone, key features of the pre-recession UK economy - such as the concentration of growth in London, other major cities and, the South - are likely to re-emerge once the recession is over.

- Focusing on economic resilience can help Local Government take actions now to mitigate the impact. These could include: identifying those businesses that are key to future local economic development and providing them with near term help to survive their credit crunch; or providing tailored programmes to help families facing long-term unemployment; or supporting those facing new financial pressures and unable to stay in their homes or communities. It is important to understand the specific local challenges and respond to them in very specific ways.

The tectonic pressure from rising community needs for public services, combined with reduced funding for those services, presents real challenges for local authorities.

- In parallel with delivering support to meet new needs, local authorities will also need to optimise their incomes – reducing fraud and collecting from those who can pay.

  - Fraud rises with unemployment, and we are already starting to see the implications. In 2008, as a result of the credit crunch, Experian saw "first party fraud" in the financial services sector surge. First party fraud is where it is the genuine citizen committing fraud, such as claiming benefits that the individual is not entitled to. Increases in fraud can be tackled by public sector organisations (PSOs) through the use of predictive fraud modelling to prioritise cases and adapt communications strategies to engage high risk people quickly. This could cover the full spectrum of benefits including UK tax credits, housing and unemployment benefits and council tax discounts.

  - Equally, there is at least £34 billion of uncollected public sector debt. Public sector organisations need to ensure they are maximising their revenue collection performance by identifying those that cannot pay from people that have the means to but won't. This covers revenue collections for the Inland Revenue, council taxes, court fines and parking. It also covers the activities of Government agencies including the Child Support Agency, DVLA and TV Licensing Authority. Our private sector experience indicates that up to 30 per cent of this debt may be collectible. Each additional one per cent of known outstanding public sector debt recovered would realise a further £300m to the public purse.

Section 1:
The aftershock of the recession: preparing for the impact on the public sector

Dr Eric McVittie, Research Director, Experian

"The economy of an area is its long-term economic history and situation, while the recession is a short-term shock. It is important that councils understand both. In terms of the recession, they need to be aware of its effects on businesses, job losses, specific groups in the community and the demand for their services... and need to improve their understanding of how individuals and communities are being affected for increasing social impacts."
The Audit Commission, When it comes to the crunch: How councils are responding in preparation to the recession, August 2009

Local Government is being affected by the recession in a number of ways and, to deliver effective services, councils need a far deeper understanding of their own local economies and how they are changing. To be in a position to respond proactively to the recession and take advantage of the economic recovery when it eventually comes, councils need to identify quickly which individuals and communities are likely to be affected in the future.

While a large proportion of local authority funding comes from central sources, 51 per cent is driven locally. As unemployment rises, this will impact funding while driving up demand for public services.

Councils are likely to face a major dilemma. How can they maximise their contribution to helping their local areas through the recession, whilst at the same time ensuring that they live within their means? We believe the answer lies in responses targeted to specific local needs, with Central Government overlay that reflects that disparity of needs across the country and doesn't seek a one-size fits all response.

Part I: Setting the scene in the UK – the recession and its impact on local authorities

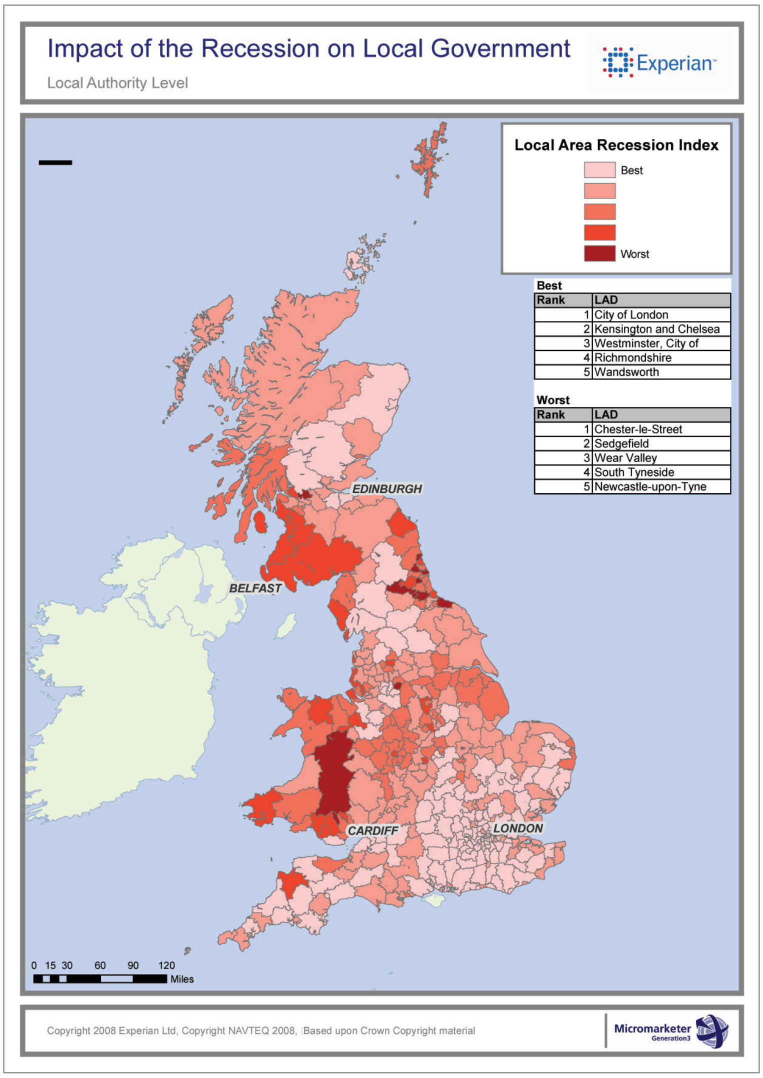
By bringing together a broad range of data and forecasts, we have constructed unique summary indicators that show how severely the recession has impacted local areas and Local Government, as well as the capacity of those areas to respond.

The following 'heat map' (Figure 1) illustrates the 'three band' impact of the recession, in which the South, from Kent through to Cornwall sees the least impact; the Midlands, Wales and the North East the severest impact, and Scotland in the middle. Local authorities such as Chester-le-Street, Sedgefield and Wear Valley are hardest hit; while London boroughs such as the City of London, Westminster and Kensington and Chelsea are anticipated to see relatively less impact.

Experian collects and forecasts information on many aspects of local economic performance, and we have used this together with data from the Office for National Statistics (ONS) to compile and combine indicators of three aspects of the recession's impact: on local businesses, unemployment and household financial stress. These indices compare trends and prospects for each local authority area with those for the 'average' local authority over the period of the recession and its immediate aftermath (2008-2010), as well as our predictions for longer term growth prospects for local economies (2010-2020). Figure 1 combines these indices into a measure of the relative impact of the recession on different localities, and of the capacity of those localities to respond and recover.

While the aggregate index is relevant, we believe the underlying characteristics are important for policy makers, and have laid out these 'heat maps' on subsequent pages. While there are clearly links between pressures on local businesses and unemployment, and the cumulative effect on household financial stress, the responses could be different. Rising failures in small businesses can be addressed differently to concentrations of long-term unemployment.

Figure 1: Overall impact of the recession on Local Government 2010-2020

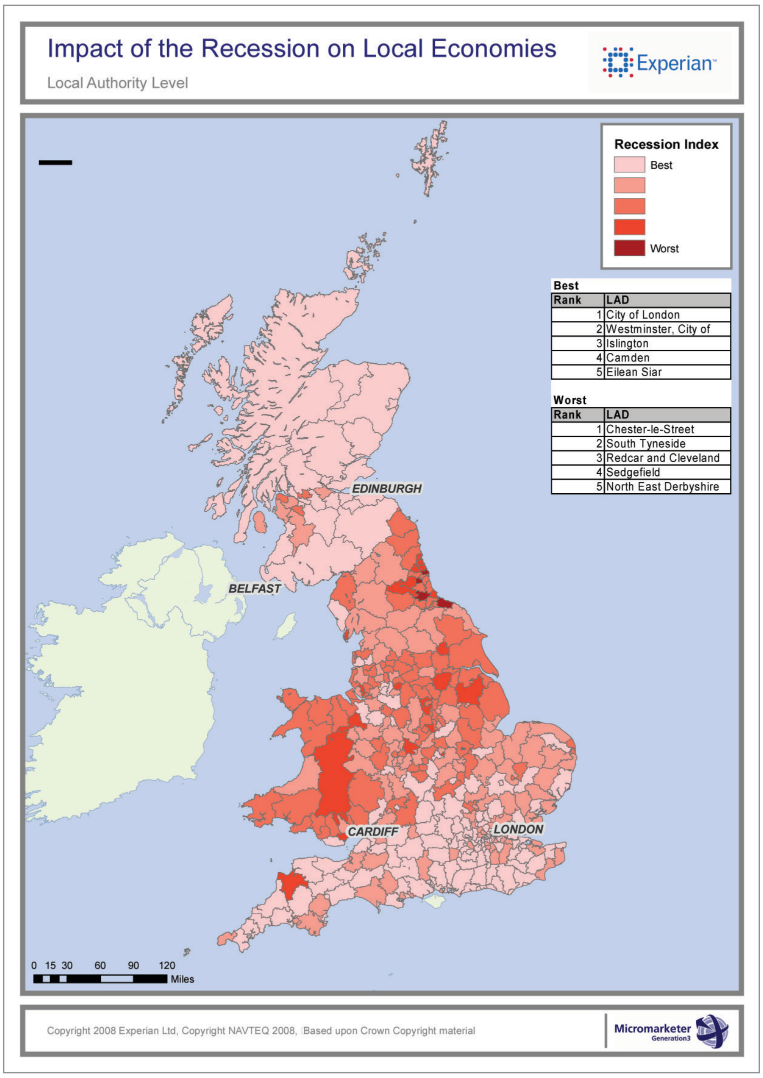


Key insight: The impact of the recession on the UK's local economies

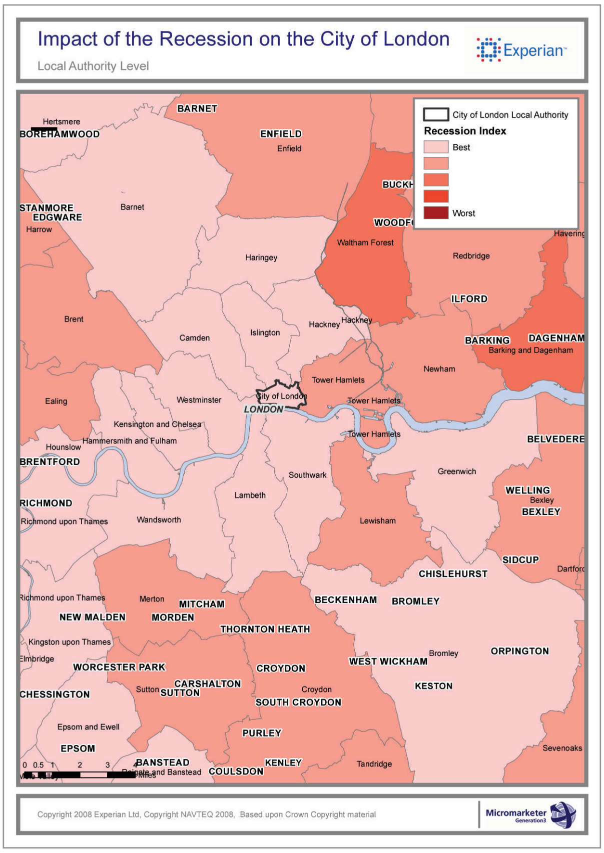
The first area we have provided insight on is local economies. To do this we have combined detailed regional economic forecasts on employment and output with data on individual business and sector performances. This provides a composite measure of the severity of the recession's impact on local economies.

Figure 2 below shows a 'sandwich' pattern – with the worst effects of the recession being concentrated in the North East, Midlands and Wales and lesser (but still negative) impacts within Scotland and the South. Again, some of the London boroughs such as City of London are faring best, while we see similar names appearing for those that are worst impacted.

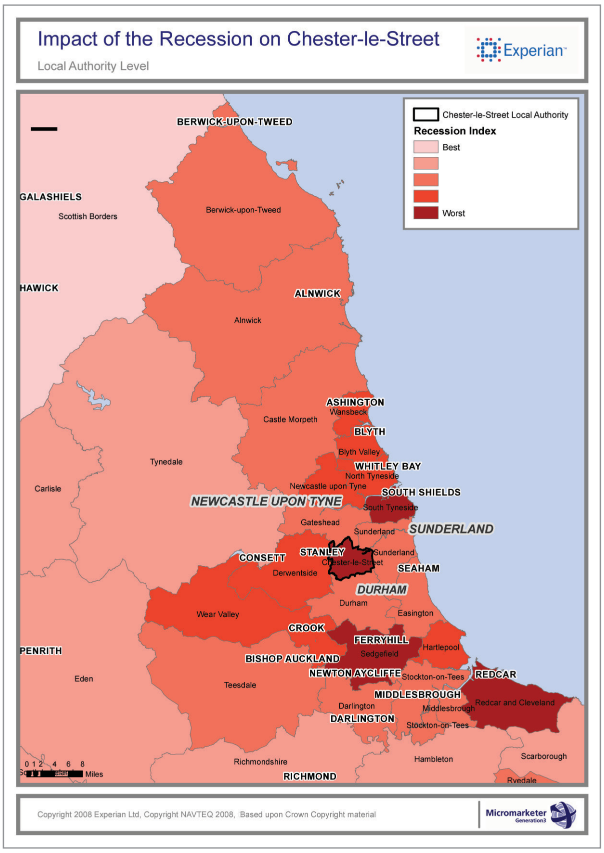
Figure 2: Impact of the recession on local businesses and employment 2008 - 2010



Least impacted local authority



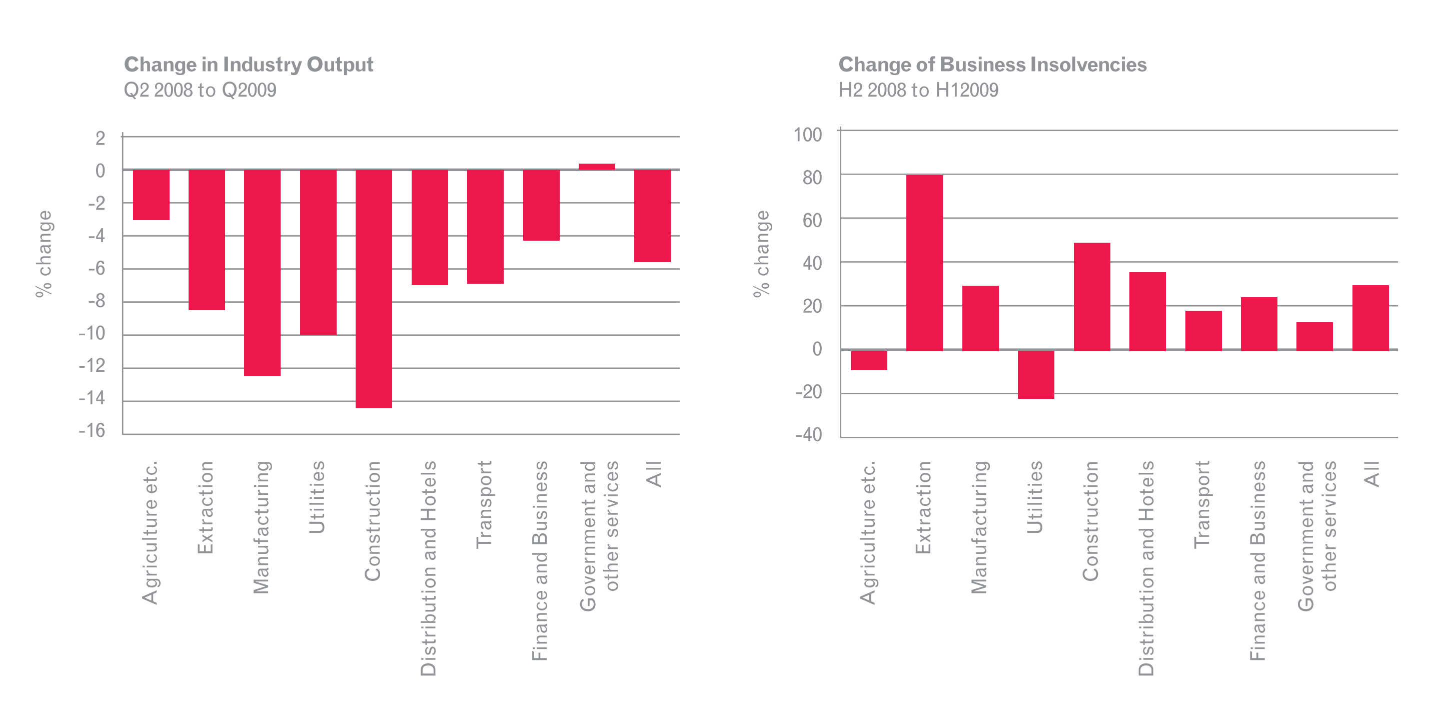
Most impacted local authority



Local economic activity

Many of the most important geographical variations relate to differences in the structures of local economies. Each area has its own unique mix of businesses (industry sector, size, etc.) and households (demographics, skills, etc.). As noted in the Quarter 2 issue of Experian's Insight Report (May 2009), the recession has had an especially severe impact within manufacturing, construction and parts of distribution (Figure 3). Although some of the worst affected activities are geographically dispersed, many are highly localised. Motor vehicle manufacturing, for example, is heavily concentrated in the Midlands, and areas where such activities are located have been hit particularly hard. Links between manufacturers and suppliers within the local economy, and the adverse effects of reduced household incomes and expenditure on local consumer services, add to the severity of the local downturn.

Figure 3: Effects of the recession on UK industry sectors



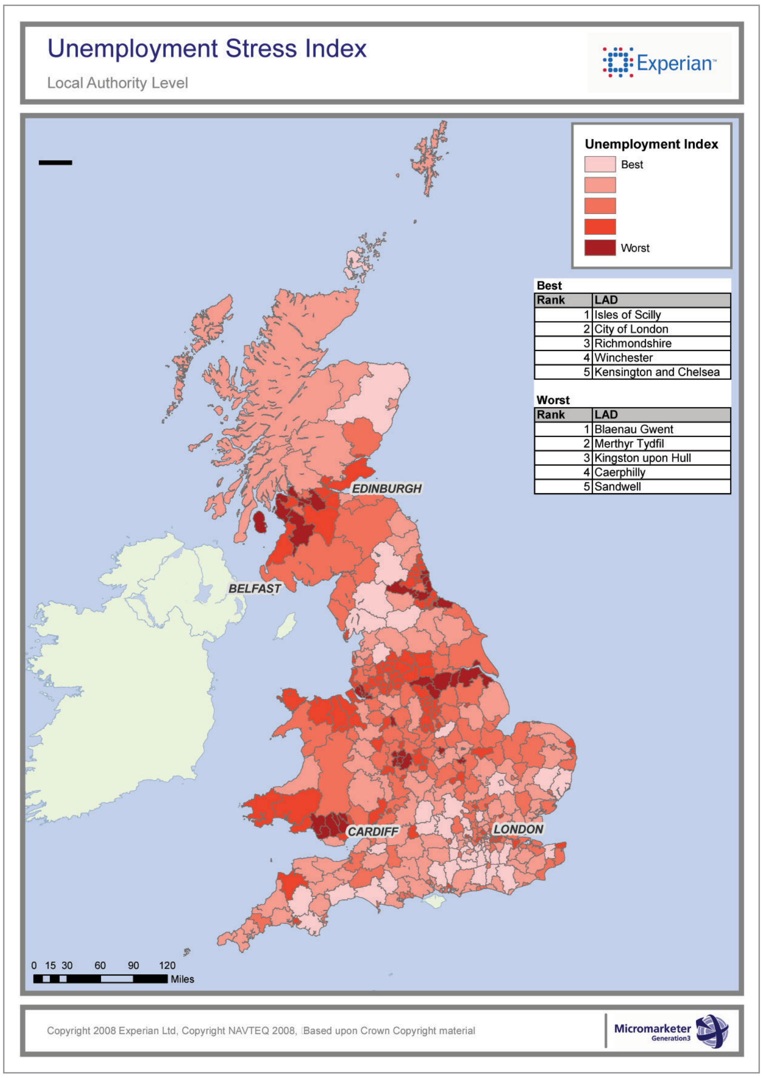
Sources: ONS National Accounts, Experian pH group

Key insight: The recession and unemployment stress in the UK

Previous maps looked at employment drops. Equally important is unemployment and the potential for not being in education, employment or training over a long-term period.

This is not just a function on the local business environment. It is also the result of skills sets; confidence; and the risks of unemployment rising in households and communities that have historically suffered from long-term unemployment. We have combined these issues together into an unemployment stress index and mapped this out across the country. The index summarises the predicted levels of unemployment stress faced by households in each locality over the period 2008-2010, relative to the average across all localities. This shows that unemployment patterns will tend to focus the pain of the recession on areas that are already relatively deprived, and on some of the most vulnerable households and communities within those areas (Figure 4). The concentrations are somewhat different to prior maps, with pockets of high stress in Wales and established urban areas[1]. Local authorities that have a relatively greater presence of vulnerable sectors and households can expect to face increased pressure until employment recovers, something that is not expected until at least 2011. These areas will also suffer most from more persistent effects related to heightened levels of long-term unemployment.

Figure 4: The recession and local unemployment stress 2008 - 2010



[1] 'Stress' is based on combining official information on initial levels of claimant unemployment, changes in claimant unemployment since the beginning of the recession, and our own estimates and forecasts of reductions in local employment due to the recession. The index also includes measures and forecasts of unemployment risk related to household characteristics (such as age and qualifications) from Mosaic Economics.

Key insight: Household financial stress in the UK

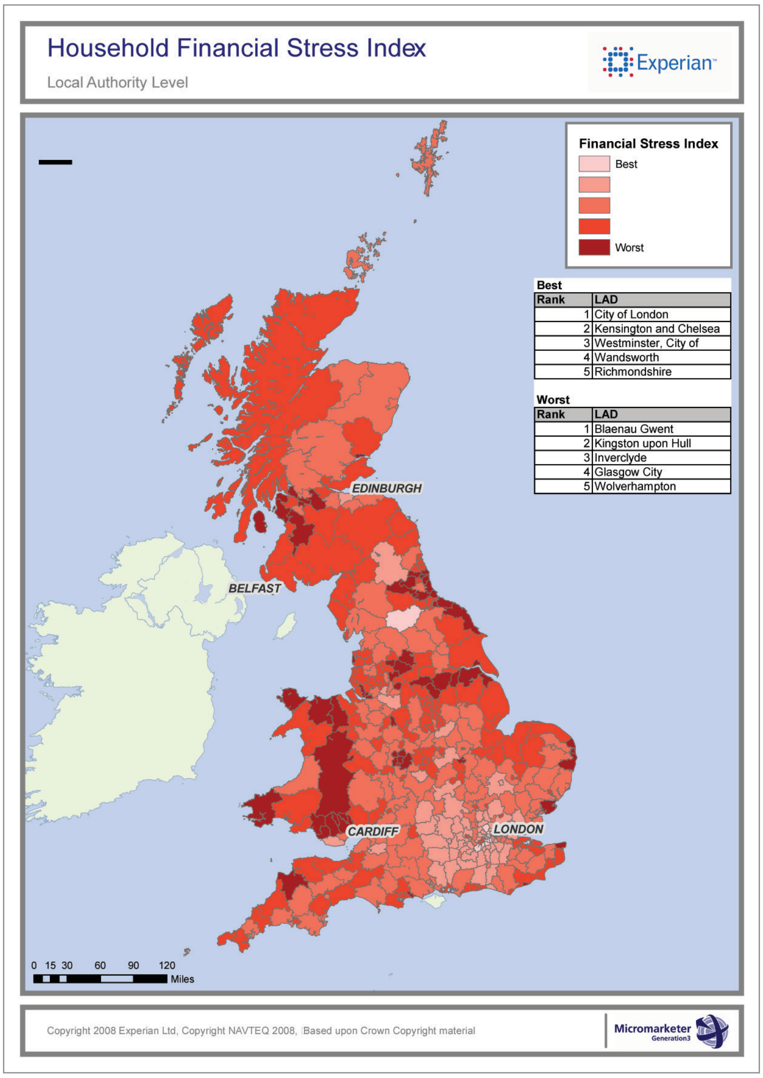
Unemployment is the most important source of household financial stress during a recession. However, the ability of households to withstand the fall in income when one of their adult members becomes unemployed depends on a number of other factors. These include the individual's assets, other resources and incomes (including employment incomes earned by other household members), and existing levels of debt. Households may also face falls in income not associated with unemployment, such as reduced wages and salaries and lower investment incomes; changes in deductions from income, such as taxes and interest charges on debts; and changes in their costs of living due to inflation. Our unique insights through Mosaic Economics allow us to take account of all of these factors and to give a comprehensive picture of the levels of stress the recession is placing on household finances.

Our financial stress index measures the severity of financial stress placed on households due to these factors – compared to the average stresses placed across all households over the period of the recession and its immediate aftermath (2008-2010). The picture that emerges is largely one of financial stresses being concentrated among already relatively disadvantaged groups, linked to the unemployment impacts identified above. For example, elderly groups are also expected to suffer from raised levels of financial stress, due to depleted wealth and persistently lower investment and pension incomes.

At a local level, the impact of the recession on household finances is much more dispersed than is the impact on local unemployment. This is because non-labour incomes are not strongly tied to local economic activity but are determined by conditions in national and international investment markets, as well as benefit levels. Nevertheless, the worst affected areas are heavily concentrated in those parts most affected by the recession and by unemployment (particularly the Midlands and North East), with additional hotspots in historically depressed areas like west Central Scotland and South Wales (Figure 5).

The picture that emerges is largely one of financial stresses being concentrated among already relatively disadvantaged groups...

Figure 5: The recession and household finances 2008-2010

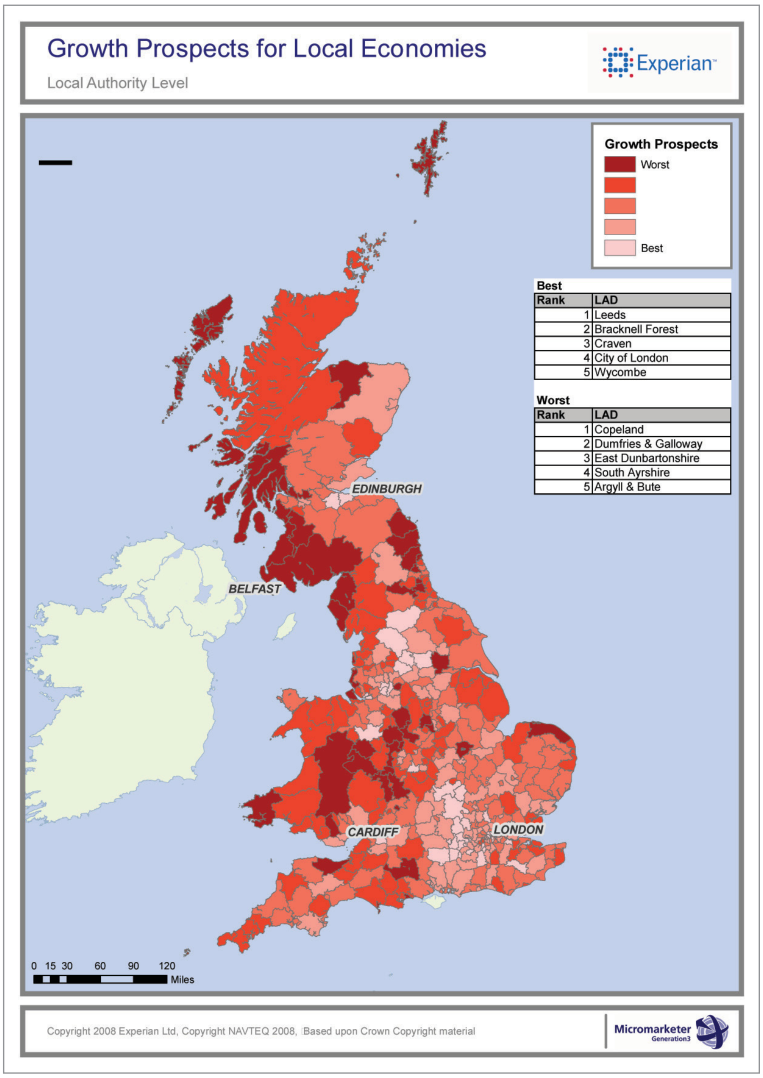


Key insight: Local economies' growth potential in the UK

In addition to dealing with the impacts of the recession, local authorities need to be aware of the longer term economic prospects of their areas so that they can put in place effective plans to support local economic development and support the drivers for resilience (which are discussed in Section 2 of this report).

To show what this means across the UK, we have created a summary index of growth potential for local areas, based on our UK local and regional forecasting service. This unique growth index combines forecasts of output and employment growth for local authority areas for the period 2010 to 2020. It focuses on post-recession recovery and longer-term growth potential, which will strongly influence the extent to which localities regain previous levels of prosperity, or conversely suffer persistent unemployment and deprivation problems. These growth forecasts, in turn, reflect the structure of local industry, and the skills of local residents, together with projected patterns of population growth and migration. The areas likely to see higher levels of economic growth during 2010-2020 are in and around London, England's major northern cities, and Edinburgh. (see Figure 6).

Figure 6: Local economy growth potential 2010 – 2020



Part II: Dealing with the challenges facing Local Government

Council revenues affected by the recession

Local authority revenues and demands are linked to the local economy. Fifty one per cent of revenue comes from the community and will be driven by local economic factors; the vast majority of spending will also be driven by these factors. Those local authorities hardest hit by recession will face the greatest challenges of trying to match demand to income.

Local councils are already seeing increasing demands for many of their services as a result of the recession. Business failures have resulted in more demand for support services from local firms. Job losses and strained household finances give rise to increased demands for a broad range of services in support of vulnerable households, including debt and welfare advice, training and housing benefit applications[2]. Some households, no longer able to afford private provision, are instead opting for council provided services, leading to rises in state school places and council run leisure services as residents switch from private schools and health clubs. The burden of the recession on household finances also appears to stimulate certain types of anti-social behaviour that impose costs on local authorities.

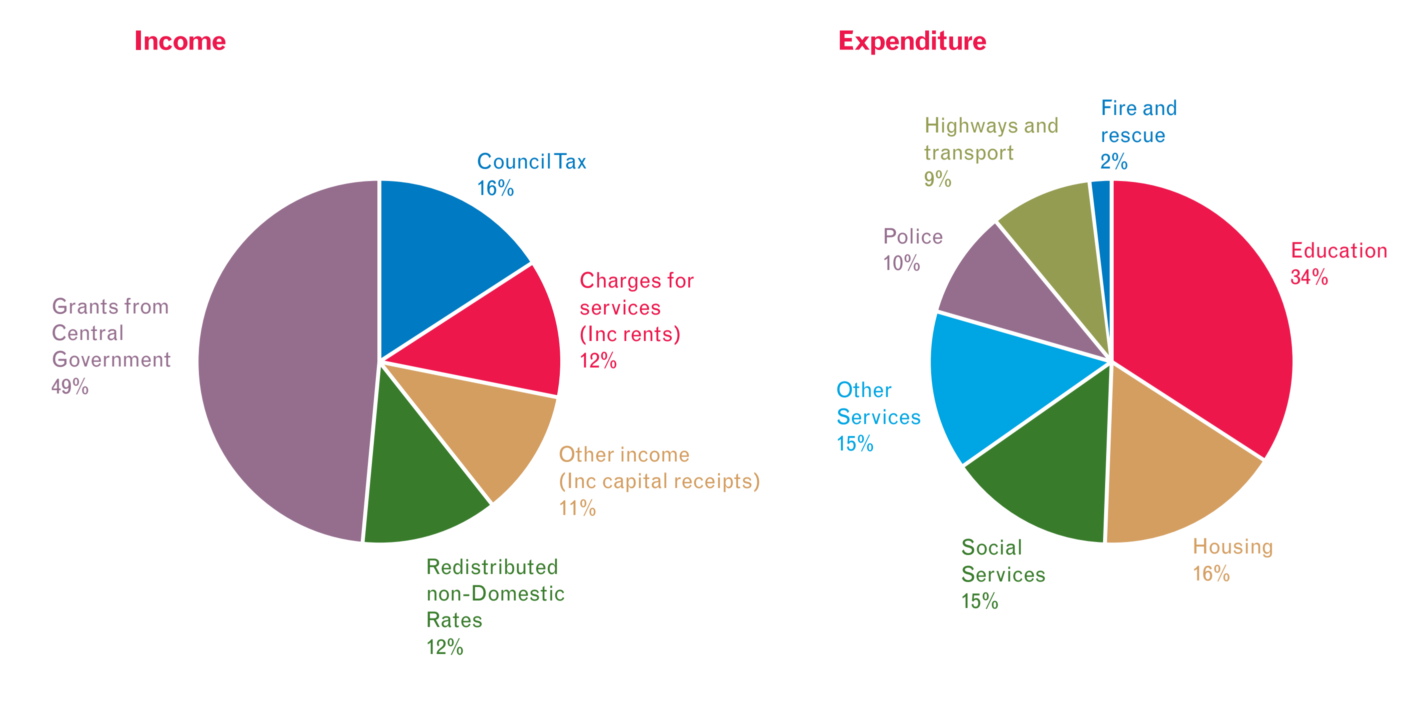
As unemployment, debt problems and house repossessions increase, this contributes to a range of social problems such as homelessness, mental health problems and increased welfare fraud. Councils can therefore expect increasing demands for children's services, mental health services and other social support activities. And these effects are likely to persist for some time.

The worst of the recession will be felt in the public sector for at least three years after growth has returned to the economy next year. Unemployment tends to continue to increase for several months after economic output begins to recover. During the 1990s recession unemployment reached its peak around six months after the economy returned to growth and remained at above pre-recession levels for a further three years. Our economists' forecasts suggest a similar pattern for the current recession – with UK unemployment peaking during the latter half of 2010 and not returning to more 'normal' levels until 2015. This means that local authorities need to plan for a more sustained period of high unemployment and make provisions for public services accordingly to handle the increased pressure.

Actions now should seek to mitigate the impact of the recession in local areas, while husbanding resources for the months and years to come. In addition, Central Government should be mindful of the localised impact of the recession, and prioritise support in this respect.

[2] Other sources of locally-generated council income that have been affected include investment (treasury management) income, current tenants' rent receipts, planning application fees, land search fees, building control inspection and applications fees, commercial property rents, fees due to property sales, and car parking fees. These income sources relate to business activity, to household incomes and to local property market conditions. Property market activity affects a number of council income streams including income from planning fees, building control and planning (s106) agreements.

Figure 7: Local Government Finances: England, 2007-08



Sources: ONS Local Government Finance Statistics

The key is turning the types of insight covered in this section of the report into action. Based on our experience of working closely with public sector organisations facing this dilemma, the following responses are key:

- As budgets become squeezed by spending cuts, PSOs need to ensure that they are maximising their revenue collection performance, in part through identifying those that cannot pay from people that have the means but won't pay. Through using better citizen and business insight, external data sources and adapting lessons learned from the private sector, PSOs can improve their collection rates. One of the main opportunities lies in identifying the people that have the means to pay, enabling collections activities to prioritise and handle cases using the most effective messaging, tone and channel of communication. This covers revenue collections for the Inland Revenue, council taxes, court fines and parking. It also covers the activities of Government agencies including the Child Support Agency, DVLA and TV Licensing Authority. This area is discussed in further detail in Section 4 of this report.

- The rise in fraud as a result of the recession will require extra vigilance from PSOs plus a review of current systems for distributing benefits. Processes need to be better joined up between Government departments to enable a single view of the citizen, identifying which benefits an individual is entitled to and what each individual is currently claiming. Effective and more uniform systems for verifying and authenticating identity along with more comprehensive name and address matching procedures are required at point of benefit application. Through the use of predictive fraud modelling, PSOs can prioritise cases and adapt communications strategies to engage high risk people quickly. This should cover the full spectrum of benefits including UK tax credits, housing and unemployment benefits and council tax discounts. This area is discussed in further detail in Section 3 of this report.

- Through better citizen insight, PSOs can plan services more effectively, allocate local resources more efficiently and communicate better with people, sending appropriate messages at the optimum time through the best channels and cutting waste whilst achieving more positive outcomes. This level of macro and micro information can be used to:
    - » Help Government identify and target resources more effectively to areas of social and financial deprivation, and put in place measures to reduce child poverty, financial and social exclusion in those hardest hit communities.
    - » Reduce PCT costs and waste through better targeting of essential services.
    - » Help improve fitness and health participation with more effective and targeted healthy eating and smoking cessation campaigns.
    - » Improve the commissioning and site location of essential services such as, GP surgeries, schools, screening centres, pharmacies, day care facilities, employment offices and library services.

- Through understanding the drivers for economic growth at a more detailed local level, policymakers can ensure communities become more resilient to the effects of recession whilst at the same time planning strategically for future growth. This means using information better to identify local economic strengths and weaknesses such as skills gaps, employment needs, market competitiveness, innovation and investment opportunities. This area is discussed in further detail in Section 2 of this report.

Section 2:
Resilient local economies: preparing for the recovery

Heather Wells, Associate Director, Economic Policy, Experian

During times of economic turbulence, the ability to withstand external shocks becomes a hot commodity. The latest figures indicate that the economy is going through one of the most pronounced contractions experienced in the Post-War period. In this context, it is far from surprising that the concept of economic resilience has become of increasing interest to policymakers.

But even though this concept is increasingly used and its relevance acknowledged, its exact meaning and, critically, the factors that help explain it are often not well understood. What exactly do we mean by economic resilience? How do we know whether an economy is 'shock-proof' or resilient? And, most importantly, why are certain economies more resilient than others?

As set out in Section 1 of this report, understanding the factors that enhance the capacity of a local economy to adapt to external shocks has clear policy implications. A focus on economic resilience can help identify those businesses that are key to future local economic development but may be at risk in the short-term given the tight credit conditions, or spot vulnerable communities that may need immediate support to prevent a long-lasting legacy of unemployment. In other words, an analysis of economic resilience can support the short-term policy response to the recession whilst at the same time helping to inform longer-term strategic planning to promote economic growth and prosperity in local areas.

Economic resilience: what does it mean?

Put simply, economists refer to resilience as the capacity of the economy to withstand economic shocks[4]. The less distressed an economy is by an external shock, or the faster it bounces back and returns to the point prior to the shock, the more resilient it is.

But there is another meaning often attached to economic resilience, which is more aligned to achieving long-term competitiveness. In the end, those economies that experience sustained growth are likely to possess those qualities that allow them to endure and adapt to difficult times[5].

When understanding what makes an economy resilient, focusing on the flexibility and adaptive capacity of an economy – mainly of its business base and workforce – is a good starting point. In addition, given the close association between resilience and long-term competitiveness, factors widely known to affect economic growth more generally, such as the skills of the local workforce or the cohesiveness of local communities, also deserve further consideration.

Using the framework developed by Experian to understand economic resilience, we have summarised these different factors into four key areas: Business, People, Place and Community (Figure 8). We will refer to each of these factors in more detail in the sections below.

[4] Wolman, H., Hill, E., and Wial, H. (2008) 'Exploring regional economic resilience', Institute of Urban & Regional Economic Resilience Working Paper Series, University of California: Berkeley.
[5] In fact, a study by the OECD at country level shows that those countries seen as more resilient also appear to be the ones that had made most progress on structural reform over the past two decades. Duval, R. and Vogel, L. (2008) 'Economic resilience to shocks: the role of structural policies', OECD Economic Studies No.44, OECD: Paris.

Figure 8: Economic resilience diamond

Observed resilience: the numbers game

Building on the definitions discussed above, observed resilience can to some degree be measured using forecasts for how local economies are expected to perform – in terms of Gross Valued Added (GVA) or employment change for example – during both benign and volatile economic conditions. Despite its similarities and close relationship to economic growth, with resilience we are seeking to reflect the ability of the economy to adjust to external disruptions rather than simply measuring its growth potential.

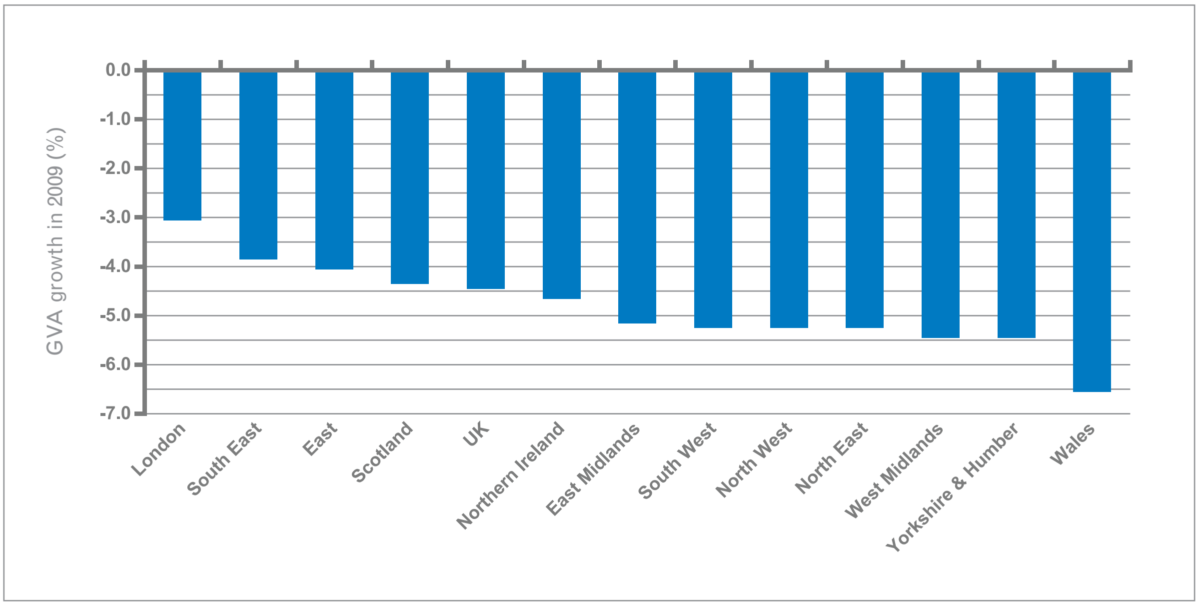
Our approach to measuring observed resilience during this recession tends to focus on a variety of metrics: the numbers of quarters of decline; the degree of contraction; how quickly a local economy will return to growth or the levels seen prior to the downturn; peak-to-trough calculations; and so on. For the purposes of this report we have picked GVA growth as a measure of how severely local economies will be hit during the worst of the downturn and how quick they will be to recover, drawing on Experian's Spring 2009 economic forecasts. However, this analysis should be considered as illustrative of the issues that need to be considered when looking at economic resilience.

So as an example: during 2009, the year in which we are set to witness the deepest output decline[6], which areas are set to be hardest hit and which will be more resilient? Analysis of GVA growth rates in 2009 shows that districts in the South, particularly in London, the South East and the East of England appear to be more resilient, with forecasts showing that they are likely to be less affected by the downturn during 2009 (Figure 9). By contrast, certain parts of Wales, and the Northern and Midlands regions, particularly Yorkshire and Humber and West Midlands, appear to be most affected during 2009. This is generally consistent with the findings of a recent study by the Audit Commission on how councils are responding to the recession[7].

[6] For this report we chose to look at growth rates during 2009 only, but we could equally look at the whole period covered by the recession – that is all quarters of negative growth.

[7] Audit Commission (2009) When it comes to the crunch…How councils are responding to the recession, Audit Commission: London.

Figure 9: The recession in 2009

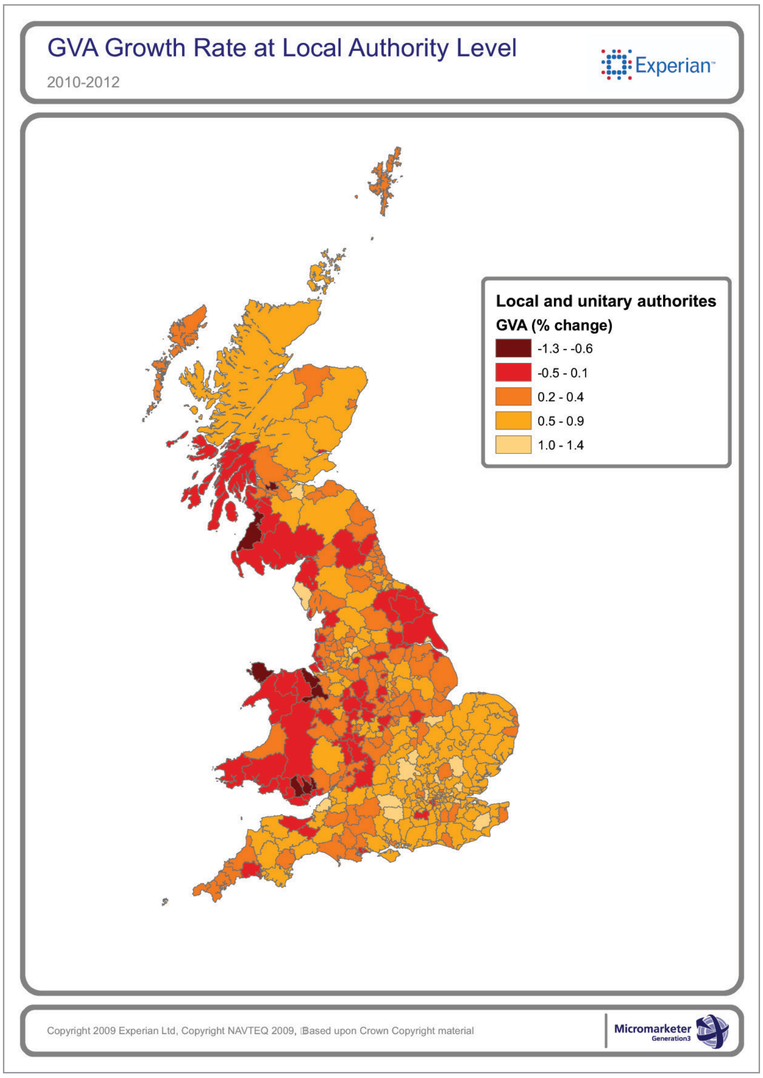


Source: Experian Regional Planning Service, Spring 2009

Moreover, this trend is mirrored when we consider the areas set to recover more quickly looking at GVA growth over the recovery period (in this case we picked a three year period covering 2010 to 2012). Again the South, including the East of England, South East, and London are expected to recover fast, whereas some areas in Wales and the Northern regions are forecast to grow at a slower rate post-recession. Clearly, at this aggregate level this has important implications for the North-South divide. Areas in the South are not only growing more rapidly during the good times, but proving more resilient during the bad.

However, the picture is more complex than this with highly localised patterns of resilience and vulnerability. To some degree we must look to the UK's core cities to drive the recovery. Not all will bounce back quickly, with some (particularly London, Leeds, Manchester, Edinburgh and Cardiff) expected to recover more quickly than others.

Figure 10: Resilient economies: the speed of recovery



Why are some places more resilient than others?

While understanding whether an area is likely to prove resilient or not is useful, from a policy perspective the key lies in understanding the drivers behind these trends. Moreover, in its truest sense resilience is more than just about how the economy in aggregate will perform. Other questions (closely aligned to the priorities of local and regional policymakers) concern the impact on businesses, people and places. How badly will our businesses be hit? How many SMEs will we lose? How will our communities fare? How many of our residents will lose their jobs? How many will lose their homes? Which businesses or households are in greatest need of help?

Although this section does not aim to cover all the different issues relevant to economic resilience, it gives a flavour for some of the key factors that need to be considered when trying to understand the economic resilience of local areas.

Businesses: sectoral mix and adaptive capacity

To a certain extent, the recession has made clear the need for new thinking on sectoral policy and a more balanced approach to growth. Local economies are inherently different and their sectoral strengths vary according to their specific mix of assets. Understanding sectoral trends, that is which sectors are likely to experience deeper contractions and which ones are expected to grow stronger out of the recession, is a first step towards understanding resilience. Tying these future trends to the concentration of employment for each of these sectors in the local economy can provide a good indication of its capacity to endure the downturn and how well placed it is to drive the upturn.

But resilience is not only about sectoral mix. There are general characteristics of the business base, chiefly its innovative and adaptive capacity, which are often associated with a dynamic economy[8] and the ability to endure external shocks. Clearly, firms with these characteristics have the capacity to take advantage of new opportunities and transform their business models to changing conditions.

An analysis of 'business' resilience can not only help to explain and predict observed resilience of a local economy, but can also support the strategic targeting of firms most in need of support, particularly around access to finance. The latter is a key barrier for smaller productive businesses, especially in the current context of dried-up credit and a hard hit venture capital sector.[9] It can also help identify firms with the potential to break into new export markets, again an area where a solid evidence base can help inform government support that could be critical to SME growth.

Understanding sectoral trends, that is which sectors are likely to experience deeper contractions and which ones are expected to grow stronger out of the recession, is a first step towards understanding resilience.

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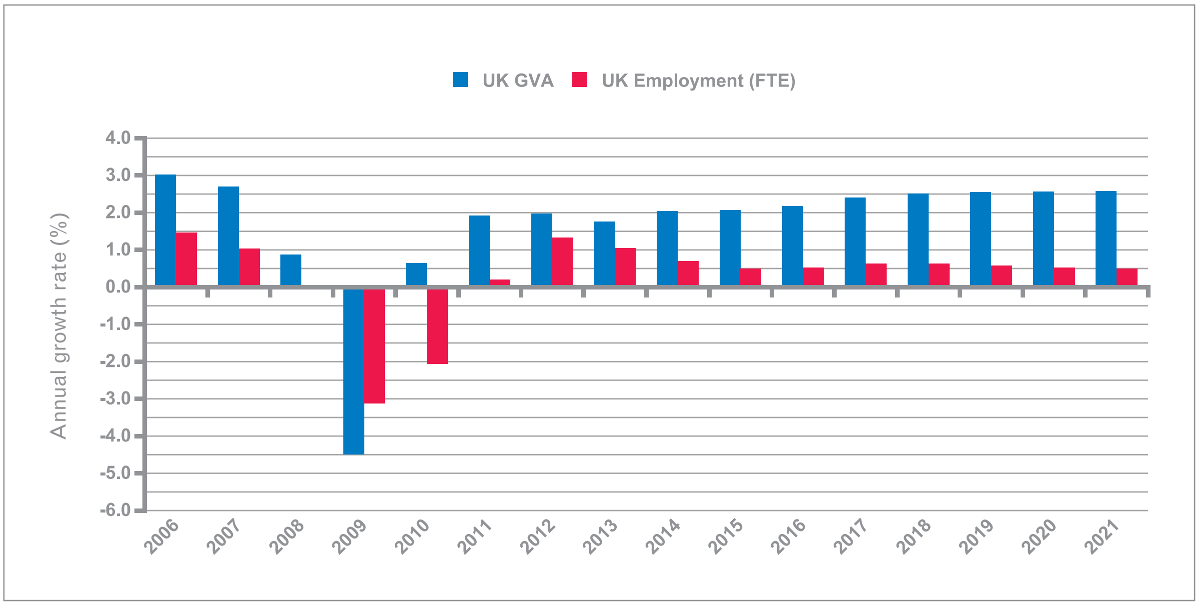
[8] According to the Work Foundation, the contribution of knowledge-intensive firms to the economy has amounted to over 40% of GVA. See Work Foundation (2006) Defining the knowledge economy, Work Foundation: London.

People: tackling short-term job losses

In addition to business factors, people's skills and employment prospects are central to the concept of economic resilience. Employment effects often lag economic activity and high levels of long-term unemployment are a common legacy of recessions. Whereas business activity is expected to bounce back relatively quickly, employment is expected to take longer to return to pre-recession levels (Figure 12). This implies that tackling recent job losses, by means such as training and up-skilling workers to match employers' future skills needs, is critical to preventing today's claimants from becoming tomorrow's long-term unemployed.

Figure 12: Employment effects lag business activity



Sources: Experian 2009

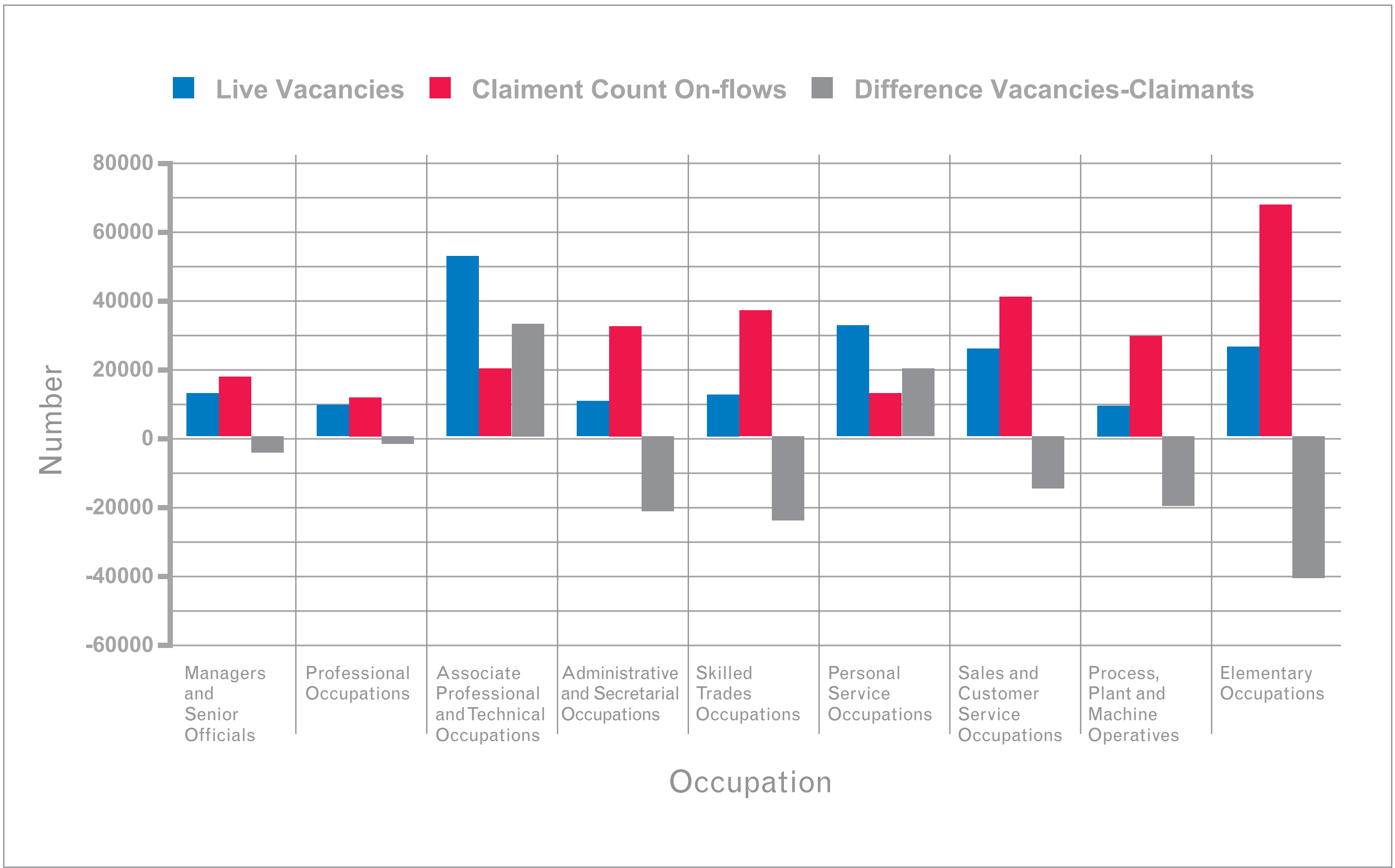
A flexible workforce that is able to adjust to changing conditions is a central characteristic of resilient economies. Clearly, adaptive capacity and flexibility is inextricably linked to the skills of the workforce and many argue that qualifications equivalent to five good GCSEs are a minimum requirement for operating successfully in today's labour market[10]. A skilled workforce is a key contributor to economic resilience.

[9] See NESTA (2009) Reshaping the UK economy. The role of public investment in financing growth. NESTA: London.

[10] HMT (2006) Leith Review of Skills, HMT: London.

'People' factors linked to economic resilience not only include the supply side of skills, but also how this matches demand, i.e. the specific skills required by employers. Figure 13 shows live vacancies and claimant onflows by occupation in April 2009 for the UK. This suggests that many who used to work in elementary occupations, skilled trades, and administrative positions may find it harder to find new job opportunities that match their skills. This reinforces the point made above that a relatively skilled workforce will have more resources to cope with changing economic conditions, contributing to the resilience of the local economy.

Figure 13: Skills mismatches in the UK (April 2009)



Sources: DWP Claimant Counts

Addressing recent job losses is a short-term priority for many local and regional economies. An analysis of economic resilience can help to regularly assess employers' needs as well as whether there are any gaps between employer's demand and the skills' offer of the local workforce. This evidence can help shape training and re-skilling to ensure businesses and individuals have the skills they need for the upturn, whilst at the same time enhancing the economy's overall adaptive capacity.

The long-term: community and place factors

There are also a number of long-term factors that can affect economic resilience. Recent Experian research undertaken for Local Government Yorkshire and Humber[11] linked Experian's economic forecasts and Mosaic UK data[12] to indictors used in Local Authority Agreements. It showed that the deepening recession has knock-on effects for other aspects of community life – directly linked to raised unemployment and indirectly through, for example, raised levels of acquisitive crime and NEET.

All of the above factors – people, business and community – come together in a 'place'. 'Place', in turn, also influences these factors through the quality of its physical infrastructure and wider environment. Generally, businesses will choose to invest in those places where they can find a suitable office space, a good offer of amenities, connectivity to their key markets and so on. In the same vein, highly qualified workers would be more prone to locate in places that have an attractive housing offer, schooling and amenities (including good quality leisure and retail facilities). Further, green space and an infrastructure that complies with high environmental standards are becoming increasingly relevant to quality of place.

Investing in regeneration projects during a recession can help boost short-term demand through job creation whilst at the same time contributing to resilience through improving the quality of place[13]. With tighter regeneration budgets, however, reviewing regeneration projects and prioritising those interventions that can deliver maximum impact and wider economic benefits with fewer resources has become one of the main challenges for policymakers in the short-term.

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[11] For more information on this report, see http://www.lgyh.gov.uk/dnlds/exchange%20-%20June%2009.pdf [accessed August 24th 2009]

[12] Mosaic UK is the latest version of Experian's award-winning Mosaic classification that covers the whole of the UK. Mosaic classifies all consumers in the United Kingdom into 61 types, aggregated into 11 groups. Using over 400 data variables and updated annually, it paints a rich picture of UK consumers in terms of demographics, socio-economics, lifestyles, culture and behaviour. For more information, see http://www.experian.co.uk/www/pages/what_we_offer/products/mosaic_uk.html

[13] See for example, Duval, R. and Vogel, L. (2008) 'Economic resilience to shocks: the role of structural policies', OECD Economic Studies No.44, OECD: Paris.

Section 3:
Protecting public sector revenues from fraud

Nick Mothershaw, Director of Fraud & Identity Solutions, Experian

In its latest report "Protecting the Public Purse", the Audit Commission states that fraud is likely to increase because of the recession and there is more that councils could do to minimise fraud opportunities. This includes assessing the effectiveness of their current arrangements, focusing on high-risk areas, setting clear targets and working with other organisations to reduce fraud and the harm it causes. The backdrop to this is made all the more apparent when the financial stress analysis detailed in Section 1 of this report is considered.

Fraud in the public sector is already acknowledged as a significant issue with losses being conservatively estimated at £6.434 billion[14] and expected to rise as a result of the recessionary environment. It is entirely conceivable that increases comparative to those being experienced in the private sector are likely to impact on the public purse.

In 2008, as a result of the credit crunch, Experian saw "first party fraud" in the financial services sector surge. First party fraud is where it is the genuine citizen committing fraud, such as claiming benefits that individual is not entitled to. Mortgages were particularly badly hit, with a 48 per cent increase in fraudulent applications compared to 2007.

Third party fraud is more commonly referred to as identity theft. According to CIFAS, identity fraud rose by 74 per cent overall in the first half of 2009, including both impersonation and the creation of fictitious identities, with a return to "old school" methods, such as forged or altered UK passports to support fraudulent applications, alongside new methods.

KPMG's fraud barometer, which has been carried out for the past 21 years found the number of fraud cases passing through the UK's courts set a 21-year record in the first six months of this year. Experts claim the economic crisis is to blame for the rise in cases as more people are being driven to commit fraud. The Government is a major target, with almost £153m taken in 38 cases, mostly in the form of tax and duty evasion and fraudulent benefit claims.

Fraud levels set to rise further

During recession, the increase in unemployment will lead to more benefit claims. The fact the benefits will not be commensurate with a citizen's previous income, will also mean the desire to maintain and protect lifestyles will drive citizens will commit fraud to gain benefits they are not due by mis-stating circumstances or their financial position. As a result there will not only be more claims, but there will also be more fraudulent claims.

This will put strain on the benefits system, at a time when cost control and revenue protection will mean that no additional investment can be made to support increase volumes. In fact, there will be pressure to cut costs within the benefits system whilst servicing a higher volume of claims than ever before. This means that it is critical that effective and efficient automated fraud controls are in place.

[14] The Nature, Extent and Economic Impact of Fraud in the UK; ACPO.

Isolating the fraudsters

Fraudsters tend first, but not exclusively, to target benefits with higher value, for example, housing benefit or council tax benefits (such as fraudulently claiming a single person's discount – see section below).

Typically, fraudsters include those who:
- work but also claim benefits to which they have no right
- claim that they are single when they are in fact living with a partner
- claim from an address other than their own
- lie about their status/income/savings, etc, when claiming benefits
- do not qualify for the benefit they are claiming for some other reason

Fraudsters target local authorities by making false insurance claims (for injuries after tripping over, etc) and submitting fraudulent applications for: housing grants, adaptations to homes, blue disabled badges, licences and permits, bus passes, concessionary travel, concessionary rates on evening courses and free school meals.

Based on our experience, local authorities looking to prevent fraud should use best practice techniques such as data based identity validation and verification; UK and foreign ID document verification; automated re-verification of citizens through challenge and response questions or voice verification; and fraud anomaly and network detection.

Data sharing can also play a crucial role. The Serious Crime Act 2007 allows public authorities to share data for fraud prevention purpose via sharing schemes run by a Specified Anti-Fraud Organisation (SAFO). Fraudsters often target multiple organisations with their activities and data sharing schemes will help to bring that to light across different parts of the public sectors.

The Home Office estimates an annual saving of almost £300m could be achieved through fraud prevention activities delivered by greater data sharing between the public and private sectors. Based on our experience in the private sector, we believe that the opportunity could be greater still.

Example: Single Person Discount Fraud

One area of public sector fraud which can be addressed by local authorities is the Single Person Discount (SPD) on council tax. A SPD can be claimed by householders where there are no other residents aged 18 or over living at an address. The discount amounts to a 25 per cent reduction in their council tax bill. Nationally, 35 per cent of households receive this discount. Local council taxpayers meet the cost of these discounts.

Experian has already saved local authorities over £23m by preventing fraudulent Single Person Discount claims on council tax. More than 100 local authorities have used Experian's Residency Checker service since 2006 to prevent thousands of fraudulent applications for the Single Person Discount on council tax.

If Residency Checker was adopted by all 380 local authorities in the UK, Experian estimates that the saving to the tax payer could be in excess of £100m a year.

By working with Experian, the City of Edinburgh Council was able to improve its eligibility checks on SPD claims and collect an additional council tax income of £1.2m during 2006/2007 and £1.25m during 2007/2008.

The council supplied Experian with a list of single residency addresses, which were processed using Experian's Residency Checker's Occupancy Count Service. The service uses Experian's range of up-to-date data sources in combination to create a picture of the residency make-up at each address.

The results reaffirmed that 54,000 households were still entitled to receive the council tax Single Person Discount. This meant the council did not have to send a letter to these residents or process the returned documents. Where the information returned showed the possibility of more than one person living at an address, the council sent each address a canvass form asking the known resident to confirm the number of people living at that address. Where it suspected there was a fraudulent claim, based on the data provided, a request for further information was made to Experian.

Section 4:

Revenue assurance: collecting revenues under pressure

Simon Waller, Head of Collections, Experian

Are there any no-extra cost panaceas for efficiency and cash? Can information really be used better to release resources and raise revenues? These are just a few of the questions being asked by Local Government at the moment.

Certainly Experian can evidence some of these. Using our data and analytical insight we helped Coventry City Council increase arrears collection to £2.2m compared to £1.5m for the same period last year by identifying those people with the means to pay. Colchester Council improved its direct debit take-up by two per cent between March and early May 2008, increasing levels from 72 per cent to 74 per cent in just two months. This was achieved by working with Experian to understand which citizens would respond best to this method of payment. There are many more examples, but it does show how better information and processes can deliver some easy wins.

Using external financial data can help to separate the 'can't pays' from the 'won't pays', ensuring that resources are targeted at those that have the means to meet their commitments. Further segmentation can enable recoveries activities to be targeted appropriately, funnelling those most likely to 'self-cure' down a low cost route. In addition, a large number of collections tasks can be automated through the implementation of specialist systems, allowing experts to focus on the cases that need particular attention.

Additional income could also be released through better debt management. The key question is how much retrievable debt is locked up in local authorities and can this be retrieved without harming those that are rightly entitled to the benefits? External sources of information can help identify those that won't pay from the ones who genuinely can't.

When it comes to recovering overdue revenues, there are some valuable lessons that can be learnt from the private sector. Based on its private sector debt management activities around the world, Experian knows that a comprehensive best practice approach to collections and recovery can reduce the total amount of debt that would otherwise have gone to write-off by anywhere between five and 30 per cent. The public sector could also realise improvements towards the higher end of this scale.

The challenges faced by public sector revenue enforcement teams

1. Huge growth in number of citizens in arrears. Surge in consumer indebtedness increases the risk of non-payment with increased numbers of people requiring attention.
2. Demanding efficiency targets. Current Government demand requires a saving of three per cent per annum. Will future demands require increased cost and resource savings?
3. Recovery versus social responsibility. Separating the won't pays from the can't pays and treating everyone sensitively.
4. Dependency on one size fits all processes. Need to address the individual needs and behaviours of the customer and improve recovery effectiveness.
5. Compliance & public scrutiny. Unprecedented demand for oversight challenges speed of response.
6. Revenue protection. Increasing corporate debt burden impacts upon revenue availability for other core services.

Won't pay versus can't pay

Whilst a significant proportion of revenue will always be owed by people in genuine financial difficulty, research also suggests that there is a hard-core of individuals that, despite having the means to do so, won't pay. Based on debtor analysis undertaken with a number of local authorities, Experian estimates that at least 20 per cent, £127m, of the £636m of council tax revenue that went uncollected in England during 2008, is owed by people who won't pay. This sum remains outstanding because local authorities lack the information to make a clear distinction between those who cannot pay from those who do not want to.

This £127m provides a significant revenue generation opportunity for local authorities, and one that can be tackled without having to invest huge sums of money. The scale of this opportunity, however, becomes even greater when considering other large sources of outstanding public sector debt.

Official figures show that, at the end of March 2008, HMRC was owed £25 billion in outstanding tax, interest, penalties and overpaid benefits and tax credits; the Child Support Agency £3.8 billion in overdue maintenance payments; and the Ministry of Justice £0.5 billion in unpaid financial penalties. The ability to differentiate those debtors that have the means to settle their debts from those in genuine financial difficulty is vital in increasing revenue recovery success. Each additional one per cent of known outstanding public sector debt recovered would realise a further £300m to the public purse.

By making this distinction, public sector bodies can tailor communications and collections processes accordingly. Experian has developed a score-based assessment which enables debtors to be ranked in terms of their propensity to pay and this is now being used by a number of public sector organisations across the UK. This, however, is just one of a range of techniques that can be used to improve collections success.

Driving operational efficiencies in the revenue collections environment

A fundamental aim of collections is to lower the overall cost to collect. Automating as many activities as possible and leaving organisations to focus on the exceptions is a key way to achieve this.

Engaging earlier and more efficiently is key to an effective collections strategy. Citizen insight and understanding can be used to identify people in difficulty, along with specific event monitoring of public data, such as a new County Court Judgment or bankruptcy order. Using real time information at the point of any conversation with a debtor can provide insight into that person's total indebtedness and true ability to pay. Knowing citizens better, who they are, where they live, their contact details and current situation (and keeping track of changes over time) provides vital intelligence.

Deploying effective monitoring within a debt management programme can result in significantly enhanced performance, with more revenue collected at a reduced cost.

A key part of monitoring is the ability to measure the value that the debt management programme delivers to the organisation. In many organisations, the activity of collecting unpaid revenue is viewed negatively as a 'cost'. The cost of the physical resources, activities and the bad debt that is written off when collections activities fail, are seen as a drain on profitability.

With effective, accurate monitoring, the debt management programme can ensure the value of revenue recovered exceeds the cost to do so and can clearly demonstrate this value to the rest of the organisation.

The final piece in the jigsaw is to ensure that staff involved in recovering unpaid revenues are as skilled as they can possibly be. Recovery staff operate in a high stress, fast paced environment. Yet they need to be able to use sound judgement and respond consistently and appropriately to different citizens, allowing them enough time to solve any issues. Being too soft, or too hard, at the wrong point can result in failure to recover a debt that is due, or risk treating a vulnerable customer inappropriately. With more cases to chase and less resource to chase them, there is a danger that vulnerable individuals could be treated unfairly. Knowing who to chase and how to chase them is vital.

Lessons from the private sector - practical examples of effective revenue collections

Water companies had to re-examine the way they collected payments from customers in arrears when the threat of disconnection could not be used to persuade people to settle their bills.

The response from many was to implement dedicated revenue management systems that automated as many routine activities as possible. With many debtors only needing gentle nudges or reminders in order that they 'self-cure', this approach has resulted in dramatic reductions in the cost to collect, as well as significant increases in collections rates.

Likewise, energy companies face a tough challenge recovering money from certain groups of former customers who are in arrears, as well as a growing number of people who are struggling to pay their household bills. Separating the 'can't pays' from the 'won't pays' has enabled one leading energy provider to ensure that collections resources are targeted at those that have the means to meet their commitments, as well as automating those aspects of the recoveries process that could be. This approach has enabled millions of pounds to be recovered from ex-customers.

Many of these techniques are already being used in the public sector. Experian's score-based assessment has given South Tyneside Council far greater insight into its citizens and helped it collect significantly more revenues to fund vital services. Through a better understanding of people's financial circumstances, South Tyneside Council has been able to take a more discretionary approach to collections, concentrating efforts on those unwilling to pay whilst providing help and resources to those people in genuine financial difficulty.

Driving effective revenue collections strategies in the public sector

The debt management issues that have faced private sector organisations are now prevalent in the public sector, where revenues and the need to protect them are under enormous pressure. With significant numbers of people already unable to meet their tax commitments, and many more choosing not to pay under the misapprehension that they can claim to be unable to afford their commitments, those responsible for revenue assurance have some challenges to address.

Revenue assurance in the public sector can benefit significantly from the pioneering work that has been done in the private sector, where fiduciary responsibilities, competition and a profit and loss culture has driven ever higher levels of collections performance. If public sector organisations can more successfully know their debtors, understand their individual circumstances, segment them for appropriate treatment and interact with them appropriately and efficiently, they can ensure that vital revenues are recovered and made available to fund frontline services.

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For more information on this report, join us for a **free webinar on Wednesday 18th November 2009** (11am). Our industry experts will explain the key findings of the report and provide advice on how to safeguard your revenues and increase efficiency. To register, please email **events@qas.com**.

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