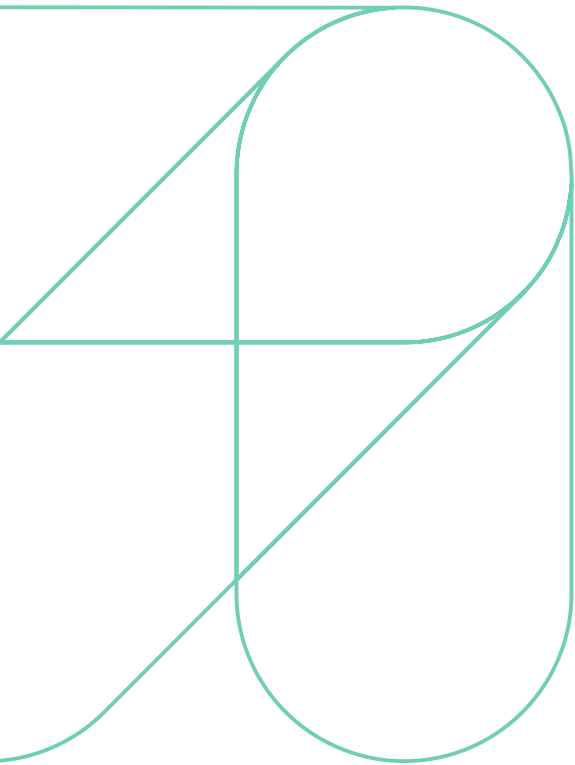


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## Localism 2.0

A discussion paper by Martin Wheatley



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# Preface

GovernUp is an independent research project set up in 2014.

GovernUp brings together senior politicians of all parties, former civil servants, Whitehall advisers and business leaders to consider the far-reaching reforms needed in Whitehall and beyond to enable more effective and efficient government.

GovernUp is working to:

- Produce a rigorous body of evidence to identify the strengths and weaknesses of the current system of government;
- Generate radical but workable solutions to the long-term challenges that require reforms; and
- Shape public debate and build a new cross-party consensus on reform, based on the conclusions of our research.

## *Research projects*

GovernUp's research programme is designed to establish an evidence base on the strengths and weaknesses of the current structures of government. Six research projects aim to develop a set of radical, yet workable steps to reform government, driving through the change required to deliver better outcomes for the British public:

- *Repurposing Whitehall* is considering whether the current organisation of central government is fit for purpose, and how to build a more flexible and accountable system;
- *Localism 2.0* is looking at options for the further devolution of power, not just to local government but also in the first instance to citizens and communities;
- *The Role of Politicians* is studying how to make ministers more effective in their roles;
- *Tackling the Skills Gap* is assessing how government can recruit and retain the best talent, and ensure that civil servants have the right skills. Deloitte LLP is contributing to this work;
- *Digital Future* is exploring how new technology and transparency could reshape the relationship between citizens and state; and
- *World Class Government* is examining what can be learnt from successful reform programmes in central and local governments around the world. McKinsey & Company is contributing to this work.

## *This discussion paper*

The policy suggestions in this paper are produced for discussion by the author as part of the Localism 2.0 research project. GovernUp's formal proposals will be produced following feedback and consultation on these ideas. Responses are welcome and should be sent to [info@governup.org](mailto:info@governup.org) by Wednesday 11 March 2015.

## *The author*

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### *Advisory Board*

GovernUp's Advisory Board is co-chaired by Nick Herbert MP and John Healey MP and consists of senior politicians of all parties, former civil servants, Whitehall advisers and business leaders.

Members of the Advisory Board offer their expertise and insight to inform GovernUp's work. They have no responsibility for the project's governance, nor do they necessarily endorse the proposals of GovernUp or its research projects.

### *GovernUp*

Further information about GovernUp, including discussion papers produced by the other research projects and a list of members of the Advisory Board, can be found at [www.governup.org](http://www.governup.org).

GovernUp is an initiative of the Project for Modern Democracy, a company limited by guarantee no. 8472163 and a registered charity in England and Wales no. 1154924.

# 1. Introduction

## *What this report is about*

This report makes the case for a fundamental shift of power from central government to the places and people which make up this country, and sets out proposals to make that happen. Shifting power in this way will affect a number of different entities:

- The **devolved countries**;
- Elected principal **local authorities**;
- Single-purpose bodies or office-holders, notably, in the current environment, **Local Enterprise Partnerships (LEPs)** and elected **Police and Crime Commissioners (PCCs)**. They usually cover more than one local authority area;
- Local bodies such as **parish and town councils**. The current government has also legislated for the establishment of neighbourhood forums, which may take on planning functions in un-parished areas;
- **Voluntary and community organisations and initiatives**, including groups initiating free schools. These may be focused on a small local area or cater for a particular community of interest across a wider area, or indeed nationally.

The picture is further complicated by:

- The **London Mayor and Greater London Authority**, currently the only directly-elected multi-purpose sub-national entity in England;
- Formal collaborative partnerships between local authorities in city-regions or functional economic areas, in a small number of cases now legally established as **Combined Authorities**;
- Longer-established single-purpose authorities covering more than one local authority area, notably **Passenger Transport Executives** and **Fire Authorities**.

## *Sub-national institutions in England*

- 1 elected city-region Mayor and Assembly (London)
- 124 single tier local authorities (metropolitan boroughs, London boroughs, unitary councils)
- 27 county councils
- 201 district councils
- 9,000 parish and town councils
- 5 combined authorities
- 39 Local Enterprise Partnerships
- 41 Police and Crime Commissioners
- 44 Fire Authorities
- 6 Passenger Transport Executives

Decentralisation does not simply concern the relationship between the UK government and just one of the recipients listed above. Local governments in Northern Ireland, Scotland and Wales, as well as England, have called for "*real momentum behind the devolution of powers*" from Holyrood, Cardiff Bay and Stormont, as much as Westminster.<sup>1</sup> There is (properly) lively debate about the

<sup>1</sup> *United Kingdom council leaders united on devolution*, reporting a joint letter from the four nations' local government associations to William Hague, LGA/COSLA/WLGA/NILGA 5 November 2014

relationship between councils (in England with populations ranging up to 1 million), the smaller communities of which they are composed, and local citizen initiative. The RSA's work on 2020 public services<sup>2</sup>, the 2012 Commission on the Future of Local Government<sup>3</sup>, and the IPPR's recent *Condition of Britain* report<sup>4</sup> all emphasise how different the operating context for government, local and national, is from when these institutions first took shape, not least because of financial resources being much more constrained. These described concepts of social productivity and civic entrepreneurship as vital for achieving public policy outcomes in the face of a growing gap between demands and resources:

*"Yet in looking how we can adapt, survive and indeed thrive for the future we also have to empower our communities to be even more engaged in shaping their own services. How do we reinvent the substantially reduced public sector for these financially challenged times while also breathing new life into our towns and cities?"<sup>5</sup>*

Discussions, and indeed policy-making, concerning any potential shifting of power and decision-making away from Whitehall and Westminster have often been compartmentalised into largely separate debates about the devolved countries, local government and other sub-national institutions in England, and community and neighbourhood empowerment. In contrast, this report suggests that decentralisation should be considered as a connected whole, with the focus placed on outcomes (better quality of life, better public services, more citizen involvement) rather than institutional wranglings.

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[http://www.local.gov.uk/media-releases/-/journal\\_content/56/10180/6693211/NEWS](http://www.local.gov.uk/media-releases/-/journal_content/56/10180/6693211/NEWS) (accessed 13 January 2014); (about Scotland) *Effective Democracy: Reconnecting with Communities*, Report of the Commission on Strengthening Local Democracy, August 2014

<sup>2</sup> *From social security to social productivity: a vision for 2020 Public Services - The final report of the Commission on 2020 Public Services*, 2020 Public Services Trust, September 2010

<sup>3</sup> *Commission on the Future of Local Government*, July 2012

<sup>4</sup> *The Condition of Britain: Strategies for Social Renewal*, IPPR, June 2014

<sup>5</sup> *Commission on the Future of Local Government*, July 2012, p5

## 2. Relationship to other GovernUp projects

The analysis and proposals in this report need to be read closely alongside the other five reports. In particular:

- Themes explored in the *Repurposing Whitehall* report, including the need for Whitehall to think and act more consistently, and to understand and manage delivery better, are important for making progress on decentralisation and localism. One of the proposed roles of the strengthened centre of national government discussed in that report would be to drive decentralisation and devolution;
- *The Role of Politicians* and this report express a shared concern about growing distrust in politics and politicians. Reinvigorating the role of Ministers and the ideas in this report about strengthening local democracy and citizen initiative are both ways potentially to address that problem;
- As explored in *Digital Future*, digital has potential to transform radically the relationship between the state and people, both as service users and citizen participants in democracy. The ideas in that report for radical re-engineering of core processes, digital platforms, and open data would enable local and national government together to stop wasting resources on unnecessary processes, and improve citizens' interaction with all parts of government, both as service users and engaged citizens;
- *Tackling the Skills Gap* explores the important point that skills and organisational capability are related, but not the same thing. That is an important aspect of the critique of current commissioning arrangements made in this paper;
- As much as the other projects, discussion about localism needs to have an eye to experience elsewhere in the world. Some such comparative material is included in this report, and *World Class Government* includes some discussion of place-based budgeting.

## 3. Summary

### *Proposals at a glance*

- Empower local political leadership by scaling back central government limits on local decision-making, and legislate to set up locally-designed governance arrangements and "civic enterprises" that would allow local and national bodies, public, private and third sectors to pool funds, staff and accountability in streamlined, fast-tracked local joint ventures.
- Bring about local fiscal autonomy and responsibility, by giving local elected leaders greater responsibility for funding local services, and raising the money to pay for them.
- Ensure local public services are intelligently designed and delivered, by reforming the commissioning of public services, so it is done close to the coal face by people who understand what is needed and are closer to service-users.
- Build citizen power by opening up local public services so local citizens can see how well they are doing, challenge them and take responsibility themselves.
- Pass legislation to make these happen - an English Decentralisation Act - early in the Parliament.

*"I have an abiding faith in municipal institutions, an abiding sense of the value and importance of local self-government....Our corporations represent the authority of the people. Through them you obtain the full and direct expression of the popular will."* Joseph Chamberlain, Mayor of Birmingham, 1874

*"Successive UK governments have often seen local government as part of the problem rather than part of the solution. Even the all-party consensus that localism is the antidote to the over-centralised UK state often leads to policies designed to bypass local democracy."* Commission on the Future of Local Government, July 2012

This report is about reviving, in a fundamental way, a vital three-way set of relationships between national government, local governing institutions, and voluntary and community initiatives.

Britain's once-powerful local institutions were steadily stripped of their financial and decision-making authority over the latter part of the 20<sup>th</sup> century. Both the previous and current governments came to power with strong commitments to reverse that process, and to encourage voluntary and citizen initiative. Devolution to Scotland, Wales and Northern Ireland has been implemented in a clear, principled way, has been progressively extended to include revenue-raising and borrowing powers, and is now, in Scotland, set to go further still. Devolution to the sub-national level in England has been far more limited. Even the places with the greatest current or planned devolution, London and the City Regions which have been the subject of recent announcements, have neither been freed from central control over their action nor received anything like the same powers over spending, let alone revenue. There is sadly little to show for the powerful vision of the role of citizen and voluntary initiative which the Government articulated as the Big Society.

This matters because the current centralised model cannot meet the key policy challenges of securing a sustainable balance between tax revenue and spending on services and welfare and rebuilding trust in politics and government. Decisions are taken far from the coal face, on an issue-by-issue or service-by-service basis, and are therefore bound both to fail and to lead to disillusionment. Government is currently trying to promote local jobs and growth through 100 separate programmes administered by 7 government departments. People's sense of attachment to their local area and to local institutions is far greater than their respect for central government.



There is little overt disagreement among politicians and opinion formers about the need to make England (especially) less centralised. Yet it does not happen, through lack of clear organising principles and narrative, fragmented leadership in central government, a lack of pace and determination in driving change, and politicians succumbing to pressure to intervene in quintessential local issues like waste collection.

This report proposes a programme for English Decentralisation, five sets of proposals to make sure decentralisation happens in the next Parliament. This is both an integral element of GovernUp's vision for improving government, and critical to the success of any administration taking power this May.

*First*, the Government should reinforce the competence and confidence of local elected officials by pruning very significantly its regime of micro-controls, and legislate to enable councils, PCCs, and LEPs to agree local models of co-operation across geographic and service boundaries, including setting up "civic enterprises" that would allow local and national bodies, public, private and third sectors to pool funds, staff and accountability in streamlined, fast-tracked local joint ventures. The latter avoids the cost and disruption of one-size-fits-all nationally-imposed reorganisations.

*Second*, the Government should commit to move from the current highly centralised set of funding mechanisms for local government, in which most income is through grant from central government, to one in which, so far as possible, spending is financed by local sources of revenue, and local government is incentivised to maintain and build its tax base, subject to a sufficient element of national redistribution to ensure fairness between different places. It should commit to a clear financial plan for the lifetime of the Parliament.

*Third*, the commissioning of people-focused public services needs to be reformed to ensure: it is based on clarity about the job which needs to be done; involves both service designers with an understanding of users and processes and commercial specialists, in a balanced way; manages the ongoing relationship with suppliers in a robust, yet intelligent way, with good information flows and dialogues; and government uses, and allows others to use, its data in an intelligent way. All this points towards the default position of doing it locally.

*Fourth*, greater local government control over resources and services needs to be matched by greater transparency, scrutiny and contestability, so that the intended benefits of better, user-focused services and better use of resources are achieved. Open data and open decision-making need to be at the heart of this.

*Fifth*, important aspects of these reforms will require the passage of a major English Decentralisation Act early in the Parliament. As well as bringing about necessary legal changes, it will be a powerful political demonstration that the local/central balance of power is being fundamentally reset.

## 4. The case for change

### *Centralised Britain<sup>6</sup>*

Before the mid-20<sup>th</sup> century, there was a very different balance of power and responsibility between the Westminster Parliament and localities. During the 19<sup>th</sup> century, strong local government developed, particularly in the major cities. A powerful London County Council (LCC) was established in 1889, the first example of an authority responsible for a whole metro area. Despite the conception of the state being much more limited than is now the case, local government in that era was strikingly powerful compared with now. Councils managed utility supply, local public transport, school and further education, and public assistance. The LCC raised over three quarters of its funding through local revenues in the first half of the last century.

From the 1940s, however, the consensus about the role of the state changed, with a particular emphasis on uniformity of provision for such needs as health and welfare. The NHS and the post-war benefits system therefore developed on a nationally, rather than locally, controlled basis. Nevertheless, local government remained very important, notably in the provision of state education (including further education) and housing: in the thirty years after 1945, local government built over 3.5 million social homes.

In the 1970s and 1980s, local autonomy was restricted further, partly because national politicians began to see a stronger role for the government in improving the quality of provision, notably in education, and in order to ensure that independent local government tax and spending decisions did not undermine the public finances. By the 1990s, some functions (like further education) had been taken out of local government control; the remaining functions were much more closely supervised by central government; local taxation was tightly controlled through capping, and business taxation was effectively taken away from local government. By 1992-93, only 15 per cent of local spending was raised locally.

### *The growing gap: decentralisation since 1997*

Labour entered office in 1997 strongly committed to decentralisation throughout the UK:

- devolution to Scotland, Wales and Northern Ireland;
- referenda on regional government in England, and greater independence for local government.<sup>7</sup>

Figure 1 shows how, in practice, Labour governments achieved considerably more in relation to the former than the latter.

Latterly, there was greater political interest in empowering communities and voluntary initiatives, with the creation of the Office of the Third Sector in the Cabinet Office in 2006, and the publication of a White Paper in 2008.<sup>8</sup>

<sup>6</sup> For more detail on the history of central and local government in the 19<sup>th</sup> and 20<sup>th</sup> centuries, see *Building Jerusalem: The Rise and Fall of the Victorian City*, Tristram Hunt, Orion, June 2004; *The Decline and Fall of Local Democracy, A History of Local Government Finance*, Tony Travers and Lorena Esposito, Policy Exchange and New Economics Foundation, November 2003; *Decentralisation Decade: a Plan for Economic Prosperity, Public Service Transformation and Democratic Renewal in England*, IPPR North, September 2014

<sup>7</sup> "We will meet the demand for decentralisation of power to Scotland and Wales" and "Local decision-making should be less constrained by central government." *New Labour because Britain Deserves Better*, Labour Party Manifesto 1997

<sup>8</sup> *Communities in control: real people, real power*, Communities and Local Government, July 2008

Figure 1: Decentralisation under Labour

<i>Scotland, Wales and Northern Ireland</i>	<i>English regions and local government</i>
<ul style="list-style-type: none"> <li>• Devolution legislation enacted 1998 (further legislation for Wales 2006)</li> <li>• Competence defined by exception (legislation generally devolves other than what is explicitly reserved to Westminster)</li> <li>• By 2010, all three countries had established executives and legislatures with law-making powers (most developed in Scotland)</li> </ul>	<ul style="list-style-type: none"> <li>• Unelected Regional Development Agencies established 1998</li> <li>• Elected London Mayor and Assembly from 2000, additional powers 2007</li> <li>• Legislation on regional government enacted 2003. Following North East referendum in 2004, not pursued further</li> <li>• Initial significant increase in guidance, planning and inspection regimes for local government, from 2001 slow process of consolidation and rationalisation</li> <li>• From 2009, Total Place pilots were set up to explore how greater budgetary flexibility to produce efficiency and better outcomes<sup>9</sup></li> <li>• Financial independence for council housing landlords announced 2009</li> <li>• Business rates continued to be controlled nationally, no significant change to council tax</li> </ul>

As it took power, the current government committed itself to “*promote the radical devolution of power and greater financial autonomy to local government and community groups.*” It also indicated an interest in further devolution in Scotland, Wales and Northern Ireland.<sup>10</sup> Early on, the Prime Minister placed a lot of emphasis in the Big Society, as a label for a proposed new relationship between the state, citizens and community initiative: “*a different way of governing, a different way of going about trying to change our country for the better, and it’s going to get every bit of my passion and attention over the five years of this government.*”<sup>11</sup>

As it has turned out, and as shown in Figure 2, the differences between the approaches to the devolved countries and England has persisted. Further legislation in 2012 and 2014 extended the devolution settlements in Scotland and Wales, in particular through tax-raising and borrowing powers. Following the September 2014 referendum, all the main UK parties are committed to yet further devolution for Scotland, including assigning portions of income tax and VAT revenue.<sup>12</sup> In England, there have been some significant and genuine reforms, but, looked at as a whole, change has not been transformational, and the relationship between the central state and the various recipients of devolution in England remains very different from the very significant devolution which has taken place in the three other countries. As the CLG Committee has said: “*As devolution to Scotland and Wales has gained momentum it has brought with it significant fiscal devolution, and the anomalous position of England has become starker.*”<sup>13</sup>

As a result, Figure 3 shows that the starting positions for the next government between the devolved countries and the sub-national level in England will be very different in two crucial respects.

<sup>9</sup> *Total place: a whole area approach to public services*, HM Treasury and Communities and Local Government, March 2010

<sup>10</sup> *The Coalition: Our Programme for Government*, HM Government May 2010, p11, p28

<sup>11</sup> *PM’s speech on Big Society*, February 2011, <https://www.gov.uk/government/speeches/pms-speech-on-big-society> (accessed 7 February 2015)

<sup>12</sup> *Scotland in the United Kingdom: An enduring settlement*, HM Government, January 2015

<sup>13</sup> *Devolution in England: the case for local government: First Report of Session 2014–15*, House of Commons Communities and Local Government Committee, July 2014, p64

Figure 2: Localism and Decentralisation in England under the Coalition

	Local Government	Local economic development	Police and Crime Commissioners	Community and Voluntary
2010	Abolition of Comprehensive Area Assessment and regional plans and targets  Introduction of Localism Bill	Abolition of Regional Development Agencies  Local Enterprise Partnerships set up from autumn		Big Society launch  Office for Civil Society replaces Office of Third Sector  Legislation on Free Schools
2011	Localism Act passed  Start of community budget pilots  National Planning Policy framework – 2500 pages of national guidance reduced to 60		Legislation enacted	Localism Act puts in place new community rights (eg planning, property)  Open Public Services White Paper  Big Society Capital and National Citizen Service launched  First Free Schools open
2012	First wave of City Deals  More financial independence for councils as housing landlords  Troubled Families Programme started	<i>No Stone Unturned</i> report by Lord Heseltine	First elections	
2013	Business rate retention begins  Second wave of City Deals  Responsibility for public health transferred from NHS to councils  Better Care Fund announced (to start 2015)	Single Growth Fund announced (to start 2015)		
2014	Devolution deals for Greater Manchester and South Yorkshire	Local Growth Deals		

Even London, with a population well exceeding that of Scotland, is an exception to only a limited degree. The Mayor has block funding for transport and housing, but despite proposals published in 2013, has no independent fiscal powers. As the Mayor's Finance Commission puts it: "*London's government needs to be given greater freedom to determine and use the resources raised from*

taxpayers. At present, London (and, indeed, England as a whole) is an extreme outlier compared with other cities and countries.”<sup>14</sup>

Figure 3: A Tale of Two devolutions

	<b>Devolved Countries</b>	<b>Sub-national level in England</b>
<b>How relationships are expressed and managed</b>	<ul style="list-style-type: none"> <li>Settlement based on principled primary legislation which adopts devolution as a default</li> </ul>	<ul style="list-style-type: none"> <li>Some legislative devolution (eg parts of Localism Act 2011), notably General Power of Competence<sup>15</sup></li> <li>However, main approach has been through various types of ‘Deals’<sup>16</sup>, negotiated in detail, place by place and issue by issue</li> </ul>
<b>Fiscal autonomy</b>	<ul style="list-style-type: none"> <li>From start, devolved countries free to allocate spending from block grant between most domestic programmes</li> <li>Scotland (particularly) will have significant real fiscal autonomy after 2015</li> </ul>	<ul style="list-style-type: none"> <li>Elected local government controls just 12% of local spending (compared with NHS (17%) and non-pension welfare (22%)).<sup>17</sup> Little local say in commissioning of welfare to work, criminal justice and academies/free schools</li> <li>Local revenue raising tightly controlled by central government and less than a quarter of council spending<sup>18</sup></li> <li>Central government grant equivalent to nearly three quarters of spending. Well over half of this ring-fenced to specific purposes, mainly schools and public health<sup>19</sup></li> <li>Central government funding subject to frequent changes, affecting amount and conditions, limiting ability to plan over short periods, let alone for longer term</li> </ul>

This is despite the fact that, as Figure 4 shows, the population and GVAs of many English sub-national units are comparable with the devolved countries (and half a dozen EU member states). County areas range *in size* up to 1.5 million.

The limited autonomy of the English sub-national level is in stark contrast to most comparable developed countries. Of the larger developed countries, only France has a lower proportion of public spending administered by local governments.<sup>20</sup>

The Government has recognised that the widening difference in the degree to which power is devolved from Westminster to the sub-national level in England and to the other countries of the United Kingdom needs to be addressed. Speaking after the Scottish Referendum, the Deputy Prime Minister said: “...we need a much more radical dispersal of power within England”, and called for “a new, legal right for local authorities to demand powers - decentralisation on demand if you like

<sup>14</sup> *Raising the capital: The report of the London Finance Commission*, London Finance Commission, May 2013

<sup>15</sup> The general power of competence is a new power available to local authorities in England to do “anything that individuals generally may do”. It was provided for in the Localism Act 2011 and replaces the well-being powers in the Local Government Act 2000

<sup>16</sup> Whole Place Community Budgets, City Deals, Growth Deals

<sup>17</sup> Independent Commission for Local Government Finance, Introductory Paper, slide 113

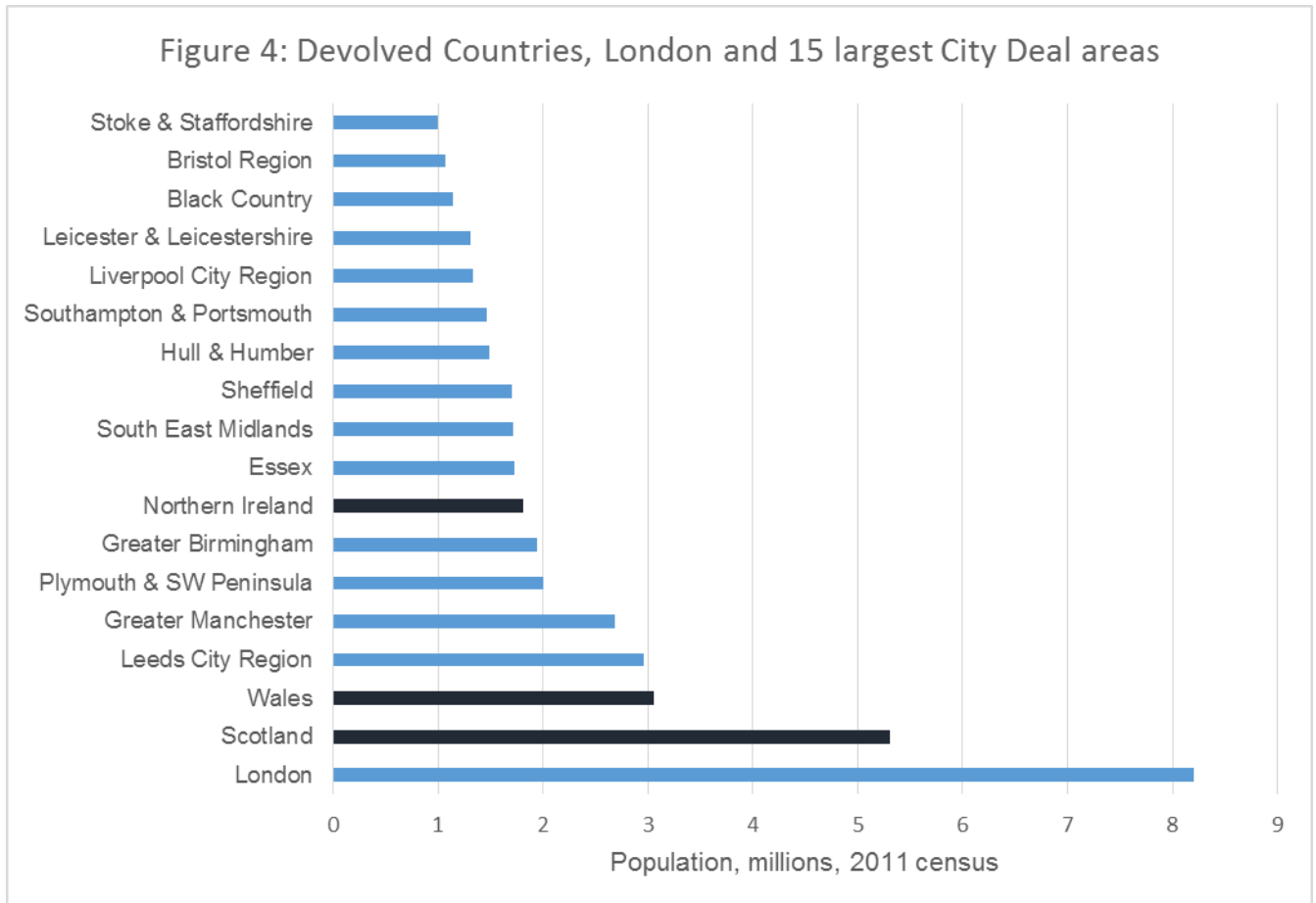
<http://www.localfinancecommission.org/-/media/iclgf/documents/iclgf%20background%20paper.pptx>

<sup>18</sup> Raising council tax by more than an amount set by central government requires a local referendum, and the Government has also created strong incentives via a special grant regime to hold down council tax. Since April 2013, councils have retained 50 per cent of business rate income raised locally (offset by a reduction in central government grant). However, councils have no discretion over the rate at which business rates are levied. They could benefit, at the margin, if local business growth results in more businesses paying business rates.

<sup>19</sup> *Local Authority Revenue Expenditure and Financing: 2014-15 Budget, England*, CLG, July 2014

<sup>20</sup> *No Stone Unturned: In Pursuit of Growth*, The Rt Hon the Lord Heseltine of Thenford CH, October 2012, p29

- with central government having to meet a much higher threshold before it can refuse.”<sup>21</sup> The Government’s Command Paper on the implications of devolution to England examines possible approaches to further devolution in England, though without making any clear commitments.<sup>22</sup>



Empowerment at the very local level, and for voluntary and community initiatives, has in practice turned out to be even more limited. A recent review by Civil Exchange concludes that “*attempts to create more social action, to empower communities and to open up public services, with some positive exceptions, have not worked.*”<sup>23</sup> Take-up of the new mechanisms has been variable. 300 free school applications have been approved; there have been 3,500 Right to Bid applications, and over 1,000 neighbourhoods have started plan processes, with 80 completed to the consultation stage. Activity under the Right to Build and Right to Challenge has been far less.

Despite the positive intentions in the *Open Public Services* White Paper, the commissioning approaches of national departments (notably DWP for the Work Programme, and MoJ for probation) have led to contracting with large commercial providers, to the exclusion of the voluntary sector, certainly small, local, providers. “*Of the 40 prime contracts for the Work Programme, only two were held by the voluntary sector and although voluntary organisations held 48 per cent of individual contracts, the great majority were ‘call off’ contracts only.*”<sup>24</sup> In fact, recent reports by the Service Transformation Challenge Panel and new Local Government Network suggest that, to the extent

<sup>21</sup> Nick Clegg: *This opportunity cannot be hijacked*, statement by the Deputy Prime Minister [http://www.libdems.org.uk/nick\\_clegg\\_this\\_opportunity\\_cannot\\_be\\_hijacked](http://www.libdems.org.uk/nick_clegg_this_opportunity_cannot_be_hijacked) (accessed 7 February 2015)

<sup>22</sup> *The Implications of Devolution for England*, Cm 8969, December 2014, p15-17

<sup>23</sup> *Whose Society? The Final Big Society Audit*, Civil Exchange, January 2015, p4

<sup>24</sup> *ibid* p40



that new opportunities are opening up for community and voluntary initiative, it may be primarily through local government transformation activity.<sup>25</sup>

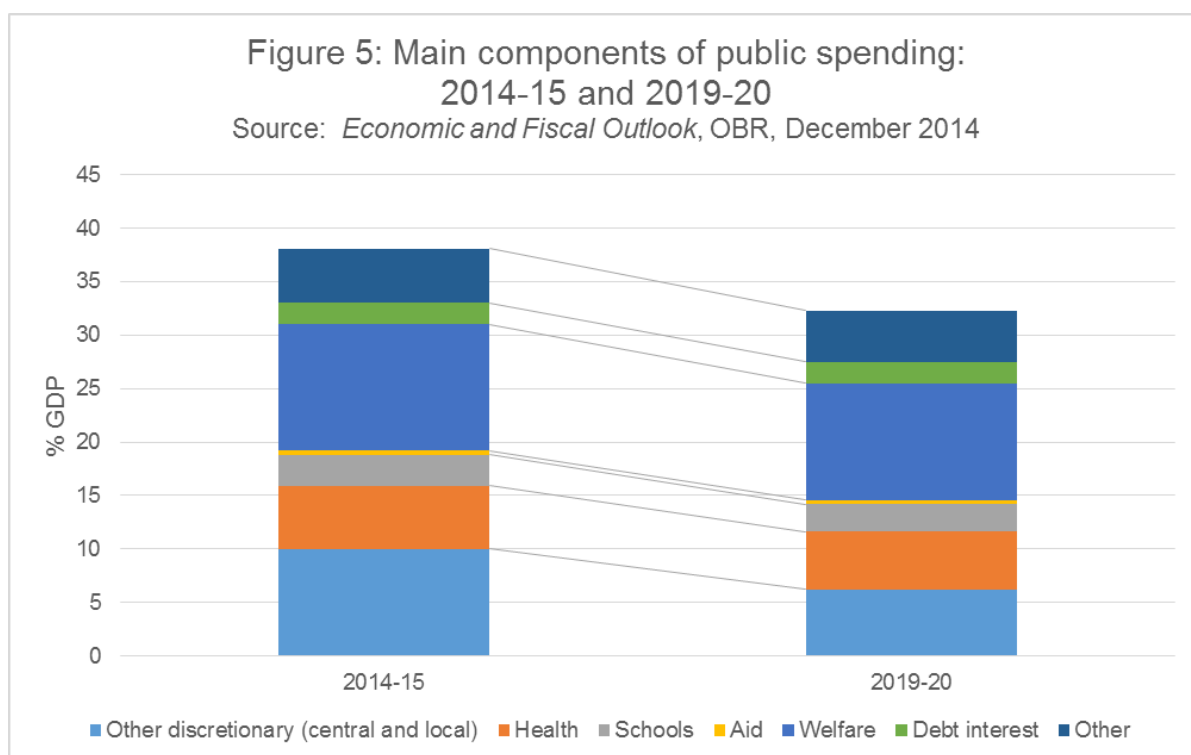
### *The problem with centralisation*

Over-centralisation is one of the main flaws in Britain's system of government. In fact, without addressing it, the next government and its successors are doomed to fail on the two greatest political challenges facing it:

- It will **not succeed in managing the public finances**, because centralisation **has a poor track record of solving problems** and is **wastefully expensive**; and
- It will **not win back trust in politics and government**, because centralisation **disempowers people from decisions and action**.

### *Public finances and public services*

The public finances are under enormous pressure, through the next Parliament and beyond. As the Figure 5 shows, current assumptions are for total public spending to fall from 40.5 per cent to 35.2 per cent of GDP between 2014-15 and 2019-20.



Because government has limited control over other elements, or they are protected by policy pledges, this is only achievable on the assumption that the 'Other Discretionary (central and local)' component at the bottom of the two columns – defence, law and order, economic development, housing, social care, transport and culture – falls by nearly 40 per cent, from 10 per cent to 6.2 per cent of GDP, taking it to under half the share of GDP it claimed in 2009-10. Even the 'protected' domestic programmes have to absorb demand pressures and cost inflation in health spending, and

<sup>25</sup> *Bolder, Braver and Better: why we need local deals to save public services*, Service Transformation Challenge Panel, November 2014; *The Council and the Common: Local Government in 2020*, Simon Parker, NLGN, September 2014

rising numbers of children in education. There are significant risks of cost shunting, by intention or default, notably across the boundary between health and social care, and between housing and welfare (reduced investment in social housing leading to the welfare budget meeting higher private rents).

Looking ahead to the 2050s, the Office for Budget Responsibility's (OBR) longer-term assessment is for upward pressure on public spending to continue. Unless policy action is taken to counteract the drivers of this, or to reduce spending in other areas, the OBR predicts that spending will rise by an amount equivalent to 5 per cent of GDP over the period to 2063-64, the main drivers of which are related to population ageing.<sup>26</sup> There are also adverse revenue pressures, chiefly from the loss of North Sea oil revenue and reduced tax receipts as a result of fuel and energy efficiency, tentatively estimated by the OBR (in view of a large number of uncertainties) in the region of 1 per cent of GDP by the 2030s.<sup>27</sup>

Looking over the next Parliament and beyond, government's success will therefore depend crucially on:

- supporting business activity and jobs, and high rates of employment - so that tax revenues are buoyant and the costs of welfare contained;
- minimising the extent to which population ageing places demands on public services, above all health and social care.

Achieving these aims requires:

- a whole-system approach which avoids under-investment in one type of intervention generating cost elsewhere in the system, and ensures resources are allocated where they achieve the greatest benefits for the system as a whole; and
- an emphasis on investing for the long-term, in ways which promote economic activity and personal wellbeing and independence.

### *What are likely to be successful approaches to public services and policy interventions?*

Over two thirds of private sector employment is already in SMEs, not large national network businesses, and the long-term trend is for faster growth in SME employment and self-employment than in larger businesses.<sup>28</sup> Because the economic environment for business is very different in different parts of the country, there is a strong argument that organising programmes to support business activity and employment locally is much more likely to be successful than organising it nationally. For example, local processes in which business intelligence about future skills needs is translated into provision in further education seem more likely to succeed than the current approach of commissioning provision nationally. Investment in sites and infrastructure to support business development also benefits from local knowledge.

People facing personal and social challenges which make it difficult for them to obtain and keep employment often require support on a number of fronts simultaneously, the mix varying from person to person. For example, in addition to basic job-seeking support, one person may need support with alcohol abuse; another may (with potential employers) require assistance with equipment and adaptations so that physical disability does not stop them working; in yet another case, employment and criminal justice support may need to work alongside each other in a mutually reinforcing way to keep someone out of trouble and in work, or on a pathway to it. Approaches

<sup>26</sup> *Fiscal Sustainability Report*, OBR, July 2014

<sup>27</sup> *Ibid* Chapter 4

<sup>28</sup> *Business Population Estimates*, BIS, 2013



which work for an older person may not work for a school leaver; or interventions may need to be tailored to cultural expectations and preferences.

Much illness and disability is connected with preventable medical conditions associated with lifestyle choices – eating, exercise, smoking, alcohol misuse. Preventive interventions are likely to pay off over time, both in reducing the extent to which illness and disability prevent people working and cause them to require costly health and social care support, especially in later life.

For people who are unavoidably affected by illness and disability, there are often trade-offs between different kinds of spending. Housing which is built or adapted, for example so that people who live there do not need to go up or down stairs, or so that they can wash and cook, despite their disability, may reduce demands on social care services for paid carers to visit and assist with mobility, personal care and meals.

The type of commissioning approach which central government has adopted for welfare to work, criminal justice and academies and free schools seems poorly adapted to work in these ways:

- the people making the decisions are as far away from the coal face and the experience of users as can be;
- central government does not have a strong track record on handling large scale commissioning and procurement (see *Repurposing Whitehall*, page 14);
- due to assumptions about economies of scale, tendering has tended to be on a large scale which effectively excludes SMEs and voluntary sector providers.<sup>29</sup>

The Government's Troubled Families approach is a strong, but so far isolated example, of this sort of approach to service design – a clear outcomes-focused mandate from government, pooling of funding from central government, and leaving local areas to work out how best to achieve the outcomes. *"In almost all places we visited, we heard evidence of the success of the multi-agency Troubled Families Programme."*<sup>30</sup>

Recent work on economic development and the public services has shown very clearly that only through decentralisation can government successfully work in this way. As Lord Heseltine has put it in his report for government on economic development:

*"Besides neutering local leadership, the monopoly of Whitehall is dysfunctional on two counts. First, too many decisions are taken in London without a real understanding of the particular, and differing, circumstances of the communities affected. And second, with responsibilities divided up between policy departments, no-one in government is tasked to look holistically at the full range of issues facing a particular area."*<sup>31</sup>

In relation to public services, the recent report of the Service Transformation Challenge Panel points out that:

*"The traditional approach to public services, in which individual agencies focus on just one element of a complex problem, for which they are accountable to government departments, is simply not working. Approaches which ignore the complexity of individuals' lives as well as local community circumstances and instead deliver one-size-fits-all solutions are likely to fail."*<sup>32</sup>

<sup>29</sup> *Whose Society? The Final Big Society Audit*, Civil Exchange, January 2015, Chapter 3

<sup>30</sup> *Bolder, Braver and Better: why we need local deals to save public services*, Service Transformation Challenge Panel, November 2014, p15

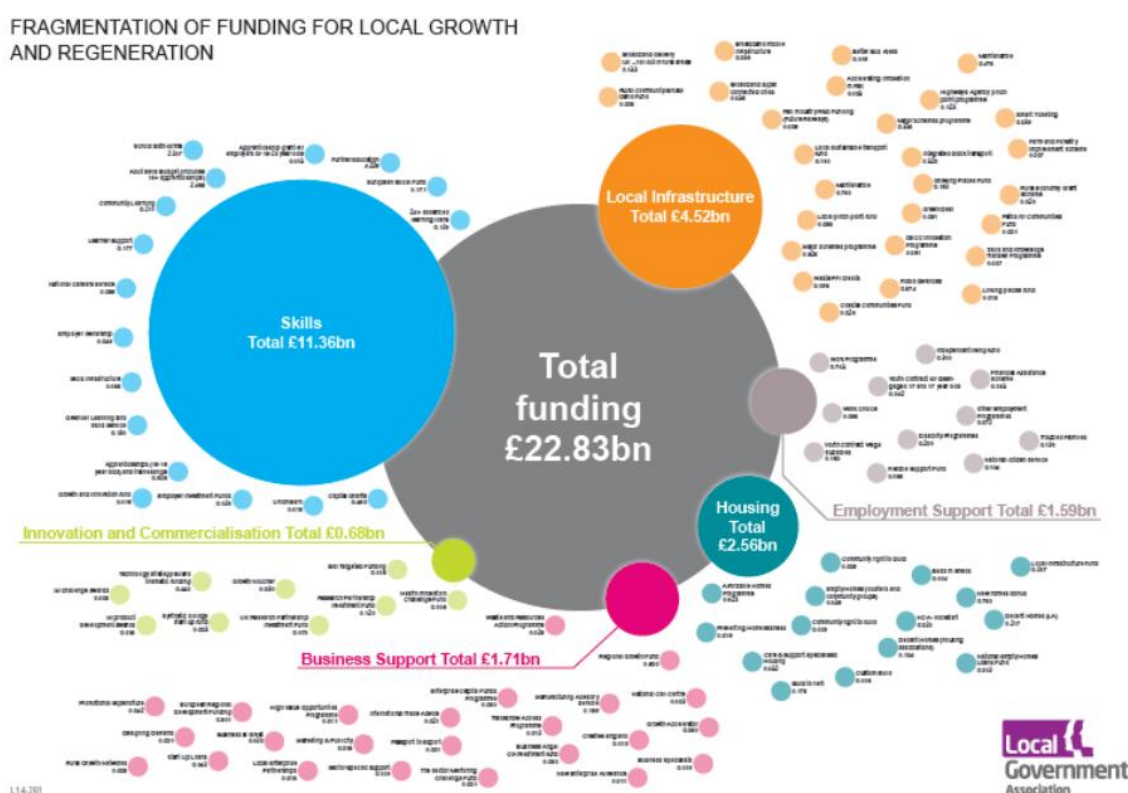
<sup>31</sup> *No Stone Unturned: In Pursuit of Growth*, The Rt Hon the Lord Heseltine of Thenford CH, October 2012, p28

<sup>32</sup> *Bolder, Braver and Better: why we need local deals to save public services*, Service Transformation Challenge Panel, November 2014, p14

## Funding for local growth and regeneration: centralisation in action

Recent work for the Local Government Association (LGA) identifies six broad categories of public spending which potentially support local growth and regeneration, via over 100 distinct programmes administered by 7 government departments (see Figure 6, taken from an LGA report).<sup>33</sup> Much of this spending is managed via departments and their national agencies and commissioning arrangements, not through councils or LEPs. There is simply no way under current arrangements of ensuring that the total amount being spent in an economic area, or its allocation between different types of intervention, is rational either in relation to that area's needs or by comparison with other areas. Nor can local decision-makers decide to switch resources between different types of intervention according to local evidence of need or what works.

Figure 6: Fragmented funding



Funding local public expenditure in this way generates a significant administrative overhead: the cost of making bids to central government, the different, sometimes competing, objectives and criteria associated with funding, and different evaluation and reporting requirements.<sup>34</sup> Recent work by Localis for LGA suggests that each bid costs approximately £20,000 to £30,000, with, in some cases, hundreds of officer days allocated to preparing the required documentation. The costs to central government in specifying the bid process and assessing submissions are additional to this.<sup>35</sup> Polling of business leaders suggests strong support for devolving programmes directed at local economic growth.<sup>36</sup>

<sup>33</sup> *Fragmented Funding: Final Report for the LGA*, Shared Intelligence, April 2014

<sup>34</sup> *ibid* p6

<sup>35</sup> *To bid or not to bid: calculating the costs of competitive funding processes*, Localis, for LGA, April 2014

<sup>36</sup> *Medium-sized businesses want full devolution of local transport, skills and business rates to help their growth*, Grant Thornton, November 2014 <http://www.grant-thornton.co.uk/en/Media-Centre/News/2014/Medium->

Lord Heseltine's 2012 review of growth promotion argued for the pooling of funding streams into a single pot of £49bn over four years.<sup>37</sup> In response, the Government announced the creation of a Single Local Growth Fund from 2015.<sup>38</sup> However, the Fund will be worth £2bn a year, less than a sixth of Lord Heseltine's proposal.<sup>39</sup>

The persistence of disparities in GVA per head, employment rates, and other indicators between different parts of England shows very clearly that attempting to support local growth and employment through siloed national programmes has not worked. Economic value per head ranges from £127,000 in one part of inner London and £35,000 in Berkshire to less than £12,000 in Wirral.<sup>40</sup> In England, seven of the eight core cities have consistently performed below the national average in terms of GDP per capita whereas in Germany all eight of the largest cities outside Berlin outperformed the national average, and all 14 second-tier cities had productivity growth rates better than the capital's.<sup>41</sup>

In contrast, where city or other types of areas have managed to agree a different model with government through one of its negotiated processes, results have been impressive. For example, in Leeds, health and social care staff have been put together into new area based teams, enabling integrated service delivery, with expected savings of up to £3 million in the first three years. In Nottingham, DWP is co-locating its youth employment services with the council, again enabling closer working between partners and an immediate saving of £500,000.<sup>42</sup> The Local Government Association has produced detailed proposals for more localised approaches to housing, schools, skills, economic growth and health which it estimates would produce expenditure savings of £11bn.<sup>43</sup>

New local ways of working also involve supporting community and voluntary action. In Leeds, the council is working with Neighbourhood Network Schemes - community based, locally led organisations that enable older people to live independently and participate in their own communities by providing services which reduce social isolation, provide opportunities for volunteering, act as a "gateway" to services, promote health and wellbeing and improve the quality of life for the individual.<sup>44</sup>

In a (naturally) more limited way, local institutions such as town and parish councils have, in some cases, shown an ability to deploy limited local resources to good effect to promote the local economy and the wellbeing of their residents. For example, in Kent, Sevenoaks Town Council has invested in a local arts centre, has commissioned a new bus link to a local heritage attraction and runs a job club. Stone Parish Council's website operates as a local hub, has developed links with the adjacent Bluewater mall, and is active in addressing anti-social behaviour and improving community facilities.<sup>45</sup>

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sized-businesses-want-full-devolution-of-local-transport-skills-and-business-rates-to-help-their-growth/#sthash.mHVtIF1P.dpuf (accessed 7 February 2015)

<sup>37</sup> *No Stone Unturned: In Pursuit of Growth*, The Rt Hon the Lord Heseltine of Thenford CH, October 2012

<sup>38</sup> *Government's Response to the Heseltine Review*, HM Treasury and BIS, March 2013, paragraph 2.19

<sup>39</sup> *Fragmented Funding*, Shared Intelligence for LGA, April 2014

<sup>40</sup> *Unleashing Metro Growth: Final Recommendations of the City Growth Commission*, RSA and City Growth Commission, November 2014, p21

<sup>41</sup> *Decentralisation Decade: a Plan for Economic Prosperity, Public Service Transformation and Democratic Renewal in England*, IPPR North, September 2014, p22

<sup>42</sup> *Bolder, Braver and Better: why we need local deals to save public services*, Service Transformation Challenge Panel, November 2014, p24

<sup>43</sup> *Investing in our Nation's Future: The First 100 Days of the Next Government*, LGA, June 2014

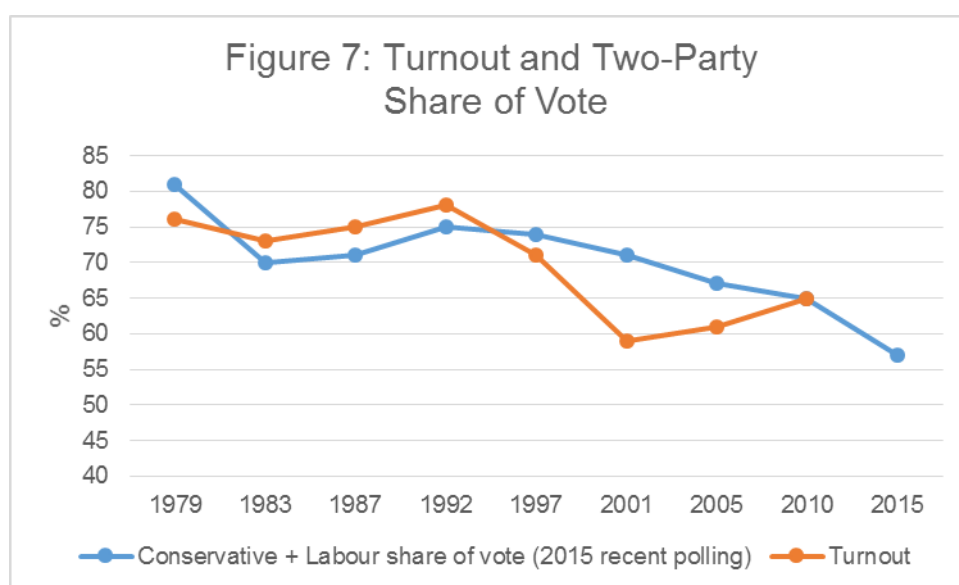
<sup>44</sup> <http://www.leeds.gov.uk/residents/Pages/Support-organisations-and-neighbourhood-network-schemes.aspx> (accessed 22 January 2015)

<sup>45</sup> Stone Parish Council website: <http://www.stoneparishcouncil.com/> (accessed 22 January 2014)

### *Trust in politics and government*

The era of extreme centralisation in British government has coincided with downward trends in election turnout and the combined share of the vote of the Conservative and Labour parties from over 80 per cent to around 60 per cent in current polls, as shown in Figure 7.

Between 1983 and 2013, the proportion of the electorate who were members of the two largest parties declined by over three quarters, from 3.8 per cent to 0.8 per cent.<sup>46</sup> A recent poll indicates that the public trust politicians rather less than even estate agents, journalists and bankers.<sup>47</sup>



The coincidence between these trends and the recent highly centralised phase in British public administration does not mean, crudely, that centralisation is the sole cause of way the electorate are thinking and behaving, nor that decentralisation, on its own, would reverse them. However, there are a number of reasons to think that putting more decisions in the hands of locally-elected politicians, and citizens and communities themselves, would help to address it:

- people generally feel a stronger attachment to their local area than to England or the UK, and they feel that local government, especially the more powerful and visible version operating in London, cares more about what they think. Between 2001 and 2011, trust in Parliament remained consistently below 40 per cent while trust in councils rose to nearly two thirds (Figure 8).<sup>48</sup> Recent polling indicates 71 per cent agreement with the proposition that Westminster politicians do not understand what is best for the rest of the UK.<sup>49</sup> Despite the low turnouts in elections, in just two years after their introduction, 37 per cent of people hold PCCs to account for their policing, one of the highest levels of accountability across the public services;<sup>50</sup>

<sup>46</sup> *Membership of UK political parties*, Richard Keen, House of Commons Library, December 2014, p26

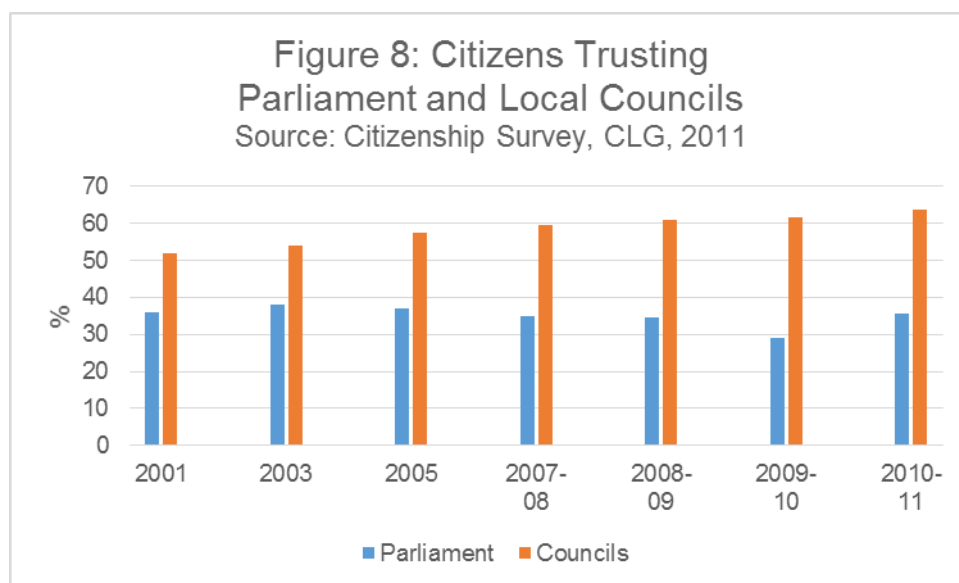
<sup>47</sup> *Politicians trusted less than estate agents, bankers and journalists*, Ipsos MORI, 5 January 2015  
<https://www.ipsos-mori.com/researchpublications/researcharchive/3504/Politicians-trusted-less-than-estate-agents-bankers-and-journalists.aspx> (accessed 22 January 2015)

<sup>48</sup> *Citizenship Survey*, CLG, September 2011

<http://webarchive.nationalarchives.gov.uk/20120919132719/http://www.communities.gov.uk/documents/statistics/xls/1992761.xls> (accessed 23 January 2015)

<sup>49</sup> *BBC Regions – Regional Devolution and Scottish Independence Survey*, ComRes for BBC, October 2014  
[http://comres.co.uk/polls/BBC\\_Regions\\_Devolution\\_and\\_Scottish\\_Referendum\\_Poll\\_Aumturnn\\_2014.pdf](http://comres.co.uk/polls/BBC_Regions_Devolution_and_Scottish_Referendum_Poll_Aumturnn_2014.pdf)  
 (accessed 7 February 2014)

<sup>50</sup> *Decentralisation Decade: a Plan for Economic Prosperity, Public Service Transformation and Democratic Renewal in England*, IPPR North, September 2014, p37



- more citizens feel that Parliament does not care what they think than councils (74 per cent compared with 68 per cent); interestingly this view is least held in relation to the London Mayor (45 per cent), with his greater powers and visibility;<sup>51</sup>
- in a centralised system, the fact that national government is so dominant in raising and spending public money, and operating public services, contributes to widespread perceptions that an out-of-touch Westminster elite is not managing the country in the interests of the public, and that there is little one can do as a citizen to bring about change. The proportion of people who feel that they can influence decisions affecting their local area has fallen from 44 per cent to 34 per cent since 2001.<sup>52</sup> The growing number of communities who have decided to take up the option introduced by the current government to draw up a neighbourhood plan (despite the complexity of the process involved) shows there is an appetite to play a direct part in taking decisions affecting local areas;
- as well as being objectively inefficient and ineffective, the organisation of so much public service activity in nationally-managed silos means citizens feel they are at the receiving end of disjointed decision-making;
- if local politicians and professional leaders have to devote a lot of attention to national government, lobbying for resources, local flexibilities and decisions about local matters which are taken at national level, it is, inevitably, more of a challenge for them to focus as strongly as they should on the place for which they are responsible and local citizens;<sup>53</sup>
- there is a very strong overlap between political activism generally, including campaigning for general elections, and being a councillor, or council candidate. Making local politics more interesting and exciting may increase both the numbers, and the interest and engagement, of local party supporters.

The political urgency of addressing these issues has increased as the September 2014 Scottish referendum has brought into the public and political consciousness the difference between the devolution settlement for Scotland and the continued dominance of English governance by the UK

<sup>51</sup> *ibid* p33-34

<sup>52</sup> *Community Life Survey: England, 2013 – 2014*, Cabinet Office, July 2014, p24

<sup>53</sup> *The Condition of Britain: Strategies for Social Renewal*, IPPR, June 2014



Parliament (see pages 7-10 above). Recent polling shows the public are keener on devolution to local areas than English Votes for English Laws (82 per cent compared to 66 per cent).<sup>54</sup>

### *What are the barriers to change?*

Over the last 20 years, apparent political commitment to decentralisation has increased, yet (so far as England is concerned) real change has been patchy, and nowhere near as ambitious as for the devolved countries. There are four main reasons.

First, **lack of visible organising principle**. The various strands of policy have been led, politically and professionally, from different parts of government: CLG, BIS, Home Office, DfE, and, at the centre, the Office for Civil Society and Cities Policy Unit. Until the recent process on English Devolution (see pages 8-9 above) there has been no sign even of a clear co-ordinating or leading role of the centre, joining up these various strands (which mainly affect England) with each other or developments in the settlements for the devolved countries.<sup>55</sup> There is no clear narrative linking approaches which involve both giving councils powers and resources (some aspects of planning and housing) and taking them away or keeping them at arm's length (other aspects of planning, schools, policing), while promoting voluntary and community activity. The absence of clarity and consistency has meant that other aspects of government policy have had more visible impact: public spending reductions on central government funding for councils and on government funding for the third sector, and various policies designed to make housing development easier have cut across the intention to give councils and communities more control over planning.

Second, **pace and determination**. On some aspects of reform, change has proceeded, at best, slowly, and in some cases very little has actually happened. Despite Labour's Total Place pilots providing good evidence on the case for greater local control and discretion on funding and programmes, the successor process (Whole Place Community Budgets) only started in earnest 18 months into the Government's term, with place by place, issue by issue, negotiations between central and local government on them and the City Deal programme grinding on through the next two years, with results which disappointed the local government side. The transfer of decision-making from Whitehall to LEPs has been very slow and limited compared with the radical and ambitious proposals in Lord Heseltine's *No Stone Unturned* report<sup>56</sup>: the Local Growth Fund will be less than a sixth of the size he proposed, and, as of 2014, government continues to fund local economic development through multiple programmes, 11 for employment support and 23 for business support (see diagram below).<sup>57</sup>

Third, **some aspects of reform appear to have got bogged down**, notably the Big Society, and indeed it is little mentioned by Ministers now. Aspirations to increase the proportion of councils' spending financed by local revenue, and the consolidation and devolution of central government funding streams have progressed slowly.

Fourth, there is **some complete contradiction**. In some instances, Ministers have pursued policies which are in no way at all reconcilable with a commitment to localism and decentralisation, including

<sup>54</sup> *BBC Regions – Regional Devolution and Scottish Independence Survey*, ComRes for BBC, October 2014 [http://comres.co.uk/polls/BBC\\_Regions\\_Devolution\\_and\\_Scottish\\_Referendum\\_Poll\\_Autumn\\_2014.pdf](http://comres.co.uk/polls/BBC_Regions_Devolution_and_Scottish_Referendum_Poll_Autumn_2014.pdf) (accessed 7 February 2014)

<sup>55</sup> One example of a how the centre of government does not shape and drive the government's strategy sufficiently. See *Repurposing Whitehall*, GovernUp, February 2014

<sup>56</sup> *No Stone Unturned: In Pursuit of Growth*, The Rt Hon the Lord Heseltine of Thenford CH, October 2012; *Fragmented Funding*, Shared Intelligence for LGA, April 2014

<sup>57</sup> Diagram

<http://www.local.gov.uk/documents/10180/11527/Funding+fragmentation+infographic.pdf/aa8c6b31-e216-47fd-9c5d-4311bbbd12f4> (accessed 2 January 2015) Local Government Association, July 2014

controlling council tax levels, and increasing central direction over such matters as the frequency of refuse collection, the content and frequency of council publications, and parking restrictions. Key public services have been commissioned nationally, in ways which squeeze out constructive participation by local government and the third sector.<sup>58</sup>

The proposals in the next section of the report are designed to address these barriers.

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<sup>58</sup> *Getting London Working: A 10 point plan to improve employment provision*, London Councils, April 2013; *Open Public Services: experiences from the voluntary sector*, NCVO, October 2012

## 5. Proposals

### *The approach*

Experience under the current and previous governments shows that a continuation of traditional, often cautious and incremental approaches, with insufficient coherence across different elements, will not work. Instead, the incoming government needs to commit to a small number of powerful changes which will ensure that radical decentralisation takes place, and that it is balanced in how it empowers local elected government in its different forms, and community and voluntary activity.

The first two proposed changes, on empowering local leadership and for a fundamental reform of local government finance, address the two key ways decentralisation in England has, up to now, fallen far short of what has happened in the devolved countries. The third, on commissioning, addresses the key process through which many public services are shaped and delivered. Radical decentralisation will not fully address the tendency towards remoteness, lack of citizen engagement and poor use of resources in the current Whitehall-dominated model without the fourth proposal, for putting real power in the hands of citizens through greater transparency, scrutiny and contestability in local services.

This change programme will require strong political and professional leadership to overcome the barriers identified in the preceding section (pages 18-19 above). The *Repurposing Whitehall* report argues that the policy and HQ functions of Whitehall should be progressively draw closer into a single “One Whitehall”, more clearly and strongly led from the centre.<sup>59</sup> The new arrangements need to include:

- stronger and clearer political leadership for all aspects of decentralisation: a single, senior, Cabinet post leading a committee of all Ministers with domestic policy responsibilities;
- in support of that Cabinet Minister, a single official unit at the centre leading on all aspects of the relationship between the UK government, sub-national government and voluntary and community initiative;
- the Minister and central officials together providing leadership to a wider team drawn from people with knowledge of all the main areas of domestic policy, working to common objectives rather than the current departmental silos.

Figure 9 summarises how the proposals in this section address the issues explored in section 4.

Figure 9: How the proposals work

<b><i>The harm done by centralisation</i></b>	<b><i>How our proposals address it</i></b>
Poorly designed and wastefully expensive public services	<ul style="list-style-type: none"> <li>• Powerful local, and locally designed democratic institutions with much greater control over raising and spending public money, and service design</li> <li>• Default model for commissioning is that it is done locally, by people who can engage closely with users and service providers</li> </ul>
Disempowering people from decisions and action	<ul style="list-style-type: none"> <li>• Much more of the public service offer is designed and controlled locally</li> <li>• People are involved in holding services to account</li> <li>• Local citizens have greater power to take the initiative, and to challenge the decisions of public bodies</li> </ul>

<sup>59</sup> *Repurposing Whitehall*, Martin Wheatley, GovernUp, February 2015, p24-26



### *Empowering local leadership*

Over the last decade, the formerly even more elaborate command and control arrangements over local government, expressed in statutory planning requirements, multiple inspection and regulatory bodies, and assessment regimes, have been considerably reduced (pages 7-8 above). The 2011 Localism Act introduced the important General Power of Competence, allowing councils to do anything an individual or business can do, unless it is explicitly prohibited. However, departments continue to attempt to micro-manage councils through large volumes of regulation and statutory guidance. As an important symbolic, as well as practical step, legislation should therefore cancel all such controls and directions unless Parliament makes an explicit decision to retain them.

Local governance in England is very complex, often involving two tiers of council (three, in places where there are parish and town councils), functional economic areas, even where councils are single tier, being divided between a number of councils, and PCCs and LEPs working alongside local government (see pages 1-2 above) alongside the sub-national structures of government departments and the NHS. This has led councils to embark on collaborative arrangements, in different forms and levels of formality, to deal with issues strategically across functional geographies, and to reduce the cost of back office and other services. There is an established legal mechanism (Combined Authority) which enables councils to agree to work together formally without losing their individual identity. National politicians and commentators sometimes argue that the traditional model of local leadership (a Leader and Cabinet chosen from the ruling Group or coalition, or, in combined authorities, indirectly elected leadership structures and roles) does not provide sufficient clarity and accountability.

Recent history of central government trying to resolve these issues top-down has not been happy: whether through the two rounds of partial local government reorganisation in the last 20 years, the Blair government's abortive attempt to establish regional government, or the current government's largely unsuccessful attempt to encourage the adoption of elected Mayors. While it seems likely that more empowered local government, LEPs and PCCs would both want to work together across authority and functional boundaries, and develop new structures for leadership and accountability, it would make sense to enable local areas to develop their own models, which might vary from place to place.

Legislation should therefore create new powers for councils, PCCs and LEPs in local areas to come together to propose new models of co-operation, with suitable accompanying governance mechanisms, which could, quite properly, vary according to local needs and preferences. These would include setting up "civic enterprises" that would allow local and national bodies, public, private and third sectors to pool funds, staff and accountability in streamlined, fast tracked local joint ventures. Proposals would need to include strong mechanisms for challenge and scrutiny (see pages 24-26 below).

### *Reforming local government finance*

Local government finance in the UK suffers from four persistent problems:

- i. Most local public expenditure does not even pass through the hands of councils or PCCs;
- ii. Government heavily controls the portion which does pass through councils' hands, including by allocating money through 'bidding pots' – competitive processes through which councils have to make a case for funding to serve central government's purposes, rather than theirs;
- iii. Local government has almost no autonomy in raising revenue, among other things giving it weak incentives to promote business and housing growth;

- iv. In a centrally controlled system, central government finds it impossible to resist the temptation to make frequent changes, often at very short notice, which make it difficult to plan finances soundly over the long term.

These problems have been widely recognised, including by national politicians.<sup>60</sup> The previous government made a start on reducing the micro-management of council finance. The current government has continued that process - for example by completing the untying of council housing landlords from detailed central control, and has assigned a portion of business rate income to councils, giving them a direct upside in financial growth. It has transferred public health funding from the NHS to local government. Yet (see page 14 above) it has only made very limited progress in rationalising funding streams associated with growth and employment, local revenue raising remains tightly constrained, and stable local planning remains subject to annual (and sometimes in-year) changes of course at national level.

More coherent central government structures (page 20 above) would help ensure that, more than in the past, there was a consistent and strong political and professional focus on making change happen. An incoming government should commit itself to:

- A pre-announced stable medium-term path for the financing of councils, PCCS and LEPs. It is certain that this will have to be extremely challenging in terms of the amount of spending available. But it is not possible for local decision-makers to reduce spending further without being able to plan ahead on a multi-year basis;
- Progressively increasing local decision-making on public services and public spending. Where it is not possible to devolve such decisions (for example from a continuing single national NHS) there should be stronger emphasis on local arrangements bringing together elected leaders and the professional leaders and governance of national public services in the locality;
- Extending as far as possible the principle of self-funding for local government. This should include more discretion over the rates of and exemptions and discounts for council tax and business rates, and more discretion over local charges and taxes. Since there is significant variability in the prosperity and tax base of different areas, *some* element of redistribution will remain necessary, for the foreseeable future at least. However, the aim should be for resources to circulate via central government only to the extent needed to counter-balance that variability.

Fiscal autonomy: some candidates for greater local decision-making

*Council tax:* local control over rate, discounts, exemptions and reliefs for those on low incomes.

*Business rate:* retention of all growth; power to levy a supplement for a fixed term for defined infrastructure projects or other purposes (eg education and training to meet identified skills shortages) which have sign-off from the LEP following a consultation process with local businesses.

*Fees and charges:* abolish all national government controls subject to open book and audit about charges and the services they pay for. This would include the ability to levy charges against businesses creating measurable extra demands on services and infrastructure, eg night time economy, food takeaways (litter), "visitor tax" etc.

Below is a scenario which gives a flavour for what changes of this kind might mean in combination.

<sup>60</sup> For two recent authoritative discussions, see *Raising the capital: The report of the London Finance Commission*, London Finance Commission, May 2013; *Public money, local choice*, Interim Report of the Independent Commission on Local Government Finance, October 2014

### *What financial autonomy could mean: a leading edge group of councils in 2020*

Working in together in a Combined Authority, a group of councils have complete authority over:

- Adults' and children's services, waste management and other current functions, without any direction from central government other than the fundamental primary legislation.
- Investment in local human capital: college education and welfare to work. Under a savings-sharing arrangement, the councils share with central government the extra tax revenue and welfare savings from a faster improvement in employment rates and average earnings than the national average.
- Local public capital investment in transport, flood risk management and housing. A Local Infrastructure Board manages a single capital grant from central government (set over 5 years), and investment financed from councils' existing land and housing asset base.

The Combined Authority sits with nominees of NHS England and DfE respectively on regional commissioning boards for health and schools.

The Combined Authority has agreed proposals under which forecast future local spending on the housing component of universal credit will be delegated to it. In partnership with a consortium of private and housing association developers, it plans to invest in substantial new development of low cost housing. It will keep the savings from housing benefit claimants in this housing rather than, at higher rents, in the private rented sector.

Across the Combined Authority area, councils control aspects of Council Tax previously set by central government, including the level of the single person discount and other discounts and reliefs. There is no longer any requirement to hold a local referendum for increases above a nationally determined threshold. However, local political leaders are well aware that large increases would be unpopular and have publicly committed to raising it by no more than CPI for the next 5 years.

Following a consultation with local business, business rates have been raised by 5 per cent for five years, to fund a business contribution to local investment in infrastructure and additional college courses in scarce local technical specialisms.

### *Reforming public service commissioning*

The earlier part of this report (page 12-13 above) sets out arguments that the current model of public service commissioning, especially for personal services, is unlikely to work well. It needs to be replaced by one which:

- Is based on clarity about the job which needs to be done. This means that the commissioner must understand users, their needs and psychology, well, and listen to providers appropriately. While a competitive tension must be maintained, the design and improvement of services can only be successful if there is a continuous dialogue with the supplier, as well as users. There is scope, as set out in *Digital Future*, for better use of technology in ensuring users feed into evaluation, not just by asking them to comment in on-line surveys and the like, but using technology to capture experience and feedback continuously;
- Ensures that commissioning and the ongoing management of services involves both service designers with an understanding of users and processes, and commercial specialists, in a balanced way. Particularly in the public sector, with its obligations under the European legal framework, it is vital that commercial specialists are properly involved, and there should be a strong focus on cost. But their involvement should not dominate to the extent there are perverse outcomes, like the replacement of an experienced and effective provider by an untested one,

merely on the basis of marginal cost savings. Recent changes to the European framework make clearer that common sense can prevail, but that the culture which has developed up to now needs to be challenged;

- Once a provider is in place, their monitoring needs to be intelligent. This, again, means it needs to be regarded as a serious, strategic, task, to be undertaken by people with insight and the ability to maintain a strong dialogue with users and providers, not a technical role based on counting what is easily measurable;
- Makes best use of the extensive, yet often well-hidden, data government holds about service users. A practical way significantly to improve understanding of what works in public services, and help organisations make the case for their interventions would be to open it up to all involved in designing services, from the provider and commissioning perspective. NPC's Justice Data Lab is currently testing this concept.<sup>61</sup>

Effective commissioning, thus described, can only work if far more public commissioning takes place at local level. A requirement should be placed in legislation that all major commissioning activity by central government should be reviewed ahead of renewal, based on a presumption of commissioning through local authorities (individually or in groupings). Where that is not possible for very clearly demonstrated reasons, it should be through partnership arrangements based on local authority geographies, in which the national commissioners are locally based with responsibility for local populations (like the Better Care Fund). If central government wished to maintain national commissioning of a service which is delivered locally across the country, it would have to secure Parliamentary approval of a business case which demonstrated the impracticality of local commissioning.

### *Citizen Power*

The purpose of devolution should not be seen as taking power away from one lot of politicians and giving it to another, for its own sake. Such a transfer of authority needs to make government work better for citizens, and give them more control over what happens to them and in the places they live. For the other proposals in this report to succeed, therefore, the ways sub-national government can be held to account and enable citizens to take charge directly, where they wish to do so, need to be strengthened. There is recognition of the value of local scrutiny and accountability among local leaders: "*Robust scrutiny makes it possible to not only identify failure but to source solutions to fix things which are wrong.*"<sup>62</sup>

Strengthening local accountability is also important because the proposals in this report would mean a much higher proportion of government revenue and expenditure was raised, and spent, locally. This requires mechanisms for scrutiny and accountability which match that provided at national level by Parliament, in particular by the Public Accounts Committee and other Select Committees. However, it would be perverse for the exact form and workings of such mechanisms to be prescribed by Parliament on a uniform national basis. Local areas should therefore be required to set up a Local Public Audit Committee, as part of the new locally-designed approaches to governance, which would have to meet the following tests:

- *Independence from the local executive:* through the involvement of local councillors not holding executive positions, including opposition parties, backbench members of the Westminster Parliament, and other local people with an independent perspective. Arrangements for

<sup>61</sup> <http://www.thinknpc.org/our-work/transforming-the-sector/data-labs/> (accessed 23 January 2015)

<sup>62</sup> *The State of Accountability in 2013*, Centre for Public Scrutiny, March 2013, p38

appointing the chair would need to be completely independent from the local political executive arrangements;

- *Capability*: ensuring that the mix of people on the Committee includes the range of experience and skills to question and challenge the executive effectively. That could involve, for example, nominees from local business (from the LEP or Chamber of Commerce, for example), the third sector, and academics. The Committee should be supported by a professional team of researchers and analysts recruited independently from the member authority or authorities, on a scale sufficient to undertake serious investigations into topics of interest. It could be that, with a smaller proportion of public spending passing through central government, some of the current capability of the National Audit Office could be distributed to local areas;
- *Wider citizen involvement*: the best possible arrangements, using social media and other modern ways of capturing citizen insight and views. Some members of the Committee, or a citizen panel feeding into its work, could be selected randomly from the local population.

The policies and programmes aimed at encouraging community and voluntary initiative set up by the current government are mainly focused on specific issues and often subject to processes designed by central government. Commissioning arrangements have made it more difficult for small local organisations to be involved in delivering social programmes (see page 10 above).

There are four main ways in which citizen power could be enhanced.

First, **open data and decision-making**. There should be a duty on all public bodies, local and national, to publish non-personalised data which is in the public interest on an open data platform. This would both help citizens and civil society organisations probe what public bodies are doing, and increase the ability of the voluntary sector and local businesses to make proposals on service delivery. Local government already publishes documentation on significant decisions. This principle should be extended to the decisions of national government and its agencies about local areas, above a threshold of significance (say £100,000 a year).

Second, current mechanisms provide certain rights to pursue action in areas which central government has decided are desirable – opening a school, planning, building homes, taking over a property asset or taking over a public service, all through separate processes. This arguably misses the point that communities want to do what they want to do. That may be one, more, all, or none, of the matters covered by the legislation, along with other matters not currently covered by legislation. For example, Action for Communities in Rural England (ACRE) has long promoted “community planning”, a process which starts with communities identifying the (different) concerns and ambitions they have<sup>63</sup>. So there should be legislation for a **general right of initiative for community organisations and corresponding duty on public bodies to give proposals due consideration**. Such a right could not be unfettered, of course. It would be a right to make proposals, and to have them seriously considered by the council or other statutory bodies for whose functions they have implications, probably with some independent input to the decision-making process so that it is, actually and visibly, soundly based. The key tests would be that the group is reasonably representative and not narrowly self-interested, that the benefits of the proposal outweigh the costs, and that it is financially sustainable. Such a right could be seen as the community counterpart to the local authority general power of competence.

Third, on the model of the public sector equality duty introduced by the Equality Act 2010, and (radically) extending the principle underlying the social value legislation, there should be **a new duty on all public sector bodies<sup>64</sup>, national and local, to have regard to the need to give local**

<sup>63</sup> See <http://www.acre.org.uk/rural-issues/community-planning>

<sup>64</sup> This could include housing associations, which are classed as public sector for the purposes of EU procurement rules, and which are, in many places, significant commissioners of works and services.



**people and voluntary organisations opportunity to shape and delivery public policy outcomes and achieve social value.** This would enable communities and the voluntary sector to make legal challenges of policy decisions and commissioning processes which seemed not in line with the duty. The more important impact, like the equality duty, might be the likely behavioural effect on public bodies, which would ‘community proof’ decisions and programmes to reduce the risk of legal challenge

Fourth, **national and local voluntary sector bodies should have the power to make super-complaints** about policy and commissioning decisions of central government or councils. The subject of the complaint could decide to disregard it, but only after a significant and transparent process of reflection, with clear reasons given for the decision.

### *English Decentralisation Act*

Primary legislation would be needed to put into effect important aspects of these proposals. It would, however, like the legislation putting devolution in place for the devolved countries, also serve as a powerful political commitment to reset the balance of authority and initiative away from central government and towards local elected leaders and communities. On the basis of the proposals outlined above, the proposed contents are set out below.

English Decentralisation Act: main proposed contents

#### **Competence and enabling**

1. ‘Sunset’ legislation terminating all central government direction over local government (in primary and secondary legislation, and via statutory guidance) unless central government secured Parliamentary agreement to retain it within a set timescale. Government would have to overcome significant obstacles to hold on to powers which it wanted to retain, for example scrutiny by a Committee established for the purpose, and laying Orders under the affirmative procedure in both Houses. Compared with requiring that local government or others make the case for reducing central government control, this would have the advantage of putting the onus on central government to justify retention, as opposed to others justifying removal, and forcing departments and the government as a whole to make tough decisions on the powers it really needed to retain.
2. A procedure enabling local government (LEPs and PCCs as well as councils) to agree, area by area and as desired, new models of collaboration, leadership and accountability, and secure their adoption through a statutory Order, with carefully constrained powers for ministers and Parliament to scrutinise and challenge them. Two key tests would be:
  - Fiscal sustainability: the proposal would have to set out clearly how the new arrangements would deliver savings in total public expenditure in the area compared with the status quo.
  - Accountability: the ability of citizens to influence and challenge local government. The legislation would include mechanisms for a strong Local Public Audit Committee.

#### **Finance**

3. Any measures needed to set a medium term path for local financing.
4. Devolving to councils some aspects of council tax and business rates (exemptions and discounts).

#### **Commissioning**

5. Enacting a clear set of principles for public procurement, including a the presumption in favour of local procurement.
6. A new duty on all public sector bodies<sup>65</sup>, national and local, to give regard to the need for local people and voluntary organisations to have the opportunity to shape and deliver public policy outcomes and achieve social value.

### **Citizen Power**

7. Access to data and open decision-making.
8. Creating a more general right of initiative for community organisations and corresponding duty on public bodies to give proposals due consideration.
9. Giving national and local voluntary sector bodies (NCVO and local CVOs) the power to make super-complaints about policy and commissioning decisions of central government or councils. The subject of the complaint could decide to disregard it, but only after a significant and transparent process of reflection, with clear reasons given for the decision.

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<sup>65</sup> This could include housing associations, which are classed as public sector for the purposes of EU procurement rules, and which are, in many places, significant commissioners of works and services.