




Pacing Lyons: a route map to localism

Forecasting the future shape of local governance

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The New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this collection as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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Foreword

No one should underestimate the importance of current developments affecting local government. The Lyons Inquiry presents the most significant opportunity in a generation to articulate an overarching vision for local government. At the same time the parallel debate on new localism and double devolution provides huge scope not only to advance the public service reform agenda, but also to contribute to the reinvigoration of civic society and the renewal of democracy across our communities.

Since 1997, local government as a sector has made great strides. Comprehensive Performance Assessment has helped to drive improvement in standards in public service as well as organisational capacity. Councils now focus far more clearly on customer concerns and routinely consult citizens about service standards. As a result many councils have fundamentally reformed the way they deliver services. There is now widespread agreement on the role that councils should play as community leaders.

The next necessary step is to build the confidence of local government to assume the local leadership role. This requires a change of mindset on the part of politicians and officers. Instead of waiting for central government instruction or approval, local leaders must increasingly be aiming to define and act on locally determined priorities. But they cannot do this on their own.

As outlined in the *local:vision* discussion documents from the Department for Communities and Local Government (DCLG), local authorities understand their areas like no other organisations and must therefore play a central role in bringing together partners to help determine priorities. Among these none is more important than how to grow and distribute wealth locally.

The UK occupies a privileged position in a rapidly changing world. Our economy is prosperous and stable, employment is high, inflation is low, and public services are currently experiencing their highest level of investment since the institution of the welfare state.

However, this privilege is not assured by whom we are, but by what we do. In an increasingly competitive world, the UK must continue to meet the challenges of

an ever-growing global marketplace. One of government's main tasks therefore is to establish a framework that enables business, the voluntary sector, the public sector, and communities to work in partnership to advance economic competitiveness.

This kind of good governance is dependent on vibrant leadership. In practice, this means not only political leadership within local authorities. It also means the leadership of whole areas, co-ordinating the shared aspirations of the public, private, and voluntary sectors with the local authority's political mandate. Only by playing the role of the first among equals can local government effectively fulfil its emerging place-shaping role.

Vibrant leadership is also about effectively shaping political imperatives. Local government is uniquely placed as the sole democratically responsible body, representative of local citizens, to bring together disparate political views and make difficult political choices. How this is best achieved, and what structures are most likely to deliver confident and effective leadership, remains an important issue for debate.

Equally important are mechanisms for engagement at the neighbourhood level, such as citizen forums and community consultations which can be effective in involving local people in the process of service design. A reinforced role for non-executive councillors in representing and acting on the views of citizens must be a part of the reform of local government.

To realise these aspirations, it is not only local government that must embrace and lead change. Central government must also adapt its role. When local government becomes the overseer of public services in a locality, fundamental questions about the future role, construction and size of Whitehall are posed.

This report reinforces NLGN's position at the vanguard of the new localism debate. Its approach combines innovative and creative thinking with rigorous research and a strong understanding of political realities. The Lyons Inquiry can only benefit from being challenged by this stimulating and thought-provoking piece.

Nick Raynsford

MP for Greenwich and Woolwich

Executive summary

This report begins its analysis of the role and functions of local government not by looking at the state, but by looking at the demands of its citizens. These demands are changing as a result of pressures from globalisation, from the social effects of technology and from the government success at improving public services over the last nine years.

In **chapter one**, we explain how these forces are changing the demands on the local state.

- They are creating a more diverse society with greater variations between localities.
- They are changing the nature of the public services that citizens want, making success more dependent on joined-up government, on working with users to design services and on winning active public consent for collective choices that are at the heart of politics.
- They are creating a crisis in legitimacy as citizens become more political and yet more disdainful of formal politics.
- Central government responses to these problems have reinforced the need for change. Central government policy development is increasingly dependent on being able to devolve delivery to local areas and to call on local government to co-ordinate that devolution.
- These and other pressures are creating new challenges for central government. Its ability to deliver national promises through its national performance framework is decaying rapidly. Top-down delivery is driving upward pressure on costs; just as government needs to contain public spending more effectively to meet the pressure of the Comprehensive Spending Review 2007.

In **chapter two** we explain the impact of these emerging demands on the local state for the future role and function of local government.

- We explain that local government can no longer be a collection of specific services. Instead it must be able to lead across all activities of the local state.
- We show how social and economic change means that it is becoming impossible to reduce the problems of managing across boundaries through reorganisation.
- Instead the state must gain new skills so that they can handle the complexity of 21st century society by managing across boundaries.

Chapter three turns to the question of the reforms necessary to allow the local state to match citizen expectations by joining up government.

- We show that this can no longer be achieved through the command and control systems of old. Instead councils must learn to lead through networks of providers; acting as the hub that provides focus and direction to better outcomes.
- We make recommendations for a massive extension in the scope of Local Area Agreements (LAAs).
- We argue that Parliament, advised by the Audit Commission, must be given a new role as the arbiter between the producer interests of both local and central government.
- This has implications for the national performance framework through which central government has delivered nine years of improvement in public services.

Chapter four proposes corresponding reforms to the national performance framework, strengthening accountability and driving local performance harder, by aligning the performance framework with the dynamics of joined-up governance.

- Proposals are made to abolish top-down performance management, replacing it with more effective bottom-up accountability.
- Proposals are made to empower citizens to have a direct role in drawing down national inspectors.
- Horizontal accountability between local public service partners is strengthened.

In **chapter five** we show how these reforms have fundamental implications for Whitehall.

- We show how joining-up delivery at local level and empowering citizens to drive performance undermines the traditional hierarchies through which Whitehall has delivered national government policy.
- We argue that far from being a threat, the introduction of external challenge to the policy making heart of the civil service provides the missing incentives that explain why the present government's attempts at reforming the civil service have had such limited success.
- We explain why reforming the role and function of local government will accelerate delivery of the Prime Minister's civil service reform strategy.
- As a result we show that the apparent dilemmas between the needs of local government and those of central government can be resolved in ways that accelerate improvements in both.

None of the reforms to the delivery capability of central or local government will be usable if government loses the legitimacy to act on behalf of the people. In **chapter six** we show that existing problems with civic engagement are set to intensify.

- Social change is eroding the legitimacy of political leadership
- The reforms necessary to deliver better services will, within existing political structures, worsen the problem
- We propose a separation of powers between the executive and front line councillors. We show how this will ensure:
 - stronger local leadership;
 - a new and more powerful role for front line councillors that includes guardianship of greater neighbourhood empowerment; and
 - new powers for citizens to hold politicians to account.
- We make recommendations that will clarify accountability across the whole of the local state; bringing it together in local government.

However we are aware of Benjamin Franklin's warning at the signing of the US constitution, a new constitution *"only gives people the right to pursue happiness. You have to catch it for yourself"*. Without a sufficient supply of talented and representative candidates, reforms to political structures will not restore political legitimacy.

- We analyse the reasons that so few of the next generation of adults are seeking to serve in elected office, and make recommendations to address the challenge.

Funding reform is the starting point of the Lyons Inquiry and in **chapter seven** we make comprehensive recommendations for transition to a new funding regime that will support the needs of the local state in the 21st century. We explain the symptoms of failure in the current regime, including the gearing ratio. We show how these symptoms have concealed deeper failings and have led to mistaken assumptions about how reform can be achieved.

- We make recommendations to devolve taxes to local government through reform of council tax and de-nationalisation of business rates.
- We show how central government grant can be reformed to ensure that Ministers have more effective tools with which to ensure that they can deliver their national promises
- We argue for the assigning of parts of national taxes in the new form a hybrid grant - Assigned Tax as Grant (ATAG) - where tax rates are set nationally and tax revenues from the locality are retained locally. We believe that ATAG has benefits within the reformed role of local government that did not apply to the old regime.

In **chapter eight** we argue that the complexity of the challenges that the local state must now address intensify the need identified by the Lyons Inquiry for local government to accelerate improvements in both capability and confidence.

- We highlight the looming demographic gap that could soon starve local government of talented staff unless reform raises the status of local public service.
- We argue that fundamental cultural changes are needed to meet the challenge of the future.

Taken together the argument and recommendations in this report present the case that reforming the local state to meet the demands of its citizens is not possible without wider reforms to both government and the body politic.

As a result neither the Lyons Inquiry, nor this report can be successful if they are limited to amending the role and functions of local government.

What we present here is a programme of reform to the role and function of local government that a bold Prime Minister can use to support wider reforms in the effectiveness of the British State.

Annex

Seminar speakers

A series of five research seminars took place between March and May 2006. These Chatham House Rule discussions investigated the following areas:

- **future demands on the local state** (March 2006);
- **strategic leadership of public services** (March 2006);
- **local political accountability** (April 2006);
- **guarantees for devolution** (April 2006); and
- **funding for autonomy, innovation and improvement** (May 2006).

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Senior Policy Adviser, Prime Minister's Strategy Unit

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Jane Martin

Helen McColm

Stephen Meek

Jonathan Mills

Simon Milton

Gavin Moore

Oona Muirhead

Simon Parker

Mike Perkins

Henry Peterson

Jules Pipe

Satwant Pryce

Anna Randle

Mike Reardon

Simon Ridley

Jane Roberts

Dave Simmonds

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Local government stands at a crossroad. The Lyons Inquiry into Local Government has the potential to develop radical and emancipating solutions for local governance.

Pacing Lyons: a route map to localism seeks to address Lyons's terms of reference and offers new solutions on local-central relationships and revitalising local democracy. It addresses the future of local governance structures, how it interacts with its citizens and advocates new and innovative ways of funding local government.

The underlying argument of this report is that reform of local governance is not like repairing a machine. It cannot be done piecemeal, fixing one piece at a time. Changing to meet the demands on the local state is like repairing an eco-system. The connections between each part of the system are so dense that failure to address any one area, will undermine and ultimately cancel out progress in all other areas.

Pacing Lyons argues that the whole eco-system of governance in the English state must be reformed. It delivers a list of powerful and compelling recommendations that reform not only local government, but our entire way of functioning with our democratic structures.