

## **Greater Local Devolution: Evidence in Support**

**Report on a seminar held for the Lyons Inquiry 22 June, 2005**

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### **Background**

As part of his review of local government funding, Sir Michael Lyons considered it important to convene an expert seminar to discuss, evidence and critically assess the case for the local devolution of service delivery. He viewed this as an important input into his consideration of the case for change to local-national fiscal arrangements and for greater local flexibility. This paper provides an account of the main findings to emerge from that seminar, drawing on the ideas discussed at the seminar and the five papers written by expert researchers that provide a stimulus and a focus for the seminar. These are issues that will continue to be explored by the Inquiry with its remit extended more explicitly to cover issues around local government function, as well as funding.

The seminar which included academics, practitioners and key commentators examined papers on the following issues:

Professor Ivan Turok – Local and National competitiveness: the economic case for devolution

Professor Martin Smith – Policy making and joined up government

Professor Steve Martin – Impacts of local devolution for efficiency and effectiveness in service delivery

Professor Perri 6 – Devolution for local government, individual choice about services and personal responsibility

Professor Vivien Lowndes – the case for local devolution: community cohesion and self-determination

The seminar set itself the challenge of testing how robust a case for greater devolution could be assembled. It is possible to argue for greater devolved decision-making on the basis of value judgements or normative considerations. We do not wish to deny the

strength of this style of argument, but we set ourselves a different challenge. We asked to what extent could we establish an evidence base for greater local devolution in relation to the capacity it would deliver by changing governance arrangements and enabling us to tackle key social and economic challenges in new ways.

Evidence was presented by our expert authors in two general ways. Sometimes it was possible to offer evidence that talked directly to the issue of the impact of greater devolution. On other occasions, the evidence is based more on a balanced judgement from the expert about the likely impact of greater devolution. Both types of evidence were reviewed and subject to rigorous debate during the seminar exchanges. As a result, this paper can claim to have distilled much of the available evidence that could be used to address the likely impact of greater local devolution. However, two important caveats apply. First there will be evidence, both positive and negative to the case, that has been overlooked by the experts and the seminar discussion. Second, an important consideration in reading this account of the seminar is that the argument in favour of greater flexibility can be informed by international research, but comments as to its potential impact in England are inevitably based on analysis of existing arrangements.

## **1. Introduction**

The case for devolution can be made on purely value driven grounds. It is possible to argue for local devolution because it expresses the principle of sharing power in the governance of the country, or because it enables different parts of the country to express their autonomous needs as an expression of democracy. These types of arguments are often used to express the constitutional case for giving greater decision-making capacity to local government and therefore for providing greater scope for financial autonomy of local government. Value-laden arguments for devolution have tended to dominate local government debate and in particular discussion about the general case for local government reform.

The seminar, and, therefore, this paper take a different line. The aim is to assess, using available evidence, the potential impact of greater local devolution on the achievement of other desired social and economic goals. Would greater devolution improve the running of our economy or the cohesiveness of our society, or the effectiveness of the delivery of key public services? Drawing on evidence presented at a day seminar, this paper aims to summarise and review the evidence-based case that can be made for devolution. The arguments presented are about the consequences of greater devolution for local decision-making and therefore the potential benefits that any enhancement of local financial autonomy might bring to local communities. Judging the consequences of future actions is problematic, but insight can be gained through empirical investigation and reasoned argument.

The seminar's foundations were provided by five papers presented by experts in their field. Professor Ivan Turok from Glasgow University examined the impact that greater devolution might have on economic competitiveness and productivity. Professor Martin Smith from Sheffield University looked at the way in which the processes of policy in government would be strengthened or weakened by greater devolution. Professor Steve Martin based at Cardiff University reviewed the evidence of the impact of devolution on the effectiveness and efficiency of service delivery. Professor Perri 6 from Nottingham Trent University scrutinized the debate about choice in public services and speculated on its implications for devolution. Professor Vivien Lowndes examined the connections between community cohesion and engagement and local decision-making. From the presentation of the papers and the discussion that followed, three arguments stand out:

- local government decision-making plays a key role in delivering local economic competitiveness that in turn contributes to national competitiveness
- local government action can lead to increased effectiveness and productivity in public service delivery as an alternative to centrally driven performance measures
- community coherence and the capacity for community engagement requires active support from local government

In short, local government – given greater decision-making capacity and the appropriate incentives to steer its performance – could deliver economic, service and social benefits

of considerable importance to the future needs of the country. In addition, the seminar heard that local government policy-making has capacity to take the responsibilities associated with greater devolution. Finally, the seminar debated whether the agenda of greater choice and personalisation of public services was compatible with a strategy of greater local devolution. The conclusion was that local devolution can create the conditions for enhanced personal choice in respect of public services.

## **2. Economic competitiveness and local devolution**

This section of the paper draws on the paper presented by Professor Turok and the discussion of that paper that took place at the seminar. Professor Turok began by noting that there is a trend towards economic decentralisation in many countries supported by advocacy of Organisation for Economic Co-operation and Development (OECD). However, he went on to observe that there was little systematic evidence to support the idea that a more devolved governance setting supports economic performance. The widespread commitment to devolution in this area at times represents more of a belief founded in experience than an established fact.

In this light, Professor Turok set out to test a number of ideas about how greater devolution might have a positive impact. He concluded in a broad sense that the question of the impact of devolution on economic competitiveness is a complex one. The case for devolution rests on a variety of arguments, but the strength of that case depends on the circumstances in which devolution is advanced and the form that devolved decision-making takes.

Four arguments for the value of local decision-making over economic competitiveness can be identified, reflecting the general advantages of localised decision-making. First, a local focus allows for local conditions and circumstances to be taken into account. Second, it permits more policy experimentation and innovation by increasing the variety and range of decision-making points. Third, it provides more opportunities for engaging stakeholders, because of the proximity of the decision-making process to them. Finally,

joining up policy can be simpler and more pertinent to economic competitiveness at this level. In particular, there is considerable evidence, from home and abroad, to suggest that cities are central to driving economic performance and that the capacity to manage their environments, infrastructure, human capital resources and image is the key to their success.

He set out that the strength of the case for devolution rests on a number of factors. It is a question of balance, with international, national and local decision-making all having their parts to play. In the context of a system of relatively centralised decision-making, the case for greater devolution is stronger in order to ensure the appropriate balance of responsibilities. Providing more local responsibility may produce policies more tailored to local circumstances and enable more effective interventions to be developed, particularly in the areas of labour market policies, enterprise and small business development.

Crucially, local interventions in order to make an impact on national competitiveness have to contribute to an agenda that is not simply about diversionary activity, moving economic activity from one part of the country to another. The key activity to promote at the local level is that which stimulates productivity (see Table 1). However, given the scale of investment and activity in the South East of England, some place marketing and population attraction activity by localities outside that region could have not just displacement effects, but a beneficial impact on productivity by overcoming the potential over-heating of the economy in the South East.

**Table 1: Types of local economic intervention**

	<b>Mainly diversionary activities</b>	<b>Productivity enhancing activities</b>
Basic goal	Spatial equity	National efficiency
Focus	Regional and national markets	International markets
Form of competition	Business attraction or retention Attraction of population to live or visit	High value products produced by innovative and efficient local firms
Nature of growth	Extensive	Intensive
Key competitive advantage	Lower costs or greater resource availability (Static)	Quality, sophistication and reliability: 'smart' capacity (Dynamic)
Form of economic support	Relatively routine: Basic locational subsidies Place marketing Physical infrastructure Strategic sites & premises Looser regulations	Relatively specialised: Advanced business advice Management development Technical support Research and development Human capital
Benefit to the local economy	Positive but temporary? High employment	Positive and enduring for selective localities with the requisite assets
Benefit to the national economy	Zero sum or displacement	Positive and enduring High income
Dangers	Predatory poaching Concessions on environmental standards Wasteful duplication	Less employment, especially of low skilled High risk of failure Winners and losers

*Taken from Turok (2005)*

There is some evidence that linking local government back to some sort of tax connection to local business may have a beneficial effect, because without it there is a tendency to focus on distributional and social benefits at the local level and neglect measures to enhance economic capacity and productivity. Two tentative pieces of evidence suggest that there may be some substance to this concern. Since devolution in Scotland, funded by block grant from the central exchequer, it is noticeable that economic development spending has fallen from 7.8% to 5.1 % of total spend (figures taken from Professor Turok's slide presentation).

In the debate that followed the presentation by Professor Turok, it was widely accepted that there is a strong case for greater devolved decision-making over economic development issues. Place marketing, supporting new business opportunities and getting people back into employment are intensely local activities. A commitment to greater local discretion over the competitiveness agenda could support national economic competitiveness, providing that incentives for productivity enhancing interventions can be put in place. A local focus was also important in identifying and solving local supply side constraints such as infrastructure, premises, skills development and improving communications. It was also considered that it was at the local level at which consensus around the costs associated with economic development can be achieved. Generally, it was considered an area to which more priority should be given as local authorities had concentrated in the past on social services, health and education, pushing economic development to a degree off the agenda. There was a perceived need for more local experimentation and decision-making, as too often local economic strategies were all very similar. Greater devolution could encourage places to emphasise their differences and develop more tailored policies. There remains some debate, however, about at what spatial level economic powers are best held, ranging from the region, to the city region, and to the local authority level. There was also some evidence offered that the nationalisation of the business rate in respect of local government funding has led to a decreased focus on issues of local economic performance. This last point was viewed to be a matter that should be open to further investigation.

### **3. Enhancing productivity in service provision: can localism deliver?**

This section of the report draws initially on the paper presented at the seminar by Professor Steve Martin. Professor Martin argued that over the last decade the improvement of public services had been driven primarily by a programme of reforms devised in central government and enacted at the local level. The evidence suggests that this reform process had indeed made a positive impact on the management practices of local government and on objective measures of service quality, illustrated by a 10 %

improvement between 2000 and 2004 against a batch of performance indicators (for more details on this issue see the report of the meta evaluation team on local government modernisation on the ODPM web site).

Professor Martin suggested that there was, therefore, evidence that a so-called “top-down” approach was working, but he went on to argue that it might not be working equally well with respect to the full range of public service processes. In particular, he argued that the change agenda has probably delivered a less positive impact on partnership working. From the perspective of local authorities, top-down inspection regimes and funding arrangements make joined up working at the local level more problematic as the lines of accountability go back to disparate parts of Whitehall and not to local citizens and stakeholders. There appears also to be some evidence that a top-down approach stifles innovation. According to Steve Martin (2005, 6):

*Authorities complain that there are few incentives for them to experiment with new approaches. The system appears to them to be weighted towards ‘playing it safe’ (i.e. doing the things that they know that inspectors are looking for). As a result the current approach has had the greatest impact on the worst performers. There has been much less impact, it is argued, on the best authorities. It has ‘raised the floor’, but had far less impact on the ‘height of the ceiling’.*

Finally, the top down approach does not appear to have delivered much in the way of increased public satisfaction. It has potentially increased public disquiet about local services, because the top-down approach has raised expectations, whilst highlighting poor performance in some service areas or local authorities.

Understanding what drives improvement in local services is a complex issue; a range of factors might be held to have an impact and which improvements are valued may vary from area to area. Drawing on evidence from a comprehensive survey of local government officials in 314 authorities, Martin and his colleagues at Cardiff tested a range of propositions. The officials were asked about the impact of a range of

organisational factors on various measures of public service quality. Ultimately, according to these officials, the strongest predictor of perceived better service performance across the board is whether the authority has a culture that focuses on the needs of the users. The establishment of such a local culture, it could reasonably be argued, has to be a matter of bottom-up commitment and support, rather than simply a response to top-down pressure. In short, the key driver of performance improvement has to be generated and delivered locally.

Martin and his colleagues investigated the perceived impact of a range of other organisational changes or interventions and none of them had the same across the board effect as establishing a user culture. Leadership, partnership working and performance management were seen by officials as likely to be most effective in addressing concerns about efficiency in service delivery.

Professor Martin also found that low gearing in a local authority (less dependence on central funding) is associated – once authorities' differing deprivation levels have been controlled for – with perceived better performance in the quality, effectiveness, equity and user satisfaction of services.

*The analysis suggests that there was a positive association between low gearing and relatively high performance in terms of perceived service quality, effectiveness, equity, user satisfaction and staff satisfaction. Martin (2005,7) .*

This is an interesting finding, as it is suggestive of a view that greater flexibility that low gearing might provide to a local authority also encourages some elements of better service performance. However, other evidence, including that provided for the 2004 Balance of Funding Review did not find any strong association between gearing and the relative efficiency of local authorities. This issue clearly requires further investigation.

Professor Martin argued that the evidence suggests, at least, that delivering improved service performance requires more than a top-down strategy, as there are limitations to

what a top-down strategy can encourage in terms of service improvement. Greater local capacity and control over the agenda – delivered through a more devolved approach to local government – could provide stronger incentives for service improvement, as lower geared authorities deliver more on this front of service improvement already. Moreover, given what we now understand about the drivers for service improvement, it is clear that local ownership of the change process and a user focus within the local authority appear to be key positive factors. Professor Martin was clear that central government initiatives and interventions remain vital in order to drive service improvement. His argument was for a greater bottom-up capacity to match streamlined input from a top-down approach.

Professor Martin went on to argue that the case for local control and discretion over the processes of service delivery is strongest where needs have a distinctive local character. There is a need for joining up, especially where preferences or requirements are likely to change rapidly. Moreover, local control is essential where the input of user voice could enhance the quality of what is provided.

Professor Martin also noted that the increased tendency to commission rather than directly provide services, and the capacities provided by new technology, open up new opportunities for local authorities to focus on working with clients, consumers and citizens, and yet still enjoy the advantages of economies of scale and increased capability when it comes to service delivery.

In the discussion that followed the presentation there was considerable agreement about how greater local devolution would support rather than hinder service improvement. Several participants were keen to ensure that central government controls remained in place, even if greater local autonomy was provided as it provides public assurance as well as a stimulus to further improvement. Others raised the issue about whether the real key to success was not so much local political choice as local managerial autonomy. What was required was more capacity for local managers. They felt that greater local political control could mitigate against tackling issues of service efficiency and effectiveness. Others, however, argued that the service debate required a local political dimension,

because it was in the trade-offs between spending and delivery that real judgements about public satisfaction with services and the drive to improved service performance could be examined. Without local accountability and the discretion to make different and difficult choices at the local level, the debate about public services would be skewed and focus on raised expectations and perceived performance failure. Top-down strategies to that extent may be self-defeating, as they create a dynamic in public judgement about public services that hardly ever leads to a positive judgement and they obscure choice about the inevitable rationing of resources.

#### **4. Community cohesion and citizen action: the framing role of localities**

The idea that the local level is a key arena to establish community cohesion is strongly supported by the evidence. This issue was addressed most directly in Professor Lowndes contribution to the seminar. Communities in their territorial expression can be quite diverse stretching from a few streets to a much wider neighbourhood. People, it appears, prefer to live in more homogeneous communities, but do identify in quite a complex set of ways with a wider range local communities, sometimes at different spatial levels. The pattern of community coherence hardly ever directly coincides with the boundaries of any particular local authority, but many local authorities have proved adept at building bridges and relationships across complex community groupings. Social capital - a sense of community trust built on community networks - can be mobilised by local authorities in a range of complex and subtle ways. Communities are built at the local level.

The evidence reviewed by Professor Lowndes shows that that the local area is the key, indeed overwhelmingly pertinent, base for citizen engagement in politics and activism. Most non-electoral participation takes place at the local level, a fact reconfirmed by a citizens' audit undertaken by Sheffield University in 2001. Most volunteering takes place at this level. Moreover, local participation tends to be able to attract a wider range of participants. Women, black and ethnic minority groups are more involved in the micro and community politics at the local level. The citizens audit revealed that 58 per cent of the population felt that by working together they could change their local community, but

that figure dropped to 43 per cent when it came to making an impact on Britain (Pattie et al, 2004, 46). It could therefore be argued that to neglect the local level as an arena for political choice may mean that large sections of the population are less likely to engage.

The local area is a strong focus for accessibility and responsiveness and local authorities have done a lot over the last two decades to develop more innovative and engaging forms of participation. People are much more likely to contact a local official rather than a national one. The local level is the arena where people expect to be able to get access to decision-makers and influence their decisions. One-stop shops and neighbourhood outlets have further enhanced the accessibility of many local services. As Lowndes (2005, 5) argues:

*Research shows that citizens: (a) trust local government more than national government; (b) are more satisfied with local services than national services; and (c) believe they have a greater likelihood of influencing what happens locally than nationally. Local leaders are more likely to live and work in the locality than those elected to national office. Local leaders have extensive contacts with local community organisations, and are accessible to individual citizens via telephone, e-mail and traditional surgeries.*

While the evidence for the local area providing a focus for community coherence, citizen action and the practice of accountability is very strong, there are, however, a number of tensions. Professor Lowndes identified a number of cautionary issues about the role of local politics. Smaller units often provide a focus for engagement, but there is a trade off between participation and scope of control. Active engagement with anti-social behaviour measures seems to be at its strongest at street level or within a specific estate. Votes in New Deal for Communities have often provoked higher turn out than those in local authority elections, even if in the round there is less at stake. Communities build their coherence initially on shared identities, values and purposes, but all communities are to a degree diverse and horizons may well stretch beyond local boundaries. Part of the challenge facing local authorities is to build bridges and connections between different communities. Finally, local participation can lack a certain technical competence when

dealing with some issues, but what it does bring is an intrinsic knowledge of local context and circumstances that more codified and organised forms of knowledge neglect at their peril.

The discussion that followed the presentation on these issues by Professor Lowndes confirmed support for the often hidden work of local authorities in community building. There was a strong recognition of the challenges involved in creating community cohesion. The case for the local level as a base for involvement was accepted, but there were concerns about how participation was organised and who was engaged at that level. Finally, some doubt was cast over the effectiveness of accountability arrangements at the local level. Were all local authorities up to the task? Was there a case for giving the more 'competent' authorities greater freedom to act, and therefore to be held to account for their local decisions? If so should not competence be more appropriately judged in terms of local government as democratically accountable units, rather than Comprehensive Performance Assessment scores?

## **5. The case for local devolution: other elements**

Arguments from the other two papers also caught the attention of the seminar attendees. The seminar discussed the implications of there being differences in capacities at the local level. However, it is important to recognise that national level policy making also varies in quality, responsiveness and foresight. Evidence on this issue was presented in the paper by Martin Smith. The scale and nature of local government in Britain makes it capable of sustaining considerable policy-making responsibilities, although the exact shape and structure of local authorities is, appropriately, a matter of debate.

The argument for greater local collective choice should not be seen as antithetical to the argument for greater personalisation and choice in public services. Evidence on this point was presented in the paper by Professor Perri 6. Individual tailoring of services involves a different dynamic to the greater collective choice of the nature, direction and volume of local public services. It is possible to be committed to greater local choice and greater

individual choice at the same time. The former reaches issues and concerns that citizens cannot address through greater individual choice alone and enables a community-wide debate about trade offs, vision and priorities within local areas.

### **Concluding remark**

Bringing into play a wide range of evidence, the seminar lent support to the view that greater local devolution could drive forward local economic competitiveness, support enhanced service performance and provide an arena for building community coherence and engagement. At no stage, however, was the argument in favour of an abandonment of national level decision-making, but rather it was for a shift of responsibility to the local level.

The case for greater local devolution ultimately rests on the ability to show that there is a strong role for local governance in delivering against a range of social and economic objectives. The seminar and paper sought evidence to test that proposition. There can be little doubt that much of the analysis which emerged was supportive of the case for greater devolution, although another conclusion is that the body of published evidence says less than we might hope.

The exact form and nature of that devolution is a matter for discussion-and evidence gathering – in other settings. No system of governance is perfect. Central initiatives fail as well as local ones. However, given where the system is at present, the seminar sets out a case for greater devolution as greater local decision-making capacity is likely to bring in its wake better economic outcomes, improved service performance and a more engaged citizen.

Of course, local government as it currently exists, is not an automatic beneficiary of the argument for devolution. There are other institutions - at the region, city region or neighbourhood level or those constructed to represent particular sections of society (such as service users, ethnic minorities, elderly people or young people) - that might also be

seen as a target for the ambitions of devolutionists. Yet it is difficult to imagine a system with greater devolution being put into effect without a greater role for local government, although the exact form and function of that system of local government is an issue that requires wider debate.

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