

THE CONTEXT FOR CHANGE

FUTURE CHALLENGES FOR GOVERNMENT AND PUBLIC SERVICES

1.1 Looking to the future, it is clear that, as a country, we face challenges from an environment that is changing rapidly, both domestically and internationally. Those challenges include:

- a rapidly changing and growing global economy, contributed to by expanding international trade and technological progress. Global economic change will have significant repercussions for the structure of the UK economy and the skills needed for it to succeed in the future;¹
- demographic and socio-economic change, including an ageing and increasingly diverse population, and greater levels of migration both across national borders and internally, particularly to the South East. These challenges will put new pressures on public services and also require more flexible responses to meet the needs of citizens;²
- growing expectations of the responsiveness and customisation of goods and services provided by both the private and public sectors, fuelled by technological innovation and increasingly competitive markets;³
- pressures on the environment, such as climate change. Responding to these will require a greater focus on sustainability, the more efficient use of natural resources, and behavioural change from individuals, businesses and the public sector;⁴ and
- the changing nature of political engagement. Citizens are generally less engaged in traditional political processes and institutions than in the past, but are increasingly involved in other forms of political action such as single-issue campaigns and boycotts. This poses challenges to the legitimacy and accountability of government both nationally and locally.⁵

1.2 Taken together, these developments are leading to greater diversity and difference both within and between communities, as well as raising our expectations of government and public services. Addressing the implications for public services will be a key element of the Comprehensive Spending Review (CSR) in 2007, and the Treasury has already identified a set of key challenges as part of the preparation for the CSR.⁶

¹ HM Treasury, *Long-term global economic challenges and opportunities for the UK*, 2004

² Tavistock Institute, *All Our Futures – The challenges for local governance in 2015*, ODPM, 2006

³ Lyons, M., 'Some Reflections on the Government of Towns and Cities', in *Local Governance* (2000), vol. 26, no. 1, pp.3-13

⁴ HM Government, *Securing the Future – delivering UK sustainable development strategy*, 2005

⁵ Power Inquiry, *Power to the People*, 2006

⁶ HM Treasury, *Budget 2006 A strong and strengthening economy: Investing in Britain's Future*, 2006

The role of government

1.3 Change necessarily presents challenges and provides opportunities for individual citizens, businesses and the voluntary and community sectors. In many cases the best solution for society as a whole will be to leave individuals and private organisations to make their own choices about how they respond. Within public services, there are also debates about how individual choice in public services and the use of market and quasi-market mechanisms can enhance responsiveness and efficiency.⁷ I have no doubt there is more to be done on this front.

1.4 However, in order to secure continuing economic prosperity, effective and flexible public services, and to ensure that citizens can influence change there are some issues about which we will, as a society, need to make collective choices. Since public services all have some collective element to them, either in that they are provided to groups of people rather than individuals, or because they are wholly or partly funded from taxation, we will always need to make collective choices and decisions about priorities within and between services, and between public spending and tax levels.

1.5 Representative government has an essential role to play in enabling debate, discussion and compromise if those collective choices are to be made well. Arguably, it is a role that is becoming more complex, and with declining engagement in the political process it is more challenging to make sure that decisions reflect public views and command public support.

1.6 One of the biggest challenges for government is making difficult collective choices on priorities in a world of constrained resources, and matching expectations of services to acceptable levels of taxation. Unless we can find effective and representative ways to continue to make these decisions, we risk seeing expectations increase ever faster than governments can hope to satisfy them. Useful illustration comes from the debates of recent months over the future of pension provision and the funding of social care for the elderly, sparked by the reports of the Pensions Commission, and the Wanless report on social care.⁸ Both offer the prospect of substantial additional public spending to meet future needs, but it is by no means clear that such spending (and the taxes necessary to fund it) will be affordable or acceptable.

1.7 In addressing these challenges, it is not possible to look at the role and functions of local government in isolation. We must look at our whole system of government. I believe that central and local government have common ambitions to enhance prosperity and well-being, safeguard fairness, provide good public services and choice to individuals and communities, and promote social cohesion.

1.8 Central and local government therefore share an interest in developing a system which enables a sensible balance to be struck between what people want and what they are prepared to pay for at local and national levels. They also need to work together on reforms to enhance the ability of public services to respond to and meet the needs of local people, and to deliver value for money and efficiency in the delivery of those services. There is already a considerable amount of activity underway which is changing central and local responsibilities. The following paragraphs highlight some key examples of that.

⁷ *The Case for User Choice in Public Services*, Joint Memorandum from Minister of State for Department of Health, Minister of State for Local and Regional Government and Minister of State for School Standards to Public Administration Select Committee Inquiry into Choice, Voice and Public Services, 2004

⁸ Pensions Commission, *Implementing an integrated package of pension reforms: The Final Report of the Pensions Commission*, 2006; Wanless, D., *Securing Good Care for Older People: Taking a Long Term View*, King's Fund, 2006

PUBLIC SERVICE REFORM

Public services 1.9 The Government has adopted an active reform agenda across the public services, intended to deliver more effective, responsive and customer-focused public services. Most of the services in which local government plays a major role continue to undergo review or reform, sometimes in quite significant ways. In recent months we have seen, for example:

- The health and social care White Paper, *Our Health, Our Care, Our Say*, which sets out new ways in which local authority adult social services departments need to work with Primary Care Trusts and other stakeholders to deliver appropriate health and social care services;⁹
- The Education and Inspections Bill, which alters the role and powers of local authorities in respect of schools, giving schools more independence, but with powers and responsibilities for local authorities to engage with coasting or failing schools to support improvement;¹⁰
- The Further Education White Paper, *Further Education: Raising Skills, Improving Life Chances*, which sets out a programme of reform for FE, including a strategic leadership role for local authorities;¹¹
- The Police and Justice Bill, which will introduce new powers for local communities to hold local authorities and the police to account. The Home Secretary is also proposing significant reforms to police force and authority structures;¹²
- New regulations for licensing entertainment and the sale of alcohol, introduced in November 2005 which gives local authorities new responsibilities;
- The *Review of England's Waste Strategy*, which identifies the need for continued investment and action if England is to meet its obligations under the EU Landfill Directive and other European commitments;¹³ and
- The *Respect Action Plan*, which sets out actions for local and central government across a range of services in order to tackle anti-social behaviour.¹⁴

Local government reform 1.10 The Government has also implemented a substantial programme of reform and change in governance since it came to office in 1997. At a national level, the most significant change has been the devolution of powers to Scotland, Wales and Northern Ireland (though the Northern Ireland Assembly remains suspended at the time of writing), leading to some divergence in policy within the UK as different collective choices are made in those countries.

⁹ Department of Health, *Our health, our care, our say: a new direction for community services*, 2006

¹⁰ *Education and Inspections Bill, 2005-06*

¹¹ Department of Education and Skills, *Further Education: Raising Skills, Improving Life Chances*, 2006

¹² *Police and Justice Bill, 2005-06*

¹³ Department of Environment, Food and Rural Affairs, *Review of England's Waste Strategy*, 2006

¹⁴ Home Office, *Respect Action Plan*, 2006

1.11 In local government, reforms have been driven through a series of Green and White Papers, and Local Government Acts in 1999, 2000 and 2003. The Government has aimed to build stronger local accountability, to promote local leadership and social cohesion and to deliver more efficient and effective public services.

1.12 Reforms have included, for example, the introduction of the Best Value regime, new constitutional arrangements for councils, the creation of directly elected mayors and the introduction by the Audit Commission of Comprehensive Performance Assessment. These have been accompanied by new arrangements for delivering service outcomes including Local Strategic Partnerships and, more recently, Local Area Agreements. The Government is currently preparing a further Local Government White Paper, due to be published this summer, which will take its reforms further.

1.13 Local government has responded strongly to the reform agenda. New internal and external governance arrangements have become established ways of working, for example through executive cabinets, scrutiny and Local Strategic Partnerships. Comprehensive Performance Assessment (CPA) results and other performance indicators show improvements across authorities and services, and there is active investment in local partnerships and other working arrangements across services.

The future of public spending

1.14 Finally, in order to understand the context for my work, it is important to recognise that public spending is unlikely to continue to increase in the future at as high a rate as it has done in recent years. That increases further the priority that needs to be given to taking a rigorous approach to efficiency, on making the most effective use of existing assets, and on finding the most appropriate ways to decide on our national and local priorities. The debate launched in Budget 2006 on how public services should respond to the long-term challenges facing the UK – which will inform the CSR next year – will be an important contribution to determining our national priorities.

THE PURPOSE OF THIS DOCUMENT AND ITS RELATIONSHIP TO WORK ON FUNDING

1.15 In December 2005 I published my interim report on the funding of local government and set out my initial analysis of the role and function of local government for consultation with central and local government, businesses and other stakeholders.

1.16 This document seeks to take that analysis forward, locating local government firmly within a debate on how, as a society, we develop an overall system of government which best meets the needs of citizens and the challenges of the future, within the resources we are prepared to devote to it. It draws on a range of evidence including the responses to my consultation and case study examples from local authorities, and is intended to contribute to the debate about what measures the Government should take in the White Paper it is planning to publish this summer. Whilst I have highlighted a number of case studies and examples from specific local authorities, I am clear that these are not unique but serve as illustrations of what good local government can and does do across the country.

1.17 In this paper my focus is on the contribution of local government, but I recognise that it is shaped by its relationship with central government, the framework and machinery that the latter creates, other tiers of governance and service providers, and wider changes to public services and governance.

1.18 In addition, I do not discuss funding questions in detail here (though some of my comments do have implications for the funding system), in order to be able to focus on

issues about the role and function of local government. However, reviewing the local government funding system, as set out in my original terms of reference, does remain an important part of my work, and I will make recommendations on the full remit of the Inquiry in my final report to Ministers in December 2006. I do not consider issues about reorganisation or the structure of local government in this report.