

4

WHAT NEEDS TO CHANGE?

INTRODUCTION

4.1 Local government has an important and unique part to play in the promotion and development of the well-being of individuals and communities, as well as in the commissioning and delivery of responsive and efficient public services. This is a shared agenda between central and local government – and we need to find a system which enables us to take full advantage of the potential contribution of local government to enhancing national prosperity and public satisfaction. I think these objectives suggest reform is needed in a number of areas.

4.2 Firstly, we need to clarify who is responsible for what, and to increase the amount of local choice, informed by the principles that I set out in Chapter 2. The performance management system should reflect and support those responsibilities, and we also need to ensure that local government has the right levers and resources to deliver them effectively.

4.3 Secondly, we need to consider how to enhance local accountability and to sharpen and align the incentives facing local authorities when they make local choices on behalf of their communities.

4.4 Thirdly, we need to ensure that local government has the confidence and capability to exercise its place-shaping role effectively. This will require further action to develop skills, leadership and other capabilities of local government, at both the political and officer levels.

4.5 If reform in these areas is carried through wholeheartedly and effectively by both central and local government, I believe it will provide a series of benefits for citizens and service users, as well as central and local government, including:

- a more efficient allocation of resources between and within services, based on local choices informed by effective public engagement – which should also help to manage pressures by ensuring that resources are devoted to the highest local priorities;
- greater value obtained from local public services, through more co-production with service users themselves, and improved co-ordination across local public services more widely;
- enhanced delivery of a smaller set of national priorities, particularly where challenges and solutions need to be joined up locally; plus the potential for a reduction in the costs of the industry of supervision which are incurred by both central government and local government;
- potentially, more prosperous communities which benefit from place-shaping, and the possibility of growing the size of the overall ‘cake’ from which local public services are funded;
- benefits from enhanced innovation and greater opportunities to test new approaches; and
- as a result of all the above, greater public trust in the system of local and national government as a whole.

ROLES AND RESPONSIBILITIES

4.6 In my view it is not so much a lack of formal devolution that inhibits our ability as a country to get the most from local flexibility and variation, but rather the degree to which the local public service agenda and local priorities are set by central government ministers and departments. By ‘devolution’ I therefore mean that we need to shift the balance of responsibilities for public services from central to local government, and to be clearer about their respective roles and responsibilities.

Fewer national priorities, with a performance management system to match

4.7 I have argued in this paper that greater local choice is essential in order to maximise local well-being, national prosperity and satisfaction with public services. Local government has a crucial – and indeed the crucial – role in engaging with the public to inform those choices, and in taking responsibility for them across a broader range of public services. Greater flexibility for local government to do this is needed for two reasons:

- to enable a closer match between what local people want and need and what they get from their public services; and
- to free up energy and resources to enable local authorities to place-shape more actively.

4.8 Despite recent reductions in the number of targets, and improvements to the system of performance management system, I believe that central government needs to adopt a more focused approach to setting national priorities, by defining a still smaller set of key objectives and requirements which it seeks to enforce and monitor in all parts of the country. These priorities can and should change over time, but by being more selective, I believe that central government could have greater success in delivering national standards where they are most needed, as well as enabling a more effective focus on the efficient use of public resources to address local priorities and issues.

4.9 With further reductions in the number of targets, the requirements of inspection and other monitoring mechanisms could also be reduced. This could reduce the size and scope of the industry of supervision which has grown up, not only in the form of public sector regulators, but also within central government and local government themselves. In local government, releasing some of those efforts and resources could enable place-shaping to take place in more areas and to better effect.

4.10 In order to rationalise the set of national objectives, the principles outlined in Chapter 2 will help to assess which services or parts of services are most appropriately determined and managed locally, rather than being required to adopt national standards and approaches. Some functions are obviously national (for example defence and foreign policy), as they provide national public goods, could not be efficiently provided at the local level, and/or have little need for local tailoring. At the other end of the spectrum, some services are clearly local – perhaps the most obvious example would be the local public goods provided by environmental services related to liveability and parks.

4.11 However, a number of other functions, or elements of larger services, should be examined to consider whether greater local flexibility would be in the public interest – perhaps because there are significant local synergies or economies of scope at the local

level, or because their relative importance and the 'right' outcome vary significantly between different areas, or because engagement with the public and service users (for example to promote co-production) is a crucial element of ensuring the services themselves provide value for money. I am interested, for example, in considering further the system of land use planning (noting that this is already the subject of a review being conducted by Kate Barker for the Chancellor and Deputy Prime Minister), the Connexions service, elements of social care, public health and health improvement, and aspects of local economic development, and will explore some of these in the case studies I am conducting.

4.12 Even where services are subject to national prioritisation, engagement and monitoring, their actual delivery will take place through a range of intermediate and local bodies in the private, public and voluntary sector. It is important that, when developing and implementing targets, Government departments work constructively and closely with those who will be involved in delivery along the delivery chain, and work by the Audit Commission and National Audit Office has identified a set of key questions that departments should ask themselves as part of this process. This work highlights the importance of clear expression of the outcomes desired, and evidence on how those outcomes can be delivered, along with communication and shared planning along the chain and appropriate performance and risk management.⁵⁷

4.13 For those services or functions that are most appropriately determined by local rather than central government, I believe that accountability, decision making, and performance management arrangements should be focused locally. Arrangements should clearly reflect the fact that these services are of local rather than national interest, and it should be up to local debate and choice, and the local political process, to drive improvement. Any inspection and assurance procedures should be focused at informing and improving councils themselves, and strengthening the position of their electorates to hold them to account for performance. Some parts of this role have been described in the Audit Commission's recent document on the future of regulation in the public sector.

4.14 Local authorities are accountable to local people and – provided that accountability can be ensured and enhanced – authorities should have clear incentives to engage with their local communities and respond to their preferences and priorities in a way which balances local expectations and desires with the resources available and what people are prepared to pay for. Later in this chapter I consider how we might improve the accountability of local authorities to local people.

4.15 As the need to focus on value for money and efficiency continues to increase, it will also become increasingly important for central government ministers to seek to balance carefully the legitimate wish to improve services across the board through a series of Government initiatives (which has clearly produced significant benefits in the past), against the need to avoid raising expectations across the country as a whole faster than they can realistically be met in all areas. Whilst a case of poor performance in one area should always be tackled, the way in which this is best done depends on who should be responsible for that service, and whether the same solution is needed everywhere. For those services and functions which are properly locally determined, even a case of very poor performance which attracts national media attention should not, in general, provoke a response which increases costs everywhere in the country. At its worst this can be a waste of public money and lead to perverse outcomes. Ministers

⁵⁷ Audit Commission/National Audit Office, *Delivering Efficiently: Strengthening the links in public service delivery chains*, 2006

need to learn again to say “that is the responsibility of your council – raise it with your councillors”.

4.16 The Government has made an important and positive contribution to the debate on the performance framework in its recent *local:vision* document *Securing Better Outcomes: Developing A New Performance Framework*. The review of Public Service Agreement targets that will take place as part of the Comprehensive Spending Review, and plans to replace the current Comprehensive Performance Assessment regime after 2008, together provide an opportunity to review and reform the system. Both of these should be based on consideration of which areas of national priority are of sufficient importance to warrant floor targets or minimum standards.

Powers and resources

4.17 Increasing the space for local authorities to prioritise resources to best meet the needs and aspirations of local people will be important to facilitating place-shaping. However, we also need to ensure that local government has an adequate set of powers and resources to enable it to deliver both the targets and functions required by central government, and its place-shaping role.

Powers 4.18 Local authorities already have substantial powers to undertake place-shaping. The power of well-being now gives authorities wide powers to promote the economic, social and environmental well-being of their communities. This is a significant step forward. However, the power has been used relatively little to date, partly as a result of the problems of ‘crowding out’ highlighted in Chapter 2, which mean that local authorities are distracted from pursuing local agendas vigorously by the significant weight of central government expectations and accountability. Other factors such as local authority culture and ambition are also relevant.⁵⁸

4.19 Having noted this, I do think that we should consider further the powers of local authorities in a limited number of areas to ensure they are adequately equipped to convene and place-shape effectively.

4.20 First, there is a case for authorities to have greater influence over policies which affect economic development. They have an important role to play in supporting the growth of the local economy, one which is already recognised by the Government.⁵⁹ The case studies in Chapter 3 identified places where the action of the local authority had enabled and supported economic change and growth. In order to make the most of local government’s potential, working with other organisations such as the RDAs, I think that local authorities should have greater influence over policies that have an impact on local economic development.

4.21 The most important relevant policies relate to transport and skills, which are frequently highlighted by businesses as their highest priorities for action. I note that the Government’s recent Further Education White Paper envisages a strategic leadership role for local authorities in ensuring the integration of the delivery of 14-19 reform with the wider agenda for children and young people in the locality. This is a helpful step forward. However, I am interested in exploring further whether this would provide sufficient leverage to tailor skills policies to local needs as a crucial contributor to local economic development.

⁵⁸ ODPM, *Evaluation of the Well Being Power – Baseline report*, 2005

⁵⁹ See for example, HM Treasury/DTI/ODPM, *Productivity in the UK: 4 - The Local Dimension*, 2003

4.22 I am also interested in local government's role in housing provision as a key element of place-shaping. Not only do local authorities need to meet housing growth targets, raising community engagement, planning, infrastructure and sustainability issues, they must also take into consideration the housing needs of the whole local community and especially the most vulnerable. As David Miliband outlined in a recent speech, "the role of the local authority needs to be broader than just social housing. It is to act as the custodian of the housing needs and aspirations of the whole community - the first time buyer and working family, to the homeless young person and elderly resident".⁶⁰ There are also connections to residential care issues and health and social services. Local government's role in terms of housing provision may need to be re-thought to meet these types of challenges.

4.23 Second, there is a strong case in favour of enhancing local government's ability to influence other local public service providers. Almost all services have to be delivered locally, and the role of local government in ensuring those services work well together in the best interests of local people – through 'joining up' and tailoring them appropriately to local needs and circumstances – has rightly been emphasised by the Government.

4.24 In practice, local authorities are often already considered the 'first among equals' in convening and delivering effective action across a range of issues within their local area. That is a role for which they are uniquely well-placed, as discussed in Chapter 2. It may help if this position is formally recognised by the Government. I believe that local authorities require real power to influence partners if their convening role is to be credible and to have real effect. I therefore support the proposal in the Government's recent consultation on Local Strategic Partnerships to introduce a statutory duty on other local agencies to cooperate with the local authority.

4.25 However, a duty to cooperate would only be part of a solution. Partnership working already works very well in a large number of authorities – based on effective relationships, trust, and shared objectives. These will remain key elements for convening to work well. Local authorities also need to take steps to demonstrate their legitimacy to perform this role – both in terms of effective engagement with the public within a sharper accountability framework, and in terms of ensuring they have a solid understanding of the concerns and priorities of their partners in the local area. I return to this in the section on capability later in this chapter.

Resources 4.26 Local government needs to be appropriately funded for the roles it is expected to take on. This means, first, ensuring that the requirements placed on it by central government are adequately funded. Second, local government needs to have adequate financial flexibility to undertake effective place-shaping. Finally, the system of funding needs to create (as far as possible) appropriate incentives for the functions it supports.

4.27 There is already in place a system which aims to ensure that any new burdens which central government places on local government are fully funded. However, there is little agreement about the extent to which this system in practice provides adequate funding for local government to meet the expectations placed on it. Moreover, there is no transparent mechanism by which significant under- or over-funding of a centrally-led initiative can be corrected. I am interested in exploring ways in which the expectations placed on local government could be evaluated after the event and corrected in subsequent financial settlements if they turn out to be wrong. It may also be worth considering whether the system could include a greater element of

⁶⁰ Speech by Rt Hon David Miliband MP, Local Government as a Place-Maker, 14 February 2006

independent assessment to reduce the ability of each side to blame the other in arguments over whether funding is adequate.

4.28 In order to support the achievement of local priorities there is a case for local authorities to have greater flexibility to raise revenue, and/or to use existing revenues more flexibly. Chapter 2 commented on the significant extent to which funding is provided through ring-fenced or specific grants. Allowing greater flexibility within existing funding mechanisms could have significant effects in terms of allowing local authorities to tailor their activities more closely to local circumstances.

4.29 Greater powers and flexibilities to raise additional revenue have also been much discussed in recent months. This is particularly important with regard to the funding of investment and infrastructure projects, which are crucial to place-shaping and economic growth. There are a variety of options that one might consider here, a number of which I commented on in my Interim Report. One much-discussed option is the possibility of greater local discretion over business rates, which I have said I will consider in my final report. It will also be important to consider the conditions under which any new revenue-raising powers should be exercised, including the need for strong local accountability, which I discuss in the next section.

4.30 I have consistently emphasised the importance of a wider set of incentives in influencing local authority behaviour. The current system offers relatively little in the way of direct financial benefits for authorities to enhance local well-being and prosperity. In order to encourage councils genuinely to play their place-shaping role, we should consider reforms to the funding system which would enable local authorities to share in the benefits of economic growth.

4.31 Key areas for consideration are housing growth and business/economic growth, both of which can bring benefits to local communities. However, at present local authorities often feel only the costs of such growth. As mentioned in my Interim Report, financial incentives might be built in through the business rates system – for instance by allowing local authorities to benefit from growth in the business tax base. The Government has already introduced mechanisms which aim to improve incentives, in the form of the Local Authority Business Growth Incentives scheme, though this scheme is arguably too complex. The proposed local retention of a significant majority of the revenues from the Planning Gains Supplement should also help to improve incentives on local authorities, and to provide a way in which local residents can benefit from local expansion and development. I intend to examine these issues in more detail over the coming months and will return to them in my final report.

A contractual approach?

4.32 In considering how best to ensure effective delivery of national priorities, a more contractual model between central and local government could well have advantages, as I noted in my Interim Report. Such approaches can enable a clearer focus on outcomes rather than inputs, and a reduction in the ring-fencing of grants in order to allow a more flexible use of resources. There is no obvious blueprint for such an approach, though we can draw both on international experience – for example the French *contrat de ville* – and on lessons learned from the early development of local Public Service Agreements in this country.

4.33 Local Area Agreements are a useful step in this direction, and recent announcements have indicated that further funding streams are being pooled within them. However, submissions from councils suggest that at present these have not yet

succeeded in providing local authorities and their local partners with the flexibility or space adequately to respond to local priorities.

National shared priorities provide a useful framework for common ground, but the real test is the finer grain and how much we can tailor activities to local needs within broad priorities. The LAA process is another test of how the central local tensions play out... the guidance has included too many 'must dos' and firm expectations to be truly flexible. Government learning lessons on how to work in different joined up ways remains a key priority from our perspective. Piecemeal devolution – some flexibility and power from one government department only to hit barriers from another – undermines the point. (London Borough of Camden)

4.34 Nevertheless, LAAs may provide a basis from which to develop a more comprehensive contractual arrangement between central and local government. Such an arrangement could further clarify roles and responsibilities and how they are funded, and recognise the need for local authority influence both across local public services and in place-shaping more broadly.

ACCOUNTABILITY AND ENGAGEMENT

4.35 Greater local discretion over resource allocation and prioritisation should lead to enhanced local well-being, and a stronger focus on those issues that matter most to local people. However, for this to work it is essential that local representation and local accountability are effective so that local people can shape the choices being made and hold the local authority to account. It also means that local authorities must demonstrate the ability to engage with local people to understand their views and to inform decisions.

4.36 The low turnout (on average between 30 per cent and 40 per cent) at local government elections is therefore a real cause for concern. It means that many citizens are not making their voices heard and raises doubts about just how responsive to the opinions of their constituents councillors can be, if only a small proportion of those constituents are actually involved in deciding whether a councillor retains their seat or not.

4.37 There are a number of ways in which this problem can be addressed. There is a debate at present about whether electoral reform might play a part by providing more choice for voters and making their votes more important. The Power Inquiry has, for example, recommended such reform, and a Single Transferable Vote system is being introduced for local elections in Scotland from 2007. In my experience it is certainly the case that closely contested elections have a positive impact on the effectiveness with which an authority is run, and the level of interest from voters. These issues might therefore also be considered whenever political boundaries are being redrawn.

4.38 However, there are more immediate actions that can be taken to improve accountability and engagement, through developing and clarifying the role of the councillor, considering neighbourhood and parish arrangements and reviewing local authority practice in public engagement.

Councillors

4.39 The main way in which local people hold their local council to account is through local elections when their votes influence the make-up and thus the policies of the council.

4.40 In order to develop the stronger and more effective local accountability necessary for local government to play a wider role, it is essential that the role of councillors is clear, well-developed and fully supported. Councillors are a vital part of our democratic process and the governance of local communities. Experience is varied, but I have encountered many outstanding examples of councillors who listen to and engage with their local communities, explain the real and hard choices which the council faces, and use that dialogue to shape the council's vision. These aspects of local democracy, functioning well, are important ingredients of a solution which builds trust in the system of government as a whole, and helps to manage expectations of what is possible, as well as informing local decisions to match local needs and priorities.

4.41 However, at present the role of councillors is unclear, and they are often poorly rewarded and undervalued for the large input that their role requires. The work of a councillor averages 86 hours a month according to the most recent IDeA/EO survey.⁶¹ Other studies have suggested even higher figures.

4.42 Partly as a consequence of this, councillors are, as a group, relatively unrepresentative of the public they represent. Less than 30 per cent of councillors are female, nearly half are over 60, and only 3.5 per cent come from a minority ethnic background (compared with 8.4 per cent of the whole adult population). The age profile in particular has become less representative since surveys began in 1997, in contrast with MPs who are becoming rather more representative as a group, and points to a shortage of working-age people being keen to become councillors.⁶²

4.43 This all contributes to concerns about the calibre and diversity of councillors, and it poses real challenges in ensuring that local government is as effective as it should be in engaging with local communities.

4.44 Following the new council constitutions introduced in most areas following the Local Government Act 2000, there is now a division in practice between the councillors who form the council's executive and the other, backbench, councillors. In the majority of councils, a leader and cabinet model has been adopted. Research has generally found that leadership has strengthened since 2000.⁶³ It is therefore the role of the backbenchers that I think needs most attention in order to build stronger local accountability for authorities.

Clarifying the role of councillors

4.45 There is already a great deal of relevant work being undertaken by the ODPM, IDeA and the Joseph Rowntree Foundation, amongst others.⁶⁴ This work advocates a new role for backbench councillors, now helpfully described as 'frontline' councillors. This work both acknowledges the value of the councillor role and also responds to the

⁶¹ Employers' Organisation for Local Government / IDeA, *National census of local authority councillors in England 2004, 2005*

⁶² Employers' Organisation, *National census of local authority councillors*; House of Commons Library, *Social background of MPs 2005*

⁶³ Johns, P. and Gains, F., *Political leadership under the new political management structures*, ODPM, 2005

⁶⁴ ODPM, *Vibrant Local Leadership*, 2005; Taylor, M. and Wheeler, P., *In defence of councillors*, IDeA, 2003; Foot, J. and Newman, I., *The neighbourhood agenda and the role of the elected member*, IDeA, 2006; Gardiner, T., *In defence of councillors: Frontline councillors and decision making*, Joseph Rowntree Foundation, 2006

evidence that many backbench councillors have become disaffected with their role under the post-2000 arrangements.⁶⁵

4.46 Recent thinking on frontline councillors can be summarised as focusing on the following roles:

- engager: talking with local people to understand local preferences and priorities, a responsibility that underpins many other aspects of their role. In order to engage and to be trusted by local people, local representatives need to be seen to demonstrate influence over issues that matter in the local area;
- community advocate: acting as the voice of people (and third sector organisations, and potentially businesses) in the community to the council's managerial and political leadership; working on behalf of local people to call a wide range of agencies to account for their performance in meeting the local community's needs through formal and informal processes;
- mediator: understanding and seeking to reconcile different and conflicting views and interests at ward or neighbourhood level, managing change and communicating and explaining hard decisions made by the council; and
- 'political entrepreneur': generating social capital, engaging the local community in civic life, promoting community action to solve problems and harnessing co-production.

4.47 While many councils are already employing the abilities of their frontline councillors to fulfil some of these roles, all of them are essential and the various structures and systems which define, support and promote councillors' roles need to recognise and promote them explicitly.

4.48 One area where the frontline councillor role is being developed is in scrutiny. This provides an important challenge to the council executive, and can be an opportunity for councillors to act as community leaders. The effectiveness of scrutiny varies across different areas and services, with much depending on how it is undertaken and on councillors' expertise and knowledge. However, there is some evidence that scrutiny by councillors of external partners, at least in health, "is becoming an area where local authority elected members are demonstrating their worth as community leaders in representing the interests of their constituents".⁶⁶ Scrutiny committees will also have a role in the Community Call for Action being introduced by the Police and Justice Bill. There is a case for further widening the role and powers of scrutiny committees to look more widely across the work of local public services and other agencies as part of local government's convening role.

4.49 I believe concerted effort – from central government, local government and the political parties – is required to make becoming (and remaining) a councillor more attractive. In particular, work with the local government community is needed to develop models for being a councillor which sets realistic and fixed, rather than open-ended, time commitments, perhaps drawing closer parallels between councillors and the non-executive directors of companies.

4.50 The political parties will be key players in improving the representativeness and consistency of calibre in councillor candidates, as 90 per cent of councillors are

⁶⁵ Stoker, G. et al, *Operating the new council constitutions in English local authorities: a process evaluation*, ODPM, 2004

⁶⁶ Centre for Public Scrutiny, submission to the Lyons Inquiry, 2006

recruited from the membership of the three main political parties alone. Political groups are in practice the only people who can oversee their councillors' performance and help to develop a stronger self-regulatory approach to ethical standards. Political parties might also contribute to the work I suggest above is needed to review councillors' time commitments, by looking at the amount of time taken by party activities.

4.51 However, action by the political parties will certainly not provide the whole solution. We need to encourage a wider range of individuals to become councillors, from those who wish to serve their community for a few years to those who have a particular issue to pursue. Not all such people will fit well in, or want to be part of, a political party. It is important that they still want to become councillors and are enabled to do so.

4.52 There might be value in a national recruitment campaign of the sort which has been successful for other roles in public life, such as magistrates, though it would need to have a strong local focus as well as a national dimension. Such a campaign could also be used to improve their image and standing, and to address the generally negative presentation of councillors in the media.

4.53 Others have suggested that a new role needs to be accompanied by further constitutional change. I certainly think that there is a case for further exploration of this, though I do not think that there is one standard approach which is appropriate for all parts of the country. Rather, I think that local authorities should be enabled to innovate and experiment with their governance arrangements, introducing structures which will work in their local context. For example, an authority could build on the Young Foundation's work by drawing smaller wards, each with one clearly identifiable elected member for that ward, bringing sharper accountability at neighbourhood level. Another authority could choose to retain existing ward sizes, but reduce the number of councillors in order to enhance the visibility – and hence potentially the accountability – of councillors, with an emphasis on quality of representation. Other options are also under discussion, with a small number of authorities expressing the wish to experiment with directly elected cabinets. The Government might need to legislate for the powers necessary to allow local experimentation and innovation.

Neighbourhoods and parishes

4.54 Recent discussions about 'double devolution' by commentators and members of the Government have highlighted the potential for new or expanded neighbourhood and parish arrangements to help local people to hold authorities to account, and to enable local people to exercise greater control or influence over local public services.

4.55 A range of models are currently under discussion for devolving powers and influence to neighbourhood governance structures, including parish councils and local tenants' and residents' groups, as well as new roles for ward councillors. Many authorities have already looked at ways in which neighbourhood discussion and decision-making arrangements can enhance engagement and service delivery, and many have devolved powers and budgets to more local levels (for example, Birmingham, West Sussex and Bradford). Ideas for increasing community 'voice and choice' include a host of proposals such as increased community management and ownership of assets and services, neighbourhood charters, neighbourhood service contracts, 'user triggers' and new scrutiny or call-in powers for ward councillors.

4.56 Such proposals have important strengths in terms of building local accountability, particularly their focus on developing strong and direct accountability links between public services and local people. There is certainly a role for neighbourhood arrangements in making local government more accountable and responsive in the future, though it is important that they be tailored to local circumstances rather than defined centrally.

4.57 However, I believe that ‘double devolution’ must involve genuine devolution from central to local government, as well as from local government to neighbourhoods and citizens. Devolution to local authorities is necessary if they are to have the flexibility to respond to the different needs and demands articulated by neighbourhoods and local people, and also to enable an accountable and responsible organisation to manage the tensions and challenges that can arise.

4.58 Devolution to the neighbourhood level requires strong, transparent and accountable local authorities, and it needs to happen within a framework which can manage the potential risks appropriately. There is an important role for the local authority in arbitrating between different local communities and addressing the potential for insularity and conflict within and between smaller communities. Within UK experience there are already lessons to learn from previous experiments with very local devolution, and from places where inter- and intra-community tensions have been problematic.

Public engagement

4.59 Real and effective engagement with local people is essential to the success of a more devolved system. Local government needs to make continued efforts and progress in community engagement. Successful engagement can help to improve local accountability and responsiveness to local people, and thereby reduce the need for central government monitoring and inspection in driving improvement and efficiency. It is also crucial if councils are to build public trust in their ability to make appropriate and well-informed local choices.

4.60 The aim of public engagement must be to ensure that the local authority properly represents and reflects the views of all local citizens, including those whose voices are not usually heard, to help set priorities and influence decisions. This means providing a range of different engagement and influencing opportunities, so that citizens can get involved in different ways. Of course, not everyone will want to be directly consulted, and many people would prefer simply to be well informed, to have confidence in their elected representatives and the ways in which choices are made on their behalf, and to know who to go to if things go wrong. Research by MORI found that the majority of local residents surveyed indicate they like to know what the council is doing, but are happy to let them get on with their job.⁶⁷

4.61 Many authorities have made progress in engaging local citizens and on the whole, local government has a better record on this than central government.⁶⁸ Alongside traditional forms of consultation, councils have innovated and experimented with new forms of engagement such as citizen juries and referenda, and utilised marketing techniques to gain a robust and sophisticated understanding of the different priorities of different groups of citizens. Many others have developed governance

⁶⁷ ODPM, *New Localism - citizen engagement, neighbourhoods and public services: evidence from local government*, 2005

⁶⁸ Clark, R., *New democratic processes*, ippr, 2002

arrangements that offer opportunities for the public to participate directly in the decision-making process, for example through neighbourhood forums. This has been illustrated by recent work for the Power Inquiry on mechanisms used here and abroad to increase and deepen public participation in the political decision-making process.⁶⁹

4.62 There is some evidence that these efforts have started to impact on citizens and communities, who do feel that they are now consulted more often.⁷⁰ In addition, survey data suggests 38 per cent of people believe that they can influence decisions that affect their local area, which is twice the proportion who feel that they can influence decisions affecting Britain as a whole.⁷¹

4.63 However the public are not always convinced that local authorities listen to them and take their views into account, and they have concerns about the lack of feedback that follows participation exercises.⁷² This is important as work from ippr and others shows that the public are willing to take on a more active role, but only if they believe that it will further the interests and issues that they care about. It also suggests that citizens will often accept the legitimacy of collective choices and decisions that go against them if they think that their arguments have been given a fair hearing and that their point of view has been taken seriously.⁷³ This is an area where the performance of local authorities has been mixed, and further progress is needed to help build public confidence, trust and accountability.

4.64 The scope for improvement was illustrated by the Audit Commission, based on the first round of CPA in 2002. At the time, two thirds of single and upper tier authorities were commended for having good consultation arrangements, with 16 being particularly commended for their inclusivity and for reaching out to 'hard-to-access' groups. However, one third were identified as having poor systems of consultation or systems that were in need of review. In these councils there were key problems in the consultation cycle, such as limited feedback or no feedback at all, which could leave participants feeling isolated, or lacking confidence that their views will make a difference. In one fifth of the councils assessed consultation exercises had not produced any action, and in 12 councils consultation was criticised for not being inclusive, often ignoring key minority groups.⁷⁴

CAPABILITY AND CONFIDENCE

4.65 Local government performance has improved across a range of measures in recent years. Comprehensive Performance Assessment (CPA) results illustrate this improvement, and ODPM's basket of indicators shows an improvement of just over 15 per cent in overall performance between 2000-01 and 2004-05. They show improvement across all authority types, all CPA categories and most services.⁷⁵

⁶⁹ Smith, G., *Beyond the Ballot – 57 democratic innovations from around the world*, Power Inquiry, 2005

⁷⁰ Leach, S. et al, *Meta evaluation of the local government modernisation agenda: progress report on stakeholder engagement with local government*, ODPM, 2005

⁷¹ RDS, *Home Office citizenship survey: People, families and communities*, Home Office, 2004

⁷² Leach, S. et al, *Progress report on stakeholder engagement*

⁷³ ippr, *Lonely Citizens – report of the working party on active citizenship*, 2004

⁷⁴ Audit Commission, *User focus and citizen engagement, Learning from comprehensive performance assessment - Briefing number four*, 2003

⁷⁵ Martin, S. et al, *Meta evaluation of the local government modernisation agenda: progress report on service improvement in Local Government*, ODPM, 2005

4.66 However, a greater place-shaping role and a more devolved system would present local government with a range of new challenges. We therefore need to ask whether politicians, officers, and organisations as a whole, currently have the capability to meet these, and in what areas skills will need to be developed in order for local government to play a broader role. I think these fall under three headings – leadership, improvement and efficiency, and self-confidence.

Leadership

4.67 Strong and effective political leadership is needed at the local authority level for local government to play its place-shaping role. There is no single blueprint for how to achieve this. Whatever the model, effective leaders visibly engage, communicate and gain the confidence of local people, colleagues/staff and other stakeholders and work for the benefit of the local area. The leadership structures established under the Local Government Act 2000 have increased councils' ability to exercise strong, visible leadership, and some leaders and elected mayors have achieved good levels of recognition from communities. The local government family is implementing further measures to strengthen leadership capability, including through the IDeA Leadership Academy and the Leadership Centre for Local Government. However, my perception is that these efforts essentially strengthen existing capabilities. In order to develop the capability of the sector as a whole to undertake more place-shaping, it will be necessary to devote more attention and resource to the development of political leadership – an agenda which is not likely to be solved managerially, but also needs attention from the political parties.

4.68 If local government is to operate in an effective 'convening' role with all local partners in the area, it will need to be both credible with a wide range of partners, and confident in its legitimacy to act for local citizens. Local government therefore needs to continue to make progress in developing its strategic leadership capacity. For some authorities, this may require a greater effort to understand and take account of the ethos, objectives and professional standards of partner organisations.

Improvement and efficiency

4.69 A more devolved and locally flexible system will require greater local ownership of performance management, and a sharper focus on responding to local people's well-being and preferences. Some people have argued that improvement is currently too often seen as managerial compliance with an externally imposed performance assessment process, rather than being about improving the well being of local people.⁷⁶ Devolution and a stronger place-shaping role would place greater reliance on local authorities' capability to deliver and sustain continual improvement from within – hence the importance of strong local accountability to sharpen the incentives for continuing improvement.

4.70 Local government has already put forward proposals in the LGA/IDeA's paper on a new performance framework. Central government will need to consider its approach to target setting and monitoring in the Comprehensive Spending Review and the new Public Service Agreements it establishes. Beyond this, there will remain a need for external regulation to assure the public of the robustness of the system, but it is also essential that there is a continued focus on the development of a performance culture within local government. Local government must demonstrate its ability to lead

⁷⁶ The Tavistock Institute/Warwick Business School, *Beyond Competence, driving local government improvement*, LGA, 2005

improvement on these measures and the development of a system of checks and balances that enable and support councils to achieve, sustain and excel in the relevant capabilities.

4.71 Local government also needs to establish itself as a champion of value for money and cost effectiveness by continuing to drive the efficiency agenda. Local authorities have already made significant progress, as described by SOLACE.⁷⁷ However, since this is critical to public confidence and effective service delivery, particularly within a more constrained overall fiscal envelope, there is no room for complacency. A forthcoming Audit Commission report on leisure highlights some areas where councils are not pursuing value for money as vigorously as they might.⁷⁸ More generally, the Audit Commission's recent assessment found that 96 per cent of councils met the minimum requirements for the use of resources, with over half of councils performing well and delivering consistently above this level. However there is considerable scope for improvement and opportunities for local councils to take action to alleviate some of the resource pressure that they face.”

Building public confidence

4.72 It is worth reflecting on something that is necessary for any reform to take root and to command political support – the confidence of the public in the ability and decisions of their local authorities. Many of the areas for reform and action noted during this chapter will be relevant to this.

4.73 Current levels of public trust and confidence in local government are an issue of real concern. The Power Inquiry noted that “there is deep public distrust of local government”, which is seen as being “inefficient, wasteful and unresponsive”. Nationally, public satisfaction with councils is lower than that of some of the services that they provide, and overall satisfaction fell by 10 percentage points between 2000-01 and 2003-04. Public perceptions of value for money provided by local government are low and declining over time.⁷⁹

4.74 Although surveys show that councillors are more trusted than national politicians, research suggests that more people would trust a jury of local people chosen at random to make the best decision about a proposal for a new building development in their neighbourhood than their local councillors.⁸⁰ There is also some evidence of low levels of connection between citizens and councillors, with research finding that only 11 per cent of people say they feel a connection with them.⁸¹ Public perceptions are notoriously difficult to interpret, but this does seem to suggest a worrying level of detachment between local government and the people that it represents and in my view further reinforces the need to develop the role and improve perceptions of local frontline councillors, as well as to take other measures to boost local accountability.

⁷⁷ SOLACE, *Efficiency, Gershon and procurement – everything you need to know*, 2004; SOLACE, *Efficiency in practice – Local government responding to the efficiency review*, 2004

⁷⁸ Audit Commission, *Public Leisure Services: making them fit for the future*, forthcoming

⁷⁹ Page, B., *A tale of satisfaction – what the latest research findings show?* Presentation to LGA conference, 2004

⁸⁰ Bromley, C. et al, *Revisiting public perceptions of Local Government: A decade of change?*, DETR, 1999 quoted in Lowndes, V. et al, 'Trends in public participation: part 2 – Citizens' Perspectives', *Public Administration*, 79, 2, pp. 445-455. This is based on face to face interviews undertaken by the National Centre for Social Research based on a random sample of 2,074 citizens in England.

⁸¹ Coleman, S., *Direct Representation, towards a conversational democracy*, ippr, 2005. The online survey was carried out by YouGov, with a sample of 2,273 UK citizens.

4.75 The need for further progress was recognised by councils who responded to my consultation, for example:

We agree that trust from Government and trust by the public are vital currencies for councils. Both have to be earned. We would argue that we deserve to be trusted by Government to play the strategic role in our locality, and there are objective measures to prove that... Trust from local people is more of a challenge. We were pleased to see a significant increase in trust in the council in a recent large scale survey – but we still have a long way to go. (London Borough of Camden).

4.76 Some councils have bucked the satisfaction trend, including Sandwell and Hertfordshire. Analysis suggests that although satisfaction is driven by a number of factors outside councils' immediate control, such as negative media coverage, there are actions which can make a difference.⁸² For instance, strong drivers of satisfaction include the perceived quality of services and value for money, liveability and effective communications that let citizens know how they can access council services and how the council has improved the local area and local services.⁸³

4.77 The sector is starting to address these issues, for example through the IDeA/LGA Reputations project. This focus will need to continue if local authorities are to develop the public support needed to undertake place-shaping most effectively. Central government and others can also contribute, by recognising that many examples of excellence do exist in local government, and avoiding inaccurate general statements which suggest that all authorities are inefficient or of poor quality without evidence. Such comments contribute to poor public perceptions of government in general, as well as local government in particular.

Self confidence

4.78 Local government must also have confidence in itself if it is to be strong enough to make difficult but necessary decisions, to take responsibility for doing less in some areas, and to take and manage risks. In the face of high expectations driven by the national and local press and Government ministers, that is not an easy task.

4.79 Place-shaping would place considerable emphasis on an authority's ability to anticipate, understand and manage change within their locality. Based on analysis and the views of local citizens, local government must have the confidence to make strategic choices about the future of their localities. This means making courageous decisions, and depending less on central and other tiers of government to define priorities.

4.80 There is evidence that this is not something which all councils currently find easy. Research has suggested that local authorities "may need to be much bolder in exercising the autonomy which they have and more effective in making the business case for new freedoms".⁸⁴

4.81 Other recent work commissioned by the IDeA/Audit Commission has also found that "the visions and plans of different local authorities all look strikingly alike". This report encourages local authorities to "seize the responsibility of making strategic

⁸² MORI, *The Business Case for the Reputations project*, LGA, 2006

⁸³ Local Government Association, *What drives public satisfaction with local government*, 2004

⁸⁴ Leach, S. et al, *Progress report on stakeholder engagement*

choices on behalf of local communities in context of unique situations and aspirations” – a call to action that I strongly endorse.⁸⁵

A new constitutional settlement?

I have argued in this chapter that reform is needed in a wide range of areas, if we are to make the most of effective local government’s ability to improve prosperity, satisfaction and choice.

Such a wide-ranging programme of reform probably needs to be underpinned by a formal constitutional settlement to ensure that it has cross-party support and provides a long-term and sustainable basis for change. I certainly believe that now is the right time to make a fresh start in the relationship between central and local government and to place that relationship on a more explicit footing, building on existing arrangements such as the Central-Local Partnership.

Others have also commented on this subject, and the Power Inquiry, for example, recommended that a concordat be established between central and local government, on the model of the European Charter of Local Self-Government. However, as the Power Inquiry acknowledged, the European Charter is written in very general terms, and although it was ratified by the UK in 1998, it is not perceived as having influenced policy to a significant extent.

To be effective, a new settlement would need to be more hard-edged, and to have a real impact on policy and the relationship between central and local government. There would need to be a very clear understanding that the concordat or constitutional settlement would form a context and framework for all subsequent legislation relating to locally delivered services – and it would need to make a clear difference in the short term, for example in specific functions related to economic development and planning, as well as laying the foundation for longer-term change.

A new agreement between central and local government might involve:

- greater clarity on roles and responsibilities, accompanied by fewer nationally set priorities, and agreed by government departments;
- strengthened arrangements for ensuring central government expectations are fully funded, perhaps including some evaluation of the actual costs after the event;
- greater flexibility for local government to tailor its existing spending to local needs and priorities, and greater formal influence across other local public services;
- formal recognition of the place-shaping role of local government and the value of experimentation and innovation, and measures to strengthen and underpin the convening role of local authorities;
- measures to enhance local accountability by reforming the role of councillors, particularly those with non-executive roles, and improve public understanding of what they should expect from their council;
- reform of the performance management framework which reflects these ambitions and also the need for local government to continue to improve capability and confidence; and
- provision for a clear timetable to ensure that reform can be introduced in an orderly and carefully thought-through way.

⁸⁵ Leach, S. and Lowndes, V., *Fitness for purpose Strategic choice at local level in the new millennium*, IDeA/Audit Commission, 2005

IMPLICATIONS FOR THE WHITE PAPER

4.82 Taking on the challenge of place-shaping will require action from both local and central government to put in place the necessary frameworks, incentives and improvements. Overall, I think that there are three key priorities for reform of the functions of local government, which the White Paper should take into account.

Greater clarity is needed about the roles of central and local government, determined by a realistic assessment of who is best placed to do what

4.83 Local and central government share a common interest in promoting the well-being of citizens. It should therefore be a shared goal to develop a sustainable system of local government which identifies and makes the most of the comparative advantages of both central and local government – and other partners – in contributing to well-being. This aim should guide us in seeking to clarify their respective roles in both governance and service provision. The debate on local government should focus on how to do this – engaging the public in helping to define those issues which it is most important to determine nationally, and those in which local variation will be appropriate to reflect local circumstances.

4.84 This should be reflected in a clearer and narrower set of national priorities imposed through the performance management system – targets, indicators and inspection regimes – on local government, allowing greater variation at the local level to enhance the well-being of local communities, in a way which more effectively balances expectations of public services with what people are prepared to pay for. A slimmer performance management framework should help to reduce the ‘crowding out’ of place-shaping caused by the extent and detail of central government priorities and the performance management system.

4.85 It is also very important that any new measures introduced through the White Paper are implemented in a flexible and sensitive manner without unnecessary prescription.

Local government’s role in place-shaping, and in ‘convening’ across local public services should be more formally recognised

4.86 Local government has a key role in shaping places that goes beyond the delivery of services. This will look different in every place, and requires local government to take responsibility for the overall well-being of communities, for defining and implementing a vision for their future success and prosperity, and for facilitating local choice.

4.87 I believe that local government needs to be enabled to undertake this role more effectively across service areas, through greater local flexibility and greater influence over local public services. This may require changes to powers and flexibilities, but also a conscious examination of the skills and capabilities required and a formal recognition of the part local government plays.

Local government itself needs to recognise that it must do more to improve its capability to develop its place-shaping and convening role

4.88 Local government performance has improved across a range of measures in recent years. However, a greater place-shaping role in a more devolved system would present local government with a range of new challenges, and it needs to take responsibility for addressing those challenges and driving reform and improvement from within. Improvement is particularly important in political leadership, partnership working, public engagement and accountability, and in developing a greater focus on efficiency.

NEXT STEPS FOR THE LYONS INQUIRY

4.89 I look forward to the continuing debate that will no doubt extend beyond the Local Government White Paper later this year. I will be continuing to work on both the function and funding elements of my remit until I make my final report to Ministers in December 2006 ahead of the CSR. Annex A sets out in more detail some of the elements of that further work programme.

4.90 My further work will examine the links between funding and function, and their implications for reform in four key areas:

- the extent to which there may be a need for greater flexibility in funding in order for place-shaping to happen effectively, and the different options which might be available to deliver such flexibility;
- the extent to which local accountability might be enhanced by a clearer link between function and funding – and the constraints on such an approach;
- the fairness of the funding system and the relationship between equalisation of resources and the incentives facing local authorities; and
- the role and future of council tax.

4.91 I would like to take this opportunity to thank all those who responded to my Interim Report. I have received over 600 responses since I published my interim report in December 2005, from members of the public, local authorities, businesses and a wide range of other stakeholders. Those have already helped to inform this report, and will continue to help me in my further work. A list of respondents appears in Annex B. Where I have the permission of the author, I will shortly be publishing the responses on the Inquiry website to inform debate.

4.92 I am also very grateful to the large number of local authorities who are undertaking work to engage the public in this debate, to the authorities detailed in Annex A who have volunteered to help in the Inquiry's case study work, and to those who provided the examples used in this report.

4.93 I would welcome further views on the issues covered in this report, which can be submitted through my website at www.lyonsinquiry.org, via e-mail at sirmichaellyons@lyonsinquiry.org or by post to:

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