

EXECUTIVE SUMMARY

E.1 This document seeks to take the analysis of my Interim Report forward, locating local government firmly within a debate on how, as a society, we develop a 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 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.

FUTURE CHALLENGES

E.2 As a country we face a rapidly changing environment, both domestically and internationally, including:

- a rapidly changing global economy;
- demographic and socio-economic change;
- growing expectations of the responsiveness and customisation of goods and services;
- environmental pressures and climate change; and
- the changing nature of political engagement.

E.3 These changes are leading to greater diversity and difference within and between communities, and increasing expectations of government and public services. 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. 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 which will require us, as a society, to make collective choices.

E.4 The role of representative government at both central and local level in enabling debate, discussion and compromise, will be essential for making those collective choices. However, this role is becoming more complex and challenging. Unless we can find effective and representative ways to make difficult collective choices in a world of constrained resources, we risk seeing expectations increase faster than governments can hope to satisfy them. The current debates on pension provision and social care for the elderly illustrate the scale of the issues.

E.5 Central and local government therefore share an interest in developing a system which enhances the ability of public services to respond to the needs of local people. They also need to work together on reforms to enable collective choices to be made which strike a sensible balance between what people want and what they are prepared to pay for locally and nationally.

THE BENEFIT OF LOCAL CHOICE IN DELIVERING PUBLIC SERVICES

E.6 An effective system of local government is essential to the promotion of general national interest, both in the provision of public services and in terms of the wider

promotion of well-being, prosperity and competitiveness. We need a system which aligns the efforts of national and local government to achieve the common good, and embraces self-help and voluntary action among individuals and communities.

The case for local choice

E.7 A range of factors, including a growth in formal entitlements to certain public services, national targets for public services, greater public expectations, and our strong national media, have contributed to ever-stronger concerns about ‘postcode lotteries’ and an apparent desire for the same services, and levels of service, to be delivered in all areas. However, economic theory, and indeed common sense, argues that since people’s preferences and needs, and the costs of delivering services, vary between areas, then the best way of spending limited resources will be different in different places.

E.8 Some would say that a devolved approach which seeks to enable these differences to be dealt with will lead to unfairness. However, I think it is simplistic to define ‘fairness’ in public services as meaning the existence of a uniform national set of public services and a uniform national set of priorities for the improvement of those services, whatever the opinions or priorities of local people.

E.9 It is also argued that a devolved approach which entailed a reliance solely on locally raised revenues would lead to variation in the level and quality of those services. However, allowing variation in priorities and standards does not presume that authorities will have to rely on locally raised revenues alone, and I do not see the argument for greater devolution as fundamentally questioning our redistributive approach to local government funding. That said, there are valid questions about the efficiency, accountability and incentives on authorities which rely largely on resources that they are not responsible for raising, and that is an area I wish to explore further.

Local and national services

E.10 Clarifying the respective roles of central and local government is complex. Most services combine both local and national roles and responsibilities. However, theory and analysis suggests that services and functions are more appropriately decided at a local level where:

- there is local variation in needs, preferences and costs of provision;
- the benefits and costs are felt by local people;
- outcomes require engagement with individuals and there is the potential for ‘co-production’;
- synergies and economies of scope mean there are benefits from local joining-up;
- there are limited economies of scale; and
- there are potential advantages from innovation or experimentation.

E.11 The key advantages of making decisions locally are the ability to use local knowledge, to engage the public and support co-production, to convene and join up public services across different providers and sectors and to innovate and test new approaches.

E.12 Local government also has a unique advantage compared with other local agencies. Democratically elected local councils have a mandate to make the political judgements and compromises which an administrative or managerial system could not be accountable to make. In a world of varying preferences and constrained resources, where choices and trade offs are needed, the ability to make these choices is essential.

Constraints on local choice in the current system

E.13 None of the above arguments are new, and of course they are reflected in the current freedoms and responsibilities of local government. However, I do not believe that the current system makes full use of the benefits that local government can bring to bear on public services and decision-making.

E.14 The scale and complexity of national targets and inspection require the vast majority of local government's resources to be used to deliver nationally defined priorities. This can 'crowd out' local action to meet local needs and priorities, and restrict the space local government has to undertake place-shaping. I would argue that this 'crowding out' inhibits our ability to get the most from local flexibility and variation more than a lack of formal devolution of powers and responsibilities. It also contributes to a situation in which councils tend to focus their attention and efforts on influencing central government grant decisions, rather than engaging with local people and local challenges and opportunities.

E.15 Resolving so many of the choices about public services at the national level is expensive, as it rules out local trade offs within and between services, and increases the pressure for services in all areas to be resourced to the level of the highest. If local discretion is overly constrained by national requirements then public services and priorities cannot reflect local preferences fully, leading to a less efficient use of public resources than would otherwise be the case.

E.16 I am therefore of the opinion that there would be a number of benefits to greater devolution, which are in the national interest and to the benefit of individual citizens, including:

- a more efficient allocation of resources between and within services;
- greater value obtained from local public services;
- enhanced delivery of a smaller set of national priorities;
- potential benefits from enhanced innovation; and
- greater public trust in the system of local and national government as a whole.

PLACE-SHAPING

E.17 I also think there is a wider role for local government as the voice of a whole community and as an agent of place, a role I describe as 'place-shaping', which includes:

- building and shaping local identity;
- representing the community;
- regulating harmful and disruptive behaviours;

- maintaining the cohesiveness of the community;
- helping to resolve disagreements;
- working to make the local economy more successful;
- understanding local needs and preferences and making sure that the right services are provided to local people; and
- working with other bodies to respond to complex challenges.

E.18 Place-shaping will mean different things in different places, at different times and at different spatial scales. It is relevant to all councils, from large unitaries and counties to parish and town councils. There is no one level at which it is best conducted, and examples can be found at all the different levels and tiers of local government.

E.19 My description of place-shaping reflects my view that the ultimate purpose of local government should be to take responsibility for the well-being of an area and its communities, reflecting its distinctive identity, and promoting its interests and future prosperity. It involves a focus on developing the economic, social and environmental well-being of the local community and the local area. It therefore requires councils to take responsibility for influencing and affecting things beyond their more narrowly defined service responsibilities.

Economic well-being

E.20 Local authorities have an important role in enabling economic development. Economic prosperity, jobs and investment make an essential contribution to the well-being of individuals and the vitality of a community. They also contribute to the growth of the national economy, and local government's role in developing economic well-being is therefore potentially key to the broader national economic agenda. The distinctiveness of place is also important in attracting skills and investment. This role can be especially profound in times of stress or change within a locality, when place-shaping can involve a redefinition or evolution of identity and purpose.

E.21 I am glad to see that there is now a live debate about the economic role of local authorities. Much of it is focused on urban issues and the cities, although addressing issues of economic well-being is clearly also important in rural areas. There is a growing consensus that local authorities do not currently have enough powers and tools at their disposal to enable them to make a real difference to local prosperity.

E.22 Key areas of debate about the powers and influence of councils in relation to economic development include:

- the funding of infrastructure projects, particularly transport projects;
- how best to secure effective engagement between local authorities and business;
- whether city regions or other structures are needed to enable economic development activity to take place at the appropriate spatial level, since it often overlaps the boundaries of individual authorities; and
- the role of local authorities in transport and skills investment.

Social well-being

E.23 Local government's role in developing social well-being involves ensuring the effective delivery of a wide range of services, including those it is directly responsible for such as social care, and those in which it plays a convening role, such as policing and health care.

E.24 Local government is also ideally placed to support the development of social capital, social innovation and community cohesion. There is evidence that these can be associated with better health, happiness, trust and educational outcomes, and become more prominent in relation to debates about diversity and an increasingly mobile population. Additionally, local authorities have a role in the regulation of behaviour, for example through the effective regulation of licensed activities, and developing anti-social behaviour measures.

E.25 Local government's role in promoting social capital and community cohesion brings with it associated challenges. There is a crucial role for local government in recognising different interests, revealing conflicts, exploring who gains and who loses and offering a platform for different voices

E.26 To enable local government to promote social well-being, councils need the flexibility and responsibility to address these challenges, and the authority to carry out a convening role across public services.

Environmental well-being

E.27 Environmental issues lie at the heart of how people feel about place. Many are very local and have a significant impact on citizen satisfaction. Where these factors affect the local level almost exclusively, there is a strong case that they should be subject solely to local control and discretion.

E.28 Environmental well-being also involves important strategic place-shaping issues, for example finding a balance between preserving local identity, supporting economic prosperity and maintaining the local environment. The quality of the local environment can be key to the success of an area's economy, particularly in rural areas, and planning powers give local government a particular responsibility and significant powers in environmental place-shaping.

E.29 However, some local environmental issues are part of larger-scale issues, such as climate change and sustainable development. Local government has an important role to play in contributing local solutions to meeting national objectives. Local government's closeness to citizens also enables it to influence individuals' attitudes and behaviour, and to encourage them to take an active part in providing solutions through 'co-production'.

Actions for effective place-shaping

E.30 There are a range of actions which councils need to undertake to engage successfully in place-shaping, including:

- good leadership;
- building coalitions and consensus about the direction of travel with other agencies and the private sector;

- effective public and community engagement; and
- effective use of powers.

E.31 A key objective of local government reform must be to make sure that all local authorities are encouraged and empowered to undertake place-shaping in the fullest and most beneficial way for the well-being of local communities and hence the nation as a whole.

WHAT NEEDS TO CHANGE?

E.32 To achieve the benefits of devolution set out here and to enable local authorities to undertake their role as place-shapers I think that a programme of reforms is needed. The responsibilities of central and local government must be clarified, local accountability must be improved and local government must build its confidence and capability, including developing its skills, leadership and self-confidence.

ROLES AND RESPONSIBILITIES

Crowding out

E.33 Central government needs to reduce ‘crowding out’ of local priorities by:

- adopting a more focused approach to setting national priorities;
- defining a smaller set of key national objectives and requirements;
- reducing the number of targets for local government;
- reducing the requirements of inspection and other monitoring mechanisms;

E.34 Such changes will require a cultural shift, with Government departments being clearer about the limits of their responsibilities, and ministers resisting the inevitable pressures to respond to matters of detail which are the responsibility of individual local authorities.

Powers

E.35 Local authorities already have substantial powers to undertake place-shaping, including the power of well-being. However, there are extra powers which could support effective place-shaping and convening:

- local authorities should have greater influence over policies that have an impact on local economic development, including transport and skills;
- local government’s ability to influence partners, joining-up and tailoring services to local needs, could be strengthened and local government’s lead role in convening partners formally recognised. A statutory duty on other local agencies to cooperate with local authorities should be introduced.

Resources

E.36 Local government needs to be appropriately funded for the roles it is expected to take on. This means:

- making sure that the requirements placed on it by central government are adequately funded – 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 inadequate, perhaps with a greater element of independent assessment to reduce disagreement;
- providing local government with sufficient financial flexibility to undertake place-shaping effectively – including over funding investment and infrastructure projects. The debate about greater local discretion over business rates is also relevant here;
- setting up the funding system so that it provides appropriate incentives for the functions it supports, such as enabling local authorities to share in the financial benefits of housing growth and economic growth.

A contractual approach?

E.37 A more contractual approach between central and local government could have advantages in the effective delivery of national priorities.

E.38 Local Area Agreements are a useful step in this direction, and may provide a basis from which to further develop a contractual approach between central and local government. However, there is a perception these have not yet succeeded in providing local authorities with the flexibility or space adequately to respond to local priorities.

ACCOUNTABILITY AND ENGAGEMENT

E.39 Strong local accountability is absolutely crucial if greater local choice is to lead to more responsive and effective government and public services. Local authorities must demonstrate the ability to engage with local people to understand their views and to inform decisions.

E.40 The main way in which local people hold their local council to account is through electing councillors to represent them. However, at present the role of councillors is unclear, and councillors are unrepresentative, poorly rewarded and under-valued.

E.41 A great deal of attention has been paid to developing and improving the role of executive councillors, following the new council constitutions introduced in the Local Government Act 2000. The role of backbenchers now needs attention in order to build stronger local accountability for authorities and to ensure that local government is as effective as it should be in engaging with local communities. There may be scope for further development of the scrutiny role and its extension to other local public services.

E.42 I believe concerted effort is required to make becoming (and remaining) a councillor more attractive. Work is needed with the local government community to develop models for being a councillor which set realistic and fixed rather than open-ended time commitments, perhaps drawing closer parallels between councillors and non-executive directors of companies.

E.43 The political parties can also help promote representative and high calibre candidates. They alone can undertake the performance management of councillors and develop a stronger self-regulatory approach in relation 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.

E.44 A new 'job description' for councillors and action by the political parties could enable a national publicity campaign to be developed. This could explain and promote the role of the modern councillor in order to help improve the image of local elected representatives and boost recruitment.

E.45 Further constitutional change should also be considered to enable local authorities to innovate with their governance arrangements according to local preference. This could include experiments with single member wards or directly elected cabinets. The Government might need to legislate for a wider variety of constitutional models.

E.46 New or expanded neighbourhood and parish arrangements also offer the potential to build local accountability. However, there must also be genuine devolution from central to local government, to ensure local government has the flexibility to respond to local needs and demands and to enable an accountable and responsible organisation to manage tensions and challenges within and between different communities.

E.47 Whatever the mechanisms, local government needs to make continued efforts and progress in public engagement to help build confidence, trust and accountability, including providing a range of different engagement opportunities.

CAPABILITY AND CONFIDENCE

E.48 Although local government performance has improved across a range of measures in recent years a greater place-shaping role would present local government with a range of new challenges.

E.49 It will be necessary to devote more attention and resource to the development of political leadership by central and local government and national agencies. Local government also needs to continue to develop its strategic leadership capacity in relation to local partners.

E.50 Local government needs to take greater local ownership of performance management and self-assessment and to maintain a focus on the development of an internal performance culture. It must also establish itself as a clear champion for value for money and cost effectiveness by continuing to drive the efficiency agenda.

E.51 Public confidence and trust in local government also needs to be improved if local government is to take on a bigger role with public support. Strong drivers of satisfaction include the perceived quality of services and value for money, liveability and effective communications.

E.52 Finally, local government must have confidence in itself if it is to make difficult decisions, take responsibility for doing less in some areas, and take and manage risks. Councils will need to depend less on other tiers of government to define their priorities, and be prepared to make and defend their own difficult decisions.

E.53 Now may be the right time for a fresh start in the relationship between central and local government through a new constitutional settlement, based on the reforms outlined above.

CONCLUSION

E.54 I have identified three key priorities for reform of the functions of local government, with regard to the forthcoming Local Government White Paper:

- greater clarity about the roles of central and local government;
- greater formal recognition of local government's role in place-shaping and 'convening' across local public services; and
- the need for local government itself to recognise that it must do more to improve its capability to develop its place-shaping and convening role.

E.55 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.

NEXT STEPS FOR THE LYONS INQUIRY

E.56 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 Comprehensive Spending Review. My further work will also 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;
- 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.

E.57 My final report on both the function and funding of local government will be made to Ministers in December 2006. I would like to take this opportunity to thank all those who responded to my Interim Report, and all the local authorities which have provided case studies or are undertaking work to engage the public in this important debate.

E.58 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:

Lyons Inquiry into Local Government
Room 3/12
1 Horse Guards Road
London
SW1A 2HQ