

4

Central government's contribution to reform

Summary

This chapter examines what central government can do to improve the framework within which local government operates, enabling it more fully to take on its place-shaping role. It recognises the significant step forward represented by the proposals in the recent Local Government White Paper and subsequent Bill, but argues, that in delivering the ambitions which the Government has set out, it faces significant risks and challenges, which will need to be addressed if the potential benefits of the White Paper are to be fully realised.

It argues that a key priority is to sharpen and clarify the accountability of the current system, particularly by:

- clarifying the respective roles of both central and local government, including what local government is best placed to do;
- streamlining the performance management framework with a clearer local focus;
- allowing local government to improve its own governance; and
- improving the transparency and accountability of the funding system for the public and Parliament. This may require an independent and authoritative source of evidence to inform the debate about local government funding. It also means that the system of council tax capping should end – while born out of understandable motives, it confuses accountability and can have perverse effects.

The White Paper sets a welcome path towards a system which provides greater local flexibility and choice, particularly through the proposals to reduce central targets and burdens through the new performance framework. In order to ensure flexibility is protected over time, central government will need to achieve a shift in attitudes and behaviour to ensure that:

- soft controls in the form of new types of conditional funding, guidance and central government pronouncements do not take the place of formal targets – moreover, the chapter argues that the Government should make a firm commitment to further reductions in conditional funding;
- funding flexibility is preserved and joint working with other partners is made easier;
- local government's convening role is more formally recognised and supported by the system;
- local government is recognised and rewarded for improving allocative efficiency – delivering the right priorities for local people – as well as for driving forward managerial efficiency;
- local government's sense of ambition and powerfulness on behalf of local people is encouraged by central government as well as from within the sector;
- arrangements for working at the level of the functional economy (across authority boundaries) should be flexible and based on what works in the local area.

The chapter also considers what this means for a range of different services, including adult social care, domestic waste collection and disposal, health and well-being, children's services, community safety and economic development.

INTRODUCTION

4.1 Central government has responsibility for the overall framework within which local government operates, and therefore bears a significant responsibility for the performance of the system of local government as a whole. However, central government can only ever be responsible for part of that system; it shares responsibility with local government to make it work as well as it can for our citizens. Indeed, the previous chapter argues that some of the problems currently afflicting local government and its funding system are due to central government's attempts to take *too much* responsibility for matters which should be appropriately left for local decision.

4.2 This chapter sets out where I think the government's approach will need to change if local authorities are to be able to play their place-shaping role, and respond flexibly and efficiently to the needs of communities. Later chapters propose detailed and specific changes to the funding system, and also changes which local authorities will themselves need to make to fulfil the potential of their place-shaping role.

4.3 In my May 2006 report, *National prosperity, local choice and civic engagement*, I argued the need for greater local flexibility and choice to enable local government to rise to this challenge, and emphasised in particular the weight of the range of central controls on local authorities, which has tended to distract their attention upwards, towards central government and away from their local communities.

4.4 The recent Local Government White Paper, *Strong and Prosperous Communities*, and the resulting Bill, responded directly to many of the proposals in my May 2006 report and set out a very positive direction of travel. I particularly welcome the intention to streamline dramatically the number of targets imposed by central government, and the performance management framework governing local authority performance. The emphasis on greater engagement by local government is also key to improving accountability, public satisfaction and trust. The White Paper and its implementation plan also include a wide range of other proposals and changes, which should help to reinforce the shift towards greater flexibility and choice at the local level, and greater responsiveness by local government to the communities and individuals it serves.

4.5 I do not set out in detail here all those aspects of the White Paper and other developments which I endorse. The next section points to areas of concern or risks which could hold back delivery of the objectives reflected in the White Paper, and which will need to be addressed in future to provide the space for local choice, the right conditions for local energies and leadership to flourish, and continued momentum towards making the most of what local government has to offer. The chapter also considers how local government can play a role in fostering economic prosperity, and discusses implications for a number of specific services.

IMPROVING ACCOUNTABILITY

4.6 In the current system, responsibility for both local public services and the way in which they are funded is complex and confused. As set out in Chapter 3, this fundamental problem leads to confusion and mistrust in the system as a whole, since it creates incentives for central and local government to blame the other for failings and to claim credit for success themselves, rather than focusing on providing the greatest contribution they can to the well-being of our citizens.

4.7 There is therefore an urgent need to improve accountability throughout our system of local government, and to create incentives so that each tier of government has every reason to improve their own contribution to well-being, and to support others in doing so as well. This requires improvements across a range of issues:

- greater clarity about the respective roles of central and local government – this means being clearer about where central and local government can each add most value, as well as maintaining the commitment to pursue a much smaller number of nationally set central priorities, leaving real space for local choice;
- ensuring the new regulatory regime for local government is focused on the right issues, and allows enough space for local choice and priorities to be taken forward, while minimising burdens across the sector;
- improving the framework for local governance in order to promote effective local leadership and engagement, and to better inform local choices which help manage public expectations and service pressures; and
- seeking to clarify how local services are funded to provide greater transparency over what local services cost, and how decisions on spending and resources have been made.

Clarity over roles and responsibilities

4.8 A key challenge for government at all levels is that political and popular ambitions for public services are arguably greater than ever before. We demand high-quality, responsive and increasingly tailored services while the majority of us (55 per cent) do not think it is acceptable for standards of service to vary between different parts of the country.¹ I will not attempt in this report to debate the appropriate size of the state nor the appropriate level of total investment in public services; different governments will always need to make judgments about these political questions. However, there is a critical need to manage public expectations of public services against what people are willing to pay for, otherwise I believe that trust and satisfaction in the system as a whole will suffer. This is a challenge for both central and local government.

4.9 Chapter 2 argued that local government is best placed to engage with local communities to understand their needs, priorities and preferences in order to make well-informed choices about how resources should be spent in the best interests of local people. Councils are also best placed to manage the difficult trade-offs which inevitably have to be made when making choices about what should be spent, where, how and on whom in the light of local priorities. Explaining those choices to the public is crucial to achieving well-being and satisfaction. But, when accountability is blurred, clear explanation becomes difficult, as local people may be uncertain as to who is responsible for success or failure in their area, or who to lobby for change. Blurred accountability can also lead to local service providers being pulled in different directions, making it very difficult to develop a clear set of shared priorities to which they can develop joint solutions.

4.10 The most obvious way to clarify accountability would be to make a definite distinction between those services which are national and those which are local responsibilities, but it is clear that such a formal separation is not possible. Public services are by their nature complex, both in terms of what they do and how they aim to do it. Most services include some elements which are

¹ BMG Research, *Lyons Inquiry Survey*, 2007.

appropriately centrally determined and some which should be locally determined, and some have regional or sub-regional aspects, suggesting decision-making should take place at different levels.

4.11 Despite this complexity, it is possible to point to some services where greater or lesser degrees of local choice would be appropriate. Although I argue that greater local flexibility and choice are needed across the range of local government activity, I fully accept that there will always be a range of services and priorities where national government will want to set national standards and ambitions. In those areas where a sense of national entitlement is very strong, or where central government has a specific democratic mandate to deliver particular improvements (for example on health or education), I can see the merits of formalising this 'national promise' through a clearer definition of local and national responsibility, backed up by clearer financial arrangements. There is, however, a challenge in defining and funding a national promise in a way that ensures it can be afforded everywhere, and that focuses on what should be achieved, not how it should be delivered. This reinforces the need to balance the desire for national standards with that for local flexibility and choice. Chapter 2 set out the principles which could be used to inform decisions on the balance of local and national determination, which I first introduced in my May 2006 report.

Recognising the potential contribution of local government

4.12 A shift in approach is needed from both central and local government, to recognise the contribution each can make to the shared agenda for improving the well-being of all our communities. This means recognising that central government should not expect to do some things which local government is well equipped to do, and vice versa. For example, local government is, by virtue of its closer connection with citizens, better placed to engage with them about what they want, to manage expectations about what is possible, and to work with service users to improve the effectiveness of local public services, by influencing behaviour and reviewing service design and delivery. Such co-production is a key potential contribution of local government that is not adequately recognised or developed in the system as a whole.

4.13 I recognise that there are many areas where local government performance (like central government performance) needs to improve substantially. However, the key challenge for the system as a whole is to recognise that every level of government has a comparative advantage which determines what it is better placed to do than the others. All of our governments need to make the most of that potential in pursuing better outcomes for citizens.

4.14 There is also a need to recognise the fact that central government – like local government – has limitations in terms of what it is best placed to do. Some of these will be intrinsic – a function of the very fact it is a central, rather than a local, organisation. Others may be a function of current skills, behaviours and organisational arrangements. There is widespread interest currently in how government departments and 'the centre' of government can collectively be made more effective.² There is also an ongoing programme of reform, drawing on a number of Government-commissioned reviews which have made recommendations that aim to improve efficiency and effectiveness, and the ongoing round of Capability Reviews explicitly examine questions similar to those asked about local government, including about the leadership, skills and capacity of government departments.³ Some of these exercises explicitly question the fitness for purpose of various aspects of the centre, and there is an ongoing debate about some large-scale concerns, for example the National Health Service and some Home Office functions.

² See for example Darwall, R., *The Reluctant Managers*, December 2005.

³ See for example, Gershon, P., *Releasing Resources to the Front Line: Independent review of public sector efficiency*, HM Treasury, 2004; Lyons, M., *Well Placed to Deliver? Shaping the pattern of government service*, HM Treasury, 2004; Varney, D., *Service Transformation: A better service for citizens and business; a better deal for the taxpayer*, HM Treasury, 2006.

4.15 I do not seek to answer the specific questions or concerns raised by this ongoing work as it is outside the scope of this Inquiry. But questions about the capability of central government departments will remain highly relevant to considerations of the future role of local government – since the key challenge, as I have set it out, is to ensure that the system as a whole can make best use of the relative advantages of each tier of government. So in what follows, I seek to bear in mind that:

- it is right to ask questions about what central and local government are each best-placed to do; and whether we are making the best use of the talents, energies and resources available at each level under the current system;
- questions of performance relate to all tiers of government – and it is therefore wrong to assume that a centrally designed and implemented solution will necessarily always be better than a local one; and
- it is reasonable to ask whether the centre is trying to do too much, and whether this contributes to confused accountability.

4.16 Future Capability Review processes might usefully assess how well equipped central government departments are to work in partnership with local government while protecting and enhancing local flexibility. This might take account of my recommendations in later sections about central government behaviours and soft controls.

Identifying areas of local discretion

4.17 The Government has announced that it will in future set a much smaller set of key national performance measures, and the overall approach to an area's priorities and objectives will be negotiated through the Local Area Agreements which are being introduced across the country. This will require central government to be much clearer about those areas in which responsibility should be firmly local, and to resist calls to intervene in them. This in turn will require an acceptance that variability between areas is not only inevitable but also desirable.

4.18 This is a challenge for central government, but it could help significantly to improve local accountability. The centre will need to respect the value of local communities being able to make choices that the centre might not recommend or welcome – it will need to value local difference. It is also a significant challenge for local authorities and other local partners, who have in many cases contributed to the development of the current system by pressing the Government for national targets, strategies or ring-fenced funds as a signal that their area or their particular interest features on the list of national priorities. If both central and local partners can overcome these old ways of working, the prize is greater efficiency, well-being and satisfaction as local services are more closely matched to local needs and wishes.

Greater consistency within central government

4.19 For those issues where central government takes responsibility, or shares it with local government, there is a need for greater consistency in the behaviour and messages coming from departments. A number of submissions to my Inquiry from local authorities have raised this issue, typified in the following quote:

Lack of co-ordination within Whitehall or between Whitehall and its agencies can lead to further difficulties. For example, the Department of Health pushing adult education and the Department for Education and Skills withdrawing funding for it, or the Home Office recognising the importance of alcohol treatment compared with drugs treatment, but being unwilling to sustain funding to support this. (Surrey County Council)

4.20 Delivering on the promise of this model depends on the expectation that Local Area Agreements will be based on a genuine negotiation between local partnerships, led by the local authority, and central government. This requires government to act corporately in the negotiation, which will depend to a great extent on the behaviour of ministers and their departments.

Role of Government Offices 4.21 Given the proposed key role for the Government Offices in negotiating Local Area Agreements on behalf of the government, it will be important to be clear about their negotiating power and to ensure they have the right skills and capability to perform that role. My case study research found a sense of frustration within councils at being obliged to go through Government Offices in their dealings with central government, as they perceived that the decision-making powers lay in the departments themselves, not the Government Offices.⁴ Some councils questioned whether Government Offices currently have the capacity and local knowledge to make judgements about local priorities. Others argued that their role often appeared to involve administering central government programmes and second-guessing central departments, at the same time as constraining and second-guessing local choices. Many expressed concerns about whether the Government Offices have the skills to meet the increasingly strategic role that is expected of them:

I have to say that I am yet to be persuaded of what the added value of regional government is to these issues really. We know the city and the police know the city and we know what the priorities are. If regional government is to interpret what central government says well then I'd rather have it straight from central government. (Senior local government officer, community safety)⁵

4.22 This suggests that the role of the Government Offices needs to be much more clearly defined and focused on areas where they can add most value. I strongly support the recommendations of the review of the Government Offices published last year.⁶ I particularly welcome the recommendations to streamline the Government Offices' role in order to secure a more strategic approach and a more appropriate staff skills mix. However, behaviour will again be a key determinant of the strength of the new arrangements. Government Offices must clearly recognise matters which are wholly for local determination and resist encouragement (whether local or central) to become inappropriately involved.

4.23 The review also recommended that Government Offices should challenge government departments to ensure policies are joined-up and capable of being delivered effectively. While some key government departments are not represented in the Government Offices (notably the Department for Work and Pensions), this role could in my view add real value. The Government Offices could play a part in helping to develop a stronger corporate style in central government by reflecting back to individual departments and central government as a whole the challenges that their own behaviours (however well-intentioned) can create at the local level. Over time this could help to improve relationships with local government, and the functioning of the system as a whole.

Streamlining the performance framework

4.24 Chapter 3 argued that the Government's performance framework has tended to distract councils from an outward focus on their communities, instead creating a focus on upward reporting lines to central government.

^{4,5} Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007 – summarised in Annex H.

⁶ HM Treasury and Department for Communities and Local Government, *Review of Government Offices*, 2006.

4.25 The Audit Commission's report on the future of regulation pointed the way forward on the regulation of local authorities.⁷ From April 2008 the Audit Commission will operate as the single local services inspectorate, and a radically reformed performance framework is likely to be implemented in the form of the new Comprehensive Area Assessment from the following year.

4.26 The Local Government White Paper's objectives for the new performance framework are that it should:

- strengthen accountability to citizens and communities;
- give greater responsibilities to local government and its partners to secure improvements;
- provide a better balance between national and local priorities;
- improve coordination between the various inspectorates;
- relate inspection more closely to risk; and
- streamline the process for providing improvement support and intervention.

4.27 I welcome all of these objectives. If implemented fully they will mark a step change in the performance framework, providing a much more streamlined system of regulation which will provide much greater space for local flexibility and choice.⁸ In implementing the new regime a number of issues need to be borne in mind.

4.28 First, and most important, the regulatory regime needs to be clear about who is responsible for what. This has two aspects:

1. Being clear about what the local authority is responsible for. The Comprehensive Area Assessment will of course need to take account of performance in relation to the 53 local targets (made up of 35 locally negotiated targets and 18 mandatory ones in early years) for each local area and the 200 national indicators (to be agreed at the Comprehensive Spending Review). However, the new regime will need to find a way of recognising the appropriate balance of accountability for the local authority as convenor, leading the Local Area Agreement in partnership with a wide range of other providers. It will also need to recognise the local authority's wider place-shaping role, which will be reflected in the targets and ambitions developed locally. These are not a matter for central control, but will impact on the satisfaction of local people, which will be an element of the new framework.
2. Being clear about what is the responsibility of each inspectorate. Overlapping responsibilities would add to confusion and not aid the objective of aligning the regimes across all local public services. The role of central government in setting expectations about performance beyond the targets agreed in the Local Area Agreement also needs to be clear. We need to avoid the risk that taking forward government ministers' public pronouncements about particular services or issues become seen as the responsibility of the inspectorates.

⁷ Audit Commission, *The Future of Regulation in the Public Sector*, 2006.

⁸ By this I mean the wide range of activities undertaken by central government and inspectorates to regulate the behaviour and performance of local authorities. The performance framework incorporates not only regulation but also a much wider range of activities, such as peer review and support, and other mechanisms included in the Local Government White Paper.

4.29 Second, the regime must be proportionate. This is clearly reflected in the move to risk-based inspection. Across most services, the framework should allow for intervention in local affairs only where there are significant failures which demonstrably risk harming the well-being of local people. The proposed regime will look across the 200 national indicators in judging risk, but I hope it will also take account of local priorities and the fact that while a particular service may be crucial for well-being in one area it may be much less important in another.

4.30 Third, arrangements for inspection and assessment need to focus on supporting change by the authority itself. I welcome the Improvement and Development Agency (IDeA) and the Local Government Association (LGA)'s developing work on self-assessment against an externally agreed community plan, and 'peer challenge' to examine progress against the commitments agreed with partners. While peer-group support is unlikely to provide adequate public assurance on its own, this is an important demonstration of the capacity and willingness of local government to embrace improvement. But the system must recognise that there is only so much that even well-targeted and well-intentioned support, advice and intervention by peers or regulators can achieve. Real improvement in performance must be the explicit responsibility of, and must be driven by, the council itself. I therefore welcome the emphasis on self-assessment and stakeholder views.

4.31 Fourth, inspection needs to be joined-up. Even after the merger of eleven public service inspectorates into four, there are still real challenges for the smaller number to work together effectively and to reduce the burden they place on inspected bodies. I look forward to the outcome of Michael Frater's work on reducing the burdens of the reporting systems, which will help achieve a reduction in the burden of inspection.⁹ The new Comprehensive Area Assessment needs to take full account of local partnership working and shared priorities through the Local Strategic Partnership and Local Area Agreement – so that inspection and assessment can be genuinely joined-up across agencies and the public services they deliver. This means putting greater effort into ensuring that the separate performance frameworks for primary care trusts, schools, the police and Jobcentre Plus are as consistent as possible with each other and with the Comprehensive Area Assessment framework for local government.

4.32 Regulation must of course be well informed. The promised smaller and clearer set of outcome-based national indicators should constitute the bulk of the performance information required from local authorities. It is particularly important that they are available to the public, who must be the key judges of performance. I accept that there may be a need for some further monitoring information, for example on satisfaction (despite the challenges in using such measures robustly), and local authorities will of course want to monitor management information themselves. However, it is important that the requirements for publication of extra information should not be used as an indirect way of imposing additional national standards.

4.33 Finally, I strongly support the notion that local people should be the ultimate judges of how well local authorities perform their place-shaping role, how well they deliver locally determined services, and how well they undertake their role as convenor across all local public services. The performance framework should support the ability of local people to do this – but it should not prescribe how, as the best approach will vary in different places. It is for local authorities to design transparent and effective mechanisms to engage with their citizens, to inform and challenge policies and decisions, and to explain how their views have been used.

4.34 Local government already recognises the value of external challenge and peer support to improve performance. The chairman of the LGA, Lord Sandy Bruce Lockhart, recently argued, that "there should be no hiding place for poor performance" within local government, as he

⁹ Audit Commission, *Assessment of Local Services Beyond 2008*, 2006.

launched the LGA's Raising our Game initiative.¹⁰ Although there will always be a need for public assurance in some services that cannot be delivered through self regulation, I believe this is a very helpful message. The more strongly the local government family takes steps to improve the performance of the sector as a whole, and the more individual authorities are clearly seen to actively improve their own performance on an ongoing basis, the less reason there will be for central government to intervene.

4.35 There is of course a critical need for local authorities themselves to take on this challenge individually, to engage with their communities and to put every effort into improving their place-shaping role as well as their role as service commissioners and providers. I discuss this further in Chapter 5. If they fail to do so, there remains a legitimate role for regulation to protect against and mitigate failure – but this should be recognised as regulation of last resort.

Recommendation 4.1

The burdens and effectiveness of the new Comprehensive Area Assessment and other aspects of the performance framework should be independently evaluated, and a report published, two years after its introduction.

This should examine:

- how well the new system is achieving its objectives, and in particular how much space it leaves for place-shaping, local innovation and responsiveness;
- whether other external assessment and inspection frameworks are adequately supporting joint agendas; and
- whether the framework effectively assesses and supports the community empowerment agenda.

Improving the framework for local governance

4.36 Democratic processes are not the only means by which citizens can hold their representatives and the local authority to account. They do however have the strong advantage that they provide representation for all local citizens – whether taxpayers, service users or residents. It is this which gives local authorities the unique remit to act in the interest of the whole community. This is particularly important when making difficult decisions, which have to weigh different interests against each other, taking into account the needs and wishes of the community as a whole – for example in decisions about where development activity should take place and, when necessary, which schools or other facilities should close.

4.37 It is therefore important for all of us that local democratic processes work well. Low levels of civic interest and engagement and a low electoral turnout, at local elections in particular, are a matter of local and national concern. Local and central government share an interest in sharpening local accountability, re-engaging communities and revitalising interest and improvements in the way we are governed.

4.38 Such improvements rely to a large degree on local government changing its approach and behaviours, as I set out in Chapter 5. The challenge for central government is to design a framework which encourages and enables local authorities to take responsibility for how their communities are governed, to design and prove the value of governance structures that work

¹⁰ New Local Government Network conference, 17 January 2007.

for their own locality.¹¹ No single model will work everywhere, and too much central prescription over models and approaches could result in the wrong local solution and could also damage innovation.

Local leadership 4.39 The framework within which councils operate can constrain or enhance their ability to improve the governance of their area. I therefore welcome the recent decisions to enable councils to move to a four-year election cycle where all councillors are elected simultaneously. This was an option strongly supported by the Electoral Commission in its submission to me. Equally, I welcome the proposal that councils can ask the Electoral Commission to undertake a review to move to single member wards. These changes should help to enable authorities to experiment with new approaches and to find the one that works best in their area.

4.40 The Government has emphasised the role of strong and clear local leadership in providing accountability – in particular placing an emphasis on elected mayors and the role of the council leader. I agree that leadership is important, but in setting the national frameworks for local government we must acknowledge that effective leadership is not a simple concept, and should not be reduced to a simple prescription that requires the same arrangements everywhere.

4.41 There is a risk in placing too heavy an institutional reliance on the ability and effectiveness of a single person. Elected mayors are argued to have benefits in terms of visible and accountable leadership, with international examples of effective mayoral leadership being cited in support. I too have seen and been impressed by examples of strong leadership, and their achievements, in some American and European cities. However, this is often in a very different context, and it often involves other complex forms of leadership. For instance, the mayor of Chicago has a wider set of powers (particularly in terms of taxation) than local government in this country, and success has been built to a significant extent on building strong coalitions of interest and 'striking a deal' with residents and businesses to invest in the reshaping of the city and its economic role.

4.42 I am also concerned more generally that relying on the leadership of one individual for every area risks losing some of the strengths of the current system, in terms of collective leadership and the ability of the system to represent diverse interests. Communities are complex and a broad-based leadership, based on a number of people across a number of institutions may be preferred.

4.43 Given such variations in the 'best' governance models for different communities, it is crucial to recognise that local areas may need to change their model of leadership from time to time. We should learn lessons from the effects of the Local Government Act 2000 which – though beneficial in a range of ways – prescribed models of governance that have failed to make best use of non-executive or frontline councillors and alienated many of them in the process.¹² This might have been avoided if there had been greater freedom for councils to choose how to achieve the goals of reform.

4.44 It is therefore important that if local areas opt for a directly elected mayor or executive, under the new governance arrangements provided for in the current Bill, this should not be set in stone. If local people feel that their experiment with a mayoral or other model has failed, they should have the right to make a further choice in favour of an indirectly elected model, which they prefer and which may work more effectively for their area. The Government's current proposal requires local authorities to wait for ten years after the original referendum that gave rise to a

¹¹ This builds on an argument put by Sue Goss, Principal at the Office of Public Management, at the SOLACE conference in October 2005.

¹² Gains, F., *Early Outcomes and Impacts: Qualitative research findings from the ELG evaluation of new council constitutions*, Department for Communities and Local Government, 2006.

directly elected mayor before local communities can choose to move back to an indirectly elected model. A decade is a long time to tolerate a particular model of leadership if people do not consider it is benefiting their area.

Recommendation 4.2

The Government should ensure that local communities retain the flexibility to choose models of leadership that best suit their circumstances, and to adapt them as and when they judge appropriate.

Less central definition of officer and councillor roles

4.45 Central government has also prescribed that there must be a lead member and director of children's services and a director of adult social services, as well as in the latter case specifying certain elements of how those roles must be fulfilled. While most councils manage to organise these roles successfully, building their local structures to fit around them, some have argued to me that this prescription can constrain their ability to structure their organisations and processes in the most efficient way for their area.

4.46 There is of course no simple or unique way to divide up the responsibilities of a council. The strong interest in joining-up has produced a trend to focus on client groups, such as children's services and adult services, to encourage a client focus. But any structure will suffer from some problems. For instance the division between children's and adults' services raises new challenges in managing the transition from childhood to adulthood. This raises issues for the education and skills training of young adults in particular. Similarly, social services for children and adults need to work very closely together in relation to vulnerable families, particularly where there are child protection concerns.

Recommendation 4.3

The Government should not seek to define any further lead councillor and officer roles and structures, and existing prescriptive models should be kept under review.

Funding an accountable system

The debate about whether funding is adequate

4.47 The complexity of the current finance system and its lack of transparency is a barrier to clear accountability, as discussed in Chapter 3. It is, I believe, virtually impossible to come to a definitive view about whether funding is 'adequate' even to fund central government commitments under the current system. This is in part a reflection of the intrinsic difficulty of assessing pressures on spending which amounts to more than £140 billion a year – however it is also a design feature of the current system.

4.48 While reforms in the early 1990s were designed to ensure that all areas of the country could provide the same level of service for the same level of council tax, recent models of formula grant funding have sought to avoid an explicit objective that grant distribution should allow the same level of services everywhere. However, it is far from clear that this was ever achieved, and it required a high level of stipulation by central government over 'appropriate' levels of local spending. Recent models of funding have therefore sought to avoid this objective. The move to a new system of distribution in 2006–07, commonly known as the Four Block Model (described in Annex A), ensures that annual changes to grant are now explicitly determined by relative need and resources, rather than by absolute figures.

4.49 However, while the grant system appears to recognise the practical impossibility and policy costs of central determination of 'correct' levels of spending in individual areas, government announcements and statements still often imply that the public should be able to expect the same high standards of services everywhere – across a wide range of services. The raising of such unrealistic expectations makes it difficult to manage pressures effectively at the local level, and it raises questions about whose 'fault' council tax increases are, which are impossible to answer definitively.

4.50 Aggregate pressures on local government are assessed through the Spending Review process, with contributions made by a wide range of stakeholders, including local government. However, final decisions on the total amount of grant, and the finance settlement that determines how the grant is distributed, are not wholly transparent. It is not therefore possible to judge whether the funding allocations are intended to ensure a level of funding regarded as adequate for local government. This issue was highlighted in the Audit Commission report on the causes of the 2003–04 council tax increases, and in submissions received:

It has always been impossible to show in practice that money provided nationally has reached local councils ... now it is impossible to show theoretically too. ... Formula Grant has moved somewhat closer to being a general subsidy to the council tax payer and away from being a means of allocating resources of individual service blocks so that each council can provide a similar level of service for a similar level of council tax. (Society of London Treasurers)

4.51 The Government does have a clear policy that any new burdens imposed by central government departments on local government should be funded through the grant regime. The principle behind the policy is a good one, though this is necessarily a blunt instrument, and many submissions received from local authorities argue that it does not always ensure adequate funding for every local authority (particularly after grant allocations are 'damped', as discussed in Chapters 3 and 9). However, it only deals with marginal change in central government's demands rather than with overall pressures on local authority budgets.

4.52 It may never be possible to create a system in which anyone can determine precisely whether the total funding available to local authorities is enough to enable them to achieve all the ambitions set out for them. I would not promote a funding system which simply focused on inputs and actual costs rather than outcomes. Nevertheless, it is crucial that if central government makes promises about what local government will deliver, the funding system should provide some certainty that sufficient money will be available to do that – in a way that helps local people to hold local and central government to account for their actions much more clearly.

4.53 In the short term, the most straightforward way to move towards this goal is to reduce the extent and ambition of the national promises made by central government which have to be met by local government funding. The commitment to reduce the number of targets and indicators set by central government, and my recommendations to improve local flexibility and choice set out below, will help to do that. This should at least make it easier than at present to be confident that total funding for local services is sufficient to deliver what government has promised nationally – though it may never be possible to identify the point at which there is 'enough money in the system'. I am not seeking to eliminate the scope for debate but rather to encourage a more productive debate between central government and local government on priorities for the system as a whole to ensure we get value for money for our citizens.

Improving transparency 4.54 It is understandable and entirely appropriate that central government should want to ensure that monies provided to local government should be well spent and achieve value for money. Indeed, I would argue that local government explicitly shares this objective. My aim is to improve the ability of the system not only to deliver that goal but also to help both central and local government, Parliament and the public to understand more clearly how well it is being delivered for the system as a whole.

4.55 Many submissions to my Inquiry have argued for the need to improve the transparency of the funding system, its objectives, and how well it is achieving them, in a way that improves understanding and the quality of debate.

4.56 One way to do this is to introduce a more independent and authoritative voice to provide an expert and unbiased view on the issues. It could comment on the claims and counterclaims made by both sides of the debate, so that the public could better understand the issues at stake, and they and Parliament could have a consistent source of independent and balanced evidence. The Audit Commission's analysis of the 2003–04 council tax rises arguably provided this type of role. Issues on which comment would be useful include:

- whether the cumulative impact of new mandates on local government has over time been greater than or less than the funding made available to pay for them;
- what evidence is available about future pressures on local services and what might be reasonable assumptions to make about their impact on costs; and
- whether the funding system is meeting its objectives, particularly in terms of delivering national promises made by central government.

4.57 This could help contribute to a better-informed and more constructive debate about the funding of local government and its priorities. It might even help us to move towards the more consensual position that other countries, such as Denmark and Spain, seem able to achieve in their distribution of local government funding. Part of the situation in England can perhaps be ascribed to our national political culture being based on challenge and adversarial debate, rather than consensus, but it may also be due to the lack of neutral assessments and lack of independent attempts to explain how grant and settlement decisions are made.

An independent commission 4.58 One mechanism that might be used to help to provide greater transparency in the funding system is an independent commission. Some commentators have proposed an independent commission to provide a range of roles.¹³ The LGA's final submission to my Inquiry proposed that a commission should:

- maintain the stewardship of overall funding regime(s), including management of the distribution and equalisation mechanisms;
- keep data and tax base valuations up to date, in the latter case by commissioning contract work from valuation offices;
- regulate a devolved regime of fees and charges, and to investigate and advise on new or alternative charging regimes;
- provide the regulatory framework for the relocalisation of business rates; and
- provide research and advice, to support the integrity of the system.

¹³ For example McLean, I., *The Fiscal Crisis of the United Kingdom*, ESRC, 2005; McLean, I. and McMillan, A., *New Localism, New Finance*, 2003; also explored by the Audit Commission in *Passing the Bucks: The Impact of SSAs on Economy, Efficiency and Effectiveness*, 1993.

4.59 While there is a case for each of these roles to be undertaken, I do not believe they could or should all be undertaken by an independent commission. A key aspect of an independent body's work is that it should be very clearly defined, and not asked to second-guess or undermine decisions which are properly the domain of central or local government. I therefore believe that it would be inappropriate for a commission to make political judgments about the priorities for funding. However, it could usefully provide an independent voice in commenting on the extent to which funding objectives are achieved in practice, or might even be given the job of implementing them through the distribution of grant between authorities. The Australian Commonwealth Grants Commission provides a possible model – it advises on the relative distribution of general revenue to the states from national government, against terms of reference set by the federal government.

4.60 If decisions by a commission were transparent this model could help to improve joint understanding of how funding decisions are reached on the basis of clearly articulated ambitions about what central government should pay for. This could, I believe, help to secure greater trust and confidence in the allocation process and its reliance on objective criteria. It would provide an independent perspective on the distribution of funding to local government, and could involve verifying whether the criteria governing allocations achieve the desired equalisation, highlighting anomalies or distortions and ensuring that allocations were supporting central government's aims.

4.61 Such objectives are supported by Organisation for Economic Cooperation and Development (OECD) work on this area, which recommends that:

Decision-making about the general principles [for the revision of grant systems] should be reserved to national authorities on the basis of neutral expertise. The views of sub-national authorities are important, but should be developed in a setting that encourages objective debate, for instance, in a consultative council that is informed by neutral expertise. Also, the advice of sub-national representatives should focus on the technical aspects of the grant systems, such as the estimation of relevant variables and the quality of statistical data, rather than on principles.¹⁴

Clarifying the cost of new burdens

4.62 One of the most important of the potential roles that a commission could play would be to provide evidence on the actual cost of new burdens imposed on local government by central government, to improve the confidence of both central and local government, Parliament and the public that new burdens have been adequately funded, but not over-funded.

4.63 However, it is possible that this role could be undertaken by existing independent bodies, such the National Audit Office or the Audit Commission or a joint team drawn from both organisations. The evaluation expertise already resides in those bodies and it may be most cost-effective to ask them to take on this new role. However, they would need to report formally, either to a joint board, or to an independent or joint body such as a parliamentary committee or the Central Local Partnership.

4.64 If a commission was introduced either to advise on the distribution of grant or to comment on the actual cost of new burdens, it would be essential for it to be seen to be an independent and non-partisan body with the status to engage with and be respected by both local and central government and by Parliament. Careful consideration should therefore be given to its status and appointment procedures in light of its role.

¹⁴ OECD, *Intergovernmental Transfers and Decentralised Public Spending*, 2005.

Recommendation 4.4

Mechanisms should be put in place to improve the transparency of the objectives of the local government funding system, in particular central and local government should agree:

- what central government requires of local government and how it should be funded;
- the ways in which central government should appropriately influence other aspects of local government activity and the extent to which such influence should be limited.

This should be formalised in a written agreement.

Recommendation 4.5

The Government should consider ways to improve independent information available to the public and Parliament about:

- the actual costs of new burdens imposed by central government;
- actual burdens of targets, performance management and soft controls imposed on local government by central government and its agencies;
- whether the cumulative impact of new mandates on local government is over time greater than, or less than, the funding made available to pay for them;
- what evidence is available about future pressures on and efficiency opportunities in local services and what might be reasonable assumptions to make about their impact on costs and savings; and
- whether the funding system is meeting the agreed objectives in terms of enabling local government to deliver what has been agreed with central government.

Options considered should include an independent commission.

4.65 Chapter 9 discusses other questions of accountability in relation to which groups of taxpayers (or charge payers) pay for which public services, and also the question of which resources should be seen as 'local' and 'national'.

Capping of council tax 4.66 A key confusion in the current system is the question of who is responsible for setting council tax levels. Chapter 3 argued that council tax capping contributes to the confused accountability in the finance system, by overlaying heavy central controls on a tax that is supposed to be a matter of local responsibility. Survey evidence for my Inquiry suggests that the public believes councils should have the most say in setting council tax levels; after that local people themselves, and after that central government.¹⁵ Capping damages that sense of local ownership.

4.67 Capping is a sign that central and local government have together failed to make the system work. It represents a short-term response to council tax increases that are a symptom of problems elsewhere in the system – namely the pressure on local budgets and hence council tax, combined with a lack of local flexibility and unclear accountability. I argue elsewhere in this report that these underlying problems need to be tackled urgently.

4.68 Both the taking of the powers and the Government's recent use of them reflect the genuine concerns in central government that they must be able to ensure moderate rate increases, following the high average increases in council tax in 2003–04 and given the strength of the media's and the public's concerns and calls for central government to intervene. It is less often recognised that local government is also concerned about the impact of large increases on council tax payers and tries hard to minimise council tax rises – a message which was made strongly by many councillors and local government officers during the course of my Inquiry.¹⁶

¹⁵ BMG Research, *Lyons Inquiry Survey*, 2007.

¹⁶ Chapter 3 includes a fuller discussion of the causes of council tax increases.

4.69 However, it is also true that the current system provides an opportunity for local authorities to raise council tax without full accountability. Capping reflects the extent to which accountability for local services has become centralised. If ministers feel that any blame for problems in local services are likely to be laid at their door, then taking control of the finance that supports them may seem relatively logical. I have commented on how far this centralisation has led to central control of local spending; capping is partly an extension of this control to local taxation as well, but it tends to be presented as an instrument to tackle wholly local failings rather than central behaviours.

4.70 It is clear that council tax increases have the potential to distract public attention away from the good work that local government does, and thus to undermine the case for devolution over time. However, I believe that the harm to local accountability, incentives and flexibility created by the system of capping greatly outweighs the benefits of keeping council tax increases at an artificially uniform level. With greater local flexibility to manage pressures more effectively and less central control over local government's activities, the pressures on council tax should lessen over time. The recommendations in this report aim to achieve that goal. As part of that package, I believe it is critical that the Government should cease to use its capping powers in order to reinforce local accountability for managing pressures and for setting council tax locally. This will of course require some courage from the Government, but there could be no clearer and more fundamental sign that devolution is a key part of the agenda for the 21st century than this.

Recommendation 4.6

The Government should cease to use, and then abolish, its capping powers as pressures on council tax reduce, forming part of a package of measures to re-establish local accountability for tax and spending decisions.

Precepting 4.71 Chapter 3 identified the complexity of the funding system as a barrier to accountability. This complexity is added to by the system of precepting. Precepting authorities are mainly county councils, the police and fire authorities, which instruct the billing authorities to collect council tax on their behalf to finance their expenditure (see Glossary for a full list). Council tax bills can therefore include numerous precepts and levies from various local authorities. There may be a case for seeking to further clarify the information which is presented on the council tax bill, which is tightly constrained by legislation. This issue is covered in Chapter 9.

4.72 Most precepts are subject to the capping regime, with the exception of the parish precept, which has led to concerns expressed by some respondents. This has been particularly raised in the context of responsibilities transferred to parish level. A view expressed by a few parish respondents and Isitfair was that some non-statutory, upper tier authority services and functions were increasingly being carried out by parish councils, which had led to significant rises in their precept on the council tax bill:

In a growing number of cases across the entire country, towns and parishes are now picking up the costs for such [non-statutory] functions – and imposing huge percentage increases in their share of council tax bills; increases which are pushing the total increases in council tax bills through the five per cent cap. (Isitfair)

4.73 Others argued that devolution of responsibility could be used as a means of passing costs on to parish councils and away from upper tiers:

At this moment in time local councils can take on the provision of services to their residents if the principal authority is in agreement but there is no pressure on the principal [council] to ensure that funding follows the service. Keynsham Town Council would like to see more services devolved to local levels, ensuring that finance follows function. (Keynsham Town Council)

4.74 The available data provide some support for this argument, suggesting that the significant increase in parish spending since 1998–99 – from £154 million to £260 million – was partly due to the creation of over 150 new parishes since 1998, but also partly due to increases in activity in existing parishes.¹⁷ However, there are no centrally held data on parish finances that would enable this argument to be tested robustly. Moreover, parish councils cannot be ‘forced’ to take on responsibilities from the tiers above. They have no mandatory functions apart from the management of allotments, and any discretionary functions that they take on from another council would need to be subject to agreement beforehand. It is therefore important that parish councils and upper tiers work closely together to ensure that functions are undertaken by those best placed to do them, and that the means of funding new activities are clearly agreed.

4.75 Even supporters of capping would understand how impractical it would be to bring 8,700 parish councils within the capping regime. The key to ensuring this tier of government is more responsive to the wishes of its citizens is to build strong local accountability backed up by a strong relationship with councils at higher tiers (building on my arguments for stronger joint working set out below). The Young Foundation argued that more flexibility and some additional fund-raising powers at local levels would enable first tier – or community – councils to make a distinctive contribution to place-shaping at very local level, in particular where they are presented with incentives for a constructive relationship with the strategic tier of local government.¹⁸

4.76 I remain convinced that a voluntary approach together with maximum flexibility is the right one; parish councils should be encouraged to take an active view as to whether their community might wish them to take on a service that might otherwise be discontinued. The precept is an important local flexibility which supports communities’ abilities to take action themselves. I discuss the need for the other tiers of local government to take active steps to devolve responsibilities where appropriate in the next chapter.

PROTECTING FLEXIBILITY

4.77 The Local Government White Paper sets a welcome path towards a system that gives the potential for greater local flexibility, particularly by reducing central targets, with a focus on outcomes rather than outputs and processes. This responds directly to concerns that I outlined in my May 2006 report and is very welcome.

4.78 The challenge will be to deliver this through the Comprehensive Spending Review 2007, and to maintain this approach over time. There is a risk that the process of cutting centrally determined targets and indicators will not be fully reflected in a reduction of central controls, and that some central controls will instead ‘leak’ into either separate mechanisms, such as ring-fenced grants, or soft controls, which are less transparent and less easy to measure.

4.79 I believe this is a risk, not because I suspect the Government of having malign intentions, but because of the huge change in mindset it requires, not only for local and central government but also for citizens and the media. It is the wish to deliver improvements to everyone in the country; the wish to prevent a problem observed in one area from happening in others; the well-intentioned wish to take responsibility for things which cannot possibly all be controlled from Whitehall, which I fear may undermine the White Paper’s ambitions over time. There may of course be incentives in the system which worsen these tendencies. For instance, the ability of junior ministers, or indeed officials, to develop and deliver new eye-catching national initiatives is seen by some as a badge of success, and has been a key objective of many in government for many years.

¹⁷ *Local Government Financial Statistics England*, Communities and Local Government, 2005.

¹⁸ Hilder, P., *Where's the Money? Neighbourhood governance and the future of local finance*, Young Foundation, 2006.

4.80 This requires a shift towards a situation where ministers respond to issues of local discretion by referring them to the local council; and where central government resists encouragements to meet the particular objectives of lobby groups, professional organisations and representative bodies through central action, and instead encourages such groups to work with local government. This will require a change in mindset not only by those individuals but by Parliament itself. In a country so preoccupied by fears of a 'postcode lottery' we should not underestimate the challenge this poses.

Resisting the temptation of soft controls

4.81 All parts of government – ministers, departments, a range of agencies and Government Offices – have a part to play in minimising soft controls, and avoiding simply replacing formal control with informal influence by other means. Central government must restrict use of all of its tools, not just targets, in a way that respects and values local choice and therefore difference. When space is left open for local decisions, the temptation is often to fill it with central guidance, reinforcing the idea that local actors must have their choices edited and influenced by the centre at all times. This can create a culture of dependency, which I have witnessed first hand during the course of my Inquiry, for instance in the form of local authorities suggesting they cannot use the power of well-being or their charging powers more fully without better guidance from the Government.

4.82 As set out in Chapter 3, many of these things are almost wired into government departments' ways of working and will take time to overcome. When an initiative is called for, civil servants will naturally wish to have answers to any question a minister might ask about the detail of its impact and implementation, leading them to second-guess and thus proscribe decisions that should really be taken on the ground. I want to see a world in which civil servants can confidently advise ministers that those decisions are best left to local councillors – and that the councillors will therefore be accountable for them.

4.83 Additional changes are required to deal with the lesser aspects of central controls which relate to the preponderance of guidance, reporting requirements and central exhortations to local government to act in certain ways. I am concerned that such controls undermine local government's confidence that they are best placed to take many decisions, and further reinforce the sense that the centre is in control – confusing both responsibility and accountability for local actions. The Government intends that guidance needed to implement the Local Government White Paper will be 'consolidated and light-touch', developed in consultation with those affected. This is welcome. However, this commitment should be extended to all of the guidance issued by all the departments of central government, not just this recent White Paper or policies led by the department of Communities and Local Government. I fully recognise that local government also needs to examine its own behaviours in requesting central government guidance on issues that are properly matters of local discretion, as I discuss in Chapter 5.

4.84 There is a parallel here with the approach taken by the Better Regulation Executive to the regulation of the private sector. The Government has committed to reducing administrative burdens imposed by regulation by at least 25 per cent by 2010, and this is being implemented through a series of simplification plans to deregulate, consolidate existing regulation, rationalise sector specific measures and reduce the burden of existing regulations. While the nature of regulation and direction over local government is often very different to that affecting the private sector, a similar degree of respect for the burdens imposed on local government from central government should be reflected in the Government's approach to soft controls. This can draw on the work of the Lifting the Burdens task force, which was established last year to examine the burdens of performance management and monitoring regimes on local government.

Recommendation 4.7

As well as reducing the number of targets and performance indicators in the revised performance framework set out in the recent White Paper, the Government, its agencies and the inspectorates should also reduce the wider data burdens and reporting requirements that local authorities face, drawing on the work of the Lifting the Burdens task force.

Recommendation 4.8

The Government should set a target to reduce these burdens, and progress against the target should be monitored transparently by an independent body such as the Audit Commission.

Recommendation 4.9

The Government, its agencies and the inspectorates should reduce the levels of guidance in areas of local concern and responsibility. The Government should also develop a code of practice for departments and agencies which clarifies the limited circumstances under which it is appropriate to place conditions on funding streams for local government.

4.85 The new Local Area Agreement (LAA) framework is intended to free up local energy to focus on local priorities – though there is of course a risk that the 200 planned national indicators, along with the shared targets to be negotiated in each LAA will still absorb all the energies of local authorities, leaving little room for place-shaping. It will be important to monitor how this plays out in practice – and for local authorities as well as central government to review how they are approaching the new system.

Recommendation 4.10

Local Area Agreements should be developed in a way which leaves enough space for local priorities. New central government priorities which emerge between negotiations over the LAA should be incorporated into the framework on a strictly 'one in, one out' basis in order to avoid gradual regrowth of central control.

More flexible finance system to enable local choice

4.86 Chapter 3 argues that the inflexibility of the current funding system inhibits local responsiveness. Chapters 6 to 9 cover detailed analysis and recommendations on local government finance, but there are other ways of improving financial flexibility, by enabling resources to better reflect local priorities and to support partnership working.

Reducing ring-fenced and conditional funding

4.87 One of the most powerful tools at central government's disposal has been the ability to influence local government behaviour through ring-fenced or specific grants which come with specific targets or other conditions attached. While the use of ring-fenced grants has reduced over recent years, the use of specific grants has increased dramatically, as noted in Chapter 3, and the introduction of the Dedicated Schools Grant was criticised in submissions to my Inquiry from a number of authorities for constraining local choice:

Take for example the demographic pressures we have in Shropshire. We have a rapidly growing population of elderly and very elderly people and falling pupil numbers in our schools. The recent settlement gave a rise of 6.7 per cent to schools and 2.1 per cent to all other services. From an economic perspective, we are not getting the same utility from that last £1 million spent on schools as we would if we were free to make the choice to spend it on services for older people that can keep them at home and out of expensive hospital places. (Shropshire County Council)

4.88 The Government's intention to provide a single pot LAA grant is welcome – and will mark a really significant step forward if it incorporates the vast majority of current specific and ring-fenced grants and is genuinely unconstrained. Central government will need to avoid introducing over time new specific grants to re-exert control over specific funding streams if the extra flexibility promised by LAAs is to be delivered in practice.

4.89 As set out in Chapter 3, there are many specific grants which, while not formally ring-fenced, come with strict conditions on how the money should be spent and accounted for. These still make up a high proportion of local government spending and reduce the flexibility to respond to local priorities and place-shape. I recognise that service providers in local authorities often lobby for such grants to provide extra funding for their services, but the impact of tightly constrained grants on local authorities can skew behaviour out of all proportion to the financial benefit to the area.

4.90 Such controls also contribute to the difficulty that local partners experience in pooling resources in order to work towards joint objectives or to jointly fund projects or teams. Reducing the ring-fencing, formal and informal, of grants given to local agencies will allow more effective partnership working and joining up of local activity.

4.91 One of the frequent messages in evidence to my Inquiry was that while the ability to pool budgets between health and social services had in some circumstances been useful, it was limited by the need to account separately for the streams of funding. For instance, the Inquiry's case study research heard evidence that the separate reporting arrangements to different government departments makes it more difficult for health and social services to work together productively:

On a purely financial basis it is a real barrier to pooling resources and working together because you've got separate funding streams, separate reporting requirements, separate accountability. So you might, as two organisations, pool a source of money to achieve something, but then you have to disentangle it to take it back apart for separate reporting requirements, which is just an administrative nightmare. And while we are reporting to different places on different timetables under different requirements, I don't see how that's going to happen. (Senior local government officer)¹⁹

4.92 Such constraints may be unavoidable in a system where accountability for spending taxpayers money is (understandably) seen as of the highest importance. But if the pooling of budgets cannot be made to work effectively to support joint initiatives between partners by making reporting arrangements more flexible, it makes it more important that the constraints on the use to which those funds can be put are loosened.

4.93 I accept that in some cases specific grants are seen as essential to deliver new national priorities which require a kick-start. However, the conditions for grant should be based on achieving desired outcomes which are clearly defined, not on prescription about how local government should spend the money to achieve those ends.

¹⁹ Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

Recommendation 4.11

The Government should commit to significant further reductions in the amount of conditional, ring-fenced and specific grants to local government and its partner agencies and set clear targets and a timetable for achieving them. It should ask the Audit Commission to audit and report on progress in an annual public report.

Where conditional and hypothecated funding remains central government should:

- consider ways in which reporting arrangements for pooled budgets could be more flexible to support joint working; and
- focus on outcomes not process with flexibility on how the money is spent to enable it to fit better with local priorities and circumstances.

Enabling joint investment in prevention

4.94 One of the key gains from allowing greater financial flexibility in partnership working could be through improving the incentives to invest in prevention locally. One of the strongest messages which came up in evidence from service providers during the course of the Inquiry was that incentives to spend money on preventing problems later are weak or even perverse.

4.95 This is not a new issue of course. Initiatives such as Sure Start and a range of crime prevention initiatives were put in place partly because of the lack of incentive for public agencies to invest in prevention, even though such investment may be very cost-effective. A key problem is the time taken for savings to be seen:

Where we're not investing is around prevention ... The problem is of course, you need to have a little bit of an act of faith around that because you may not see results for three or four years if things are going well because you are investing heavily in prevention of crime. (Senior stakeholder)²⁰

4.96 A further problem is that the savings accruing from investment in early years support, public health, co-production to change behaviour towards healthier lifestyles, or intensive support for families with severe problems are likely to benefit the National Health Service or the police rather than local authorities. Strong partnerships which share clear common goals focused on the well-being of local citizens will help to align incentives here, and LAAs could provide a real opportunity to develop those shared goals. But there remain some barriers to local authorities and partners working closely to invest in tackling key local problems early on.

4.97 As argued in Chapter 3, differences in the budget cycles and predictability in the budgets of major partners can make it difficult for local partner agencies to work together effectively. My case study work suggests that this is a particular issue in relation to primary care trusts and local authorities – and I welcome the Government's commitment to align the planning and budgetary cycles of local government and the health sector.

4.98 Enabling longer-term planning through three year settlements should also help – as preventative work is often the activity which gets squeezed out by short term budget cuts. This was one of the strongest conclusions from the expert seminar I held on children's services.²¹

²⁰ Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

²¹ Summarised in Annex H.

Recommendation 4.12

Central government departments should:

- ensure that the budget cycles of major local agencies are aligned to enable joint planning; and
- move to put all local agency budgets on a three-year basis to reflect the introduction of three-year settlements for local government.

Managing pressures 4.99 I have argued that greater local flexibility and clearer accountability are essential to enable local choices to be made in light of local priorities and within what people are willing to pay for. These elements are crucial to improve the management of pressures on local services. I argued in Chapter 3 that increases in total local government spending, and the ability of local government to drive out overall efficiencies, will be important determinants of the implications for council tax, as well as revenues from other sources.

4.100 The constraints that I have identified on cost effectiveness and value for money become more pressing if the pressure on public services increase. The notion that these can be addressed through central action, particularly with the central tendency to want to promise equal standards irrespective of local priorities and choice, is very concerning. In these terms the requirements for local flexibility and communities really being able to hold local – and national – decision-makers to account are essential.

4.101 However, this will mean different things for different services:

- **Central responsibility:** For issues on which national government is committed to certain standards of service or certain performance measures across the country, it is appropriate that central government should ensure adequate funding to deliver those. This is of course the case for the National Health Service, but is also true to some extent for schools. In this circumstance, central government has the incentives to manage pressures on the service – though not always all the levers to do so;
- **Local responsibility:** In contrast, for those issues which are left wholly to local discretion, local authorities have the right incentives and should be responsible for managing pressures and expectations, and for making decisions about local priorities in light of what people are willing to pay for; and
- **Shared responsibility:** For many services, however, central government may wish to specify some minimum standards or levels of service, with local flexibility beyond those standards. In such services, local authorities have strong incentives to manage pressures and maximise efficiency, but they also need the levers and sufficient local discretion to be able to do so effectively.

4.102 Many services arguably have some 'local' and some 'central' components, and therefore could be seen as 'shared' under this definition. Recognising this may help us to acknowledge the complexity of the ambitions we have for services, and also the contribution which both central and local government can make in shaping them. However, it raises complex challenges when seeking to determine who is accountable for what, and – particularly for those services which face increasing pressures in the future – raises the risk that pressures will not be managed effectively by either central or local government.

4.103 I discuss pressures in waste and social care specifically in later sections. But the key point here is a more general one – while it is right to design the system governing local public services so that they can each be managed as well as possible in light of their specific characteristics, local government's job must be to manage overall pressures by working with local communities to work out what is most important in each area. This reinforces the need for local authorities to own and drive forward efficiency improvements, to engage effectively, take a strategic view and work cooperatively with partners, as discussed in the next chapter. They also need to be able to take a wide view across local public services so that, if necessary, they can inform difficult judgments about those things which are of least value, where savings can be made, as well as about those things which are most important. And crucially they need the flexibility to be able to manage demand, improve effectiveness and work with partners to make best use of resources across the whole area.

Reorganisation

4.104 Reorganising or restructuring local government, particularly in two-tier shire areas as set out in the Local Government White Paper, is proposed as a solution to a number of problems. Some commentators have argued that restructuring can provide greater efficiency by creating larger authorities, which are able to benefit from economies of scale in provision, or through the elimination of a tier of administration; while others see it as a way of improving accountability to the citizen by simplifying a system in which responsibilities and community leadership are divided between two elected bodies. Although it did not form part of my remit, this issue has been raised on a number of occasions during the Inquiry, and the Government's invitation of bids for reorganisation has sparked considerable debate in some communities. Given the ongoing nature of this debate, I do want, briefly, to consider the issue, in the context of this chapter's wider discussion about what central government can do to enable more effective place-shaping local government.

4.105 This is by no means a simple question, and there is no 'right' scale for local authorities – any sensible size or design of authority has to trade off between a number of tensions which cannot be entirely reconciled. There is very likely to be a tension between economies of scale and the need to engage citizens and provide services that are tailored to their needs – the same problem as exists at a higher spatial level when considering the role of local authorities compared with that of national government. For multi-purpose authorities, as we have in England, different services are also each likely to have a different level of efficient scale of production, making it more difficult to identify the 'right' scale. In addition, there is the complex question of community identity and the degree to which local authorities should reflect a sense of place and community. Evidence about the balance between these different factors is inconclusive and contested, and the picture is further complicated by the growing opportunities to take advantage of economies of scale, without changing the scale of the commissioning unit, by commissioning services from external providers.²² International experience, particularly in Europe, certainly shows that authorities smaller than our districts can form the basis of effective systems of local government, for example in France, and that multi-tier systems do work. Results from the Comprehensive Performance Assessment show examples of excellence in service provision and leadership at both county and district levels (though it should be acknowledged that a higher proportion of county councils are judged as reaching the highest levels of performance, and that the tests are qualitatively different).

4.106 That said, it should be acknowledged that research and practical experience do suggest some limitations. Some of the smaller unitary authorities created in the reorganisation of the 1990s have questioned whether they are large enough to attract scarce skills and to carry out the complex

²² On debates about economies of scale, see for example the recent debate between Raine, J., et al., *An Independent Review of the Case for Unitary Status*, INLOGOV, 2006, and Chisholm, M., *Local Government Reform: A critique of the April 2006 INLOGOV Document*, 2006.

commissioning necessary for the effective provision of services such as social services. On the other hand, many authorities, particularly in the big cities, are seeking to find ways to establish more local structures to reflect local difference and bring some decisions closer to neighbourhood level in an attempt to practice double devolution.

4.107 The past experience of reorganisation in this country provides some warnings about the risks of poorly developed or executed change, and it shows that it is by no means the straightforward panacea that some would suggest. Reorganisation can also often be costly, and more importantly disruptive, siphoning officer and member resources away from actual priorities. Added to the very public expressions of inter-authority hostility which can result – and which marked the reorganisation debate in the 1990s in particular – this does not help to create or maintain public trust in local government, nor does it suggest that the welfare of the citizen is at the heart of local decision-making. It is also by no means clear that reorganisations have actually always been able to deal with some of the most pressing problems – as can be seen in the failure to address the tight boundaries of some authorities at their creation, for example in the case of the City of Nottingham.

4.108 It is my opinion that reorganisation is not, in most cases, likely to provide either a theoretical or practical solution to the challenges we face, and there are other approaches that authorities should seek in preference. I put a much stronger emphasis on the responsibility of authorities to develop effective and flexible coalitions, which transcend boundaries and seek joint solutions to problems where those offer the potential advantages. The recommendations I make in the next section on how authorities in two-tier areas can work more effectively together are intended to support this.

4.109 There are a number of areas in which joint action by local and regional authorities will be important. Under the present arrangements, regional assemblies are not elected, so the vehicle for engaging with the public is often through partnerships with local authorities. If local funds are to be invested at a regional level, this must reflect the outcome of a bottom-up process of community choice, mediated through local authorities as the elected representatives of those communities.

4.110 My original remit also asked me to consider the prospects for financing of elected regional assemblies. That debate has obviously changed significantly since 2004, and the financing of such assemblies would therefore need to be considered alongside any future decisions on their likely role. There is a precedent for financing elected assemblies through a precept on council tax bills, as in the case of the Greater London Authority; however, this would need to be given careful consideration given the existing pressures on council tax.

Strengthening the convening role

4.111 Many local services are provided not by councils but by other arms of the public sector – in particular, schools, colleges and universities, primary health care through GPs and NHS trusts, and policing through local police authorities and benefits, employment and skills through a combination of Learning and Skills Councils and Jobcentre Plus – which have their own relationships with central government.

4.112 Central government behaviour, systems and legislation can all have an impact on the ease with which local partnerships develop and operate. However well intentioned, mechanisms such as ring-fenced grants, centrally determined targets, budgetary and performance mechanisms which drive and constrain the behaviour of local service partners, combined with frequent changes to policy and funding regimes, all make it more difficult to work together coherently at the local level.

This reinforces the need for Government ministers to be restrained in the number of targets and ambitions they set out which require local government and other local agency input, and the frequency with which they introduce new initiatives.

4.113 The Government's intention to ensure that relevant targets for other local agencies are aligned with one another through Local Area Agreements is very welcome. It will of course be made easier if the targets and indicators adopted by government departments are as consistent as possible. This may require closer cooperation between government departments, though this should be easier to achieve if the number of targets and indicators set by central government are dramatically reduced in number as planned. I hope that the process will also provide for sufficient flexibility for frontline staff and managers in such services to enable them to respond to problems which arise during day-to-day activity. This is critical to ensure the continued effectiveness of the system and to deliver cost efficiencies.

4.114 There are many examples of successful partnership working across wide fields of activity, including success in developing local strategic partnerships, though the picture is variable.²³ In some service areas, partnership and convening roles have been enshrined in legislation: for example through the development of Children's Trusts and Crime and Disorder Reduction Partnerships. However, it is not only in the provision of mainstream public services that the convening role is important. Local authorities have an increasingly important role in leading all local agencies on issues such as emergency planning – particularly important in some areas of our major cities due to concerns about terrorism, but important for every area in terms of coping with natural or other disasters.

4.115 The Local Government White Paper acknowledges the convening role of local authorities in taking responsibility for outcomes across an area even when they are most directly affected by other agencies. It notes that local strategic partnerships should be coordinated by local authorities and should prepare the Sustainable Community Strategy in consultation with others. The Government's intention is to ensure elected members are fully involved in the local strategic partnership processes, that named partners are under a duty to cooperate with the local authority to agree and have regard to targets in the local area agreement, and local government has enhanced scrutiny and overview arrangements.

4.116 Under the terms of the Local Government and Public Involvement in Health Bill, the duty to cooperate would include health trusts but not schools and GPs. The introduction of the duty to cooperate reinforces the crucial need for local authorities to work with partners right across public services. There is a particular need for strong links between providers of universal services such as primary healthcare and schools and the communities which they serve where there are opportunities for co-production to improve outcomes (e.g. working to change behaviour to reduce health risks through tackling smoking, sexually transmitted diseases and obesity; or work with carers and parents to improve educational outcomes and the life chances of children). There is therefore, I believe, a need for formal recognition of the need for local authorities to be able to influence such key bodies in delivering important local outcomes – an issue which has been debated particularly strongly in relation to child protection and the 'Every Child Matters' agenda.

4.117 One obvious option is to extend the duty to cooperate under Local Area Agreement to these bodies. I recognise that in each authority area there can be hundreds of schools and doctors' surgeries, and that this would be a blunt instrument; it would therefore be important that such a duty reflect the different nature of the relationships between those bodies and the local authority compared to other local partners. This is discussed further in the section on services.

²³ *National Evaluation of Local Strategic Partnerships: Formative Evaluation and Action Research Programme 2003-2005*, Office of the Deputy Prime Minister and Department for Transport, 2006

Recommendation 4.13

The Government should:

- seek to ensure that changes to the performance frameworks, guidance and funding systems affecting local government and its partner agencies are kept to a minimum, to help provide a more stable environment within which to develop joint strategies and actions;
- seek to ensure the suite of targets and national indicators for local government is internally consistent and outcome-focused. A priority in the negotiation of Local Area Agreements should be to allow the local alignment of targets across all local public services; and
- acknowledge the role of local authorities in having lead accountability for local outcomes across all local agencies.

4.118 These changes need to be reflected in the performance framework as reflected above. It is important that comprehensive area assessment truly supports the drive for better joined-up working, more alignment and more recognition of local authorities' responsibility for place. It is, however, important that expectations are realistic in light of the resources which the local authority can influence, as well as focusing on the outcomes and satisfaction of local people that will be such an important focus of future performance reporting.

Making two-tier government work more effectively

4.119 For this approach to work and for accountability to be clear in two-tier areas, county and district authorities will need to put considerable effort into their working relationships and behaviours. There are of course already many positive instances of partnership working, and in my case studies I heard of good and improving relationships between counties and other tiers of local government and with other partners:

I think the county's attitude to the districts has changed dramatically ... In the old days it was the case that we're the county so we know best, you know, do as you're told otherwise we'll clip you round the ears. Now it's much more of a partnership, they are much, much more willing to listen to what we have to say and understand. (Case study council)

4.120 Nevertheless there remains a need to improve two-tier working in many areas and I welcome the Government's nuanced approach to proposals for unitary local government, which seeks to change current arrangements only where there is a strong case for change and a broad cross-section of support. As noted above, too often in the past proposals for reorganisation have distracted local government, with authorities devoting their energies to battles about boundaries rather than to delivering effective outcomes for local people.

4.121 However, I agree with the Government that improved working is needed in two-tier areas, and that authorities in these areas need to aspire to operate as 'virtual' unitaries with greater efficiency through shared back-office functions and integrated service delivery mechanisms as discussed in Chapter 5. Some authorities have already made great progress towards this.

4.122 I also support the recommendation from the evaluation of Local Strategic Partnerships that there should be greater district representation on county partnerships and vice versa (or streamlined arrangements agreed by both tiers), to improve the common understanding of their respective strengths and roles, and to make it easier to deal with cross-boundary issues. Plans to apply the duty to cooperate between tiers in two-tier areas are also welcome.

4.123 These aims for two-tier government are welcome in terms of improving the user experience, enabling efficiency and promoting the development of an area. I would however be concerned if the delivery of this ambition became a question of designing rigid models of how two-tier working should operate. These are issues of local discretion that need to reflect differences in political and service dimensions and improving joint working is at least as much about behaviour as about structure. There must be room for different areas to design their own arrangements, recognising that they are likely to be distinctive.

4.124 I am also concerned that joined-up working between tiers, while undoubtedly beneficial, should not dilute the accountability of local councils. The ambition in the Local Government White Paper that service users should have “no need to understand whether the county, district, or other service provider is responsible” will only be to the benefit of local people if there is a clear accountability mechanism through one of those bodies, or through some other clearly defined part of the local strategic partnership. This ambition should therefore not be over-emphasised as district councils will retain a useful role and strong advantages in terms of engagement with local people which should not be lost. In the same way that there needs to be greater clarity about central–local relationships, there needs to be clarity about county–district relationships.

4.125 The recent award of Council of the Year to Wychavon and High Peak Councils is a welcome statement of the important role of district councils. The Government Offices have a role to play in this as well – by engaging directly with district councils on issues relating to the contribution of the lower tier. I would expect that they, and colleagues in county councils and other partners, should welcome the potential that districts bring in terms of having agencies that are closer to local communities in terms of the intelligence and ease of engagement that this brings. As some recent research pointed out:

Local residents' relationships with the respective borough councils are far stronger than with any other public agency in town. In comparison to other public bodies, local residents are far more likely to have attended a borough council meeting, to have responded to a borough consultation exercise and to have made a formal complaint to the borough council.²⁴

4.126 As I stress elsewhere, the opportunity to engage more effectively with the public should be seized by every council. This issue is discussed further in Chapter 5.

Working with other sectors

4.127 Most local authorities already recognise the value that the voluntary and community sector – the third sector – brings to place-shaping activities, particularly in engaging with users who have multiple or high needs, and in developing approaches to co-production. It is often more flexible and seen as more approachable than statutory services. A research report prepared for the Department of Health in February 2007 estimated that 35,000 third sector organisations currently provide health and/or social care in England.²⁵ Most of these are well established; 72 per cent have been operating for over 10 years. In general, local authorities were positive about services provided by third sector organisations, with overall levels of satisfaction high (over 80 per cent). Local authorities felt the organisations provided good value for money, high quality and responsive services compared with other external service providers – although a small number of authorities had concerns about a lack of experience among some third sector organisations.

²⁴ Wilks-Heeg, S. and Clayton, S., *Whose Town is it Anyway? The state of local democracy in two northern towns*, Joseph Rowntree Foundation, 2006.

²⁵ Department of Health, *Third Sector Market Mapping*, 2007.

4.128 Full recognition of the convening role of local government should take account of the complex relationship which local government has with the third sector – key partners who play a significant role in service delivery, but who also act as pressure groups on local and central government for particular interests. Lobbying of national government will rightly continue, and indeed in some instances there is the need for national standards and frameworks, for issues such as the equalities agenda. In other instances central government should resist encouragements to meet the particular objectives of individual third sector and lobby groups through central action and instead focus on encouraging the third sector and lobby groups to work with local government.

4.129 Local government cannot and should not take responsibility for everything which happens in a locality. My May 2006 report discussed the appropriate circumstances for intervention. However, it is legitimate for local government to take an interest in the actions of businesses and other organisations where their activities have a significant impact on the wider community. Local authorities already play an important role in this field, working with, advising and regulating such wider activities, for example through the planning process and its various licensing and inspection roles.

4.130 In their submission to the Inquiry, the Centre for Public Scrutiny has argued that a duty should be placed on external agencies to cooperate and respond to local authority scrutiny. The Government intends to legislate to extend scrutiny powers to cover all bodies subject to the duty to cooperate, to strengthen the role of overview and scrutiny committees to examine a wider range of place-shaping issues.

4.131 I have considered the merits of calling for a further formal extension of local government's scrutiny powers to cover organisations such as the Post Office, GPs and retailers. However, I do not believe this is necessary given the fact scrutiny powers appear to operate widely and to good effect already in many authorities. Scrutiny committees examine a diverse range of issues across a wide range of sectors on a voluntary basis; issues have including examinations of councils' budgets, Post Office closures, campaigns to promote healthy eating and physical activity, and fly-tipping, though existing powers could be used to better effect by local government, as discussed in Chapter 5.

Efficiency and choice

4.132 Chapter 3 distinguished between two different types of efficiency. First, public services need to be delivered in the most cost-effective way possible. Second, the system should be designed to enable what economists call 'allocative efficiency', ensuring that public expenditure is allocated to best meet the needs and preferences of each community. These concerns about efficiency are likely to become more important if public finances become more constrained in the future. There may sometimes be a tension between improving cost-effectiveness to find financial savings, and prioritising the right activities in each area, but ensuring value for money in the broadest sense is likely to become an even greater necessity.

Managerial efficiency 4.133 A forthcoming report by the Audit Commission identifies the innovative use of hand-held computers by the London Borough of Sutton to conduct financial assessments. This allows benefit payments to be calculated and agreed on-site, reducing the time taken for assessment from six weeks to a few hours. This has led to a significant reduction in back-office processing and realised efficiency savings of £300,000 – 50 per cent more than predicted at the outset of the project.

Customer Service Centre, Bunny Hill, Sunderland

A new £7.8 million customer service centre at Bunny Hill, which opened on 26 June 2006, provides one of the most comprehensive ranges of services available under one roof in the country. Sunderland City Council developed this project in conjunction with its strategic partners, including Sunderland Teaching Primary Care Trust, Sunderland Housing Group, a local GP Practice, a local pharmacy company, the voluntary sector and Sunderland North Community Business Centre. The project is the latest in a new generation of customer service centres giving people access to the kind of services which meet the essential elements of their everyday life, such as health, housing, education and welfare – all under one roof. Services at Bunny Hill include:

- a new Council Customer Service Desk and associated interview facilities;
- a Wellness Centre, with a gym and confidential consulting rooms;
- a GP's surgery, an NHS primary care centre and a pharmacy;
- a community library and electronic village hall;
- a Sure Start Children's Centre with facilities for parents and the under-fives, including a neighbourhood nursery and crèche;
- an adult education centre;
- Sunderland North Community Business Centre's Community Suite with a café, community hall and meeting rooms; and
- a neighbourhood housing office.

The project is funded by Sunderland City Council and its strategic partners with assistance from grants given by the Neighbourhood Renewal Fund, Sport England, the Big Lottery Fund, the Learning and Skills Council, the European Community and Sure Start. Bunny Hill serves communities across the Castletown, Town End Farm, Downhill, Hylton Castle and Hylton Red House areas to help address problems of illness and deprivation in the area, but also the needs of the whole community. The Council has now opened seven new Customer Service Centres with a further five planned for Ryhope, Southwick, Washington, Ford & Pennywell and Doxford Park.

Leader of Sunderland City Council, Cllr Bob Symonds, said: "This is a milestone in our efforts to revolutionise the way in which council services are delivered in Sunderland, with customer service at the core of that programme".

4.134 There has been significant improvement by local government, with the support of central government, in driving cost effectiveness in the delivery of local services. This has been achieved through a variety of means including greater service collaboration, exploiting technology, better procurement and understanding of local government's role as commissioner of services – so driving innovation and broader improvement across the sector. Figures released in December 2006 suggest that local authorities will deliver £1.3 billion of efficiencies in 2006-07 – well in excess of the £1 billion target set by central government, and building on performance in previous years.

4.135 I am pleased that the Local Government White Paper is seeking to build on these successes while recognising that local authorities are best placed to decide how to improve efficiency. However it is important to recognise that cost-effectiveness is as much about productivity and the quality of service as it is about cashable savings.

4.136 Even with these achievements, local government needs to locate itself more fully as a champion of cost effectiveness. The need to improve local government behaviours in this regard is explored further in Chapter 9. The focus group work for my Inquiry illustrated concerns about the efficient use of public resources where respondents called for the more careful targeting of funds and the more efficient use of existing revenue. In particular, local authorities were criticised for not managing public money efficiently. One participant commented: "If all we put in was used properly and it was managed properly then I bet everyone would be better off".

4.137 The framework in which local government operates needs to encourage a more entrepreneurial spirit. This can only be achieved if local authorities are given more flexibility to manage and by making local government more clearly accountable to the local communities upon whom the burden of any inefficiency will fall, either in terms of reduced outcomes for services or higher tax requirements. I strongly encourage an approach which locates responsibility for improving efficiency firmly with local authorities themselves, rather than developing expensive central initiatives which are unlikely adequately to reflect local needs and circumstances.

4.138 I am, however, concerned that there has not been more recognition that the current level of centralised control still restricts scope to improve cost effectiveness. My case study work and submissions received argue that central government requirements constrain public agencies from making sensible choices about how to shape and deliver their services. This occurs both within and between services.

4.139 Sir David Varney's report on service transformation argued that "providing joined-up services designed around the needs of citizen or business will yield efficiency savings by reducing duplication across the public sector".²⁶ Restrictions described in earlier sections that hinder joint working and flexibility have a cost in efficiency terms which has not been fully recognised. The tighter the constraints on how funding has to be used within local government, the NHS, police and other partners, the more difficult it is for those partners to work jointly to improve efficiency. This is particularly important in fields such as emergency planning, which requires very close working between agencies, and a degree of flexible capacity to respond which can be squeezed out by an overemphasis on cost effectiveness.

4.140 However, this joining-up role is already being led by local authorities in many areas – we must not ask local authorities to wait for a centrally designed initiative to find the 'correct' answer as to how best to join up; rather, the system should encourage them to find ways of making these savings, give them the flexibility to innovate, learn from their experience and allow them to continuously improve.

Innovation 4.141 One obvious cost of inflexibility is the inability of local government to innovate. Overemphasis on setting frameworks which have to work in every area can mean that the whole country is forced to go at the pace of the slowest area. But equally, overexperimentation runs the risk that many areas spend time reinventing new approaches and wasting time and resources. The challenge here is to strike the right balance, allowing those communities who are ready to innovate to do so, and ensuring that appropriate support and guidance based on best practice and evaluation evidence is available to support those who are not. This does not mean central government should issue guidance on innovation – rather the family of local government should take responsibility for this, building on work already ongoing, with organisations such as IDeA and LGA leading on the provision of information and reference sites which provide genuine examples of good practice. There are several examples of where councils have used current powers flexibly to achieve real benefits.

²⁶ Varney Report: *Service Transformation: a better service for citizens and businesses, a better deal for the taxpayer*, 2007.

Flexibility and innovation in Wakefield²⁷

Section 2 of the well-being power has been used in Wakefield to purchase houses on an estate in rapid decline to facilitate speedy clearance of the site and afford reasonable recompense to residents and owners, without going through the lengthy compulsory purchase process. This estate – which was split equally between owner-occupied, housing association-owned and private landlord-owned residences – was overwhelmed by antisocial behaviour and drug-related problems, resulting in many unfit or vacant homes and leading to reduced market value of the remaining habitable houses. The council was keen to acquire and demolish the houses and rehouse the remaining occupants. The prevailing rationale was that use of the well-being power would facilitate appropriate action relatively quickly and effectively, and without this it was difficult to see how any action could be taken quickly enough.

To achieve property acquisitions, intensive negotiations took place directly with owners, based on criteria of current market value and considerations of community gain. This meant some properties were purchased over the current market value to achieve the development strategy in the most cost-effective manner for the council. There were criteria for the people living in the estate. If they kept their home in good order the local authority would give them the full market price plus recompense for disturbance and relocation. Agreements were made with the housing association which agreed to demolish their properties and rehouse their tenants. If the property was privately owned and it was abandoned the landlord would be given £3,000 to give over property rights to the council.

The initiative was driven by the then head of housing, supported by the local authority lawyer and led politically by the cabinet member for social care and housing.

The well-being power was used innovatively to enable the council to act outside the more restricted compulsory purchase process and to take over the responsibility for regeneration from others. (It should be noted that the legal basis of this initiative has recently been overtaken by a change in legislation, which would allow the activity without reliance on the well-being power.)

4.142 The proposal in the Local Government White Paper that national targets will focus on outcomes rather than processes is helpful. The performance framework must recognise the benefits of innovating and trialling new approaches, even if (as is inevitable in a creative, risk-taking approach) not all of these deliver improved results. There may be scope for the role of research and development to be given greater emphasis in relation to innovation. The Audit Commission's current inspection framework emphasises local authorities' ability to learn from experience and it is important that this is carried through into the new Comprehensive Area Assessment framework, with a stronger emphasis on innovation.

The value of difference 4.143 The submissions I have received from local authorities reflect a sense that managerial efficiency or cost effectiveness is too frequently emphasised in the public sector at the expense of allocative efficiency or broader value for money – we tend to care more about doing things cheaply rather than delivering the right priorities locally; those which have the greatest impact on well-being. Central government messages, supported by processes and monitoring mechanisms, are focused on the need to drive down costs in existing services. This means that the prior questions of whether the right services are being delivered have not been considered.

4.144 I believe the biggest cultural challenge we face as a country in delivering the promise of real devolution is in understanding, accepting and celebrating the fact that difference and distinctiveness between our communities is a good thing and is important for raising satisfaction and well-being.

²⁷ Taken from *Formative Evaluation of the Take-up and Implementation of the Well Being Power – Annual Report 2006*, CLG, 2006.

4.145 Central government, local authorities and communities need to place greater value on the ability of local authorities to exercise choices and establish priorities on behalf of their communities. As I argued in Chapter 2, there is no universally accepted measure of well-being that we can use to judge how well local authorities are doing in enhancing the well-being of their communities. It is essentially a subjective judgement, which will vary between places and over time, and it is for that reason that, across a range of services, the ability of local communities to make choices themselves about how to improve their own communities is the decisive factor.

4.146 Despite concerns about a 'postcode lottery' so evident in the media, my analysis in Chapter 3 suggests people would welcome greater – but managed – difference if this accorded with local needs and priorities. I believe the public understand the need to set priorities locally in order to afford what we want – there is already a great deal of variation in standards in practice, and getting that variation right is, I believe, the key to managing pressures effectively and improving satisfaction in the future.

4.147 There are clearly some core services, including aspects of education, health and the emergency services, where people want to be assured that all areas get the same high level of services. Even these will often prove difficult to achieve. However, there are many other policy and service areas where fairness could be better understood in terms of managed difference which enables the diversity of communities and their different aspirations to be properly recognised and reflected in the services they get.

Recommendation 4.14

The Audit Commission should ensure the Use of Resources judgement in the new performance framework includes delivering the right priorities to meet the needs and wishes of the local community.

Recommendation 4.15

Central and local government should together challenge the presumption that difference between areas – the 'postcode lottery' – is always a bad thing.

Recommendation 4.16

The Government should explicitly recognise that for a range of local services the best way to improve well-being is to enable greater local choice.

Engagement and responsiveness

4.148 Local government is ideally placed to operate as the key mechanism of local choice by engaging with the public as citizens – crucially through the work of frontline councillors, but also by virtue of local government's responsibility for a wide range of services and for the well-being of all its citizens.

4.149 There is inevitably a need for local authorities to make difficult decisions – which benefit some people and disappoint others – and therefore a critical need for local authorities to engage with communities to inform and validate those choices, and to explain them so people can understand why they were made. Understanding the difficulties involved in making choices locally can help citizens to feel the decisions themselves are fair ones, even if they are not the choices they themselves would like to have seen. Effective civic engagement can also provide the connections for community cohesion by developing trust and mutual respect within the wider community.

4.150 Greater engagement will not in itself directly improve satisfaction with local services or with local government. It depends on local government's ability to ask the right questions, listen to the answers and respond in the best way, involving people from a diverse range of backgrounds in the design and delivery of services and broader place-shaping activity. It is clear that engagement efforts by local government need to improve, as discussed in Chapter 5, but local government's ability to respond to the needs and wishes of citizens also depends on the flexibility offered by the system

within which it operates. This determines whether or not local councillors can respond to local concerns – and be seen to make a difference – by taking steps to improve not only services provided by the council, but also the wider factors affecting the places people live in, the facilities and services they use.

4.151 This role will, I believe, become more important if pressures on local services increase. For those services and roles which are appropriately subject to local discretion, local government needs to have an ongoing dialogue with local people about what they want, what they are willing to pay for through taxes and charges, and what services or activities they might be willing to spend less on over time in order to pay for more important local priorities. This means creating realistic expectations and explaining difficult decisions, but ultimately it should help to manage the pressure on council tax and on local services in a way which better meets the needs and wishes of local people. The action here lies with local, not central, government, but this role needs to be valued and encouraged by the system as a whole.

Co-production 4.152 Chapter 2 argued that local government is well placed to engage with local communities and service users to improve the effectiveness of services through what can be termed co-production. Sue Goss from the Office for Public Management comments:

Many of the new priorities – ‘respect’, an end to ‘binge drinking’, ‘recycling’, ‘improved public health’ – cannot be achieved by a smart government delivery machine; they require changes in behaviour from the public. This means not simply considering how to deliver using public or even private resources, but how to access the ‘free’ resources of public energy, engagement and action.²⁸

The case studies below provide some examples of local authorities undertaking this role.

Sheffield Partnership for Older People Project

Sheffield Partnership for Older People Project (POPPs) is a partnership led by Sheffield City Council comprising older people, carers, Sheffield Teaching Hospital Trust, Sheffield Care Trust, Sheffield Primary Care Trust and key voluntary organisations. POPPs is part of a national programme working with older people to promote health and independence and prevent hospital admissions.

The programme, which started in September 2006, promotes the integration of services in the neighbourhood designed to support and promote older people's independence and sustain their health and well-being for longer. The project focuses on issues that older people say make the most difference to their lives. This means listening to older people, engaging with them as citizens, and identifying and addressing their concerns and about the communities in which they live and responding appropriately.

A key part of delivery has been the development of the Expert Elders Network. The Network is made up of older people who sign up to be involved in the planning, design, delivery and evaluation of services. They can choose how they would like to be involved, from attending strategic planning boards to commenting on job descriptions. It is designed to transform services for older people by harnessing the expertise of older people themselves, strengthening planning at a neighbourhood level, simplifying access to services and making it easier to tap into preventative services. Training is available to give older people the skills and confidence to contribute in their chosen area of interest.²⁹

²⁸ Hassan, G. (ed.), *After Blair: Politics after the New Labour decade*, 2007.

²⁹ Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

Southampton's Binge Drinking Design Campaign

Students at Southampton Solent University have joined forces with Southampton City Council, Southampton Police and the Tackling Alcohol Partnership to challenge the issue of binge drinking in the city. The aim of the project was to listen to and learn from what young adults had to say about tackling alcohol misuse, enabling young adults to help each other.

Second-year HND Advertising and Media Communication students were asked to create a campaign that challenges attitudes towards drinking alcohol to excess among young adults. To devise their design-based campaigns, the students conducted eight months of research and analysis into the issue of binge drinking to consider the type of campaign needed and the best ways to get their message across to young adults.

The campaign gives information on local and national services that provide support, advice and guidance on issues relating to alcohol using a variety of media, including A3 posters suitable for noticeboards, and smaller media such as postcards and discreet credit card size information. Designed by students for young adults, the campaign seeks to tackle the problem in an engaging and understanding way.³⁰

4.153 Mechanisms such as these can help prevent poor outcomes and higher costs later on, and in other contexts, such as recycling, can help to manage the pressures on local services more directly.

4.154 The ability of local government to work with local people and to innovate and respond flexibly to local needs together provide opportunities for local government to significantly improve the efficiency and effectiveness of public services and to manage pressures more effectively.

4.155 These possible benefits have, however, been increasingly lost over recent years as a result of increasing dependence by local government on central direction, and I believe a loss of self-confidence. The current reform process needs to recognise the value that local government can bring in this area, and to encourage local government to seize the opportunities presented by those reforms to work with local people to find ways to improve services and well-being in every area of the country.

Powers and powerfulness

4.156 One of the questions which has arisen persistently in my Inquiry is whether local authorities already have sufficient powers to undertake their place-shaping role. The overwhelming message from authorities who presented submissions to my Inquiry was that a lack of local flexibility to do what was needed locally, as a result of the burden of central controls and performance management was the key problem, rather than a lack of powers.

4.157 Local authorities already have wide legal powers, extended significantly by the introduction of the power of well-being in section 2 of the Local Government Act, 2000 which enables authorities to “do anything which promotes or improves the economic, social and environmental well-being of their area”. There is still some way to go to ensure that all local authorities are aware of and able to use their existing powers fully. Early evaluation of the well-being power highlighted that many local authorities need to take a more active and confident approach to the use of the

³⁰ Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

power.³¹ The experience of Local Area Agreement negotiations has shown that in a number of cases local authorities have requested enabling measures from Government departments that they are already legally able to undertake.³² Chapter 5 considers this issue in more detail.

4.158 However, there is a need for some changes in local government's powers in specific areas where local authorities are constrained by the way in which existing powers are drafted or used, and where powers and resources are potentially located at an inappropriate level of government. Later chapters discuss specific funding powers and make recommendations for these to be extended. The next section examines powers with respect to specific services.

4.159 But it is important to recognise an equally important point, which is often missed in discussions about whether local government has sufficient powers. Local government has become dependent on central government not only financially, but in many cases also for guidance, encouragement and permission to innovate, across a wide range of fields. This culture of dependency has, I believe, been driven by increasing central direction over the detail of local government activity, which has tended to distract it from focusing on the local community, sapping its sense of direction and confidence. While I believe increasing confidence and capability must be driven from within the local government community itself, central government needs to encourage an increasing sense of powerfulness through not only devolving powers but also by expecting local decisions to be taken locally.

4.160 One of the suggestions put to me during the course of my Inquiry was that a duty should be placed on central government to cooperate with local government on matters of local importance. Such a mechanism might encourage local authorities to identify those matters which are properly for local determination – and could give them a lever to influence central government's behaviour and legislation to ensure it will not inappropriately interfere with local choice in a way which could reduce the well-being of people in that area. This of course would raise a number of very difficult legal and perhaps constitutional questions, but I am attracted to the spirit of the proposition because it emphasises the importance of the locality in determining well-being and has the potential to help shift the relationship between central and local government towards a more explicit partnership where power over the locality is shared between the tiers of government more equally.

Promoting economic prosperity

4.161 The concept of place-shaping underlines the importance of communities taking responsibility for their own economic fortunes, and for striking the right balance between economic, environmental and social objectives and concerns. It highlights the need for governmental interventions and action to be joined up by local authorities in order to tackle problems and exploit opportunities at a local level. While, as Chapter 3 acknowledged, patterns of economic activity do not match the administrative boundaries of local authorities, and sub-regional working by groups of local authorities is a necessity if they are to effectively address economic issues, resolving this issue in a way which undermines or cuts across the place-shaping role risks disengaging local government from the economic prosperity agenda. That could have damaging implications for both effective delivery of economic objectives, and for relationship between communities and government.

³¹ ODPM, *Formative Evaluation of the Take-up and Implementation of the Well Being Power, 2003-2005*, 2006.

³² *Local Area Agreements Research: Round 2 negotiations and early progress in Round 1*, CLG, 2006.

4.162 It would be desirable to locate a greater proportion of relevant resources and decision-making power on economic issues at the sub-regional level by devolving more powers. That would help to ensure that decisions are aligned with the needs of the local economy, and that the trade-offs and interactions between such decisions can be fully considered. It is the clear message which emerges from recent work, such as the *State of the English Cities* report, the LGA's *Prosperous Communities II*, and the work of Kate Barker and Rod Eddington. The challenge is to develop effective institutional arrangements as the Government will, entirely properly, want to ensure that any sub-regional arrangements that seek to wield greater resources and decision-making power have robust and accountable mechanisms for making difficult decisions and implementing long-term strategies. There are a number of different options for securing this.

Voluntary partnerships

4.163 One potential approach is to build on existing patterns of cooperation between local authorities. Such arrangements have the advantage that they leave discretion to local communities as to when to collaborate and the exact form of collaboration. Arrangements can be devised to respond to different challenges, which may not always need to follow the same spatial boundaries – for example where a joined-up approach is needed along transport corridors. Many authorities are already building such partnerships, often working in collaboration with Regional Development Agencies, such as the Partnership for Urban South Hampshire, the work of the authorities in the Greater Bristol Area, the Association of Greater Manchester Authorities, the Milton Keynes South Midlands arrangements, and joint working between Nottingham, Leicester and Derby. All the former metropolitan county areas also have such arrangements, though some are stronger than others.

4.164 However, there are limitations to a purely voluntary partnership approach. A system with many different bodies requiring unanimity for decisions has some structural drawbacks. Discussing and negotiating decisions between many partners can incur substantial transactions costs. The fact that each body has an effective veto is seen as risking decision-making taking place on a 'lowest common denominator' basis, which requires all partners to benefit equally, rather than on the basis of the most beneficial overall decision for the area as a whole. A partnership approach may find it difficult to create enhanced political leadership at the level of the body as a whole, and will not be directly accountable for its actions to the people of the partnership area. The fact that each constituent body will continue to face its own political and financial challenges and priorities may mean that such arrangements are not as robust or long-lasting, with authorities able to join or leave at relatively short notice (though these tensions do not disappear under dedicated arrangements). This might militate against making the long-term decisions on policy and funding that are necessary for some economic decisions, for example on transport and other infrastructure investments.

New sub-regional authorities

4.165 An alternative, suggested by the Centre for Cities and others, would be to create new authorities to take on powers over key economic levers such as transport, planning, skills and regeneration, led by a political leadership explicitly elected to use those powers. This approach does have certain attractions. It provides a clear and transparent model, with a clear set of responsibilities and direct accountability through election for the leadership of the new authority (which might be a council or a directly elected mayor). However, there are a number of potential drawbacks, and the creation of new institutions should not be seen as a simple solution to what is a complex issue.

4.166 While it is possible to devise new boundaries which better reflect economic geography than current administrative boundaries, no boundary will ever be perfect. The appropriate area will be different for different aspects of economic activity, and we can expect them to change over time, as economic, social and technological factors change. For example, we have longer commuter flows now than prevailed when current transport arrangements were established in the late 1960s, making those arrangements less appropriate in their current form. There are also a number of areas

which are linked into more than one economy. Coventry, situated within the West Midlands urban area, and sharing many interests with the other parts of that area, is also engaged in the sub-regional economy around Warwickshire, for example. Barnsley, linked to the economies of both Sheffield to the south and Leeds to the north, is another example. Any solution must offer a means for this complex reality to be acknowledged and responded to, not simplified and ignored.

4.167 At the practical level, developing sensible boundaries for any new arrangements will need to deal with the vexed question of local authority boundaries. Local government reorganisations in the recent past have not displayed local government at its best, and have often diverted energy and attention away from the business of working with citizens and delivering improved services. The experience of the referendum on the North East Elected Regional Assembly showed the public is also sceptical about new tiers of government. While the Greater London Assembly and the Mayor of London have been successful and popular, we should be careful not to generalise from the re-establishment of city-wide government in London to the very different situations in other places, with different histories and identities. Other European countries have also found collaborative approaches more effective than formal changes – the *State of the English Cities* report concluded that:

*There is substantial evidence regarding the problems of using formal institutional or constitutional changes to achieve sub-regional collaboration ... The majority of places [in Europe] are attempting to collaborate informally on policy issues across boundaries and with partners where they can.*³³

**Safeguarding
place-shaping**

4.168 In the debate on developing sub-regional arrangements, I am concerned to emphasise the need not to cut across or undermine the place-shaping role of local authorities. Drawbacks in current institutional arrangements – for example the fragmentation created in transport planning in our larger cities by arrangements which only cover public transportation, do not include the full commuting geography and are institutionally separated from local decision-making – already risk this, though many areas are trying to overcome these problems.

4.169 Linking all the different issues involved in sustainable economic development together – planning, housing, transport, skills, education, social inclusion and so on – is an essential place-shaping task. To attempt to divide responsibilities, to suggest that economic issues and the responsibility for pursuing prosperity can or should be separated from the core objectives of a local authority is potentially damaging. There is a danger within these arguments that the move to aggregate upwards, towards a larger spatial level which captures all of the possible different boundaries, can create pressures for uniformity rather than responsiveness, and disempowers local effort and understanding. That could create longer term problems for public trust and confidence. It is therefore important that local authorities are responsible for making the links, and building the coalitions, necessary for them to fully pursue the task of place-shaping. Any one locality may need to be part of different coalitions at the same time, depending on the issue and the context. The example of Lille, overleaf, describes how the creation of effective coalitions has supported economic development across an area.

³³ Parkinson, M., et al, *State of the English Cities*, vol. 1, ODPM, 2006.

Metropolitan Lille and the regeneration of Roubaix³⁴

The Metropolitan Lille authority (now called Lille Metropole Communauté Urbaine) was established in 1967, as part of the French government's policy to devolve power from Paris and to encourage the creation of metropolitan authorities in larger urban areas. It is controlled by an Assembly whose members are appointed by the elected municipalities. Initially seen as a device for providing services more efficiently, it has, particularly since 1989, enabled joint working between the municipalities to promote economic growth across the metropolitan area. Lille has been able to reposition itself as a significant European city through its position on new high-speed rail lines (including the Channel Tunnel link to London), investment in a major new commercial and shopping centre, and other projects to re-orient the local economy towards growth sectors.

Working at the metropolitan level has also supported regeneration and redevelopment in within former industrial towns within the conurbation, such as Roubaix. Lille's leaders realised that it could not attract in the people and investment that it needed to become a leading European city if it was still associated with major areas of deprivation such as those found in Roubaix. Over the past 20 years, substantial investments have therefore been made in transport, housing, cultural facilities and economic development in Roubaix, including the revitalisation of the town centre. The access to the wider tax base of the metropolitan area as a whole and funding channelled through the metropolitan authority from other public and private sources have been important contributions to that process. While there is still a long way to go (unemployment, for example, although down from 33 per cent in the late 1980s is still over 20 per cent) it is widely agreed in France that Roubaix has turned the corner decisively and is making significant – and somewhat unexpected – progress. In the process, the gaps between French provincial cities like Lille and the capital have been narrowed, and their economic performance has outstripped their British equivalents.

An alternative approach 4.170 The Government has accepted these arguments and is rightly not pursuing a structural reorganisation to address them. Nevertheless, it understandably wants to be confident that approaches are in place to ensure a proper emphasis on economic prosperity, enable effective decision-making with public accountability, avoid unhelpful competition and cost, and to be credible with investors and the business community.

4.171 In the light of these issues, I believe that an approach which marries some of the benefits of a voluntary approach with some of the rigour of a structural solution is necessary. Establishing a framework in which proposals for sub-regional working are developed and owned locally and then considered against a clear set of tests and expectations set by the Government would ensure that the partnerships have clear objectives, can take a long term view and are sufficiently strong to support the greater responsibilities that would then be provided. This offers a developmental solution to the problem, with the capacity for improvement and change as the relationships between different groups of authorities, and between local and central government grow.

³⁴ Based on a case study prepared by URBED as part of Joseph Rowntree Foundation's *Making Connections: Transforming people and places in Europe* project.

Possible tests for sub-regional arrangements

The Government's tests for any new arrangements might include an expectation that they would:

- reflect a sensible definition of the prevailing economic geography;
- have appropriate arrangements for offering voice and accountability to all of the communities affected;
- be able to set clear outcomes and objectives, underpinned by a robust evidence base;
- include robust decision-making machinery, capable of making hard choices, building local support and agreeing clear priorities. That suggests a presumption in favour of a tight board structure with delegated powers, but connected to and accountable to leadership arrangements for all relevant councils, with scope for non-executive members to be drawn in to bring additional skills and experience;
- be clear about how decision-making will be connected across key issues, including transport, spatial planning, infrastructure investment and skills;
- be able to demonstrate support from the public and the business community;
- show the ability and intent to attract the key technical skills necessary; and
- have clear and well-signed ports of entry for would-be investors to access, and clear policies governing the speed and nature of decision-making processes.

4.172 The development of Multi Area Agreements, as signalled in the Local Government White Paper, provides a possible model for such an approach, whereby local authorities could establish arrangements between them and enter into a discussion with central government on the objectives of that agreement and what central government could contribute by way of devolved powers and resources to its success. This would meet the recommendations of the Barker and Eddington reviews that such powers are wielded at that level where appropriate arrangements exist.³⁵

4.173 The objectives of empowering place-shaping and taking a holistic approach to issues of prosperity suggests that it is also important to align existing governmental and delivery arrangements in order to reduce the scope for conflicting policies and decisions. While delivery agencies may well need to have boundaries designed around variable spatial patterns for different services – perhaps strengthened by strong executive boards – the strategic direction and accountability for that needs to be clear and located with local authorities and their leadership. That should be the case unless the agency is unequivocally the agent of central government.

4.174 New arrangements between collaborating local authorities provide one way to redistribute and devolve responsibilities and funding (including those of existing Passenger Transport Authorities) in order to ensure the alignment of local decision-making powers. Others, including Eddington and Barker and the LGA, have undertaken detailed analysis of the most appropriate responsibilities and funding to be managed at the sub-regional level, and following their analysis, these could include:

- strategic planning powers currently held partly by the individual authorities within the arrangement and partly by central government;
- resources and land currently administered or owned by Communities England;
- power over some strategic roads currently administered by the Highways Agency;

³⁵ Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

- ability to make some adjustments to the quality and frequency of rail services, and perhaps to commission or decommission some sub-regional services;
- allocation of some proportion of current regional transport and housing funding and regional economic development spending;
- powers and revenues allocated to local authorities in relation to road pricing; and
- depending on existing arrangements and the views of local employers, a role in convening the work of an area-wide Employment and Skills Board.

Recommendation 4.17

Reflecting the importance of working at the level of the functional economy in pursuing economic prosperity, the Government should:

- use Multi Area Agreements as a way of engaging with local authorities to develop locally determined sub-regional arrangements to address issues related to economic prosperity;
- set clear tests and expectations for arrangements in order to ensure that they would be robust enough to make challenging decisions and trade-offs;
- detail which powers, responsibilities and funding would be devolved from national and regional level to sufficiently robust and capable groups of authorities, and align existing governmental and delivery arrangements with new sub-regional arrangements; and
- avoid the creation of new institutional structures where these do not currently exist unless a consensus exists at the local level, or local authorities fail to put in place adequate arrangements through collaboration.

WHAT THIS MEANS FOR SERVICES

4.175 The analysis for my Inquiry used a range of techniques to assess the problems facing local government and possible solutions. Although my work was never intended to provide an exhaustive analysis of all the services which local government provides or influences, I have examined a range of specific services in order to inform my work. They were selected to cover different issues in terms of pressures, degree of central control and role in place-shaping, and included economic development, children's services, social care for older people, waste and recycling, health and well-being and community safety.

4.176 I used these services to provide a focus for my case study work, public deliberation events, and a series of expert seminars.³⁶ In these I examined a range of questions about the role of local government, relations between central and local government and local partners, pressures and funding arrangements.

4.177 This section draws out issues which emerged in relation to specific services. It focuses first on the analysis of the Barker, Eddington and Leitch reviews and my analysis of economic development to draw out implications for planning, transport and skills. It then summarises the most prominent issues which have emerged in relation to housing and other specific services.

³⁶ A summary of which is provided in Annex H.

Economic development

4.178 Local authorities already have wide responsibilities and powers to act on issues related to economic development and prosperity. Finding new ways to develop sub-regional arrangements and to devolve responsibility and resources – as set out above – will expand the influence of the local level in making decisions on economic issues. There are also some specific issues, arising from my work and my consideration of the Barker, Eddington and Leitch reviews, which I wish to discuss further.

Planning 4.179 Land use planning is an important aspect of place-shaping, perhaps the most immediate tool that authorities can use to influence the physical aspects of localities. It has important links to environmental, economic and social issues, to quality of life and to the distinctiveness of communities. In developing local plans, and in making planning decisions, a host of sometimes conflicting views and interests have to be balanced – between the environment and the economy, the interests of existing investors and those of future investors, and between the interests of local communities and wider regional and national interests. There is not necessarily a ‘right’ answer here – the ability to take a nuanced approach, and to recognise the validity of different views within and between communities, is essential. I agree with Kate Barker’s conclusion that a return to the previous generalised presumption in favour of development is not appropriate, and that a more balanced approach is required which takes account of local plans and the likely costs and benefits of development proposals.

4.180 The Barker Review of Land Use Planning argues that decisions should be made at the level where the impact is felt, and that this is most often the local level. There are some areas of planning policy and guidance where the Government can make this clearer and give more discretion and responsibility to local authorities to make those decisions themselves, and the Government should take steps to reduce inappropriate central oversight, prescription and intervention where that does exist. It may be appropriate to set some targets or guidance where there are priorities of national significance, but these should be focused on desired outcomes rather than the means by which they are accomplished. Some planning and decision-making might well sensibly take place at a sub-regional level within the locally led arrangements described above. This should enable local authorities better to manage some of the physical attributes of place, and support local distinctiveness where desirable. A side-effect of this should be to make planning a more rewarding career and thus to enhance its reputation and attractiveness.

4.181 The Secretary of State’s call-in powers are the ultimate means by which the Government can influence or change local planning decisions. While there will be circumstances in which it is appropriate for national considerations to override local decisions, it is imperative that these powers are used in a transparent way, and only where issues of genuinely national significance are involved.

Recommendation 4.18

The Government should pursue devolution and clarification in the planning system as set out by Kate Barker in her review of the land use planning system and in particular:

- reduce the complexity and detail of directions which provide for central control; and
- set out clearer criteria on the use of call-in powers.

4.182 Both Barker and Eddington propose changes in the way major infrastructure projects are dealt with in the planning system, most notably through the creation of an independent Planning Commission to make the final decisions on such projects. The objective behind this is – along with related recommendations on Statements of Strategic Objectives – to simplify, clarify and speed up

the processes that exist for making decisions on projects of national significance. This proposal has been contentious, and sparked discussion, both in submissions from stakeholders and in my Inquiry's seminar on the Barker Review.³⁷ However, I think that there are attractions to the proposal, which could provide a clearer and more transparent discussion and decision-making process for issues of national importance.

4.183 It is right that decisions of national importance, where the national interest is overwhelming, are ultimately made at a national level. Current planning arrangements do already seek to deliver this through the use of ministerial call-in powers, and through legislation which gives secretaries of state the powers to determine applications for certain types of infrastructure. However, the system can be complex and time-consuming for both those seeking to develop major infrastructure projects and for the local communities who quite legitimately want to have their say – with multiple stages at which 'final' decisions are made, which are later amended. Reforming the system to make it clear from the start who will make the final decision, and what factors will influence them, would make it simpler for individuals and communities. There was a wide variety of opinions on this issue in submissions to the Inquiry, though a number took the view that it could help to provide greater clarity.

The establishment of an independent planning commission could streamline the consideration of projects of national significance provided the strategic objectives are clear. However, it needs to be linked to the process of policy making. In particular, each phase of the planning process needs to take forward delivery by establishing the need, and principles to be adopted. (West Midlands Shire Councils)

4.184 Just because a decision has national benefits does not mean that the perspectives of local people, and the impact on their community or quality of life, should not be taken into account. It will be imperative that these implications are considered, both by the Government in its preparation of the national Statements of Strategic Objectives and during the Planning Commission's deliberations, on the basis of representations from individuals and communities. The Barker and Eddington proposals acknowledge this.

4.185 Once decisions have been made, the Commission, the Government and local authorities will also need to put effort into communicating those decisions and the reasons for them. Communication is something at which our institutions of government have traditionally been poor, but it is essential if communities are to have trust in government at all levels. There is a challenge here for both local and central government.

Recommendation 4.19

In taking forward reforms to the planning process for major infrastructure projects, the Government should ensure that:

- the new arrangements apply only to issues of unambiguously national importance, subject to clear and published criteria;
- local individuals and communities are informed of the process and have an opportunity to make their views known; and
- a clear process for reporting back to local communities is established.

³⁷ A summary of which is provided at Annex G.

Transport 4.186 There is substantial debate about how decisions on transport investment and prioritisation should be made, and many local authorities perceive that the current system does not give them sufficient influence over the decisions taken in their area. The sub-regional governance proposals I set out earlier in the chapter should provide an opportunity for local authorities and the Government to develop approaches which will enable greater devolution and effective local decision-making.

4.187 There is also one particular aspect of transport provision where the capacity for influence by either local or central government is weak. That is in buses, which were deregulated in all areas outside London in 1986. Lack of influence over buses outside London is felt by many to have led to falls in ridership, rises in fares, and to have weakened the ability of local authorities to maintain effective integrated public transport systems. London, where regulation remained, has shown substantially better performance and higher usage in the intervening period, partly, it is argued (including by the Audit Commission and National Audit Office) as a result of the different regulatory system, which has allowed Transport for London to manage provision better in London.³⁸ However, it is important to note that the substantially higher subsidies now provided for bus operation in London are also a factor, and that other parts of the country have also seen improvements in local provision, often helped by effective working relationships between bus operators and local authorities.

4.188 The Government has acknowledged the problems associated with the current approach and has recently announced plans to enhance and extend the powers and options at the disposal of local authorities.³⁹ This is a welcome step, which should expand the ability of local authorities to ensure that local public transport provision is appropriate and integrated. The Government's proposals were supported by the vast majority of submissions to the Inquiry on this subject.

The ability for local authorities to be able to plan and secure new bus services to a level it considers necessary to secure broader objectives, including economic regeneration, free from the constraints of the current legislation, would be invaluable. This does not mean a return to prescriptive regulation but empowerment to local authorities to work more flexibly to meet local needs. (Essex County Council)

Recommendation 4.20

The Government should implement its plans for local authority powers to regulate bus services as soon as practicable.

Skills and employment 4.189 The UK's competitive position is now, and will increasingly in the future be, dependent on the level of skills of its workforce. The Leitch Review of Skills sets out powerful arguments for further investment in the skills of both our existing and future workforce if we are to maintain and improve our prosperity. To a significant extent, it is for individuals and their employers to assess and pursue their own skills needs. However, there is also an important role for government in setting the appropriate framework, providing funding and addressing social issues associated with a lack of skills or access to training. The Leitch Review proposes a new demand-led model for adult skills and a simpler framework for employer engagement, in order to make the system more responsive and competitive. It also calls for greater integration between skills and employment services, drawing together existing services such as Jobcentre Plus with a new adult careers service.

³⁸ National Audit Office and Audit Commission, *Delivery Chain Analysis for Bus Services in England*, 2005.

³⁹ Department for Transport, *Putting Passengers First: The Government's proposals for a modernised national framework for bus services*, 2006.

4.190 The vital contribution that skills can make to economic development makes it essential that local authorities in their place-shaping role, engage with these issues. They will be particularly concerned to ensure that the public funding and planning/commissioning of training and skills provision, which are the responsibility of the Learning and Skills Council (LSC), are responsive to local conditions and the needs of local employers and individuals. The Leitch Review's recommendations would replace the current system of planning and commissioning with a demand-led skills system, driven by individual and employer requirements, though the Government's initial response envisages a continuing role in the short term for some planning and commissioning, at the regional level, including to deal with identified gaps in the provision available.⁴⁰

4.191 I think that in any system, there is likely to be a need for the employer voice to be tested with high quality local intelligence to consider whether it provides a complete picture of the needs of the area. Where a planning and commissioning approach is retained, that needs to be tested to ensure that it is responsive to the conditions of the labour market. There is also a need to challenge and monitor the activity of public sector employment and skills support. All of these activities must engage employers and reflect the functional economy, rather than being bound by the administrative boundaries of local authorities or the region.

4.192 The Employment and Skills Boards recommended by the Leitch Review (and being developed in a number of areas at present) could perform such a role. Local authorities should have an appropriate role in any such boards, both as substantial local employers, but also as the representatives of the wider community with an interest in the future prosperity of the area. Many local authorities already have, or are in the process of developing, arrangements with local employers, and where these are effective they should be allowed to continue. It would also be desirable to link activity on skills with any other joint city or sub-regional activity being taken forward by partnerships of local authorities, as described earlier. Skills issues need to be considered alongside the complex mix of other issues which impact on local economic prosperity and the economic opportunities of individuals.

4.193 Local authorities also have a role to play in addressing other employment and skills issues, particularly for those furthest from the labour market. Authorities' contributions in this area are a good example of their convening role, working with Jobcentre Plus, the LSC, employers and others, including the voluntary sector, to address the variety of different factors, including childcare, transport and housing, as well as skills, that can affect the ability of individuals to enter the labour market. A number of authorities made this clear in their submissions.

It is sensible to link employment and skills issues together in a way that enables more effective planning and delivery arrangements to reduce worklessness. The creation of clear progression routes from unemployment into work that involves a range of local service providers is a key challenge for City Strategy. In addition to formal learning and training, greater links need to be made with other public services... This includes health services, housing providers, adult learning and adult social care services etc. (Manchester City Council).

4.194 Reforms to the welfare system in this areas, following David Freud's report *Reducing Dependency, Increasing Opportunity: Options for the future of welfare to work*, which recommends regionally based contracting of support for those facing multiple disadvantage and long-term benefit dependency, are likely to have implications for local authorities.⁴¹ As his report identifies, it

⁴⁰ Department for Education and Skills and Learning and Skills Council, *Delivering World-class Skills in a Demand-led System*, 2007.

⁴¹ Freud, D., *Reducing Dependency, Increasing Opportunity: Options for the future of welfare to work*: an independent report to the Department for Work and Pensions, 2007.

will be important to ensure that any new framework strikes the right balance between large-scale contracting and local, sub-regional control, providing local authorities with appropriate influence, and contractors with the incentives to work closely with them.

4.195 Funding and responsibility for 14–19 education and skills provision is currently shared between local authorities and the LSC, with local authorities expected to play a strategic role.⁴² The implementation of the new 14–19 diplomas, and the expansion of more complex and innovative forms of provision which cover the traditional school-leaving age of 16, make it essential that authorities and the LSC, as well as schools and other providers, work closely and effectively together.

4.196 There is a debate about whether merging funding and responsibilities within local authorities would help to secure more seamless provision. There are certainly some potential advantages to such a move, though as has been pointed out, integrating responsibilities in the local authority could simply create a new division at 19, and the Leitch Review recommended against further structural reorganisation in this area. The Government will want to keep current arrangements under review, especially if it decides to require all young people to remain in full or part time education or workplace training up to the age of 18, as discussed in the Leitch Review.

Recommendation 4.21

In taking forward reforms following the Leitch Review, the Government should:

- ensure that there is sufficient scope and resource to enable the Learning and Skills Council and local partners to tailor provision appropriately at the local level;
- enable local authorities to play an appropriate role in Employment and Skills Boards; and
- seek to build on existing arrangements between employers and local authorities where possible.

Housing 4.197 Patterns of housing development and mobility, the availability and condition of housing and the willingness of individuals and developers to invest in it are all important influences on, and reflections of, the health of our communities. That applies as much to social housing as it does to privately rented and owner occupied housing. Policy objectives from school attainment to the cohesion and sustainability of communities are affected by the type, quality and affordability of housing available.

4.198 Housing is not simply a matter for national policy – its influence on local communities is too direct and material for that, and the reality of the different housing markets across England are clearly evident. The challenges for national policy in responding to very different market conditions and issues in the North, South East and East, and South West have been evident in recent years.

4.199 As such, looking at housing issues in a strategic context is an essential part of the place-shaping role of local authorities. Local government has traditionally been focused on its role as municipal landlord, and some authorities who have transferred their stock to the social sector no longer see themselves as interested in housing issues. However, that will need to change if local

⁴² Department for Education and Skills, *Further Education: Raising skills, improving life chances*, 2006

authorities are to perform a full place-shaping role. The new role is very different, however, and is essentially strategic – using powers and influence to shape local markets and the contribution of other players. Local authorities have already demonstrated their ability to engage and develop innovative solutions through creative use of public land and Section 106 negotiations with developers to respond to the issues in their areas.

4.200 I have identified the following as issues that local and central government will need to pursue in the future:

- a clear challenge to local government to take a strategic view of housing provision in their area across the piece, including market as well as social and affordable housing;
- a question mark over whether local government will have to take a more active role in supply, given the difficulties of provision for older people, and continuing problems in supply, especially of affordable housing and in some rural communities;
- the importance of ensuring that investment in social housing delivers the best value for money, both with regard to local action, and to the impact of the Housing Revenue Account Subsidy arrangements. Authority-owned housing is still a £98 billion asset, and one which needs to be used to full effect; and
- a danger that current arrangements are too fragmented both locally and nationally, and a need to engage housing associations, particularly the larger organisations, more fully in place-shaping. The Government should consider whether extending the duty to cooperate to housing associations would have advantages.

Recommendation 4.22

The Government should ensure that local authorities have appropriate influence over housing issues in their place-shaping role and should consider whether to extend the duty to cooperate to housing associations and other social landlords.

Social care for adults

4.201 Local authorities have a range of responsibilities to provide social services to all age groups. In both adult social care and child protection there is a strong sense of a national entitlement, perhaps due to concerns about the need to protect both our vulnerable older people and vulnerable children in ways which offer equal standards of protection across the country. Participants at the public engagement events strongly argued for national standardisation in the funding of social care, particularly for older people and the supply of residential care.⁴³ However, in these services, as in others which are even more strongly nationally controlled – such as schools and the NHS – the need for local tailoring to meet local needs, to engage with those receiving the service and their carers, and to link with other services, is still significant. My recommendations on the convening role of local government set out earlier are therefore relevant.

⁴³ OPM, *Lyons Inquiry – Public Deliberation Events*, 2006.

4.202 Social care is not what economists term a local public good, such as street lighting or public health, which provide benefits to the whole community equally. It is a publicly provided private good, provided specifically to those who need a range of care but on a means-tested basis. It has clear benefits to the people supported and their families, but few direct 'spillover' effects on the wider community – and the rationale for public provision is based on a sense that society should provide care to those who need it and cannot afford to pay for it themselves.

4.203 I focus my comments here on social care for older people. Local authorities are responsible for commissioning and delivering adult social care to national standards.⁴⁴ Local authorities have the flexibility to vary who is eligible to receive care (across four different categories of need defined by government), and for non-residential care they can decide whether, and how much, to charge for services.⁴⁵ This has a range of advantages – particularly in terms of the ability to determine locally how many people are eligible for care. However, it means that while the standards of social care are intended to be uniform across the country, whether or not people are eligible to receive it, and the charges they have to pay, can vary greatly across the country.

4.204 This poses one of the most difficult questions facing our public services today: who should pay for adult social care, and how should it best be managed? Derek Wanless sparked the latest debate on this important issue and raised profound questions about the role of the state in providing private goods and about who is best placed to decide who is entitled to what.⁴⁶ There now needs to be an open debate involving central and local government, service users, private sector providers and current and future tax payers if the best solution is to be found.

4.205 The Comprehensive Spending Review 2007 will examine some of the challenges in the future provision of adult social care. It will need to consider whether there is scope to clarify responsibility for adult social care, in order to improve the ability of the system to manage pressures more effectively. It should take account of the factors affecting the appropriate balance between central and local control. These include the principles in Chapter 2, but the following are particularly relevant to adult social care for older people:

- How strong is the sense of national entitlement?
- Is central government or local government best placed to manage pressures?
- How much do costs, needs and the most effective form of delivery vary between different areas?
- How much scope is there for co-production and innovation?
- How extensive are the benefits of joining up locally?

4.206 I examine each of these questions in turn in relation to adult social care for older people.

National entitlement

4.207 In my survey work social care was clearly seen as a service that is, and should be, subject to the shared responsibility of central and local government. However, some aspects of adult social care – particularly older people's residential care – increasingly raise concerns about uniform entitlements and there appears to be little appetite among the public for local difference in this

⁴⁴ There are national minimum standards against which all core providers are inspected and regulated by the Commission for Social Care Inspection (CSCI).

⁴⁵ The need categories are called the Fair Access to Care (FACS) eligibility bands.

⁴⁶ Wanless, D., *Securing Good Care for Older People; taking a long term view*, King's Fund, 2006.

service, despite wide variations already on a number of dimensions. Participants at the public deliberation events run for my Inquiry tended to see social care for older people particularly as 'a national issue'. They were conscious that needs varied widely in terms of the size and needs of local populations of older people, many of whom moved to certain areas after retirement, which they felt meant it should not be funded from local taxation.

Managing pressures 4.208 Derek Wanless' detailed analysis showed that future pressures are likely to be driven by the greater number of older people living longer and requiring intensive support. Increases in unit costs, particularly wage costs, which make up the great majority of the adult social care budget are also important pressures.⁴⁷ My case study research also identified the rising expectations of adult social care service users, who are demanding higher standards and increased flexibility in the services they use:

As people move into older age they have different changing expectations. Our generation and generations behind will have a very different expectation to the generation who are currently service users. We need to make sure our services are absolutely modernised for current service users ... so where you've got the need, you've got increasing demand, the need to improve services for hard to reach communities like black and ethnic minority communities, the need to modernise services. (Senior local government social care officer)⁴⁸

4.209 A recent survey commissioned by the LGA into people's expectations of social care and charging policies found that only ten per cent of people expected to pay for all home care, and 49 per cent expected to make a contribution, but that over one third (32 per cent) still expected to receive all home care for free.⁴⁹

4.210 There is scope to better manage these pressures though considering how people are supported in their old age, which may affect the point at which people need more intensive or residential care. Unit cost pressures could arguably be managed more effectively at the local level, particularly because wage pressures and the markets for social care provision vary between different parts of the country. Meeting service users' changing expectations is also arguably better achieved at the local level. However, central government determination of standards, particularly for residential care is a clear driver of the costs of provision.

4.211 More generally, there is a need for the system to support increased cooperative working between the NHS and local authorities, as discussed earlier. This means, as a minimum, aligning budget and performance management cycles to enable better joint planning. But joint working would also be supported by changes that increase flexibility on both sides, as discussed in earlier sections.

4.212 I would argue strongly that responsibility for determining the eligibility for social care should be as closely aligned as possible to responsibility for (and levers to enable) the management of pressures. The current hybrid model whereby local authorities set eligibility criteria and bear the cost, but central government sets the standards and the means testing criteria for residential care, gives local government limited tools but arguably much of the responsibility for managing pressures. An increasing number of authorities are already restricting care to those with the highest levels of need, as this form of rationing is one of the limited number of ways in which they can respond to pressures.

⁴⁷ Wanless, D., *Securing Good Care for Older People; taking a long term view*, King's Fund, 2006.

⁴⁸ Entwistle, T. et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

⁴⁹ LGA, *Without a care?* 2006.

4.213 Aligning responsibility for determining who is eligible with the management of pressures might also encourage a greater focus on outcomes rather than inputs – which came through as particular issues in my case studies:⁵⁰

The performance agenda is driven by numbers and not necessarily by quality and... the things that social workers on the ground actually see are the most appropriate numbers to be counting.
(Senior local government officer)

4.214 There may also be scope for local authorities to become more efficient in the commissioning and provision of social care services and to take on a greater role in shaping the market in their area, which could help to manage cost pressures. Procurement practice and markets vary significantly across the country, and Chapter 5 discusses local government's role in using commissioning and 'market-shaping' practices to deliver value for money.

Variation in needs and costs 4.215 Differences in culture, the age profile, levels of wealth and whether an area is urban or rural mean that the needs for adult social care vary greatly between areas. This means not only that demands on social services will vary greatly, but that the best means of meeting those needs is likely to look very different in different places. This suggests the need to allow for variation, to respond to local needs in a tailored way, which must be balanced against the widespread view that social care is a national entitlement demanding uniform standards.

Co-production and innovation 4.216 Achieving some of the objectives of adult social care – for instance, helping older people to remain independent and in their own homes – depends on working with individuals themselves and with carers and the local community. Designing services which help people to remain self-reliant for as long as possible requires the involvement of service users and the local community in service design and delivery. This can also lead to innovation – finding new mechanisms which, for example, prevent falls and help people live safely at home for longer. The Partnerships for Older People Projects (POPPs) have been found to provide flexibility at the local level for local authorities to work in partnerships with other organisations and their citizens in the design and delivery of services. An example from Sheffield is outlined earlier.

Joining up 4.217 The crucial role of other local services in supporting the objectives of social care suggests that social services must remain rooted in the local community to be effective. This is particularly important for children's services, and for support for adults and non-residential care for older people. It is important for local authorities to work across their boundaries and join-up effectively with local PCTs.

4.218 There is also a key role for co-production in the effective provision of support for vulnerable people, through working with and supporting carers and neighbours who provide day-to-day assistance. Developing strong relationships with carers is crucial not only for ensuring the best possible care for those receiving social services, but also in managing pressures into the future.

4.219 The case for making adult social care a more clearly 'national' or 'local' service is therefore finely balanced. It suggests there is a case for it to remain a shared responsibility between central and local government, reflecting both the sense of national entitlement and the need for local flexibility to cope with varied needs and to make the most of links with other services and carers. This is a clear example of a service where central and local government together need to operate a system of 'managed difference' (discussed in Chapter 3) in order to maximise the well-being of service users and the local community.

⁵⁰ Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

4.220 However, there is a clear need for reform to enable the system to cope more effectively with future pressures. Reforming the system of social care to align incentives for efficiency – balancing costs against outcomes and satisfaction – with the ability to control eligibility and pressures as effectively as possible is a huge challenge. In my view it can only be solved by a well informed and honest debate about the challenges the system faces and the difficult questions they raise.

4.221 There needs to be a clear, shared agenda between central and local government about the care and support we provide for older people. A critical outcome from the Comprehensive Spending Review 2007 should therefore be to ensure that the solutions for managing the future of social care effectively are properly debated by central and local government, service users, carers, private and third sector providers and taxpayers. Following questions raised by Derek Wanless, this should ask whether the current system has got the balance right in terms of who should bear the costs of care, and to what extent: should it be taxpayers through local taxation or national taxation, or individuals themselves; and who should make decisions about levels and standards of care provided by the state. Any shared agenda needs to ensure individual needs are met in the most cost-effective way possible, particularly gaining an understanding of who pays – the balance between NHS and social care, and the role of co-payment in providing better individually focused care.

4.222 If Government makes a 'national promise' about future adult social care, local government must be adequately funded to enable it to deliver that part of the promise for which it is asked to be responsible. As part of this, it is important that responsibility for managing pressures lies with those who are able to do so most effectively.

Recommendation 4.23

The Government should lead a clear national debate about how we want to manage and pay for social care for older people, which should cover:

- what, if any 'national promise' central government wants to make for the whole country;
- what local government is to be responsible for, and who is best placed to manage pressures; and
- who should pay for social care: state or service user, and how incentives can be aligned to ensure competing demands are managed appropriately.

Domestic waste collection and disposal

4.223 Waste is the other area of significant cost pressures that I examined in my case studies. Rising costs in waste management are a widespread problem, as our dependence on cheap landfill must be reduced in line with EU legislation. The UK faces substantial financial penalties if it fails to meet targets on reducing the amount of waste sent to landfill, which may be passed on to local authorities through the Landfill Allowance Trading Scheme. The Scheme provides for fines if authorities exceed their landfill limits, including any extra allowance they may buy from other councils. Local authorities must therefore invest in alternative means of disposing of waste, including increasing recycling. The continuing rise in the volume of waste, together with rising targets for recycling and composting and increasingly strict regulations for the treatment and disposal of waste, all contribute to the growing cost pressures on local authorities.

4.224 In many ways, waste collection is one of the most local of services, however the issues and challenges described by case study interviewees showed more consistency than any other service area.⁵¹ This may reflect the fact that the current policy agenda in waste has been set at European and central government levels. Respondents in my case studies saw solutions to the problems facing them as lying in improved county and regional partnerships and significantly increased capital investment. They also saw a critical role for central government in incentivising collaboration through carefully chosen performance targets and the introduction of new economic instruments.

4.225 An issue which emerged clearly in discussions on waste was the confusion over responsibility for managing the waste stream, including over crucial issues such as minimising our production of waste in the first place. All tiers of government have different, though overlapping, roles to play in making sure we meet our international obligations, each of which is essential to the delivery of the whole. Even within central government, a range of departments have relevant responsibilities including Defra, who lead on the development and implementation of waste policy, the statutory framework and most waste negotiations at EU-level. Defra and DTI have joint responsibility for responding to some EU waste directives. CLG lead on planning for waste management facilities and waste from the extraction industries as part of their wider responsibility for planning policy, and HM Treasury, CLG and Defra have responsibility for adequately funding waste management.⁵²

4.226 Local government leads the way in some areas of waste minimisation – which should be the ‘first best’ option for managing waste pressures in the future. Work with communities and households to encourage such changes in behaviour through co-production is one of the key advantages in ensuring waste collection remains a properly local service. Many local authorities are already taking forward innovative initiatives in this area, and many are building waste reduction messages into their existing literature on recycling and composting. However, despite the introduction of the recycling credits scheme, authorities which push ahead on waste minimisation may not always reap the benefits themselves, partly as a result of the complex and shared responsibility for waste.⁵³ Chapter 6 discusses ways in which local authorities can be given more levers to manage pressures in waste through charging mechanisms.

4.227 Despite some notable successes in partnership working, interviewees still complained about the complexity of institutional arrangements for waste management:

Effectively we're doing it [working in partnership with the districts] but that's taken a hell of a lot of hard work and many years to achieve. (Senior local government officer)⁵⁴

The first [priority] for me would be the abolition of two-tier working because on waste management, I think it's an anomaly. (Senior local government officer)⁵⁵

⁵¹ Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

⁵² *Review of England's Waste Strategy – a consultation document*. Defra, February 2006.

⁵³ Waste collection authorities have a duty to encourage householders to recycle and compost more of their waste, through initiatives such as sorting waste before it is collected. To incentivise this activity, the Government introduced recycling credits in 1990. Because recycling and composting waste diverts that waste from normal disposal routes, action at the collection end of the waste stream saves money at the disposal end of the operation. Recycling credits allow waste collection authorities to claim some of the revenue that their recycling and composting activities save waste disposal authorities.

^{54, 55} Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

4.228 Some interviewees were also concerned about whether responsibilities at the regional level were working as well as they could:

It's interesting because I do quite a lot of work at a regional level and the regional agenda is completely dominated by the regional spatial strategy work and planning and housing numbers and things like that. And waste doesn't appear very high up the agenda ... Transport comes higher up, but the overall thing is housing at the moment and housing numbers and again that's responding to government agendas. (Senior local government officer)⁵⁶

4.229 For some officers, real progress required the establishment of unitary local authorities responsible for collection and disposal. However, other consultees argued that effective waste management can be achieved through effective multi-agency working:

Having a critical mass for partnership working is more important than restructuring change, for instance through unitary status. (Representative, Lincolnshire County Council, waste seminar)⁵⁷

4.230 Others argued for the Landfill Allowance Trading Scheme and recycling targets to be brought together as part of a coherent package of measures to provide incentives for districts to work with their disposal authorities:

need more incentives (including financial incentives) to get two tier areas working together. Partnership working really requires a shared decision-making structure, pooled funding, and a clear precept on local taxes. (Representative, Kent County Council, waste seminar)⁵⁸

4.231 The introduction of the duty to cooperate between tiers should help to encourage joint working – discussed earlier in this chapter – but there is a need also for central government to be clearer about its own responsibilities for managing the waste stream. Waste offers a good example of a service area in which there is a need to find ways to make the system as a whole work better, based on a clearer understanding of what each tier is best placed to do.

4.232 For instance only central government – or in some cases the EU – can legislate for initiatives to improve the incentives on businesses and the packaging industry to reduce the amount of waste we produce in the first place. But only local government can manage the collection of domestic waste in a way which recognises the different challenges of different types of community – for example, rural areas compared to blocks of flats – working with communities to find the most cost-effective ways of minimising waste and increasing recycling. Other tiers also have a contribution to make. The need to find solutions must be explicitly recognised as a shared responsibility between central and local government, and the challenge is to ensure that all tiers contribute what they are best placed to do to make the system work as well as possible.

4.233 This means, for example, being clearer about which drivers of waste production and disposal costs can most appropriately be managed by central government (such as the negotiation of international obligations), which should be managed at the regional level, and which are appropriately subject to local action (such as mechanisms to influence the behaviour of households). It also means finding ways to improve the way in which objectives and incentives are aligned between the various tiers of government, and to make it possible for authorities to work constructively together to manage waste pressures.

⁵⁶ Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

^{57, 58} A summary of this work is provided at Annex H.

4.234 The Government recently announced its intention to legislate for Joint Waste Authorities in those areas where local councils wished to establish such formal partnership structures. This is a positive step in a context where joint working may make it easier for authorities to procure alternatives to landfill and streamline their dealings with private sector firms. It will, however, be important that there is room for structures to be tailored to, and driven by, local partnerships, and not imposed according to a central template.

4.235 There may also be a case for examining the tools local authorities have to influence not just how waste is disposed of, but also the volumes emerging in the first place. To this end, Chapter 7 considers the case for giving local authorities greater powers to influence the behaviour of local people through a variable charge for the collection and disposal of domestic waste.

Recommendation 4.24

The Government should give greater recognition to the fact that effective waste management is a shared responsibility between central and local government and consider ways to provide greater local flexibility to manage the waste stream locally (including waste production), particularly through a new power to charge for domestic waste (see Chapter 7).

Community safety

4.236 Community safety offers a very good example of a set of concerns and activities which can only be delivered effectively where there is a strong local element – particularly to influence behaviour, working very closely with local communities. It is key to supporting social cohesion, which is one of the most important roles for local government in modern society, as discussed in Chapter 2.

4.237 One of the clearest messages to emerge from my case studies was the need for more stable funding for community safety to enable strategic planning and to encourage partnerships to grow.⁵⁹

4.238 The community safety interviews exhibited high levels of consistency across the case study areas. Respondents described very similar issues; they provided a largely positive account of partnership working, identified problems with the prevailing system of central–local relations, primarily for excessive dependence on national performance targets, and almost unanimously criticised current funding arrangements for the dysfunctional effects of short-term project funding. They complained that national targets required them to focus on issues of questionable local significance, crowding out what were perceived to be more pressing local priorities.

4.239 Two points were particularly emphasised. The first was focused on their dependence on short-term project funding. Interviewees complained particularly that short-term initiatives – very often introduced with their own detailed regulations – antagonised local communities, as services they supported were axed when the funding dried up:

Short-term funding is always a difficulty with communities because if they think this is just short-term fix they don't buy into it. They get quite upset in fact ... what's going to happen at the end of the year then – don't know – well what's the point of us committing if you're going to pull them out? That is a difficulty and you need that longer-term strategic approach to this kind of subject if you're going to get communities really engaged and supported because they will see through it.

⁵⁹ Entwistle, T. et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

Many of them have been round this bidding process many many times. And it does take up a lot of time and energy ... there's a bit of money here and a bit of money there. The time it takes to actually pull that together you have to sometimes think well is it actually worth it? (Senior police officer)⁶⁰

You want to get a grant to start up a youth club to hire the hall – which kids are you going to involve? How do you demonstrate they're from Area 6? Well actually some of them are from Area 5 and some of them go to the school in Area 3. Oh well we're not going to pay for them they're not our kids you need to go to Area 3 and Area 5 and they'll give you a proportion of the grant. Well if that was me I would've given up wouldn't you? (Senior local government officer)⁶¹

4.240 Second, our respondents complained more broadly about the uncertainty of funding arrangements. They argued that short-term and tightly hypothecated funds made it difficult to focus on key local priorities, including prevention, as emphasised earlier:

The real problem is the funding keeps changing ... if they want us to do a three-year strategy, then give us three years' funding, because otherwise it's pretty pointless in my view, (Senior stakeholder)⁶²

There isn't spare money to pick up all these government initiatives ... because they're done on grants you never know quite how long it's going to go on for. So security of funding is the essential thing for the development of partnerships because then you'd never get one partner renegeing on a deal because ... they've run out. (Senior local government officer)⁶³

4.241 This problem may have emerged in relation to community safety more strongly than other services, because of the strong reliance on focused, time-limited grants provided through a range of channels. A key role for Local Area Agreements should be to allow the funding and flexibility for those sources of funding to become more streamlined and stable over time. Other evidence on community safety supported the broader findings of the Inquiry in terms of the need for greater local flexibility both in terms of function and funding, reflected in earlier sections. Police funding did not emerge as a particular issue from my case studies, although a number of submissions raised it as an issue as discussed in Chapter 3.

Recommendation 4.25

The Government should simplify funding streams and targets, particularly for community safety.

Health and well-being

4.242 The protection and improvement of public health is a role which clearly benefits from local determination, arguably to an even greater degree than social care – since the benefits of enhancing health and well-being can accrue to the local community as a whole, and the health needs of each community (and therefore what needs to be done) vary dramatically. Priorities range from the need to reduce smoking and obesity, to tackling sexually transmitted illnesses, all of which can require quite different local emphases depending on the local population, and different strategies to tackle them.

⁶⁰⁻⁶³ Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

4.243 Some of the targets which have proved most intractable to the Government relate to health and well-being – particularly in terms of tackling inequalities in health outcomes, for example childhood obesity and life expectancy. It is clear that there are great difficulties in improving the health of some groups, with poor health being strongly linked to deprivation and determined very strongly by cultures, behaviours and wider environments. This raises the importance of local services, such as schools, colleges, children's services and social services, libraries, leisure, transport and environmental health, since they can all influence health either directly or indirectly by influencing behaviour.

4.244 These links are not new – public health was one of local government's first responsibilities – but they are increasingly being recognised again. For example there is a shared 'healthier communities' aspect of the Corporate Assessment part of the performance framework, and the Joint Annual Review framework also examines 'being healthy' as an aspect inspected. The recent consultation by the Commission for Social Care Inspection on a new Adult Outcomes Framework includes improved health and emotional well-being and an emphasis on Healthy Communities.⁶⁴

4.245 However, funding for health and well-being activities comes mainly through PCTs, plus some small specific grants to local authorities. Strong arguments have been put to me that such activities therefore get 'squeezed out' by acute healthcare needs, which are subject to more stringent management controls and targets, and findings from my case studies supported this.⁶⁵

4.246 In my case studies, health and well-being were not seen by interviewees as a current core role for their local authorities. Roles within councils were varied, and case study interviewees often had responsibility for health and well-being in addition to a 'main' role. That said, some councils are embracing the health and well-being agenda through their local strategic partnerships, and through joint appointments with health services, including joint Directors of Public Health.

4.247 Some consistent messages emerged from the interviews. Accounts of partnership working with the NHS served largely to underline the difficulties of collaboration, with difficulties in aligning performance management frameworks and different budget cycles. As with community safety, respondents claimed that a collaborative approach to health and well-being was crowded out by the hierarchical emphasis on acute care in the NHS. In terms of funding, as in other areas, respondents experienced problems with short-term project funding and the current funding pressures in the NHS. In particular this reduces flexibility to channel funding into preventative approaches.

4.248 Given the importance of health for every other aspect of people's well-being, I would expect this emphasis on public health to grow over time – exploiting councils' advantages in using co-production to work with communities and individuals to improve outcomes – as they are given greater flexibility in place-shaping. The key issues in moving this agenda forward are set out below:

- health is a key issue for place-shaping and needs councillors to take the approach to convening that I recommend in Chapter 5, taking ownership of the overall health challenge, seeing the health impact of the services which the council controls and joining up with NHS services. The new duty for health trusts to cooperate will assist with this;
- cooperation on health would be assisted by better and explicit alignment of aims, performance frameworks, inspection and budget regimes between councils and health trusts;

⁶⁴ *A New Outcomes Framework for Performance Assessment of Adult Social Care: Consultation document*, CSCI, 2006.

⁶⁵ Entwistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

- local health commissioning at GP surgery level has the potential to fit well with councils' work to localise services to smaller community areas, but this would be greatly assisted by the duty to cooperate or similar mechanism being extended to GPs. This would of course need to take account of the particular status of GPs within the public sector, as many are effectively independent – albeit publicly funded – businesses; and
- local authorities, through scrutiny but also as partners, have the ability to challenge health services in a constructive way, as well as to consider how their services can better support health outcomes. Councils are well placed to engage with local communities to help encourage healthier behaviours and approaches for all age groups. At my seminar on public health, contributors also pointed out the role which councils could play in ensuring local service users can engage with and help to shape services which can tend to be producer-led and focused on national targets.⁶⁶

Recommendation 4.26

The Government should support a stronger and more explicit role for local government as convenor in the realm of health and well-being, building on the proposals in the Local Government White Paper to strengthen partnership working.

Recommendation 4.27

The Government should ensure the commitment to harmonise budget and performance management cycles in health and social services is delivered.

Children's services

4.249 Children's services have seen dramatic reforms in recent years. The Children Act 2004 introduced a significant reorganisation of children's services, bringing services and partners together with the aim of promoting better outcomes for all children and improving the child protection system. By 2008 every council is expected to lead the creation of a Children's Trust, bringing together strategic oversight of all services for children and young people in an area. The reforms aim to introduce an approach to child well-being, welfare and safeguarding based on early intervention and prevention, rather than simply through improved child protection procedures.

4.250 Another significant area of reform in recent years relates to schools funding, and increased central direction of that funding through, first, passporting of increases in budgets directly to schools and then ring-fencing in the form of the Dedicated Schools Grant. These changes, and their implications for local government, are discussed in other chapters.

4.251 My Inquiry's case studies particularly focused on issues related to vulnerable children and child protection.⁶⁷ Although the issues raised by respondents in the area of children's social care showed some local variety, the key challenges appeared common across different authorities. A common statutory framework means that these services are delivered in a very similar fashion and case study respondents tended to support these arrangements. They welcomed clear central

⁶⁶This work is summarised in Annex H.

⁶⁷Entwhistle, T., et al., *Perspectives on Place-shaping and Service Delivery: A report of case study work conducted for the Lyons Inquiry*, 2007.

guidance and called for more dedicated funding for their area of work. The only problems they reported about the system of central–local relations were focused on the resource requirements of the existing inspection and performance management systems. They called for a more joined-up approach to target and indicator setting, which would facilitate inter-agency collaboration. I recognise that a holistic approach to child protection does not only depend on a consistent focus on the child identified as at risk; it also requires links to a wide range of other responsibilities, in particular certain aspects of community cohesion, housing availability, employment opportunities, educational standards and even road safety.

4.252 Councils should not be tempted to ‘opt out’ of educational issues because of the constraints imposed by the funding framework and the increasing independence of schools (through the introduction of academies, trust schools and so on). Bringing together education and other service providers across all sectors for different age groups is a key part of place-shaping, and is critical to strengthening community cohesion, community safety and enhancing employment and health outcomes.

4.253 Schools provide a service directly to the community, and therefore provide a vital link between local communities and the local authority, crucial to any place-shaping agenda which focuses on improving the well-being of families. No other service provider, except arguably GPs, plays such a role. Furthermore, schools play a vital role in helping to determine the life chances of local children, and potentially have a huge part to play in local preventative strategies which work with families and children. It is therefore critical that they should be able to work closely and flexibly with local partners, particularly on issues around prevention, which are demonstrably cost effective and can dramatically improve life chances for those children, as well as reduce the costs that fall to other services through crime and poor health later on.

4.254 These issues are widely recognised, but schools have been excluded from the duty to cooperate applied to local partners with respect to Local Area Agreements under the Local Government and Public Involvement in Health Bill, as they were from the Children Act 2004 duty to cooperate with strategic bodies locally to promote the well-being of children in the local area. This is on the grounds that:

- the duty to cooperate would be too onerous on both schools and local authorities and it would be impractical for every school to be actively engaged with the Local Strategic Partnership on a regular basis; and
- local authorities already have a direct relationship with schools (though this has been weakened in recent years). Schools are now also to be placed under a new duty under the Education and Inspection Act 2006 to promote the well-being of their pupils. The Government intends that by 2010 all schools should be extended schools, working more effectively with other services in their local area.

4.255 It is also clearly the case that schools are much more likely to play an active role in a local strategy if they have been consulted and agree with the priorities being pursued by the local authority, and I understand concerns that prescribing the relationship with the Local Area Agreements could create perverse effects in some areas.

4.256 Schools are, however, required to have regard to the Children and Young People's Plan, which informs and is informed by the Sustainable Community Strategy. Nevertheless I am concerned at schools being excluded from the arrangements for other partners when they play such a critical role in the place-shaping agenda, and am concerned that this link may be too weak to ensure a high degree of cooperation on place-shaping issues. The Government should consider more formal mechanisms to ensure greater collaboration on place-shaping issues.

Recommendation 4.28

The Government should consider more formal mechanisms, such as an extension of the duty to cooperate or a duty to have regard to the LAA or Sustainable Community Strategy, to encourage greater collaborative working between Local Strategic Partnerships and GPs and schools.

CONCLUSION

4.257 The Local Government White Paper and subsequent Bill signalled a welcome and strong move towards a more devolved system of local government, responding directly to a number of the recommendations I made in my May report. In this chapter, I have argued that in order to make the most of the opportunities offered by these changes, we may need to tackle a number of risks, many of which require profound and sustained behavioural change on the part of central (as well as local) government, and those who work within it. In my May report, I argued that to deliver and sustain change over time a programme of reform may need to be underpinned by a formal constitutional settlement to ensure it has cross-party support and provides a long-term and sustainable basis for change. This is discussed further in Chapter 10.

4.258 Central government determines the framework and much of the detail in the current system, and it is from central government that much of the change has to come. While the recent Local Government White Paper and Bill are a significant step forward, further change is essential if momentum is to be maintained towards greater local choice and flexibility. The key changes needed are in behaviour and approach, to ensure that the devolution the Government is committed to is not undermined by additional controls over time.

4.259 Clearly, local government is responsible for its own behaviours, ambitions and achievements, and only local government can improve itself and its efforts on behalf of its communities. Chapter 5 discusses changes which local government needs to make. But there is a shared responsibility to ensure the system of local government works well.

4.260 We need to ensure our system provides the conditions necessary for local government expertise and energy to be released to find the best way in each community to maximise value for money and well-being. This will mean different things for different services as discussed above. However, in general this requires:

- greater clarity over who is responsible for what – this is particularly important for social care, given future pressures – and the need to be very clear about who is responsible for managing or funding which aspects of those;
- delivering on promises of a performance management system which is streamlined, and more clearly focused on the needs of whole communities rather than individual services;
- a funding system which is much more transparent, with clear objectives agreed between central and local government;
- behavioural change on the part of government to ensure that promised reductions in targets and central controls are maintained over time, not replaced by indirect or 'soft' controls. This may require a shift in mind set in some areas – and possibly a requirement to report regularly on progress to Parliament – to ensure all parts of government act in the spirit, and not just the letter of the Local Government White Paper;

- greater flexibility over how local authorities can use existing resources, particularly by pushing forward on the Government's commitment to reduce the use of specific and ring-fenced grants;
- stronger acknowledgement and support for local government's convening role;
- greater acknowledgment that well-being depends on a broader definition of efficiency, i.e. greater emphasis on doing the right things for local communities rather than just doing them as cheaply as possible. This means encouraging innovation, making the most of local government's ability to engage with local communities and supporting co-production to get better outcomes; and crucially it means supporting local government to make the right decisions to manage pressures on local services as effectively as possible in the light of local circumstances; and
- recognising and encouraging the need for local government to make best use of its powers, and to develop the confidence and capability to deliver its place-shaping role for all communities.

4.261 In order to underpin and sustain change into the future, the relationship between central and local government must itself improve. Chapter 10 discusses the ways in which a more formal constitutional basis could be established to underpin that relationship. Key issues which need to be the subject of agreement between central and local government include the agreed roles and responsibilities of each tier of government and greater transparency about the objectives and performance of the funding system. These elements are essential to encourage a more mature and negotiated relationship between central and local government, and through that to build the public's trust in the system and our institutions of government over time.