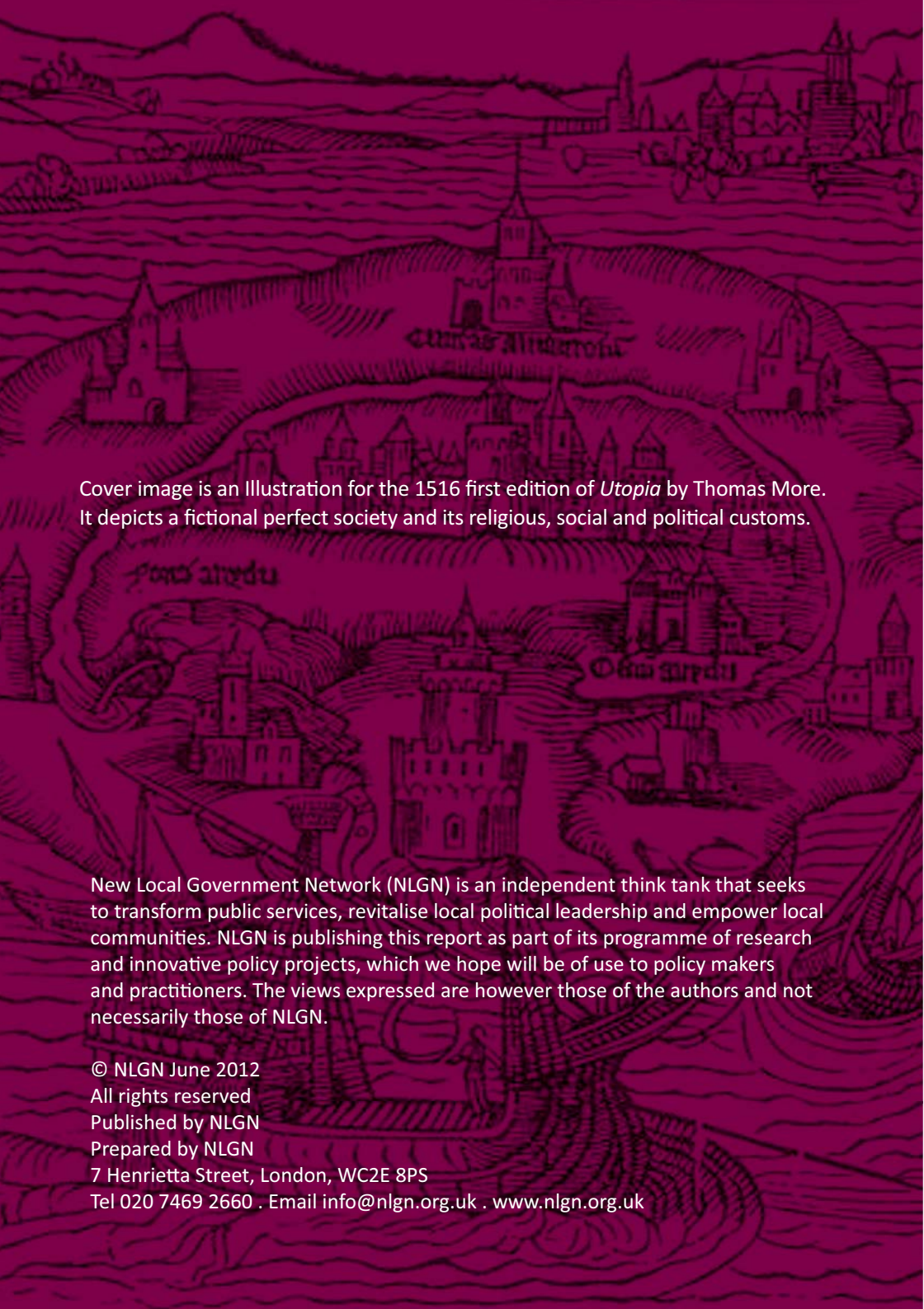




The Localist Manifesto

The report of the commission on next localism



Cover image is an Illustration for the 1516 first edition of *Utopia* by Thomas More. It depicts a fictional perfect society and its religious, social and political customs.

New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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Forewords

Lord Michael Bichard

Rhetoric can only take you so far. And yet where localism is concerned rhetoric has been the main currency since the last election.

It is true that there have been some initiatives, strong statements of intent and some reduction in regulation but, as this report makes clear ‘little significant transfer of power from central to local government’ and time is running out faster than the reforming zeal of the coalition government.

True localism is not about decentralising the administration of centrally defined services but rather giving local people the power to make decisions about how limited resources are deployed and how services are designed. It is not about devolving everything but it does need clarity about what will and will not be devolved.

Most of all localism will not be achieved via a series of loosely connected initiatives but demands instead a clearly articulated destination with explicit milestones to mark out the route.

One of the messages of this report is that too little thought has been given to defining the destination or the milestones; too little thought devoted to tying together the departmental initiatives and too little thought to unravelling the complexities of systems which have developed over several decades.

The authors use their mix of practical and academic experience to offer a coherent proposition. It is a proposition which may not appeal to everyone in all respects, but it would be surprising if it did. It does however have the great merit of having been informed by analysis and research and it does address the issue in the round.

It also recognises one fundamental fact which is, I know, unpalatable to many: you cannot achieve localism without reforming Whitehall. The centralist model is not only broken - it will never deliver what citizens expect and deserve.

I hope this report is widely read and that it does help shape a more informed and profound debate about localism, devolution and the right balance of power between local and central government.

June 2012

Sir Merrick Cockell, Chairman of the LGA

Localism is in my DNA. Throughout my time as a local ward councillor, as a council leader and now also as chairman of the LGA I have argued that one lesson remains true- the closer you are to citizens the more likely it is that the services and support you offer will meet the real needs of citizens. Slowly but surely we are winning the argument, top down centralised decision making now struggles to find public advocates. But as this report makes clear we are still some way from that sustained realignment that embeds localism in the DNA of our whole approach to government.

This report throws down some welcome challenges to central government, but it also throws some challenges to us in local government. You don't have to agree with every answer proposed here, but we do need to consider the questions. I commend this report- written by people with a passionate interest in local government, and all showing the self confidence and aspiration that is the hallmark of our sector.

As a phrase to encapsulate the whole argument made here let me paraphrase the words of EF Schumacher, "smallness is bigness".

This report will be launched at our national conference in Birmingham alongside a series of initiatives that will help turn localism from rhetoric to reality. I firmly believe we can achieve a fundamental realignment in the way public services are organised. As councillors we must seize the opportunity. Let us be bold in aspiration, our residents deserve nothing less.

June 2012

About this report

This report is the final output of NLGN's Commission on Next Localism. It is the result of a year of research and evidence gathering, and it draws heavily on the findings of a number of research reports published over 2011/12, including Future Councils, Future Citizens, Grow Your Own and The Devil in the Detail. All of these reports can be downloaded from the NLGN website. It is also informed by the work of Leeds City Council's Civic Enterprise commission.

The paper was principally authored by Simon Parker, director of NLGN, with significant guidance and input from the six commissioners. While our recommendations are the result of deliberation, they do not represent a consensus view across the commissioners or their organisations, except in the limited sense that all agree on the need to provoke and stimulate debate.

The commissioners are:

Rafael Behr (chair) – *Political editor, New Statesman*

Indy Johar – *Director, 00*

Peter John – *Leader, London Borough of Southwark*

Simon Parker – *Commission secretary*

Dr Andrew Povey – *Former leader, Surrey County Council*

Catherine Staite – *Director, Institute for Local Government Studies*

The commission would like to thank a number of people who have provided challenge, comment and support to our deliberations. We are particularly grateful to those who provided formal evidence – a full list of sessions and attendees can be found at the end of this document.

We are grateful to Michael Bichard, Colin Copus, Iain Roxburgh, Jill Rutter, Gerry Stoker, and David Walker for their insightful and challenging comments on the manuscript. A number of local government officers and Whitehall officials also provided helpful advice, but for obvious reasons they must remain anonymous.

Any errors or omissions are the fault of the principal author alone.

1 *The localist moment*

England stands at a moment of profound political and constitutional stress. The combination of economic crisis, spending cuts and an ageing population is forcing a historic reformation of public services, which has been grasped with varying degrees of enthusiasm by the UK's politicians. Successive political scandals have undermined trust in politics. The renewed debate about Scottish independence has helped to drive a resurgent sense of English identity, and a demand for that identity to be recognised in the way the UK is governed¹.

This report argues that these challenges can be addressed in part by a renewed push for greater localism, by which we mean the devolution of substantial power from Whitehall to cities and shires, and the further devolution of power from localities to neighbourhoods.

Our goal as localists is to increase the *substantive freedom* of local people and their councils: taking power out of the remote hands of the great departments of state and allowing the people of England to take more of their own political decisions. The argument in this paper is not just for negative freedom from central control, but also for positive freedom for communities and their institutions to make a positive difference.

We recognise the moves that the coalition government has already made in the direction of a more localist style of governance. The reduction in inspections and ringfencing, combined with business rate retention and the new power of general competence are significant steps in the direction that this report advocates. So are the new rights to bid, save and drive planning given to communities. These reforms have already started to unleash a more innovative and ambitious spirit within many councils.

But two years after the coalition government was elected, the really striking thing is how little impact the localism agenda has had on the way England

¹ Wyn Jones R, Lodge G, Henderson A and Wincott D, *The dog that finally barked: England as an emerging political community*, IPPR, 2012.

is governed. Outside of public health, greater decision-making authority on housing and the unloved devolution of council tax benefit, there has been little significant transfer of power from central to local government.

As the conservative MP Nick Boles has put it: “the coalition programme as a whole underestimates the critical importance of strong and accountable local authorities.”² The result is a limited form of localism that is more concerned with redistributing existing local power than increasing the overall quantum of power and liberty available to cities and shires.

We argue that stronger and deeper localism is the right way to go. At a time when the political classes are suffering a crisis of trust, the polls show that local authorities are enjoying record levels of public confidence³. With the government’s deficit reduction strategy requiring huge savings, local authorities have shown that devolution of power over something as simple as public sector assets could net a £20bn saving over 10 years⁴. And at a time when the country desperately needs a return to robust economic growth, an emerging body of research shows that devolving funding to councils has the potential to increase GDP⁵.

We currently have a unique opportunity to create a new generation of self-governing shires and city states with the power and resources to bring forth a new generation of Chamberlains and Morrisons. The government appears willing, but it must go further to give cities and shires control over the levers of economic growth and service integration. This report therefore recommends a three stage process of reform to achieve a leap in the direction of localism:

1. Introduce a devolution bill: the government should introduce legislation that gives councils large chunks of the commissioning budgets for skills provision, the criminal justice system and benefits administration.

² Boles, N, *Which Way’s Up*, Biteback, 2010

³ Citizenship Survey, 2010/11 available at: <http://www.communities.gov.uk/publications/corporate/statistics/citizenshipsurveyq4201011>, accessed on 11/6/2012

⁴ Wintour, P, Denham targets £20bn in council cost cutting, in *The Guardian*, 21/2/10

⁵ See, for instance, *Fiscal Decentralization And Economic Growth In OECD Countries: Matching Spending With Revenue Decentralization*, by Gemmell, Kneller, and Sanz, Instituto de Estudios Fiscales 2009

The funding for these services would be cut from national taxation and added to the local tax base. The bill would also introduce a right for councils to bid to run new central government services, and a duty for ministers to devolve those service responsibilities unless the government can publish a compelling case against.

2. Promote combined authorities: the new powers set out in the devolution bill would only be granted to those councils that formed city- or shire-wide combined authorities. These would be a new strategic layer of governance similar to the GLA and designed to drive strategic economic development and facilitate shared services. It would be up to local authorities to demonstrate that the new arrangements will lead to strong leadership, legitimacy and accountability.
3. Compulsory voting: the newly powerful cities and shires that we advocate will need strong accountability to their local electorate. While social media and participative approaches to decision making are powerful additions to representative democracy, they cannot replace it. We therefore need to make elections work more effectively by introducing compulsory local voting.

This report is not a call to localise everything. There are many aspects of government where the demands of scale, fairness or efficiency require a national response or some form of central intervention. The equalisation of funding between richer areas and poorer ones is a prime example; it seems likely that the centre will always need to create a system that can go some way to matching need with resources. Social care funding is another area that needs national consensus to ensure that the rising costs of elderly care do not bankrupt the exchequer.

Neither is this pamphlet a party political document. Our localism has its roots in a democratic republican tradition⁶ of thought that can be grasped by all contemporary parties. While there is not much here to excite leftist centralisers or libertarian advocates of a smaller state, there is plenty for moderates from all traditions.

⁶ Marquand, D, *Britain Since 1918: the strange career of British democracy*, Weidenfeld & Nicolson, 2008.

The guiding principle for our thinking is what the economist EF Schumacher called 'smallness in bigness'⁷. Local government is most likely to thrive against the backdrop of a supportive national policy and funding framework. Neighbourhood-level democracy is most likely to thrive if councils can free up resources by sharing their services at city, shire or regional levels.

Our call is for a more rational apportionment of power and resource. The argument is for the kind of strong, accountable and vibrant localities that can be found in places such as the US, Germany and the Scandinavian countries. What might seem radical in the UK context is unremarkable in many of our closest competitors.

⁷ Schumacher, EF, *Small is Beautiful: A Study of Economics as if People Mattered*, Vintage, 1973.

2 *A constitutional opportunity*

We argue for a new localism because it is vital for good government in Britain
Geoffrey Filkin

NLGN coined the phrase ‘new localism’ over a decade ago⁸. We took issue with the excessive centralism of the then Labour government’s first term in office, arguing that it would not be possible to achieve social justice without empowering and engaging local leadership. What was distinctively new about this localism was its celebration of civil society, its recognition that modern social problems require action from all tiers of government together, and its drive for councils to become community leaders.

Much of our analysis proved to be correct. While the last Labour administration could claim significant achievements in most areas of public service reform, numerous research reports have pointed to the unintended consequences of central targets and the waste created by public services designed around Whitehall silos⁹.

New localism remains an important intellectual tradition, but it needs to be reinterpreted for a very different political moment. Rather than urging a centralist government to devolve extra power in the name of efficiency, the current debate must focus more on the opportunity for a thoroughgoing modernisation of the English constitutional settlement.

There are four principal reasons why the time is right for this debate:

- **The rediscovery of England:** recent research has uncovered new public demands for a distinctively English dimension to UK governance. Only one in four support the status quo, in which Scotland, Wales and Northern Ireland have devolved assemblies but English government goes unreformed. Some 59% say they do not trust the UK government

⁸ Filkin, G et al, *Towards a new Localism*, NLGN, 2000

⁹ See, for instance, Hood, C, *Reflections on public service reform in a cold fiscal climate*, 2020 Public Services Trust, 2010, available at: http://clients.squareeye.net/uploads/2020/documents/esrc_hood.pdf, accessed on 11/6/12

to work in the best long-term interests of England¹⁰. The debate over Scottish independence will only increase the pressure for a resolution.

- **The crisis of political trust:** a succession of scandals has pushed national politicians to the bottom of the heap in terms of public trust. Only 14% now trust politicians to tell the truth and only 17% trust government ministers. Even journalists and bankers poll higher. Distrust has been on the rise for over 20 years. By contrast, councillors are trusted by nearly a third of the population¹¹ and trust in local government as a whole has been steadily rising for over a decade: it now stands at 64%¹². If political trust is to be rebuilt, it will probably come from the ground up.
- **Realising growth:** a growing number of studies suggest that localism can help drive economic growth by giving local authorities more incentives to allow economic development, allowing policy to be tailored to the needs of functional economic geographies and increasing competition between councils for new business. For instance, a recent examination of localism in OECD countries concludes that places grow faster when there is a close match between local authority responsibilities and their revenue raising powers.¹³
- **Managing austerity:** localism presents a convincing way to manage budget cuts. As the prime minister has pointed out: “local government is officially the most efficient part of the public sector¹⁴”. Devolution will also pay off because of the sheer inefficiency of overly-centralised government. For instance, one 2009 study estimated that local economic development had 14 different funding and delivery streams, with each layer in the delivery chain absorbing 20% of the funding¹⁵. The result is that delivering £176m of economic development in Leicestershire involved £135m of overhead. By contrast, the Total Place pilots undertaken before the election uncovered huge opportunities for

¹⁰ Lodge, op cit

¹¹ Ipsos Mori Veracity Index, available at: <http://www.ipsos-mori.com/Assets/Docs/Polls/ipsos-mori-trust-in-professions-june-2011-tables.pdf>, accessed on 11/6/12

¹² Citizenship Survey, op cit

¹³ Gemmell et al, op cit

¹⁴ Cameron, D, *Cutting the cost of politics*, available at: http://www.conservatives.com/News/Speeches/2009/09/David_Cameron_Cutting_the_Cost_of_Politics.aspx, accessed on 11/6/12

¹⁵ The National Audit Office and the Audit Commission, *Delivering Efficiently: Strengthening the links in public service delivery chains*, 2006.

creating savings by allowing councils and other public services to pool budgets and other resources. Better management of the public sector estate, for instance, could save £20bn over a decade¹⁶.

The benefits of localism are increasingly recognised across party political lines. David Cameron has declared himself “a confirmed localist”¹⁷. On the left, Ed Miliband has said: “the best reflection of devolution to Scotland and Wales in England lies in taking power out of Whitehall and devolving it down to local authorities”¹⁸. Despite widespread support for the principles of localism, there are several important objections to the idea that must be addressed before we go forward.

One is that the only way to address the English question is through reforms to Westminster – either an English parliament, English votes for English laws or regional government. We are sceptical of these solutions. In the current anti-political climate, it is hard to imagine the voters sanctioning the creation of new regional or national assemblies. English votes for English laws would create the absurd situation in which a party that had won an election nationally might not be able to pass laws in England.

Just as importantly, there is no authentic precedent for an English-only parliament: by the time the modern institutions of British governance emerged Scotland, Wales and Ireland were all incorporated into the union. The English tradition of governance has historically been characterised by a dual polity – an imperial central government concerned with the high politics of foreign policy and warfare, and the local governance of landowners, parishes and latterly cities and counties. This division of labour lasted until the emergence of new Liberalism in the early 20th century, when central governments started to take a greater interest in the low politics of public service¹⁹.

Another objection is that the public does not want localism – after all, there is no great popular outcry for devolution. The truth is that the public are split

¹⁶ Wintour, op cit

¹⁷ Cameron, D, *A Radical Power Shift*, Guardian 2009, available at: <http://bit.ly/FV6Fx> accessed on 22/5/12

¹⁸ Miliband, E, *Defending the Union in England*, available at: <http://www.labour.org.uk/ed-miliband-speech-defending-the-union-in-england>, accessed on 7/6/12

¹⁹ For a much fuller consideration of these issues, see Chandler, JA, *Accounting for the evolution of British local government*, available at: <http://www.psa.ac.uk/cps/2004/Chandler.pdf>, accessed on 6/6/12

down the middle on localism and tend to want the best of all worlds. They want service standards to be the same everywhere in Britain, but they also want local control and engagement in public services, including the NHS. In other words, public opinion does not make a strong case for either localism or centralism²⁰.

Finally, many argue that localism will create unfair postcode lotteries, with standards varying from one place to another. But this argument rests on the idea that centralism is itself an effective way to secure uniform standards. That is simply not true. The NHS has been highly centralised since its creation, and yet it consistently suffers from huge regional variations in the cost and quality of services²¹. The unintended consequences of national target setting are well documented²². At least in localised systems, citizens can exercise more democratic or market-based choice over the service they receive.

For those on the left, the postcode lottery leads to a much broader concern about localism and inequality. If there are no national service standards, there is a risk of local people being denied access to quality services with no redress against local providers. The answer to this challenge is to create bottom-up mechanisms of redress through rights to take over the running of services, to choose between a number of providers and, ultimately, to vote out local representatives. We explore ways that local democracy can be strengthened radically in the final section of this paper.

The blunt tools of central control might be good for achieving big, simple goals such as reducing A&E waiting times, but they usually do so at the cost of unintended consequences. In this case, the result was patients being driven round in ambulances to avoid setting the clock running. Instead of trying to find ever cleverer ways to set targets, we need to create a system of governing in which local people have more control over, and responsibility for, the services they receive and the places where they live. This is the task to which we now turn.

²⁰ Ipsos Mori, presentation by Bobby Duffy to NLGN Future Citizens launch, February 2012

²¹ See, for instance, NHS Atlas of Variation, available at: <http://www.rightcare.nhs.uk/index.php/nhs-atlas/>, accessed on 11/6/12

²² Hood, op cit

3 *Limited localism*

Every survey by the National Audit Office indicates that local councils are less inefficient than Whitehall ministries. Yet power continues to be centralised, in defiance of public opinion, good governance and common sense.

Douglas Carswell and Daniel Hannan

The goal of any meaningful localism must be to increase the *substantive freedom* of communities. This concept is borrowed from the work of the development economist Amartya Sen, who argues that freedom is only valuable if an individual (or organisation) has the capability to take advantage of it²³. Removing barriers is necessary but not sufficient to liberate people.

From a local governance perspective, a focus on substantive freedom suggests that new central government policy must enable communities to do things they could not previously have achieved. Deregulation might well be valuable as a way of freeing communities from constraints, but it only increases substantive freedom if it enables them to do something that was not previously possible.

In other words, the goal of localism must not simply be to liberate communities from external constraints, but to ensure they have the power, capabilities and institutions necessary to achieve their collective goals.

Seen from this perspective, the coalition's record presents a mixed picture. There are certainly new functional freedoms for communities. The Localism Act gives them rights to trigger procurement processes for council-run services, the ability to delay the sale of community assets and new powers to drive neighbourhood planning. Ministers have probably gone as far as they reasonably can through central policy making, and must now encourage communities to make use of the new rights.

In contrast, councils have seen relatively little new substantive freedom. The Localism Act offers the general power of competence, while the government's

²³ Sen, A, *Development as Freedom*, OUP, 1999

health reforms have transferred public health to local authorities. Beyond this, the thrust of the coalition's policy has been towards deregulation: the abolition of Audit Commission inspections and the removal of ringfences from £1.2bn of funding, albeit in the context of declining overall budgets.

The problem is that simply redistributing a limited pool of local government powers to communities is not a recipe for sustainable devolution. The whole point of localism is to put decision-making power closer to citizens, which necessarily involves the centre giving up power as well. After all, it is far easier for ordinary citizens to influence a council decision than one taken in Whitehall.

Coalition ministers are starting to recognise this fact. Greg Clark's early city deals are offering councils significant elements of substantive new freedom, while the government has hinted that it will devolve commissioning power over a range of services including skills, natural environment support, public transport and services for families with multiple needs. As preparations begin for the next spending review, the time is right to take a further bold step.

4 *Break the departments*

Administration becomes more oppressive in proportion to its increasing distance. Rousseau

Devolving power to communities and councils is only possible if the government is prepared to reform Whitehall. Despite regular complaints about the quality of civil service advice, major staffing reductions and the creation of the Efficiency and Reform Group to improve procurement, the coalition has been timid in this area. Localism has had a very limited impact on the way most departments do business, and recent surveys show that a significant minority of civil servants rejects localism altogether²⁴.

The British civil service is one of the best in the world. But if we strip out the developing world and focus on the premier league of rich nations, Whitehall looks distinctly mid-table and is consistently outperformed by a cluster of Scandinavian and advanced Commonwealth countries²⁵. This is partly due to some well-established shortcomings:

- **Weak performance management:** Whitehall consistently misses political targets for delivery with little consequence for the officials responsible. The latest analysis from the Institute for Government shows that even though the current government has ditched outcome targets in favour of managing processes, more than 25% of business plan goals were not hit on time. In some departments, more than half the goals were not delivered²⁶.
- **Inefficiency:** the civil service's record on delivering major projects is mixed. One recent report from the National Audit Office, for instance, showed that plans to share services across departments had overshot their projected costs by £500m, resulting in a cost of £1.4bn for a saving

²⁴ Civil Service World Special Report, *Rebuilding the ship of state*, available at: <http://network.civilservicelive.com/pg/features/csw/read/656175/special-report-rebuilding-the-ship-of-state>, accessed on 11/6/12

²⁵ Parker, S, et al, *The State of the Service*, Institute for Government, 2009

²⁶ Institute for Government, *Whitehall Monitor #9 – Business Plan performance – one year on*, 2011.

of just £159m by the end of 2010/11²⁷. Ian Watmore, former COO of the Efficiency and Reform Group, has said that central government can learn from councils on IT procurement²⁸.

- **Silo-based delivery:** Whitehall's corporate centre – No 10, the Cabinet Office and the Treasury – are small and weak in international comparison. This means that they are unable to challenge very strong departments and create a corporate vision for government as a whole. The result is a lack of policy coordination and the creation of deep silos between departments. There is plenty of evidence that departments struggle to work together effectively²⁹.

It is time for this to change. Localism provides the core of a compelling answer because it makes it possible to significantly reduce the size of the civil service and reduces the grip of silos by pushing more power to the local level, where it becomes far easier to integrate budgets and services. National politics is played out for high stakes between functionally specialised departments and with the media constantly in the background. By contrast, local authorities tend to take a more holistic view of all the problems in their places.

The remaining civil service would be considerably smaller and less complex, with far fewer delivery responsibilities and much more scope for intelligent policy coordination from Whitehall's central triumvirate. Ministers would still be able to set targets and goals for local authorities, but they should limit their efforts to a handful of key priorities set out in a whole-of-government strategy that would be policed by the Cabinet Office.

²⁷ National Audit Office, *Efficiency and Reform in government corporate functions through shared service centres*, 2012

²⁸ Government Technology, *Government opens up IT contracts to smaller firms*, available at: <http://www.governmenttechnology.co.uk/gt-news/item/2473-government-opens-up-it-contracts-to-smaller-firms>, accessed on 11/6/12

²⁹ Parker, *Op cit*

Table: *Services that should be devolved*

Service area	Method of devolution	Rationale
Criminal justice	Devolve responsibility for administration of courts, prisons and probation services to combined authorities.	There is no clear reason to administer these services centrally. Local delivery allows for service integration and redesign, eg for resettlement programmes.
Benefits	Devolve administration of benefits to councils, with national infrastructure services such as ICT being turned into a social enterprise to preserve economies of scale. DWP and combined authorities commission the next stage of the work programme.	Levels of benefit are a national issue, but delivery of those benefits is not. Councils should be free to redesign the way means tested benefits are delivered as long as they can still deliver nationally set payments.
Skills	Devolve at least 25% of skills budget to combined authorities. allowing them to manage the market for local provision.	There is an argument for retaining national qualifications, but these do not always address the specific needs of towns and cities. A local commissioning budget would enable councils to meet the needs of local businesses and invest in next generation skills that are not part of existing SSC qualifications.

The government should therefore follow up its Localism Act with a new Devolution Bill. This would set out an immediate devolution of powers from departments, agencies and quangos (see table). After any reduction in the budgets, the government should transfer the revenue raising responsibility for these services from central to local taxation – in other words, ministers might cut income tax and transfer the burden to a combination of council tax, business rates or new local taxes.

The principles for deciding which services to devolve would be those already set out in the government's Open Services white paper³⁰. Commissioning power should go to individuals and communities as far as possible – for instance in areas like social care and education. But where a service cannot be commissioned on this basis, the next port of call should be the local authority, which should have the power to redesign and recommission a wide range of functions that primarily affect whole communities.

The danger of a municipalist power grab – with the big central state recreated at the local level – will be averted by the Localism Act's new right to bid. Communities will be able to bid to take on the running of any service they want, ensuring that concentrations of power in the town hall can be broken up.

The devolution bill should also introduce a new right to bid for local authorities. In the same way that communities can bid to run a local government service, councils should be able to bid to take on commissioning budgets from Whitehall departments. This would be a logical extension of the government's current round of city deals and the rights it has introduced for communities to bid and save. It would also provide a clear mechanism for councils to take forward the community budget and total place agendas.

The key aim would be to integrate and redesign services to deliver a cashable saving, which would be shared on an agreed basis between the council and the relevant Whitehall departments. Councils would bid for a new devolved way of running a particular service that should be as accountable as possible to local people – mechanisms such as payment by results would be preferred to local government simply taking on more power or funding.

³⁰ HM Government, Open Public Services White Paper, 2011.

The process of bidding would take the following format:

1. A council identifies an area where the devolution of the budget for part or all of a national service could allow significant service redesign, delivering the same or greater quality while realising a cashable saving. The council secures the buy-in of partners or demonstrates why this was not reasonably achievable. Communities could bid in their own right, but would be required to do so through their local authority. It then constructs a business case for secretary of state of the relevant department.
2. The business case must show why the devolution of a budget will deliver a cashable cost saving, better outcomes and enhanced democratic control. It should propose a division of that saving between the council and the relevant department, so the centre will generally share in the benefits.
3. The business case must also set out what form the financial devolution should take, with a bias in favour of direct accountability to local taxpayers. Mechanisms involving payment by results, personalised budgets or the creation of mutual and social enterprises should take priority. Councils should only be able to take on a pooled budget or commissioning role of the budget if these other options are unrealistic ways to join up the service.
4. Ministers would be placed under a *duty to devolve*, overseen by either the minister for decentralisation or the CLG select committee. A central budget must be devolved unless the secretary of state can come up with a strong rationale for centralisation – ie that he can disprove the efficiency gain, that devolution would be unacceptably disruptive to the delivery of other services or that there is strong reason to believe the council in question is not able to manage the budget responsibly. Ministers must publish an initial response within three months of receiving a request.
5. There would be no automatic assumption that just because one council has won decentralisation, that this should be extended to every other council. Ministers would have the right to phase or stagger roll-out to allow for testing or piloting, but with a clear presumption in favour of rolling out if the pilot performs as expected.

This process of change would probably call into question the need for some departments to exist and significantly reduce the critical mass of others. For instance, there may be an argument for abolishing Communities and Local Government. It seems likely that if councils successfully bid to run large parts of the benefits service, then DWP could also be significantly reshaped.

5 *Form combined authorities*

When Birmingham and Manchester and Leeds are the little republics which they should be, there is no reason to anticipate that they will tremble at a whisper from Whitehall. **RH Tawney**

For much of the past 20 years, thinking about local government has been dominated by the idea of *networked community governance*. This held that councils should not primarily be service deliverers, but should instead use their democratic legitimacy and soft power to manage networks of local service providers. It is an idea that is increasingly being rejected. As Professor Gerry Stoker, a former champion of networked governance, put it in a recent article:

*Local government systems – such as those in the UK – that are left primarily with the role of a network coordinator are in trouble... Local government systems need a substantial amount of hard power in order to exercise soft power. You can't win with the losing hand.*³¹

As Stoker hints, the problem with networked community governance was that it tried to rely too heavily on soft power and moral persuasion. This meant that bodies such as Local Strategic Partnerships struggled to achieve joint goals – fewer than a third took a lead role in economic development, fewer than 20% took a lead role in allocating funding and pooling budgets and only slightly more than one-in-10 led on commissioning services. Yet these are precisely the kinds of joint working that are now essential to managing austerity³².

If government by network has been found wanting, then we need to ask what replaces it. We believe that what is emerging is a new form of civic enterprise – using the weightiness provided by newly devolved functions and budgets to govern through contracts, commercial deals and control of the drivers of economic growth.

³¹ Stoker, G, "Was Local Governance Such a Good Idea?" in *Public Administration* Vol. 89, No. 1, 2011 (15–31)

³² Russell, H et al, *Long Term Evaluation of local area Agreements and Local Strategic Partnerships*, Communities and Local Government, 2009

Civic enterprise has at least four elements:

Strategic economic governance: with the abolition of the regional development agencies and the creation of LEPs, many councils are taking on a new role in managing their local economies. This is characterised by the development of city regional and countywide joint-working to create shared economic priorities and pool resources to fund those priorities.

Building on emerging evidence which shows that city-wide governance of infrastructure investment can drive growth³³, councils are also beginning to create pooled revolving investment funds. These funds bring together money from sources such as growing places with publicly owned assets and the combined borrowing power of the member authorities to seek commercial returns on investment³⁴. Increasingly, these city-wide arrangements are being formalised as statutory combined authorities.

Commissioning: while economic power is being centralised across shires and cities, control over services is moving in the opposite direction. Many councils are considering delivering their services at arm's length by pushing them down to neighbourhoods, outsourcing them, or spinning them off into mutuals, social enterprises or public sector trading bodies. The result will be a complex new landscape of provision³⁵.

Dealmaking: governance by network is increasingly being replaced with government by dealmaking. Councils are relying less on the goodwill of other local partners and instead negotiating contracts with organisations such as the NHS that share risk and reward. If LSPs were the equivalent of bridging social capital – which allows people to make lots of connections quickly – then dealmaking is the equivalent of bonding capital, which binds communities together through interdependence.

Organic restructuring: the move to civic enterprise, combined with spending cuts, will drive councils to voluntarily reshape their boundaries and structures. City regions and combined shire authorities will provide

33 Berensson, M, *Metropolitan Fragmentation and Economic Growth*, unpublished thesis

34 See, for instance, Manning J and Kuznetsova, D, *Grow Your Own*, NLGN 2012

35 See, for instance, Parker, S, *Future Councils*, NLGN 2011

strategic economic and perhaps financial governance, while neighbourhoods and parishes may directly handle aspects of service provision. Many smaller councils may be forced to merge or radically share their services with neighbours.

Local authorities like those in Greater Manchester are already developing very active economic policies. The key to going further lies in a more sophisticated approach to investment and assets, the creation of more revolving investment funds and perhaps even the creation of arm's length municipal venture capital funds to fund the development of key growth industries. The US state of Maryland, for instance, has recently revived its VC fund which, in a previous incarnation, delivered over \$60m back to the state from an initial \$25m investment³⁶.

Civic enterprise councils will also have to think radically to cope with the second wave of cuts promised in the next spending review. While many local authorities are coping well with the current 28% cut in central funding, the further 20% expected in 2014 will force them to think far more radically.

Far more ambitious joint working will be needed at city and shire level, with many two tier areas effectively merging their workforces into a single organisation with separate political governance. It may be the case that emerging cloud computing technology will allow councils to carry out much of their back office processing remotely, effectively abolishing swathes of the existing back office.

Councils will also have to think radically about front line services. Some services may effectively be privatised. For instance, waste could move to a pay-as-you-throw system in which private sector providers are paid directly by citizens and from the proceeds of recycling. We could reach the point where waste companies pay councils for the opportunity to provide the service. Libraries could be turned into self-funding social enterprises with free membership for the poorest³⁷.

³⁶ Alperovitz, G, *New Thinking for City Finances*, Baltimore Sun, 2012, available at: <http://www.garalperovitz.com/2012/02/baltimore-sun-op-ed/> accessed on 22/5/12

³⁷ Some of these ideas are developed in Kuznetsova, D, et al, *Transforming Universal Services*, NLGN, 2011.

This civic enterprise approach to governance is still emerging, but there are obvious policy instruments that could help accelerate its development. The great challenge for creating combined authorities at city and shire level is that too many councils take a parochial view of their area's best social and economic interests. One county council that wanted to set up a revolving fund has taken two years just to get its districts on board.

The government hopes that pressure on budgets alone will drive greater collaboration, but territorialism remains strong in many parts of local government. Ministers must provide stronger incentives. The new powers contained in the devolution bill should only be available to those cities and shires that come forward with proposals for combined authorities. These are effectively a GLA without the mayor – Greater Manchester has already adopted this model and West Yorkshire will soon join them.

Combined authority proposals would have to show how councils will pool their sovereignty and funding to drive economic growth and share services for efficiency. They would also have to demonstrate how the new authority would provide strong, accountable and legitimate leadership – councils might choose any number of models, from a leader's committee operating on majority voting through to directly elected service commissioners or a metro-mayor.

Combined authority working removes one of the key barriers to devolving new taxes – which is that local people and businesses would have to deal with the complexity of 350 different rates across the country. Combined authorities should therefore have greater power over their own revenue raising. This could include the ability to levy a small supplement on the business rate and the right to bring in a local sales tax or nuisance taxes on things like plastic bags and fatty foods. The aim should be to diversify the tax base, not to raise more tax overall, so any new local taxes should be revenue neutral for the council over at least the first two years.

6 *Make voting compulsory*

We do not say that a man who takes no interest in politics is a man who minds his own business; we say that he has no business here at all. Pericles

Localism cannot just be a technocratic exercise. It needs active citizens to hold newly powerful councils to account and to breathe life into neighbourhood ways of working. The problem is that local democracy is a moribund affair in many parts of the country. It suffers from well-established chronic problems of low turnout – which ‘seldom breaks the 40% mark outside a general election year – as well as newer challenges from elected police commissioners, neighbourhood councils and the increasing use of commissioning, which puts services at arm’s length from members.

As the public have become increasingly affluent and savvy consumers, and the internet has reduced the importance of geography as a basis for community, so their engagement with democracy as a whole appears to have decreased. This creates a chicken-and-egg problem for localists. Voters do not turn out because the council lacks power, but we cannot devolve more power unless elections provide strong bottom-up accountability.

The big society, participatory budgeting and social media are all important ways to engage the public. Developments such as the Berlin Pirate Party’s use of liquid feedback software to allow members to set policy point the way towards more direct forms of e-democracy³⁸. But these innovations do not offer us an easy way out of the localist’s dilemma. They are all useful supplements for formal kinds of democracy, but they cannot replace it entirely. If we cannot replace representative democracy, we must find a way to make it work. We therefore argue that the government should introduce compulsory voting for local elections.

While many citizens would take part grudgingly, the very act of voting will force local politicians to approach their jobs very differently. With turnouts

³⁸ Meyer, D, *How the German Pirate Party’s Liquid Democracy Works*, available at: <http://techpresident.com/news/wegov/22154/how-german-pirate-partys-liquid-democracy-works>, accessed on 14/6/12

of nigh on 100%, parties would have to secure the support of a far larger proportion of the electorate than at present. Anyone who took a principled decision not to vote would be able to check a 'none of the above' box which would leave the seat vacant or trigger a by-election.

Compulsory voting may or may not increase trust in local politicians, but it would definitely increase the overall *trustworthiness* of the local political system³⁹. The cost to the citizen would be perhaps 45 minutes of their time every four years to fill in a postal ballot or stroll down to the polling station: a small price to pay to reinvigorate local self-government.

The government should also offer councils limited powers to compel local people to participate in decision making processes. This should include a new duty for councils to use a jury selection type process that would require a small number of residents to take place in perhaps two major policy scrutinies a year, one of which should be the council's budget scrutiny. These panels should be weighted so that they are representative of the local population.

Greater use of public scrutinies would reduce the role for backbench members, but this might be a blessing in disguise. The reforms in this paper will make the job of being a councillor much more demanding. They will have to manage a wider portfolio of services and campaign much more effectively in a world of compulsory voting. There is a case for councils to consider reducing the number of members they have and provide better pay and allowances for those remaining. This reshaping of local democracy could be helped by a new power of general democratic competence, allowing councillors to adopt new electoral and executive systems on a two thirds vote.

Finally, political parties should consider whether there is a case for introducing a new requirement for their PPCs to serve at least one full term as a local elected member. This would act as a basic training course for new MPs in the way politics works, increase competition for spaces on the council, raise the quality of potential members and force members of the London-centric political classes to serve an apprenticeship in the 'real world'.

³⁹ This distinction is elegantly made in Onora O'Neill's 2002 Reith lectures, available at: <http://www.bbc.co.uk/radio4/reith2002/>, accessed on 6/6/12

7 *Conclusion: forward to the new city states*

The recommendations in this report are designed to bring about a decisive move towards a more localist England. They would immediately vest a new set of powers and responsibilities at the level of towns, cities, boroughs and shires. By introducing a new right for local government to bid for further central services, our programme would also reverse the century-old assumption that power must always flow upwards, and never downwards.

This would lead to a less uniform England, but with a fully participating electorate this variation would reflect the demands of local people. We hope that what will emerge is a polity characterised by participation, fellowship and dignity, with ordinary people taking active part in debate about the future of their places as well as the raising and distribution of scarce resources.

Appendix *commission evidence sessions*

20th March 2012

Future of Local Government Finance

Stephen Fitzgerald, *Director of Finance, London Borough of Hounslow*

Denis Cooper, *Partner, Eversheds LLP*

James Trotter, *Director of Business Development, Amey*

25th January 2012

Future of Local Democracy

Cllr Steve Reed, *Leader, London Borough of Lambeth*

Cllr Brian Connell, *Cabinet Member for Enterprise, Westminster City Council*

16th November 2011

Future Councils

Dr Henry Kippin, *2020 Public Services Trust*

Vicki Sellick, *The Young Foundation*

26th July 2011

Future Citizen Focus

Graeme Walker, *Consultant, PA Consulting*

Dr Bobby Duffy, *Ipsos Mori*

Mike Teese, *Director, Participatory Budgeting Unit*





"I commend this report - written by people with a passionate interest in local government, and all showing the self confidence and aspiration that is the hallmark of our sector."

Sir Merrick Cockell

"The country needs a new wave of devolution to give more power to our cities, shires and communities. This report sets out a coherent and practical way forward for localism."

Tom Riordan, chief executive, Leeds City Council.

"This report is bold and challenging. If we really are committed to meaningful localism then we should look seriously at these recommendations."

Gavin Jones, chief executive, Swindon Borough Council

"In essence what is being stated is that we have to restore trust, ownership and the power to deliver to the right level in society. Once again NLGN is making us think."

Paul Blantern, chief executive, Northamptonshire County Council

"I hope this report is widely read and that it helps shape a more informed and profound debate about localism."

Lord Michael Bichard