

# BETTER BUSINESS

COUNCILS SHAPING MARKETS FOR PUBLIC VALUE

NLGN RESEARCH OVERVIEW



# BACKGROUND

NLGN are delighted to welcome the publication of our new report '*Better business: Councils shaping markets for public value*'. Written by NLGN Researcher Maia Beresford and commissioned by APSE, the report represents a call to arms for all local authorities to rethink their current approaches to influencing private markets to ensure that businesses deliver public value. Rather than carrying the cost of poorly performing markets in terms of poor health, insufficient housing or debt, the report argues that councils need to find new ways to challenge the private sector to offer people better choices.

This research overview presents the introduction and executive summary of the report, followed by an overview of each of the report chapters.

**Full copies of the report can be found on the [APSE website](#). Additionally a limited number of hard copies are available for free to NLGN members – please contact [info@nlgn.org.uk](mailto:info@nlgn.org.uk) for more information. From November 2015 copies of the full report will be available free of charge on the NLGN website.**

# INTRODUCTION AND EXECUTIVE SUMMARY TO THE REPORT

## INTRODUCTION

**Most businesses provide valuable social and environmental, as well as economic, benefits to local places. Some £172bn of tax revenue from businesses supports valuable government services; employment is one of the most important protective factors against a host of wider social outcomes; private markets drive innovation and provide useful goods and services we all love to use; and many companies are active in supporting communities and the voluntary organisations that work with them.<sup>1</sup>**

However it has become clear that some private sector markets are failing to meet social needs. While many markets function perfectly well, some do not and involve business models which lead to damaging outcomes for individuals and for society. Problems in markets ranging from payday lending to energy, fast food and sections of the private rented housing sector are limiting residents' options and reducing them to consumption choices which are inconsistent with both their own goals and the wider interests of society. This is leading to a range of interconnected negative outcomes for local residents relating to ill health, debt and financial vulnerability, and poor educational attainment which the public sector is paying to fix. In a time of austerity, these costs are increasingly insupportable.

In light of this, and in the context of an increasing reliance on markets to supply public goods and services, it is clear that we need to take a new look at the role of the state in influencing markets. This idea is in tune with the public mood<sup>2</sup>, and at a national level parliamentarians from across the political spectrum have spoken about their visions for a more 'socially

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<sup>1</sup> CBI, (2014), 'The Great Business Debate: What's the value of business to the UK?'

<sup>2</sup> Only 53% of the population believe that businesses make a positive contribution to society and only 32% think that the majority of British businesses behave ethically. Source: CBI, (2014), 'The Great Business Debate: What's the value of business to the UK'; CBI/YouGov survey June 2014

responsible' capitalism.<sup>3</sup> But whilst national governments have a clear role to play, local intervention can be preferable, or complementary, to a wider national approach.

Councils want to see local people and places thrive. Encouraging good behaviours among their citizenry and the markets that serve them should be a key part of this. If councils can influence negative market behaviours, they can improve the wellbeing of their residents and reduce demand on the public purse. This is particularly important given local government's new powers over public health spending.

This report lays out the case for local government to take a role in actively shaping some markets and influencing businesses for the public good. Councils have a role to play in ensuring that markets live up to their promise of efficiently delivering beneficial services for society. Where the market does not provide real choice to citizens, or where particular marketing practices are leading people away from the decisions they would like to make, councils have a role to play in ensuring better options are available and that decision-making is on a more level playing field.

This may mean nudging or 'budging' business towards more socially responsible products and marketing practices, and in some cases it will mean councils providing goods and services themselves to put competitive pressure on the private sector. We do not call for a new generation of 'restrictive' local regulatory powers which limit citizens' choices and believe that councils should think carefully before banning products and curbing markets. By directly engaging in commercial activity, as well as rethinking some local levers for regulation, councils can achieve better outcomes for local places whilst increasing choice.

This report sets out theoretical and practical considerations for councils to bear in mind when choosing different local levers and approaches, it highlights and explores innovative practice in the sector, and presents a series of recommendations for councils to take this work forward. It is the

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<sup>3</sup> David Cameron, 19<sup>th</sup> January 2012, 'Moral Capitalism' Speech <http://www.politics.co.uk/comment-analysis/2012/01/19/cameron-s-moral-capitalism-speech-in-full>; Ed Miliband, (2012) 'Building a Responsible Capitalism' in *Juncture* (IPPR) Friday 25 May 2012 <http://www.ippr.org/juncture/building-a-responsible-capitalism>

result of an NLGN research project commissioned by APSE, and contributes to APSE's work on the 'Ensuring Council'.<sup>4</sup>

## KEY FINDINGS AND ENABLERS OF MARKET SHAPING

**Some private sector markets and irresponsible businesses are failing to efficiently deliver social and economic value to citizens and are delivering outcomes which local authorities and their partners are paying to fix.** This can be clearly seen in examples relating to the energy market, payday lending market, and in relation to the sale of food and drinks high in sugar and fat. Many councils recognise this and are **starting to carve out a greater market shaping role for themselves** in order to prevent problems and make savings.

In particular, innovative councils are beginning to **use their assets and buying power to regulate within the council domain and enter the market to provide socially beneficial alternatives** to combat both localised and more widespread problems. Some councils are also engaging with central government to **call for more local tools to tackle challenges in their places**, and for bolder national leadership and policy where this is preferable.

We highlight a range of examples and three in-depth case studies where councils are using their powers and role to shape markets, but we also recognise that this can be taken much further. At present market shaping activities tend to be isolated to particular issues or approaches such as basic information provision, could be made more effective, and there is a **lack of awareness and confidence about some approaches** and the rationales which support these. For example councils are confident with narrow use of well-established powers such as those relating to environmental health, but they would benefit from a better grasp of a wider range of interventions such as more creative approaches to licensing and council trading. Across the board there are **opportunities for market shaping activity to be scaled up and made much more effective.** Based on our roundtables and in-depth case studies we highlight six enablers of local government market shaping.

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<sup>4</sup> APSE, (2013), 'The Road to 2020: A Manifesto for the Ensuring Council', Griggs, O'Brien et al

## 1. Creative consideration of tools from across the council

Councils should think beyond the conventional market shaping activities of education and restrictive regulation, and think more creatively about the tools at their disposal to influence businesses and shape markets. In particular councils should think about how they can increase choice for consumers by supporting new socially beneficial alternative products and services to enter the market, whether by providing these themselves directly or through council owned companies, or by backing social enterprises. Councils should also consider using their assets and buying power more effectively, for example by reviewing contract terms for assets such as council owned advertising space; giving more weight to social value in procurement; and leading by example by committing to buy sustainable products and services. Use of insights from behavioural economics could increase the effectiveness of all market shaping levers.

## 2. Pragmatic approach to evidence

When choosing tools to deal with market failures, councils need to consider and model the potential costs and benefits of interventions. This is often difficult for councils to do in a sophisticated way, especially when they are treading new ground. However councils must take a pragmatic approach, drawing on international evidence, taking an open yet critical approach to the views of industry, and mitigating against uncertainties and government failure by ensuring consumer and business behaviour is well understood. Similarly whilst councils must be bold, they should not forget to consider the political practicality of different approaches.

## 3. Collaboration between councils

Gaining the necessary expertise to assess how best to intervene in markets can be resource intensive for councils. To overcome this councils must share solutions to a greater extent and develop local approaches to shaping markets in collaboration with each other. As well as avoiding reinventing the wheel, collaboration can mean that local market shaping initiatives have a much wider cumulative impact. Collaborative forums such as APSE Energy are therefore useful in this regard.

## 4. Benefits and limits to business partnerships

Partnerships with business can be extremely helpful, most notably these can lever in investment for preventative measures. But councils should also consider the limits to partnership with business. Some partnerships with business may inadvertently promote less beneficial products to communities and the costs of these may outweigh the benefits.

## 5. Adopting an advocacy role

Part of local government's market shaping role is to adopt an advocacy role, engaging both the public and politicians. Councils can play a more strident role calling for national action on issues, for example easier entry for smaller renewable energy companies into the energy market. But they should also lobby for greater local discretion to shape markets in order to tackle local problems where this is preferable, or a beneficial addition, to national measures. In particular councils might continue to influence central government on issues such as greater local controls over advertising, local licensing for sunbed outlets, the creation of a fifth licensing objective relating to public health, and greater local discretion to vary the level of local levies and disincentives such as the 'late night levy' so that these can be structured in the most effective way.

To advocate successfully councils should continue to grow coalitions of support and work with third sector campaigns and organisations such as the LGA, APSE and LocalWorks. Crucially, they must also shape and be shaped by local public opinion. By acting on residents' concerns about business behaviours and showing that councils care about citizens as consumers as well as service users, local government can not only identify market failures and create an environment where these can be tackled, but can also increase respect for local government as an institution.

## 6. Strong councillor leadership

Strong political backing and leadership on efforts to engage with businesses and tackle problems with private markets is extremely helpful. In our case study areas leadership on market shaping activity by individual councillors

or cabinet members brought issues to officers' attention, enabled cross-departmental collaboration to tackle particular issues, and meant that councils did not shy away from less familiar paths.

## RECOMMENDATIONS

**For councils just starting to think more about their market shaping role, we present three recommendations:**

### **1. Use local insight and wider evidence to understand local market problems**

- Policy and public health staff to use Joint Strategic Needs Assessments to highlight negative outcomes in the area, and liaise with frontline staff, councillors and consumer organisations such as CAB and Which? to highlight how private markets and business practices are contributing to these.
- Use existing channels or establish new points of contact such as 'Community Business Challenge' events to allow local residents to directly raise issue with business practices which are leading to problems for them.
- Policy staff should review secondary research, including a review of insights on behavioural economics, to understand the drivers of these market problems on both the supply and demand side. Commission local research to understand local drivers to behaviour where necessary.

### **2. Review current and potential market shaping activities from across the council to address market problems**

- Policy and public health staff to bring together other staff from across the council to review current cross-council activity and interaction in relation to businesses within the markets which have been identified as problematic. This should include review of initiatives such as existing information provided to consumers in relation to these businesses, voluntary schemes or 'kite marks' for business, council contracts, and

existing taxes, incentives and other regulatory activity.

- Bring together council staff from departments ranging from licensing to procurement to rapidly identify further tools which might be used to address market failures identified, or how existing tools might be made more effective. Staff should be gathered either virtually or in-person for short focused sessions. Responsibility for this should be led by the Public Health Team where relevant or lead councillors or policy officers, and use the Market Shaping Intervention Typology and Choice Framework within this report as well as examples of innovation from other councils as impetus. In particular, attention should be paid to the way in which the council might use its buying power, contract terms and assets to influence businesses; or support new socially beneficial entrants to the market.

### **3. Assess the impacts of potential market shaping tools on local consumers, the council and the local economy**

- Working in partnership with businesses and the academic community, lead officers must pragmatically consider the impacts of potential market shaping tools on local consumers. This should involve using local or national data and cost/benefit analyses, but most importantly should involve an open yet challenging conversation with businesses to gauge the impact of different approaches, as well as discussion with councils already pioneering in their usage of certain tools, and rapid experimentation and piloting.

# STRUCTURE OF THE REPORT

## 1. THE CASE FOR INFLUENCING MARKETS

This chapter outlines the case for local market shaping. It outlines various types of 'market failure' which mean that markets may fail to be socially efficient, and uses examples from the energy, payday lending and food and drinks industries to illustrate the impact of these market failures on local places.

## 2. CHOOSING TOOLS AND APPROACHES

Returning to 'first principles', this chapter outlines the moral and theoretical, and practical, considerations and justifications for various types of market intervention in order to open up the range of possible interventions considered by councils. It presents an Intervention Typology outlining the sorts of approaches possible, and a Ladder of Intervention showing how different approaches restrict, enable or inform choice and autonomy. A Choice Framework diagram is presented to help guide councils through the process of choosing between different tools and approaches.

## 3. COUNCILS LEADING THE WAY

This chapter highlights good practice from councils who are leading the way and innovating in the way in which they influence local businesses. It groups various examples and case studies under five key approaches, relating to: using contracts to regulate within the council domain; supporting socially beneficial entrants to the market; incentives and disincentives; information and marketing provision; regulating with licensing and planning.

## 4. ENABLERS OF LOCAL GOVERNMENT MARKET SHAPING

Drawing on NLGN's research roundtables and three in-depth case studies of Peterborough, Birmingham and Liverpool City Councils, this chapter discusses factors enabling and hindering councils' innovation in this area. It highlights six key enabling factors.

## 5. CONCLUSION AND RECOMMENDATIONS

This chapter concludes and presents the key enablers of local government market shaping.

### APPENDIX ONE: INNOVATION CASE STUDIES

This section presents three in-depth case studies of Peterborough City Council's work to challenge and enter the renewable energy market; Liverpool City Council's work to tackle to challenge the sunbed industry; and Birmingham City Council's work on the labour market and ensuring social value from public sector contractors.

### APPENDIX TWO: METHODOLOGY

This section outlines the methodology used for the research project

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# GOOD PRACTICE MAP

