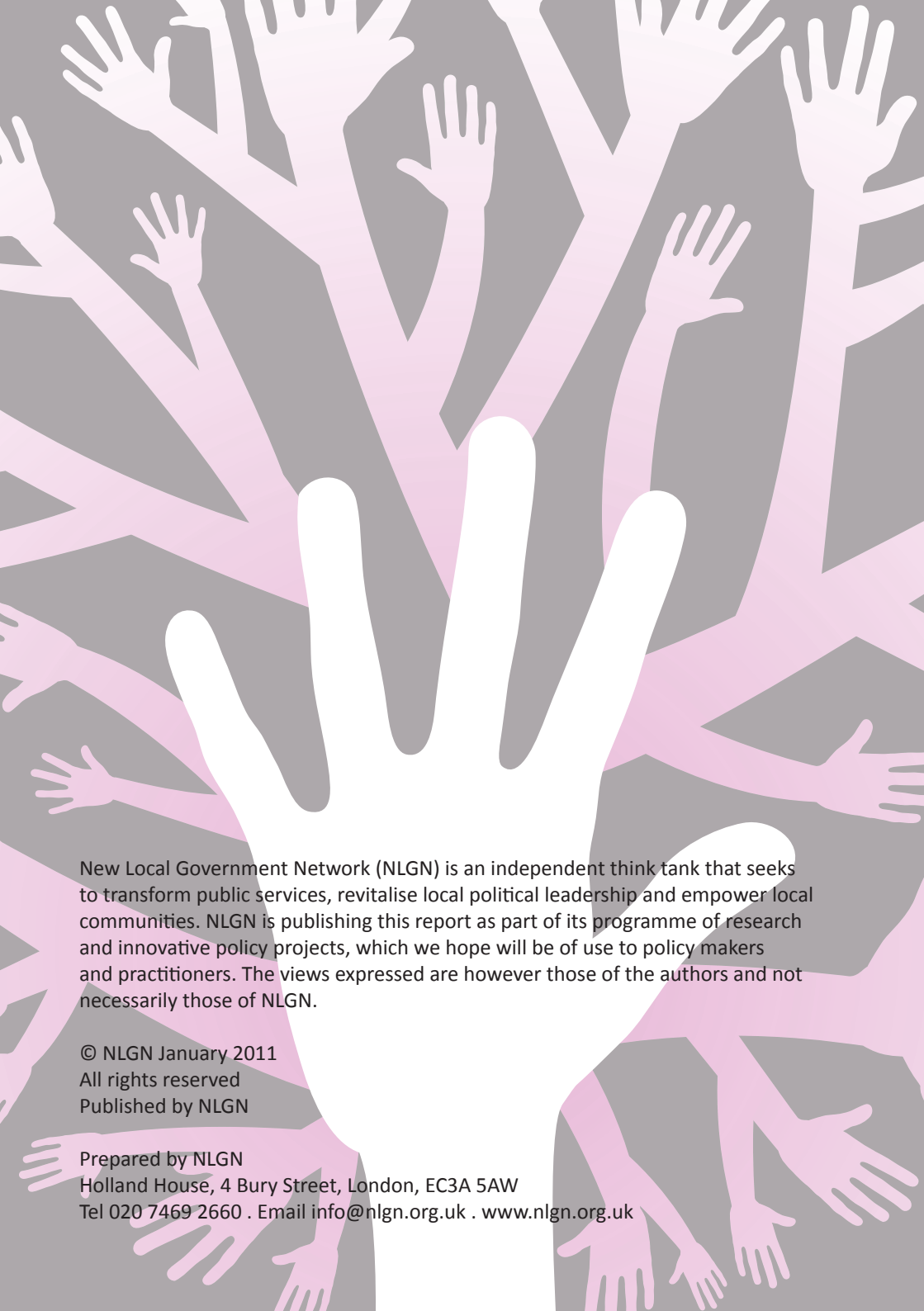




Next Localism

Five trends for the future of local government

Simon Parker



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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Prepared by NLGN
Holland House, 4 Bury Street, London, EC3A 5AW
Tel 020 7469 2660 . Email info@nlgn.org.uk . www.nlgn.org.uk

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1 Introduction

“History teaches us that when the pressure is on, change takes off”

Ian Morris, historian¹

Local government stands on the verge of immense change. Financially, the picture is grim, as local public services face cuts on a scale not seen since the 1920s. Public sector job losses seem likely to stand at nearly 500,000² by the end of this parliament. Councils face cuts of 28% in their central grants over the next four years.³ By 2015, council-owned leisure centres, museums and theatres could be a distant memory, refuse collection will probably be cut to the bone and even social care and education will start feeling pinched.

But for all the bleakness of the economic situation, there is also an opportunity for local government. Yes there is less money, but there may also be more freedom. The coalition’s rhetoric, and to a lesser extent its policy proposals, suggest that this could be the most devolutionary government for several generations. The potential prize for localists is a fundamental shift in the way the UK is governed – moving from an inefficient, unresponsive and undemocratic centralism to a new political culture based on strong communities and local civic innovation.

The new localism that NLGN has championed for the past decade aimed to convince ministers to devolve more power to councils. Now that case has been successfully made, localists need to reassess their agenda. This essay aims to kickstart that process. It argues that the coalition government is pursuing an approach to public service reform based on ‘creative destruction’ – cutting funding, tearing up the existing structures of local service provision and hoping something better will emerge. This is very risky and will probably change local government’s role dramatically. Some councils will retreat to their core services and a few might even

¹ Morris, I, *Why the west rules – for now*, 2010

² PWC, *Sectoral and Regional Impact of the Fiscal Squeeze*, 2010

³ HMT, *Comprehensive Spending Review*, 2010

become technically bankrupt. But others will seize new roles and develop radical new ways to deliver their services. The task for localists is to ensure that there are as many councils as possible in the latter category, by helping to create the right national conditions for innovation to flourish and supporting councils to manage the cuts in a creative way. This in turn will help convince the public of the case for a more localist political culture.

The councils that succeed over the next five years will be those that embrace a new policy agenda: the question is no longer how to deliver higher standards of customer service to a group of consumerist citizens. That approach had its strengths, but it failed to improve public satisfaction and left untouched many of Britain's deepest and most troubling social problems. Instead, the task is to protect communities from the worst of the cuts while reshaping the welfare state and building a more resilient society and economy.

Achieving this in practice will require councils to address three major challenges, each of them operating to a different timescale:

1. In the **short term**, the challenge is to drive out costs through greater efficiency, sharing services, greater productivity and limiting or stopping some services.
2. In the **medium term**, councils need to put themselves on a sustainable financial footing. This means redesigning services to make them better and cheaper, for instance finding ways to contain adult social care costs in the face of an ageing population. It also means securing new sources of locally raised funding to make local government financially self-sufficient.
3. In the **long term**, councils need to negotiate a new relationship with society, developing stronger communities and helping those communities to shape their own destinies.

This renegotiation of the relationship between citizen and state cannot be just another managerial project – cautiously devolving small amounts of power to councils in the hope that they will deliver more effectively.

Localism must also be a full-blooded political movement. Only when communities can see that significant power lies unambiguously in the town hall are they likely to stop looking to the centre every time something goes wrong.

That is why local government and local politics need to lie at the heart of any project to decentralise. Initiatives like free schools and individual budgets are a way to devolve power to individuals, but in isolation they will not realise the benefits outlined above. If we want to renegotiate the relationship between the citizen and the state, then the citizen must have someone to negotiate with. The aim should be to lock in devolution to local government through a combination of much greater local revenue raising and far tighter integration of service provision.

2 *Where we are and how we got here*

The period immediately after a long-standing government loses power is probably a uniquely bad time to assess its record. What we can confidently say about the past decade is this: local government received a great deal more money, practically every council in the country improved significantly and most offered a far wider range of services by 2010 than they had done at the turn of the century.

But not everything got better. Rising service standards could not outpace the growth in public expectation, while trust in local politicians and officials flatlined. Around 70% of central government grant to local government was ringfenced by 2010,⁴ hemming in local government's room for manoeuvre. Councils rightly complained of overblown audit and inspection regimes. Perhaps most importantly, local government sometimes lacked the power, freedom, and - in many cases - the need or incentive to deeply rethink the way they delivered services.

The coalition government claims to be responding to these problems with its localism and decentralisation agenda. In practice, their policy towards local government is defined by three trends.

First is an attempt to empower individuals by unbundling public services and transforming them into a series of separate marketplaces. Reforms to schools, policing and health have all prioritised public choice over council coordination. The forthcoming public service reform white paper could go even further, pushing councils further down the road of personalised budgets in social care and perhaps also bringing in housing and worklessness. Targets will probably be set for councils to bring the private and voluntary sectors into these emerging markets.

The second key trend – which the localism bill majors on - is empowering communities. Rather than councils shaping places, the coalition wants to

⁴ HMT, Public Expenditure Statistical Analyses, 2009

help people shape councils. The bill's new powers to force referendums on local issues, the planning reforms and rights for community groups to bid to save or run services are all changes that allow the public to change the way their council works and to influence the shape of their towns and cities.

The final trend is for local freedom – expressed to a degree through the new power of general competence and some new flexibility around the business rate. This is probably the area where ministers need to focus their policy thinking over the coming months, especially in terms of developing the community budget pilots into a fuller offer around place based budgets and making councils more financially self-sufficient.

If it isn't entirely clear what these trends add up to, then that's probably the point. This government takes some pride in not setting out detailed central visions. Ministers believe that innovation emerges from creative destruction – that failed ideas and ways of working have to die so that better ones can win out. If you change everything around local government, then local government itself will either change itself, or risk a slow drift into irrelevance.

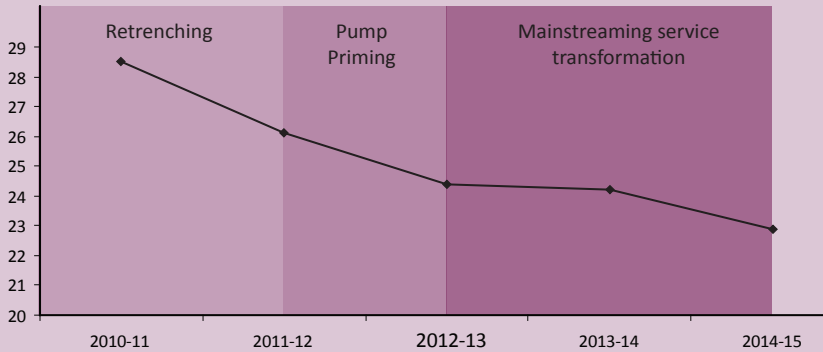
The result of this reform in many areas will not be dramatic – the majority of citizens simply will not want to get involved in saving or running services. But in other parts of the country the change could be significant. The result is likely to be a highly asymmetric kind of localism – some areas will manage to join up and redesign their services, or devolve to neighbourhoods, or use the big society to save costs. Few will achieve all three, others none at all.

3 *Where local government goes next: five trends for the future council*

All of this raises a critical question: do the cuts and localism agenda just mean cutting back services and trying to persuade communities to make do with less? Or could that outcome be avoided by the development of new models for managing councils and delivering public services? Many people in the local government community are rightly cynical about the idea that the cuts can be countered by a bit of creative thinking. The good news is that we have a lot more than just creative thinking – the last decade has generated plenty of emerging practices just waiting to be scaled up. This is demonstrated by the fact that a handful of councils – including Barnet, Lambeth, Suffolk and Newcastle – are already trumpeting their new models.

NLGN believes that the outcome of the cuts and their impact on communities will be determined to some extent by whether council leaders decide to make five transitions away from their current model of service delivery, the cumulative effect of which will be to transform our idea of what it means to be a local authority.

The first transition is from **retrenching to redeveloping**. The initial response of most councils to the spending cuts will be to accelerate redundancies, cut supplier costs, tender more services and share back office functions. But while this helps with the initial shock of spending cuts, it hardly represents a positive vision for the future. In the medium term, does the council take the easy route and retreat to a core of statutory services, or does it want to seek a new role? As figure 1 shows, the key point at which this choice will be made for many areas is probably in 2010/11, after the initial shock of frontloaded cuts is dealt with.

Figure 1 Reduction in formula grant

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The second transition is **from small steps to giant leaps**. Over the past decade, local government has generated and piloted hundreds of interesting ideas for reforming the public sector, but it is striking how few of these have actually grown large enough to replace mainstream public sector provision. Individual budgets represent an all-too-rare example of a state-provided service being completely replaced by a new approach in some areas. Local government needs to find ways to go beyond piloting new approaches, and instead find ways to manage the wholesale adoption of new modes of delivery.

The kind of innovative approaches that are likely to deliver better outcomes are well rehearsed: tackling problems before they occur rather than managing the symptoms, co-producing services with citizens and joining services up in new ways around the needs of the citizen. These abstract notions hit home when you look at real life examples. A crack addict in Birmingham costs the state an average £833,000 in their lifetime.⁶ A young man who is not in education, employment or training between the ages of 16-18 costs the state an average £56,300 in

⁵ HMT, *Comprehensive Spending Review*, 2010

⁶ Birmingham City Council, *Birmingham Total Place Pilot: final report*, 2010

their lifetime.⁷ Catching these individuals early and providing them with support when they need it could save huge amounts of money.

As Birmingham's councillor Paul Tisley puts it: "If water streams through your kitchen ceiling and you find the cause is an overflowing bath upstairs, the first thing most people would do is to turn off the tap. In the public sector, we've got really good at clearing up the mess and patching the ceiling, but we leave the water still running."⁸

The problem with pilots and experiments is that they tend to die once their funding ends. A different approach would be to learn from the successful innovation approaches tried by organisations like John Lewis, who launch a pilot in one store and then, if it works, roll out the new approach to their whole chain. The equivalent for local government would be to top slice an existing service budget to provide money for a pilot – if the pilot succeeds, the top-slice would grow until eventually the original service is decommissioned.

More broadly, we still have not found an effective way to encourage the organic spread of new ideas between local authorities without central intervention – local government needs to develop more effective ways to spread and scale up successful innovations without having to legislate for them.

The third transition is from **wholesale to retail**.⁹ Councils have traditionally been bulk providers of services to their local areas, but this is already starting to change significantly. Individuals now have much greater control over the education service they receive, and those with individual budgets can choose who provides their social care.

In future, we could see even more services being delivered on a retail basis. For instance, if three or more councils decided to share their

⁷ National Youth Agency, *Response to the Spending Review Framework*, 2010, available at: http://nya.org.uk/dynamic_files/policy/Comprehensive%20Spending%20Review%20response.pdf

⁸ Birmingham City Council, op cit

⁹ Thanks to John Tizard for this handy formulation.

environmental services, they could commission three different providers and allow each neighbourhood to choose from a menu of different options. Neighbourhoods might be allowed to pay more for a better service, or pay less if residents take more voluntary action to create a clean and safe area. The result would be greater competition and more choice.

This does not necessarily imply that councils have to stop providing their own in-house services, but it does increasingly mean that those services will have to make up their budgets by appealing less to town hall managers and more to the citizen themselves. The implication for the council's corporate core is that it will probably become less like a service provider and more like a personal shopper – ensuring that the right kind of services are available and helping citizens to find them.

I might phone the council to ask about having some bulky waste taken away and, instead of being offered a single time-slot with the council's in-house provider, I might be offered a menu of choices and an opportunity to pay more for a faster service. This new relationship may be spurred by new freedoms for councils to operate trading and charging regimes where a new suite of services are provided – not necessarily by the council but using the council's expertise and benefits to improve the service.

Wrapped up in this transition is a fourth shift from **service provision to democratic hub**. It has been argued that local authorities are often too big to be truly democratic and too small to be genuinely strategic, but we might see this change over the coming years. There is no reason why many services have to be delivered at the same spatial level as local democracy – back office functions and perhaps even refuse, education and social care can be shared across multiple councils. At the same time, democracy is often most effective when it is connected to people's everyday lives in their neighbourhoods.

We increasingly need to question the assumption that local democracy and direct service provision are inseparable. In the United States, for instance, the people of the Lakewood cities in Los Angeles only voted to create local government on the basis that their councils would not

deliver any of their own services, but would purchase them from the county. Studies in the 1970s found that these cities spend 86% less on their services than older nearby municipalities. One explanation is that older cities experienced a slow cost-creep as staff bid up terms and conditions.¹⁰

The result for the UK is likely to be a sort of bottom-up process of local government reorganisation. We know that formal local government reorganisation is off the table, but many councils are starting to share chief officers and services in ways that will ultimately lead to their organisations becoming interdependent with neighbouring authorities. The pace will probably be fastest in two tier areas, where some district councils will struggle to remain financially viable without integrating with other organisations.

As councils transcend the traditional confines of scale, councillors will need to explore new ways of representing their communities. Local politicians have been driven by the Audit Commission and the creation of executive cabinets to prioritise their role as elected service managers. This is not a sustainable position in a world where most services are shared or commissioned and many are delivered by active citizens or through retail mechanisms.

Taking decisions about services will still matter, but those decisions might increasingly be about ensuring enough supply and helping citizens make intelligent choices, rather than directly delivering. The key role of local politics might be about helping communities to adapt to new challenges, setting a vision for the future shape of places and supporting the vulnerable to make the best choices.

The former mayor of Bogota, Antanas Mockus, provides a vibrant example of what the new civic leadership might look like. Faced with few resources in one of the most violent and lawless cities on the planet, Mockus argued that: “The distribution of knowledge is the key

10 I am grateful to Gary Sturgess of the Serco Institute for sharing his personal research note on this topic.

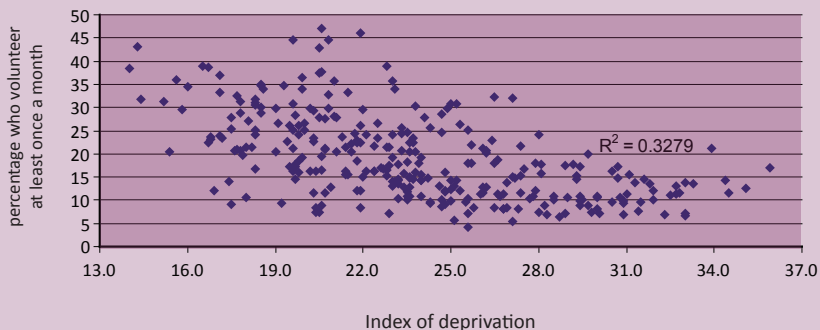
contemporary task. Knowledge empowers people. If people know the rules, and are sensitized by art, humor, and creativity, they are much more likely to accept change.”¹¹

This translated into inspired political initiatives. Mockus wanted to bring respect for human life back to a city which experienced shockingly high levels of homicide and traffic death. So he painted stars on the ground where fatal traffic accidents occurred, held weapons amnesties and invented a ‘vaccine against violence’ campaign in which people drew the faces of those who had hurt them on balloons, then popped the balloons. Some 50,000 people took part. Mockus asked citizens to pay an extra 10% tax and 63,000 of them did. It would be easy to dismiss these initiatives as stunts, except for the fact that they worked. Under Mockus, traffic fatalities dropped by more than half and homicide by nearly three-quarters. This is the kind of civic leadership that Britain’s elected service leaders have forgotten how to do. They should rediscover it.

The fifth transition is from **place shaping to community development**. The place shaping role is arguably withering away – councils have less control over education, adult social care, planning and worklessness policy than ever before. Whether we decide to reinvent place shaping or to replace it, a major part of the new role for local government will lie in developing the resources that support civic activism. If this can be done, then the council’s role becomes that of facilitator – creating active communities and providing those communities with a democratic conduit and economic environment to shape places for themselves.

If councils choose to make this transition, then they need to grasp a new role as stewards of the hidden wealth of their neighbourhoods – the trust, social capital and free time that are as much an asset as money. NLGN’s emerging research on this topic shows that wealth is only weakly correlated with levels of volunteering – people in poorer areas are less likely to volunteer, but not much less.

¹¹ MC Caballero, *Academic turns city into a social experiment*, Harvard Gazette, March 11, 2004

Figure 2 Volunteering by local authority area correlated with deprivation

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Many examples of public services doing more for less are actually nothing of the sort. What they really do is substitute previously untapped sources of social capital for cash. For instance, Sweden's patient hotels¹³ give people a safe space to recuperate outside of a hospital environment. They substitute expensive hospital care for a comfortable hotel room where a patient can care for themselves with remote support from a doctor and families can do more to help.

Many of the most interesting recent developments in delivering public services over the internet are inspired by dating websites. The School of Everything is a social enterprise that links up people with something to teach with people who want to learn. Spend an hour teaching guitar and you earn credit that you spend on learning knitting from someone else. The Japanese fureai kippu – or 'ticket for loving relationship' – takes a similar approach to elderly care. Spend an hour caring for an older person and you earn a ticket which you can use to buy care for your own parents, or save for your own retirement.¹⁴

¹² Data from the Place Survey and Index of Multiple Deprivation. This is a provisional analysis which will be explored in more depth in NLGN's forthcoming research report on the Big Society.

¹³ For more details, see: Nesta and the Innovation Unit, *Radical Efficiency: Different, Better, Lower Cost Public Services*, June 2010

¹⁴ For more details, see D Halpern, *The Hidden Wealth of Nations*, 2010.

This approach has practical civic applications. Websites like Pledgebank provide a way for people to solve collective problems – essentially you post up something you want to do and set a number of other people you want to help. So if I want to clean up a local park, I might ask for 20 people to help me for a morning. The applications for local government are obvious – local people can come together voluntarily to achieve the common social good, perhaps even choosing to donate money to achieve it.

Stewarding and growing the hidden wealth of neighbourhoods is a challenging new role. There are simple initial steps that councils can take – providing platforms like the school of everything that provide a platform for people to help each other, handing over assets to community groups, providing free venues and training community organisers. Some councils in New Zealand have neighbourhood offices whose job is to act as advocates for the needs of their areas – in the UK this might translate into giving councillors staffed ward offices that can promote civic engagement and represent localities back to the corporate authority.

But in the longer term, local government might need to have difficult political discussions with citizens. We know, for instance, that long commutes tend to reduce life satisfaction and the free time necessary to volunteer. So should a council that wants to build the big society encourage its citizens to work locally or from home?

4 *From central dependence to sustainable localism*

Central government is often described as an insuperable barrier to effective local decision making, but that is only partly true. Local authorities have for some time had wide-ranging powers to innovate and, as a whole, they already raise 36%¹⁵ of their own funding through the council tax, fees and charges. Councils can pool budgets with other local agencies and redesign local services without asking the centre first. But it is nonetheless the case that central government still limits the range of local possibility in important ways.

The most important limit is the sheer persistence of Whitehall's silos and the inability of government departments to develop a shared and coherent policy offering to localities. The reason that the comprehensive spending review did not commit to a wider role out of community budgets appears to be that most departments were simply unwilling to lose control of their spend. The government's move away from ringfencing – reducing the number of specific grants from 90 to 10 – helps to reduce the impact of silos (arguably at the expense of funding to the poorest parts of the country), but it does not remove them.

This suggests that the centre needs to go further to enable local government and communities themselves to adapt to the impact of the cuts in an innovative way. First, the coalition should use the very deep cuts in Whitehall staffing as a moment for genuine and deep reform of the civil service. A reformed communities department should take a lead on all policy relating to localism and decentralisation, with a clear mandate to promote localism across government. Greg Clark's regular decentralisation reports are a welcome sign that ministers are moving in this direction.

Departments need to develop new ways of interacting with localities. Cuts of 33% in the communities department mean that it will no longer

¹⁵ NLGN, *Scanning Financial Horizons* (2010), Nick Hope

be able to issue 12,000 documents a year providing detailed instructions to local delivery organisations. Some civil servants are beginning to talk about replacing command and control structures with ‘open source’ policy making, in which Whitehall’s job is not to tell councils what to do but to spot problems and act as a convenor and facilitator that supports local government to solve those problems for itself. Central money and regulation might be part of that process, but the initial assumption should be in favour of helping communities to solve their own policy dilemmas.

Another important limit to localism is money. The current finance settlement between the locality and the centre is broken. Council tax is deeply unpopular, in part because it is highly regressive – a millionaire in a mansion pays just three times as much as a pensioner in a council house. The amount a household pays is based on the value of their home in 1992, with the net effect that the poorer parts of the country tend to pay more than they would based on current values. The finance review promised for next year needs to address this problem boldly and head-on.

Local government needs to become more autonomous and more financially self-sufficient so that it can genuinely take on responsibility for negotiating hard choice about services and taxation rates with communities. The key to this is to radically diversify the sources of funding for local government – offering a mix of supplementary or localised business rates, new fees and charges and perhaps a hypothecated chunk of income tax, which between them could easily push locally raised revenue above 50% by the end of this parliament.

Similarly, new powers to raise municipal bonds and to hypothecate future savings through social impact bonds would help councils to take more local responsibility for their own futures. The government should consider setting a fixed proportion of money to be raised locally and then lock it in through legislation.

Finally, the coalition needs to be prepared to vary national policies to allow some councils to experiment with radical, collaborative new approaches to service delivery. At a minimum, this would mean a much bolder offer on community budget-style pooled budgets, with more

councils able to bid for pooling of chunks of the health, benefits, policing and education budgets. It might also mean that some departments effectively allow localities to opt out of national policy frameworks altogether – some areas might not have a GP collective or an elected police commissioner, but something different that might prove to be better in the long term.

As part of this, councils should be offered new rights to challenge and save local services, similar to those offered to communities. If a council, or a consortium of councils, can prove that they are able to deliver a centrally-run service better than Whitehall, they should be allowed to bid to take it over.

5 *Conclusion: the commission on next localism*

Much more work is needed to flesh out the future policy agenda for local government. Over the coming months, NLGN will launch a major Commission on Next Localism to develop a rigorous set of ideas and propositions for the next parliament. Our aim will be to critique and challenge central policy while supporting councils to develop innovative responses to the cuts.

The Commission will be much more than just a research exercise. Our aim is to encourage real-time learning between local authorities and other local partners, providing evidence and data about how local government is coping with the cuts and using this to inform our work. Rather than a statement of theory or principle, the Commission's final report will set out a practical agenda that will help councils move from retrenchment from redevelopment.

The Commission will do this through a series of projects that will refresh the debate across six broad areas of policy. Taken together, our research in these areas will form the foundations of a political and cultural shift towards a more localist Britain:

1. A more open and thriving **culture of local democracy**, greater trust in local politics and decision-making and stronger community leadership;
2. A more complete concept of citizenship, the resources of civil society and the conditions necessary to develop these as **community assets**;
3. A more coherent, resilient and **self-sufficient funding** system where localities raise a greater proportion of their revenue;
4. A fuller understanding of the **boundaries of local economic activism** and entrepreneurship, and bold methods to revitalize the economy;

5. A clearer understanding of citizen-led demands on public services and a positive and ambitious vision of **future council models**, their responsibilities and functions;
6. A more **citizen-focused Whitehall** underpinned by a more mature relationship between local and national democracy.

NLGN was founded to champion innovation and reform in local government, drawing on our extensive networks to ensure that our proposals are always practical and evidence-based. This remains our mission, no matter how dramatically the policy context changes. We look forward to working with our partners to define and implement our vision for Next Localism.

The Commission will be launched in April and run throughout 2011/12. If you would like more information about the Commission or details of how you can be involved in its activities, please contact Nigel Keohane, Head of Research: nkeohane@nlgn.org.uk.





Local government stands on the verge of immense change. Financially, the picture is grim, as local public services face cuts on a scale not seen since the 1920s. Public sector job losses seem likely to stand at nearly 500,000 by the end of this parliament. Councils face cuts of 28% in their central grants over the next four years. By 2015, council-owned leisure centres, museums and theatres could be a distant memory, refuse collection will probably be cut to the bone and even social care and education will start feeling pinched.

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