

Executive Summary

Ten years ago, in 2009, Localis and the Local Government Association (LGA) published a review of central-local relations in Britain in the context of its neighbours, entitled *With a Little Help from Our Friends*. The report made a list of sensible recommendations based on good practice from the Commonwealth and continental neighbours. What has unfolded since is nothing less than a lost decade for the UK economy. Ten years marked by stagnating growth, flatlining wages and dwindling standards of living. This culminated in a profound and emphatic rejection of business-as-usual politics, in the form of the Brexit vote, a process of polarisation further compounded by the 2017 general election. Localis returns to the subject of central-local relations in a very different world, a permanently transfigured set of political circumstances.

The political-economic context

Since the financial crisis, annual GDP growth has plateaued at around 0.5 percent¹. The problem of slow growth is the defining challenge of this political moment in the UK. None of our myriad social problems – from homelessness to child poverty – can be solved until productivity can be improved, economic output increased, and earnings uplifted². Much of the sluggishness of recent growth has been experienced outside of London, where growth in Gross Value Added (GVA) has plodded along at 1.7 percent since 1998, with the capital a full two percent ahead. Breaking down regional economic performance in this way causes one to reconsider an oft-cited reason for Brexit, that people felt disconnection from the economy. If indeed people feel disconnected from the national economy, then it is probably because they are.

It is against this backdrop that local industrial strategies were announced, with a view to developing economies outside of London and unlocking the potential of the other 87 percent of the UK's population. To move out of these doldrums, however, local leadership and cohesive local state functions are required. To foster local growth through differentiation and specialisation, local leaders must be able to act across silos, with the local authority functioning as the central node in a complex network of state functions.

The difficulty for central government and the Exchequer is the need to balance wider national needs against that of its prime economic engine. London and its near neighbours are the only net contributors to public finances³ - this is in of itself a strong argument for decentralisation. The need to first boost and enable regional economies is supplementary to this argument. With correct strategy, there is ample opportunity to transition to specialised, high-skill and knowledge-intensive employment. The local state, through its soft, convening power and formal legislation, and in collaboration with the private sector, is well-equipped with information to provide strategic direction and reduce the risk of firms going out of business in pursuit of transformation.

The case for a British Investment Bank

Leaving the European Investment Bank provides an opportunity to develop a

1 OECD figures

2 Financial Times (2018) – Poor productivity the biggest cause of low wage growth

3 Centre for London (2019) – London, UK: Strengthening ties between capital and country

system that moves the UK away from very targeted initiatives, where investment centres on the improvement of transport links to London⁴, or a never-ending succession of bidding for pots. In line with the HCLG Committee⁵, we advocate a British replacement, which has the potential to be far more valuable than a Shared Prosperity Fund that simply swaps Brussels for Whitehall in a handouts system. To be clear, the government *should* guarantee the continuance of EIB loans and EU structural funds until 2020. After Brexit, however, the opportunity to reform should not be missed. To move forwards, a British Investment Bank should be established, with Local Enterprise Partnerships able to formulate applications for major infrastructure loans *alongside local government*.

To avoid falling into the pitfalls that have led much of the UK into underdevelopment, it is important that local government be given autonomy in decisions on when and what to apply for. We do not take a position as to whether LEPs or local authorities should be the actual recipient of funds. A better system might entail a condition on applications that they be made in tandem, with neither one or the other alone being enough. It is likely that investment loans will be sometimes better targeted at greater scale, in which case it should be the role of local authorities and LEPs working in collaboration to apply for and secure investment, with local democratic accountability scaling up alongside project scope.

Recommendations: Restoring Regional Productivity

- The UK government should commit to replacing the European Investment Bank's function with a British equivalent.
- Loans in England should be handled and managed by LEPs and strategic, upper tier authorities (or consortia thereof) in consensus.
- **The UK2070 commission on regional inequality should make a major focus of their enquiry how such a bank could avoid a political conflict with public sector debt through either open market borrowing or reformulating debt calculations.**

For these vital reforms to development to be possible, there must be a reset of central-local relations in the UK. Economic development of this kind requires strong, autonomous leadership and cohesive state functions. To this end our report asks two questions:

1. *How far away are we from strong, autonomous local leadership?*
2. *How far away are we from a cohesive local state?*

How far away are we from strong, autonomous local leadership?

A plethora of international and UK regional examples provide ample evidence that successful economic development is dependent on effective leadership⁶⁷. To achieve the kind of development and diversification needed for national renewal and local economic rebalancing, places need leadership. Leadership that is capable and dynamic enough to draw together the

4 John B. Parr (2016) – The Northern Powerhouse: A Commentary

5 HCLG Committee (2019) – Brexit and Local Government

6 Ngowi (2009) - Economic development and change in Tanzania since independence: The political leadership factor

7 Sotarauta, Horlings and Liddle (2012) – Leadership and Sustainable Regional Development

complex system of local civil society and direct it towards a common purpose. As recent political history has taught us, taking back control is only as good as the capacity to do anything with it.

Leadership is no end in of itself. It is a journey that continues through a set of social processes that influence outcomes⁸. For council leaders as for many other types, it is not simply a case of providing a carrot and a stick. Trade-offs must be made between incompatible options. Tensions must always be managed in the face of monetary, temporal and spatial pressures. In an institution as old as English local government, the effects of informal norms and expectations are often just as important as the political composition of the council at any given time.

Research for *Hitting Reset* involved an extensive interview series with a regionally representative set of council leaders, as well as seminar discussions with groups and individuals from both Whitehall and Westminster. The goal of this was to lay out a roadmap to strong and autonomous local leadership, through collaborative discussion and contributions from both sides of the argument.

Moving to a longer spending cycle

Unsurprisingly, the single most frequently raised topic across all our interviews was finance. In local government, the main casualty to austerity has been capacity. Often deprived of the ability to spearhead initiatives and implement broader plans, local government has been brought closer and closer to being simply a service delivery branch of central government. This creates a particular problem for councils, as their means to deliver core services have been restricted along with their broader capacity to govern. Councils see themselves as charged by national government with delivering a full range of local services, but under a set of constraints which drive down the quality – and then taking the localised blame. Many local councils have had to find innovative ways to raise revenue to continue delivering public services.

Local government commercialisation of recent years has seen mixed results, with some successful ventures entirely obscured in the public eye by high-profile ventures of dubious profitability⁹. The context in which these decisions were made cannot be ignored. Commercial ventures, as it stands, are a lifeline to maintaining the funding viability of vital services. Desperation is no environment in which to make sound investments, when the delivery of social care to children and vulnerable adults is riding on the revenue returns. If councils are to engage in sound and ethical commercialism – which is perfectly possible in the right conditions¹⁰ – other powers to raise funds must be unlocked and used in concert with commercial ventures.

The challenge, then, is to move away from rigid centralisation without cutting the lifelines which allow local government to deliver key services. Our recommendation for doing so is to move to a longer-term funding cycle, alongside fiscal headroom, freeing up councils to raise funds. Elongating the spending review cycle would increase capacity for local leadership as it would widen the intervals between periods of uncertainty and allow more time for meaningful action. The inability to set priorities beyond five years, and the reality that public spending patterns are erratic and typically favour consumption over investment¹¹ has been a block on long-term investment in local infrastructure.

The extent to which political cycles affect budgets and, more broadly, spending reviews is disputed but there is consensus that electioneering and, to an extent,

8 Joseph Rowntree Foundation (2005) – Local Political Leadership in England and Wales

9 Local Government Chronicle (2019) - Commercial activity is a risky business, but councils lack alternatives

10 Localis (2018) – Ethical Commercialism

11 <http://eprints.lse.ac.uk/47842/>

clientelism do have an impact on spending priorities¹². Furthermore, recent statistical analysis has shown that instances of politically-motivated spending are more likely when the local government map is politically fragmented¹³. This is of great relevance to England, with a political map well-known to be polarised in terms of council control and, more recently, along lines of 'Leave/Remain'. Locking local government finance settlements into broader cycles would reduce the scope for political opportunism from the centre as well as increasing capacity for local leadership. Given that most detailed demographic information in the UK is drawn from the census, carried out once a decade, a ten-year funding settlement for local government could be intelligently carried out in a way which responded to the care and educational needs of the population.

Fiscal devolution

The other side of the coin to the argument for longer-term funding settlements is fiscal devolution. Devolution of responsibilities must be matched by devolution of fiscal policy. Given the dramatic cuts to funding described in the previous section and a dearth of any other significant tax revenue stream except business rates (discussed below), upper tier councils are effectively put in the position of having to raise council tax by 4.99 percent every year. The increases are at best plugging holes, and often not even enough to effectively do that¹⁴. As a result, the public are not seeing improvements in services to match their tax increases – they are often seeing quality and comprehensiveness of local public services decline¹⁵. To further compound the problem, the rates councils can collect via the centrally-mandated bands system are archaic and can be downright perverse.

The other main source of tax income for councils is business rate retention. Business rate retention is a positive step towards decentralisation. However, it is far from enough to meet the twin pressures of rising demand and fewer resources. As part of a suite of local tax-raising powers, business rates could be a key fiscal policy lever for councils, but in isolation and with councils otherwise constrained, the policy is of little overall effect. Councils were not designed to deliver resource-intensive services such as adult social care through unstable funding streams such as business rates and council tax.

What of the other fiscal powers which could be transferred? The preference of the Institute for Fiscal Studies (IFS), based on extensive modelling, is a local income tax¹⁶. This would certainly be the most transformative measure, as it would fundamentally alter the interests and inter-council dynamics of local authorities and give councils a direct and tangible interest in raising the income of their residents. Other feasible options include local road tax, land tax or even some variant of corporation tax. What is clear, regardless of specifics, is there is an appetite for fiscal policy devolution in local government to match the appetite for political-economic change among the electorate.

In discussing our research findings, the concern was raised that a 'race to the bottom' may emerge if fiscal policy were devolved – a situation where tax competition between places pushes down overall tax receipts. International examples show that it is not so clear-cut a picture. Recent and relatively close examples show that fiscal devolution leading to a tax cutting free-for-all or tax hiking boondoggle is unlikely. What appears more likely is a transformation in the strategic thinking of councils, where a certain amount of mimicry - mixed with a certain amount of competition - produces strategic interactions between neighbouring councils, aggregating up to differentiation on a broader, regional basis.

12 Andrew Phillips (2016) – Seeing the forest through the trees: a meta-analysis of political budget cycles

13 Cuadrado-Ballesteros & Garcia-Sanchez (2018) - Conditional Factors of Political Budget Cycles: Economic Development, Media Pressure, and Political Fragmentation

14 National Audit Office (2018) – Fiscal sustainability of local authorities 2018

15 Mia Gray and Anna Barford (2019) – No end to austerity for local government

16 Institute for Fiscal Studies (2019) – Taking control: which taxes could be devolved to English local government?

Equalisation

While there is ample scope for an increase in tax-raising powers at the local level, it is unrealistic to think there will not need to always be some manner of central redistribution. Even in a fully diversified, devolved England, there are bound to be imbalances that require some correction to avoid glaring inequalities. Devolution versus equalisation is not a binary choice. The task in England is to redress the balance. This could be achieved by restructuring central government grants to councils to be weighted towards resource-based grants and away from revenue expenditure grants. This would move the onus of funding cyclical expenditure – and associated capacity for leadership – onto local government, while retaining an equalisation role to avoid regional disparities worsening. This view is informed by our interviews, where various leaders from different tiers of local government argued for a baseline guarantee of service delivery and a ‘safety-net’ to avoid councils falling into financial failure. The former could be underwritten by a much more basic revenue expenditure grant than is currently in operation: the latter by a resource grant which acknowledges the different endowments of strategic authorities across England.

Recommendations: Creating Capacity for Local Leadership

- A ten-year spending review window should be issued for local government, to create time and space for fiscal devolution, in line with the Independent Local Government Finance Commission from 2015.
- **A Royal Commission should be established to determine the relevant criteria and develop a baseline funding formula which is resource rather than expenditure based.**
- From this, central government should establish a self-sustaining financial system for local authorities so that local areas have the flexibility to plan long-term without relying on ad-hoc and politically-motivated grants and funding streams.
- This could include trials of tourism levies, income, sales, road or corporation taxes and would be designed to eventually replace most of the revenue grants from central government.
- To support this long-term financial planning, councillors should be elected for a minimum of five years to match the parliamentary term and local government elections should take place as a single election campaign.
- In the short-term, and by the time of the next Spending Review, government should provide full details about the Shared Prosperity Fund, including:
 - how it will allocate by end of 2020 and framework for 2025 distributing expenditure;
 - how much will be distributed by end of 2020;
 - agree a simplified decision-making system that reduces bureaucracy;
 - support offer for councils and regions, such as Cornwall, who heavily rely on EU funding to help them plan for the long-term.
- Remove the need for local authorities to hold a referendum to raise council tax at levels greater than those currently set by the Secretary of State for Housing, Communities and Local Government.
- Reinforce the move to full retention of business rates in the next Queen’s Speech.

How far away are we from a cohesive local state?

If the local state is to be the vehicle for economic development, it must be equipped with the access to information and the ability to act across silos necessary for the task. In the context of local leadership in economic development, local state capacity is the ability of democratically-accountable local leaders to coordinate strategic action at a local level across the various branches of civil society. The case for a localised welfare system is one that advances the case for a deeper democratic process. In order to act on and rectify many of the anxieties, concerns and problems that residents face, the role of the local state must be recognised and appreciated. Giving greater control to the local state to act on the circumstances of their evolving localities is the most straightforward step needed.

Local leadership in health

A sizeable portion of recent NHS reform has been directed at facilitating close collaboration between local actors involved in healthcare delivery and to better ensure an integrated system. The Five Year Forward View and Long-Term Plan led to the establishment of multiple different localised or semi-localised bodies to ensure that provisions laid out in them are adequately carried out. The current composition at the local level consists of Clinical Commissioning Groups (CCGs), Vanguard, Strategic Transformation Partnerships and Integrated Care Systems, amongst others. These institutions are made up of a range of organisations; from primary and secondary care trusts, to local authorities, civil society actors and beyond. The obstacle to the realisation of a comprehensive local state comes in the form of institutional imbalances and misalignment between various forms of leadership. Where levels of governance are aligned and the local authority is used as an important convener and source of democratic legitimacy, the local state can improve quality and efficiency of healthcare services.

Working to a shared vision and being grounded with a place-based framework is something that will allow the NHS to collectively deliver on the vision of the Long-Term Plan. As would taking forward recommendations for strengthened local leadership and a shift towards improvement support in NHS regulation. These can only be possible when each part of the local system has a deep understanding and appreciation of each other's role. Further to this is the importance for communities to take responsibility for looking after their health outcomes, and not to overly rely on primary and secondary health and social care. If the overall aim is for a recalibration of the welfare state, of which the NHS is an integral part, then we must recognise that there exists a social contract. And just as much as we have rights, we also have responsibilities. Regarding health and social care, these entail a recognition of responsibilities to ourselves and the communities of which we are a part.

Local leadership in welfare provision

The gap between central and local government in communication about welfare and how it should be implemented, results in poor delivery on the local level. This derives from a basic lack of consultation of local stakeholders (councils, civil society etc) in the design process of certain welfare programmes. Implementation feedback is not taken into consideration, so there exists an ever-increasing failure to hone the potential of the local welfare system and what it can do for people in each community. The most recent, and somewhat controversial, example of this has been the roll out of flagship government welfare reform, Universal Credit (UC).

As it currently stands, UC is pseudo-local at best. A claimant's exposure to the system occurs at the local level yet the overall policy is directed from the centre. There is a feeling that the current set up is essentially administering a centrally-mandated policy locally. While a claimant's first point of contact is found in

their local community, there is a real lack of power at the point of delivery. In certain areas of the country, this has led to strained relations between the three main local actors; the local authority, Jobcentre Plus, and Citizens Advice Bureau (CAB)¹⁷. There also appears to be lack of communication between the central DWP and Jobcentre Plus offices. Such mutual misconceptions threaten to stand in the way of coordination between different stakeholders on the local-level.

The DWP is institutionally and culturally unable to enact the necessary reforms needed to help the most vulnerable and at need claimants in the country¹⁸. A central issue highlighted includes the 'benefit lens' through which claimants are viewed, whereby benefit conditionality and employment support are intrinsically linked and dependent on one another. This is having the reverse effect to what was intended of 'activating' people into work - especially for those 'harder to help' claimants suffering from disabilities or old age, or other circumstances out of their control. A new settlement is needed for Universal Credit to work, one that recognises the crucial role local actors play in personalising the welfare delivery to the needs of all people - particularly those from 'harder to help' backgrounds. We must set extend political and economic autonomy so that welfare can be devolved in a realistic and workable manner.

Local leadership in skills and training

The risks to local labour market provision of reduced EU migration and non-EU migration via the government's net migration target of 100,000 are significant and widely dispersed. This calls for an agile response, if not in immigration policy, then certainly in local policies to influence labour market forces. In places with a manufacturing base looking to benefit from servitisation, training and retraining must be central, conceptualised as lifelong exercises.

The Further Education sector has seen piecemeal but not insignificant devolution in recent years. Most notably, the devolution of the Adult Education Budget will see £700m (around half of the national budget) passed to the mayoral combined authorities and the Greater London Authority. The system as it will be after this devolution has been termed a 'national/local hybrid system', with the seven devolved authorities each striking different deals with central government. As with the NHS, however, much can be achieved simply through aligning the purpose of democratic local leadership with that of FE colleges and employers. Competition and distrust have become the norm for FE colleges across the country, whose focus has increasingly been on financial survival. The institutional architecture must be reformed to promote trust and collaboration with industry.

Localis has argued in the past, alongside other sector and policy bodies, for employers to be able to pool their apprenticeship levy contribution with upper-tier, strategic authorities¹⁹ and stressed the importance of consortia in further education²⁰. For local leadership to become central in skills provision after Brexit, a combination of the two is required. The 'Strengthened LEPs' paper from MHCLG in late 2018 contained guidelines for the establishment (in the few cases where there was not one of some kind in effect) of Skills Advisory Panels (SAPs) made up of local employers and skills providers. To move towards a decentralised system, these could be strengthened and given more teeth by bringing in the local education authority and extending their remit to the pooling and provision of the Apprenticeship Levy. The existence and success of these partnerships shows the will to transition away from a competitive to a collaborative system in further education. Allowing them to act as a conduit for funding would give this arrangement the capacity for deeper collaboration and encourage similar practice across England.

17 Interview Response

18 Demos (2019) – Pathways from Poverty

19 Localis (2017) – In Place of Work

20 Localis (2018) – Working Better Together

Recommendations: Extending local state capacity

- The NHS long-term plan should be reformulated to ensure parity of numbers between CCG leaders and local government leaders, with a view to further integration once parity is established.
- Once CCGs and local authorities are establishing at parity, they should be combined so that CCGs become an accountable arm of the local state.
- Local authorities should employ a dedicated liaison officer to maintain ongoing dialogue with the Department for Work & Pensions (DWP).
- The Jobcentre Plus's Flexible Support Fund²¹ should be expanded and devolved to give greater flexibility to local officers.
- The DWP should implement compensatory measures to sanctioning, where in the event of unjust sanctioning the claimant gets awarded a dividend the following month. This would incentivise the local authority/ Jobcentre Plus for the DWP/LA/Jobcentre to stop indiscriminate sanctioning and pay more attention to the individualised cases.
- Skills Advisory Panels should be linked by regulation to local educational authorities, to codify collaboration between business, FE providers and local authorities, ensuring cohesive, capable skills provision across a locality.
- Collection and management of the Apprenticeship Levy should be devolved to these panels to be used for local strategic aims.

The Road to Decentralisation

At the end of this lost decade, a sense of alienation from national politics has arisen in significant parts of the country and among significant cohorts. A lack of personal empowerment translates into a lack of aspiration. The Brexit vote, which must be seen as connected to this, has given rise to a political imperative to, on the one hand, raise productivity and on the other, ensure that gains are felt immediately across the country. This does not need to degenerate into further polarity, pitting towns against city, leave versus remain, metro versus retro. Economies are developed by improving the connections between places and playing to inherent strengths. This is the essence of decentralisation and leadership of place. We argue unapologetically for a reset. The case for our proposed reforms is laid out in each section of the report, our recommendations are consolidated in the 'road map' below.

²¹ <https://www.turn2us.org.uk/AboutUs/News/What-is-the-Flexible-Support-Fund>

A Roadmap to Decentralisation

