



HITTING RESET

A case for local leadership

Joe Fyans, Bethanie Roughley & Zayn Qureshi

About Localis

Who we are

We are a leading, independent think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

Neo-localism

Our research and policy programme is guided by the concept of neo-localism. Neo-localism is about giving places and people more control over the effects of globalisation. It is positive about promoting economic prosperity, but also enhancing other aspects of people's lives such as family and culture. It is not anti-globalisation, but wants to bend the mainstream of social and economic policy so that place is put at the centre of political thinking.

In particular our work is focused on four areas:

- **Reshaping our economy.** How places can take control of their economies and drive local growth.
- **Culture, tradition and beauty.** Crafting policy to help our heritage, physical environment and cultural life continue to enrich our lives.
- **Reforming public services.** Ideas to help save the public services and institutions upon which many in society depend.
- **Improving family life.** Fresh thinking to ensure the UK remains one of the most family-friendly places in the world.

What we do

We publish research throughout the year, from extensive reports to shorter pamphlets, on a diverse range of policy areas. We run a broad events programme, including roundtable discussions, panel events and an extensive party conference programme. We also run a membership network of local authorities and corporate fellows.

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Acknowledgements

Much of this report's original research comes in the form of interviews with council leaders, policy officers and central government officials both current and former. We owe a huge debt to everyone who gave up their time for this and thank them profusely for their participation.

The research for this report was collaborative and broad, involving conversations and workshopping sessions with various national and locally-focused bodies, all of which helped strengthen the work and develop its conclusions. Amongst many others to whom we are grateful, we would particularly like to thank the staff at BEIS who attended our 'lunch and learn' session and provided helpful challenge, the Policy & Strategy Group at the County Councils Network and the senior team at the District Councils Network for their input.

We would also like to thank Paul Dossett and Guy Clifton from Grant Thornton UK LLP; Chris Murray and Will Mapplebeck from Core Cities and our chief executive Jonathan Werran for providing direction, inspiration and helpful interjection throughout the project.

Any errors or omissions remain our own.

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Advisory Panel

This research project was supported by an advisory panel, whose members are listed below. Advisory panel members provided one-on-one advice, attended an editorial roundtable and provided comments on report drafts. They may not necessarily agree with every analysis and recommendation made in the report.

- Ms Helen Bailey, Chief Executive, London Borough of Sutton Council
- Mr Andrew Burns, former past president, CIPFA
- Mr Guy Clifton, Local Government Markets Director, Grant Thornton UK LLP
- Mr Paul Dossett, Partner, Grant Thornton UK LLP
- Mr George Freeman, Member of Parliament for Mid-Norfolk
- Sir Simon Jenkins
- Ms Jo Miller, former past president, SOLACE
- Mr Chris Murray, Director, Core Cities
- Cllr. Martin Tett, Leader, Buckinghamshire County Council
- Professor Tony Travers, LSE, Department of Government

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

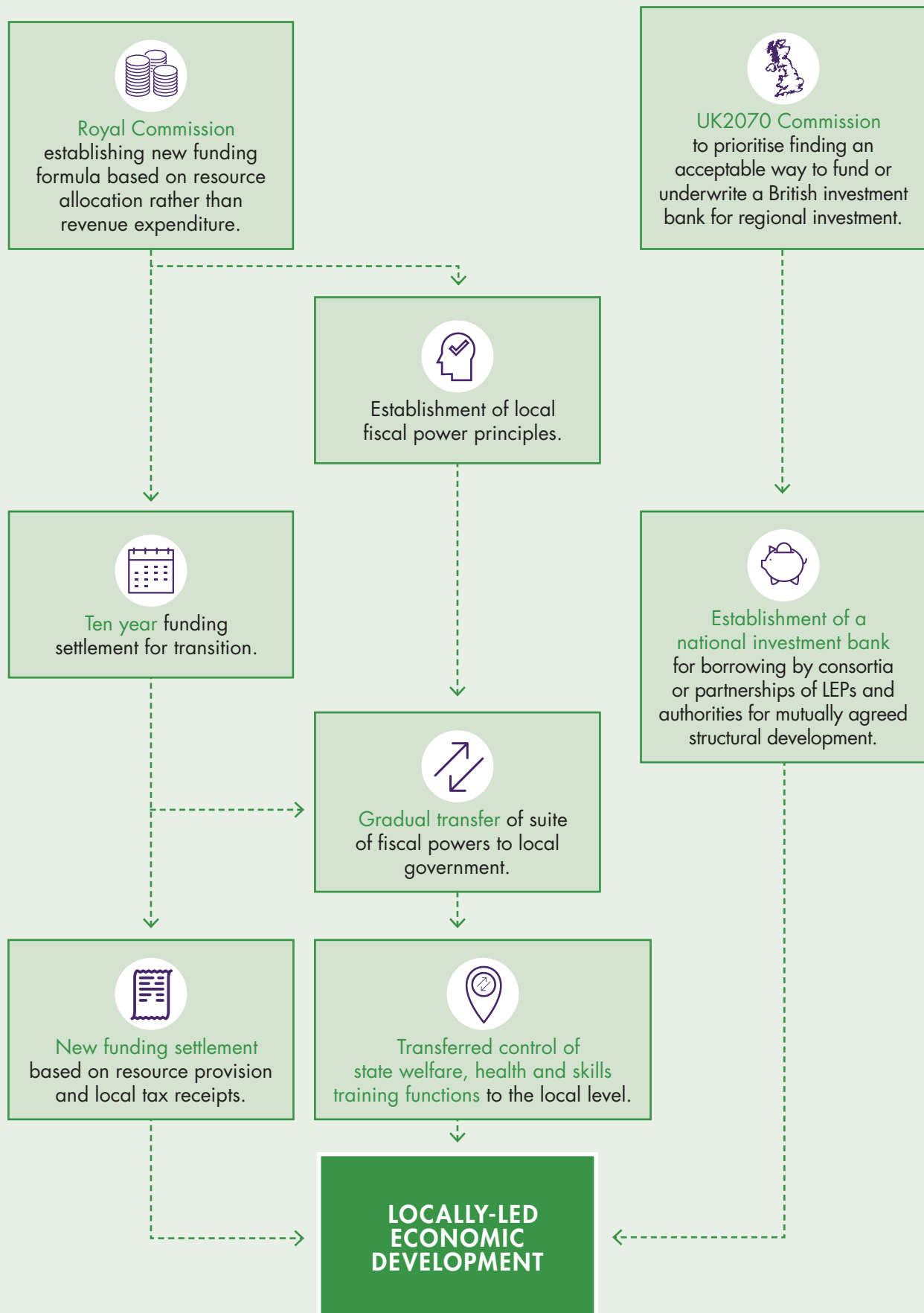
- The NHS long-term plan should be reformulated to ensure parity of numbers between CCG leaders and local government leaders, with a view to further integration once parity is established.
- Once CCGs and local authorities are establishing at parity, they should be combined so that CCGs become an accountable 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/About-Us/News/What-is-the-Flexible-Support-Fund>

A Roadmap to Decentralisation



Introduction

A lost decade

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 the continent. These recommendations were for the most part ignored under the steamroller of the Coalition Government's Localism Act agenda, which brought mixed blessings for localities. There were steps forward for greater local responsibility and accountability for place - advances that followed the dismantling of the audit regime and other locally-focused quangos for inspections and standards. But in other areas the Act brought less a sense of creative disruption – or Maoist freedom to let a thousand flowers bloom – and more an unedifying stricture of less money and diminished respect. Once again, the central state looked to the local and saw a mere delivery arm, not a place-shaping force for cohering economic growth and advancing public service reform.

What has unfolded since is ten years marked by stagnating growth, with associated pressures on long-term trends in living standards²². 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.

During the Coalition years there were concerted attempts to recast the mould. Taking up one of the Localis recommendations, in 2012 Graham Allen MP, chairman of the Commons Political and Constitutional Reform Committee and Professor Colin Copus developed and published a concordat to formalise relationships between local and central government. Despite a traditional cautious welcome from government, the call for a local income-tax made it a non-starter. As Coalition devolution troubleshooter, Lord Hague insisted in 2015, "localism is not a new way of imposing new taxes"²³.

In similar vein, the LGA's well-evidenced 2015 call for change 'Rewiring Public Services', an agenda for transforming public services through local leadership to rejuvenate democracy and boost economic growth, foundered amid a shift in government attention to striking devolution deals at breakneck pace. The devolution deal idea itself would soon begin to take on water, as central government lost patience with it as a mainstream agenda.

So this report is written with an eye to previous recent attempts at rebalancing the axis of central and local relations. However, in light of what we are currently living through, the report also boldly doubles down on some of the recommendations from 2009. Last decade's good ideas have been superseded by situation, and the times now demand more unashamedly radical localist responses. For example, calls for clearer-defined burdens and more diverse revenue streams have been transformed by circumstance into a case for fully-

22 Resolution Foundation (2019) - The Living Standards Outlook

23 The Municipal Journal (2015) - Hague: Barnett funding vow 'trumps all other considerations'

fledged fiscal devolution. The notion of moving towards a fairer grant system has been further expanded, with a call for the immediate establishment of a Royal Commission into local government finance and resources. We argue unapologetically for a reset.

Cuts and community

Since *With a Little Help from Our Friends*, local government has faced a near decade of financial cutbacks – the most severe of which were frontloaded into the 2010 Spending Review and managed across local government with great skill and resourcefulness. That local government has maintained strong public perceptions as measured by resident satisfaction surveys during this time is testament to this. However, the effects of these cuts on the ability of local government to act as enablers and facilitators of community life have been marked.

The Burkean little platoons of English civil society have had their armouries stripped bare. From libraries to Sure Start centres, councils are having to divest themselves of vital roles in pursuit of making the necessary savings, with many reducing to core services alone. Pride of place and sense of community have naturally suffered. Meanwhile, the political-economic fissure between London and the rest of the UK which opened in the 1980s has only widened.

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. The fear is that 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.

Changing the record

This is far from the first sweeping report on reforming central-local relations. As explained, it has been done before to little discernible effect or response from central government. The Independent Commission on Local Government Finance, the Commons Political and Constitutional Reform Committee, the LGA's 'Rewiring Public Services' campaign and IPPR's Devolution Revolution have all tackled the subject adeptly in recent years. What we aim to do in this report is bring together recent work, combined with original research based extensively on the first-hand experience of practitioners from local and central government, into a roadmap towards a decentralised UK, with immediate steps described and the reforms they would enable outlined.

We have also applied a tone perhaps more urgent than that of previous work. This is because the situation has changed - even since 2017. The nature of the challenge however, is greater and what is at stake if we fail to redress the balance of power higher than previously thought possible.

The nation's political economy must be rebalanced. In order to do so, local leadership must be restored and reinvigorated with autonomy. Furthermore, a strong local state, where representation is a felt experience, must be prioritised if we are to restore a prosperous and harmonious realm in all four quarters of the land.

Taking back control, then and now

The United Kingdom remains firmly entrenched as the most centralised of all developed countries in the OECD. When it comes to national political parties,

the history of localism can be reduced to a tragi-comic oscillation. When courting votes in opposition, the loud demand is that the heavy hand of the central state must be restrained. When in power, the exact reverse is seen in practice.

From the centre, localism might well be a good, worthy and universal policy idea whose time has come. However, it is not something seen as desirable in practice. It is squashed in England by an overmighty central state whose relationship with localities is characterised as that of parent and child, and whose mindset has whispers of a quasi-imperial era.

If you want to understand what causes were made in the past, we are told to look at the results as they manifest in the present. History casts a long shadow over our attempts as a nation to harness localism. In the early modern era, English local government and its system of self-governance was built upon a strong and ancient tradition of local self-reliance. This carried over into the industrial revolution, helping usher in the mid-Victorian expansion of municipal government to deliver the sanitation, utilities and education so desperately needed in burgeoning urban centres with rapidly expanding populations. However, the turning point seems to be Great Britain's wartime experience, where state control and intrusion into many aspects of life that had until then been locally-managed began to be welcomed by the general public.

The experiment in command centralism succeeded beyond all measure. It fed on a golden wartime memory of solidarity, common purpose and aspiration for equality. And once Atlee's Labour government replaced the Churchill-led wartime coalition, this centralist revolution was permanently embedded in the early welfare state and a top-down National Health Service.

So, while continental Europe basked in a sustained post-war economic renewal, in Britain the "man in Whitehall knew best" when it came to what localities needed for economic and social improvement. And when in the mid-1970s industrial failure and decline took hold, the message to local government was that "the party is over".

Seeking to end the period of decline, Lady Thatcher's distrust of hostile 'loony left' Labour run councils, which tried to set illegal budgets, left its mark in severe constraints on council finances. Ironically, local taxation ultimately became the Iron Lady's political nemesis in the form of the self-defeating and controversial poll tax – a legacy whose impact on local fiscal strangulation is felt to this day.

Blair's New Labour gave Scotland and Wales separate assemblies as part of an asymmetric devolutionary settlement. In England the emphasis was to modernise local government. But this would not translate into popular assent to regional assemblies to tackle the English question. New Labour lacked the political nerve to undertake necessary reform of local public finances. Instead it obsessed with a closer micro-management of council performance until the next twist.

This came in the 2010 Cameron-led Coalition whose Localism Act heralded the destruction of the previous top-heavy audit regime. The deficit-reduction programme oversaw a massive cut in funding to local authorities in exchange for their assuming a greater share of responsibilities and the promise of ambitious local public service reform. By the time the Conservatives finally attained their surprise majority government in 2015, the agenda was directed to national economic growth. This translated as bidding to earn greater devolution over how local economies are managed through a series of individual deals with the centre.

The major English cities and city regions had a clear advantage over rural areas in advance preparations. The stipulation that powers would only be passed down in exchange for a governance system involving directly-elected mayors proved an insuperable stumbling block to rural areas.

Which more or less leads us up to the present time, where analysis of the Brexit vote is typified as a revolt of the 'somewheres' who have singularly not benefitted from the benefits of globalism or national economic growth centred around London and the South East.

The UK's rather torturous attempt at departure from the European Union presents a priceless once-in-a-generation opportunity to reconfigure the political economy and overturn the predominant centralist mindset. Indeed, it would be a betrayal of those who voted to leave the EU were controls and responsibilities vested in Brussels to be simply transferred wholesale to the equally remote Whitehall empire.

Adapting to a new normal

The UK civil service has a cynical phrase that the most politically important projects are "doomed to success". This translates that centrally-set targets will always be universally met or seen to be met by departments of state, regardless of their worth or ultimate expense.

In the uncertainty of the post-Brexit era, failure to heed the localist opportunity risks dooming large parts of England to entrenched economic failure, stripping localities of purpose and power. The stakes couldn't be higher. To win this game, our local leaders must take instruction from Theodore Roosevelt. "Do what you can, with what you have, where you are."

Local leaders must lead, using whatever charismatic leadership they have to both win favour and secure gifts on pilgrimages to Whitehall and Westminster while securing investment from hard-headed international business chiefs. Regional rebalancing will of course require a radical transfer of powers and budgets from the centre, and sufficient fiscal freedom – regardless of the Brexit deal struck. But it seems localism is enjoying a burst of rude health in the crucible of Brexit.

However the tumbling dice of political fortune land in the coming times, our local leaders must find the boldness, resilience and empathy to win the understanding necessary to re-inspire place-making. They must summon genuine support from whatever corners they can, but ultimately play to the inherent strengths of place and people.

A localist reality belies an apparent shift to a hyperglobal economic marketplace. The skills on which advanced businesses and economies depend are embedded in networks of people who live in specific locations, rendering companies far more immobile than we'd think. The trick for those with the courage and vision to lead the local state will be to ensure the relevant skills and knowledge their labour forces possess are the right ones. Where skilled people are present, businesses will locate and cluster.

If any good comes out of the Brexit water-torture endured over the last three years, it will be a new understanding of the kind of economic system that has popular local support and can translate into both prosperous communities and productive places.

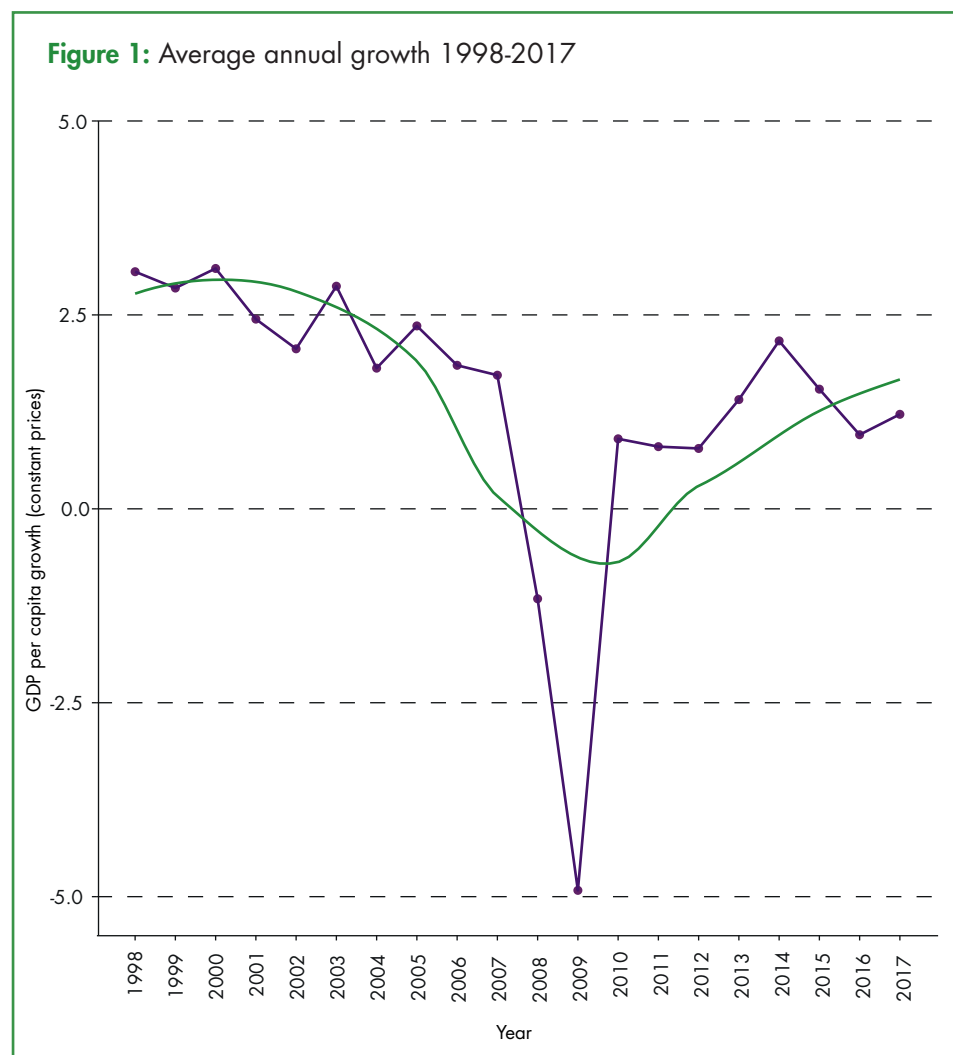
Structure of report

This report follows a three-part structure. In the first section, we examine the political-economic imperative of decentralisation, making a case for economic development of England's regions. This leads us to two questions of vital importance to successful development: what is the capacity for local leadership in England, and how cohesive is the local state? Section two addresses the former, through an interview and workshop series with local leaders and central government officials. Section three addresses the latter, looking at the capacity of the local state regarding health, welfare and skills. The report ends with a summary of our recommendations to government.

Section 1: Decentralisation – the Political-Economic Imperative

1.1 The Value Gap

1.1.1 The Growth Problem



Source: OECD

The UK has a well-rehearsed problem with growth. Since the financial crisis, annual growth has plateaued at around 0.5 percent^{24,25}. This has contrasted with a remarkably robust employment market, with wage growth – still not at 2008

²⁴ OECD figures

²⁵ OECD figures

levels even after recent upticks – the apparent casualty.

The average, naturally, disguises moments of optimism as growth seems to firm up²⁶, and volatility where shocks – from Brexit to general elections to party leadership changes – are immediately connected to output slumps and investment drops, which a country with our average annual growth rate cannot afford²⁷²⁸²⁹. The problem of slow growth is the defining challenge at 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 uplifted³⁰. The aim of this section is to present this problem in the context of local economies, at the sub-regional level, to show how the diffusion of productivity outside of London has created a suboptimal situation for people all over the country, including the capital itself. In this context we argue for strengthened local leadership and a more cohesive local state.

Much of the sluggishness of recent growth has been experienced outside of London. Indeed, even in London, the outer South and East have seen Gross Value Added (GVA) growth of less than half that of Inner London. For the rest of the country, the data gives a clear picture of stagnation bordering on stasis. Even accounting for the decade preceding the financial crisis – where national annual growth averaged 2.5 percent – most of the country has seen middling to poor growth rates in the past twenty years. Since 1998, total GVA growth outside London has been 1.7 percent, with the capital two percentage points ahead at 3.7 percent - even factoring in the less prosperous outer boroughs.

26 The Economist (2017) – Britain’s era of abysmal productivity growth could be at an end

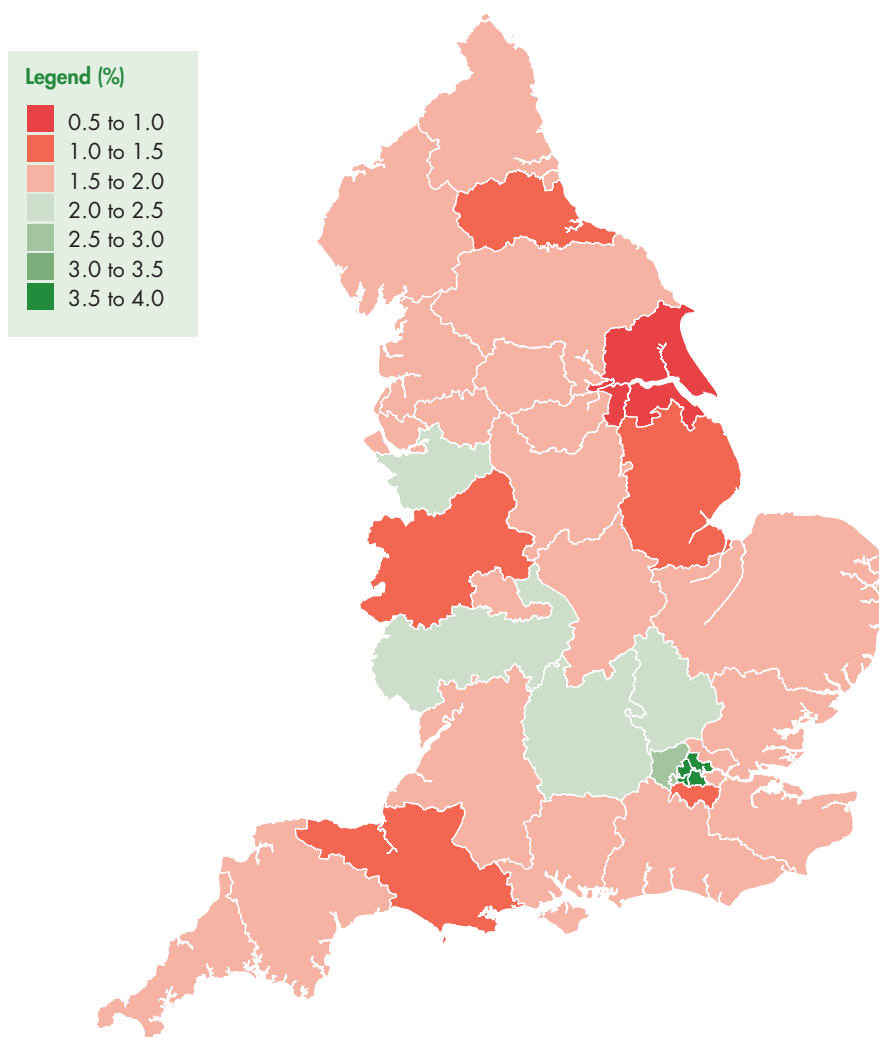
27 Ian Begg and Fabian Mushövel (2016) – The economic impact of Brexit: jobs, growth and the public finances

28 Business Insider (2017) – The economic data is turning against her

29 Ross Clark – Money is already draining from Britain but because of Corbyn, not Brexit

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

Figure 2: Average Annual GVA Growth 1998-2017, by NUTS2 region



Source: ONS sub-regional productivity data²⁹

Breaking down regional economic performance causes one to reconsider an oft-cited reason for Brexit, that people felt disconnected from the economy. If people feel disconnected from the national economy, which Localis polling from 2018, along with recent political events, indicates that they do³², then it is probably because they are.

Over the course of this research, we have heard local government officials talk of a “stick to what you’re good at” attitude from the centre. Surveying the map above, this seems something of a moot point. The current national political and economic situation calls for places to do more than what they’ve been doing. It calls for an ambitious process of self-challenge to unlock growth through targeted investment and tactile, responsive policy. 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. This kind of leadership is particularly important in a service economy, where “flexibility, continuous

³¹ Throughout this section, we use the ONS balanced GVA by industry data for total Gross Value Added, and the provisional 2017 estimate where applicable

³² Localis (2018) – The Delivery of an Industrial Strategy

growth, management of knowledge, and the generation of innovation”³³ are key to prosperity. To foster local growth through differentiation and specialisation, local leaders must possess all these qualities and be able to act across silos, with the local authority functioning as the central node in a complex network of state functions.

1.1.2 The Service Economy and Underdevelopment

The ‘service economy’ as it currently functions is almost exclusively centred in London, with Manchester, the South East and the M4 Corridor doing well but still comparatively miles behind. This is, to some extent, by design, as London’s development in the 1980s and onwards was born of government policy, the Bank of England and the efforts of the City of London itself³⁴. The ‘Big Bang’ of Thatcherite deregulation brought great prosperity to London and, alongside North Sea oil revenues, helped lift the country as a whole out of post-industrial decline³⁵. But like any great reward, this transformation came at a price, in this case the underdevelopment of the rest of the country.

‘Underdevelopment’ as an economic concept has its home in Latin America, where intellectuals have long argued that the development-from-abroad policies of international financial institutions have the perverse effect of weakening the capacity of the state to act strategically and the economy to stand independently and specialise³⁶. Despite its far-flung roots, the idea has utility in understanding why so many parts of the UK are economically stagnant – they are overly dependent on the functioning of London’s economy³⁷. As such, London has become the central priority for governance in the UK, as without its successful performance, the rest of the country would fail. The map below makes this clear – London’s service sector is worth more than that of Greater Manchester, the West Midlands, West Yorkshire and Merseyside combined.

33 Daniel T.L. Shek, Po P.Y. Chung and Hildie Leung – Manufacturing economy vs. service economy: implications for service leadership

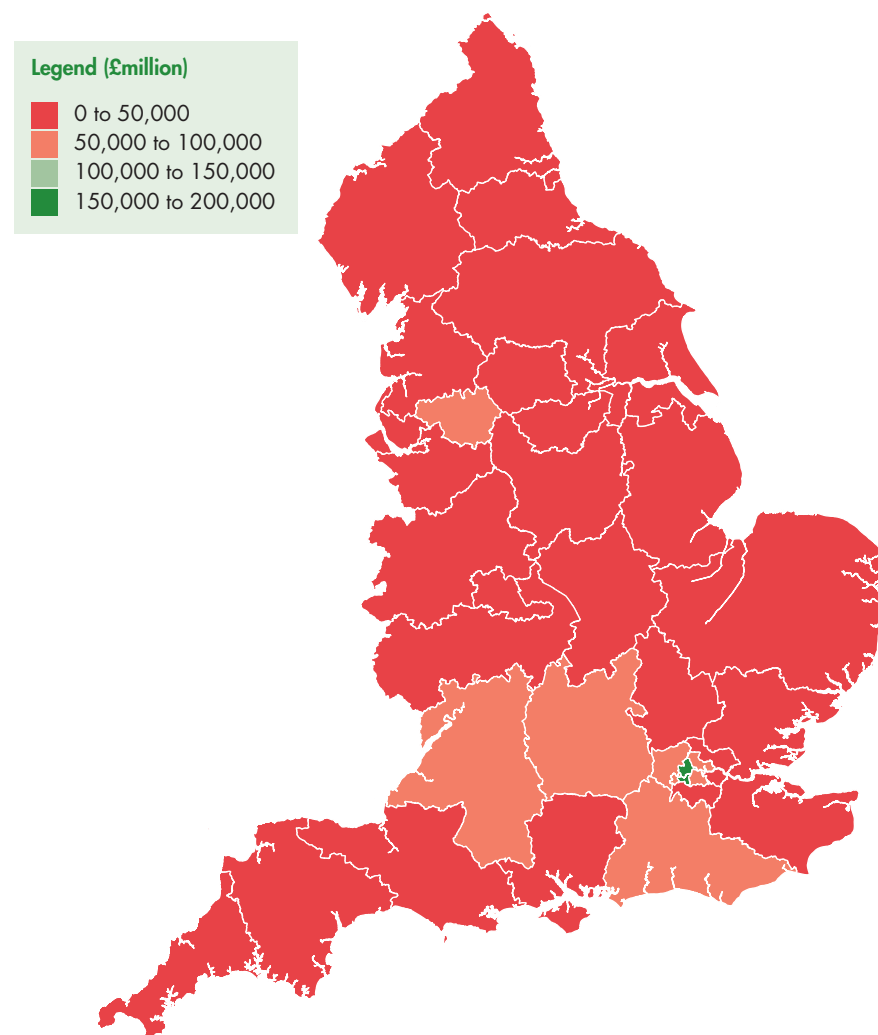
34 Christopher Bellringer & Randal Michie (2014) – Big Bang in the City of London: an intentional revolution or an accident?

35 Erick K. Clemons & Bruce W. Webster (1990) – London’s Big Bang: A Case Study of Information Technology, Competitive Impact, and Organizational Change

36 Andre Gunder Frank (1986) – The Development of Underdevelopment

37 Financial Times (2016) – London generates 30% of UK taxes

Figure 3: Value of combined service sector, by NUTS2 region



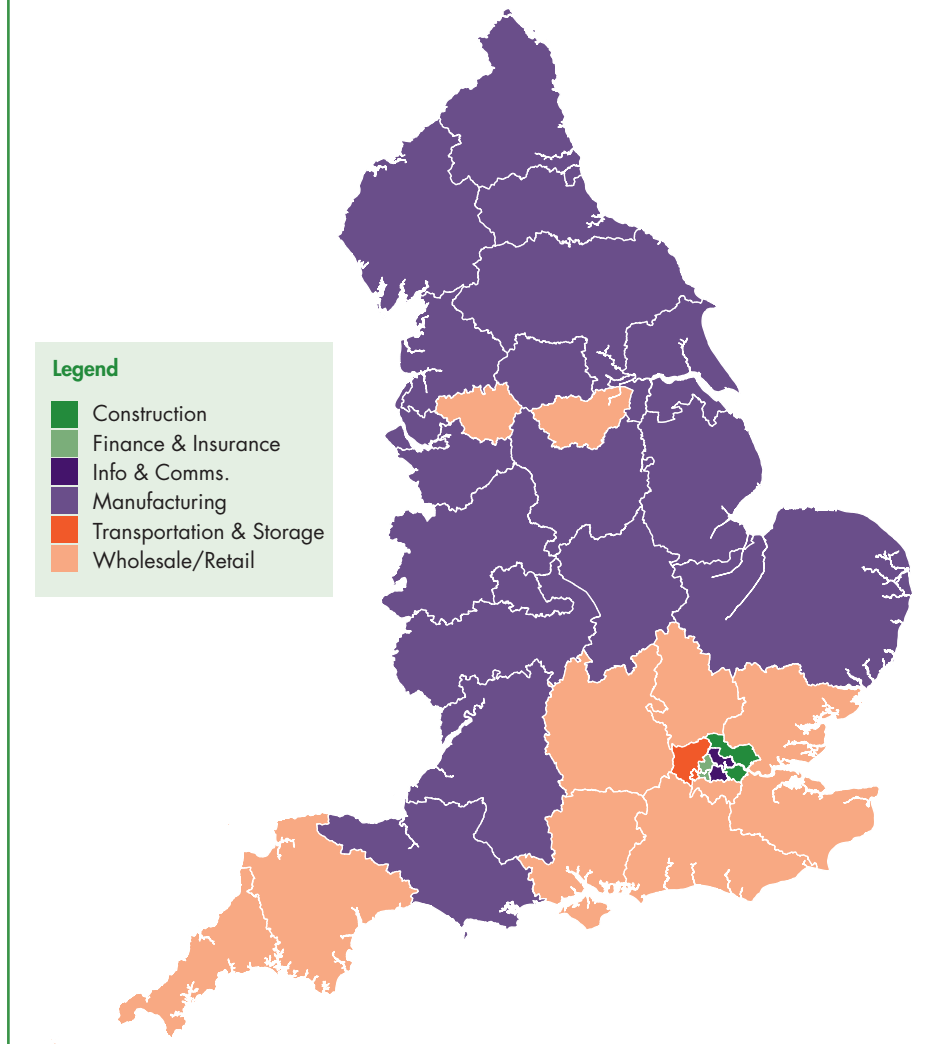
Source: ONS sub-regional productivity data

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 finances³⁸ - this is in of itself a strong argument for decentralisation. This is not a case of other regions not being able to *compete* with London so much as their not being adequately equipped to *complement* London. The need to first boost and enable regional economies is supplementary to this argument. Despite the UK undeniably being a service-based economy, in the rest of the country, the largest single sector in terms of value still tends to be manufacturing. With the correct strategy, there is ample opportunity to transition from strictly manufacturing to specialised, service-based employment in the manufacturing sector. This, however, is not without risks³⁹. The local state, through 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. Access to investment is crucial in the short term. Servitisation – moving up the value chain – can work in different ways in different places to deliver growth across regions and build an England of prosperous places complementing each other. But there must be some kind of galvanising catch-up effort which the market cannot deliver alone.

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

39 Andy Neely (2008) – Exploring the financial consequences of the servitization of manufacturing

Figure 4: Sector of highest value-add, excluding real estate, by NUTS2 region



Source: ONS sub-regional productivity data

1.2 The Productivity Puzzle

"Innovation versus stagnation, the widening dispersion of income and opportunity across society... have a causative link to productivity."

Andy Haldane, Bank of England

On an hourly basis, England's productivity gap with the powerhouse of Inner London West averages at £18, rising to £20 when other London areas are not included in the calculation. Raising productivity is paramount to the challenges facing society today, many which have been linked in various, aforementioned, ways to the Brexit vote. Inclusive growth is vital, clean growth is vital, but both rely on productivity gains to happen. Productivity in this country suffers from both a 'long tail' – where the numerous small firms lag significantly behind the comparatively few large firms – and diffusion, where the highly-concentrated productivity of the capital seems to weaken across the country. Both problems require investment.

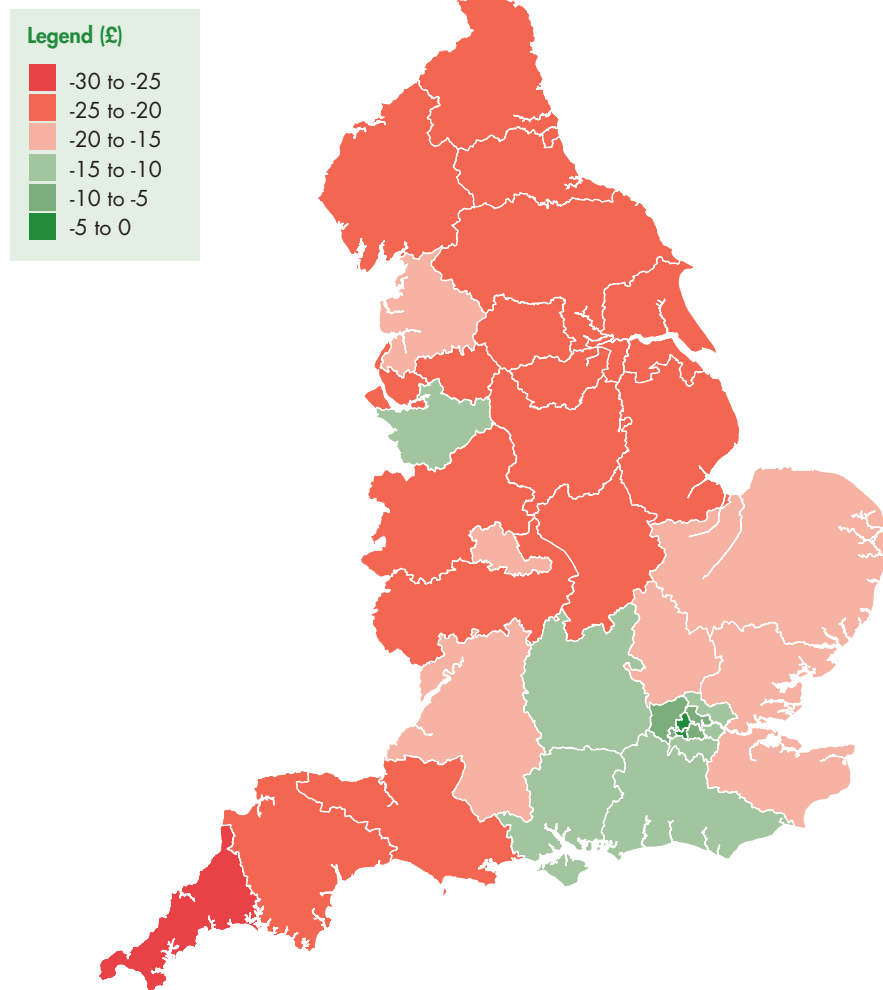
State functions are crucial to growing small firms, particularly in the communication of technological advancements and the use of fiscal levers⁴⁰. In April 2019, the Commons Business, Energy and Industrial Strategy (BEIS) Committee announced a consultation into the problem of lagging productivity outside of London. One question

40 John Barber, Stan Metcalfe and Mike Porteous (1989) – Barriers to Growth in Small Firms

of the consultation is whether the Shared Prosperity and Stronger Towns funds – the former a currently unspecified amount of money – could be used to invest and boost productivity. Under current arrangements, however, these cash pots can only be a drop in the ocean of pro-growth economic funding promised, needed, but not delivered since Lord Heseltine’s ‘No stone unturned’ report of 2012⁴¹.

At a time when investment is already stalled owing to uncertainty caused by Brexit, fears about the sustainability of England’s local state are jeopardising inward investment decisions. Given the parlous state of local government finances, it would be fantastical to think these schemes could be used to stimulate growth and boost productivity when the very core services of local government are in jeopardy of systemic failure.

Figure 5: Difference in GVA per hour from Inner London West, by NUTS2 region



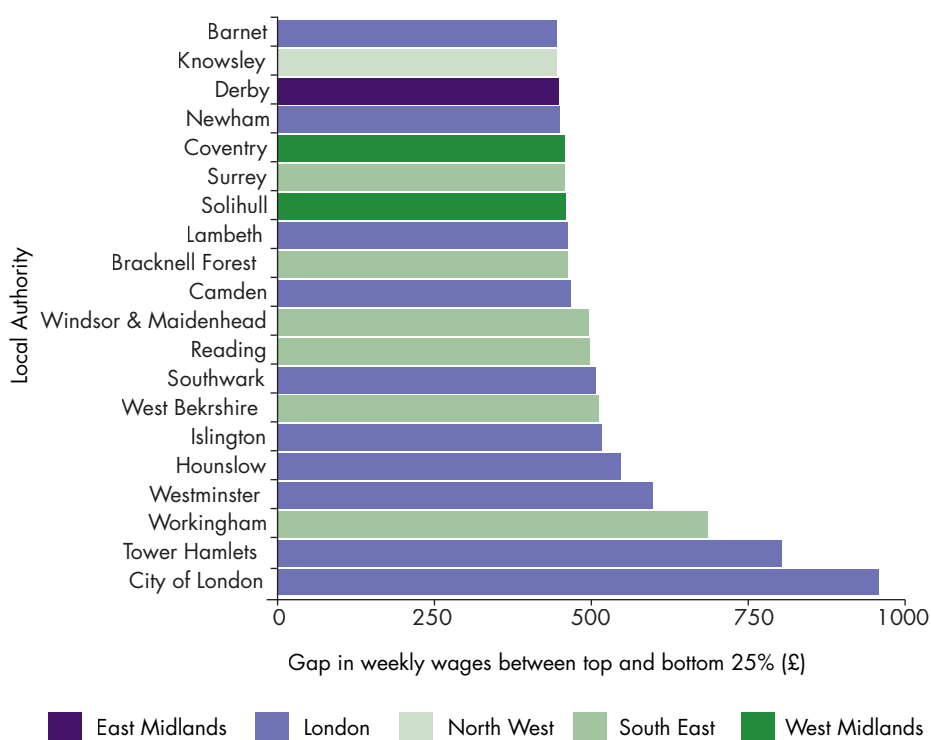
Source: ONS sub-regional productivity data

1.3 Unsustainable Inequality

The economic and the social are separable only in textbooks. The productivity lag in much of the country, particularly cities and large towns, exists in a reciprocal cycle with material deprivation of communities. Likewise, the high-octane economy of London has social implications. It can be easy to gain the impression from a chapter like this one that all is well in London, but this is of course far from the truth. Inequality in London has been an issue since time immemorial, and it shows no sign of stopping.

⁴¹ Lord Heseltine – No Stone Unturned (2016)

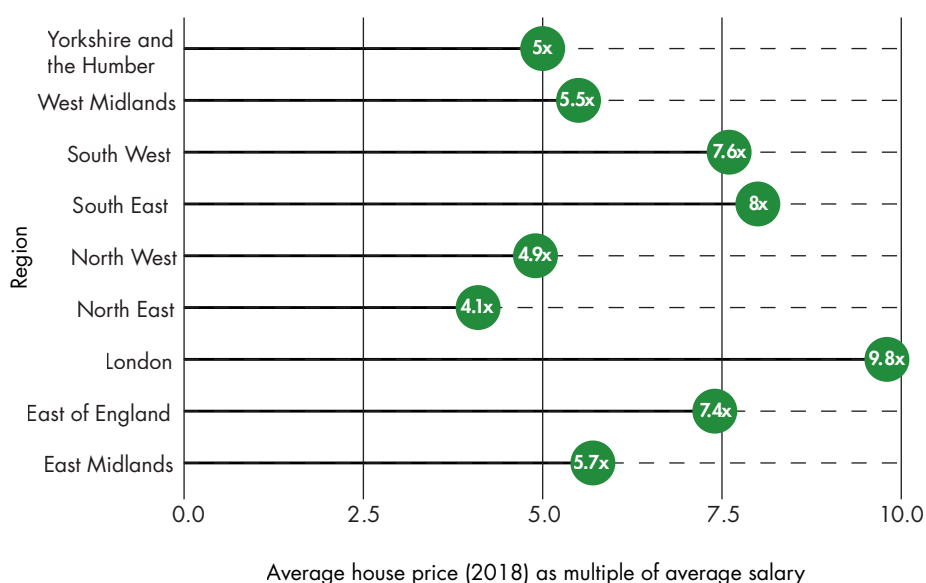
Figure 6: Weekly wage: gap between first and third quartiles, by local authority



Source: Annual Survey of Hours and Earnings

Of the top 20 authorities with the highest wage gap between the top and bottom quarters, ten are in London and a further six are in the South East. This level of inequality has damaging effects on social cohesion, not least with savagely steep house price to salary ratios, adding to overcrowding and affecting Londoners' health and wellbeing⁴².

Figure 7: Average house price (2018) as multiple of average salary (2017)



Source: Land Registry Office/Annual Survey of Hours and Earnings

42 Gareth Pigott (2013) - How can we explain levels of happiness and wellbeing of Londoners?

Development is an imperative for every part of the country. Central government must think as the World Bank did in the post-independence world. To empower places and prevent social unrest, investment must be made to scale and local leadership must be empowered.

1.4 Regional Development after the EU

It is becoming a commonly-stated notion that regions most in receipt and need of EU structural investment funds were more likely to vote Brexit⁴³. The Commons Housing, Communities and Local Government (HCLG) committee noted the importance of European Investment Bank (EIB) to local government in an April 2019 report⁴⁴.

Leaving the EIB's jurisdiction provides an opportunity to develop a system that moves the UK away from very targeted initiatives like the Northern Powerhouse – where investment was mostly from the centre and often wrapped up with transport links to London⁴⁵ – or a never-ending succession of bidding for cash pots. In line with the HCLG Committee⁴⁶, 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 handout system. The Shared Prosperity Fund is currently threadbare in detail. Arguably, money would in any case be better spent on an investment fund, alongside wider fiscal reforms which we lay out in the next chapter. The current plan to hand the money to Local Enterprise Partnerships (LEPs)⁴⁷ is not as disagreeable as some in local government would have it. However, from a localist perspective, the idea of an unelected body having sole responsibility for leading investment decisions at a local level is untenable.

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. It would be a monumental lost opportunity to simply replace remote Brussels oversight with Whitehall diktat and call it independence. Reducing dependency on structural funds could be remedied through fiscal autonomy is addressed in the following chapter. But the chance to replace the EIB with something better suited to England's localities is very much related to the productivity crisis. To move forwards, a British Investment Bank should be established, with LEPs able to formulate applications for major infrastructure loans *alongside local government*.

1.4.1 Establishing a British Investment Bank

An institution to replace the EIB's role in local government finances could be in addition to, or merged with, the British Business Bank (BBB). The BBB is designed for SMEs to borrow from and is government funded, unlike the EIB which raises its own funds on capital markets with a guarantee from EU member states. A British Investment Bank could be a mixture of the two, with seed capital provided by the government alongside a guarantee to underwrite fundraising on the open market. As the Lords Committee on Exiting the European Union reported, this would make the cost of borrowing higher than a direct government loan, but the benefits of increased autonomy would offset this.

To quote directly from that Committee:

*"If the Government decided to establish a UK infrastructure bank, our future relationship with the EU may require us to respect EU State aid rules when considering its design. This was the case for the Green Investment Bank and continues to set the limits of the British Business Bank's activities. However, the example of some Member States, notably Germany, shows that these rules allow sufficient flexibility to enable the creation of such a national infrastructure institution."*⁴⁸

43 University of Exeter (2019) – EU funding failed to win hearts and minds and prevent Brexit vote

44 Commons HCLG Committee (2019) - Brexit and local government

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

46 HCLG Committee (2019) – Brexit and Local Government

47 Local Government Chronicle (2019) – Fears post-Brexit prosperity fund could go to LEPs

48 House of Lords European Union Committee (2017) – Brexit: The European Investment Bank

The primary obstacle to the creation of a British Investment Bank is the ever-salient issue of the public balance sheet. As an external liability, the EIB is not factored into public sector debt, which has allowed the UK to contribute without jeopardising commitments to proportional reduction of public sector debt. To combat this, the UK2070 Commission into regional inequality must make the reform of public sector debt statistics to allow for regional development a part of its purview. There is not one, unified way to calculate public sector debt – in fact, a Lords select committee heard that the UK’s method is an international outlier. We can neither allow statistical calculation to scupper the opportunity for reforming a post-Brexit economy, nor the challenge that it represents to be shirked.

The creation of a British Investment Bank must follow Brexit. Embedded across the country with a regionally-linked financial architecture, such an institution could deliver benefits beyond the EIB. To avoid falling into the pitfalls that have led us into the underdevelopment described in this chapter, 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 conditionality on applications being made in tandem, with neither one or the other alone being sufficient. It is also likely that investment loans will be sometimes better targeted at larger 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.

A Biclavial System

The suggestion from the Minister for Housing, Communities and Local Government that post-Brexit replacements for EU structural funds will be handled by LEPs was met with consternation in local government. We think it is sensible for any direct funding to go straight to elected representatives but, as this report makes clear, direct funding from central government is no long-term solution to the problems faced across the UK. In a reformed system, where local government had greater fiscal autonomy and large infrastructural investment funded through loans from a British Investment Bank, we recommend a ‘biclavial’ – that is, ‘two key’ – approach.

Local authorities are the democratic representatives of communities and should be involved in investment decisions in the local economy. LEPs, as voluntary business partnerships, represent key stakeholders in an area who have their own unique vantage points.

Major financing of economic development initiatives should not be undertaken lightly, nor should they be hostage to the whim of any one politician or party’s quest for a ‘grand project’. A biclavial system would mean applications for finance would be submitted jointly by local authorities and LEPs, or consortia thereof. This would ensure the broad consensus necessary for projects to be successfully seen through.

1.5 Hitting Reset

For the above 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, this 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?*

The rest of this report tries to answer these questions and provide suggestions for how we can move to a situation where it is truly possible to take back control, refortify our local economies and rebalance the national economy.

Section Two: Local Leadership in England

A plethora of international and UK regional examples provide ample evidence that successful economic development is dependent on effective leadership⁴⁹⁵⁰. To achieve development and diversification needed for national renewal and local economic rebalancing - places need leadership. Leadership which is capable and dynamic enough to draw together the complex system of local civil society and direct it towards a common purpose. If places are to reassert control of their own destiny, they need leadership that has the means, wherewithal and institutional scope to act. The interface between central and local government will need to be clear and open for any real diversification to take place, with channels of communication and power balances that do not tip too far one way or the other. The question for this chapter to answer is: how far away are we from such a conception of leadership?

We took this question to the people who know most about local leadership: local leaders and the central government figures closest to their brief. This chapter is the result of a semi-structured, long-form interview series where local leaders and senior civil servants were given the opportunity to describe the challenges to central-local relations moving forward. Discussions were also held with groups of officials and councillors representing parishes, districts, counties, metropolitan, unitary and combined authorities.

2.1 The need for strong local leadership

2.1.1. Defining leadership

In 2015, the Department for Business, Energy and Industrial Strategy (BEIS) investigated the link between leadership and management skills as a key constraint on business performance in Small and Medium Enterprises (SMEs)⁵¹. Despite the similarities between councils and businesses (financial stability and value for money), there has never been a similar study on the links between leadership and performance in local government. Like leaders in business, council leaders must pitch themselves at various levels in the task of – to quote from the BEIS leadership definition – ‘motivating, influencing others, and delegating work’. For council leaders, they may find themselves acting variously in the capacity of:

- Leader of the council
- Leader of the local party
- Leader of *place*

For the sake of this report, place-based leadership and its interplay with council and party leadership is most important. Place-based leadership can be defined as those in power who make decisions for the benefit of communities within a locality⁵². This can include community leadership and business leadership,

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

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

51 Department for Business Innovation & Skills (2015) – Leadership and Management Skills in SMEs: Measuring Associations with Management Practices and Performance

52 Robin Hambleton (2014) – Leading the inclusive city: Place-based innovation for a bounded planet

particularly to achieve inclusive growth⁵³ and economic development. Place-based leadership is not a simple concept. One interviewee made the point that **“it’s defining the size of the place that’s the problem”**. This is difficult anywhere, but with England’s complex local government structure the task of working out who is in charge of what can be labyrinthine for residents.

Leadership is no end in of itself. It is a journey that continues through a set of social processes that influence outcomes⁵⁴. For council leaders, 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.

Type of Change in Local Government	Characteristics
Change occurs through decentralised diffusion ⁵⁵ .	Characterised by broad power sharing through horizontal networks and focus on local adaptation. Organisational cultures and structures are identified as being facilitators or barriers to continuous learning.
Change can be identified and led through managerial strategy ⁵⁶ .	Councils have increasingly aimed to be more efficient and professionalised. Use of strategic process as a way of strengthening member and political involvement.
Change occurs through institutional innovation and inertia ⁵⁷ .	Power relations and informal rules determine how council leaders and mayors enter or leave these positions and influences what actions they can take. E.g. the ability of a leader to influence is dependent on their relationship with the chief executive of the local authority.
Measuring the outcomes of change alongside performance management through benefits realisation ⁵⁸ .	Greater collaborative working to reduce costs while maximising benefits. Creating the conditions for greater innovation in the way change is implemented and value added.
Change through externally-imposed change.	Perhaps the most obvious, it is one of the major drivers of change across tiers of local government. E.g. austerity policies directed and delivered from central government.

2.2 Leadership in councils

To help get a sense of the trends and divergences in what constitutes effective and representative leadership across England, we conducted a representative interview series with council leaders, as well as Whitehall officials.

Although this report focuses on council leadership, it is important to state

⁵³ The RSA (2016) – Place-Based Leadership

⁵⁴ Joseph Rowntree Foundation (2005) – Local Political Leadership in England and Wales

⁵⁵ Nutley & Davies (2000) – Making a reality of Evidence-Based Practice: Some lessons from the Diffusion of Innovations

⁵⁶ Les Worrall, Chris Collinge and Tony Bill (1998) – “Managing strategy in local government”

⁵⁷ Vivien Lowndes (2006) – Something Old, Something New, Something Borrowed... How institutions change (and stay the same) in local governance

⁵⁸ Association for Project Management (2013) – Pushing the boundaries of change: Benefits realisation across local government

we recognise that these are not the only people involved. The chief executive is also vital to the success of a place. A former government minister told us: **“The relationship between the two is absolutely crucial – a poor relationship is going to be very difficult.”** The emphasis for both section two and three of this report, builds on the argument made in the first section on democratic accountability and institutional cohesion. For this reason, we focus on the elected officials.

What does leadership look like in local councils?

Council leaders ranging across political and urban divides conceptualise leadership in a variety of ways, nevertheless they all seem to maintain similar core elements which include:



Listening and Pragmatism



Persuasion and Compromise



Consensus and Collaboration



Openness and Transparency



Approachability and Inclusiveness



Vision and Direction



Drive and Enthusiasm

2.2.1 Political control

Discussing this research with central government officials, the idea of 'one-party state' councils – typified, with good reason, as 'red' metropolitan boroughs and 'blue' shires – was raised as a potential argument against decentralisation. Talking to council leaders, however, we found the assumed certainty of political control was generally absent. For instance, two Conservative council leaders from rural areas felt that a large majority was not doing them any extravagant favours. One noted: **'I have too big of a majority, rather than dealing with the opposition, it's keeping all the members of my Conservative group happy.'** The second, from a similar political position said that, **'a stronger opposition would be better. When you have very few individuals acting as the opposition, it is unhealthy because you aren't as challenged as much as you could be.'** One Conservative interviewee felt the government was complacent about their continuing support and consequently neglected by central government.

Maintaining mass support in a legislature is important to governance and, at a wider level, the task of influencing is central to any leadership. One would perhaps assume this would be more important in cases where leaders cannot rely on a strong majority. However, of the many leaders who spoke to us about the importance of consensus, only a small number were from councils with small political majorities. Leaders need a strong challenge, regardless of which party it comes from; a strong majority doesn't preclude a leader from facing opposition and a strong opposition doesn't guarantee effective challenging of a leader.

Regardless of its internal effect, political control of councils impacts on central-local relations. Several interviewees recalled the adage that **'every opposition party talks localism whilst every government exercises centralism'**. Any long period of single-party dominance in Westminster tends to be mirrored by charges of favouritism from councils dominated by the other main party. These claims are not unfounded – there is evidence that metropolitan 'red' boroughs fared better under New Labour, as rural 'blue' shires have under the Conservatives. When considering the overall trajectory of local government finance in both eras, however, the trends remain the same and the differences are somewhat marginal. There is no guarantee that shared political affiliation will naturally lead to harmonious relations, as metropolitan Labour mayors have found with the modern Labour party⁵⁹.

2.3 Structure of governance

2.3.1 Unitarisation in non-metropolitan England

In discussing how leadership plays out in non-metropolitan England, many of our interviewees mentioned the prospect of unitarisation. Asked about the impact of place leadership on central-local relations, a senior Whitehall policymaker stressed it is **"actually as much about size and shape of the local government structure"**. They argued that the two-tier system is complex, particularly for economic policy, and that if the system were designed from scratch, it would not exist as it does today.

⁵⁹ MailOnline (2018) – Jeremy Corbyn 'is trying to gag' London Mayor Sadiq Khan at Labour party conference

CENTRAL GOVERNMENT



26

County Councils

There are currently 26 County Councils across England.
The responsibilities that lie with them include:

- Education
- Transport
- Strategic planning
- Fire and public safety
- Adult and Children's Social Care
- Libraries and Cultural Services
- Waste Management
- Trading Standards.

192

Districts

There are 192 districts across England based within county areas and responsible for delivering local services, such as:

- Housing and Planning
- Council Tax and Business Rate Collection
- Recycling and Bin Collection
- Electoral Registration
- Leisure Centres
- Environmental and Public Health

≈
10k

Parishes

Parishes operate on a level below that of county, district or unitary councils. They are responsible for looking after and providing community centres, helping local organisations, and bus shelters amongst many others. There are close to 10,000 Parishes across England.



Combined Authorities (mayoral and non-mayoral)

Legal bodies that allow a group of two or more councils to join together in collaborative decision making processes and strike 'devolution deals' with the government.

There are 9 CA's:

- Cambridgeshire and Peterborough
- Greater Manchester
- Liverpool City Region
- Sheffield City Region
- Tees Valley
- West Midlands
- West of England
- North East and West Yorkshire

Core Powers set out in the devolution deals include:

- Restructuring the future education system
- business support
- the work and health programme
- EU Structural Funds/Strategic Development Funds
- Transforming Cities funding, fiscal powers planning and land use.



Greater London Authority

The GLA has powers and responsibilities in the following areas:

- Transport
- Economic Development
- Environment
- Housing
- Policing
- Fire
- Culture
- Strategic planning
- Energy
- Health.

36

Metropolitan

32

London Boroughs

There are currently 36 metropolitan boroughs that together cover 6 different urban areas. These include Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands, and West Yorkshire. London boroughs are classed distinctly but are functionally very similar. The Metropolitan Boroughs are responsible for all services in their area, but there are certain services they hand over to joint/combined authorities. These include services such as fire and civil defence, police, and passenger transport.

56

Unitary Authorities

Unitary Authorities hold responsibilities for every aspect of service delivery within a county, where the county is not split into different levels (eg county and district councils). There are currently 56 different UA's in England as of May 2019.

Faced with the multi-tiered complexity of UK local government, it is unsurprising that calls for a unitary system have been many and persistent over the years⁶⁰. A county council leader argued in its favour, citing the increased geographic size of unitary authorities as offering a greater remit for strategic leadership. We also heard the argument, echoing the aforementioned Whitehall concern, that a larger area can lead to stronger dialogue with central government. In public-private relations, as well as central-local, unitarisation was suggested as a way to increase value for money in local public services through achieving economies of scale and negotiating at a bigger scale with private contracts.

Unitarisation is not a silver bullet. Another top-down reorganisation of local government is unlikely to lead to the ultimate, perfect arrangement. As recent cases in Northamptonshire and Dorset have shown, unitarisation can be a way to improve the viability of councils in poor financial condition. Yet it is important not to confuse the survival manoeuvres of a sector severely impacted by nine years of cuts with spontaneous and beneficial reform. Places should be able to decide their structure of governance within reason - and choosing between available models is reasonable enough. The examples of Northamptonshire and Dorset should not be taken as cause for a top-down reorganisation of local government. Where district and county, or borough and combined authority, systems are working then they should be allowed to do so - with centrally-vested initiatives devolved to the level at which they are best implemented. An example of this is the Adult Education Budget, which will be devolved to upper-tier authorities, a relatively straightforward decision. Deciding between two levels of local government with clearly defined spatial briefs should not be a roadblock to devolution. As with the local state, the central state must manage this complexity rather than seek vainly to eradicate it.

2.3.2 Local Government Electoral Cycles

All UK local councillors are currently elected for a four-year term. 259 councils elect all councillors once every four years, yet the years in which these elections occur differ⁶¹. Some councils elect a third of the council each election – holding elections every year except on the county council election year. A small number of councils elect half of the council every two years. The complexity of this electoral cycle is problematic for reasons both relating to public engagement and how it compounds the complexity of relationships between central and local government. Recently there have been calls for a more proportional voting system in local government, giving voters a more nuanced choice and reducing disillusionment among voters.⁶²

Electing one-third of councillors every year may contribute towards lower turnout due to the complexity of the electoral cycle. This debate has existed for a long time, with the electoral commissioning arguing that this does not provide equal access to influence in the democratic process⁶³. For most councils that elect all councillors on a four-year term, these occur on different years, meaning there cannot be a national campaign to encourage people to take part in local elections. We are not arguing that local elections ought to coincide with a UK general election – as this would undoubtedly drown local issues under the weight of the national campaign – but instead all local elections should exist as a single election campaign. Doing so, would give greater media attention to local government issues and increase public awareness (and hopefully turnout) of local government issues⁶⁴.

Since the introduction of the 2011 *Fixed Term Parliaments Act* the four-year rotating cycle of local elections stands further apart from the national political rhythm. As councillors change across the country regularly, this makes implementing policy in

60 Mark Sandford (2017) – Two-tier or not two-tier? That is the question

61 Ministry Housing, Communities & Local Government (2019) – Election timetable in England

62 LocalGov (2019) – Brexit deadlock reveals need for ‘fairer’ voting system, campaigners say

63 The Electoral Commission (2004) – The cycle of local government elections in England

64 Political Studies Association (2013) – The May Local Elections – Who’s Voting Where

local areas especially more difficult (particularly those that elect biennially and by thirds). Councillors, like MPs, should sit on the council for a minimum of five years. Extending the local government election period to five years may help central and local government officials build more productive and long-lasting relationships. We make the case for a longer funding cycle, but this needs to be supported by longer and more stable electoral cycles, otherwise the problem of short-termism in policymaking at both a local and national level will continue.

Mayors and Local Leadership

In 2012, David Cameron proposed a new 'Cabinet of Mayors' as a forum to provide a voice for elected city mayors at the centre of government. The idea was to help mayors lobby for the interests of their city whilst also providing a space for cities to exchange ideas and highlight innovation. The advantages of a mayoral system were justified for several reasons: mayors could deal with direct inward investment, increase accountability to the electorate and provide leadership⁶⁵.

Whilst by no means a bad idea, the plans never really materialised. The Cabinet was intended to include the directly-elected mayors from the UK's biggest cities. However, only Bristol City Council adopted the new mayoral model. And there was confusion over how the 'Cabinet of Mayors' would work, with some pointing out that the cabinet would include cities with a mayor such as London and Liverpool, yet areas with directly elected figureheads such as Doncaster and Middlesbrough were not included. With major cities like Birmingham also absent, there was risk of it becoming a high-profile talking shop, with little substance⁶⁶.

While the Cabinet of Mayors may have failed to catch on, leaders of cities, mayoral or otherwise, do need to have a voice within central government, to drive the conversation about the tools needed for local growth and prosperity⁶⁷. Schemes such as the 'Mayors Challenge' recognise the important role of cities in being able to influence innovation and solutions to socio-economic issues facing urban areas across the world today.

Kirklees in West Yorkshire won €1m from the challenge to improve the local area and quality of living, resulting in the launch of the app 'Comoodle' in 2017 to empower the local authority to act as a facilitator rather than a provider of services⁶⁸. This funding highlights the importance of supporting local areas and cities globally to develop new strategies to meet the needs of residents locally.

Moves towards devolution and devolved powers such as the £6bn budget devolved for health and social care in the Greater Manchester Combined Authority (GMCA) is a step in the right direction – especially given the prominence of 'metro mayors' such as Andy Burnham and West Midlands' Andy Street. These metro mayors seem to be able to exert soft power influence over central government policy, more so than those areas without devolution deals. The mayor in this case may have greater controls over setting budgets and leading on issues such as transport. During the research process a senior figure working in a combined authority pointed out the need to recognise the importance and difference that directly elected mayors make.

Despite prior progress with the devolution agenda, the situation today remains static. Without devolution of fiscal powers and a seat at the table for all major localities regardless of leadership structure, local authorities remain constrained in policy development. Leaders and mayors face competing priorities that can hinder policy making, trying to balance an inherent tension between local economic place leadership and delivering local services.

65 The Municipal Journal (2012) – Cameron pledges Cabinet of elected mayors

66 The Municipal Journal (2012) – Existing mayors excluded from PM's 'cabinet'

67 The Municipal Journal (2016) – Calls for PM to meet mayors

68 Bloomberg Philanthropy (2014) – Comoodle: Connecting Communities

2.3.3 Parish Councils

Parish councils are often overlooked in considerations of local government structures. Yet interviews revealed there is little difference between parish councils and other tiers of local government, particularly the culture in local councils. Parish councils promote a 'can-do' culture and a 'no-blame' policy like other councils mentioned during the research. One councillor believed that thinking outside of the box to promote new ideas was important for parish councils to lead the way. Leaders must always keep ahead of future trends, pressures and legislation.

Parish councils, like other local authorities, felt disconnected from Westminster, with one interviewee explaining that their own MP did not have any idea about the work of the parish council despite attempts to inform the MP of such work. When asked about the conflict between central and local government, another parish councillor stressed that there has always been tensions and difficulties between the central and local government. He stressed that **'the opposition will always love localism whilst central government will never want to relinquish too much power'**.

Unsurprisingly the parish leaders identified the devolution of services as their top priority. Double devolution is not new. Most people would support bringing power down to the lowest level and empowering neighbourhoods to contribute to their local communities. Yet the moves towards this are stagnant. One leader believed that the key to achieving greater devolution was through building stronger and more productive working relationships with the principle authority.

2.3.4 Local Enterprise Partnerships

Considering the concerns many in central government have with the complexity of local government structure, some notable additional layers of local governance have been birthed. The introduction of Local Enterprise Partnerships (LEPs), is a good example of a well-reasoned decentralisation policy running into complications due to poor communication between central and local government. The structure of LEPs, for example, has not been defined by government and they vary widely. The most common structure is a company limited by guarantee combined, while two-in-five (41 percent) of LEPs have unincorporated voluntary partnerships between private sector representatives and local authority leaders⁶⁹. Differentiation is no bad thing, and it is not necessary for the centre to dictate how LEPs should be structured. However, the government should mandate the relationship of new local bodies to local government. The establishment of many LEPs, we were told during our research by local and central officials, was more to do with conversations between BEIS and the new LEPs than between local government and their new partners in local growth industrial strategy - with councils struggling to get a seat at the table.

The trouble with LEPs, can be attributed more to a lack of communication and cohesion at the local level, than to a lack of elegance in systemic design. Where LEPs have strong lines of communication with councils, for example in Cornwall or the South East LEP, lines of competence and jurisdiction can be drawn based on local factors - without the need of any major reorganising. Both local leaders and civil servants, however, told us how combative and obfuscated central-local relations during the establishment of LEPs, led in some cases to a lack of clarity of purpose at the local level. This lack of clarity, combined with the intention of LEPs to be privately led, means that local authorities can face feeling of exclusion from important meetings and information about changes to the local area. This is further complicated by the fact that LEPs reported they were uncertain about their place in the wider devolved landscape, with only 49 percent feeling there

⁶⁹ NAO (2016) – Local Enterprise Partnerships

were clear lines of accountability between the LEP and the local electorate⁷⁰. This need for clarity informs the 'biclavial' system of investment decisions described in section one.

2.3.5 Of Committees, Cabinets and Mayors

The internal structure of councils can also impact cohesive leadership. A cabinet system was introduced into local government by the *Local Government Act 2000* and most councils now operate in this structure. The cabinet contains the council leader and several individual members responsible for certain portfolios such as finance or education. It is required that cabinet councils must have at least one scrutiny or overview committee. Stockport Council operates a leader-cabinet system with different councillors responsible for separate areas such as health and education and has experienced no overall party control for many years⁷¹. An argument in favour of retaining the committee style model is that in areas of no overall control, a committee system is more appropriate, allowing more voices to be heard and, therefore, increasing democracy⁷². Research suggests, however, that the use of a cabinet system with no overall political control has no discernible impact on the efficacy of leadership⁷³.

Most of our interviewees illustrated a preference for the cabinet system, stating that it is much more efficient and brings the benefits of specialism and clarity, leading to greater accountability. However, in a cabinet system, if the leader is empowered to select his or her own cabinet, it is more likely that the leader's view will be reflected in this cabinet, possibly making it easier for these leaders to exert influence. Support from the leader's cabinet colleagues would normally pass the mayoral or council leader's proposals through council. One interviewee argued that the cabinet system makes leadership and decision-making easier. A former local government minister said: it was **"true to say the cabinet system definitely enables leaders to lead better than before"**. It also ensures the day-to-day system runs more efficiently compared to the committee system.

The addition of directly-elected mayors in combined authorities has created another model, where the elected mayor sits above various leaders and their cabinets. Mayors are not constrained by party groups to the same degree as council leaders, by dint of parties being unable to deselect a directly-elected mayor. This may make it easier to drive through proposals and allow greater flexibility with other arms of the local state. In theory there is scope for elected mayors to exercise greater leadership qualities than councillors. For instance, while Andy Street undoubtedly benefits from the accelerated devolution of the WMCA, his public presence and effective stakeholder engagement are also key sources of power for his office. The extent of influence is dependent on numerous factors including the individual's experience, the level of support from council members and their ability to use the resources around them to exert leadership skills. As such, allowing localities to decide on their system – whether to be cabinet or committee, whether to create a mayoral role – remains a positive step in local governance.

2.4 Central-local relations: the view from the periphery

2.4.1 Trust

One of the problems with centralisation is that any individual failure in local government is seen as systemic. When a hospital fails - for example Mid-Staffordshire - blame is ascribed to a lack of money rather than the failings of the people running it. This systemic blame may be a distraction from the fact

⁷⁰ Ibid.

⁷¹ Stockport Council – Committee Details

⁷² LGiU (2014) – Changing to a committee system in a new era

⁷³ Joseph Rowntree Foundation (2005) – Local Political Leadership in England and Wales

that local government is, unlike the health service, far more democratically accountable and reasons for failure might be due to the cumulative experience of a near decade of fiscal tightening.

It is certainly true that much of the discussions we held around the devolution agenda, and its recent stalling, focused on central government's view of the capability of local government to implement policy. A local government expert observed: **"There is a powerful sense, which people in Whitehall are careful to never express, that they and ministers simply don't think local government is up to it. This is a default view of the highly educated."** The view often expressed in our interviews was that many in central government inherently distrust local government. This inherent distrust among Whitehall civil servants has the potential to influence ministers along the same lines. Anecdotal justifications of reasons not to trust local government are seemingly recycled from one generation to the next.

New research published by Hansard found the public's trust in government is at its lowest in 15 years⁷⁴. This research also investigated the public's confidence in political institutions to act in the best interests of the public. 44 percent had complete or a fair amount of confidence in local government, 33 percent of people had confidence in the Government and 29 percent were confident in political parties. This combats the anecdotal justifications to distrust local government. The large confidence gap highlights the fact that levels of democratic trust are far higher on the local rather than the national stage.

One interviewee did not feel that central government had constrained their ability to implement policies. Instead they felt they had to be aware of central government guidelines but they could still implement policies best for their local area. This stands in stark contrast to many other interviewees who felt highly constrained and limited by central government.

The leader who felt less constrained by the government controlled an authority within close proximity to London - and perhaps policies feel more relevant given geographical closeness to the capital. The interviewee added it was essential for a leader to challenge central government to protect local visions and deliver priorities. Even if some councils do not feel entirely constrained by central government, bureaucracy emerged regularly as a source of frustration.

Part of this is a natural tension in governance: policy needs to address issues that matter to people, yet you cannot hit the mark for everyone, everywhere, every time. A Whitehall source said: **'Policy should reflect what people want – the tricky bit is working out how to do that...because you cannot design a system that is a bespoke public policy offer for 60 million people'**. It was argued that aggregation of policy is required at some level, but where that level exists could be explored further:

- Where does the aggregation take place?
- To what degree does aggregation take place in local government formally?
- To what degree does it take place in other local institutions such as schools and hospitals?
- How does the interaction between delivery of policy take place and how does central government set the right framework?
- How it's delivered and where the flexibility exists may look slightly different everywhere – one of the challenges is how to join it all up?

2.4.2 Building relationships

During the research process, a council chief executive said they had never seen the relationship so broken. They added that local government needed to be

74 Hansard Society (2019) – Audit of Political Engagement – The 2019 Report

more demanding and a new contract with the centre was required. This point was reinforced by a county council leader who said while local government must demonstrate delivery and results, doing so is difficult especially on strategic issues such as housing over the medium and long term.

Ultimately you need mutual respect between central and local government. A former minister told us: **“Local and central government have been going in opposite directions and I can totally understand why – less contact, less respect, less belief in what they’re doing. In words it does, but not in practice – there is no seat at the table for these people”**. Contact is key. Some 13 Whitehall departments liaise with councils on a day-to-day basis. For the Ministry of Housing, Communities and Local Government (MHCLG) a department whose own institutional memory and capacity were hollowed out from 2010, and which now experiences unprecedented staff turnover,⁷⁵ keeping dialogue alive with 350 individual local authorities simultaneously is, an official remarked, quite a job.

Given this, it has never been more important for both sides of the central-local spectrum to build relationships based on respect and trust. And for real economic leadership to flourish from this basis of mutual respect. But networking is already a vital, if underestimated part.

As a Whitehall official told us: **“We can tell the difference where someone is quite a powerful leader through their profile, visibility, if they network. All those things actually matter”**. Put simply, there is more to devolution than the formal transfer of powers. Beyond statutory obligations, central-local relations are built on a place-by-place basis through the dialogue and exchanges leaders have with central government. The council leaders and chief executives who approach central government in a collaborative way tend to get more traction. We were told bluntly that council leaders who attend meetings with a negative attitude, as perceived by Whitehall, will never be productive. While this may be far from fair, it is an unavoidable reality of working within an uneven power structure. Council leaders need to understand how to maximise their engagement with civil servants and use empathy to understand the pressures and constraints on the central government side.

Improving the relationship and also governance structures in local government is a universal wish. The National Audit Office (NAO) has advised central government to improve its oversight of governance in local authorities and make engagement with them more transparent⁷⁶. Councils have increasingly turned to commercial investments to derive revenues to fund day-to-day services. Figures indicate a £2.5bn increase in local authority spending on land and property from 2015-16 to 2017-18 alone, a trend which raises risk of financial failure and underperformance⁷⁷. The NAO states that strength of governance helps determine the ability of different local authorities to cope with these commercial challenges. In such cases, good engagement and strong relationships between central and local government will be required, regardless of political affiliation.

The future focus must be on effective partnership working to ensure key players at central and local level collaborate and make the best use of time and resources to achieve shared goals. As a former minister said: **“Often skilful leaders get things done by building those relationships, not compromising their values but being prepared to negotiate on the practicalities of something.”** Moving towards a more genuinely devolved settlement and diversified economy, this partnership mindset will become more important. Encouraging and facilitating a relationship-building, network-focused style of place leadership will be pivotal - and there is space for improvement in the centre. The current relationship is possibly reflective of the geographic locus

75 IFG (2017) – Moving On The costs of high staff turnover in the civil service

76 Public Finance (2019) – MHCLG must have better oversight of local authority governance, says NAO

77 NAO (2019) – Local authority governance

of centralisation, with many council leaders forced to make the journey down to London to make any form of request for more funding or greater powers.

2.4.3 Respect

Almost every conversation with local leaders featured, in one way or another, the issue of respect. Council leaders do not feel that ministers appreciate the complexity of local government. Nor are they adequately assured that central government quite understands the importance of locally-delivered services. This is a difficult issue to unpack, resting as it does on perceptions and personal feelings. But there cannot be progress towards a diverse and differentiated England without a kind of healing in this aspect of central-local relations.

Lots of interviewees felt because they are democratically-elected to represent people and accountable to their communities, central government should give local councils more flexibility and trust.

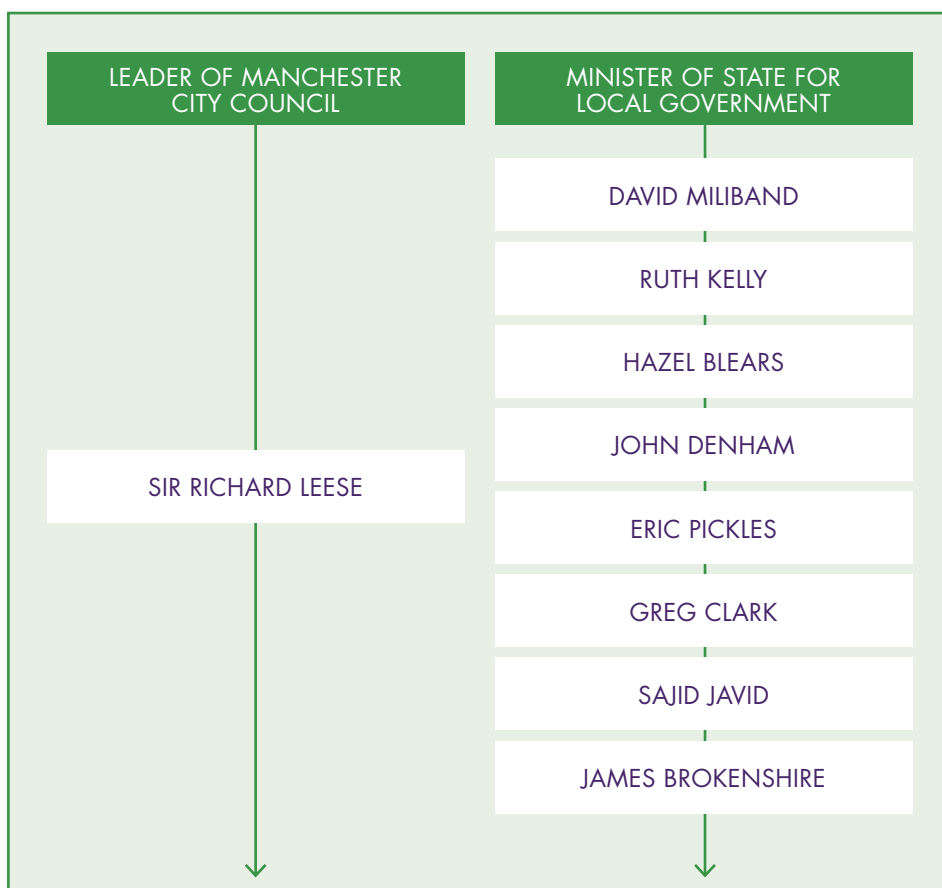
As one leader of a Labour council said: **“I don’t think central government really respects or understands the importance and power of local government. They need to address that because we have the keys to move the country forward.”** In response to this claim Whitehall officials disagreed, making the counter argument that a perceived lack of respect indicates not arrogance or malevolence as much as a lack of knowledge and ‘deep understanding’ of local government within pockets of the civil service.

District council respondents suggested this may be exacerbated by the fact departments of state are primarily located in central London, meaning that civil servants are more likely to be firmly within the ‘metropolitan bubble’. One interviewee highlighted the absurdity of Defra, the department most closely aligned to rural issues, being located scores of miles away from any of its well-grounded stakeholders. The Centre for London has accepted criticisms that Whitehall civil servants risk bringing a London-centric perspective to national decisions by simple virtue of being based in the capital⁷⁸.

An interviewee recommended that ministers should improve their understanding of issues facing local authorities across the country, to improve the direction of policy coming from central government. It was pointed out to us more than once that cabinet ministers tend to represent areas in and around the greater South East. A senior Whitehall policy maker rebutted this claim. In their experience: **“Ministers are acutely aware of the politics of England...that understanding of what’s happening across the country is really important.”**

Another frequent refrain was that ministerial reshuffle hinders the development of central-local relations. A former minister with a local government brief described to us the problem of ‘keeping the relationship plate spinning’. Every time a council leader, chief executive or minister changes jobs, the time required for rebuilding relationships is underestimated. As the chart on page 41 illustrates, the heavy lifting in this dynamic must be done by councils. For long-serving council leaders such as Sir Richard Leese, the numbers can be stark: he has seen 17 housing ministers since becoming Manchester City Council leader in 1996. Furthermore, it can be difficult to make deep changes through long tenure due to the nature of the job. A former government minister remarked how ministers mainly want to **“make their mark and short-term wins because they won’t be in the job long enough.”** **“You want something to happen before you leave office”**. Ministers desire to leave a legacy for something they have done, rather than create the space for meaningful change by transfer of power.

78 Centre for London (2019) – London, UK: Strengthening Ties Between Capital and Country



2.5 Funding

2.5.1. Taking money

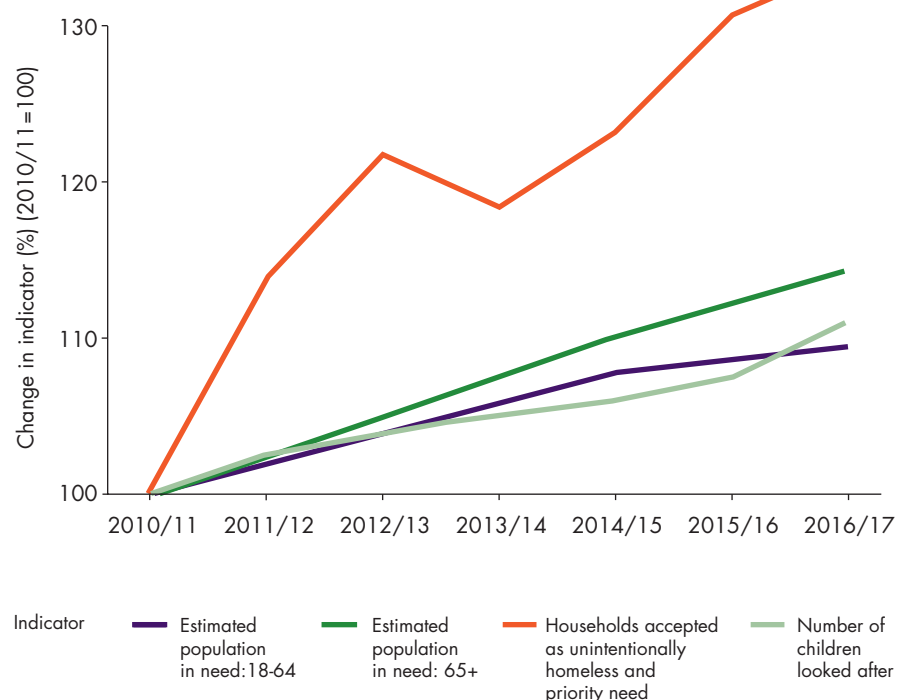
Unsurprisingly, the most covered topic across all our interviews was finance. On average, councils have faced budget cuts of over 60 percent between 2010 and 2020. Rising demand for services such as adult social care will leave local authorities facing a further funding cut of £3.9bn by 2019/20⁷⁹. Adult social care spending made up 36.9 percent of council-controlled budgets in 2017-18 and is estimated to rise to 37.8 percent in 2018-19. The picture is not much better for children's social care, with 91 percent of local authorities overspending on children's social care in 2017-18. The increasing social care burden has knock-on effects, local authority spending on preventative services fell from 41 percent in 2011-11 to 25 percent in 2017-18. With further effective cuts likely to come, the ability of local government to do more and more with less and less is perilously close to its breaking point⁸⁰. Local government has performed admirably in maintaining service standards and public satisfaction levels⁸¹, but after a decade of financial stringency, the cracks are inevitably showing.

⁷⁹ Local Government Association (2018) – Local Services face further £1.3 billion government funding cut in 2019/20

⁸⁰ The Municipal Journal (2018) – Nine out of ten councils blow the budget on children's care

⁸¹ Localis (2018) – On the Ropes

Figure 8: Change in demand for local government services
(Reproduced from National Audit Office — Financial Sustainability of Local Authorities 2018)



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 to being simply a service delivery branch of central government. This creates a problem for councils, as their means to deliver even the core service offer has 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. One Labour council leader stated: **“Central government has bludgeoned local government financially and [local government] has been treated disrespectfully, the relationship is at an all-time low.”**

Without understanding the context with which the coalition government of 2010 took office, the cuts to councils seem punitive to the point of absurdity. As more than one Whitehall official reminded us during our research, the electoral promise to significantly cut the national structural deficit meant that after 2010 the entire public sector found itself working in a very different environment. It is also worth noting that there was opportunity for reform, especially in service delivery across local areas and otherwise that needed to be addressed⁸². Nevertheless, local government took the brunt of austerity public finances. Compared to the protected areas of public spending, the health service, core primary and secondary education and international development, local government has been low down on the list of priorities.

Many councils have had to find innovative ways to raise revenue to continue delivering public services through:

- commercialisation of property;

⁸² Centre for Social Justice (2011) - Outcome Based Government: How to improve spending decisions across government

- working with other local authorities to jointly deliver services such as adult and social care;
- offering a voluntary council tax for the wealthiest residents;
- using technology to improve customer services and reduce the workload of the council to keep services open;
- reforming services;
- creating parish councils across the whole borough to devolve service delivery.

One Conservative interviewee echoed many participants in saying: **“It would be better if we could design a system where local government could finance itself separately [rather] than relying on handouts from central government”**. While there is ample scope for an increase in tax-raising powers at the local level, as the next section covers, 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. Likewise, there are some core services that should remain funded via central government, as is the case in even the most devolved OECD nations⁸³.

This does not mean that the current system cannot be altered to a less fiscally dependent central-local relationship. A senior academic described the relationship which the sector has with the Treasury as akin to the ‘Stockholm Syndrome’. A mindset of learned helplessness in a world where it can no longer imagine that local policy would not be held financially captive by Whitehall.

The case for a longer funding cycle

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 greater 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. Part of the reason capacity would be increased is the reduction in time spent on political wrangling over the implications of a spending review or local finance settlement. Many urban leaders interviewed in this project cited communicating budgetary decisions to the public as a major obstacle to their leadership. The inability to set priorities beyond five years, and the reality that public spending patterns are erratic and typically favour consumption over investment⁸⁴ has been a block on long-term investment in local infrastructure. Short-term cycles also make it harder for councils to properly invest in preventative, public health initiatives which save money in the long-term, like the Somerset example in section three of this report of the hugely successful HENRY initiative in Leeds. Furthermore, several leaders described the problems an unexpected change in financing can bring in their vital role in building and maintaining relationships between branches of local civil society.

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, clientelism do have an impact on spending priorities⁸⁵. Recent statistical analysis has shown that instances of politically-motivated spending are more likely when the local government map is politically fragmented⁸⁶. This is relevant to England,

⁸³ See the OECD’s tax autonomy indicators

⁸⁴ Tony Travers (2012) - Local government’s role in promoting economic growth: removing unnecessary barriers to success

⁸⁵ Andrew Phillips (2016) – Seeing the forest through the trees: a meta-analysis of political budget cycles

⁸⁶ Cuadrado-Ballesteros & Garcia-Sanchez (2018) - Conditional Factors of Political Budget Cycles: Economic Development, Media Pressure, and Political Fragmentation

with a political map well-known to be polarised in terms of council control and, more recently, along lines of 'Leave/Remain'. The recent failed attempt at a 'Brexit bribe' for strong leave-voting towns is a perfect example of how England's political geography lends itself to clientelist behaviour⁸⁷. 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.

Power without money

One central government interviewee told us that **"councils have less money but have got more freedom"**, a common view. To a certain extent however, this is paradoxical. To quote one leader's summary of developments for local government under austerity: **"If you are devolving power without resources...what are you really devolving? In local government, you can't talk about power without money."** Whitehall policymakers were quick to remind us that there are other, regulatory policy levers that can be used without resource exhaustion. It was also pointed out that all government spending is being reduced, so just because a budget is devolved it shouldn't be assumed that it would end up larger. This is a valid point, and as such the focus should not just be on the devolution of decisions on how money is spent, but on the devolution of the means to raise taxes. There can be no more pivotal function of governance to 'taking back control' than the setting and collecting of taxes, particularly where economic development is concerned. The link between tax and development is not simple. Many different factors affect which policies work and which policies fail⁸⁸. But those factors are best understood at the local level and cannot be properly responded to from the centre. For example, a common argument against a tourism levy is that it would not raise money in most places. But this is precisely the point – places should be able to implement a levy if they choose to and it works. The idea that a policy is a non-starter because it cannot solve all the problems everywhere at once is indicative of our highly-centralised national mindset.

2.5.2 Making money

As many of our interviewees from both central and local government pointed out, the UK is the most centralised nation in the developed world. The OECD found that the UK is the most highly-centralised country on a range of measures including public procurement, direct investment and tax revenue⁸⁹. The OECD recommended that decentralisation must occur in the UK by conducting deals with all city-regions and advised that local authorities be allowed to make more money, through tax retention⁹⁰. This is the other side of the argument for longer-term funding settlements described above. Devolution of responsibilities must be matched by devolution of fiscal policy. In public health, for example, local authorities have a public health duty. However, public health funding is often cut to protect acute budgets and councils have few means to raise funds to address public health issues.

Current taxation

The main way for councils to raise funds remains council tax. Increases in council tax over three percent in district councils or five percent in social care authorities must be put to the public via referendum. Given the dramatic cuts to

⁸⁷ Financial Times (2019) – Theresa May's Brexit 'bribes' will not be enough

⁸⁸ Tony Addison and Miguel Nino-Zarazua (2018) – Fiscal Policy, State Building and International Development

⁸⁹ OECD (2017) – OECD Economic Surveys United Kingdom

⁹⁰ Ibid.

funding described in the previous section and a dearth of any other significant tax revenue streams 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 that⁹¹. As a result, the public are not seeing improvements in services to match their tax increases – they are often seeing the quality and comprehensiveness of local public services decline⁹².

Councils are thus put in an impossible position, where every year a slew of headlines describe dramatic increases in local charges with little visible benefit. To further compound the problem, the rates councils can collect via the centrally-mandated bands system are archaic and can be downright perverse. In Westminster, to take perhaps the most extreme example, properties worth around £100m are only taxable to around £1,500 *per annum*⁹³. The need to adjust all bands in line with each other, coupled with the severe deprivation in parts of Westminster, prevent the council from hiking the top rate. Westminster, however, is in some ways lucky because as a London borough, it has alternate sources of income which are lacking in less economically dynamic places. This creates a stark contrast with areas where council tax is local government's primary lifeline. In Gateshead, where the median salary of a resident is a full £21,272 less than in Westminster⁹⁴, council tax is over double the Westminster amount for a top-band property⁹⁵.

The other main source of tax income for councils is business rate retention. The policy of 50 percent retention has been in place since 2013, with some councils now piloting 100 percent retention. Retention was introduced partly to offset some of the cuts, and many interviewees referred to business rates as essential to maintaining public service delivery. Nevertheless, councils are a long way from autonomy – pilot local authorities aside, most will have to wait until 2020-21 to be able to retain even 75 percent of their rates⁹⁶. 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 fund resource-intensive services such as adult social care through unstable funding streams such as business rates and council tax. It is obvious that business rates and council tax revenue may vary massively between local authorities, depending on the wealth and strength of business in the area. The strain and reliance on adult social care is only increasing, especially within the context of an ageing population, with no such degree of variation. The unintended consequences of taxation need to be carefully considered and more powers need to be given to councils to deliver these policies.

Recent work by the Institute for Fiscal Studies (IFS) found no direct relationship between changes in a council's business rates and local economic growth, or employment and earnings growth⁹⁷. The IFS estimated that pilot areas will see a benefit of approximately £870m in total in 2018-19 based on councils' revenue forecasts - equivalent to 2 percent of all councils' spending power⁹⁸. Were councils given more power to set business rates, or greater control over discounts and exemptions, they might be a more effective tool for economic development. Even if they had such agency, the power alone as a sole resource would not be

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

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

93 Simon Jenkins (2019) – Why is the tax on a London mansion a tiny fraction of that in New York?

94 Annual Survey of Hours and Earnings (2017)

95 Gateshead Council

96 Public Finance (2018) – Councils 'will not benefit equally' from business rate retention

97 Public Finance (2018) – Business rate retention 'may not achieve goal'

98 Institute for Fiscal Studies (2018) – 100% business rates retention pilots: what can be learnt and at what cost?

enough to take a genuine leadership role in their local economies.

The debate around local taxes

What of the other fiscal powers which could be transferred? The preference of the IFS, based on extensive modelling, is a local income tax⁹⁹. This would certainly be the most transformative measure, as it would fundamentally alter the interests and inter-council dynamics of local authorities. As the IFS paper notes, a local income tax gives councils a direct and tangible interest in raising the income of its residents – a major incentive to economic development. Other feasible options include local road tax, land tax or even some variant of corporation tax. Regardless of specifics, there is clearly appetite for fiscal policy devolution in local government to match an appetite for political-economic change among the electorate.

Potential areas for fiscal devolution

- **VAT or sales tax** as excised in many US states.
- **Income tax** as is collected in Sweden.
- **Corporation tax** like the 'corporate residential' tax paid by businesses operating in Japan.
- **Stamp duty** or local land tax is devolved to states in Australia.
- **Road duty** already exists at the local level in a form, via the London Ultra-Low Emissions Zone.
- **Tourism levies** are common in Europe and have been the subject of some discussion in the UK in recent years.

Concern was raised, during our research, 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 this is not so clear-cut. Evidence from Sweden¹⁰⁰ and Germany¹⁰¹ has shown that councils tend to engage in 'yardstick competition', where tax rates across a wider geographic area tend to be pegged to a yardstick in a quasi-coordinated manner. Similar effects have been recorded for local property taxes in Spain¹⁰² and local road tax in France¹⁰³, all of which should allay fears of a 'race to the bottom' in local taxation. Recent examples show that fiscal devolution leading to a tax cutting free-for-all or tax hiking boondoggle is unlikely. 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.

Commercialisation

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 profitability. 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

⁹⁹ Institute for Fiscal Studies (2019) – Taking control: which taxes could be devolved to English local government?

¹⁰⁰ Karin Edmark and Hannah Agren (2008) – Identifying strategic interactions in Swedish local income tax policies

¹⁰¹ Thiess Buettner and Axel von Schwerin (2016) – Yardstick competition and partial coordination: Exploring the empirical distribution of local business tax rates

¹⁰² Francisco Delgado (2014) – On the determinants of local tax rates: new evidence from Spain

¹⁰³ Youba Ndiaye (2018) - Road tax interactions among local governments: a spatial panel data analysis of the French case over the period 1984–2000

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 conditions¹⁰⁴ – other powers to raise funds must be unlocked and used in concert with commercial ventures. During interviews, uncertainty over what the commercial landscape for councils will look like after Brexit were often raised. Yet there are opportunities as well as risks in leaving the EU procurement landscape¹⁰⁵. The key to unlocking the upside of Brexit and commercialism is moving away from a situation where commercial strategies become the financial equivalent of the ‘Hail Mary pass’ in American football.

Case Study: Preston

Commercial activities can be implemented in a way that invests in and benefits everyone in the local area. Preston in Lancashire has shown a way that councils can invest in communities and tackles inequalities by ensuring development is shared equally among residents. This is also known as a co-operative model, in which an enterprise is jointly owned and operated to ensure the members reap mutual benefits. Preston used the Centre for Local Economic Strategies to identify 12 institutions that were ‘anchored’ to Preston, for instance the city and county councils, the university and the police. This led to Preston increasing its spending locally by an additional £4m between 2012 and 2016. The council is considering setting up a local bank to provide loans to small businesses and become a municipal energy provider. They piloted an open food network to connect food growers with locals in disadvantaged areas that have limited access to fresh produce. The key to this co-operative project involves anchoring jobs locally and ensuring economic stability and reaching environmental goals. Although the ‘Preston Model’ may be easy to adapt in many different areas of the UK, it is important to recognise that this model will not work everywhere. Yet the principles on which it lies, tackling inequality by making sure business and investment helps those locally, is important regardless of locality.

One aspect of commercialisation which could be better utilised under less desperate conditions is the scope for cooperation. Cheshire West and Chester Council’s cooperation in trading school services with Wirral Borough Council is a good example. In 2014, both councils engaged in a conversation with schools to gauge their appetite for developing a community interest company which would be run by schools for the benefit of the community, with profits being reinvested in outcomes for children. The main ambitions for the new organisation were to:

- deliver high quality services that are value for money;
- improve outcomes for children and young people by reinvesting profits into service improvements and the local community;
- create a single front door through which schools can access services;
- include mutual principles by involving schools and governors in the running of the new organisation;
- be commercially successful.

In 2015, the councils established the new company and it now employs over 1,000 employees and has an annual revenue of £23m.

¹⁰⁴ Localis (2018) – Ethical Commercialism

¹⁰⁵ Neva Sadikoglu-Novaky (2019) – Leaving the EU is an opportunity for greater localism, and to adapt our laws to suit our interests

Cooperation in commercialisation has implications for a future of decentralised fiscal policy. A recent study of a Dutch municipal tax department found that, where economies of scale are present, it is not unusual for departments to cooperate in the setting and collection of taxes¹⁰⁶.

Types of Devolution

- **Functional** – the devolution of public service functions and the power and resources to go with them.
- **Fiscal assignment and retention** – taking functional devolution a step further, devolving the power to keep more of the local tax base (albeit without the ability to adjust tax rates).
- **Fiscal** – when areas have the ability to adjust their tax rates alongside functional devolution and fiscal retention, and can institute smaller taxes like the tourism levy, fiscal devolution is realised.

2.6 Devolution vs. Equalisation

Discussing the findings of our interview series, experts on our advisory board called for councils to recognise the trade-off between devolution and equalisation that is inherent to decentralised finances. The equalisation argument is simple. There are concerns among practitioners and academics that greater decentralisation of finances and the subsequent limiting of central government's capacity to redistribute funds will lead to an increase in inequality. This is a serious and well-founded concern. However there are several factors to consider when balancing devolution and equalisation in the context of modern England.

Firstly, it would be disingenuous to engage in a discussion of a potential 'postcode lottery' in a decentralised England without making note of the postcode lottery which currently exists in centralised England. As the first chapter laid out, an individual's prospects for education, employment and health differ dramatically based on the level of economic development in their locality. As well as the well-documented problems with social mobility experienced in inner-city areas¹⁰⁷, previous Localis analysis has shown that mobility is also poor on the other end of the urban-rural spectrum¹⁰⁸, and the issues faced in towns are increasingly coming to the fore in the national debate¹⁰⁹. The postcode lottery, in other words, is alive and well in England and the wider UK. Giving councils more powers to act as leaders in economic development would represent a far better policy recipe for lifting much of the country out of stagnation than reheating more of the same.

Secondly, there is the combined effect of two factors previously mentioned in this chapter: the increasing responsibilities placed upon local authorities and the dwindling 'pots' of finance from central government to fund them. Local authorities have responsibility for performing at least four vital functions:

- Civic leadership;
- Economic development;
- Welfare;
- Basic service delivery (waste collection, etc.).

¹⁰⁶ Thomas Niaounakis and Jos Blank (2017) - Inter-municipal cooperation, economies of scale and cost efficiency: an application of stochastic frontier analysis to Dutch municipal tax departments

¹⁰⁷ Jurgen Friedrichs, George Galster and Sako Musterd (2003) – Neighbourhood effects on social opportunities: the European and American research and policy context

¹⁰⁸ County Councils Network and Localis (2018) – Social mobility in counties

¹⁰⁹ John Harris (2019) - Rebuild the faded towns of Britain to end our national malaise

While these absolutely should remain the functions of local government, if devolution is to work, a change in the national mindset is required. For places to be able to carry these duties out in a way which reflects the determination of their people, there must be some stepping back from the idea of Whitehall as the arbiter of equality in the UK.

This is not to say that some equalisation would not be necessary. 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.

The importance of providing a safety-net for local authorities is illustrated by the welfare function they provide. Protecting the vulnerable is an essential part of a council’s role. The welfare responsibility of the state is a highly contested issue, but what cannot be denied is that certain issues are disproportionately affecting certain local authorities. It is vital that local places have the powers to continue protecting the vulnerable as part of maintaining delivery of welfare services.

The road to such a system was laid out in 2015 by the Independent Commission on Local Government Finance, which argued for a ten-year transfer of fiscal powers to councils¹¹⁰. The findings of our research support this recommendation, combined with a ten-year funding settlement and the devising of a new grant structure with less provision for revenue expenditure and a greater emphasis on correcting imbalances in resource allocation.

Resource vs. Expenditure grants in the central-local context

A **resource grant** in this context would be a grant based on the human, natural and economic resources in a place – for example, somewhere with an ageing population projected to increase faster than the national average would require more funding for social care.

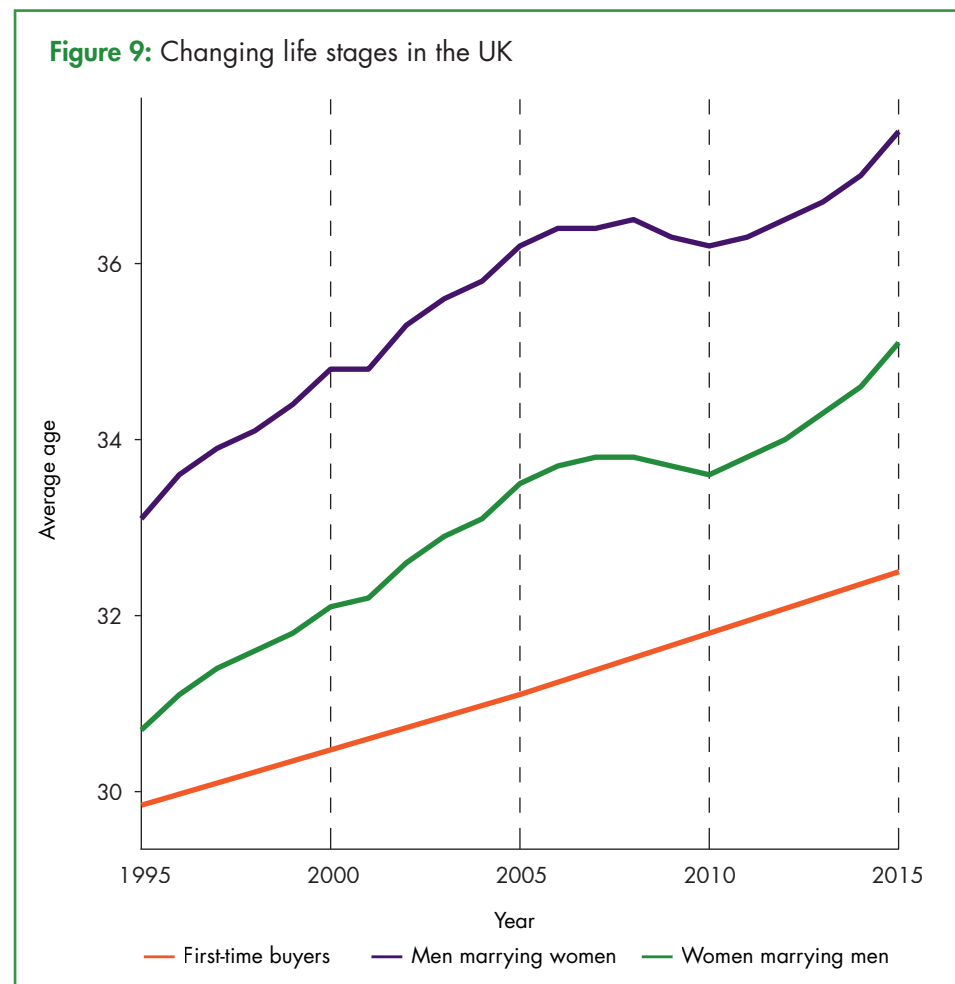
A **revenue expenditure grant** as currently provided by central government is targeted at all local government expenditure overrun and calculated by the Fair Funding Formula.

Devolving power also allows for the joining up of services and removal of silos. Even in the context of a reduced budget, many areas being devolved certain powers could allow for increased efficiencies. This is illustrated through the Greater Manchester Combined Authority agreeing to a devolved health budget, knowing that £6bn was not enough financially, but believing the trade-off for the opportunity and power to shape spending to be worth the risk.

110 Independent Commission on Local Government Finance (2015) – Financing English Devolution

Section Three: Local State Capacity

This section deals with the second of the two questions posed at the end of section one: 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. This is generally referred to as 'state capacity', the ability of a state to act as such. 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. This chapter examines the current state of local leadership in three vital state functions with complex institutional architecture: the provision of healthcare, welfare and skills training.



3.1 The long road back to a local state

The provision of locally-managed welfare and social services is not a new concept in England. The Elizabethan Poor Laws codified from 1597 to 1598 were not formally abolished until the creation of the modern welfare state and

the passage of the 1948 National Assistance Act. For much of the late 19th and early 20th century, the country had a 'politically strong and multi-functional local government unparalleled anywhere else in contemporary Europe'¹¹¹, with much autonomy and flexibility. However, throughout the 20th and into the 21st century the role and purpose of local government, along with its relationship with central government changed. The multi-functional nature of local government began changing with the post war creation of the welfare state, which saw many services in its remit curbed and other parts expanded¹¹². Social housing and education were two service areas where local government increased its mandate to deliver. The capacity of local government to deliver various social services shrunk. Local government found itself navigating in this direction until the breakdown of the post-war consensus in the late 1970s, after which a new wave of reforms aimed at drawing back the role of the state began.

Late twentieth-century managerial reforms, begun under Thatcher and accelerated at the local level by New Labour, attempted to break away from the static bureaucratic arrangements of the post-war welfare state and restore more autonomy back to communities. Central to this was an emphasis on community. Councils were reimagined as enablers rather than simply providers of welfare: senior managers and councillors were to reflect the overall interests and needs of their communities. While these reforms brought back attention to the importance of local authorities, they are still financially heavily reliant on central government to provide welfare services, with all the homogenising target-setting and performance evaluation that this entails.

3.1.1 Local welfare provision

There are examples across the world where the delivery of welfare provision has been devolved to local government. These global experiences illustrate the willingness of people to engage with the welfare state on the local level. It seems people are more willing to engage with something that they can conceptualise, and our first point of contact with the state occurs at the local level. This is equally true for the welfare state. As is evident from examples in Italy, one of the greatest aspects of localised welfare is in the creation of active social responsibility and citizenship. A focus on the local welfare state allows an insight into the tangible ways that the private sector affects the dynamics of local communities - and how they in turn respond to emerging problems.

La Dolce Vita – Italian experience

Local welfare in the Friuli-Venexia Giulia region of Italy¹¹³ reveals how places can effectively take control of welfare provision and delivery, suited to the needs of their people, with the right legislative support from central government. Surveying the landscape in Italy, attention is directed to the concept of activation, which 'is used in the European policy discourse with reference to the social inclusion of people through the labour market'¹¹⁴. Social service delivery and interventions in Italy were affected for a long time by territorial inequality amongst the regions. To redress this, social policy was restructured in the 1990's, and in 2000 national social service reforms were enacted. These reforms aimed to promote the wellbeing of citizens across the entire country in line with the principle of selective universalism.

The current tenor of Italian politics may make the country seem a strange example of best practice. To dismiss the example, however, would be to underestimate the importance of combining all three elements of decentralisation

111 Hellmut Wollman (2004) – Local Government Reforms in Great Britain, Sweden, Germany and France: Between Multi-Function and Single-Purpose Organisations

112 Ibid

113 Lavinia Bifulco, Massimo Bricocoli, and Raffaele Monteleone (2008) – Activation and Local Welfare in Italy: Trends and Issues

114 Ibid

outlined in this report. It is arguable that the localist reforms of the 90's and 00's should have been accompanied or followed up by economic development. This avenue was shut off by the Eurozone crisis in 2011, where "national governments took a number of measures affecting local government that would only have been possible and justified by a perceived situation of extreme risk, analogous to international conflict"¹¹⁵. The resulting withdrawal of capacity for economic development and social policy in Italian local government has been linked with the rise of knee-jerk populism in the country¹¹⁶.

The reforms introduced a basic standard of social care guaranteed to all citizens, and also set the legislative framework for increased political responsibility to state, regions and municipalities. These state reforms have ushered in a model of social citizenship which ensure a level of selective universalism, leaving the local authorities to address the social problems facing their communities. The reforms aimed to combine local autonomy and national regulation to overcome the limitations of excessive localism.

The local – the place and people – gain more control over addressing the problems facing their communities and undertake a process that results in 'local active welfare'. Importantly, this new orientation aims at reimagining the relationship between welfare state and citizen whereby the latter stops being seen in a passive role with narrow definitions of needs. The *Piano di Zona* (Area Plan) is critical to this reorientation. This plan is a model of governance which encourages the active participation of local citizens and takes their concerns into account when planning their local system of welfare service delivery.

When looking at these reforms, the researchers focused on the Habitat Micro Areas, Health and Community Development programme implemented in Trieste, the main city of the Friuli Venexia Giulia region. The researchers noted that due to the experimental nature of the programme, it drew out certain aspects that needed to be improved in active welfare. The programme aimed to 'improve living conditions through interventions on health promotion, social disease prevention and improvements in the physical environment'. The results showed that the programme, particularly the creation of micro-areas, allowed for a space where people, forgotten by broader services, were able to voice their concerns and social problems affecting them. As a result, previously invisible problems could be identified and tackled, and money was used more efficiently.

The important take away from this is the autonomy of the local welfare service delivery, reinforced by a national legislative framework. This gave local government the power to address the issues facing the community by encouraging residents to discuss them, getting them activated, and placing local people at the centre of local welfare policy. At the same time, issues did arise from regional variations, and the asymmetrical focus on certain social issues over others, but overall this model benefitted the Friuli Venexia Giulia region.

The Toronto blessing

During the 1980's, Canada went through a phase of privatisation that affected welfare service delivery in each of its provinces, and researchers documented the impact in Toronto¹¹⁷. One result of the privatisation of the welfare state is how different aspects of welfare provision and delivery are handled by different sectors. When privatisation occurs, this apparent withdrawal of the state from service delivery should not be mistaken for a complete absence of the state. While the service provision might be taken over by elements of the private sector, legislation and regulation is still within the state remit. Thus, "the emerging form of the local welfare state in Toronto appears to be one of a 'shadow state'." Individuals that required assistance looked for other sources of support, in

¹¹⁵ Maria Flavia Ambrosanio, Paolo Balduzzi and Massimo Bordignon (2016) – Economic crisis and fiscal federalism in Italy

¹¹⁶ Julian Coman (2018) – 'Italians first': how the populist right became Italy's dominant force

¹¹⁷ Glenda Laws (1988) – Privatisation and the Local Welfare State: The Case of Toronto's Social Services

which family, voluntary agencies, church groups and commercial providers filled the gap created by the welfare state withdrawal. This suggests the need for a broader and more nuanced understanding of the private sector in the context of the local welfare state.

The Canada Assistance Plan (CAP) in 1966 promoted the introduction of the private sector within the welfare state, stating that it would share half the cost of service delivery with approved agencies. Federal government money was made available through two different methods. Firstly, the welfare service approach that required non-profit agencies to deliver services if the federal government were to grant money. The second method was through a needs test that determined who required and who would receive funds. When looking at this through the prism of local welfare systems, the implementation and the manifestation of services varied across different localities.

The causes of social problems in communities included changes in the economy and deindustrialisation, which resulted in higher levels of unemployment and an increased demand on the welfare state. Additionally, changes in the welfare state created new and unique demands for social programmes. In Toronto, an issue highlighted was the increased suburbanisation of poverty as a result of population shifts.

In this context, privatisation was an answer by the state to the increased complexity of these problems and how they applied in the local context. Interestingly, the researchers noted that the Toronto case 'illustrated the entry of the private non-profit sector into an area in which neither the state nor the commercial sector cared to venture: neither votes nor profit can be easily exacted from the very poor'. This refers to the other manifestation of the private sector that is rooted in familism and community support. It also highlights how in answering social problems on the local level, the choice needs to go beyond the dichotomy of state or market. In Toronto, a space emerged for the voluntary sector to take a lead.

L.A. Story

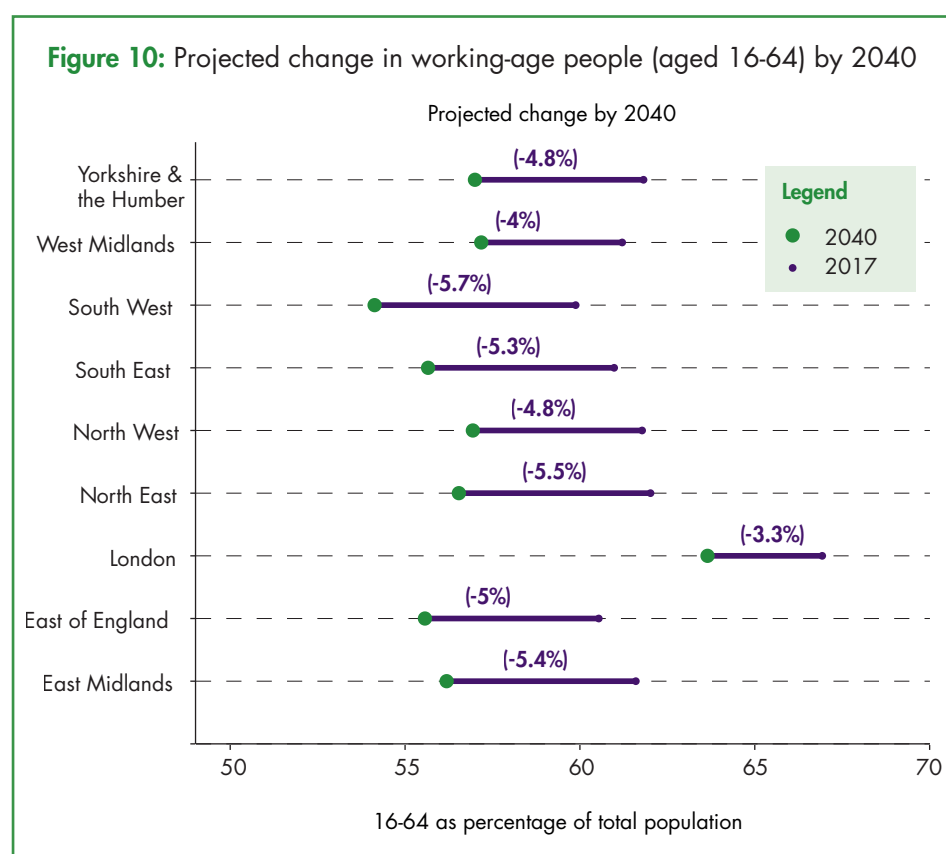
An analysis undertaken into how General Relief in Los Angeles County was affected by national events in the USA¹¹⁸ helps explain how the dynamic relationship between federal and local government operates in welfare provision. This was to assess different ways the local welfare state can manifest when faced with evolving circumstances. With the rising demand for benefits, rising service expenditures and a national recession, the local welfare state enacted direct and indirect strategies aimed at rationing provision and depressing demand. A 'devolutionary vacuum' within the welfare state framework incentivised greater cuts on the local level. This shows how in light of adverse national events, and an absence of adequate autonomy, the local welfare state had to retrench. Ultimately it is the citizen who faces the consequences, such that a 'fraying of the citizen-state relationship' increases. In a globalised world where the centrality and importance of the nation state is seemingly diminishing, the localisation of the welfare state is set to increase. For this to happen constructively, it is imperative that localisation puts the individualised needs of the people and place first and that local authorities have revenue-raising freedoms to meet these needs.

These examples encapsulate the fluid nature of the local welfare state, and its adaptability to events that occur in different parts of the state, per section two. Not only have they shown the benefit to communities that localism in the welfare domain can bring, but they also highlight how different factors like privatisation and recessions change how welfare services are delivered. They demonstrate that localism empowers communities to take control over their own future and safety.

¹¹⁸ Geoffrey DeVerteuil, Woobae Lee & Jennifer Wolch (2002) – New spaces for the local welfare state? The case of General Relief in Los Angeles County

3.2 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. In the interview series informing chapter two, one local leader described to us a situation of having to 'force their way in' to meetings being held with local health partners. 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.



3.2.1 The many faces of local health leadership

Vanguards

Vanguards were created with the introduction of the Five Year Forward Plan – creating new models of integration in NHS services and deliver on the plan. There are five different forms, all serving different purposes, yet with the same overall goal of reducing demand for hospital admission for issues that can be dealt with elsewhere. These types are¹¹⁹:

¹¹⁹ NHS England – Models of Care

- Integrated primary and acute care systems that join up mental health, GP, hospital and community services;
- Multispecialty community providers that aim to move specialist care out of hospitals and into the community;
- Enhanced health and care homes that offer older people better, joined up health, care and rehabilitation services;
- Urgent and emergency care, which looks at ways to alleviate pressures on the A&E department;
- Acute care collaborations, which aim to link hospitals together to improve financial and clinical viability.

Sustainable Transformation Partnerships and Integrated Care Systems

Another form of local partnership that aims for integrated health care, but with a specific focus on the financial aspect, are the Sustainable Transformation Partnerships (STP's). STP's are five-year long plans that bring together actors from NHS organisations, local authorities, the third sector and others within the community to develop place-based plans for the future of health and social care in their areas¹²⁰. There is one leader who is assigned to lead the partnership. Leaders are usually appointed from CCGs or NHS Trusts, but some also come from local government.

As opposed to the Vanguard, the scope of STPs is quite broad. It can usually fit into three categories including: 'improving quality and developing new models of care; improving health and wellbeing; and improving efficiency of services'¹²¹. The responsibility of the STP and its leadership is to identify the priorities for their localities and budget their finances accordingly. The plans need to cover the period from 2016 to 2021 and, in keeping with the spirit of integrated care, should focus on how to do so with local authority and social services¹²².

Certain partnerships have managed to evolve, or are in the process of evolving, into fully-fledged Integrated Care Systems (ICSs), with the government announcing that all 44 STPs will become ICSs by 2021. Most importantly, the ICSs will have 'greater control over spending of funds with less involvement of national regulators'¹²³. While on the face of it, this is a good thing, the benefit this will have for continued accountability on the local level has been called into question. This is because, when ICSs do cover the country, there will be only one CCG within them, meaning that accountability for governance will be more distant from local authorities and local people¹²⁴. While ICSs will have more autonomy on spending issues, the extent to which this autonomy will be retained on a truly local basis is questionable. Looking at the close working relationship between CCGs and local authorities, this concern is not unfounded. Both are responsible for the wellbeing of citizens, and it is in both of their interests to ensure that each is performing their job well. How well the local authority performs in the area of public health and social care will directly affect primary and secondary care in GP practices and hospitals. It is due to this reason that in certain cases the chief executive of a CCG and local authority can be the same, as is the case in East Lincolnshire¹²⁵.

Clinical Commissioning Groups

On the other hand, the question regarding local autonomy is being addressed by the NHS Clinical Commissioners, the representative body of CCGs across

¹²⁰ The Kings Fund (2017) – Sustainability and Transformation Plans Explained

¹²¹ Ibid

¹²² Ibid

¹²³ National Audit Office (2019) – NHS financial sustainability

¹²⁴ Mark Gamsu (2019) – Centralising the NHS – the local Democratic Deficit at the heart of the NHS Long Term Plan

¹²⁵ Interview Response

England. For example, Bristol had three different CCGs that covered Bristol City, South Gloucestershire and North Somerset. To forge closer collaboration and working at the same scale of their ICS, they merged together in April 2018, meaning they have a larger population. Yet, in trying to manage this they have six different localities who all have a clinical lead to represent the needs of their constituent populations¹²⁶. According to a representative of the NHSCC, this model is important in allowing leadership and facilitating decision-making on a local level. A key priority during the introduction of ICSs needs to be sharing best practice between CCGs and local authorities. Therefore, from the CCG perspective, keeping a link with local communities is a vital one for public health improvement.

3.2.2 Creating space for democratic leadership

The question of local leadership within the NHS was addressed as a top priority by the NHS Confederation¹²⁷. Their study highlighted that while STPs and ICSs are the main drivers in addressing health and social care delivery, improvement can only occur through increased local participation and collaboration between all stakeholders at the local level¹²⁸. This includes reaching out and working with members of staff, managers, as well as communities and patients. The report found that NHS Confederation members had mixed views regarding the effectiveness of national policy. While on the one hand, there was appreciation and acknowledgement that it provided a framework for new models of care and collaboration between providers and commissioners, there was consensus that nationwide infrastructure designed to encourage change puts in place too many hurdles. This hampers the realisation of any true place-led change.

Moreover, the report raised several issues regarding next steps needed in raising local systems to the next level. Chief among them was a call for better integrated working, openness with stakeholders and, importantly, independent leadership with better governance arrangements¹²⁹. The discussion on engagement with the wider community is extremely important to consider. According to the report, there is a 'worrying level of ignorance' among the public regarding what STPs and ICSs are, and what they do for each community. Unless there is a move to open up the NHS mechanism and engage communities in trying to learn how it affects each individual, as a nation we will not be able to effectively and honestly talk about the NHS and its necessary reforms. There needs to be a public realisation that reform in and of itself is not a bad thing. The fact that STPs and ICSs have been viewed as vehicles for privatisation¹³⁰ is concerning.

While the Long-Term Plan has the potential to allow local systems to lead and give space for further healthcare collaboration and integration, there appears to be a certain level of misunderstanding and, at times, mistrust, regarding the intentions of each constituent element of the service. Focusing on the provider, frustration has been expressed about the lack of control that doctors and surgeons have within secondary and tertiary care¹³¹. A factor for this frustration has been identified within the management of the trusts and the relationship between the managers and wider health staff within the hospitals. The conflict appears to manifest especially when it comes to financial decision-making and wider running of the hospitals. Managers work with limited resources, while health staff are left to work with, perceived, inadequate provisions. A registrar

126 Interview Response

127 NHS Confederation (2018) – Letting Local Systems Lead: How the NHS Long Term Plan can deliver a Sustainable NHS

128 Ibid

129 Ibid

130 Ibid

131 Interview Response

commenting over the communication problems between the two sides, said: 'This is down to the fact that they [management] don't have a background in medicine and so no genuine understanding of the issue.'¹³²

These sorts of feelings, if not heard and addressed, will stymie progress towards locally-led integrated care. That is why it is important to create a common understanding. For this to happen it is vital to 'shift the focus of regulation from performance management to improvement support'.

A further point of vexation that is also linked to financial decision-making is a perceived lack of involvement within the process. This is due to the 'huge disconnect' between primary and secondary care in the nature of each one's healthcare delivery. To an outsider, it seems rather bizarre that commissioning and procurement decisions are being made without the insight of those delivering the service in the acute hospitals (i.e. the doctors and surgeons). An ethical point has also been raised based on procurement, and the potential for bidding to be opened up to independent providers. However, the response from the NHSCC points to the Health and Social Care Act 2012, which split purchaser and provider services. Because of this, the purchaser, in this case the CCG, can view things from a different angle and avoid a situation like in the USA where they have supplier-induced demand.

While the situation of the NHS is different to healthcare providers in the USA, it is true that 'you will always get a provider thinking about their own bottom line'. So, according to this logic, having all health providers in the decision-making process would make the whole process a lot harder to do. However, having input of healthcare staff within the broader commissioning discussion between the local trust and CCG in deciding what hospitals need to perform better is quite different and would not interfere in such a way as to create supplier-induced demand. It has also been noted that there is now a drive to 'soften the purchaser and provider split, and having more collaborative working between CCGs and providers'¹³³. Measures like these are especially needed if we are to move towards a more integrated health system with genuine collaborative practices and strong local leadership.

3.2.3 Collaboration in action: Somerset's Home First scheme

Somerset is a good practice example of where integrated and collaboratively focused work in social care is happening. This area was highlighted as needing urgent attention in the Long-Term Plan by healthcare staff in acute hospitals, representatives of NHSCC, and local authorities alike. Somerset's case shows how collaboration and reorientation, with a focus on the needs of patients, can help alleviate pressure from every aspect of the local system.

Somerset had an issue with delayed transfer of care, and until recently little was being done about it. For example, in April 2016 close to 3,500 bed days had been lost due to delayed transfer of care. Furthermore, the working age population, from which the social care workforce is drawn, is five percent lower than the national average as a proportion of the overall population. Coupled with the fact there is no university in the county, the rural geography of Somerset, the ageing population, and the daily fines charged to hospitals in these delays the situation was one in need of urgent remedy.

In September 2016 the local STP gave the operational leads of health and social care a mandate to solve the problem, with a follow up commitment of funding to support the overall local system in this work. The focus has shifted from blaming individual parts of the overall system for failures, to instead bringing all those involved together to identify concerns and work to resolve it on an holistic level for the benefit of the patient. Practically, this involved assembling the Chief Operating Officers (COOs) from the two local acute trusts, the COO from the

¹³² Interview Response

¹³³ Interview Response

community trust and the directors of social care from the local authority, while making a pledge to stop worrying about who was to blame for the delayed transfer and to instead help each other to solve it.

Through working together, the idea of the Home First scheme emerged, a project that has so far helped patients avoid 7,500 nights in hospital collectively¹³⁴. This approach saw a joint team, under the aegis of the Home First scheme, employed by both the local authority and the acute trust. This was significant as it meant that permission was granted on both sides and there existed a shared understanding of what the team was doing. The team worked with patients, who were medically fit and did not need to be in an acute setting, to assess how best to rehabilitate them at home based on what their individualised needs were. Not only has the scheme succeeded in getting all components of the local system to work together, it has delivered great outcomes for Somerset and its overall community. It has allowed people to take control of their recovery at a much earlier stage, reduced the number of people waiting in acute settings for care and increased local network support, but has most of all delivered a personalised service which is tailored around the needs of Somerset residents.

Schemes such as Home First also mean that on a wider level the NHS could save more money. A recent report on NHS Financial Sustainability¹³⁵ showed how the overall net deficit of NHS bodies in 2017-2018 was £21m, while the combined deficit of CCGs, which are responsible for two-thirds of total NHS England budget¹³⁶, in 2017-2018 was £213m. Putting this into the context of the perennial debate as to what sufficient funding means for the NHS, if effective upstream savings can be made through schemes like Home First, then money can be reinvested into other key areas needing attention. While it has been noted that the NHS requires extra funding, it has also been highlighted that endlessly pumping money into it without any effective governance, oversight and accountability as to where the money goes fails to address the issues¹³⁷. With the Home First example, the local CCG was able to reduce their contract with the NHS trusts in the area to fund their half of the scheme. This could happen because people were staying in hospital for fewer nights. As such, this shows effective financial management based on prioritising needs of the community and seeing what each aspect within the local system is doing.

On another level, cases such as Home First demonstrate how locking local government finance settlements into longer cycles, as discussed in section 2, can work wonders for early intervention and preventative care. Integrated approaches to health and social care are contingent on strong personal relations between all stakeholders, and the ability to strategically plan things in the long term. Both of these are difficult to do in the current way settlements are done, thus a new approach would empower local service providers to deliver personalised care to their communities.

Working to a shared vision and being grounded with a place-based framework would 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 things 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

134 LocalGov (2019) – Somerset council's 'help at home' scheme saves NHS £2m

135 National Audit Office (2019) – NHS financial sustainability

136 NHS Clinical Commissioners – About CCGs

137 Interview Response

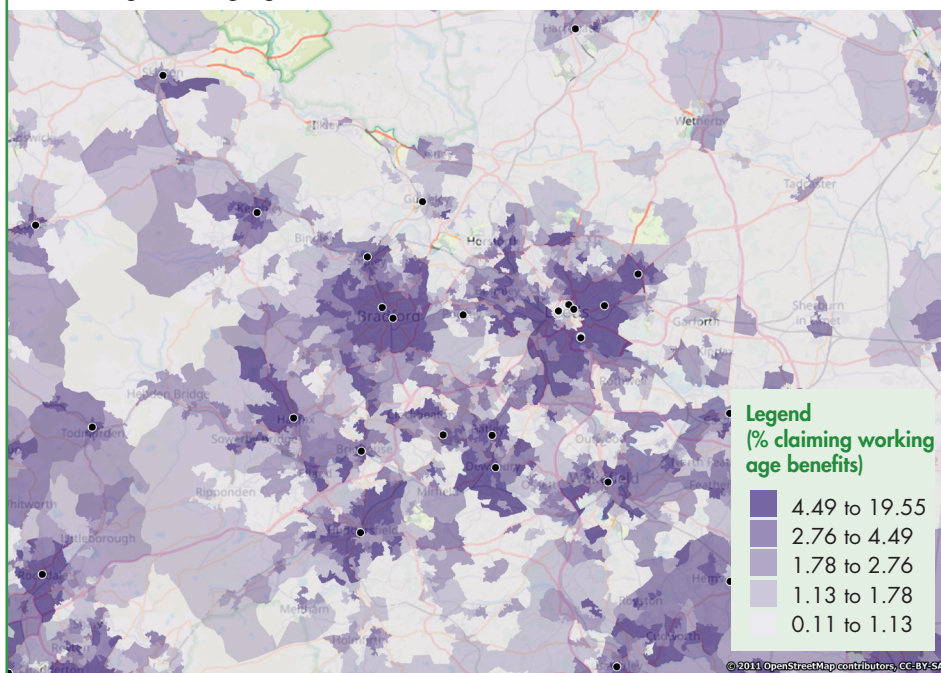
rights, we also have responsibilities. Regarding health and social care, these entail a recognition of our responsibilities to ourselves and the communities of which we are a part.

3.3 Local leadership in welfare provision

The gap in communication between central and local government regarding how welfare is and should be implemented, results in poor delivery at the local level. This derives from a basic lack of consultation of local stakeholders (councils, civil society etc) in the design process of welfare programmes. Implementation feedback is not taken into consideration, so there exists an increasing failure to hone the potential of the local welfare system and what it can do for people in each unique community. The most recent, and somewhat controversial, example of this has been the roll out of flagship government welfare reform, Universal Credit. While in certain ways it has been welcomed as a positive step for helping working age claimants out of poverty, council chiefs have constantly warned¹³⁸ central government to listen and act upon the feedback their authorities are providing about UC's roll out.

That councils should be heeded should seem obvious given the different welfare challenges faced by authorities of different kinds. Figures 11.1-11.3 (below) illustrate the concentration of benefit claimants and locations of Jobcentre Plus around three metropolitan combined authorities. Both the incentives and institutions for delivering UC are clearly present in these areas, yet better communication and some transfer of powers from the DWP is needed to build cohesion.

Figure 11.1: Location of Job Centres and proportion of population claiming working-age benefits: West Yorkshire



Source: DWP/Grant Thornton UK LLP Data Insights

138 The Municipal Journal (2018) – Listen to local government to avoid Universal Credit disaster

Figure 11.2: Location of Job Centres and proportion of population claiming working-age benefits: Greater Manchester

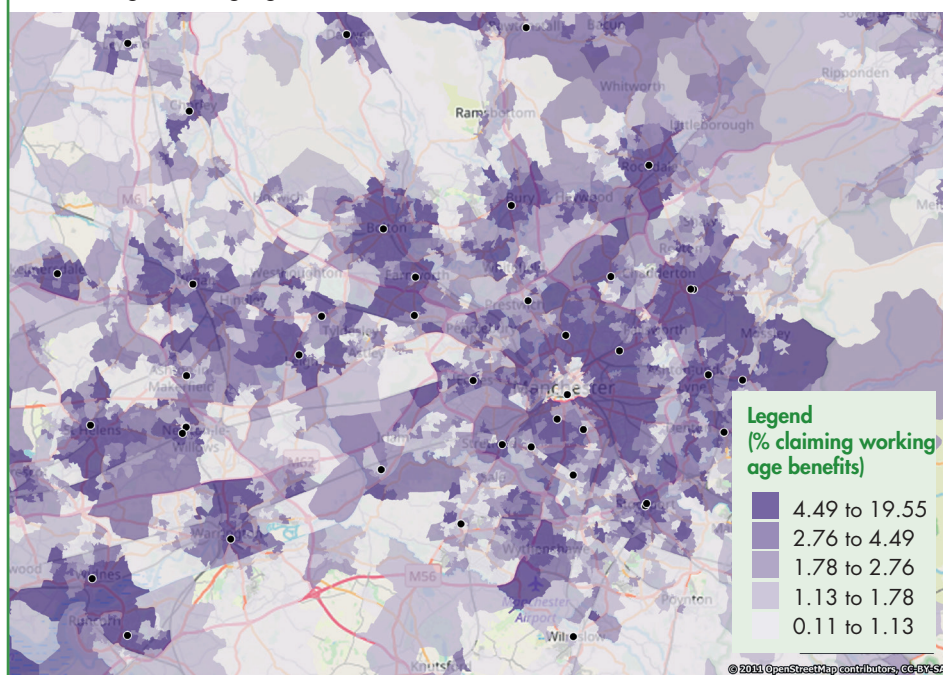
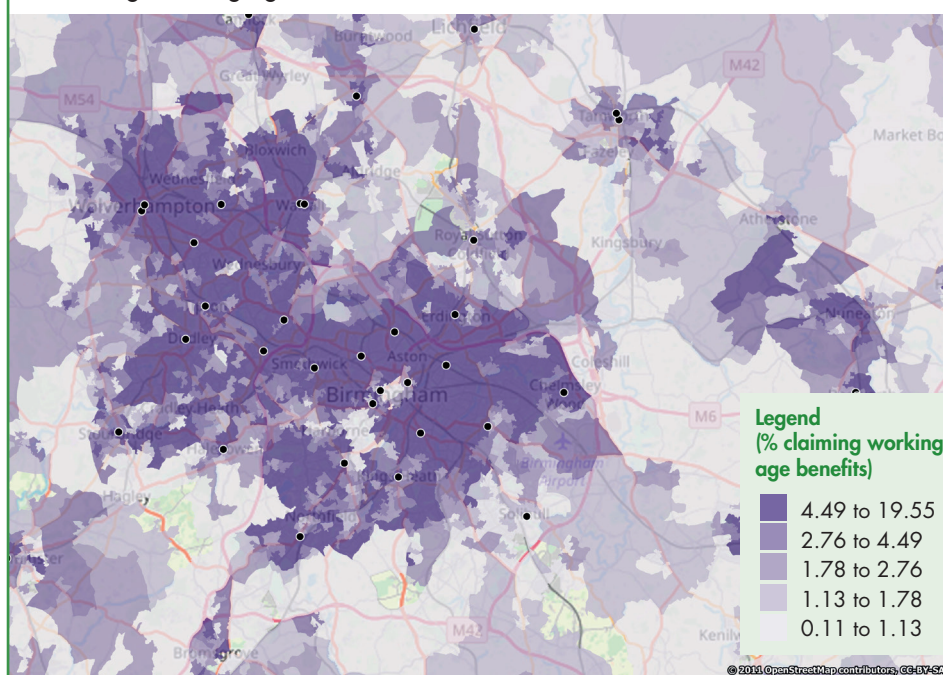


Figure 11.3: Location of Job Centres and proportion of population claiming working-age benefits: West Midlands



Source: DWP/Grant Thornton UK LLP Data Insights

3.3.1 Universal Credit and the Communication Gap

Universal Credit (UC) has undoubtedly caused a large amount of controversy since its inception. Support for it comes from the idea that it is designed to simplify an overly bureaucratic welfare system and streamline six different

benefits into one monthly payment. Another aspect, in line with Conservative thinking, was to redefine the purpose of welfare as a way to tackle worklessness, by viewing it as a behavioural problem. While it can be a good thing, it has been plagued by what the National Audit Office (NAO) has labelled 'weak management, ineffective control and poor governance'¹³⁹. This, coupled with a lack of consideration on how this imposes strains on local government, has unearthed the urgent need for a range of local issues to be addressed if the national rollout is to be successful.

Its biggest failure has been in its delayed payments to claimants. In many instances this has resulted in late rent and bills payments, leaving thousands affected in a state of anxiety and depression. This leaves local authorities in an unenviable position. The need for support services to prevent residents falling into further poverty has increased at a time of protracted funding cuts, including to local benefit schemes such as council tax benefit. All the while these local welfare schemes are reportedly on the brink of collapse¹⁴⁰. This renders it challenging for local authorities to effectively look after those they are elected to serve. If the situation does not markedly improve, councils will be on the hook for managing local failure and supporting penniless residents through a process which entails every claimant reapplying and waiting five weeks for first payment.

Discussing their experience with UC roll out, a senior council officer said they had researched and compared rent accounts for people claiming Housing Benefit and UC. They found 'there was a significant increase in rent arrears for people claiming Universal Credit'¹⁴¹. This relates to the lack of information shared with councils from the Department for Work and Pensions (DWP) because of the way in which housing costs are incorporated into the UC payments. The officer described how until central government got in touch to verify a claimant's rent circumstances, they did not know anything was wrong - even if the individual in question had made a claim a few weeks before. This obviously causes frustration in that 'it means there is a kind of gap in that knowledge [regarding housing costs of residents] where the council is trying to manage its residents but not managing their payments directly'¹⁴².

This is indicative of a lack of local power and serves to highlight one of the main issues in local welfare reform. Remarking on the communication gap between central and local government, a senior council officer raised concern over the lack of 'information and data that is needed' in relation to claimants and their particular cases. Improving UC roll out needs effective and open communication and data-sharing between central and local government.

UC full service has completed roll out everywhere in the UK as of December 2018. Consequently, it is not possible to make new claims for various Tax Credits, and those currently in receipt of them and other forms of benefits will be transitioned onto UC between July 2019 to December 2023¹⁴³. Given this, it is imperative to address and rectify the numerous ongoing problems with UC roll out. The first step in this direction should be a focus on localising the delivery of it.

3.3.2 Stakeholder engagement

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 administering a centrally-mandated and controlled 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

139 BBC (2018) – What is universal credit - and what's the problem?

140 The Guardian (2018) – 'Local welfare' schemes in England on brink of collapse, says report

141 Interview Response

142 Interview Response

143 Low Income Tax Reform Group (2019) – How will universal credit affect tax credits?

main local actors; the local authority, Jobcentre Plus, and Citizens Advice Bureau (CAB)¹⁴⁴. There also appears to be lack of communication between the central DWP and Jobcentre Plus offices. A senior local benefits professional said this disconnect had resulted in situations where they have been in meetings with their local Jobcentre Plus partners in which they have known about changes occurring before the staff on the ground in the office¹⁴⁵. Such mutual misconceptions threaten to stand in the way of coordination between different stakeholders on the local level.

Despite this, there has been a huge emphasis within the CAB on collaboration and partnership working. This is partially due to the decentralised nature of their set up as independent charities within the broader label, meaning that they have large amounts of autonomy to engage in multi-organisational and sectoral work. Moreover, according to one senior CAB officer, a large part of their success in engaging and helping claimants is down to their good working relationship with the local authority and Jobcentre Plus¹⁴⁶. Through this relationship, feelings of mutual trust and respect increase, and the bureau's voice is taken on board. In this way, there is already a foundation for these three local actors to cooperate in a manner which would benefit the claimant at the point of service delivery.

To address what more can be done for further welfare localisation, the areas of financial and political devolution that would realistically work must be understood and negotiated.

A perfect example of a locally-led initiative activating change in residents' lives is the Pathway to Employment initiative that was set up by the Better Place Joint Committee of Lambeth, Lewisham, and Southwark London Boroughs. This initiative intervenes to help unemployed residents with complex needs back into work. In their own words, 'It is a person-centred approach that looks at the individual barriers that someone might face in getting back into employment – such as debt and inadequate housing. It is about preventing those with complex needs becoming, or staying, long-term unemployed'¹⁴⁷.

Vital to the success of this scheme was working in partnership with the local Jobcentre Plus's in each borough and coordinating efforts¹⁴⁸. Additionally, the local CAB was connected through the broader partnership framework to assist people on the initiative. This has allowed for effective partnerships to be forged on the local level despite heavy management by the DWP of the Jobcentre Plus¹⁴⁹. The initiative highlights how streamlining focus on local mechanisms to improve resident's lives can work if all partners come together, and how this is increasingly important with the introduction of UC.

The Jobcentre Plus has the 'Flexible Support Fund' (FSF) available. This was created in 2011 to replace schemes such as the Deprived Areas Fund, the Adviser Discretion Fund, and the Travel to Interview Scheme¹⁵⁰. The FSF allows greater flexibility for tailoring support to individual and local back-to-work needs. According to a House of Commons Briefing Paper: "The FSF also includes a grant-funding mechanism, enabling Jobcentre Plus District Managers to award funding to local "partnerships" to address barriers to work¹⁵¹." While in principle this is a great help for vulnerable claimants, in practical terms it has done little to help them. The fund itself is still not widely known about or advertised to those who need extra support. In fact, a Channel 4 investigation into a UC contact centre in Bolton, found that advisers were making the active choice of

144 Interview Response

145 Interview Response

146 Interview Response

147 PiE leaflet

148 Interview Response

149 Interview Response

150 Turn2us (2019) – What is the Flexible Support Fund?

151 House of Commons Library (2016) – Jobcentre Plus Flexible Support Fund

not informing claimants about their right to this fund¹⁵². Even the website of the welfare charity 'turn2us', commissioned by the government to help people on UC, acknowledges the level of secrecy in their article named 'What is the Flexible Support Fund? And is it a Secret?'¹⁵³. The fact that there is limited information made available in the public domain, and reportedly deliberate attempts to hide this from vulnerable claimants, is cause for concern.

3.3.3 Beyond pseudo-localism

The DWP is institutionally and culturally unable to enact the necessary reforms needed to reach out and help the most vulnerable and at need claimants in the country¹⁵⁴. A central issue highlighted include the 'benefit lens' through which claimants are viewed, whereby benefit conditionality and employment support are intrinsically linked and are dependent on one another. A Demos report claims that 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 mitigating circumstances out of their control.

The existence of strict sanctioning and conditionality on benefits, often implemented against claimants for systemic faults that have nothing to do with them, not only worsens the destitution faced by harder to help claimants but ruins the rapport and trust in the DWP and Jobcentre Plus.

This makes it very difficult to build deep meaningful relationships with claimants. Adding to this is what Demos labels the 'narrow horizon of current thinking' within the DWP, which manifests as a fixation on procedure, 'how things are done', and an insistence on using existing frameworks when thinking of new ways to help 'harder to help' individuals.

Typically, the approach starts from asking "'how do we adjust current systems and processes to better serve this group?'" rather than "what would it take to create a service that would effectively support this group?"¹⁵⁵. With such insistence on sticking to how things have happened in the past, radical reform must occur at the political level. We must see further devolution of responsibility and funding to sub-national government, such as local, combined or strategic authorities. Such localisation would support a place-based approach to helping claimants and a wider level of collaboration between local public services.

It is precisely because of the issues laid out here that we are in urgent need of a total restructuring of the relationship citizens have with the welfare state. This new relationship is one that must encapsulate the commitments made to community in the past. But also one that recognises the crucial role local actors can play in personalising welfare delivery to the needs of all people - particularly those from 'harder to help' backgrounds. To achieve this, the extent of political and economic autonomy that can be devolved to the local level in a realistic and workable manner needs to be established. Through consultation with local authorities, this would involve looking at what is manageable for them.

Ultimately, the case for a localised welfare system is one that advances the case for a deeper democratic process for our country. 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 effectively act on the circumstances and conditions of their evolving localities is the most straightforward step needed.

Those in favour of a localised welfare systems argue they are considered to be more participatory, more effective and more sustainable¹⁵⁶. One of the greatest

¹⁵² Ibid

¹⁵³ Turn2us (2019) – What is the Flexible Support Fund?

¹⁵⁴ Demos (2019) – Pathways from Poverty

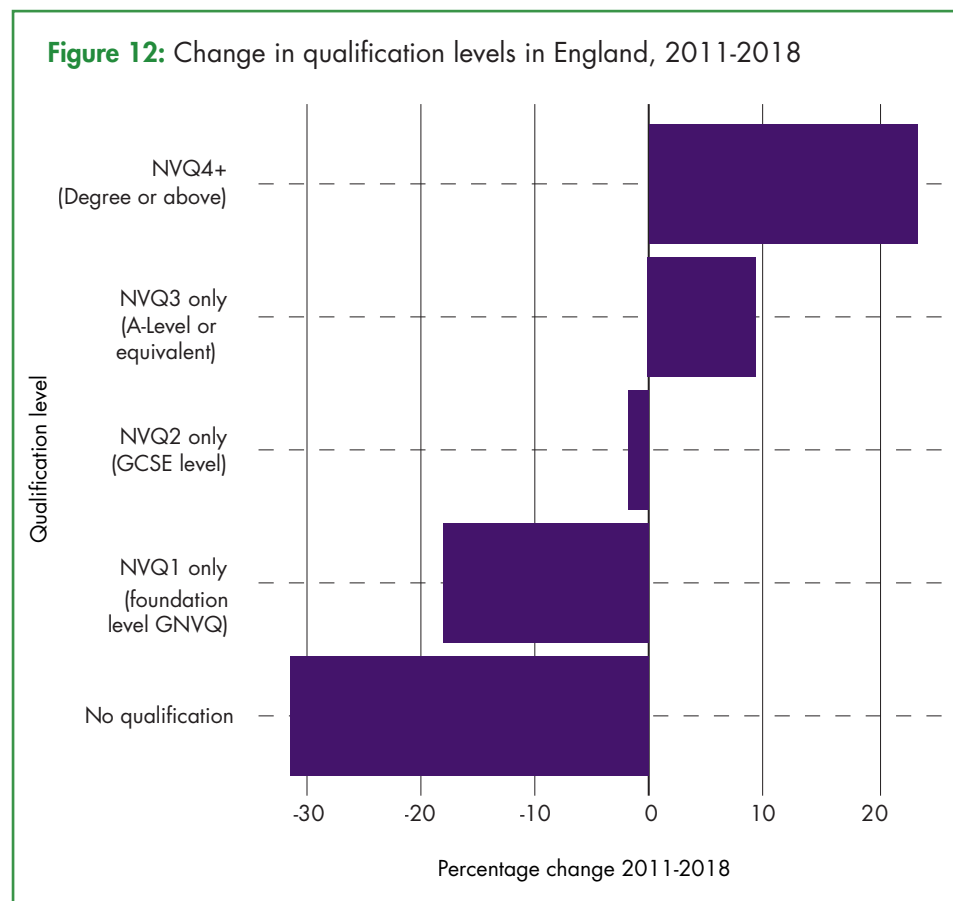
¹⁵⁵ Ibid

¹⁵⁶ Alberta Andreotti, Enzo Mingione, and Emanuele Polizzi (2012) – Local Welfare Systems: A Challenge for Social Cohesion

advantages to having a true local welfare system in place is its flexibility and ability to meet evolving and changing needs of a local population.

3.4 Local leadership in skills and training

Skills provision – in the form of education and work-related training – is vital to increasing productivity¹⁵⁷¹⁵⁸. Developing a strong skills base that meets the needs of the local labour market is already understood by local authorities, employers and further education providers to be crucial to securing prosperity, particularly in light of the vote to leave the European Union. The urgent need to upskill swathes of the population was acknowledged by the government in the form of the Apprenticeship Levy introduced in 2017. Although a step in the right direction, the levy has been acknowledged by sources in business, further education and councils as not being fit for purpose in its current form¹⁵⁹. The National Retraining Scheme aimed at retooling people over 18 for modern labour market demands, is currently in more of an embryonic stage and, therefore still has the opportunity to include localist flexibility in its design¹⁶⁰. This final section focuses on the adjustments at national and local level needed to develop the capacity for local leadership in skills provision.



Source: Annual Population Survey/Grant Thornton UK LLP Data Insights

157 Geoff Mason, S.J. Prais and Bart van Ark (1992) – Vocational Education and Productivity in the Netherlands and Britain

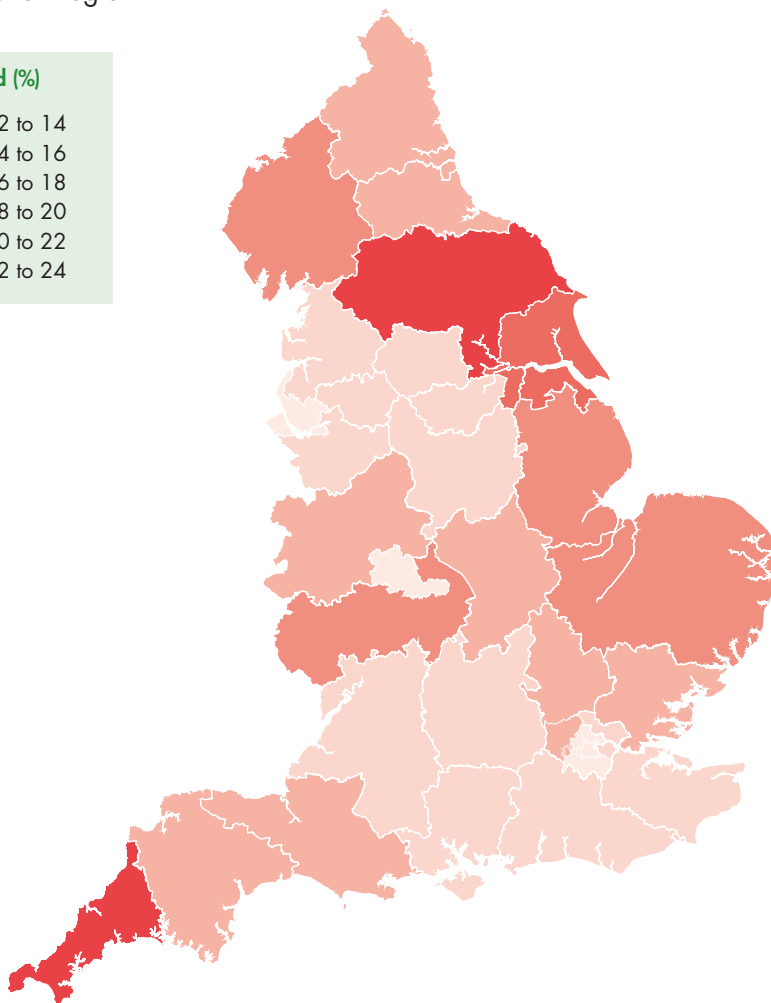
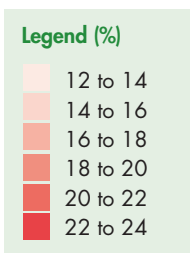
158 Lorraine Dearden, Howard Reed and John Van Reenen (2006) – The Impact of Training on Productivity and Wages: Evidence from British Panel Data

159 Elena Magrini (2019) – The Unintended Consequences of Policy

160 Fiona Aldridge (2019) – What will the National Retraining Scheme look like?

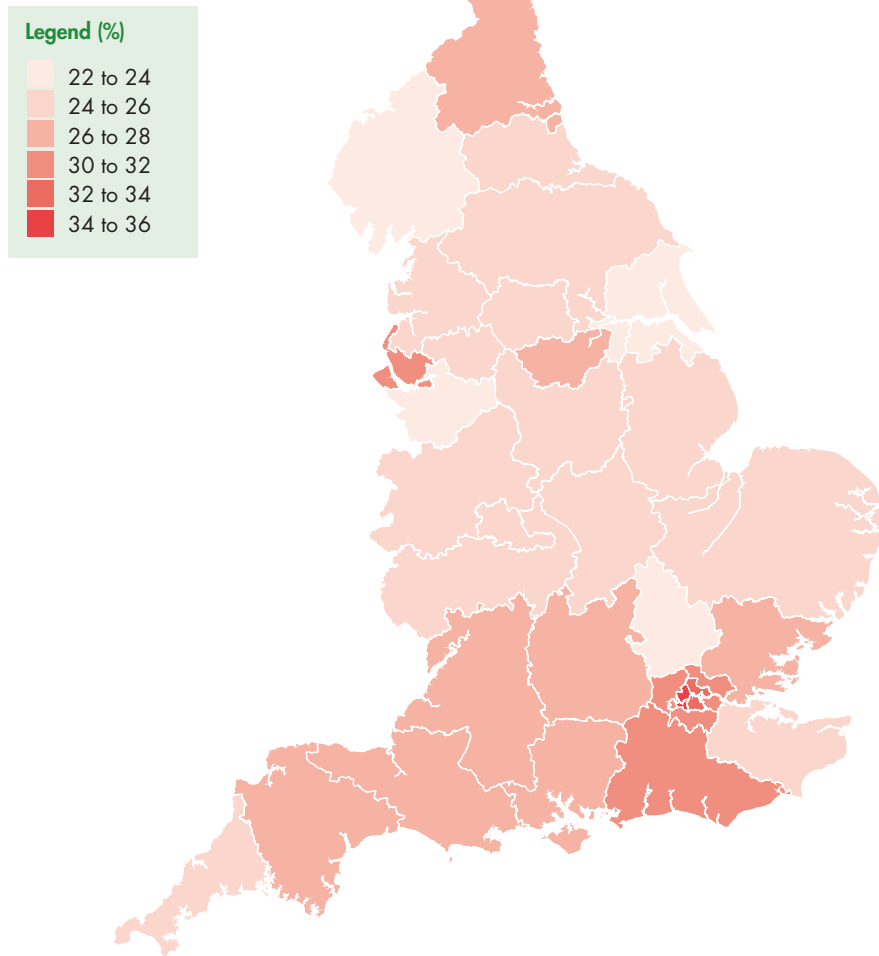
3.4.1 Local labour market supply after Brexit

Figure 13: Percentage of employment in high EU migration industries by NUTS2 region



Source: Migration
Observatory/ONS

Figure 14: Percentage of employment in high non-EU migration industries by NUTS2 region



Source: Migration Observatory/ONS

As the preceding maps demonstrate, the risks to local labour market provision of reduced EU migration and non-EU migration resulting from the government's net migration target of 100,000 are significant and widely dispersed. Whereas the South is more exposed to a drop in non-EU migration, the North, the East and the Midlands are more exposed to a reliance on EU workers. This calls for an agile response, if not in immigration policy, then certainly in local policies to influence labour market forces.

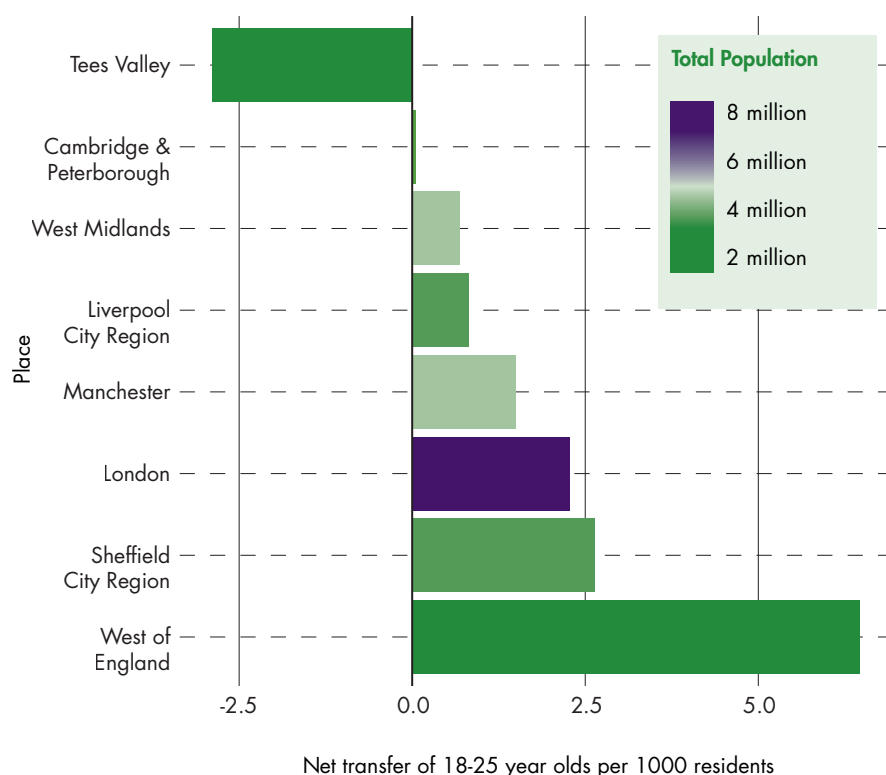
For some places, this may not mean skills-focused policy. In areas where migration is vital to the hospitality sector – Cumbria and Cornwall for example¹⁶¹ – the challenge may be more to do with improving the desirability of employment in the sector through flexibility, wages and non-wage benefits to attract more domestic workers. In places with a manufacturing base looking to benefit from servitisation as described in section one – the West Midlands, for example – training and retraining must be central and they must be conceptualised as lifelong exercises.

¹⁶¹ Localis (2017) – In Place of Work

Combating the Brain Drain

Exacerbating the issue of diffused productivity and regional inequality is the so-called 'Brain Drain' into urban areas. The issue is well known with regards to London – young people come in around their early 20s and leave again in their 30s. But there is youth and dynamism in other parts of the country. In fact, of the mayoral combined authorities, the West of England is the largest net importer of 18-25 year olds. Places need the resources to act strategically, marshalling their Higher Education offers, business base and commercial influence to capture the value of young people.

Figure 15: Net internal migration of 18-25 year olds in the Mayoral Combined Authorities



Source: ONS detailed internal migration data

3.4.2 Extending the capacity to collaborate

The Further Education (FE) 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. This devolution is recognised by the Association of Colleges as a first step in skills devolution, from which further devolution of the pre-18 budget could be modelled. The confusing architecture of FE colleges would make this idea complicated – between FE colleges, sixth forms and '16-19 Academies', the layout of local FE is beginning to rival the NHS in complexity and institutional overlap. 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.

Ann Hodgson and Ken Spours find FE in England to be at a crossroads between competitive market principles encouraged by their incorporation in 1993 and the need for strategic collaboration to achieve local economic goals¹⁶². Competition and distrust have become the norm for FE colleges across the country, whose focus has increasingly been on financial survival¹⁶³. This is hardly surprising given their funding situation – the sector is currently working to a predicted funding shortfall of £4.6bn, having seen a 17 percent real-time funding cut to central grants which make up around 80 percent of the whole sector’s funding over the last four years. According to an Association of Colleges report, funding per student in 2020 will be at the same level as it was in 1990. The institutional architecture must be reformed to promote trust and collaboration with industry. Reforming the troubled Apprenticeship Levy could help a sector at a crossroads move down a path towards creative and effective collaboration.

3.4.3 Reforms necessary

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 authorities¹⁶⁴ and stressed the importance of consortia in further education¹⁶⁵. For local leadership to become central in skills provision after Brexit, a combination of the two is required. In Essex, the Employment and Skills Board has had great success in bringing together the goals of further education and business¹⁶⁶. To move towards a decentralised system, it is necessary for upper-tier, strategic educational authorities across the country to adopt a similar measure and act as the devolved body.

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. The current brief of SAPs is to take responsibility for the devolved Adult Education Budget in LEPs and Metropolitan Combined Authorities. These bodies 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.

As with all reforms proposed in this section, this is not a case of creating additional layers of governance but better using the ones that are already there. Collection and management of the Apprenticeship Levy should be devolved to the Skills Advisory Panel, which would allow the educational authority to make funding decisions in partnership with local FE providers and business stakeholders, as occurs locally with collaborations such as the Essex Board or the West Sussex Skills and Enterprise Groups. 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. A key goal of such a reform would be to improve perception of the Apprenticeship Levy, currently seen as a confusing nuisance by business, by better demonstrating its utility and impact in the local labour pool as well as in local enterprises.

162 Ann Hodgson and Ken Spours (2018) – Further education in England: at the crossroads between a national, competitive sector and a locally collaborative system?

163 Christina Donovan (2018) – Distrust by Design? Conceptualising the role of Trust and Distrust in the development of Further Education Policy and Practice in England

164 Localis (2017) – In Place of Work

165 Localis (2018) – Working Better Together

166 Localis (2018) – The Delivery of an Industrial Strategy

Section 4: 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.**

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.

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 Job Centre Plus's Flexible Support Fund¹⁶⁷ 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.

¹⁶⁷ <https://www.turn2us.org.uk/About-Us/News/What-is-the-Flexible-Support-Fund>



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About Core Cities

Our Mission:

To unlock the full potential of our great cities to create a stronger, fairer economy and society

Our Vision:

For all our cities to be fully empowered to shape their own future.

Our Core Values:

We put our citizens at the heart of everything we do.

We are committed to shared leadership and working with others.

We believe solutions to some of our biggest challenges lie in the hands of local people and communities

Our Way of Working:

We are passionate and proud of the open, diverse and dynamic places we lead.

We base our ideas on our experience of what does and does not work on the ground.

We work across political parties and sectors, with government and its agencies, to get the best results we can.

Our Commitment to Change:

We will help to deliver a fairer, more productive and inclusive UK economy.

We will tackle the most challenging social and economic issues of our time, from homelessness to productivity.

We will change the relationship between our citizens and the state, renewing democracy and citizenship by giving people more say in how their money is spent where they live.

We want everyone to benefit from our vibrant and diverse city economies that drive our national economy.

We will work towards a 'smarter state', embracing innovative thinking to make our services more responsive, more joined up and ultimately more effective.

We will continue our work to influence government, making sure the voice of our great cities is heard and acted upon.

We will continue to work together as a group to solve some of the everyday practical challenges our cities face.

We will set out the analysis and policy ideas that will allow us to deliver each of these things, working collaboratively with others including education and business.

We are committed to working internationally to boost our cities' profile and learn from how other places create growth for everyone.

The Ten Core Cities are Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. Belfast is an associate member.

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