

HOUSE OF COMMONS

COMMUNITIES AND LOCAL GOVERNMENT COMMITTEE

**THE BALANCE OF POWER: CENTRAL AND LOCAL GOVERNMENT**

Monday 23 June 2008

SIR MICHAEL LYONS

MR CHRIS LESLIE, MS JANET GRAUBERG and MR JAMES MORRIS

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## Oral Evidence

Taken before the Communities and Local Government Committee

on Monday 23 June 2008

Members present

Dr Phyllis Starkey, in the Chair

Sir Paul Beresford

Mr Clive Betts

John Cummings

Anne Main

Mr Bill Olner

Dr John Pugh

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Witness: Sir Michael Lyons, gave evidence.

Q1 Chair: Welcome, Sir Michael, to this, which is the first introductory session on our inquiry on the relationship between central and local government. We have a slightly unusual form at this time in the sense that we have not yet firmed up the terms of reference for this inquiry. We are having two introductory sessions to help us to firm up the terms of reference of the inquiry and then we will put out a call for evidence more widely for the subsequent evidence sessions. This may be a slightly more deliberative evidence session than maybe the normal. If I could start, Sir Michael, by asking you about your inquiry, which was extremely lengthy, kept having its terms of reference changed and extended just as you seemed to be coming to a conclusion which might have required the Government to do anything, and then came up with a lot of recommendations, very few of which the Government has actually acted on. What do you think, on balance, your inquiry actually achieved?

Sir Michael Lyons: Good challenge! It certainly was an extensive piece of work, and perhaps that is inevitable given that both the remit changed but also I almost certainly contributed to that by, from the very beginning, making it clear, both in the original commission and certainly in laying out how I intended to go about that publicly, that I did not believe that you could look at the funding of local government and its services as a narrow technical issue, that you could only seek to understand and

make any useful conclusions if you - and I used this metaphor at the time - opened the lens very widely and looked at the constitutional relationship between central and local government, the relationship between local government and those that it serves and at its policy of engagement. If there are any areas in which I can look at the finished body of reports - and as you know, altogether there were three separate reports and quite an extensive body of research that we commissioned, which is all in the public domain - I think it is about drawing attention to those issues, the relationship between central and local government, the constitutional underpinning of that and whether that is right for the current age. Certainly, I answered narrow questions about the funding of local government but I also had a lot to say about the place shaping role of local government, going well beyond local services, in terms of the stewardship of place. So in as much as an inquiry like this is as much about how it educates public discourse, and I would like to think that this might be said to have scored quite highly, I can clearly point to areas in which it has influenced government thinking and action.

Q2 Chair: Would you like to do that? Just briefly point us at some areas where it has altered government thinking.

Sir Michael Lyons: I can certainly do that. Let me start with the issue of place shaping itself adopted in the White Paper, my conclusions that local government first and foremost needed greater flexibility - we might argue whether it is adequately so or not, but reflected in a reduction in the number of indicators, a substantial reduction in the number of indicators by which local government is held to account; reductions in the degree of reporting that local government has to do; the place shaping role. I drew attention to the fact that local government should be more clearly identified as a primus inter pares in terms of the local partnership. That is reflected in the Local Government and Public Involvement in Health Act in terms of a responsibility on other bodies to consult with local government and the broadening of the scrutiny panels. The concordat is admittedly a diluted version of the new constitutional settlement that I recommended, but it is a step in that direction. I do not want to sit here in any way as the person responsible for government decisions; I do not believe that is my responsibility, but I do see signs of having responded. I could say more but perhaps I should stop there.

Q3 Chair: Those are clearly areas in which it appears the Government has responded but overall, it seems to be incredibly difficult for a government to grapple with these large changes and to implement them. Although in opposition each party has been quite keen on change, once they get in, they seem to go off the idea. What could be done to remove those constraints on a government in implementing really significant constitutional change in relation to local government?

Sir Michael Lyons: I think your question is at the very heart of the problem; it reveals the very heart of the problem. I sought to respond to that in my work by talking about the fact that there was no quick fix, there was no set of simple changes. Basically, there were a number of things that had to happen, and I tried to sketch out a pathway and in my final report was quite explicit that that went beyond the life of one government. Of course, you cannot start that sort of journey unless you make some bold early steps, otherwise, as the baton is handed over, the journey has still virtually got to be restarted. It leads me, as it did at the time - and I had discussions with representatives of all three political parties as represented at Westminster and elsewhere - then as now, to believe that this has to be an area in which there is some understanding about the progress being made, otherwise you end up with a rerun of the debate that surrounded my final report, and indeed earlier report, that this could all be distilled down to the revaluation of council tax, which was frankly a by-line in the picture that I sought to paint.

Q4 Sir Paul Beresford: If my memory serves me well enough, there was a Rainsford Committee and then they passed the ball to you, which was very kind of them, having come to no real conclusions. The big problem at the time, as many people perceived - and I do not just mean Daily Mail readers but people like that as well - was that the council tax had gone up enormously in cost, and it had gone up since 1997 quite dramatically. There was the contention from local government - and you touched on this in your answer - that the imposition of penalties, scrutiny, targets, audits and so on and so forth, were having a dramatic effect on the costs and gearing was multiplying that. Did you really touched on that? Did you really look at it and would you agree with local government's position on that?

Sir Michael Lyons: I looked at all of those issues. You particularly focus on the relationship, I think, between the work that I did and the work of the Rainsford Committee under the heading of the balance of funding.

Q5 Sir Paul Beresford: I was not just meaning the funding. Some of the impositions of central government on local government have cost local government, that they then had to fund, and predominately that went on to the council tax and the gearing hit the council tax payer savagely.

Sir Michael Lyons: Certainly, the heart of my conclusions lay in the region of the lack of flexibility, the lack of ability for local government to respond adequately to the views and preferences of people in the communities that they represented because of an onerous performance framework and centrally dictated imperatives, some quite explicit in terms of objectives set for local government, the use of ring-fencing of expenditures, again, reducing the flexibility to respond to local circumstances. That was at the heart, and I would put that much higher up the agenda than the additional cost of responding to that framework of control and regulation. I was much more concerned, and indeed found stronger evidence, that it had the effect on local government, perhaps you might say predictably, of making it more interested in and more responsive to the views of Ministers and the Departments that serve them and the people who actually elected them.

Q6 Sir Paul Beresford: I accept that and it has been my complaint of local government. Could I give you a tiny example? I have a little council in my constituency. Their budget is £10 million or something like that. The CPA costs them, quite apart from the time spent working with the teams and the fact that the senior staff are not working effectively for three weeks, about a quarter of £1 million; because of gearing it costs the taxpayer £1 million. On a budget of £10 million that is outrageous. That is what I am really getting at. Not only are they focusing on the CPA requirements for the auditors, et cetera, but it is costing the local taxpayer an outrageous amount of money.

Sir Michael Lyons: I am absolutely clear about the point you are making. I do not have the evidence on that authority, which of course is anonymous to me, nor indeed did I spend a lot of time exploring what this body of costs might actually look like, because I was more concerned with the issue of what impact it had on behaviours. I do not dismiss the point you are making for a moment.

Q7 Mr Olner: You have been in local government a long while, Sir Michael, in some Midlands authorities as well. Do you think, using that experience, and certainly since you produced your report in 2004, the amount of council tax that people have to pay has risen dramatically? I just wondered where you saw local authorities and the Government in the "blame game" stakes?

Sir Michael Lyons: My main report in this area was, of course, in March 2007 but you are right; I did earlier reports. In terms of increases in council tax since I reached my final conclusions, I think the fact that they have been modest for a number of reasons compared with the period immediately before that, where they were very sharp, is probably one of the reasons why some of the tensions

which were around when I was first commissioned have not rekindled, have not been as alive again. What I was seeking to do in this report was, to the best of my abilities, to expose whether increases in council tax could be seen to be solely the problem of individual local authorities, and indeed, one of the strongest conclusions I believe my work reached was that, actually, it was impossible, despite all of the resources that we assembled here, to identify the balance of responsibility between local and central contributions to the pressures which had led to increases in council tax. If that is the situation, it tells us something much more serious, that actually, in terms of who local people should hold to account for the expenditures involved was itself confused and needed attention. That is really where I addressed the heart of my recommendations.

Q8 John Cummings: I think we are all very aware that local government in England has been subject to regular reform over the last few decades. We have seen a reduction in local authority powers in education, in housing, et cetera. On the other hand, enabling powers given to local authorities have increased their economic regeneration and community leadership roles. What do you believe have been the key positive developments and the retrograde steps in the relationship between central government and local government in the last decade?

Sir Michael Lyons: There is quite a lot for me to answer there, but if I just pick up a couple of points - with more time I would probably go more deeply into these - in terms of the most negative impact, that is in my view unequivocally the increased centralisation over areas of local government responsibility, in some cases leading directly to the effective transfer of that responsibility. I immediately think of areas just at the boundaries of that time span you have given me: further education; more recently, schools budget, with a much stronger central responsibility defined by government. The problem with that is that there is nothing wrong with re-shaping what central government believes it is responsible for and what it wants local government to be responsible for, as long as everybody is clear about that, clear in terms of who to hold to account and who actually makes the key decisions. I think that has often been less clear to the individual council tax payer, income tax payer, the local citizen, than it might have been. You are quite right, of course: it has not been one-way traffic. There have been some changes in the other direction. Indeed, one of the things I would welcome is that in the period since I reported and immediately around reporting there have been some further changes, not least in reinforcing the role of local government as a player in economic development, in contributing to this place shaping agenda that I sought to lay out. Perhaps I can approach that by focusing on one specific issue which looms very large in my final report, and that is the job that local government itself has to do. It sometimes has allowed itself to be characterised as powerless in this debate. What I was seeking to underline is that local government itself has a job to do in rebuilding its relationship with those that it represents and serves so that together they might place pressure on government for faster change in terms of more local decision-making.

Q9 John Cummings: To follow on from your last comments, how do you view the relationship between local government and central government? Do you think central government view local government as something to be tolerated, that has to be there, that gives a smattering of local democracy, yet they wish to retain power at the centre? What further changes do you think are going to be necessary in order to improve the relationship between central and local government?

Sir Michael Lyons: Again, it is a very expansive question, so perhaps I can limit myself to two areas that I sought to explore in the report. One of them was this national debate about public expectations of what could be delivered out of tax income, and my concern that, with the growth of promises made, the centralisation of decision-making in the United Kingdom, particularly in England, had been coupled with a raising of expectations of what could be achieved with tax

income. As a result of that, there was a lack of balance between what people expected and what was delivered, with the net result that we had a downturn in satisfaction.

Q10 John Cummings: Where do you place the blame for this?

Sir Michael Lyons: It is an interesting debate. It is an interesting debate about the extent to which local government---

Q11 John Cummings: Trying to move it on, do you think it is a matter of central government offloading blame on to local government, raising the expectations of the general public, but not providing the incentives to allow local authorities to carry out their functions in a more efficient manner?

Sir Michael Lyons: Do you know, I have never found the apportionment of blame a great aid to making progress, so I am going to decline your invitation to attach the blame, but I am going to say that the problem is exacerbated---

Q12 John Cummings: If we cannot attach it where the problem lies, how we going to correct it?

Sir Michael Lyons: Let us just put the word "blame" to one side and say what are the factors which contribute to this and make it difficult to tackle? There I am quite clear: they are about inappropriately centralised control. They are about decisions being made at Westminster which could more appropriately be made locally, and they are about local government not itself becoming an unequivocal champion for efficiency and for working energetically with its local community. It is not as if this is just a simple issue that can be resolved at the centre. It actually requires - and I spent a lot of time thinking and offering conclusions about this - local government also to put its own house in order.

Q13 John Cummings: Do you think the will exists in central government to move towards that particular objective?

Sir Michael Lyons: It is a problem, is it not? That is why these two things go hand in hand. Local government continues to have a reputation of not always being efficient, and this goes hand in hand with a national belief that postcode lotteries are a bad thing, so an anxiety about different decisions being made in different localities, as if it were possible with limited resources to do the same everywhere, which it is not. I am searching for how to give you the shortest answer to something which I do not think is amenable to a short answer, but my strong conviction is that central government finds it difficult to move on not just because it does not have a will but actually because there is a limited public space---

John Cummings: Do you think there is a deliberate policy on behalf of central government to continue to emasculate local government?

Chair: John, I do not think you are going to get an answer to such a leading question.

John Cummings: Let him answer.

Q14 Chair: Can you answer that shortly?

Sir Michael Lyons: The short answer is: do I believe that somewhere in the heart of government are a group of people intent on hanging on to this? I do not think it is as simple as that, no, but if you find them, I will be happy to review my answer.

Chair: We appreciate these questions are all very complex but we do need to try and get the answers a bit shorter.

Q15 Anne Main: We have had four reports. Can I just say, I have noted a few things you have said: that local government allows itself to be characterised as powerless; that there had been modest rises in council tax; and that you could not arrive at a conclusion as to who was to blame about escalating council taxes, and you did not want to apportion blame. All that is very interesting but I actually think people felt out of four reports you could have shone a searchlight on some of these things. I have an excellent rated authority, as many local authorities are excellent rated, but they feel that the Government decrees that so much needs to be done that they have very little control over what they do, and the public are then asked to pick up the bill if they have to put in extra services. The public do not see the rises as modest. The public, and indeed councils, will regularly say that they are hamstrung by the Government to having to deliver a government agenda because that is where the funding comes from. If they do not deliver, they do not get the funding, and therefore they are more impoverished than they were beforehand. So whilst I am not saying apportion blame, can you see, after four reports, whether there is a better way of doing this? I do not believe either that there are councils sitting there going "Poor little me. I want to be characterised as powerless." I think they genuinely believe they are and, having been a councillor, I actually have sympathy with that. I am on the side of councils here somewhat. We do not want to be characterised as powerless. What can be done to shift the balance? Four reports of very interesting engagement with the public debate, as you said earlier on in your speech, to me does not sound good value for money.

Sir Michael Lyons: I have absolutely no doubt that in each one of those reports there are clear conclusions reached and clear recommendations made. The fact that it is a complex picture I make no apologies for.

Q16 Anne Main: Is anyone following your clear recommendations?

Sir Michael Lyons: I do not know. Let me look to you and others who aspire to take on the mantle of government. Are you looking at these conclusions, because I was clear that was not only speaking---

Q17 Anne Main: You are reporting to the Government.

Sir Michael Lyons: Let me finish. This is an independent public report in which I explicitly said this cannot be the responsibility of one government and I have said publicly since if any one government does not take it on, it remains an issue for future governments to consider.

Q18 Anne Main: Do you feel we are any further forward as a result of your reports?

Sir Michael Lyons: Yes, of course, I do.

Q19 Anne Main: I know what you say about place shaping and things but things that are really on the ground level, the level of council tax, which, as I say, people do not feel is inconsiderable, and indeed, the level of powerlessness that is genuinely felt by councils. Are we moving forward or do they still see themselves as simply delivering a government agenda and they then make up the shortfall in the budget?

Sir Michael Lyons: Let me be careful, because I have not spent as much time in the last year working on this. I have taken on another part-time job, which has distracted me a little, but I have still had discussions with the Local Government Association and others and, inasmuch as that captures all of the views in local government, which is of course very difficult, I have no doubt the Local Government Association and every local government conference I have spoken to welcomed these conclusions in their entirety, felt that they had revealed effectively the dilemmas, hoped that they might lead to government making some decisions but, most importantly, just to come back to my point about change in local government itself, have led directly to actions within individual authorities and collectively aimed at further improving local government's performance and reputation.

Q20 Anne Main: So when the Government, for example, pushes planning on up to a regional level, perhaps even thinking of having EDA(?), can you understand why a local council feels it is really just administering a government agenda?

Sir Michael Lyons: I have no problem at all in agreeing with you about the frustrations felt in local government. I absolutely understand those.

Q21 Anne Main: You would agree with that observation that they are indeed really just tools to administer a government agenda?

Sir Michael Lyons: Do I agree that local government is frustrated with that, yes, I do.

Q22 Anne Main: That is not what I asked you. I know they are frustrated.

Sir Michael Lyons: You are asking me to characterise government policy in a particular way, and I am saying that I understand why local government is frustrated with this because it does have the effect - and I will not duck this point at all - of reducing local choice and local discretion, and that was the very heart of my thesis, that that needed to be expanded.

Q23 Mr Betts: Can we turn to the issue of local government finance, which was actually where your report began and was then widened in its terms. Would you accept that there cannot be any real change in the relationship between local and central government unless local government has greater financial freedom?

Sir Michael Lyons: Broadly, yes, I would accept that. No doubt you will go on to tell me what you mean by "financial freedom".

Q24 Mr Betts: Broadly, the ability to raise more resources independently.

Sir Michael Lyons: There we might part company. As I was very clear in my first report, I thought the preoccupation with local government having freedom to raise more money was a distraction from the most urgent presenting problem, in my judgement, and that - and I did not change this view over the life of the work I did - was actually the flexibility to use the money that it had. I am on record in that first report and in presenting this on a number of occasions as saying the notion that local government already feeling - and to some extent this captures your comment earlier on - that it was not able to respond to the variations in local circumstances because it was in too tight a regulatory framework, the last thing that local government needed was the ability to raise more money that it did not have the freedom to explain how it was going to spend. It is a question of the

sequence of these things. Yes, the balance of funding comes on to the agenda but not before the issue of flexibility.

Q25 Mr Betts: Right. It is still on the agenda. At least we have got it that far. Can you understand, therefore, why many in local government, who have seen other models of how things operate on the continent of Europe, where local councils generally have an ability to raise directly, for the most part, more money and by a variety of different means---

Sir Michael Lyons: It is a complicated picture in Europe but yes, there are some countries.

Q26 Mr Betts: Yes. People in local government can see this major review happening, they can see other examples where there are greater abilities to raise money by a variety of means in other countries. Can you understand therefore why some have described your report, or the Government's response to your report, as a disappointing response to a disappointing report?

Sir Michael Lyons: I have heard that, but quite often I have heard that from people who consistently want to simplify the problem. The problem cannot be boiled down to: the government should allow local government to raise more money. Indeed, I have to say that would be an extraordinary way to summarise the current problems faced by local government, as if the British populace is just waiting for local government to go out and ask for more money to be collected. That would be a rather odd way of looking at where the world is at the moment.

Q27 Mr Betts: It does not have to be more money, does it? It could have been the transfer of the business rate to local councils. Some people feel you just bottled that, quite frankly.

Sir Michael Lyons: I did not bottle it. I spent a lot of time discussing this both with local government and with the business community. If you have a moment, let me expand on what emerged from that.

Q28 Chair: Briefly.

Sir Michael Lyons: Very briefly, I found a very clear message from the business community that they were anxious about this, not because they did not believe there should not be a closer link between local government and the business community, locality by locality, but they actually believed that this was likely to lead to an inexorable increase in taxation. Of course, given the background of people arguing about the balance of funding, it is not surprising they had such a fear. When I talked to local government, what I could find was no appetite, frankly, to consider anything other than a reduction in the business rate. So you then had the proposition that you might be encouraging central government to make a change which would then be used by local government, or by some local authorities, to position themselves as anti to the original proposition. Quite a messy situation but, far from bottling it, what I said was - and my recommendation is very clear on this - that you need to build confidence to move in this direction. It cannot be sensibly imposed on the business community. A first step to that might be a supplementary rate around those areas where local government and the business community were clear about the legitimate case for raising more money, namely local transportation infrastructure.

Q29 Mr Betts: Can I ask you about the willingness of national politicians to engage in the reform of local government finance? The more modest things that might have happened, like the revaluation of the council tax on an overall increase basis, which the opposition parties were against from the beginning and government eventually decided it could not face up to the consequences of; the previous government ended up with the Prime Minister basically falling on the grounds of an

attempt to reform finance and bringing in the poll tax. Do you think it is possible to bring about any significant reform, certainly without some funding to cushion the effect on losers? That is what happened with the VAT increase that Norman Lamont brought in to enable the change to the council tax system to happen.

Sir Michael Lyons: It was very much not only that thinking but that experience through the life of this project that led me to believe that this could only be achieved by a combination of what I would describe as a mosaic, a number of small changes, but nonetheless changes which moved in a single direction of increasing flexibility, increasing local discretion and providing the room for communities to make more choices for themselves, and in time to have more say over what tax was paid, greater say over what tax was paid locally, and that that would have to extend over the life of more than one government if any progress was going to be made. I think it is very interesting to see how the debate about revaluation was excited as if it was the issue, and it is also interesting to reflect that it continually focused not on the fact that some people would gain and some people would lose, but it was constantly presented as if there were only losers, when in fact the argument in favour of the revaluation of council tax was that it would redistribute the burden beneficially, as was originally intended in the design of the tax between different areas.

Q30 Sir Paul Beresford: Can I turn the equation in this question on its head? Much of local government does not want to raise more money; what they actually want to do is to have better use of the money they have, and what they are asking for is government to get off their back, to reduce the regulation, to give them more freedom with the funding which they already have.

Sir Michael Lyons: Sir Paul, that is absolutely in line with the heart of my eventual conclusions. The key issue here was flexibility, but it did not rule out the aspiration over time to move further. The key issue was flexibility so that local authorities could be seen to respond effectively to their own communities and begin to rebuild the trust which would lead to other alternatives in the future without binding anyone. There was no attempt to lay out a pathway where you could divine the step to be taken in 2020 from the one that had to be taken in 2007.

Q31 Sir Paul Beresford: Do you feel that has happened, that the Government has responded?

Sir Michael Lyons: The Government has responded to some of the recommendations.

Q32 Sir Paul Beresford: Have the responded to that?

Sir Michael Lyons: Do I regard it as a full spirited response? No, I do not, and particularly in the area of local government finance, the recommendations sit there, as valid today as they were a year ago, when I finished this work.

Q33 Dr Pugh: Constitutional settlements, concordats and the like, of which much is spoken. We do not actually have concordats, do we? We have truces from time to time between central and local government. Central government has overreached itself, local government complains more vigorously than usual, and you get a bedding down for a while of whatever is the current state of play. Is that not what we get in this country? "Yes" or "no" will do.

Sir Michael Lyons: I do not know. If it was amenable to a "yes or no" answer, I would give you one. I do not think it is really. You asked for my view on this. My view is actually that the concordat that has been signed is valuable. It goes nowhere near as far as the constitutional settlement that I was asking for, but it does have some very important components, not least, a

recognition of a mutual interest between central and local government, and therefore I think is a more healthy context for discussions into the future.

Q34 Dr Pugh: Should any future concordat either adopted by the government or proposed by you have a clear understanding about what local government is good at and central government is not, and that should be agreed, because without that, any kind of concordat or agreement is pretty vacuous, is it not?

Sir Michael Lyons: Yes, certainly an important part of the discussion might be what---

Q35 Dr Pugh: Should it be an essential part of the discussion?

Sir Michael Lyons: I am going to get to your question but slightly indirectly, because I think the heart of the issue is not so much what the two tiers are best at as what does central government believe it is responsible for doing, whether it does it well or not, and clarity that it will fund that and is accountable for it.

Q36 Dr Pugh: So central government needs to know its mind - I think that is more or less what you are saying - about what it wants to do with local government.

Sir Michael Lyons: I would agree with that and, what is more---

Q37 Dr Pugh: It is something short of a concordat, is it not?

Sir Michael Lyons: Yes, in my view it would need to go further than a concordat but, to come back to your point, in making up its mind, it would not be unreasonable for it to reflect on what is best dealt with as a central proposition and what is best left to local choice.

Q38 Dr Pugh: You are not actually proposing a constitutional limit to what central government thinks it should be doing?

Sir Michael Lyons: I do not think that would have been the right thing to do.

Q39 Dr Pugh: You recommend a degree of parliamentary oversight. If we are observing the current state of play or truce, did you envisage Parliament, or maybe a Committee like this, playing a kind of referee role and simply telling the various parties who has gone too far and when?

Sir Michael Lyons: I guess if I had put that in quite those words, you would have thought that was giving you quite a challenge. What I am clear about and what I tried to reflect in this document is that these are not just technical issues about powers, grants, regulations. Actually, underneath it all there is a constitutional issue about the extent to which, just like we have a debate about the extent to which the individual citizen should be free to make decisions for themselves, so there is an issue about the ability for communities to collectively have the freedom---

Q40 Dr Pugh: I just want to be clear about what you are saying. Are you suggesting that parliamentary oversight provides a kind of commentary or an adjudication service? I think the former rather than the latter. Is that the case?

Sir Michael Lyons: I am just baulking slightly---

Q41 Dr Pugh: Now we can give a sort of commentary on how we think things are going.

Sir Michael Lyons: In the current climate all that you can do is provide a commentary.

Q42 Dr Pugh: Yes, and you want something more than that for Parliament?

Sir Michael Lyons: Yes. I was recommending something certainly that went beyond that.

Q43 Dr Pugh: Do you think it would be helpful if we could separate the issues of what local government should properly do, and get that sorted first, from the issue of how local authorities should properly be financed? You think that it would be easier to take the questions as separate questions?

Sir Michael Lyons: Firstly, let me acknowledge, because I spent a lot of time initially trying myself to identify whether it was possible, on the basis of either public reactions or the nature of services, to distinguish between nationally provided services and locally provided services. It is very difficult. There are some things that fall neatly into one category and some neatly into another category, but there is a very substantial grey area in the centre. There is not a simple division between these but, in answer to your question, you do have to be clear what it is that local government is being asked to do before you can properly start a debate about how it is funded and to what extent.

Q44 Dr Pugh: Just a final point of clarity. My take on this is, there is a lot of talk about partnership, a lot of talk about place making, and underneath the radar there is a haemorrhaging of powers of local authorities to other non-elected bodies, whether they are local strategic partnerships, other sorts of partnerships, or regional and sub-regional fora. Is it not the case that most people now currently perceive local government as, firstly, less accountable than hitherto and, secondly, less transparent?

Sir Michael Lyons: "Yes" to both of those, depending on what time horizon you are taking. "No" to the assumption at the beginning that the movement of powers from local government to non-accountable bodies is something that continues apace. I perceive that actually, for at least the last three years, there has been some reversal of that process. I personally see the pendulum as moving back from its peak point.

Q45 Mr Betts: I wonder what we can do to try and lift the whole debate about the relationship between central and local government on to almost a constitutional basis. In the absence of a written constitution, all we have is a number of Acts of Parliament, which are not in themselves considered constitutional. Two examples: first of all, we have the concordat, which was supposed to be the basis for this constitutional arrangement. In reality, my guess is that most members of the public have never heard of it, many members of Parliament probably have not heard of it, many councils probably have not heard of it. It has not exactly set the world on fire in terms of change in relationships. If you look at what has happened in Scotland and Wales, the Parliament in Scotland and the Assembly in Wales have been established by a constitutional Act. They are constitutional because the Committee stages are taken on the floor of the House and it is recognised as being different. Local government legislation is not considered that way. The Parliament and the Assembly were then backed up by a referendum, and it is inconceivable that their powers will be taken away or changed without another referendum. Do we not have to do something to try and put relations with local government on to a different standing to what they are at present?

Sir Michael Lyons: I think broadly I would say "yes" to that. I would say that in my view issues of devolution and the constitutional position of England in a UK of devolved nations is unfinished

business. However, if I just come back, I do think underlying all of this is the problem of a debate with the public of this country which, when surveyed, believes that more decisions should be made locally but still has some anxieties about those decisions being made by local government.

Q46 Chair: Are you referring to the postcode lottery?

Sir Michael Lyons: In part I am. There are two facets behind that conclusion. In part, it is an anxiety that local government remains inefficient in its use of resources. I do not say that it is but that remains a perception and, despite local government's strenuous efforts to improve on that, it is difficult to shift, in part, because centralised decision-making just sounds as if it is likely to be more efficient. Put that beside the postcode lottery, the belief - and I cannot say enough how much I do not believe it can ever be delivered - that standards will be the same in every community if decisions are made for the nation as a whole, excited by press coverage of what is characterised as a postcode lottery if decisions were made more locally, further leads people to believe that they will be disadvantaged by it.

Q47 Mr Betts: Coming to this point you made about the concern people think more decisions should be made locally but are not sure local government should make them, is this what you think drives Ministers to try and reinvent different ways of delivering local decision-making outside local government? We have talked about the vulcanisation of decision-making locally which means you do not get proper joined-up government.

Sir Michael Lyons: I could take you back - although I am not going to in the space we have today - to specific episodes where individual Ministers have further excited that belief by ministerial interventions that were seen to offer consistency across the country as a whole to matters which arguably would be more appropriately left to local decision-making and local priorities.

Q48 Chair: Could you give an example, because otherwise we are all going to be thinking of different examples?

Sir Michael Lyons: Let me go back a very long way - only because it is safer rather than because it betrays...

Q49 Chair: Think dangerously, Sir Michael. After all, you are not elected so you do not have to worry!

Sir Michael Lyons: No, but I am impartial, or struggling to be. As you know, impartiality is not a state of grace; it is a journey. I became the Chief Executive of Wolverhampton Borough Council in 1985 and inherited a scheme for assisting small businesses. This was in the aftermath of a very deep recession in the West Midlands which had cost one in three manufacturing jobs. The council was strongly committed to trying to improve the economic wherewithal of Wolverhampton. We had a scheme which was lacking in criteria and, as a result, both expensive and potentially at times damaging to existing economic activity. For instance, you would get applications from people wanting to set up new retail activity when that was basically in direct competition to existing businesses. It took us two years to convince both the council and the community that actually you could only sensibly seek to intervene if you asked the question "What impact would that have on existing businesses and jobs in the area?" We finally got that sorted out and working when central government decided that it liked the idea of task forces. A task force was jetted into Wolverhampton and its first decision was to say "Unlike the council, we will offer support to any retail business that comes along." That is an illustration, without anything more to it.

Anne Main: On retail needs, of course, the retail needs assessment has been taken away by the Government, so that is another planning thing.

Chair: Not yet!

Q50 Anne Main: With the funding formula, many local authorities feel they are hamstrung. Have you completely ruled out any possibility of having a local income tax? Did you rule that out in your report?

Sir Michael Lyons: No, I did not rule it out, and what I tried to do - and again, I would like to underline that I tried to evaluate all of the options and to lay them out so that anybody at any future point coming to this dilemma would see as best as I was able to demonstrate the pros and cons for moving in this direction.

Q51 Anne Main: Is this because radical reform is so politically nuclear? I think you touched on that in your comments.

Sir Michael Lyons: It is clearly difficult for any government to move, but it is difficult for any government to move faster than the population wants it to. So the notion of quick and simple local government reform, I felt, was not possible but I did see that if actually you started to rebuild, to provide the flexibility - flexibility first, back to our agreed point - the ability for local government to respond more effectively to the needs of the community that they serve as opposed to standards set nationally.

Q52 Anne Main: That does sound as if you are saying "Get off the councils' backs, Government."

Sir Michael Lyons: Those are the words you have chosen but they might well be used to summarise what I said in the report.

Chair: Thank you very much indeed, Sir Michael.

Witnesses: Mr Chris Leslie, Director, New Local Government Network, Ms Janet Grauberg, Development Director, Public Management and Policy Association, and Mr James Morris, Chief Executive, Localis, gave evidence.

Q53 Chair: I think you have all been here for the previous session, so you know what has been said. Given that we have three witnesses and only about half an hour, we are all going to have to be disciplined. Perhaps we could all bear that in mind. Can I just start off with the questions about the Lyons Inquiry. Having heard Sir Michael say what he thinks the Lyons Inquiry achieved, and those things which the Government took up, do you agree with him or disagree?

Mr Morris: I think that the Lyons Inquiry certainly set out very clearly the policy area around reforming local government, and I think that there are many recommendations in the Lyons Inquiry which are good and sound and should be picked up by government. I think though that the issue which I think was being debated and skirted around in the question and answer session is that the reality is that over probably the last ten to 15 years the policy debate in this area has been chock-full of contradictions. I was particularly interested in the point that I think Anne was making about the fact that during the last ten years we have had this movement towards very much top-down approaches to both regional and local government at the same time as there being rhetorical lip

service paid to decentralisation of power. So the example of planning powers being placed into the hands of democratically unaccountable regional development structures, for example, I think is an example of policy tensions which still exist in the central/local relationship, and one could go through a whole series of them around education, health, even the provision of welfare, which are still very current.

Mr Leslie: I was quite overwhelmed, I suppose, by the volume of Michael Lyons' report and the effort and length to which he went to describe and cajole Ministers to make some changes but, fundamentally, I think where it feels a little bit less than the sum of its parts is in the politics. I think there were some very good, sound and quite pragmatic modest ideas about reform, but persuading governments of the day to make the big leap to shift towards devolution, decentralisation, localism, there was not really a compelling enough attractive force there. The same really would apply, I suppose, for the other political parties too. I think the reaction of the other political parties to the Lyons Report were similarly very defensive. They were quite happy to point out problems or flaws rather than recognise the gains, the advantages, to be attained through moving to a far more mature, sophisticated, decentralised way of doing decision-making in this country.

Ms Grauberg: I would pick that up, because I think the key questions to underline this, which we have just touched on, is about the value that we as a nation place on local democratic determination and decision making. This is a "where there's a will, there's a way" point, in that we presently have a model where it appears that this is not much valued, and the questions that we had about performance management are examples of that, and schools' budget, housing budgets and whatever. It is easy to understand why, because on the issue of what Sir Michael called "confused accountability", actually central government is often blamed for failures in local government and is unwilling to have that debate, but it seems to me if we do not work through those fundamental decisions and views, and in particular take into account not just what the present Government views are but the views of political parties and the people that they seek to represent, any of the particular changes that we want to make, any of the particular changes that Sir Michael has recommended, and any particular words you want to put into a concordat are going to be skating over the surface.

Q54 Chair: One of the things that Sir Michael said was that he was trying to inform public discourse. Apart from think-tanks such as yourselves, which are clearly part of the public but not quite what he was meaning, do you think it has informed a public discourse - not politicians, not us lot, not you?

Mr Morris: I think, in short order, probably not, not in the wider world. I still think that people are on the whole unclear about the role of local government, that they are not sure who is responsible for what. If you ask somebody about policing, for example, and they say "Who is responsible for fighting crime in your area? How does that relate to the local authority?" they probably do not know. I think there is still a big gap that exists between the local government level and perceptions of voters and perceptions of local communities. That is the one of the points which I think Sir Michael was making about trust, that there still is a lack of trust between local communities and the decisions taken on their behalf by central and often local government. It seems to me that, until that gap is closed significantly, we are still going to have some problems around the speed of reform.

Mr Leslie: I do not think that the Lyons Report really gelled or set the public alight in any particular way, apart from perhaps a few torrid headlines about council tax and revaluation, as Sir Michael was pointing out. As with a lot of our work, we can talk about local government reform but sometimes the things that are reported are about the bins or about council tax, maybe the occasional local election results, but even those can simply be a reflection of the national political perspective. I had great hopes for Michael Lyons' report, and I think he did really as well as he could on the

technical side. I think there was a need to really prove not just the political case, as I was saying before, but also to get a head of steam going amongst the public to demand a change from this archaic system for decision-making, the constitution that we currently operate under, which sees so much power centralised in Whitehall, when so many of the challenges facing the country in the 21st century require local, tailored, personalised solutions on the front line, and we are still too far from that.

Q55 Chair: How would we do that then?

Ms Grauberg: I think we can agree that Sir Michael Lyons' report did not galvanise that in the way that it might have done but I do not think that is a cause for despair. He argued very much that this was a challenge for local government itself to take up the baton and to have that debate. We do see in the conversations that people have, whether it is policing or polyclinics or post offices, a willingness to have a conversation on a very local basis about where the responsibility lies, the balance between national provision and local flexibility, however that is described. Just because it has not happened in response to a weighty tome does not mean that it could not happen in future in a different way.

Q56 Dr Pugh: I just want to pick up on something that has just been said. You are an optimistic bunch with lots of good ideas for the future but I wonder whether you accept the pessimistic view I present. There is a lack of clarity amongst the general public about what local and national governments' respective roles are, and it is not obvious who ought to be blamed when things go wrong, so it is quite understandable that central government want to manage things themselves. If they are going to pick up the blame, they will be punished at the local elections for things that local councils may or may not have done. It would be really nice to have clarity about the respective roles of central and local government. I just wonder whether you think it is achievable and, if so, how it can be achieved, given that there is a natural entanglement of national and local government. Is there ever going to be a day when the public actually know what their council does and can legitimately be accountable for and what central government does on the other hand and distinct from local government.

Mr Morris: You are in a sense engaging in futurology. With the trends of technology and the trends of the use of data and information in new ways, one of the keys to re-engagement of local government with local communities is through the sharing and presentation of data, by which I mean not just a local authority telling me where my local swimming pool is but a local authority telling me very clearly about the performance of my local police force and where the crime hotspots are, a local authority telling me about the performance of my hospitals in comparison with others. Given the propensity of communities and voters these days to use technology and mine data it seems to me that that has to be one of the ways in which engagement can be promoted so that people do begin to really understand in a clear way what it is that their local authority is doing for them. That would be one idea.

Q57 Chair: There are already league tables on schools, on crime rates, on hospitals, on MRSA rates. I am not quite clear how that enables the public to get behind the reason why their hospital may be worse or better than somebody else's.

Mr Morris: I am talking about information that goes beyond league tables. I think you could argue that league tables are a manifestation of the current problem because they are a central government set of parameters which are put around local information. What I am talking about is inverting that; I am talking about information which is bottom-up information.

Q58 Chair: Can you give an example. What do you mean by bottom-up?

Mr Morris: If we look at the way in which young people are increasingly interacting with community websites, for example, like MySpace and so on. They are beginning to interact with information in a completely different way. They share information about what is going on. I am talking about that, the way in which information about local authorities is at the moment aggregated in silos, and it needs to be much more accessible in a network way.

Mr Leslie: I think there is a lot to be said on the data question but just coming back to your original question: ultimately, can the public understand where power lies? Yes, I think they can. Is it clear about whether it lies with local decision-makers or national decision makers? I suspect not so much right now. I believe though in the future it is inevitable that power will have to be devolved and decentralised if public services are to be delivered successfully, appropriately and efficiently, because the nature and divergence of the challenge is such that trying to do all these transactional activities through from a Whitehall quango-ised basis is not sustainable. So over time I really do think that any government of whatever political complexion is going to have to devolve power downwards. I personally think the public would prefer to have a greater proximity with those who are making decisions over their lives. That sort of subsidiary subsidiarity principle has been around for quite some time. The question is whether politicians at the centre, again, of all political complexions, are going to have the foresight to let go in time in order to see those services flourish or whether they are going to be stifling that potential by hanging on to things unduly long.

Q59 Dr Pugh: So they have got to let certain local authorities sink or swim at times, even if the consequences are politically unpalatable. Can I persist with the question I asked Sir Michael a few minutes ago: it seems to me that one part of the devolution mentioned by the Government is the kind of devolution that goes beyond the council to various other groups as well as a way of basing community decision-making more thoroughly in the community. Would you like to comment on my view that this often makes the decision-making process genuinely more opaque at times? I will give a very simple example. I was talking to a local reporter today about a change of policy in my local authority area with regard to statementing. We had to start talking about the schools forum, and I had to explain - and my knowledge was by no means adequate - what the schools forum was and how that stood in the decision tree, as it were. We were not completely clear even after my explanation, I have to say. Can you comment on the handing on of local authority powers?

Ms Grauberg: I think it is a good question, and there are a number of different ways of approaching it. Professor George Jones in a report which we published argued through it, and his argument was that there are models of devolving beyond the local authority that serve to reinforce rather than undermine the decision-making abilities and the democratic nature of local government. An option, whether it is about participatory budgeting or schools in conversation with the local education authority, advising ward councillors or the executive or scrutiny or whatever, there are models that serve both to allow greater devolved decision-making and to bolster the elected democratic nature of local government. There are also models that seek to bypass that and those who sometimes argue against that greater level of engagement at whatever level it is often assume that those are the only models that exist.

Q60 Chair: There are suggestions that health should be brought under the strategic control of the local elected councillors. On the other hand, there are alternative models which suggest that you should simply have an elected basis directly to manage the local health service. I would just use that as an example. What are the pros and cons of those two sorts of models?

Mr Leslie: I think it is quite important to reassert the virtue of multifunctional local democracy, the fact that if we are, for instance, going down the route of comprehensive area assessment, with the place shaping mentality, which was Sir Michael's phrase that he coined, that did see this concept of locally accountable political leaders shaping all the services in their area, then it is important that there is consistency between them, that they are prioritised according to the local area's needs, and that we do not just bleeding chunks of siloed areas of public services separate with little walls around them, because, as we know, and we can see this certainly at Whitehall level, getting joined-up government is an exceptionally difficult thing to achieve, so it is really important to have consistency and strategic leadership at that local level. The box has been opened on comprehensive area assessment, place shaping will be the test against which authorities are judged in the new audit regime, and yet the powers that they have in order to actually achieve that are not fully fledged; they have not been allowed to develop. I would like to see PCT commissioning powers coming under local democratic control, and the police authority much more under accountable control as well.

Q61 Dr Pugh: How do you respond to the research that shows that if you ask the public who they would like to be running their health service, councillors are always at the bottom of the pile after doctors and clinicians and administrators and maybe even government, because there is a view that these are areas, local areas albeit, but which are so expert-driven in a sense that an ordinary democratic chap who gets himself elected by delivering Focus leaflets or whatever would not be qualified to discharge a function like that?

Mr Leslie: It depends how you ask the question, of course, but it is our money; it is taxpayers' money at the end of the day that is commissioning these services and therefore no taxation without representation, in my view.

Mr Morris: If I can speak on that point that you made, in a sense it is a question about capacity, because in principle I would agree that, for example, there is an ongoing debate about the delivery of social care and the relationship with local authorities, and that is a very current debate, but you cannot delegate more power without having a secure capacity for the delivery of the powers, and therefore I think that is again something that needs to be considered in terms of the capacity of councillors to make the appropriate decisions and how those decisions are communicated.

Ms Grauberg: I would add that it is also a question of accountability. It is a sign of progress from a local government point of view that these debates are now being held across all the political parties about health and police, and actually people are having the debate. I would probably argue that the precise nature of the accountable solution is less important because every solution has pros and cons. The precise nature of the accountable solution is less important than actually having some solution that increases the accountability at a local level, whether that is directly elected or nominated or whatever. To me, the key issue is the fact that actually we are now having this debate probably proves that Sir Michael Lyons' recommendations about the place shaping role have actually taken root in some form.

Q62 Anne Main: Can I ask you to comment on the comment that Michael Lyons made here today that councils have allowed themselves to be characterised as powerless, somehow implying that they were not powerless if they could better use the powers that they have. I did actually challenge him on the fact that there are so many government directives that come down to local councils attached to funding triggers that actually councillors do feel powerless because they are having to deliver perhaps a regional agenda that they do not understand. So there will be a regional directive that says St Albans has to do something when St Albans District Council, and Hertfordshire County Council indeed, may have said it does not want to do something. It is that conflict that people say to

me makes almost the council look powerless, and I would say is not characterised as powerless, but I would invite your views on it.

Mr Morris: The fundamental issue in this debate is about financial discretion at a local level, and that local authority leaders and chief executives are too focused on looking upwards rather than focusing on their communities, looking downwards, and the financial mechanisms that are currently in place do not encourage them to look outwards and downwards. There have been some incremental changes made recently, but without a comprehensive look at financial discretion, with grants being made without ring-fencing, much more comprehensively, and even looking at the whole area of local government finance once again, taking into account the fact that it is politically difficult, I think nothing else can really follow.

Q63 Chair: Can I just clarify, Mr Morris, would you agree with Sir Michael that the key thing is flexibility in the way the money can be spent, and that that is more important than necessarily giving councillors new ways of raising money themselves?

Mr Morris: I do not think I would necessarily agree with him 100 per cent on that. I think flexibility is important but I think we should also be considering examples where local authorities can raise capital in alternative ways. For example, the debate about Barnet Council, who have been looking at raising a Barnet Bond. I know that possibly in the current financial market things like that may be a little bit difficult but that is certainly something that we should be considering in the future, politically in relation to local capital projects where there is essential infrastructure that needs to be built in local communities which is not fitting in with the current financial framework. We should be looking seriously at alternative mechanisms for local authorities to raise investment capital.

Mr Leslie: Could I follow up on your question about powerlessness, but weave in the finance? I would agree with James that actually, it is more than flexibility. If only 15 per cent of the total quantum comes from the locality, with the size of grant dependency that there is out there, that balance forces any rational chief executive and council leader to look up towards Ministers and how they are designing their funding formula rather than, if that grant were substituted for elements of local income tax or elements of stamp duty, call it what you will, that were a direct result of their actions as councils within their community - that revenue of course currently goes all the way to the Treasury and comes back down. I believe it should come much more straight to the authorities as a substitute for grant. Councils do, I think, get into the habit of feeling powerless, partly because they are in this dependency cycle, although there is also a certain amount of responsibility that local government should take on its own shoulders, because in the annual financial round it can be quite convenient for councils to blame Ministers and Ministers blame councils, and it goes round and round and has done for generations. I believe that part of the constitutional reform programme you may want to look at should be how we can encourage the local government family to take on more responsibility. For instance, why should Ministers be the ones who determine grant distribution all the time? Why cannot the local government family come to an agreement amongst themselves - difficult though that may be - about how grants should be distributed? That would be a sign of maturity in the constitution.

Q64 Anne Main: Can I just ask you one thing, because one of the biggest issues in my constituency is planning. This is a big example, and actually a lot of guidance has been coming from government in terms of the number of parking spaces you are allowed and so on and so forth: we are asked to deliver this number of houses and almost told in which way we deliver it, and that is where local authorities become very annoyed. They say "We would like to refuse that but we cannot because the Government says this that and the other."

Ms Grauberg: What you have put your finger on is that it is too simple to say there is one relationship between local government and central government. Actually, in housing, in schools, and in planning there is one nature of the relationship, whereas in other areas, for example, supporting the voluntary community sector, business growth, economic development, there is a completely different relationship, down to that the housing revenue grants structure effectively determines the level of rent increase that a particular council might be required to implement because of the complicated nature of the interaction of the rent grant. In any debate about the nature of the relationship I think there is something that says what the relationship is service by service. We talk about central government being siloed; are there things that one can learn from the nature of the relationship in one part of government to apply in another part of government that says actually, you can let go and the world does not end?

Anne Main: You are saying a prosaic approach.

Q65 Dr Pugh: A few minutes ago we were talking about the Health Service and accruing services to robust, autonomous, strong local authorities that have a sense of purpose and all that sort of thing. Chris Leslie very sensibly said if it has a place shaping role, it is silly for them not to have the levers on services like the Health Service, which interacts with social services and the like. James Morris said that the objection that we would not have the expertise could be sorted out by capacity building, but there is another objection hanging around, and that is to say that whereas a quango can be relied upon to do the inevitable, local authorities are congenitally populist and will dodge making tough decisions, particularly in areas like health where decisions sometimes have to be made which are not wholly approved of by everybody. How would you respond to that?

Mr Morris: I think you are right that the world is not perfect, but one of the underlying principles which should drive reform has to be about democratic legitimacy. Local government councillors are elected, and that has to be respected. We may need to be rebuilding trust in local government but, in the end, democratic legitimacy leads to democratic accountability, and it seems to me that that needs to underpin and be really focused on the course of reform.

Ms Grauberg: I would make a supporting argument, which is that local councils deal with difficult choices every day, and what they have is the opportunity to explain why the options are being set out, what the pros and cons are, in a way that resonates with their localities. When it comes to closing a hospital or whatever, actually there is no resonance. The decision is taken in Whitehall and there is no resonance, which forces local politicians into a place where they have to oppose it, and that debate has just disappeared. Something whereby those conversations, played out through the press or whatever, have all of the sides argued in the same place might make those choices easier to make rather than more difficult.

Mr Leslie: If we treat local government as though it is somehow subservient and does not have power, as it should have, then we will not attract people of the ability to show the leadership necessary to get to those tough decisions. Ultimately, how do you make a tough decision? You have to have strong leadership. How do you get strong leaders? You have to make that a task worth attracting the very best people into. I still think that fundamentally one of the best ways of reinvigorating strong local democracy is to see that shift in the balance of power so that it really is fundamentally a worthwhile thing, and possibly there are leadership issues in structural terms as well that need to be considered. Seeing where the buck stops at local government level is also still not quite as clear as I think it could be.

Chair: Thank you all very much indeed.