



DISCUSSION PAPER

# Five Foundations of Real Localism

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November 2010

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## About the author

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## Acknowledgments

With thanks to Guy Lodge, Nick Pearce, Rick Muir and Katie Schmuecker for their comments and contributions.

## Introduction

Eric Pickles, Secretary of State for Communities and Local Government (CLG), announced his arrival in the department by claiming he had three priorities for his tenure: localism, localism and localism. Liberal Democrat ministers quipped that they would add a fourth priority: localism.

As one of the most centralised nations in Europe, such a strong and single-minded focus was a welcome sign that the Coalition government meant business. But, since May, the challenges of turning opposition rhetoric into the reality of good government have become apparent once again.

While headlines about the dismantling of the performance regime have caught the eye, instructions to councils about bin collections, data sharing and the freeze on council tax demonstrate that in government the desire to intervene at the local level is as great as ever. Furthermore, the re-centralisation of a number of key economic development powers from regional development agencies shows that CLG's ability to drive localism across other government departments – in this case, the Department for Business, Innovation and Skills – may be, or at least appear, limited.

As a political slogan, 'localism' would appear to carry weight, but as a policy construct it becomes much harder to articulate and implement. On the eve of the publication of the Localism Bill, this short paper provides a set of principles against which the anticipated raft of localist policy measures can be assessed. It argues that there are five key foundations for real localism, and that unless measures within the Bill address each in a meaningful and effective manner, any serious attempt to decentralise England is likely to be seriously flawed.

## Foundation 1: Efficiency and effectiveness

Local government has achieved a great deal over the past decade, making significant improvements in service provision according to the Comprehensive Performance Assessment and, in terms of cost-efficiencies, outperforming many other service areas in Departmental Capability Reviews.

Some of this improvement can be put down to a number of localist measures introduced by the New Labour government; three-year budgets, which allow for proper financial planning, prudential borrowing powers and the wider 'partnerships' agenda have all had an important effect. But by far the greatest influence on improvements in local government was the burgeoning performance regime, built on centrally driven targets and rigorous audit and inspection measures.

However, by the late 2000s it became clear that such top-down measures had run their course – their perverse incentives, coupled with the swelling bureaucracy involved in inspection, meant they became deeply unpopular and ultimately constrained the ability of councils to address local needs as effectively as they might. The rigid and hierarchical delivery model stifled innovation and provided little incentive or opportunity for councils to find local responses to local challenges or to foster joint working between different service areas to deal with complex needs, for example in the relationship between acute and preventative healthcare.

Recent history has shown that, while there has been a role for a centrally-driven focus on improvement, efficient and effective local service provision requires much greater local determination. Not only does this mean giving more autonomy to local service providers to design and implement service solutions at the local level but also rethinking the drivers of public service reform. A growing body of evidence has shown that reform in this area needs to be driven by new approaches to community ownership and co-production, drawing upon concepts of behaviour change and mobilising local social capital.

England is a hugely diverse nation, which means that a range of different responses, tailored to local context, are required. The central state cannot respond adequately to such diverse needs – it cannot master the myriad details required to actually deliver from the centre, nor can it promote or incentivise innovation and joint working in such a way that would enable flexible, local responses to complex, local challenges.

However, it would be insufficient to confine any discussion about effective localism to the role of local government alone, or to suggest that the parameters of the debate hang only upon devolving power to this tier. The Coalition government has been particularly clear in talking about giving powers over key service areas such as schools and healthcare to individuals and communities. It has also called upon local authorities to work across their boundaries in forming Local Enterprise

Partnerships to drive economic growth. So it is clear that localism should apply across all government departments, but these examples then beg the question: What is really meant by 'local'?

The geography of local decision-making is complex. Different services have quite different catchment areas: compare primary and secondary schools, or local GP practices and hospitals. Other services have quite different economies of scale: compare bin collection and local library services for example. Infrastructure also works in 'geographies' which don't necessarily correspond to local authority boundaries: airports, motorways and other transport investments typically require decision-making on a wider sub-national scale. Some policy interventions require a highly individualised approach: key aspects of health and social care are increasingly personalised, whilst overall commissioning frameworks are decided at a higher tier.

In addressing this complexity, the principle of subsidiarity is instructive. This principle holds that government power should reside at the lowest feasible level, and is perhaps most famously articulated in the Tenth Amendment to the United States Constitution: 'The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.' It is also a fundamental principle of European law and a tenet of the European Charter of Local Self-Government.

What is important in all of these articulations of the principle is the emphasis on *feasibility*. Where individual or local level decision-making is not cost-effective or feasible then pragmatism and good governance holds that decision-making needs to be retained at a 'higher level'.

In order to manifest the principle of subsidiarity at an operational level, England needs a much clearer articulation of the geographical level at which decision-making should reside across the full range of government departments and public policy interventions. Some of these will necessarily and rightly remain the preserve of national government, but there must be a clear rationale for this being the case. The majority of public services and investments require a greater level of sub-national, local and community decision-making, but these need to be articulated in a transparent 'framework' that sets out the grounds upon which it is deemed most efficient and effective for decision-making to reside at any given tier.

**To summarise:**

- The first foundation for localism is that it must be effective and efficient. Any approach to more local decision-making must carry with it a considered understanding of the most appropriate scale at which any given service, public investment or policy intervention can be efficiently and effectively delivered.
- Local government will have a critical role in convening and coordinating local service provision both within and across its boundaries. Empowered citizens must be at the heart of its decision-making and service delivery, but it needs to be set free to respond more effectively to their needs and be given incentives to innovate in partnership with other local service providers.
- The principle of subsidiarity is a practical mandate for effective decision-making, not an ideological imperative to thrust unwanted responsibilities onto unsuspecting individuals and communities.
- A framework for efficiency and effectiveness needs to be developed to provide a clear and transparent rationale for decision-making at every tier of government.

## **Foundation 2: Proper funding**

One of the most encouraging localist policy shifts of the Coalition government has been the so-called 'un-ringfencing' of a wide range of government grants to local authorities. It was widely held that the plethora of individual grants – each directed towards a specific area of need or concern – was one of the most prescriptive and inefficient mechanisms used by central government departments to direct local activity. Despite this significant step forward, two quite fundamental problems remain.

First, those grants that have been un-ringfenced constitute only a tiny proportion of total public spending at the local level. Schools, health, police and welfare budgets, for example, remain centrally directed, and although government is introducing a level of increased local decision-making in relation to each this is largely within service silos, which reduces the scope for cross-sector strategic service planning.

Second, these measures do very little to alter the current balance of funding between central and local government. Some limited new financial powers have been mooted, alongside greater flexibility within the funding ‘envelope’, but local decision-makers remain as dependent on central government grants as they ever were. In the current fiscal climate and with huge cuts to the local government grant, it is nothing short of disingenuous to be passing powers and responsibilities to local councils with no means of paying for them.

One way of evaluating the degree of centralism still exercised in England is to compare the balance of funding between central and local government internationally. In the UK, there is a clear dependency on central government grants, much of which has until recently been earmarked for specific functions prescribed by the centre. Meanwhile, only around 25 per cent of revenue is collected locally (Mrinska 2008). This is a very small proportion compared to some other Western countries. In Sweden, for example, over 70 per cent of local spending is funded by local taxation. Even in France, which is often thought of as a highly centralised country, approximately 50 per cent of revenue is from local taxation (Lyons 2007). Compared to the UK, only the Netherlands, Ireland and Italy are more reliant on central grants to local government, and the first two are substantially smaller countries in terms of population.

Even within a more transparent framework for efficiency and effectiveness, the imbalance of public funding raises serious concerns about local government’s ability to make the most of the powers and functions that might become available to it. Without a corresponding level of fiscal flexibility, the autonomy of local government will always be constrained and any sense of direct responsibility will be limited.

Not only does this reduce the ability of local government to respond flexibly to local needs and circumstances, but it is likely to have the effect of constraining the ambition of local government. Even with the increased predictability of central financing in recent years, it has been difficult for local government to take risks in the implementation of locally meaningful projects without first ensuring total support from central government, as the main source of funding for any significant investment project.

At the crux of this problem is council tax. Even though it represents such a small proportion of the overall tax burden, local taxation remains a highly sensitive political issue and one which constrains the ability of government to exercise any localist instincts. The last government introduced council tax capping as a way of minimising the political damage caused by local authorities which might seek to increase their local fiscal autonomy.

In a similar vein, the Coalition government’s council tax freeze policy is anti-localist. Far from liberating local authorities to exercise a greater level of financial freedom, these measures are designed to constrain local autonomy and have the effect of making councils more dependent on the central grant. The idea that after the freeze council tax rises will be subject to a local referendum applies something of a localist gloss, but in reality this is central government once again intervening in matters of local taxation and adding a layer of unnecessary bureaucracy to the normal electoral process.

A genuine commitment to localism should remove any notion of a cap or freeze on council tax and allow local authorities to raise local taxation as they see fit. Local politicians and their voters should be the arbiters of reasonable rises in local taxation and not national government. (Foundation 4 looks at this theme in further detail.)

Other financial instruments should also be made available to local government to increase autonomy and redress the central–local funding balance. Recent announcements concerning the Tax Increment Finance (TIF) initiative are a good first step, but government needs to give proper consideration to a wider set of initiatives, including assigned or devolved local taxes, municipal bonds, social impact bonds and other ‘special purpose funding vehicles’. New incentive arrangements, which might have the potential to favour poorer areas, should be considered

– councils could be awarded a share of the savings to the public purse for reducing the number of unemployed people locally, or targeted reward schemes could be introduced in areas where (and only where) growing the business base is a local priority.

Ultimately what is needed is a new system for funding local government. The council tax is not only unpopular, it is also regressive, and the upcoming review of local government finance must finally address this issue. It should be replaced by a fairer system that mixes property and income taxes, together with a range of other local financial instruments and incentives, and works towards a target that at least 50 per cent of local funding should be raised locally.

**To summarise:**

- Measures to un-ringfence central government grants and introduce the Tax Increment Finance scheme are welcome steps in the right direction in allowing local financial autonomy, but they do little to alter the fundamental imbalance in central–local government funding.
- It is disingenuous for central government to devolve responsibility for local services in the current fiscal climate without giving local service providers a level of financial autonomy that ensures services can be delivered with less dependence on a diminishing central government grant.
- As a minimum, local authorities should be trusted to set levels of council tax at a level they believe their voters will be prepared to bear, free from capping or freezing measures. Ultimately, local decision-makers should also be given a much wider range of fiscal instruments, to build local financial autonomy and incentivise local economic development. This ‘toolkit’ should include replacing the council tax with a fairer system that mixes property and income taxes, with a target that at least 50 per cent of local funding should be raised locally.

### **Foundation 3: Social justice**

Localism is not incongruent with social justice. This is not to say that there is no tension between the two, but equity and diversity are not diametrically opposed. Indeed, evidence suggests that a greater level of localism might actually unlock a greater degree of social justice (Paxton and Pearce 2005).

The debate concerning localism and social justice is most obviously played out through the so-called ‘postcode lottery’. Polling evidence suggests that the general public is very wary of marked divergence in public service standards from one area to the next, and for this reason politicians typically are cautious in allowing too much scope for local variation in service standards or solutions. And yet in reality, in key service areas such as schooling, standards do vary significantly from area to area, and people are known to move house in order to enable their children to attend a preferred school.

This is not to make the case for postcode lotteries but simply to demonstrate that, in some spheres, they already exist despite a centralised system. Indeed, as recently argued in a NESTA publication *Mass Localism* (2010), the centralised system may in fact be the root cause of the postcode lottery itself:

‘Supporting mass innovation rather than stretching particular [uniform] solutions questions the efficiency of so-called “economies of scale”. The most cost-effective impact will not be achieved by pushing a single one-size-fits-all solution or limited number of models of best practice, particularly in approaching tough, entrenched social challenges.

More local diversity necessarily results in a variety of provision. But a greater variety of approaches is necessary where specific social contexts, behaviours and networks have a demonstrable impact on people’s actions and attitudes. Areas differ in the prevalence of certain environmental, health, and re-offending issues. For this reason, we already have postcode lotteries – not because public services are insufficiently standardised, but in part because they are too standardised.

While minimum standards in public services should remain, it is the current fiction of supposedly standardised provision in mainstream public services that generates concern about ‘postcode lotteries’, more than the fear of more genuinely local and diversified responses that would be much better placed to make an impact on the inequalities that persist.’

This is borne out in a wider study of OECD nations, which showed that those nations with the highest levels of decentralisation, as measured by the central–local revenue split, had the lowest levels of inequality, as measured by the Gini coefficient (Huhne 2007).

The fundamental problem with the British debate concerns the assumption that central government is the best guarantor of uniform provision of public services. Too often, this assumption leads to the conclusion that it is central government’s *role* to design and deliver uniform services. Instead, what is more important is for central government to set a broad framework of national minimum outcomes and then to allow local decision-makers to design and deliver services which are more tailored to their own local needs.

National minimum outcomes need to address a limited number of themes, focusing on the life chances and basic needs of all those living in England. They should not necessarily provide for a uniformity of service provision but rather that every individual should have available to them a minimum level of nurture, opportunity and care and a clear set of democratic rights and responsibilities.

There is also a clear need to consider social justice in relation to the public finances. If, as argued above, there is to be a rebalancing of central–local government taxation and finance then this cannot happen without some degree of equalisation between geographical areas. Otherwise, those with the largest tax base will benefit disproportionately and inequality will grow.

Today, the funding formulae designed to achieve this equalisation and ‘dampening’ effect have become opaque and overly complex. As part of the promised review of local government finance – and as part of a package of measures to enable greater fiscal devolution – a fresh approach to equalisation needs to be adopted that provides for a greater level of transparency and builds in incentives for more deprived areas to drive local economic growth.

**To summarise:**

- Localism and social justice are not diametrically opposed. Indeed, evidence suggests that the uniformity of service standards could be a key cause of existing postcode lotteries.
- Central government’s desire to iron out local variations needs to be managed through a set of national minimum outcomes and through a fresh, transparent approach to equalisation in relation to central–local finances.

## **Foundation 4: Democracy and accountability**

It is a basic tenet of modern democracy that with powers and responsibilities must come an appropriate level of accountability. One of the most problematic features of a centralised state like Britain has been the failure of genuine local accountability in key service areas such as policing and health. If there is to be greater localism and devolution then it must be accompanied by much greater levels of local democratic accountability.

One of the most significant barriers to local devolution in Britain is a political culture that tends to hold individual ministers to account for all actions which can be widely construed to be within the realm of the state. It is not uncommon in British public life for a minister to be called to answer for the conditions in a particular local hospital or school and even to assume responsibility for individual cases of failure in relation to social care or community safety.

While this demonstrates an admirable level of personal accountability, it is indicative of and instrumental to a creeping centralisation which sees ministers refusing to relinquish powers for fear of being blamed if things go wrong. To some extent, this concern is borne out by polling evidence which suggests that the public *does* see central government as primarily responsible for local situations. Nevertheless, there is a danger that ministerial responsibility and public accountability then feed off each other in a spiral of ever-increasing centralisation.

Evidence from polling undertaken by ippr and PricewaterhouseCoopers (2009) suggests that the general public actually has a better understanding of where real power lies than is sometimes perceived. In general, people tend to blame the minister because many powers really do reside at the centre. To counter this, the potential exists to create a 'virtuous spiral', whereby ministers let go of key decision-making powers and, at the same time, the public comes to refocus its attention on those local politicians and officials who then pull the strings.

The existing overly centralised system has three profound effects on local democracy.

First, it creates a system of local service provision that looks upwards rather than outwards. Combined with the imperative of national targets, this leads many local authorities to judge their success not by what is needed in the local context but instead by their ability to interpret and achieve what is expected at the centre. This 'centralised focus' may even extend to the attitudes of the general public who, despite excellent performance by their local authority, can still come to believe that their council is weak and out of touch.

Second, this upwards-not-outwards perspective also leads to local service delivery being developed in thematic silos rather than by joined-up approaches to local need. The more central government departments feel directly responsible for a particular service theme, the less likely they are to entrust outcomes to an authority over which they have little direct control. Instead, each government department tends to devise its own mechanisms for local accountability without regard for the fact that local problems are often the consequences or outcomes of complex, inter-related factors requiring cross-sectoral, cross-boundary solutions.

Third, the centralised system reduces the credibility of local government. The democratic deficit that exists nationally is magnified locally by the general perception that local councillors have very little influence over or power to change local services. Voter turnout in local elections is very low, which in turn drives down the calibre of those standing for council election – and so the downward spiral continues.

There is a very obvious solution here: as powers and finances are devolved to the local level so local government needs to be given clear political and legal responsibility for how they are exercised. However, while there is a degree of complexity surrounding existing local government structures and tiers, this is nothing compared with the growing complexity that will surround proposed arrangements for local police accountability, health accountability, Local Enterprise Partnerships, mayors in some places but not others and the like, which are currently being developed.

Ideally, accountability should sit at the level at which decision-making is taking place, and a clear framework for efficiency and effectiveness, as set out by Foundation 1 above, would make it easier to deduce the ideal level for that local decision-making. But in reality, democratic institutions still need to resonate with public perceptions of local geography. In the past, some of the greatest difficulties in relation to local government restructuring and regional accountability have occurred when administrative boundaries have been perceived to be incongruent with public perceptions of place and space.

A more practical approach, avoiding the need for wave upon wave of structural reform, would be simply to give existing top-tier local government greater powers and responsibilities over all sub-national service delivery and public investment.

**To summarise:**

- Increased devolution of power and responsibility to the local level must be accompanied by a step-change in the transparency and accountability of local decision-making across all service areas.
- National politicians need to break the cycle whereby public perception of centralised responsibility is fed by their own ever-greater levels of personal responsibility for local-level decision-making and must learn to trust the relationship between local politicians and their local constituents as it grows and matures.
- Current proposals for growing local accountability look set to increase the complexity and obscurity of local decision-making. A simpler solution should focus on more powerful local government operating within a framework of efficiency and effectiveness.



## Foundation 5: Autonomy and a constitutional settlement

Historically speaking, central–local relations in Britain are rooted in a culture of suspicion and mistrust. In order for real localism to thrive, a profound cultural shift needs to take place. There would appear to be three dimensions to the nature of this shift.

First, central–local relations generally presume that power is held centrally and that the centre concedes powers as it sees fit, according to the principle of ‘earned autonomy’. If local government behaves appropriately, according to centrally defined standards, then it can have more freedoms and flexibilities; if it fails to perform, these powers are withdrawn. There is an urgent need to move beyond this ‘zero-sum’ way of working, and to recognise that the fortunes of central and local government are interdependent and that powers and responsibilities can be shared and even grown through a more mature approach to the central–local relationship.

Second, there is always a presumption that reform is required locally rather than nationally. Very often, the failure to reform the centre has provided a significant constraint on the ability to drive local service improvement. Any genuine drive for greater localism must be accompanied not only by Whitehall driving powers downwards but also by a radical revision of the way in which key government departments relate to one another ‘horizontally’ and how these relationships impact upon the local level.

Third, serious consideration must also be given to changing public perception. Despite compelling evidence that the level of centralisation in Britain in fact lies at the root of poor service performance, inequalities and the democratic deficit, there remains very little outward public concern about central–local relations. Indeed, as an issue it is widely perceived to be the domain of the ‘policy anoraks’. If the government’s drive for localism is to take root then urgent attention needs to be given to how it builds public support for local decision-making and service delivery. Selling localism is part of the wider challenge to sell the ‘Big Society’ to a wary public.

One key means of driving this kind of cultural change would be to establish a proper constitutional settlement for local government, encompassing the central–local relationship. Such a settlement could enshrine a number of the elements set out above: a framework for efficiency and effectiveness, a clear and transparent fiscal framework, national minimum outcomes, and simple and accountable democratic structures and processes for powerful local government.

The legitimacy of local government as a tier of government should be constitutionally protected, as it is in other EU states. This would give local government a more solid base from which to engage with central government, a foundation that would be more difficult to erode or ignore. The process would also provide a significant opportunity for wider public engagement and debate about such fundamental issues.

### To summarise:

- Central–local relations require a cultural shift away from the idea that central and local government exchange power as part of a zero-sum game towards one that encompasses reform of the centre and drives a new public debate on these issues.
- A new drive for localism should be framed by a constitutional settlement between central and local government that would create genuine autonomy, enshrine the key principles of central–local relations and protect the legitimacy of local government as a tier of government for years to come.

## Conclusion

The Localism Bill presents a new opportunity for central government to make the localist rhetoric – so often the preserve of the government opposition – a genuine reality.

If this is to be the case then it must be built on firm foundations. This paper has argued that these foundations are fivefold.

1. The first foundation is that localism must be **effective and efficient**. A greater localisation of decision-making must carry with it a considered understanding of the most appropriate

scale over which any given service, public investment or policy intervention can be efficiently and effectively delivered. A framework for efficiency and effectiveness needs to be developed to provide a clear and transparent rationale for decision-making at every tier of government.

2. The second foundation is that localism must be **properly funded**. Measures like capping or freezing council tax are anti-localist. Ultimately, local government needs a new funding settlement. Council tax should be abolished in favour of a system that mixes income and property taxes, and local decision-makers should be given access to a much wider range of fiscal instruments to build local financial autonomy and incentivise local economic development, with a target that at least 50 per cent of their funding should be raised locally.
3. Thirdly, localism must sit at the heart of a drive for **social justice**. Central government's desire to iron out local variations needs to be managed against a set of national minimum outcomes and through a fresh, transparent approach to equalisation in relation to central-local finances.
4. The fourth foundation is that greater devolution of power and responsibility to the local level must be accompanied by a step-change in the **transparency and accountability** of local decision-making across all service areas. Current proposals for growing local accountability look set to increase the complexity and obscurity of local decision-making. A simpler solution should focus on more powerful local government operating within a framework of efficiency and effectiveness.
5. Finally, any new drive for localism should be framed within a **constitutional settlement between central and local government to create genuine autonomy**, enshrine the key principles of central-local relations and protect the legitimacy of local government as a tier of government for years to come.

ippr north will be developing more detailed work on each of these five foundations through its Localism Lab throughout 2011. For more details please contact Ed Cox at [e.cox@ippr.org](mailto:e.cox@ippr.org)

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