

The Local Government Information Unit (LGIU) - written evidence (FGU0054)

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House of Lords Constitution Committee inquiry into the Future Governance of the United Kingdom

1. Is the current balance of powers within the UK optimal or does power need to be shared differently? Should there be a greater degree of devolution within England and, if so, how should these arrangements relate to the UK as a whole?

Do any changes to the current constitutional arrangements enjoy widespread public support across England? What would be the impact of different constitutional arrangements? Does local government in England, including the introduction of combined authorities/mayors, need to be rationalised? Should local areas enjoy greater autonomy in raising and allocating expenditure? Should there be a greater distinction between UK and 'English' government in Whitehall, and what would be the impact on the UK?

LGIU's research consistently shows that the balance of powers within the UK is far from optimal and that power needs to be shared differently.

The UK, remarkably centralised in comparison with similar economies around the world, has a moribund system of governance. Its outdated and inadequate constitutional framework, which wouldn't be (and isn't) looked upon as a model worth following elsewhere, is supported by a set of assumptions, ideas and beliefs that dominate in national political discourse. These hold that Whitehall knows best. Ministers hand down decisions that must be delivered across a varied and diverse geography by local authorities, regardless of local circumstances, assets, or democratic support. This is blind to the importance of place and it should be reversed. In our recent paper, [A New Settlement for Place](#), we show how local councils have already demonstrated their capacity for effective place-based leadership, without input from Westminster. This is despite decades of chipping away at their power and institutional resilience by central government. But this requires a reset of the balance and location of power between central government and local communities. LGIU has consistently called for this on behalf of communities and local government.

Uncoupled from a wider programme of decentralisation and devolution, local authorities lack the hard powers needed to drive through ambitious place-shaping agendas, including to level-up economic growth. They rely on soft power and convening relationships across the public and private sectors, which can be costly, time consuming and sometimes fragmented. A number of councils told us that they cannot compel other public agencies to work with them, which often hampers successful regeneration projects.

Local leaders have to be given the tools to be able to fully contribute as partners to the future governance of the UK, including current government

agendas like the levelling up project. This needs to go hand in hand with a decentralisation of power to local and sub-national governments, based on what LGIU has described as [A New Settlement for Place](#).

The approach to levelling up by the UK government in respect of the devolved governments and local government in their territories has been inadequate. There needs to be full consultation, genuine transparency and the ability of devolved governments to influence future plans from the beginning.

The British Academy's [Shaping the Covid Decade](#) report argued that empowered governance "strengthens the capacity to identify and respond to local needs" and would be essential for responding to the Covid-19 pandemic. Different levels of government "must operate in strong partnership" and that there is an opportunity for "reform of the role and powers of central and local government – and, crucially, how they interact across a range of policy issues and areas of service provision."

The [All Party Parliamentary Group for Devolution](#) believes devolution is already delivering results and improving outcomes and that it is therefore crucial to levelling up. The report argued that "devolving and decentralising power and enabling local people to make decisions in these areas will create the conditions for sustainable growth, better public services and a stronger society". But it says that unless local leaders have more control over policy and local budgets, their potential will continue to be held back.

A step change in the pace of devolution appears less likely given the delay and eventual cancellation of the long awaited devolution White Paper. However, with the appointment of Michael Gove as Secretary of State for Levelling Up, Housing and Communities, and with that department's reorientation towards "delivering levelling up", it is increasingly likely that a Levelling Up White Paper will emerge sometime soon.

As the work develops, there may be an opportunity for developing policy interventions that enable government departments to orient themselves towards supporting place-shaping, and for making the right resources and tools available in the right places to carry this out. These opportunities have been missed in the past. Arguably, the goals that will be achieved by a centrally-administered and ring-fenced set of capital funding pots will be far less ambitious than those that could be achieved through a process of empowering, freeing and funding local government.

It is frustrating how little movement there is on this issue, despite it being regularly acknowledged as a fundamental problem even among senior government politicians and decision makers. It was necessary 10 years ago, when the then Secretary of State for Communities and Local Government, said in a speech to the Queen's Speech Forum:

"If you want people to feel connected to their communities. Proud of their communities. Then you give people a real say over what happens in their communities. And the power to make a difference. "So we are determined to wrest control from the bureaucrats, the quangos, and central government

departments. Taking power pushing it as far away from Whitehall as possible...”

The argument was not even new then. It came on the back of “double devolution”, the trialling of Total Place and a string of commitments from governments and parties in opposition. Not to mention royal commissions from decades past that have recommended shifting power out of Westminster towards communities.

Since 2015, we have seen deals struck with selected English city-regions and these are indeed important developments. But we are still waiting for real change to happen across the country. It is desperately needed now. Central government must wake up to the nature of the challenges as they play out in local areas. They must realise that our power hoarding model of governance is not only embarrassing internationally, but fails even on its own terms to deliver changes and strengthen communities. If they won’t find ways to reset the balance and location of real power throughout the country now, in the light of our collective experience during the Covid-19 pandemic, then when will they?

2. What are the current challenges for multi-level governance in the UK and how can these be addressed?

To what extent are any challenges historical, structural, operational, political, economic or identity-driven? Are there issues about attitude, tone, and civil service capability in Whitehall? Is a cultural shift required among all concerned to adjust properly to and engage with the new constitutional landscape? Can the UK learn anything from other countries with multi-level governance structures, or from existing structures like the British-Irish Council? Should any changes be accompanied by greater inter-parliamentary scrutiny?

The UK, remarkably centralised in comparison with similar economies around the world, has a moribund system of governance. Its outdated and inadequate constitutional framework, which wouldn’t be (and isn’t) looked upon as a model worth following elsewhere, is supported by a set of assumptions, ideas and beliefs that dominate in national political discourse. These hold that Whitehall knows best. Ministers hand down decisions that must be delivered across a varied and diverse geography by local authorities, regardless of local circumstances, assets, or democratic support.

LGIU’s network of local government leaders, chief executives and senior offices have told us there needs to be a strong voice from the English regions in these debates. That is why [we have argued](#) for the establishment of a Mayors’ Senate that will allow leaders of cities and city regions to have a seat at key discussions, to scrutinise the government and to represent a broader range of interests.

The Senate should have a firm, constitutional role and directly shape our response to immediate, national challenges, including social care, housing, reforms to local government finance and levelling up. It should also have a regular, on-going role scrutinising government policy in sessions held outside

of London. This would provide an important mechanism for local government to channel its concerns and demands and would demonstrate genuine trust and rebalancing of power.

There needs to be funding transparency in both the data used to determine decisions and the rationale for ministers' decisions. Gaps should be filled in relevant local and national data, such as on health outcomes, educational attainment and skills and income. This data should be publicly available.

Many of the issues with fragmentation and place-blind decision making in Whitehall arise because of the weakness of the collective voice that councils have in national policy making on the one hand, and the lack of a defined constitutional status for local government on the other. These should be addressed in the new settlement that we propose below.

We argue that building back better must include a new settlement for place that reconnects the government's "levelling up" ambitions with the decentralisation of power in England. In recent years, the momentum on English devolution has been lost but the pandemic has underlined the fundamental importance of shifting power to places and people.

This new place settlement must:

- Give local leaders the tools to pursue levelling up, while tackling three of the most urgent policy crises recently exacerbated by the pandemic:
 - Revitalising economic growth and 'good' jobs;
 - house building;
 - and social care.
- Introduce a sustainable funding model for local government.
- Ensure a commitment to further decentralisation across all Whitehall departments and give local government a stronger voice in national policy decisions.
- Provide dedicated research infrastructure funding for councils to create a benchmark of local social wellbeing indicators that can inform future policy decisions.
- Launch a local government-led "Building Back Better" commission

3. How well understood in England is the UK's common purpose and the collective provision it makes? And what impact does this have on democratic accountability?

Areas of common purpose may include economic, social, trade, international relations, security, including counter-terrorism capacity and security networks, defence, and responding to international crises.

4. How can the existing constitutional arrangements regarding the governance of the UK be made more coherent and accessible, or should the overall structure be revisited?

Should the constitutional arrangements continue to be bespoke or become more formalised? Should principles and parameters for a new constitutional framework be articulated? How is the public currently

informed about the arrangements? Does there need to be greater public awareness of, and education about, the arrangements and if so, how can this be achieved?

The overall structure of governance in the UK needs to be revisited and the relationship between central and local government reset so that it is based on partnership and given constitutional footing.

England is a missing piece in the devolution jigsaw and its lack of constitutional attention creates significant and detrimental anomalies for the governance of local places. While Scotland, Wales and Northern Ireland have devolved administrations, there is a serious imbalance in England. Attempts at establishing elected authorities in England broke down following the North-East assembly referendum result in 2004. More recent deals with combined authority city-regions have sought to address this governance gap, but the picture remains uneven, even asymmetric. Without a well-defined constitutional role, English councils have started to carve one out for themselves.

5. How effective are the current funding arrangements in England and to what constitutional implications do they give rise?

Is the current approach to the distribution and deployment of funding and resources across England fair and efficient, and if not, how can this be improved? What impact will the UK Shared Prosperity, Levelling Up, UK Community Renewal, Towns and Community Ownership Funds have on the overall arrangements?

Among the most significant barriers relates to funding. Constrained council budgets remain the most substantial barrier to local authorities' efforts to lead and govern effectively in their areas.

While debates over central government funding of initiatives taken by local councils during the coronavirus pandemic have played out, the lack of a long-term local government finance settlement has continued to cause significant problems in the sector. The financial strain of the pandemic has only worsened an already dire situation in many local authorities. A year on from the first lockdown, many local authorities have had to rely on reserves to balance their 2020-21 year-end budgets.

Increased costs related to Covid-19, such as the need to deliver new services, growth in demand and the inability to achieve planned savings during the past year, mean that local authorities have forecast £6.9 billion of cost pressures in the 2020-21 financial year. Lockdowns and the closure of businesses to try to prevent the spread of the virus have meant that councils have had to contend with this increase in costs while they have seen a decrease in income. Across the UK, local authorities have reported losses in income related to sales, fees and charges, their commercial assets, council tax and business rates. The substantial business rates (£1.6bn) and council tax (£1.3bn) losses will have a longer impact on council budgets with them only being felt during the next financial year due to the way they are accounted².

The 'perfect storm' created by the pandemic has meant that local authorities have very little spare revenue funding to invest in place shaping initiatives. Even before the pandemic, central government cuts to local authority grant funding since 2010 had an impact on the place shaping and wellbeing agendas that this report is examining. Overall, these funding cuts have been larger in councils that are more reliant on government grants, which typically have higher levels of deprivation.

The New Homes Bonus and the Business Rate Retention pilots are examples of Whitehall policy interventions designed to encourage local authorities to take more active roles in shaping their areas, as they would receive economic benefits from local growth and regeneration projects. However, not all local authorities are well-placed to make the most out of the opportunities that they can bring. Councillors and local authority officers interviewed for LGIU research have told us:

"Council tax is not fit for purpose, a one per cent council tax rise in my borough raises about £700,000. Raising council tax is regressive and doesn't raise much money, it just doesn't work." (Council leader, northern borough)

"We want to build nice houses so that if a big company comes to the borough, I want their staff to live in the borough and send their kids to schools here. It's my job to put the things in place that encourage new people and businesses to move here." (Council Leader, northern borough)

Councils that took part in LGIU research about funding, levelling up and place making have consistently expressed huge concern at the growing move away from sustainable grant funding for local government, towards ad hoc, ring-fenced funding for capital projects. It means local priorities are deemed unviable and undermines the councils' capacity to coordinate and lead projects that can shape local places. Following a decade of huge cuts in grant funding from central government, councils are still managing with austerity budgets stretched even further by the Covid-19 pandemic. Spending for recovery, like the Towns Fund and Levelling Up Fund, is fragmented across Whitehall, and it is a huge task for councils to bid for this money, let alone to join it up at the local level.

While central government has reduced grant funding of local authorities, discreet funding pots have been opened for capital projects. These funding arrangements are for specific projects or policy areas determined by national government priorities.

The council officers we spoke to in our research said that this approach by the government led to 'muddled' outcomes on the ground. It was felt that different Whitehall departments were almost competing with each other to offer grant funding to local authorities in order to meet their own targets and agendas. This means that these funding pots do not align and are not coherent in their outcomes:

“Our system of government at the moment, as exposed by the pandemic, tries to incentivise very different behaviours depending on what department you’re speaking to. DWP, MHCLG and the Department for Education all have different ways of working.”

“Conflicting demands on local decision-makers by different government departments ultimately lead to incoherent policies on the ground.”

“The most recent Budget shows how real place shaping decisions, small decisions, such as shall we refurbish this high street, shall we open this block of public toilets, decisions which should be taken by local communities, are being taken in Whitehall, which is ludicrous.” (Council officer, south eastern county council)

Senior council officers also expressed concerns about how the shift away from grant funding towards ring-fenced capital projects has created structural problems in local government financing. There was a feeling that certain projects, perhaps more high-profile ones or those with more immediate outcomes, had more money attached to them than others. This means that local priorities are not always viable as they may fall outside the realms of any of the funding opportunities available.

Community infrastructure was named as one of the most difficult types of projects to fund. At the same time, council officers told us that it was community infrastructure that was the key to creating well-designed places for people to live. It is community centres, the play spaces and the recreational grounds that excite local residents and buy-in their support for a project, however these are the exact things that are difficult to fund.

The current circumstances which mean that place shaping agendas are often dictated by national government rather than local priorities have meant that local authorities are often acting reactively to create projects and come up with ideas that fit the criteria of the latest funding opportunity, rather than sticking to a consistent and well-thought-out approach.

This is particularly the case in areas that are experiencing a lot of housing growth. In these places, it was felt that they had to make the most out of any available funding to mitigate the impact of new housing development, rather than being able to embrace the opportunities that new growth brings and building upon such capital investment to enable both existing communities and new residents to benefit from the development.

“There’s been a lot of focus on growth growth growth driven by government post 2010, economic drivers and infrastructure drivers.”

Long-term funding cuts have had a detrimental impact on the capacity of local authorities to carry-out complex, long-term projects that form the centrepiece of place shaping programmes. Councils often cannot compete with private developers and housing associations who require similar skill sets from their employees. Job losses and the ongoing problem of how many local authorities are structured means that cross-cutting work is difficult to achieve.

Substantial, long-term resources are required, but the government currently favours small ring-fenced pots of money, largely for capital projects. Programmes like the New Homes Bonus and business rate retention schemes are designed to incentivise active and entrepreneurial behaviour among local authorities. But these are a sticking plaster that only a limited number of councils can realistically take advantage of.

Empowered and properly funded local government is the only agency that can provide coordination and leadership at the necessary scale for success in local growth, civic cohesion, infrastructure, public services and public health. There is also the ongoing issue of declining trust in government. That decline can only be addressed through increasing the participation of local residents in decision-making. There is an imperative for councils to work with local residents, particularly to advance place-shaping and integrate place with the wellbeing agenda.

Whilst the 2021 Budget in March was seen as a 'lost opportunity' for local government, it did contain some major place-based announcements, including the designation of eight new freeports in England (with discussions to continue with Scotland, Wales and Northern Ireland Governments about freeports there), Levelling Up, Community Renewal, Towns, and Community Ownership Funds. The government also announced a UK Infrastructure Bank, which will be headquartered in Leeds, and a 'Treasury North' to be opened in Darlington. These were outlined in an LGIU members' briefing in March.

Very little money has actually been allocated to "levelling up" or "building back better" funds. Just £7bn of capital investment has been allocated to levelling up projects over the five year period that the 'Build Back Better Growth Plan' covers, which is under 1.2 per cent of the total. This is a surprise, given how prominent levelling up is in the government's messaging. LGIU is sceptical of the prospects of success for a central theme of government policy with just 1/85 of funding allocated to it, indeed we would question the government's commitment to taking the necessary measures for levelling up.

A great deal of the levelling up fund is a joining DLUHC, the Treasury and Department of Transport pot, which covers local transport infrastructure, broadband and flood defence. A further notable feature is the discretion given to ministers to approve fund decisions, and the role that MPs are asked to place in promoting bids to the government.

Top-down frameworks that are directed by national government and take a place-blind approach to allocating funding, such as the levelling up funds look likely to be, risk exacerbating an already fraught situation where local authorities are expected to take the lead on place shaping agenda but in reality have very little power in order to make change.

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