

Policy Paper

The role of local government in a modern state

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September 2014

Policy Series



In the public interest: *the role of the modern state*

All societies across the world have some kind of state - the question is not whether the state should play a role in society, but what sort of role that should be. Neoliberalism, the dominant political orthodoxy since the 1980s, views the state as primarily the defender of national sovereignty, protector of private property, and maintainer of social order. Under neoliberalism there is no role for the state in promoting sustainability, social justice or technological progress. Initially the financial crisis of 2008 seemed also to be a crisis of neoliberal thinking, but the implications of neoliberal failure upon the role of the state were never seriously debated.

Too often, the left has succumbed to the 'small state' arguments of neoliberalism without considering rationally the appropriate role and place of the state in a 21st Century economy and society confronted with major problems. Five years after the financial crisis, and with an ecological crisis looming, it is time to ask how a modern state can play a major role in securing social and ecological justice.

This paper was commissioned as part of a series that will seek to address these issues and creatively explore the role of the modern state. Contributions will address options for new decentralised and local models; new forms of ownership and governance; as well as high-level interventions on how to increase investment and end out-sourcing and profiteering in our public services.

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Contents

Executive Summary	4
Chapter 1: Introduction	6
Chapter 2: The situation facing local authorities	9
Chapter 3: The development of local government	12
Chapter 4: Shifting the balance of power: local government reform	14
New Public Management	14
Localism, the Big Society and the Open Public Services Agenda	15
Chapter 5: The reality of pushing power downwards and outwards	17
Outsourcing	17
Housing	18
Education	20
Chapter 6: Where next for local government?.....	22
Chapter 7: A progressive alternative	25
Building Homes	25
Improving housing conditions in the private-rented sector	26
Alternatives to outsourcing	27
Streamlining housing management with other services	28
Creating jobs and raising wages	29
Improving educational experiences and raising standards	30
Bringing down costs through collective purchasing power	30
Local action, national support	31
Chapter 8: Policies promoting a greater role for local government	32
Greater resources for councils to deliver what no-one else can	33
Increased powers for local government where it is best-placed to act	34
Requirements on councils to integrate services	34
Allow local government to use procurement to improve low pay	35
Chapter 9: Conclusion	36
References	37

Executive summary

In its heyday, local government had the vision and resources to confront challenges from healthcare and housing to utilities and infrastructure. From Birmingham's Mayor buying local gas and water work companies in the 1870s, to Bermondsey Council's tax-funded health policies in the 1920s and 1930s, local government has shown the unique and vital role it can play in responding progressively to local needs.

Yet we are now commonly regarded as one of the world's most centralised democracies, thanks to a shift by postwar governments to take responsibility away from local government. Whilst some centralisation came about through the 'logic of the welfare state' – for instance, as local health initiatives of the early 20th Century were superseded by the NHS – the historical record shows that much of this shift is ideologically driven.

Labour-controlled councils were an inevitable target for Thatcher during her time in office. Her battles with local government left behind a greater willingness of her successors “to cap, limit and control local democracy in England”. This paper highlights how a reduced role for local government has been promoted for over thirty years – local democratic control has been diminished and services fragmented as powers have been moved both 'upwards' to central government and 'downwards' to other local actors.

Local government has been cut out of the equation through preferences for market-based provision and contracting out – concepts central to previous governments' New Public Management approaches and to the Coalition's Open Public Services agenda. This paper sets out how these dominant trends have curtailed the ability of local government to respond politically to local concerns; the outcome, for instance, of greater outsourcing, a distancing of councils from the delivery and management of housing, and a shift of power over education away from local authorities.

The weakening of local government and services has of course been made even more severe through the Coalition's austerity drive – its' broad attack on the future of the state through which local government has been particularly targeted. Huge cuts have hit local services hard, with particular services and parts of the country hit hardest. Taken together, these deep cuts and the shift of powers away from local government have made it harder for democratically elected representatives to respond to local concerns.

While there is broad agreement on the left that a new approach is needed towards the role of local government and the delivery of local services, this paper disagrees with those who, though opposed to the Coalition's attack on public services, nonetheless argue for forms of decentralisation that involve a lessened role for the state and a greater focus on citizen choice and autonomy. Whilst increased choice can be an outcome of better services, a market-based choice mechanism should not be relied on for changing or controlling services. Such mechanisms lead to fragmentation and a lack of accountability, and overlook the fact that the provision of many services is inherently collective.

This paper highlights how, despite the Coalition's determination to restrict local government's influence and competencies through severe budget cuts and other changes, some town halls have responded by instead taking a more active role and promoting collective solutions. It looks at what councils are currently doing to consider where local government is best-placed to innovatively tackle local problems: building homes; regulating the private-rented sector; streamlining services by bringing them in-house; tackling low pay; improving education; using collective purchasing power; and so on.

In using these examples as the basis of an argument for the devolution of further power and resources, this paper avoids arguing for an arbitrary shift of power and resources to local government – indeed it asserts that many provisions of the welfare state are better maintained and guaranteed through national government. It argues instead for local government to take the lead where its unique role is evident – chiefly where local government is the best level for power to be exercised; where it is ahead of the curve in responding to local needs; or where councils are the only bodies who can act effectively.

The case against austerity is central to this paper, but its recommendations apply in any budget situation. It argues for a fairer distribution of funding, for councils to borrow to build more homes, and for funding and powers to be devolved where councils are best-placed to act. It makes the case for the potential benefits of in-house services to be built into councils' operations and for local authorities to be empowered to use their procurement powers to tackle the low-wage economy and improve vital frontline services.

By recognising the unique role that local authorities can play, and by showing the benefits of them being bold and active, this paper sets out a vision of how local government can be enabled to make a difference for the better.

Chapter 1: Introduction

At the Lord Mayor's Banquet at Guildhall in November 2013, Prime Minister David Cameron abandoned any pretence that he was imposing cuts out of necessity by proudly committing to a slashed state “not just now, but permanently”¹. This came as no surprise to town halls across the country, given the unprecedented cuts to local authority budgets since 2010.

The Coalition government has seized on austerity as part of a broad attack on the future of the state, with local government targeted in particular. They are continuing and accelerating the trend over recent decades for power and responsibilities to be taken away from local authorities, both 'upwards' to central government and 'downwards' in favour of other local actors.

In particular, the government's vision of localism or decentralisation often excludes local government and tries to weaken it further. The flagship Big Society initiative set out to encourage volunteers to take over the running of local services, thereby offering a reason to shrink the modern state by bypassing local government. More broadly the government's Open Public Services agenda sets out how the Coalition “have started to rethink the role of government so that governments at all levels become increasingly funders, regulators and commissioners”².

This agenda comes despite criticism of 'New Public Management' – an approach to public services which gained popularity since the 1980s, and which promoted market-based provision and contracting out³. This approach often influenced the last government – yet now, even some of those who earlier championed it admit its failures. As the left looks to move beyond this orthodoxy, there is a chance to advocate an alternative – one that sees a radical and active new role for progressive local government as a core part of the modern state.

In fact, despite the Coalition's determination to restrict local government's influence and competencies, some town halls have defiantly shown what they can achieve by taking an active role, even in the current atmosphere of deep government hostility and stringent cuts. In an attempt to meet the housing crisis, some councils have taken a lead in building new council housing⁴, and are stepping in to improve the private rented sector through landlord licensing⁵. Similarly, when faced with the

hardship of a low-wage economy, councils have used their influence to make sure more people receive a Living Wage – whether through their direct employees, contracts they let, or their local leadership with other businesses⁶.

Meanwhile a number of councils have begun to reverse the pattern of state retrenchment by bringing services back in house – recognising the benefits of doing so for service users and workers, as well as the potential savings it can bring. Whilst the government continues to advocate greater outsourcing, many councils have shown the value of the alternative and have challenged the ability of private companies to deliver public services as effectively⁷. The appeal of this argument seems to cut across political persuasions. Indeed, research by Unison has underscored how “the quality, accountability, flexibility, and hard economics of providing services in house are some of the key benefits that have persuaded even true-blue Conservative councils to drop private contractors”⁸.

The decisions by local authorities to build housing, find people jobs, deliver services in-house and undertake other significant reforms are not only valuable in themselves – taken together, they begin to offer an alternative vision. Local authorities have demonstrated they are able to tackle certain problems that people face locally in a way that central government either cannot or is ill-suited to. They are showing how new approaches can integrate vital public services, ending the frustration caused by privatisation and fragmentation, and reasserting a valuable role for local government.

The Coalition would welcome a bleak future for local government: one in which local councils are drained by cuts and undermined by attempts to make them irrelevant. With local authorities' funding stripped back to the bare minimum they would be left struggling to provide basic services like highway maintenance and social care. Without proper funding, local authorities will be unable to go further to support the wellbeing of society – finding it hard, for instance, to support the voluntary sector with basic infrastructure, or to provide benefits to local communities from youth services to cyclists' safety measures. As this paper will set out, ambitious goals like tackling the housing crisis or ending long-term unemployment are best tackled locally – but they cannot be achieved with goodwill alone.

This paper will disagree with some commentators who, though opposed to the Coalition's attack on public services, nonetheless argue for forms of decentralisation

that involve a lessened role for the state and a greater focus on citizen choice and autonomy. This paper argues that instead of introducing greater autonomy and fragmenting services yet further, the big challenges facing the country demand collective solutions that local authorities can play a key role in offering.

Through setting out a clear vision for local government in which councils are more than struggling providers or commissioners of a few basic services, this paper will aim to show what the local state is capable of achieving. With proper funding, councils can support public services that reduce the impacts of poverty locally. They can ensure the collective provision of services that contribute to people's wellbeing that will never be adequately offered by the private or even the voluntary sector. With an empowered local state, councils can use their unique position to tackle some of the big challenges facing society.

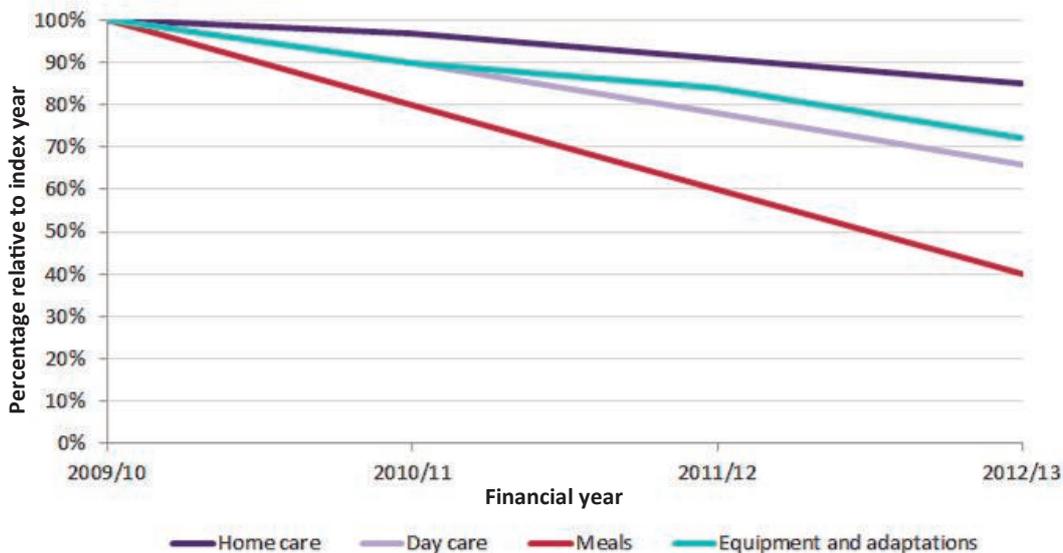
Chapter 2: The situation facing local authorities

By the end of this parliament in 2015, councils will have had their funding from central government to run local services cut by 40 per cent. Under the current government's plans, cuts are set to continue into the next parliament. The prospect of continued austerity up to 2020 threatens to roll back the state while at the same time committing immeasurable damage to public services.

These huge cuts will have a deep impact wherever they fall, and in practice they are hitting some services particularly hard. When a third of councils are concerned they may not even be able to meet their legal duties, any provision beyond this will be under threat first⁹. As cuts to local government continue, this means popular local services will bear the brunt. Modeling by the Local Government Association, which factors in reduced funding and rising demand for adult social care, shows that money available to provide services like running gyms, parks, libraries and youth centres is likely to shrink by 66 per cent by the end of the decade¹⁰.

A report by the Nuffield Trust and Health Foundation shows the stark effect these cuts are having on social care for older adults. Real-terms net current spending has already fallen from £7.8 billion in 2009/10 to £6.6 billion in 2012/13, meaning that as

Figure 1: Changes in user numbers for different forms of community-based care since the baseline year (where 2009/10 = 100)

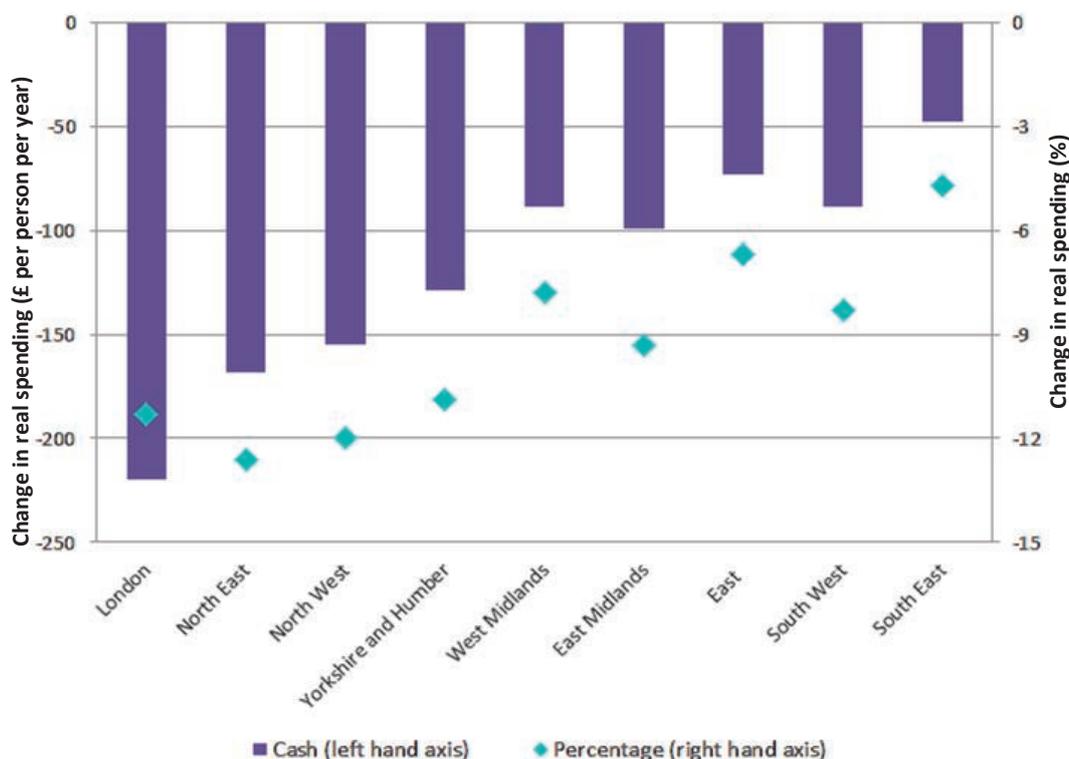


Source: Ismail, S., Thorlby, R. and Holde, H. (2014) Focus On: Social care for older people: Reductions in adult social services for older people in England, The Health Foundation and Nuffield Trust. Available: http://www.nuffieldtrust.org.uk/sites/files/nuffield/publication/140326_qualitywatch_focus_on_social_care_older_people_0.pdf. Graph from NASCIS RAP data.

adult social care funding has had to focus on those in the greatest need, the cuts have fallen first on community-based services like home care, day care, and meals¹¹ (figure 1). In many cases this has meant that eligibility has been tightened or fees raised – in Leicestershire, for example, the county council is considering raising the cost of delivered meals from £3.25 to £5.90¹². This pattern is likely to be repeated across other services. As councils focus on ensuring they can protect vulnerable children, their involvement in services like children's play will come under ever-increasing pressure. By concentrating on helping those in the greatest housing need, broader housing support or advice could come under pressure too.

Meanwhile, the geographical distribution of budget cuts has been uneven (figure 2). Arguably, political calculations have resulted in more deprived areas suffering larger average cuts than the rest of England¹³ (figure 3). The Audit Commission found that deprived councils “...have seen substantially greater reductions in government funding as a share of revenue expenditure than councils in less deprived areas”¹⁴. Research by Newcastle Council set this out starkly: the data showed how, in the two

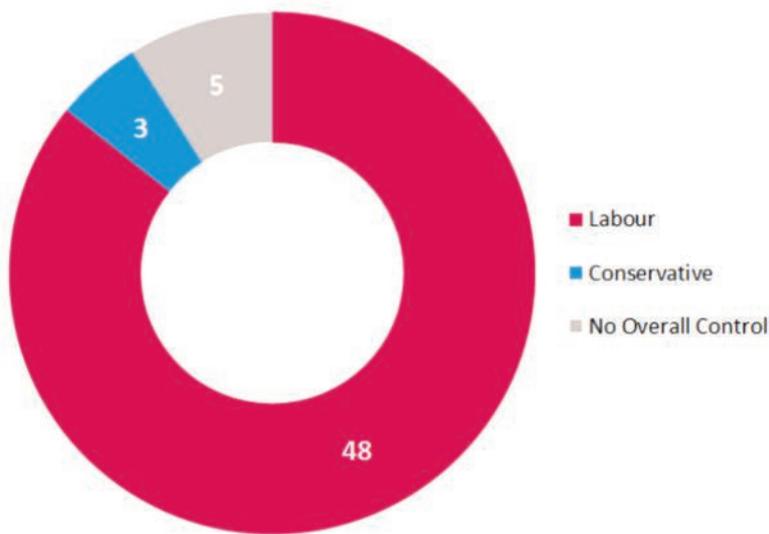
Figure 2: Cuts to local government net current service spending (excluding education), by region, 2009-10 to 2011-12.



Source: The IFS Green Budget: February 2012 <http://www.ifs.org.uk/publications/6003>, based on data from www.communities.gov.uk on Local government expenditure out-turns (2009–10) and budgets (2011–12).

years from April 2013, its spending power will be cut by £174 per dwelling – higher than the national average of £125 and significantly higher than the £59 faced by more affluent Wokingham¹⁵.

Figure 3: Local authority cuts with over £100 per person 2010-11 to 2012-13



Source: The Guardian data blog 'Council cuts in England' <http://www.theguardian.com/news/datablog/2012/nov/14/council-cuts-england-detailed>

These cuts to funding threaten to undermine the role of local government to perform basic statutory duties, never mind anything more ambitious. To enable local government to perform its unique role and take on the big challenges faced by the people they represent, it must be properly resourced.

However, the argument in favour of progressive local government goes beyond funding alone and it is vital to be clear about what powers and influence local authorities should have. Before proposals are made about the future of local government, the next Chapter begins by looking at its past to understand why local government as we know it came about.

Chapter 3: The development of local government

At one stage in the 19th Century there were 27,000 different local authorities in England and a jungle of jurisdictions¹⁶. The massive urbanisation of the industrial revolution meant these structures were unable to tackle the challenges new populations faced, and so, over the course of that century a series of legislative changes led to the birth of modern government. Local government was empowered to focus on local challenges – including poverty, poor health and lack of public services – that the private market was failing to tackle or simply had no cause to take on.

In Birmingham in the 1870s for example, Mayor Joseph Chamberlain bought the local gas and water works companies to improve provision to citizens, introduced public transport, and opened several new parks¹⁷. Chamberlain was not alone; the 20th Century saw England's local governments pioneering new methods for tackling some of society's greatest problems. For example, in the interwar years, local government played a key role in addressing the difficult economic situation in Liverpool by leading economic regeneration through massive building projects such as the Mersey Tunnel, new housing, and a public transport system¹⁸. These changes were possible thanks to investment in public services alongside the power of strong local government.

Local government is well-placed to identify local needs and respond to them with collective solutions. Rubbish collection and street lighting, for instance, are now regarded as some of the basic responsibilities held by a council. Yet it was only over the course of the 19th Century that this gradually became the case – providing basic utilities like these was a collective response that tackled the effects of poverty and made local communities better places for all¹⁹.

Local government is also a democratically accountable way of taking on local challenges. Private or voluntary approaches can never make this claim - and it is hard for central government to do so either, thanks to its scale and distance from local matters. Empowering local government to focus on local challenges gave people a democratic route to respond to the problems they faced.

In the latter half of the 20th Century, some centralisation came about through the 'logic of the welfare state'. For instance, local health initiatives of the early 20th

Century were superseded by the NHS, thereby ensuring universal provision and a move away from what would now be called postcode lotteries.

But, as the next chapter sets out, the necessities of a national welfare state cannot on its own explain the direction that local government has moved in over recent decades. It becomes apparent that, rather than being a rational decision about what the powers of local government should be, the shape of the local state has been driven much more by ideological reasons.

Chapter 4: Shifting the balance of power - local government reform

Despite the history outlined in the previous Chapter, there has been a decided move by post-war central governments to wholly, or partly, take responsibility away from local government²⁰. England is now regarded as one of the developed world's most centralised democracies, while at the same time, the role of local government has been diminished further as power and responsibilities are shifted to other local actors in an effort to bypass the state.

The ideological drive behind Margaret Thatcher's attack on local government is well-known. As Labour gained control of councils during her government, "her ideological distaste for the left meant Labour-controlled councils became an inevitable target" as Tony Travers puts it²¹. Interestingly, Travers suggests that Thatcher's legacy was not just the increased centralisation that had become the status quo when she left office. He suggests she also left behind a greater willingness of her successors "to cap, limit and control local democracy in England", thereby exerting influence over the relationship between central and local government for decades.

Certainly in subsequent administrations we have seen the trend towards weaker local government broadly continue. Power and responsibilities that could lie with local government have been pushed upwards, downwards, or even sideways. Greater control has been accumulated by central government, whilst at the same time the delivery of local services has involved local government less and become more fragmented.

New Public Management

Around the world, the neoliberal governments of the 1980s, including Thatcher's, are associated with the formation of New Public Management approaches to public sector reform. Although a loose concept, New Public Management broadly implies the use of various market or business-inspired approaches in the delivery of public services²². Christopher Hood, who coined the term in 1991, set out how it can

include an emphasis on measuring performance and controlling outputs, whilst disaggregating units and increasing competition in the public sector²³.

In practice this meant that New Public Management approaches often required a “greater reliance on market based mechanisms and contracting out”²⁴. Advocates of New Public Management seemed to distrust the natural inclinations of the public sector – assuming that, if left to their own devices, managers in the public sector would “spend their time building little empires for themselves”²⁵. There were various responses to this – from imposing central targets to forcing services to be outsourced. The effect of this model on local government was to make it increasingly focused on meeting targets and less involved in the direct delivery of services.

New Public Management approaches had been in the “ascendancy for at least two decades”, according to a key architect of New Labour, Matthew Taylor. However, despite their influence on the last government, Taylor concludes that “today, the evidence of their failure is all around”²⁶. As an example Taylor cites the Private Finance Initiative (PFI), under which private capital is invested in public infrastructure. This mechanism bypasses public spending limits and means the operation of a service is outsourced and controlled only through long-term contracts that are highly complex or expensive to terminate. Taylor identifies PFI as an approach heavily influenced by New Public Management and concludes that it has now been “exposed as a disaster”.

Localism, the Big Society and an Open Public Services agenda

The Coalition government is firmly continuing along a path towards a weakened local government that has a significantly lesser role in public life. Since 2010 this has been implemented primarily through the mechanism of reduced local authority budgets which are discussed earlier in this paper²⁷. Alongside funding cuts, the government is also keen to continue a trend that Thatcher gave rise to by shrinking the scope and reach of what local councils can do. Through initiatives such as the Big Society and their version of localism, the Coalition seeks to bypass local government and therefore local democracy. In his evidence to a recent session of the Communities and Local Government Select Committee, Professor George Jones asserted that “ministers are essentially promoting sub-localism, taking powers from councils allegedly to give to ‘Big Society’ actors below the local authority level”²⁸.

The prospect of Big Society initiatives handing responsibility for services over to volunteers raises serious questions about their sustainability or how access to provision will be ensured, especially in the long run. Whilst volunteers have an important role to play in civic life, they cannot be expected to identify need and ensure provision.

As the Big Society seeks to bypass local authorities, more of the government's agenda for local government was laid out in the Open Public Services White Paper. Launched in 2011, it overtly declared the Coalition's intention to drastically weaken the role of the state by making "governments at all levels become increasingly funders, regulators and commissioners"²⁹. The White Paper made clear the intention to promote outsourcing of services currently provided by local government, from housing management and planning to support for looked-after children³⁰. The White Paper planned to entrench an idea that "the public sector should no longer be considered the default provider of government services". This approach was welcomed by private firms such as G4S who wrote in response (clearly before the 2012 Olympics where G4S bungled their contract leading to resignation of chief executive Nick Buckles) that "companies such as G4S have the experience, interest, capacity and capability to step up their involvement in public services delivery across different areas"³¹.

Alongside Big Society initiatives and the Open Public Services agenda, the Coalition's Localism Act introduced a sprawling set of provisions that broadly attempt to change the way local authorities commission services and engage with communities³². Amongst the criticisms of the Act, it is clear that it was no boost for local government. Its critics have argued that it set out to "fragment and weaken local governance"³³ and "fails to recognise the need for local communities to be represented by independent, democratically elected councils"³⁴.

The agenda of the current government thus pushes power downwards to local actors other than the state whilst also pushing power upwards to the central state, for instance in education. It continues a trend that gained pace under Thatcher and that influenced New Public Management approaches, under which, local government is cut out of the equation. The next Chapter, looks at the reality and implications of this policy trend.

Chapter 5: The reality of pushing power downwards and upwards

In evidence to a recent session of the Communities and Local Government Select Committee, Professor George Jones concluded that the unique function of local government had been eroded to such an extent that its residual role was as one amongst a range of “executive agents” of central government³⁵. Where its competencies remain, local government had become responsible for simply implementing central government policy, much like any other central government department. In effect this means that local government finds it harder to take the same initiative it once did in tackling big challenges; its reduced control over funding and the delivery of services makes it harder to respond to local concerns as democratically elected representatives.

Outsourcing

The starkest example of how the role of local government has been undermined is the proliferation of outsourcing that began under Thatcher and was continued by the previous government. This ongoing trend was based on a presumption that private provision of services is better and more efficient. The current government retains an active preference to outsource services, which further fragments their delivery, pushing power and responsibilities away from local government. Compulsory Competitive Tendering (CCT) was introduced in 1980, under Thatcher, and began by forcing local authorities to put certain services out to tender. Although its scope was limited at the point of its introduction, CCT set in motion a long-term trend; as Tony Travers puts it CCT was the “single beginning point of the modern markets world”. In a series of local government Acts over the Thatcher and Major administrations, the scope of CCT was widened to such an extent that private sector provision of local services overtook public sector provision – rising from 40 per cent in the late 1980s to 55 per cent in the late 1990s³⁶.

Under the last Labour government, the CCT regime was replaced by Best Value, which placed an emphasis on quality as well as cost. Thus the 'compulsory' element

of CCT was removed, though as Janet Newman points out, this was “tempered by the assumption that private sector suppliers would 'normally' provide the best solution”³⁷. At the same time, the greater use of targets saw an increased control by central government during this time.

As set out in the previous chapter, the Coalition government has declared its clear preference for outsourced services through its Open Public Services and Big Society agendas. Whilst in many cases they have been overt in putting forward this preference, it has also been included in some policies that have been promoted as community-led. For instance, the government's 'Community Right to Challenge' – although in practice not widely implemented – reveals some of the government's intentions by offering a Trojan horse for privatising public services by the back door³⁸. Under this right, local authorities must respond to expressions of interest from voluntary and community groups, local authority staff, and others to bid to run services. However crucially, if these expressions are accepted the service has to be put out to tender through a procurement exercise³⁹. Once a local group has challenged a council over the running of a service, it would therefore face an open procurement process against private companies through a tendering process that is often stacked against the interests of local voluntary groups. Tellingly, this right includes no provision for local communities to ask for outsourced services to be brought back in house⁴⁰.

In his review of Ines Newman's book 'Reclaiming Local Democracy', public policy commentator John Tizard argues that for local government to make a difference it has to be political⁴¹. In practice, this means it has to avoid being over managerial and it should have more control and influence over the range of public services in a place. The conclusion seems clear that the trend towards outsourcing has undermined this goal.

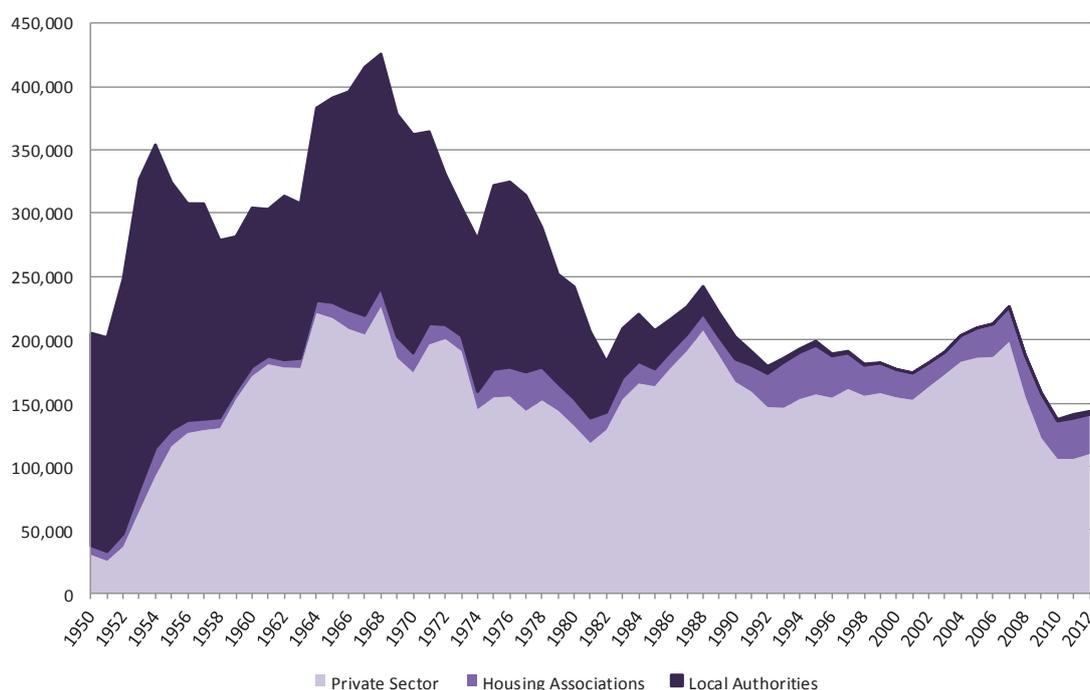
Housing

The dominant trend to take responsibility and power away from local government has been profound in the area of housing. Despite the key role that local authorities played in creating much of today's social housing stock, they have been moved further away from its management and delivery by successive governments.

In terms of building, the retrenchment of councils' influence could not be more stark. Council home-building slumped from more than 150,000 homes a year in the late-1970s to just 1,500 in 1990 (see figure 4). At the same time that the Right-to-Buy led to a huge transfer of council homes into the private sector, councils were effectively

prevented by the Conservative government from building new homes to replace their dwindling stocks. This was not reversed by the last Labour government; and although money was invested in improving the quality of housing, the number of new homes built by councils between 1997 and 2010 averaged just 200-300 nationally each year. Despite many local authorities' desire to build, it has not yet returned to its central place in building the homes that local areas need.

Figure 4: Housing completions by tenure (cumulatively) in the UK 1950-2012



Source: DCLG Table 241: permanent dwellings completed, by tenure, UK, historical calendar year series

In terms of housing management, under the last government much-needed investment in council housing was conditional in some cases on transferring management of properties to Arms-Length Management Organisations (ALMOs); or into new organisations set up through PFI; or in other cases through the transfer of ownership entirely to housing associations. By diluting councils' control over management, the setting up of ALMOs blurred the lines of accountability. At the same time, ALMOs were focused on meeting centrally-imposed targets in order to receive investment funding. PFI meanwhile made the lines of control and accountability very blurred, as PFI vehicles are often governed by long-term contracts that can be hard to control and even harder

to terminate. Where the ownership of stock was transferred to housing associations, democratic accountability was absent entirely. Whilst these options were driven to an extent by borrowing considerations, they also seem to reflect a belief that councils should focus their involvement with strategic decision-making and commissioning, rather than the direct delivery of services.

Whilst at the time of their establishment under the last government ALMOs brought with them the promise of funding, that financial incentive has now gone. Without that benefit of maintaining an ALMO, many local authorities have now recognised the potential savings that can be achieved by removing duplicated management and back-office functions, deciding instead to bring their services back in-house.

Unlike ALMOs, PFI schemes and transfers to housing associations cannot be undone so easily. The downside of both of these options is becoming increasingly apparent. Politicians and commentators from across the political spectrum are acknowledging that PFI schemes not only cost the public purse far more, but they have also created severe long-term management difficulties with councils being locked into extended contracts weighted in the favour of PFI private investors. Likewise, transfers to housing associations have left many tenants being charged higher rents for newly-let properties, as their new landlord takes advantage of the freedom given to them by the Coalition to raise rents to near-market levels. In both cases, the room for councils to make political decisions by exercising control over local housing management is reduced.

Education

In recent years education has seen a shift of power downwards and upwards with local authorities the losers. As Fiona Millar has set out, the late 1980s saw power decentralised to heads and governing bodies, while at the same time accumulated by central government⁴². More recently, the large increase in academies and free schools has been a huge act of centralisation, further undermining the middle-tier role that local authorities have traditionally played. Former chief commissioner for schools Sir Tim Brighouse has argued that too great a degree of educational centralism risks undermining teachers' professionalism and calls into question the competence of central government to manage all schools nationwide effectively. He argues that local government should have an enhanced role to ensure fair admissions, plan schools places, and be accountable for standards⁴³.

Although diverging slightly from Brighouse by arguing in favour of having Directors of Schools Standards rather than direct local authority oversight, the IPPR's Rick Muir sets out the problems caused by the 'missing middle' we now face. He points out how local authorities have no powers to force academies to expand where places are needed, nor to stop free schools opening in areas of surplus. He also highlights the problems with a distant Secretary of State trying to monitor the performance of thousands of schools across the country – an issue that has been most visible following the problems at Al-Madinah, Kings Science Academy and the Discovery Free School⁴⁴.

Whilst there is a debate on the left about the relationship between Directors of School Standards and local authorities, there is broad agreement that the missing middle needs to be filled. The fact that some academy chains are taking on certain middle-tier functions underlines the clear need for this gap to be filled. But whilst the government may be content with academy chains taking on this role, it should be done by democratically-accountable bodies covering all schools in a local area.

With less involvement in education, housing delivery and management, or the direct provision of local services, local government has had its ability to respond politically to local concerns curtailed. While there is broad agreement on the left that we need to empower local decision-making, debate continues about what form this should take and what role local government could play in a renewed localism. The next chapter looks at some of the questions that arise when considering where to go next.

Chapter 6: Where next for local government?

A recent report by the TUC set out to look for an evidence-based alternative to the current government's market-led approach to local service delivery. The report asked how local authorities are working with citizens to deliver better services – and in doing so incorporated a critique of the top-down New Public Management approach⁴⁵. When this critique is echoed by Matthew Taylor, who argues that the era of New Public Management is dead, it seems there is agreement that in order to deal with the challenges ahead, we must 'turn the page' on the kind of reforms implemented over the last 30 years⁴⁶. Yet despite broad acknowledgment that a new approach is needed for the delivery of local services, tensions surface when the debate moves on to deciding the role of local government in what comes next. Some argue for a decentralisation that emphasises individual consumer-type choices; others want greater powers given to local authorities, where suitable, to enable them to direct local resources and activities appropriately.

Matthew Taylor argues that a new focus on decentralisation should involve the state pulling back – supporting citizens to decide what they want and helping them to achieve it⁴⁷. This view is echoed by others such as Paul Corrigan, a former health adviser to Tony Blair, who believes that “swapping bureaucracies from national to local will not be much of a rallying cry”, and who argues instead that the public should be given the right to choose between providers of public services⁴⁸.

Yet it does not seem plausible to suggest that the huge challenges facing social care, housing, employment, and so on, will be fairly or radically tackled simply by increasing choice. For instance, a current and longstanding challenge of social care is how its integration with health can be achieved; and so it is telling that a paper by the health think tank the King's Fund highlights the “potential for intrinsic conflict between choice and competition...and the need for collaboration to achieve a more co-ordinated experience for patients”⁴⁹.

This does not mean that citizens should not be involved in deciding how services are designed or what they offer – indeed that is the basis of democratic control, and is a central feature of models such as co-production which seek to involve users in the design and delivery of services. Nor does it mean that citizens should not be offered

control, and indeed choices, over how they use certain services. In fact better-integrated services can improve the options available to people. The argument this paper makes is that, whilst increased choice can be an outcome of better services, a market-based choice mechanism should not be relied upon for changing or controlling services. Such mechanisms lead to fragmentation and a lack of accountability, and overlook the fact that the provision of many services, such as community centres or youth services, are inherently collective. In arguing for the need to 'turn the page' on reforms of recent decades, the case must be made for local authorities to be empowered to come up with collective solutions to these challenges.

This involves the central state releasing power and funding, and also enabling well-performing councils to take over the delivery and coordination of services from contracted-out or otherwise fragmented providers. It must be recognised that local authorities will be prevented from dealing with the serious challenges ahead, as they did over a century ago, if their funding is stripped to the bone and if the dominant trend over recent decades continues with local authorities' unique role in providing and coordinating services diminished further.

Enabling local authorities to become a focus for the coordination and delivery of services – and a place for innovative resolution of complex problems – is in some ways far from new. A response to the problem of 'silo government' (the problem whereby different parts of the public sector fail to coordinate their actions and therefore miss out on delivering efficiencies or better services) has seen several forms in recent decades. In the late 1990s, 'area-based initiatives' were popular with the Labour government as a way of coordinating the response to a particular problem in a particular area. 'Local area agreements' were introduced in the 2000s and took this idea further by setting out a range of targets that local organisations would have to work together to achieve in order to receive a reward grant from central government. More recently, 'community budgets' have been piloted to pool public sector budgets when assisting families with complex needs⁵⁰.

Initiatives such as these have sought to better join-up local responses to difficult problems. However, they have never gone as far as to suggest a significant transfer of powers and budgets from Whitehall to Town Halls along the lines that the Labour Party is now proposing⁵¹. Under current Labour proposals, certain powers and existing resources would be devolved using a long-term settlement to enable local authorities to tackle problems in their local areas, such as securing young people job opportunities

and helping people get the care they need to live independently⁵². These proposals assume no increase in overall funding, although the Shadow Communities Secretary Hilary Benn has emphasised Labour would focus on distributing the funding more fairly, to redress some of the geographical inequalities referred to earlier in this paper⁵³.

The devolution proposals that Labour have put forward are important in themselves, but they are also significant in that they accept certain challenges are best tackled by an active local government. By accepting this, they open the door to the possibility of further powers being taken on by competent local authorities. In exploring what other powers local government could take on, the next Chapter looks at a variety of different approaches currently pursued by local authorities. Despite cuts to local government's funding and influence, there are even now examples of local authorities exploiting their remit and showing how they can achieve more progressive outcomes under their current constraints. In doing so, they help to make the case for greater powers and funding in the future by showing what determined local leadership can achieve.

Chapter 7: A progressive alternative

A look into local government's past by the New Local Government Network classes the period roughly between the 1870s and 1930s as its heyday⁵⁴. With some access to power and funding – and crucially with visionary leadership – local government began to confront the challenges faced by an industrialised population living in urban areas. Healthcare, housing, utilities, and infrastructure all saw attention from local civic leaders responding to the needs of their constituents. Some of the retreat of local government in subsequent decades happened as the national welfare state developed and assumed responsibility. The New Local Government Network's report looks at Bermondsey Council's tax-funded health policies, for example, in the 1920s and 1930s; they filled a need then, but were superseded by the NHS.

When considering the role that local government should play today therefore, it is important to recognise the importance and benefits of the central state – ensuring universal provision, guaranteeing minimum standards, and fostering national collectivism. Yet much of the centralisation of recent decades has come not from the logic of the welfare state, but rather from a disregard or distrust of local authorities that had its origins with Thatcher, as set out earlier in this paper.

The right balance between local and central government is nuanced. Some standards in health, for instance, must be maintained nationally to avoid a postcode lottery. Other powers and functions, such as job finding and oversight of schools, would be better exercised locally. By reviewing the current actions of some progressive local authorities, it is possible to get an idea of where local government is best-placed to innovatively tackle local problems.

Building Homes

Building new homes was a key part of local authorities' roles for much of the 20th Century. Now, as restraints on their role as home-builders introduced during the 1980s have been loosened slightly, many local authorities are eager to respond to the housing crisis in their areas.

In April 2012, the Housing Revenue Account (HRA) – the system that governs councils' rent collection and spending on housing – was finally reformed after many years of

discussion. The reform was implemented along lines developed under the previous Labour government; it allowed local authorities to keep rental income locally and potentially increase investment in new homes. This led to the first, albeit limited, rise in council home-building for a generation, with councils likely to raise their output to around 4-5,000 new homes per year. This output is still restrained, however, as a result of caps that the government has placed on borrowing beyond the 'prudential code' – a code that says a local authority must only borrow “when and if the debt repayments and interest are affordable”⁵⁵ - for fear of it counting towards central government debt. The capacity for councils to build could be significantly increased if the caps were lifted, or if our accounting rules were brought into line with those used by the rest of Europe, where housing debt is not considered part of the national debt figures. As the Chartered Institute of Housing points out, caps do not apply in Scotland, where they are building a similar number of homes as English local authorities despite having a tenth of the population⁵⁶.

Removing borrowing caps and allowing councils to invest in new housing up to the prudential borrowing limits could more than triple the number of new homes councils build. Yet even under the current freedoms, councils are showing what local leadership can achieve. In my local authority of Islington, for example, investment in new homes has been made alongside guaranteed local lettings, under which all new homes on estates are offered to existing tenants and their families first, with the homes they leave going to the wider waiting list. This innovation has helped create pressure from many affected residents in favour of council home-building, with a local focus and understanding that a centrally-delivered programme could not achieve.

Improving housing conditions in the private-rented sector

Whilst the ability of local authorities to build new homes remains restrained, in the private rented sector their powers and resources to intervene on behalf of tenants are even more limited. At the moment, councils can only introduce borough-wide landlord licensing on the basis of low demand or high levels of anti-social behaviour, which restrains what many councils can do. Furthermore, whilst the limited powers to deal with unacceptably poor standards in the private rented sector lie with councils, they lack the resources to tackle this comprehensively⁵⁷.

Despite these constraints, local authorities like Oxford and Newham have used landlord licensing powers to the fullest extent to tackle the particular problems

occurring in those areas⁵⁸. Oxford has expanded landlord licensing across all houses in multiple occupation (HMOs), citing the fact that they provide the poorest-quality homes in the city – with 70 per cent being unsafe⁵⁹. This licensing scheme has set out to protect tenants and improve the quality of homes and their management. However, they, and other councils keen to introduce borough-wide licensing can be held back by current legislation. Gathering the necessary evidence to justify the introduction of a scheme can be costly, and once a scheme is introduced, although fees can be spent on administration, the cost of enforcement is borne by a council's general fund. Furthermore, after deciding to go ahead with a borough-wide licensing scheme, there is the prospect of legal challenges by landlords. Enfield Council, for example, is currently facing a judicial review from a landlord operating in the borough⁶⁰. In a recent interview, the Shadow Housing Minister suggested that a future Labour government would remove the barriers councils face setting up borough-wide licensing schemes⁶¹.

Alternatives to outsourcing

The Coalition government's preference for outsourcing local services has been taken up enthusiastically by some councils. Barnet Council, for instance, has earned the 'easyCouncil' moniker through its attempts to offer 'no-frills' local services on the back of cost cutting and outsourcing. Its attempt to push through a programme of controversial cuts and massive outsourcing of council services involved signing two ten-year contracts with private company Capita, who will now run front and back-office services from planning and highways to HR and benefits administration⁶².

Yet across the country, many councils are moving in the opposite direction. It is not just the high-profile failure of certain outsourced services, but more generally there are councils realising the problems that can come with private provision. Services can be less flexible and responsive since provision is bound into contractual terms; there is a need to provide a profit margin; and they cannot easily be integrated with other services and therefore benefit from efficiencies.

A Unison report details insourcing decisions taken by many local authorities and shows how these decisions are contributing towards a number of goals including cost effectiveness, service improvement, and enhanced workforce morale⁶³. The authors of the report surveyed councils of all political persuasions about their reasons for deciding to take services in-house; they cite Conservative-run Essex County Council as having brought IT in-house to deliver a more effective service at a better price, whilst under

control of the Liberal Democrats, Lewes District Council insourced kerbside recycling to improve the service and deliver cost savings.

Indeed, across all those councils surveyed, the most frequently cited reason for insourcing was a need to improve efficiency and reduce service cost, with the second most popular reason being to improve service quality. Such responses challenge any orthodoxy that private providers are cheaper and more efficient than their public sector counterparts.

Streamlining housing management with other services

It can be seen by looking at local authorities' housing roles that their scope to be innovative and offer better, more integrated services to residents is affected by decisions they have taken about their structure. For instance, if a council retains its housing stock and manages it directly, then the separation between its landlord and social service roles is broken down. On a practical level this can help the council to link up housing and social care, which will potentially offer better-integrated and more cost-effective services.

For example, the experience of a tenant looking for adaptations that would enable them to stay living at home – a situation that most people want and that saves the public money – can be much more positive and almost certainly faster under a better-integrated in-house service. The Shadow Care Minister recently cited figures that delayed discharges from hospitals due to a lack of home adaptation were now costing £247m a year, or enough to pay for nearly 37,000 home adaptations⁶⁴. A typical council's website⁶⁵ sets out the different experiences a tenant wanting a home adaptation might face if the council was their landlord, or if their council had chosen to transfer stock to a housing association. In the case of a council tenant, they would only need to contact the housing adaptations team to organise the alterations. A housing association tenant, on the other hand, would need their occupational therapist to write to their landlord and ask them to carry out the works; if the housing association had insufficient funds the tenant would have to be referred to the council's home improvement agency to arrange an application for a Disabled Facilities Grant; and once the works are completed the tenant should need to check with their housing association that they will undertake the servicing and maintenance of the adaptation once it is installed. Clearly the second option is a process with several layers of added complexity.

These kinds of in-house benefits have featured, to an extent, in the decisions that some councils have taken about the management of their housing stock. Although individual circumstances vary, ALMOs – organizations referred to earlier, set up to distance housing management from the rest of a council's operations – have been wound up in Islington, Sheffield, Leeds and elsewhere. The decision to bring housing management under direct control has been a way to save money whilst providing a service that is better joined-up with the council's other functions⁶⁶. The last government's desire to distance housing management from the rest of the council seems to have been driven by a view that councils should commission and oversee, rather than manage. However, as a drive for integrated services and a focus on reducing back-office duplication have become more important, a number of councils have seen ALMOs as ill-suited to this goal and therefore brought them back in-house.

Creating jobs and raising wages

With their residents facing low wages and a lack of employment opportunities, many progressive councils have begun to intervene. The Living Wage campaign is a strong case of how progressive local authorities can use their role as an employer, commissioner, and local leader to raise low wages within their areas. In this field, the decisions that local authorities take about their services can impact on the degree of influence they have. Put simply, the more direct services the council manages, the more they can do to lead by example on decent pay.

Beyond their directly-managed services, a council can also have significant impact. Accreditation as a Living Wage Employer means councils must use their role as a commissioner to require the Living Wage be paid to the staff of contractors. Furthermore, many are now also using their role locally to put effective public pressure on local employers. One example is the pressure Islington Council is putting on Arsenal Football Club to implement a London Living Wage amongst its staff⁶⁷. Councils can only be in a position to encourage others to pay the Living Wage if they have first got their own house in order.

In terms of increasing employment, local initiatives to get people into work have shown evidence of their effectiveness. Though small in scale by comparison with national programmes, a London Councils report suggests the best results for employment support come from designing programmes locally. The report compares national

employment support programmes with success rates of around 4 per cent, against locally-designed programmes which are achieving levels of 25 per cent and more⁶⁸.

Improving educational experiences and raising standards

In the increasingly fragmented landscape of education, many local authorities are committed to exercising strong local leadership and encouraging collaboration between schools, even as this is potentially challenged by the increase in academies and free schools. By doing so, they demonstrate the importance of raising standards across all schools in an area by supporting a family of schools and encouraging any schools that become academies or free schools that are established to remain part of it.

In the case of Tower Hamlets, part of the successful transformation of the schools in that borough during the 2000s has been attributed to its resistance against academies; as Fiona Millar has put it, this meant shared ambition was able to trump a focus on individualism⁶⁹. The local authority was able to engender a general commitment to cross-school collaboration, which saw for instance high-performing schools help their struggling neighbours.

With an increasing number of free schools and easier-to-establish academies under this government, local authorities are looking how they can fill the middle-tier referred to earlier in this paper. Millar cites Wigan as an example which has developed a model of school improvement based on school-to-school support that has managed to retain relationships with schools even after they become academies⁷⁰.

Bringing down costs through collective purchasing power

Even beyond the traditional arenas in which councils have sought influence, there are further examples of local authorities expanding into other areas for progressive ends. The cost of energy, for example, might not typically be regarded as part of a councils' core remit. Usually the role of councils in terms of energy would be limited to, for instance, communal heating systems on some of its estates. In that situation, residents may benefit from cheaper costs that arise from communal systems and the associated bulk-buying of gas.

However, a number of councils are now going further by using collective purchasing power to get better deals for residents⁷¹, setting up 'energy from waste' plants⁷², and

planning to establish non-profit energy companies⁷³. In Islington, the council has established a combined heat and power network, the first phase of which has seen an energy centre built that produces electricity and uses the 'waste' heat to provide cheaper heating and hot water for hundreds of nearby residents. The project's second phase is seeking to use waste heat from a nearby electrical substation and London Underground vent to serve a greater number of homes⁷⁴. Projects like this seem like a modern twist on those pioneering councils over a century ago who brought ill-provided utilities together to ensure they met their population's needs.

Local action, national support

Local authorities can only go so far without the support of national government, but these examples show where active local government working towards progressive ends could focus. Despite funding cuts and limits on what powers they can exercise, these councils have responded to needs in their local area by expanding their scope. Certain decisions taken by councils about their structures give greater opportunities for innovation. Bringing services in-house not only offers the possibility of financial and efficiency improvements alongside benefits for both residents and staff – it also brings other opportunities. For instance, directly-managed housing gives councils the chance to better integrate their landlord role with social care, whilst a greater direct-employed workforce gives councils stronger levers over pay equality.

In some cases what local authorities do may be a precursor to required national action. The promotion of the Living Wage not only benefits those who receive it but is also a call on central government to raise low pay. In other cases, local authorities are proving they are best-placed to take on certain responsibilities that are either ill-suited to central government, like supporting and monitoring schools, or that central government simply does not deliver, like building homes.

The picture that emerges is not one in which local councils should try arbitrarily to grab powers from national government. Rather, in a nod to the heyday of local government a century ago, councils are recognising the unmet challenges facing their communities and are beginning to develop innovative methods of confronting them.

Chapter 8: Policies promoting a greater role for local government

When dealing with significant local challenges on a huge scale, local government is not starting from a position of great strength. Over decades, power and funding has been taken up by the central state or given to other local actors. The current government is further undermining the role of local government, not just through the effect of dramatically reduced funding, but also through their preference to bypass local authorities and encourage outsourcing of services. Social solidarity risks being undermined as councils are forced to cut back on 'non-essential' services like playgrounds and libraries, despite their value to local people.

In making the case for a strong progressive local government the temptation to arbitrarily demand that powers or resources be released from central government must be avoided. Indeed, many provisions of the welfare state are better maintained and guaranteed through national government. However, there is a need to define the case for the devolution of powers and funding to local government so that it is able to provide an alternative to a fragmented or consumer-style landscape of services. This involves challenging the current government as well as commentators who, despite opposing the policy direction of the current government, nonetheless see the future for local public services as bypassing local authorities: preferring consumer-type choices over enhancing the role of local councils.

The analysis of what progressive local authorities are doing, despite the difficulties, helps to draw some conclusions about a future role for local government. The context makes it harder for local authorities to have a transformative effect on their local areas - yet this paper has shown how local government can be progressive in tackling inequality and ensuring fairness. There seem to be three broad ways in which progressive local government is already asserting its role:

1. In some cases, local government is the most appropriate level for certain functions to be exercised at. The oversight and accountability of schools is a clear example, where the importance of a middle-tier at local authority level can overcome the inability of central government to control all schools from Whitehall.

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2. In other cases, local government is ahead of the curve in reacting - albeit within considerable constraints - to the problems local people face. The scourge of low pay and the leadership some councils have taken on Living Wage campaigns highlights their ability to act, and thereby to put pressure on national parties to follow with more action on the national stage.
 3. In other cases still, problems will simply remain unaddressed if councils are not given the freedom to tackle them. Building new and affordable housing is the clearest example of this. Without the drive from local councils to build there has not been the impetus, capacity, or will to build the new homes that are urgently needed.

Based on what local government has proven capable of, despite significant constraints, and the logic of where local authorities can have the greatest progressive impact in comparison to central government, this paper recommends the following:

Greater resources for councils to deliver what no one else can

The effects of deep cuts to councils' budgets have been documented in this paper and elsewhere. It is clear that further deep cuts will leave many more councils struggling to provide basic statutory services – leaving 'non-essential' services like play facilities and libraries particularly under threat, despite their popularity and social importance. It is clear that no-one else will be able to provide such services in a fair and sustainable way, and for this reason it is vital for councils' budgets to be protected by a future government. **At the very least, the current distribution of where the cuts fall – under which deprived areas are hit hardest – must end.**

Without active instigation from local authorities in building new and affordable housing, homes simply do not get built. As the restrictions inherited from the 1980s have been slightly eased in recent years, many councils have been quick to start building and are keen to go further. Local authorities are restrained from doing so by borrowing caps on their Housing Revenue Accounts that go beyond the prudential borrowing limits. **Local councils are essential to building new and affordable homes. They should be supported with greater investment in new housing – including support in developing the local capacity to build homes, and a removal of borrowing caps to allow councils to substantially increase the number of homes they can build.**

Increased powers for local government where it is best-placed to act

This paper acknowledges that certain functions and roles of the welfare state are best carried out by central government, such as maintaining standards and equality of access to the NHS. It also concludes that other functions are best-suited to being delivered at the local government level. The evidence cited earlier in this report highlights the success of local job-finding programmes over national ones, and there is evidence that, despite limitations, local councils are well-placed to lead a family of schools or to regulate private landlords. **Central government should recognise those areas where local authorities are best-placed to act. Labour has promised to devolve the funding and responsibilities councils need for certain roles such as providing care and job-finding for young people. This process of devolution should continue by supporting councils to lead on other areas such as reforming the private-rented sector.**

Requirements on councils to integrate services and offer collective solutions

Integrating public services is widely-supported, yet efforts to do so are undermined by the direction of the current government. This paper has highlighted how losing direct control of council housing can make simple tasks like home adaptations more difficult, how choice can present an intrinsic conflict with attempts to integrate health and social care, and how councils with a larger in-house workforce have greater influence when tackling low pay. Councils that deliver services in-house not only have the opportunity to provide better services and save money, but they also have greater scope to integrate services and to lead on collective responses. Decisions about councils' role in delivering services matter, and the current government's preference for the 'commissioning council' undermines in-house options. **When deciding how to provide services, councils should be required to consider whether a service could better be provided in-house, with factors that explicitly include the advantages of integration.**

Allow local government to use its procurement powers to improve low pay

Local government has been at the forefront of the campaign for a Living Wage. Many councils have ensured their own staff are paid the Living Wage and have then used their procurement powers to insist on the introduction of the Living Wage amongst contractors they engage with. However, the low-pay economy means that even with this guarantee, too many workers in the wider economy are paid the Living Wage and no more, whilst senior pay continues to rise. Achieving a fairer distribution of wages will require an extension of collective bargaining and a rebalancing of the economy, but local government procurement should play a key role too. Far greater use of procurement must be made to improve low pay within existing EU laws and the Social Value Act, the latter of which requires public bodies to consider the effects of their procurement decisions on local social, economic, and environmental wellbeing. Councils should be supported and encouraged to go further – with procurement insisting that prevailing industry wage rates are not undercut, and that details of a company's pay ratio are taken into account. Taxpayers should know that their money is making sure the care worker looking after their elderly parent gets a decent wage, rather than going straight to a contractor's chief executive. **Councils should be backed by the government, with lobbying at the EU level where appropriate, to insist on fairer pay in contracts they procure.**

Chapter 9: Conclusion

This report envisions an active role for local government. Despite the national government's deep and unfairly-distributed cuts, their preference to fragment and outsource services, and their desire to bypass local government, councils are nonetheless showing they can respond to local challenges. From building homes to campaigning for the Living Wage, from maintaining a family of schools to delivering integrated services in-house, they are showing what an alternative to the Coalition's vision for local government could look like.

In doing so they are asserting a unique role for local government. Councils are showing their role is more than simply to implement national policy. Indeed recognising a unique role is important to the argument made by this paper, since it does not call for an arbitrary power-grab by local authorities. The central state is vital in many areas, but in particular roles councils are best-placed to take responsibility. There are other functions that simply will not be provided if councils do not deliver them. In other areas local authorities are ahead of the national curve in responding to challenges local communities face.

The case against austerity is central to this paper, but the recommendations it makes apply in the context of any budget situation. This paper therefore argues for a fairer distribution of funding, for councils to borrow more to build homes, and for funding to be devolved in areas where councils are best-placed to act. The potential benefits of in-house services must be built into councils' operations and local authorities should be empowered to use their procurement powers to tackle the problems of the low-wage economy and improve vital frontline services.

Local government has a unique and valuable role to play in tackling inequality, reducing poverty, and enhancing social solidarity. If the unique role that local authorities can play is recognised once more, it can be shown that by being active and bold, government at all levels can make a difference for the better.

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