

LGA DRAFT POLICY PAPER: “PLACE-BASED BUDGETS: THE FUTURE GOVERNANCE OF LOCAL PUBLIC SERVICES”

Executive Summary

The new government needs to do three key things:

- reduce public spending;
- tackle entrenched social, economic and environmental problems; and
- rebuild trust in democratic accountability.

Public services will have to become more transparent, more effective, and cheaper. This simply will not happen without a significant change to the way funding is allocated and decisions are made.

This paper proposes a significant shift in accountability which would make local public services genuinely local both in the way funding is allocated, and decisions about services are made and accounted for.

Building on experience of what works – and what doesn’t – we set out a model for place-based budgeting which would allow:

- continuing full accountability to Parliament for money raised through Parliamentary taxation;
- a multi-billion pound reduction in the overheads of the existing arrangements for oversight, performance management, regulation and policy development;
- powerful, enhanced local accountability to local people for services delivered locally.

The core proposition is this:

- commissioning responsibility for a set of local services should rest with a locally accountable governance body;
- exactly how this body is constituted would be a matter for local decision but it would need to be fully democratically accountable locally; in most cases it is likely to be a partnership of councils or a council, or an equivalently accountable development of local strategic partnerships or city-regional partnerships;
- if it were taking on a range of strategic commissioning decisions around economic budgets, natural economic geography points to a sub-regional geographic scope – city-region, city, county or county-sized group of districts;
- if it were taking on health and police commissioning responsibilities, the geography might be sub-regional or more local, as the existing configuration of services suggests;
- the local body should be fully accountable for the budgets it holds: where the budget is funded by local taxpayers, it need only account locally to electors; where the budget is funded by national taxation voted by Parliament, the body should be able to account both to its local electors for outcomes, and directly to Parliament for that money, rather than needing to be regulated and performance managed by the current plethora of intermediary bodies.

The role of this place-based budget-holder is a commissioning role. It is possible that a new government will wish to move to funding models for many services which do not rely directly on public sector organisations holding budgets and instead allow money to follow user choices. We expect that, as well as holding a place-based budget, the local body will be responsible for ensuring the conditions are in place locally to make sure choice-based models work effectively (so, for example, addressing constraints that prevent the development of a responsive supply side).

Under this model:

- the taxpayer would make immediate administrative savings of £4.5 billion a year from rationalising the way local services are centrally controlled;
- value for money gains through better targeting, increased investment in prevention, and better local synergies between services, could be worth around [] billion over the lifetime of the next Parliament;
- those value for money gains also represent the possibility of significant improvements in outcomes;
- accountability, transparency and responsiveness to local electors would be massively improved.

We consider the place-based budget model has a huge contribution to make to meeting the core challenges a new government faces.

The problem:

A newly-elected government will face three significant and interlocking challenges:

- how to restore confidence in public finances;
- how to rebuild trust in politics and;
- how to tackle entrenched economic, social and environmental problems.

These mean that public services will have to offer:

- much better value for money;
- more transparency and;
- more effectiveness.

For a decade, public service organisations have undergone continual review, avowedly in pursuit of these objectives.

But those reviews have all reflected the fundamental assumption that an expansion of state machinery, combined with continual attention to process efficiency, will deliver better services and higher satisfaction.

These ten years have produced a significant body of empirical evidence which shows that the top-down approach to improvement and efficiency has delivered neither uniformly better outcomes, nor higher public satisfaction, while the rhetoric of efficiency has in fact allowed public spending to grow to unaffordable levels.

We nevertheless enter the next decade with a public service architecture created on this flawed and over-centralised model, with a public budget and bureaucracy for every issue, and an inspection and control regime for each one. That means only radical reform can make possible the necessary savings in public expenditure; if the current model is not

deliberately reshaped, it risks catastrophic collapse under the pressures it now faces. The way public services are funded, delivered and regulated will have to change. A lot.

New ways of running services: more responsive, more accountable

We believe the reshaping of the public sector which is necessary to allow reductions in public spending will have five components:

- a move away from command-and-control provision to more customer-driven mechanisms;
- greater aggregation and simplification among the existing multitude of budgets and bureaucracies;
- greater devolution of managerial responsibility and decision-making;
- greater transparency;
- greater democratic leadership and outward accountability for decision-making to local people.

These changes will need to affect both central and local government, but they will also affect the boundary between them. In particular, there is a number of existing public services which are delivered through a range of public bodies which have weak accountability and transparency. It is likely that the governance of those services will need to change significantly.

This paper proposes that many decisions currently taken in by central government and quangos will need to continue to be taken, are not suitable for devolution to individual local councils but are not effectively made by central government either. There will therefore be a need to develop a new kind of governance for those budgets and services which is fully and transparently democratically accountable – local democratic accountability for local public services. In most parts of England, this new form of public service governance will be sub-regional. By sub-regions, we mean counties or county sized groups of districts, and cities or city regions.

By governance, we mean:

- where public money is being directly spent, strategic decision-making about what services are delivered and by whom, either through contracting or through holding public sector delivery bodies to account for outcomes;
- where market mechanisms are operating and public money is following consumer decisions – for example, through a per-pupil funding formula for schools - decision-making about the public sector's regulatory role in ensuring the efficient functioning of the market and securing redress for citizens.

In London, which has unique and devolved governance over many issues already, and a greater degree of service coterminosity at the borough level, change may need instead to be based on a mixture of regional, sub-regional, and borough-based approaches. The precise geography of how councils and partnerships come together is in any case everywhere best determined locally and will be driven by the natural geography of the issues about which decisions are being made. It is unlikely to be mapped out with any success by following a nationally-prescribed template.

This paper builds on experience of sub-regional decision-making through the existing local area agreement and multi-area agreement mechanisms, the evidence from the Total Place Pilots that are exploring how the totality of public resources in a place can be used more effectively to improve services at lower cost, the valuable contributions to the localisation debate from local government such as those of Kent County Council, Local Government Yorkshire and Humber and London Councils, and the insights on public service reform from organisations such as the Institute for Government.

In summary, our analysis shows that:

- there is a body of evidence that devolving governance will deliver better value for money, more transparency and accountability and more effective services. We calculate the annual administrative savings at £4.5 billion a year and estimate other benefits at £[xxx] billion over the lifetime of the next Parliament;
- that evidence strongly suggests that outcomes will be better if specific responsibility is devolved where existing delivery models are too costly or are under-performing, and manageable risk can be transferred, through the creation of place-based budgets;
- in broad outlines, workable models of devolved governance have already begun to develop;
- the key challenge has been finding workable ways to make these models democratically accountable for their expenditure both to Parliament and to local taxpayers; this paper suggests a viable solution to this issue.