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# Equipping local government to deliver national and local priorities

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**Institute of Local Government Studies (INLOGOV)**

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# Summary

Councils' wide remit, local knowledge, democratic accountability, public service ethos, and key roles in working with partners and shaping local places makes them critical to the delivery of the new government's five missions.

The government is committed to wider and deeper devolution. This paper argues why, once a series of key reforms are in place, they should have the confidence to equip local authorities with more power and (when public finances allow) prioritise additional resources to councils, in turn enabling the delivery of national and local priorities.

The Institute of Local Government Studies (INLOGOV) at the University of Birmingham has led research on local government for over 60 years. In this paper we highlight three critical issues and recommend short and longer-term actions to address them: financial arrangements, audit and performance management, and community power and participation. The diagram below summarises our key recommendations.

## Financial arrangements

- Provide multi-year funding
- End competitive bidding
- Deliver a “single funding pot” for each council / local area
- Abolish council tax capping
- Review LG finance to deliver fairer funding and better local funding sources

## Audit and performance management

- Strengthen the evaluation of councils’ performance management
- Make OFLOG independent and extend its remit and approach
- Reintroduce effective management of council external audit
- Strengthen performance review and support by external auditors

## Community power and participation

- Strengthen the role of councillors as facilitators and catalysts of community-driven change
- Support relational policymaking to ensure lived experience informs policy and service delivery
- Promote initiatives such as public-commons partnership and community-wealth building to support community-driven sustainable economies

# Equipping local government to deliver national and local priorities

The new government's key missions will be impossible to deliver without a stronger partnership with local government. It is imperative that the new government pursues the commitment in its manifesto to wider and deeper devolution. This committed the government to extending the powers and responsibilities of combined authorities, and action is also needed to strengthen the foundation of devolved government: local authorities. The paper argues why, once a series of key reforms are in place, the new government should have the confidence to equip the local level with more power, enabling delivery of its five key missions.

Strengthening local government is important in its own right, but it is also essential if the new government is to successfully pursue its five missions to rebuild Britain:

- Kickstart economic growth;
- Make Britain a clean energy superpower;
- Take back our streets;
- Break down barriers to opportunity;
- Build an NHS fit for the future.

In this context local councils are unique. They are the only organisations apart from central government and the devolved administrations which have statutory and political responsibility for and a contribution to make to each of these five missions. Council leaders, elected mayors and councillors share with ministers and MPs the responsibility for tackling these issues and securing improved outcomes for people, communities and businesses.

There is currently an important debate about how initiatives based on the Total Place model, pioneered by Gordon Brown's government in 2009-10, could help marshal the critically important contribution to the new government's priorities by councils and other local partners. Total Place tested ways of securing improved outcomes at less cost through

place-based working and deep citizen engagement. Other initiatives such as David Miliband's ideas on Double Devolution and David Cameron's Big Society have engaged with the idea of community empowerment from different perspectives on the political spectrum.

The fact is, however, that action is required to ensure that councils are fit for purpose to make the type of contribution that approaches such as this require. Successive governments have not taken that action: the financial crisis facing the sector and the sustained questioning of the merits of the multi-tier structure in many parts of England are just two examples of that. Underlying this is a lack of confidence in local government on the part of ministers and civil servants.

We have identified three areas in which the government must be confident if it is to equip the local level with more power: financial sustainability, performance standards, and community power and participation. This paper explores each of these issues in turn and places them in the context of the untapped potential of local authorities for delivering national and local priorities. We look forward to discussing this with the new government.

## Why these issues matter

The challenges and opportunities associated with the new government's missions differ from place to place. Councils have an impressive track record in acting on these issues. But, as the UK Covid-19 Inquiry is hearing, their contribution to national priorities is often overlooked and many features of our current system of local government seriously constrain councils' ability to act. If the new government is to deliver its ambitions, it must free local councils from the constraints which prevent them from playing their part in addressing these priorities.

Despite the serious challenges that councils currently face, there are many examples of councils addressing the government's priorities. There are two aspects in particular that demonstrate why a future government must secure local government's active engagement in delivering them.

First, the extent of the links between the priorities. Take three examples:

- **Action on housing**, planning, transport, skills and employment support, digital technology, business support, public sector services and highstreets can facilitate house building, town centre development, increased capital investment, improved productivity and more inclusive and sustainable economic growth.
- **Action to improve public transport** and encourage more cycling and walking contributes to meeting net zero targets. It can also deliver health benefits, reducing the burden on the NHS, as well as increasing productivity by giving business access to a wider and healthier workforce. Action to secure safer streets will, in turn, encourage more people to walk more.

- **Action to improve the energy efficiency** of homes, particularly houses in multiple occupation, can reduce energy consumption, improve the health of the residents and reduce the impact of the cost of living crisis on vulnerable households.

Councils' wide remit means that they are best placed to operationalise these links and secure the benefits from them.

Second, the importance of collaboration with multiple stakeholders, including local citizens and communities, to pursue solutions to pressing questions. This includes decisions about, for instance, meeting the skills needs of the local economy; decisions on how and when to travel; the use of energy; the provision of support for older family members or neighbours; and improving safety at a local level. The local connections and democratic accountability of councils and councillors mean that local government is best placed to enable this type of collaboration.

The following sections briefly explore financial sustainability, performance standards, and democratic capacity to explain the changes required to equip local government to deliver national and local priorities.

# Financial arrangements

The local government finance system is bust. Council budgets per person in England have been cut by 18% in real terms since 2010. Councils are hitting financial crises: twelve have issued section 114 notices in the last six years, compared with zero in the previous 17 years. The local government workforce has been significantly reduced numerically and in investment in training and development. Important developments, such as the potential for Artificial Intelligence to support more cost-effective delivery, have been insufficiently exploited. Some councils have been more severely affected than others and this unsustainable financial situation has added to the pressures experienced by the most disadvantaged people, families and communities. Councils are currently not in a position effectively to support the new government's priorities and the five missions.

The recognition in Labour's manifesto that local government faces "acute financial challenges" is welcome, as is the commitment to multi-year funding settlements and an end to wasteful competitive bidding. There is, however, a pressing need for additional immediate and longer-term action to improve the sector's financial position and strengthen local accountability

Further immediate actions could include:

- Delivering council funding as a 'single funding pot' in each area
- Abolishing central government capping of council tax.

As the Layfield Commission concluded 50 years ago, local government funding should promote responsible and accountable government. Responsible government implies that the body responsible for deciding to spend more or less money on providing a service should be responsible for deciding to raise more or less taxation; accountable government means that those who make those decisions are accountable to those to whom they are responsible – in the case of local authorities their communities and citizens.

A new government should also commit to a review of local government finance, carried out jointly with local government. Longer term action is needed at least two areas: developing fairer funding allocations between councils; and improving and diversifying local funding sources.

## Fairer Funding Allocations

Local authorities have different needs for funding, depending for example on levels of population and its composition, deprivation, and spatial factors. Different areas also have varying capacity to generate funding locally, so a system of redistribution across councils is needed. In England, formulae for relative needs assessment have not been updated for several years and have been removed for some government funding streams. Central and local government should develop updated funding formulae and funding models which are as simple as practicable whilst capturing the key elements of local need, and as transparent as practical in operation. There are many reports researching available options for fairer funding, approaches to fiscal devolution, and local government funding options.

## Improve and Diversify Local Funding Sources

Local councils are currently dependent on two main local income sources, business rates and council tax, both of which are problematic. Business rates are based on the rentable value of property and therefore penalise businesses with significant physical infrastructure compared for example to online businesses. Council tax is based on property valuations in 1991, with a narrow range of variation relative to property values, so that poorer households pay a higher percentage of property value than wealthier households. There is very limited local discretion and therefore accountability – business rates are set directly, and council tax

increases are effectively 'capped', by central government.

There are several improvements the new government could make relatively quickly to improve the operation of existing local taxes. On council tax, improvements could include automatically updating valuations annually, creating additional council tax bands or adopting a simple "percentage of value" basis for the charge, and giving councils discretion on the details of the scheme's design locally, such as the rates in each band and discount / subsidy arrangements.

The Labour manifesto committed the new government to replace business rates to enable the same revenue to be raised in a fairer way. It is essential that local government is engaged in the design of the new tax as part of a wider review of local taxation.

There is also a case for more fundamental reform. In other countries, local government accesses a wider range of local and national funding sources. For example, local government could be allocated a percentage of revenue from income tax as happens in Germany. Funding could also be raised from new sources, such as taxes on local payrolls, tourists, sales or land values. Widening the range of funding sources increases resilience, incentivises local economic growth, reduces the size of individual bills, and increases local democratic accountability.

This section suggests key actions to address the bust local government funding system, which is currently wasteful, unfair and ineffective. Early action to develop local 'single pot' multi-year settlements, end competitive bidding and pull back from centralised 'capping', should be followed by the co-design with local government of a new funding framework which provides fairer allocations and a broader range of funding sources. But new funding arrangements are not in themselves sufficient to enable local government to deliver local and national priorities, we also need new arrangements for audit and performance management.

# Audit and performance management

The Labour manifesto included a commitment to overhauling the local audit system to ensure taxpayers get better value for money. Local audit, performance regimes and regulation each have a part to play in creating an environment in which ministers can have confidence in local government. This is another area in which short and long-term reforms are needed.

## Local Government Financial Audit

Local Government audit, improvement and regulation has been operating in a vacuum since the abolition of the Audit Commission in 2015. Local government external audit has fundamentally failed over recent years, with local authority accounts not signed off and the laissez-faire market approach failing to fill the roles once undertaken by the former Audit Commission's District Audit process.

The marketplace for external audit is not healthy, with 59% of local authority audits conducted by just two providers. Instances have occurred where these firms failed to identify major financial failings and irregularities in local authorities, resulting in delayed high profile interventions. Such irregularities should have been identifiable through proper analysis of risk exposure and financial control measures within the authorities concerned.

The audit problem has not gone unrecognised. Both a parliamentary select committee and most significantly, the Redmond Review into the Oversight of Local Government have sought to investigate the failings in local government audit. The latter reported in 2020 and was a timely critique of the market driven audits, stating that the new audit arrangements have undermined accountability and financial management.

The new government should take the Redmond Review's recommendations seriously. Its proposal for an Office for Local Audit Regulation is significant. It would oversee, procure, manage, and regulate the external audits of local authorities in England. The

government should go further, however, and extend the oversight of local government performance management processes (formerly "value for money audit"), while avoiding the creation of an overly powerful national regulator. The new government will also need to work with councils to pursue Redmond's recommendation that all local authorities improve their internal audit governance arrangements.

## Performance Regimes in Local Government

Governments have a duty to protect the public from poor service delivery and performance measurement is part of that armoury, but a common mistake is to set centrally driven 'one size fits all' performance measurement frameworks that fail to recognise differences in localities. The question for a new government is, how does it ensure that comparative performance between local authorities recognises deprivation and other social and environmental factors, whilst ensuring each council works towards the highest degree of performance.

Performance measurement in local government needs to balance an institutional centredness with a citizen orientation, building on our later recommendations about citizen engagement. It should also incorporate issues such as productivity (outputs relative to inputs), quality, accountability, and policy outcomes. Often such judgements are better determined at a local and not a national level, leaving a question, to what extent should government frame performance measures within local authorities? The former Comprehensive Performance Assessment (CPA) regime was the last single robust and universal framework to be used as

a means of successfully identifying performance across local authorities as corporate bodies, although in later years its approach became over complex and costly, and possibly subject to gaming.

The new government may wish to consider whether a new performance management and regulatory framework would be appropriate whilst drawing upon the lessons of CPA. A new approach could be geared towards ensuring that councils had robust, yet locally designed, performance management systems in place, as opposed to a centrally driven and micro-managed approach of centrally prescribed 'one size fits all' indicators. This would also facilitate the sector-led approach by the LGA and other national local government institutions, to support councils with their own locally designed performance management systems to meet expected national standards.

In short, assessment of performance requires a more nuanced analysis of a range of risk factors which include behaviours and fast-changing situations which are locally and democratically appropriate. Even with locally determined performance frameworks, regulatory oversight will still need to understand authorities at risk of financial, corporate, performance or other extraneous factors that undermine local democracy, governance or effective public service delivery – this can be undertaken through a risk assessment process.

## Regulatory Reform

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Local government's sector-led improvement agenda has demonstrated the strength of the sector's collective commitment to continuous improvement. The establishment by the previous government of the Office for Local Government provides an opportunity for a re-set. The new government should ensure that Oflog is independent of government with a remit to focus on:

- Working with the sector to identify councils at risk of failure to ensure that support can be provided from within the sector, minimising the need for government intervention.
- Collecting, analysing, and reporting data to enable individual councils, groups of councils and the sector nationally to make progress with shared priorities agreed with government.
- Developing intelligence from on-going engagement with councils.
- Supporting improvement in local services and councils' contribution to national outcomes through researching, synthesising, and disseminating good practice.
- Working with academic institutions such as INLOGOV to incorporate key lessons from existing and future research.

The framework for local authority audit and performance management has been weakened since 2010, leading to several financial and service failures and costly central government intervention. Urgent action is needed to repair the system for external audit of councils. The government should build on existing sector-led improvement by establishing a robust performance management framework for local government with a focus on delivery of local and central priorities and local citizen engagement.

# Community power and participation

The Labour Manifesto emphasises the importance of citizen participation including extending the right to vote to 16-17 year olds. There is an awareness that representative institutions at all levels of government are suffering from declining legitimacy, while society is increasingly polarised, trust in democracy among the younger generations is at its lowest, and respectful civil debate is sidelined. Proximity means that local government can play a crucial role in improving relationships between government and citizens. By creating conditions to mobilise the diverse expertise and resources of communities, local government can ensure that public policies and funding are informed by the assets, priorities and needs of local people and places. In places, local government has made progress with innovations such as citizens' panels and juries, the delegation of power to the hyper-local level and in building inclusive economies.

We have over thirty years' worth of research on deliberative democracy, social innovation, and co-production evidencing the value of collaboration with diverse communities and stakeholders. Citizen assemblies and participatory budgeting can enable people to understand issues from perspectives different from their own and generate effective decisions and innovative solutions to complex problems, while also helping to address widespread polarisation between different groups in society. Social innovations such as Transition Towns, Community Land Trusts, or social prescribing offer novel and effective ways of addressing unmet local needs and the structural ecological, financial, and health crises that underpin these. Finally, public services can respond better to service users' needs if service design and delivery is co-produced based on the latter's lived experiences.

## Embedding a participatory culture in policymaking

What we know is that diverse publics are able to understand and contribute to addressing complex policy challenges. People's lived experience and expertise add important knowledge to both policymaking and service delivery. What we also know is that much of this is squandered because of dysfunctional ways in which governments sometimes operate. Too often, communities are called upon to participate, innovate, or volunteer without genuine willingness to listen to what they say and to change in response. Policy problems are not technical problems, policies need to be rooted in and driven by communities, whether geographical, of interest or practice, to foster meaningful progressive change. Participatory governance is less about finding perfect solutions and more about creating conditions to engage communities in processes of weighing trade-offs and generating shared solutions of which they have a sense of collective ownership.

At a time of multiple and overlapping existential crises, from growing socio-economic inequalities, cost of living and housing crises, to the climate crisis and the AI revolution that is already destabilising labour markets, policymakers have a responsibility to facilitate broad deliberation on the profound societal implications of policy choices and public service delivery for people today and future generations. Local government can and should lead on this project of democratic renewal of our societies, but it will need investment in financial and human resources to drive deeper change towards participatory governance. By embedding a participatory culture, citizens' voice and action can play a fundamental role in co-creating modes of governance that can help us navigate very uncertain times, strengthening trust across diverse communities and between citizens and state institutions.

# Four steps to support more inclusive and impactful participation

The way in which public officials encounter citizens has a significant impact on civic trust and policy effectiveness. Whether it is in the context of service delivery, participation, or community development, public officials tend to be driven by their own agendas and the rules of their organisations. This can make communities feel excluded, used and frustrated.

Building on the learning from thousands of experiences of community engagement and participatory governance from across the UK and around the world, we recommend four key steps that the new government can take to support local government in enabling inclusive and impactful citizen participation in policymaking:

1. More attention is warranted on enabling the role of councillors not just as democratic representatives but also as facilitators and boundary spanners between institutions, communities, civil society and local businesses. Our work on the 21<sup>st</sup> Century Councillor can support this action. Councils could also employ participatory methods to work with schools and colleges and help young people make effective use of the extended franchise.
2. We need a better understanding of how existing working practices and regulations in local administrations might be in conflict with participatory approaches, to ensure that participation is not tokenistic and citizen recommendations can be implemented. There are a range of international examples showing that encountering service users and communities with an open mind helps to build reciprocal relationships and develop solutions that address immediate issues and structural inequalities. Policymakers need to create conditions for citizens to drive, challenge, and change the design and implementation of policies in encounters with public officials. To this aim it is crucial to enable traditionally risk-averse institutions to support innovative practice.
3. There is an established evidence base on best practices in participatory and deliberative governance. Local government, in collaboration with academics and community leaders, can co-design and implement inclusive and impactful citizen engagement processes that are sensitive to local needs, assets, and constraints, and bring in voices that are rarely listened to. This lessens reliance on consultants and builds capacity for communities to embed mechanisms for generating innovative and practical solutions to shared problems.
4. Local government in partnership with civil society and local communities can lead on re-democratising the economy. Public-Commons Partnerships (PCPs) are long-term agreements based on cooperation between state institutions, such as councils, and residents to manage local public resources. By working closely with local businesses and trade unions, PCPs can produce innovative public management instruments, relating to, for example, asset transfer, water and energy management, renewables etc. Community-wealth building, pioneered in Preston and several London boroughs (e.g. Islington council and Labour's Community Wealth-Building unit), can help strengthen the local economy with insourcing, linking public procurement to local cooperatives and social enterprises. These practices should be promoted and supported. Local government is in a privileged position to help build ecosystems that foster community-driven and sustainable economies that work for people.

# Conclusion

The Labour manifesto recognises that “our approach will require partnership with local authorities”. The fact that many of the references to local government in the manifesto were in the chapter on the economy reflects the contribution councils can make to enabling economic growth at a local level. Councils, however, have equally important contributions to make to education and skills, health and care, environmental sustainability, tackling barriers to opportunity and community safety.

The actions called for in this submission on financial arrangements, audit and performance management, and community power and participation would strengthen both council's capacity to act and government's confidence in their ability to do so. If the new government was to adopt the approach we propose, it would demonstrate the strength of their commitment to devolve, and enable more effective delivery of its key missions.

How these changes are made is important. The Labour manifesto promise to establish a new

“Council of the Nations and Regions” is welcomed, but engagement must extend beyond the Mayors of combined authorities. We need a respectful and agile mechanism for discussions between central and all local government, which is common internationally. The government should also codify the Council of Europe's Charter of Local Self-Governance, which sets out basic guarantees on the political, administrative and financial independence of local authorities and has been ratified by 46 states across Europe. Codification of the relationship between central and local government has been explored by parliament previously.

There could not be a more crucial time to be confident to devolve powers to local government to enable delivery of the national missions and local priorities. Equipping local government to deliver national and local priorities will leave a long-lasting legacy of a well-resourced, effective, accountable, and engaged local government.

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## Contact details

Please contact Jason Lowther, Director of the Institute of Local Government Studies (INLOGOV) at the University of Birmingham, at [j.lowther@bham.ac.uk](mailto:j.lowther@bham.ac.uk)

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