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Towards a U.K. local government reform Act of 2015
Improving Public Sector Performance for 2025

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Abstract

This paper proposes a three tiered governance structure to rebalance local government within the United Kingdom. The introduction of a North of England assembly is proposed to rebalance the North / South divide. An international comparison of U.K. Australian and Canadian public sectors suggests that the U.K lags behind in competitiveness and wellbeing. Calling for equality for all citizens, the paper concludes that a shift in central government policy formulation is needed to enable equitable localisation of political power and improved global competitiveness of the U.K.
Overview of the U.K. Public Sector

Since the Magna Carta, the first elected representative parliament in England was De Montfort’s Parliament of 1265 (Carpenter, 1991). Many years later the English Bill of Rights of 1689 established the rights of parliament to freedom of speech as joint sovereign. In 1832, the Reform Act extended voting rights and eliminated the so-called “rotten boroughs” (Ertman, 2010). These were constituencies with small electoral populations which were used to gain undue influence in the unreformed House of Commons. The reform programme’s inquiry into municipal corporations (borough councils) in England and Wales led to the Municipal Corporations Act of 1835. This Act reformed 178 boroughs, creating the modern system of local government in England and Wales. The Burgh Reform Act of 1833 had already carried out similar reforms in Scotland. The United Kingdom’s (U.K.) democratic structure today consists of a complex structure of 400 plus local authorities and 10,000 plus parish towns which are represented by unitary (metropolitan, borough) and multi-tiered county and district councils (Preuss, 2009). Within these structures there is consistency in the patterns of regional winners and losers in U.K. public finances. The southern counties of England are net contributors to the public purse (figure 1: [image]) whereas the rest of the U.K. regions (Midlands, North of England, Wales) are and have been for years net receivers of funding (Figure 1: [image]) as Figure 1 illustrates below:

**Figure 1: Contributors and Benefactors of U.K. Public Funding 2006-2007**

![Regional Fiscal Contributions vs Net Regional Balance per Head 2006-2007](image)

Adapted by authors from Oxford Economics (2008)

Beyond the financial crisis (Knyght et al., 2011) successive U.K. governments have pursued neoliberal policies. Neoliberalism advocates economic liberalisation, privatisation and deregulation in open markets. This is exemplified by New Labour’s 2001 Green Paper which allowed private sponsors to take responsibility for under-performing schools (Hill, 2001), or the shift towards choice, competition and partnership within the National Health Service (Tailby, 2012). The present Coalition government has carried forward the legacy of New Labour as austerity focused strategic reforms of labour market governance, housing benefits and child tax credits (Grimshaw and Rubery, 2012). Consequently, the public sector has been forced to intervene in its free markets (RBS) and review its regulation (U.K. Corporate Governance Code, 2010; Independent Commission on Banking, 2011), whilst the private sector has adopted risk averse strategies. Between 2007 and 2012 public sector spending (U.K. Public Spending, 2012) increased from £544bn to £688bn (rise of £116bn in central
government and £28bn locally). In contrast, 64% of non financial companies in the private sector are holding onto £731bn in cash reserves (Teah and Douglas, 2011; ICAEW, 2012) and corporations are paying minimal taxes (BBC, 2013a).

The outcomes to date include a double dip recession (O’Connor and Jones, 2013) and little or no change in the longer term accountability of regional and industrial investment patterns of public finances to support growth or innovation. Further, central government has continued to protect both large corporations (FTSE 100, 2013) and the private financial sector (Square Mile) as their main fiscal contributors, whilst offering distant deprived areas (Liverpool, Cardiff, Glasgow) incentivised regional grants and regeneration programmes (supermarket regeneration schemes; government supported back to work programmes; business rates incentives).

**The black box of dependency and vulnerability**

Critics refer to the nature of local administrative institutions as representing local governance as opposed to local government (Imrie and Raco, 1999) due to a diminishing power base (Goodwin and Painter, 1996) and increased contracting out to the private sector of what used to be in-house state welfare responsibility. Regardless of the changing role of local governance (Ward, 2000), local authorities continue to only receive 25% of the public budget; whereas, 75% remains with central government. Access to future funding at the local level has been dependent upon bureaucratic/political committee justifications which are central policy guided, as exemplified by the Regional Development Agency or Local Enterprise Partnerships (Pugalis et al., 2012). Further, London consistently receives a greater share of public sector spending compared with other regions (Oxford Economics, 2008). Over time London has grown to become home to more than 8 million inhabitants while its metropolitan area includes up to 14 million people (Office of National Statistics, 2011). This makes the region (1600km²) one of the most populous within the European Union (Eurostat, 2012) and its population density beyond ten times more than other British regions (Office of National Statistics, 2011). Thereby, 23% of the U.K. population presently resides within Greater London. The compounded implication of these continued policies and strategy will result in the following 2025 scenario:

<table>
<thead>
<tr>
<th>Scenario 1</th>
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<tr>
<td>The continued expansion of centralised policy will make the U.K. more London reliant, narrow industry dependent and capital population dense.</td>
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</tbody>
</table>

Developed by authors adapting World Economic Forum global risks report (2013) within U.K

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1 The FTSE 100 Index accounts for 7.8% of world equity market capitalisation and represents the performance of the 100 largest blue chip companies listed on the London Stock Exchange, FTSE Group (2013)
The above scenario further represents an extended vulnerability to regional divide within the U.K. society in terms of trade, employment and infrastructure. The spiralling impact of London focused policies and centralised public sector structures are limiting wider U.K. opportunities and potential realisation of growth. The risks are greater when the U.K. is heavily reliant upon the service sectors of its megacity (Marr, 2012). Thus, the financial capitalistic cycle of 2008 (Schularick and Taylor, 2009) has emerged into the U.K. public sector in the form of 28% reduced local council budgets (Local Government Association, 2011); hospital failures (Stafford Hospital Inquiry, 2010); care home crisis (BBC, 2011a; Smith, 2012; Coonan, 2011); political and institutional scandals (MPs expenses, 2009; BBC, 2013b), along with misallocation of educational budgets (Garner, 2012). Major projects such as airports and high speed rail links have become politically complex, long running and expensive. These factors all impact U.K. competitiveness and suggest that public sector reform is due. Societal frustration is that taxpayers are funding private sector mistakes in the form of too big to fail financial institutions in addition to back and forth reforms to our public services (Bates, 2012). At the same time, one third of local children are living in poverty (Kakabadse and Kakabadse, 2013) with limited access to equal education in a financially segregated marketplace. This results in longer term weakened talent and skills competitiveness.

**Structural reform for equal opportunity**

Whilst today in the U.K. the southern based service sector is dominant, it was the northern cities such as Liverpool (shipping), Manchester (cotton) and Sheffield (steel) that were once the heartlands of the industrial revolution and international trade. Governments have made successive attempts to revive Northern England over the last decade. In this regard, policies have politically adopted the term “community” (Hancock et al., 2012) at great taxpayer expense, to fix the “Broken Society” or regenerate the “Big Society” of Britain (New Labour; Coalition). Thus, the rise of public spending to 47% of GDP (U.K. Public Spending, 2012) includes the societal costs of unproductive attempts at regenerating deprived areas of the U.K. Most recently, Yorkshire M.P. Linda Riordan has secured a parliamentary debate calling for regional governments (Green, 2013). So far, government transfer (i.e. redistribution) has been both less progressive and less growth oriented. Government needs to strive to achieve human betterment, hence its focus as a body should be to achieve equality of opportunities for all of its citizens. This juncture in time represents an alternative opportunity for purposeful reform of public sector governance as Scenario 2 illustrates:

**Scenario 2**

Establish a simpler balanced accountable structure of government (Figure 1).

Developed by authors as alternative to Scenario 1

By introducing a simpler three tiered structure of governance (Figure 1), central government may be able to better redistribute funds and hold local assemblies more accountable for delivering local education, health and
welfare services whilst pursuing entrepreneurial innovative growth solutions, rather than relying on centralised handouts. At the same time, at Tier 2, the assemblies can create centres of innovation or industrial excellence that appeal to different regions of the world (diversity). For example, in Figure 1 below, the North of England assembly may focus on links with Asia focusing on technologically advanced manufacturing, whilst the Southern England assembly may pursue a more European focused service sector strategy. Importantly, tier two assemblies should be smaller in size and be empowered with greater legal powers and dissolved public funding responsibility whilst remaining more accountable locally and to central government. As such, the regional assemblies will replace local authorities.

Figure 1: Towards a Uniquely Competitive Tier Governance of U.K.

In the U.K., regional reforms were proposed by the Regional Development Agencies Act of 1998 which were rejected in the 2004 referendum in one region. However, our proposal differs philosophically and structurally from this earlier public sector reform attempt. Philosophically, the neo-liberal policies and strategies of successive U.K governments have been underpinned by Anglo-American shareholder perspectives (Hall and Soskice, 2001; Friedman, 1962). In political circles this maybe better understood as the “special relationship” between the U.S. and the U.K. (Drumbrell, 2009). Whilst, this may be politically advantageous, the U.K. is geographically closer to and has 50% trade with the European Union (BBC, 2011b). The U.S. president also appreciates the value of U.K. within a collaborative European Union (Simons, 2013). Scholars recognise that the traditions and social values of Europe are ontologically different in giving purpose to figure 1 above. Thereby we suggest that the success of implementation lies in a shift of political mindset at central government level from a rational Anglo-American perspective towards a European social stakeholder morality (Kakabadse and Kakabadse, 2013). An important factor in failure of the 1998 referendum may have been the longer term neo-liberal policies that had promoted individual liberty over societal concern. Interestingly it is noted here, that the Reform Act of 1832 emerged from Protestant / Catholic struggles transforming English society from “ancien regime” (Clark, 1985). Thereby current U.K. policy formulation requires deeper moral sentiment (Smith, 1776).
Secondly, there is a structural difference in our proposal. The earlier attempt divided England into 8 regions. Our proposal has just a North and South of England assembly at tier 2. This is less bureaucratic, politically less complex and more economical than Labour’s 1998 proposal. Importantly political power has to be localised from central policy for this to work. The restructuring of the public sector in this way, seeks to advance innovative competitiveness with both local and international outlooks.

**International public sector competitiveness**

From a global perspective the U.K. faces multiple comparative governance and government challenges (Aguilera and Jackson, 2003; Aguilera et al., 2006; Grant Thornton, 2012). The protests in Northern Ireland (2012), the possibility of a devolved Scotland (Edinburgh Agreement, 2012) and a referendum on remaining within a multi-tiered Europe (Cameron, 2013) are entangled with the growth of emerging market corporations (Huawei; Tata), 46% foreign ownership of the U.K.’s largest firms (Sikimic, 2013) and rising BRIC (Brazil, Russia, India and China) markets. This culminates in the need and opportunity for the U.K. government to redefine its internal structures, operations and national competitiveness in a more sustainable and balanced manner. In consideration, best practices may reflect upon Icelandic, Australian or Irish attributes of social cohesion, balanced accountability and private sector contribution to the public sector. At the same time, alternative public-private partnership (PPP) models of shared efficient responsibility and accountability may offer improved collaborative possibilities (Deloitte, 2012) or better quality of service (Accenture, 2008). In this regard, the emerging BRICS markets along with Cuba (Frank, 2012) exemplify the need for public sector dynamism in relation to fast paced environments.

Our international comparison of public sector attributes (Figure 2) compares the U.K. with Australia and Canada’s tripartite models (both commonwealth nations with larger land masses). The U.K. ranks high in transparency (accountability) but ranks lowest in all other areas, particularly competitiveness, trust and debt.

**Figure 2 International comparison of U.K. public service**

![International Comparison of Public Sector](developed_by_authors_with_reference_to_v various_sources)

2 Sources include the Global Well Being Index 2010; UN e-participation survey 2008; Accenture Customer Service Rankings 2007; World Bank Governance Matters Voice and Accountability Rankings 2008; Levels of Confidence in
In Figure 2 above, Australia and Canada have a higher well-being index than the U.K.

**Achieving balance in Scenario 2**

The advantage of our three tiered approach (Scenario 2) is that it facilitates central government to rebalance the U.K. economy in favour of multiple industry sectors that can target a wider range of global markets effectively. This also alleviates the higher risk of an ever expanding capital city (Scenario 1). Thus, the central government’s role then becomes to facilitate alliances, networking and support, whilst holding the assemblies accountable. Consequently, the U.K. government may then be in a stronger position to focus on outward looking strategies and trade agreements that link the U.K. to Europe, Asia, Africa and the U.S. in a more robust and beneficial manner – combining to create a unique position of public policy and implementation by 2025 and beyond.

Critical to Figure 1 is the development of a North of England Assembly in Tier 2. This can then sit alongside the already established Welsh and Scottish Assemblies. The localisation of power and funding brings with it greater accountability and responsibility, whilst central government becomes dynamic and fluid at the national level where its focus is on national interest. In this way the United Kingdom remains united while empowering local communities to grow and develop innovatively and productively in a global marketplace.

**Turning compassion to empowerment**

Important for a growing innovative economy, our tiered approach seeks to empower local communities to take shared responsibility for local issues and be more politically involved. This is in sharp contrast to the current political disengagement and frustration that we witness in our communities today (Scenario 1). Rather than reacting to the environment, the public sector can reform the environment in favour of positive and fair capitalism making the U.K. diverse and successful. In consideration, the coalition agreement states:

“We want to create a fairer and more balanced economy, where we are not so dependent on a narrow range of economic sectors, and where new businesses and economic opportunities are more evenly shared between regions and industries.”

Ward (2011)

It was public sector reform in the U.K. at the start of the twentieth century that facilitated compassion and welfare within unequal hierarchical structures across the globe. Inspired by the spirit of an Olympic host nation, the legacy a hundred years from today could be for public sector reform to extend the notion of compassion (basic welfare) towards equity of opportunity for all citizens (empowerment).

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