

Democratic Governance and the Future of City Regions

Discussion Paper

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**European Services
Strategy Unit**

(Continuing the work of the Centre for Public Services)

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The **European Services Strategy Unit** is committed to social justice, through the provision of good quality public services by democratically accountable public bodies, implementing best practice management, employment, equal opportunity and sustainable development policies. The Unit continues the work of the Centre for Public Services which began in 1973.

List of abbreviations

ALB	Arms Length Business	NAO	National Audit Office
ALMO	Arms Length Management Organisation	NHS	National Health Service
BID	Business Improvement District	NOMS	National Offender Management Service
BSA	Building Services Association	NLGN	New Local Government Network
BSF	Building Schools for the Future	ODPM	Office of the Deputy Prime Minister
CBI	Confederation of British Industry	OECD	Organisation for Economic Co-operation and Development
CDC	City Development Company	OFSTED	Office for Standards in Education
CPA	Comprehensive Performance Assessment	OGC	Office of Government Commerce
CSR	Corporate Social Responsibility	OJEU	Official Journal of the European Union
DBFO	Design, Build, Finance and Operate	PbR	Payment by Results
DCLG	Department for Communities and Local Government	PCS	Public and Commercial Services Union
DfES	Department for Education and Skills	PCT	Primary Care Trust
DH	Department of Health	PFI	Private Finance Initiative
DSO	Direct Service Organisation	PfH	Partnerships for Health
DWP	Department for Work and Pensions	PfS	Partnerships for Schools
EPSN	European Public Services Network	PPP	Public Private Partnership
EU	European Union	RCE	Regional Centre of Excellence
FTN	Foundation Trust Network	RDA	Regional Development Agency
GATS	General Agreement for Trade in Services	RIA	Regulatory Impact Assessment
GP	General Practitioner	RSL	Registered Social Landlord
ICT	Information and Communications Technology	SHA	Strategic Health Authority
JVC	Joint Venture Company	SSP	Strategic Service-delivery Partnership
LAA	Local Area Agreement	STEPS	Strategic Transfer of the Estate to the Private Sector
LEA	Local Education Authority	TRIPs	Trade-Related Intellectual Property Rights
LEP	Local Education Partnership	TUPE	Transfer of Undertakings (Protection of Employment) Regulations 1981
LGA	Local Government Association	UDC	Urban Development Corporation
LHC	Local Housing Company	URC	Urban Renewal Company
LIFT	Local Improvement Finance Trust	VCO	Voluntary and Community Organisation
LSP	Local Strategic Partnership	WE	Women-owned Enterprises
LSVT	Large Scale Voluntary Transfer	WTO	World Trade Organisation
MAA	Multi-Area Agreement		

Chapter 1

A privatisation of governance typology

Introduction

The privatisation of governance has been both an objective and a consequence of the privatisation and marketisation of public services and the welfare state. This chapter uses one part of a four-part typology of privatisation and marketisation to provide a framework for assessing changes in local government and public bodies in Tyne and Wear. The chapter concludes with a new mapping of public sector bodies and organisations.

The typology of privatisation and marketisation has four elements;

- 1) Privatisation and marketisation of global goods.
- 2) Privatisation and marketisation of assets and services.
- 3) Privatisation of governance and democracy.
- 4) Privatisation of the public domain (Whitfield, 2006).

This chapter uses the third component of this typology to identify six ways in which democratic governance and accountability is being restructured:

- Contract governance
- Transfer of services to arms length companies, trusts and the corporatisation of quasi-public bodies
- Private companies established within public services.
- Privatisation of development and regeneration responsibilities
- Privatisation of citizenship and political power
- Privatisation of public interest information – reduced transparency and disclosure

The three main columns in the typology give examples of the methods by which the privatisation of accountability and governance is occurring, followed by a summary of the political, social and economic objectives. The third column summarises the impact on the state and public services.

It is sometimes claimed that outsourcing is ‘not privatisation’ because it does not conform to the privatisation of public assets through the sale of nationalised industries, utilities and state-owned corporations. However, privatisation is not defined solely by the treatment of physical assets. The provision of a service, the transfer of staff and equipment to a contractor, the transfer of intellectual knowledge, creating market mechanisms, new regulatory frameworks and private sector presence on Partnership Boards or Joint Venture Companies are important elements of privatisation.

They determine who governs and controls, whether public or business principles and values dominate, the nature of the employer, the source of investment and the degree of transparency and disclosure.

Table 1: A typology of privatisation and governance

Type of Marketisation and Privatisation	Method	Political, social and economic objectives	Impact on the state & public services
Privatisation of governance and democracy			
1. Contract governance	<p>Mainstreaming national procurement policy across the public sector with larger and longer-term complex contracts.</p> <p>Partnership Boards and Joint Venture Companies run managed services contracts and Strategic Service-Delivery Partnerships.</p>	<p>Separation of strategic policy making from service delivery. Establish organisational structures to extend contracting to wider range of services.</p> <p>Extend private markets by increasing outsourcing.</p>	<p>Loss of political control by elected members and erosion of democratic accountability and transparency. Growth of corporate welfare complex with a contract services system, owner-operator infrastructure industry, regulatory and financial concessions to business and the corporatisation of public bodies.</p>
2. Transfer of services to arms length companies and corporatisation of quasi-public bodies	<p>Foundation model for hospitals and schools which creates stand alone businesses.</p> <p>Formation of arms length companies for council housing (44 to date), economic development and regeneration activities.</p> <p>Transfer of assets and services to third sector organisations such as housing associations and leisure trusts.</p> <p>Emergence of Local Public Service Boards which could takeover responsibility for services in Local Area Agreements.</p> <p>More central government quangos such as Partnerships for Schools and Partnerships for Health.</p> <p>Gated communities with 'self governance'.</p>	<p>Increase business role in policy making process and delivery of services.</p> <p>Half-way to full privatisation at a later date.</p> <p>Commodification of labour.</p>	<p>Reduced range of direct publicly provided services.</p> <p>Reinforces 'enabling' model of the state.</p> <p>Loss of democratic accountability and transparency.</p> <p>Loss of provision of central and support services as transferred and corporatised bodies procure services from private sector.</p>
3. Private companies established within public services	<p>Building Schools for the Future – extension of PFI model to educational policy, provision of educational support services and build/operate schools through Local Education Partnership 80% controlled by private sector.</p> <p>Privately-run Academies in the school system.</p>	<p>Supplant role and function of Local Education Authority (LEA) which become commissioning bodies.</p> <p>Extend the role of the private sector in state education and marketise educational services.</p>	<p>Increasing marginalisation of LEA and run-down of services.</p> <p>Loss of democratic accountability as privately controlled LEP has greater role in educational policy and provision. Parents, governors and teachers less influence in policy formulation.</p>
4. Privatisation of development and	<p>Establishment of Urban Development (UDC),</p>	<p>Increase business involvement and influence in public policy</p>	<p>Erosion of democratic accountability,</p>

regeneration responsibilities	Corporations, Urban Regeneration Companies (URC), City Development Companies (CDC) and Business Improvement Districts (BIDs) in city/town centres	making in growth and regeneration areas. Draw on business expertise and experience to speed-up development.	reduction in capacity of local/regional government. Business interests greater role in setting agenda.
5. Privatisation of citizenship and political power	Focus on opinion citizens panels, polls & market surveys and 'armchair' voting. Community organising constrained by lack of resources.	Increase voter turnout to sustain legitimacy. Promote consumerism. Capacity building limited to aiding government policy implementation.	Users, community organisations and trade unions less involved in policy-making process. Centralised policies – localised involvement in marginal decisions – in effect community badging of central government policies.
6. Privatisation of public interest information – reduced transparency and disclosure	Widening scope of contracting and PPP's results in parallel use of 'commercial confidentiality' – much contract information exempt from	Protect commercial interest of the state and private capital.	Separation of policy and performance information/data. Makes scrutiny more difficult.

Source: Whitfield, 2006.

Mapping of public sector bodies

The growth of quangos, partnerships, arms length companies and trusts requires a new mapping of public sector bodies. The transfer of services and functions is occurring in five ways:

- The foundation model for hospitals and schools to create arms length companies and trusts as stand-alone businesses.
- The formation of arms length companies for council housing (60 companies to date), economic development and regeneration activities.
- Joint Venture Companies for SSPs and BSF.
- The transfer of assets and services to third sector organisations such as housing associations and leisure trusts.
- The emergence of Local Public Service Boards which could takeover responsibility for some service provision in Local Areas Agreements.
- The establishment of more central government quangos such as Partnerships for Schools and Partnerships for Health to further the PFI/PPP programme.

Many of these new organisations are not established as a result of local preference and initiative, but are centrally imposed as a condition of funding and/or financial inducements. The link to decentralisation or genuine 'localism' is rather tenuous.

The corporatisation of democratic accountability occurs through the widespread use of the company model, under the Companies Acts, and governed by a Board of Directors/Members. Most Boards are composed of one third community/local authority/business or independent members whose first and prime responsibility is to the company, not the community or local authority. Public sector control is usually limited to below 20% to ensure the organisation is 'off balance sheet' with respect to the public sector. The partnership ethos, mentality and social norms make it more difficult for community representatives to challenge and organise against the 'interests of the company'. This is not community control but state/private control over community interests.

User and community participation may increase in arms length companies (which are essentially management-led organisations) but this is likely to be short-lived as they seek

greater freedom from local authorities, new powers and become more commercially orientated. However, community consultation is likely to become more fragmented as each Trust, arms length company and quango tends to have its own consultation mechanisms, often resulting in a wide variety of processes and duplication, which run the risk of increasing rather reducing alienation.

Community organisations remain significantly under-represented in many Local Strategic Partnerships. Voluntary sector umbrella groups are well represented but individual tenants groups and community organisations – the grass roots layer - are usually not involved (Aberdeen TGWU, 2006 and DCLG, 2007). However, three times more respondents believed that the business sector was under-represented. The 2006 survey of LSPs found that 79% of responding LSPs agree or strongly agree that the LSP “is now accountable to its partners, while 53% agree or strongly agree that it is accountable to the public” (compared to 45% in 2004) (DCLG, 2007).

The House of Commons Public Administration Committee devised a categorisation of national, regional and local quangos in their *Mapping of the Quango State* (PAC,2001). This had five categories ranging from Non-Departmental Public Bodies (NDPBs), task forces, regional and evolved quangos, local public spending bodies (LPSBs) and partnerships, zone boards and other local cross-sectoral bodies. The PAC model was also used in the study local democracy in Burnley and Harrogate (Wilks-Heeg and Clayton, 2005).

There is now a wider range of public sector organisations operating at local government level and more than one category of partnerships. In addition to statutory bodies such as local authorities, the NHS, Tyne and Wear Passenger Transport Authority and Police Authorities there are now eleven types of public sector organisations:

National Arms Length Bodies and Agencies of central government based in Tyne and Wear: NHS Business Services Authority.

Regional public sector bodies and quangos: Regional Development Agency (One NorthEast), Regional Assembly, Government Office for the North East, Strategic Health Authority, Learning and Skills Regional Board, Regional Housing Board, Skills North East (regional skills partnership).

Sub-regional quangos: Learning and Skills Tyne and Wear Council, Tyne and Wear Partnership and Business Link Tyne and Wear.

Local Non-Elected Public Bodies (Non-profit organisations or companies with a Board of Directors who are generally appointed rather than elected. Some stakeholder representation may be elected but they are usually in the minority): Universities, NHS Trusts, Foundation Hospitals, Further Education Colleges, Primary Care Trusts, housing associations and Probation Trusts. Court Boards, which advise on the running of the courts, have a minimum of seven members including a judge, two magistrates, two local representatives and two people familiar with the courts system.

Local Authority Arms Length Companies and Trusts: Arms Length Management Organisations for council housing, Leisure Trusts and Care Trusts which usually have a third public sector, tenant/user and independent representation with the local authority retaining ownership of assets.

Academies and Trust Schools: Academy sponsors appoint the majority of governors to the governing body. Trust schools (a state funded school supported by a charitable Trust with representatives from business, universities and community organisations) appoint either the majority or minority of governors, the decision is made by the predecessor governing body.

Public-Private companies: Economic development and urban regeneration companies such as Sunderland ARC, the Urban Regeneration Company (URC). City Development Companies (CDCs), Business Improvement District and the Housing

Market Renewal Area companies are also included in this category. Local Asset-Backed Vehicles (LABVs) – joint public/private companies to “deliver local growth” by exploiting public assets.

Joint Venture Companies - Service Delivery Partnerships with the private sector: Strategic Service-delivery Partnerships (SSPs), Building Schools for the Future with Local Education Partnership, NHS Local Improvement Finance Trust (LIFT), Private Finance Initiative (PFI) projects, and partnerships with voluntary organisations for service delivery.

Collaborative/joint service delivery partnerships with other public bodies: Tyne and Wear Museums Joint Committee and other jointly managed and governed shared services projects. Multi Area Agreements and Public Service Boards are included in this category. Childrens’ Trusts implement the Childrens’ Act 2004 duty for public bodies to cooperate and integrate all services for children and young people and include the local authority, Primary Care Trust and other organisations.

Political Partnerships: Local authority wide Local Strategic Partnerships (LSPs) to prepare community plans are essentially political partnerships because they debate public policy issues and do not deliver services. They were designed to bring the local authority, business and community organisations together in an alliance.

Area Based Initiatives: Locally based national projects and programmes and comprise community representation, local councillors and representatives of local public bodies. The include: healthy living centres, Community Chests and Community Empowerment Fund, Home Zones, Street Wardens, Sure Start, Neighbourhood Nurseries, Children’s Fund, education initiatives, regeneration funding programmes and many more. They usually require separate organisational structures as a condition of funding. Most require Boards or Management Committees to employ staff and manage projects. Many use non-profit company structures.

These organisations can be divided into investment-led and service delivery organisations and differentiated spatially according to their geographic remit – see Table 2.

Table 2: Mapping of public sector bodies in addition to local government

Type of organisation	Spatial dimension			
	National	Regional	Subregional	City/local
Investment-led		Regional Development Agency Regional Assembly (to be disbanded in 2010) Highways Agency (Northumberland, Tyne & Wear, Durham and North Yorkshire)	Tyne and Wear Partnership. NewcastleGateshead Partnership. Multi-Area Agreements	Urban Renewal Company City Development Company Local Education Partnership (BSF) Strategic Service-delivery Partnerships and PPPs. Business Improvement District
Service provision	NHS Business Services Authority (based in Newcastle)	Strategic Health Authority Culture North East	Tyne and Wear Passenger Transport Authority Learning and Skills Tyne and Wear Council. Northumbria Police Authority Durham Police Authority Collaborative/joint service delivery partnerships	NHS Trusts Foundation Hospitals FE Colleges Primary Care Trusts Probation Trusts Court Boards ALMOs, Academies School Trusts Leisure Trusts Area-based Initiatives. Local Strategic Ptn'ship

Chapter 2

New Labour's modernisation and the neoliberal agenda

Introduction

It is important that an analysis of democratic governance and accountability is placed within an ideological context. This chapter examines the different components of neoliberalism and summarises New Labour's beliefs in competition, markets and choice and how they are manifested in public policy, in particular the different ways in which public services are being marketised in the name of modernisation.

Neoliberalism

Neoliberalism is a conservative economic philosophy that revived in the late 1970s following the crisis in Keynesian economics, escalating inflation at the end of the post-war reconstruction boom, and the soaring cost of the US war in Vietnam and the 1973 oil shock. Governments had difficulty financing budget deficits, which led to the imposition of restrictive monetary policies and cuts in public expenditure. The Thatcher and Reagan governments in the 1980s abandoned the policy of state intervention to maintain full employment. They deregulated financial and labour markets, reduced corporate and top personal tax rates, privatised public assets, promoted free trade and small government.

The World Bank, the International Monetary Fund (IMF) and other international agencies forced developing countries to adopt deregulation and privatisation policies, achieving macroeconomic stability mainly by cutting public spending and subsidies to the poor and opening economies to foreign trade and finance as a condition of aid.

Neoliberalism has eight key components:

- 1) **Liberalisation and competition** – free trade and competition to determine who delivers services. Acceptance of globalisation as a benign force and facilitating the internationalisation of free inward and outward flows of money, goods, services and labour.
- 2) **Markets** - a belief in the superiority of markets in allocating resources and organising the economy. Competition will drive down costs and increase efficiency.
- 3) **Deregulation of financial markets** – permitting the free flow of capital globally thus creating new opportunities for wealth accumulation.
- 4) **Reconfiguring the role of the state** – reduced state intervention in the economy, restructuring and reorganising service delivery by limiting the role of government to commissioning, coupled with the withdrawal of public provision. National economic and spatial strategy based primarily on the needs of capital with growth concentrated in the south east. A narrow performance management approach to public management.
- 5) **Privatisation** – of public assets and services, governance and democracy and the public domain.
- 6) **Consumerism** - restructuring public services and the welfare state towards consumerism, individualism and personalisation, shopping for services and the erosion of public, collective and community interest and values and their replacement by the pursuit of self-interest.

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- 7) **Labour market flexibility and deregulation** – abandoning interventionist strategies to maintain full employment, the wider use of casual and migrant labour, limiting trade union organisation and activity, and reinforcing management’s ‘right to manage’. The basic aim is to reduce the cost of labour.
 - 8) **Increasing the power of business coupled with the erosion of democratic accountability and transparency** – partnerships, decentralisation of functions but centralisation of policy, depoliticisation of civil society and voluntary organisations drawn into service delivery, citizens treated merely as consumers despite neoliberal rhetoric of participation and empowerment.

Of course most of these elements interact, for example creating markets (No. 2) in public services increases outsourcing and staff transfer to private firms which weakens trade union organisation and thus simultaneously contributes to labour market flexibility (No. 7) and increases the power of private firms in public policy making (No. 8).

The elements of neoliberalism, within the scope of this study, are manifested in:

- Widening the powers of regional bodies and ‘strategic leadership’ of local government. Assumption that new ‘leadership’ and the right kind of organisational structure can successfully address uneven economic and spatial development.
- A ‘transformation’ strategy for reform public sector reform which is designed to mainstream competition, develop new markets and opportunities for private capital, increase outsourcing and transfer services to new companies and quangos – the corporatisation of public bodies.
- Private investment in the public infrastructure creating new opportunities for finance capital but with longer-term consequences for democratic control of public assets.
- The creation of new national regulatory bodies for every new type of organisation or function. They have limited accountability and are can readily be influenced by the state.
- Promote community engagement and involvement of voluntary sector in marketising public services as a veneer or foil to creating new opportunities for finance and service sector capital. Parallel attempts to depoliticise, fragment and weaken community and trade union organisation.

The impact of these changes is discussed in Part 6.

Whilst previous Tory governments under Thatcher and Major privatised the nationalised industries, utilities, water, telecommunications and public transport, the Labour government has continued and increased other forms of privatisation and marketisation of public services. Labour abolished Compulsory Competitive Tendering of council services but outsourcing has increased and the government now wants local authorities and public bodies to commission services but not to provide them. The privatisation of governance and democracy by transferring services to arms length companies and trusts has continued apace. The privatisation of the public domain, such as public spaces, reducing the capacity of local government and transferring knowledge to management consultants, continues to increase.

New Labour’s beliefs

New Labour’s plans are rooted in the belief that competition drives down costs, helps to limit producer power (by which they mean trade union power) and the private sector is more efficient than the public sector. Local authorities and public bodies should be restricted to commissioning in order to create the space for the private sector to develop more innovative ways of delivering services. They also believe that individual choice will improve the quality of public services and will prevent the middle class from opting out of public services, which will otherwise be reduced to residualised services. Choice will reduce inequality because market

forces are a more equalising mechanism than political voice, which the middle classes have traditionally used to benefit most from public services.

These beliefs are manifested the design of public policy:

What works is what matters – the government claims ‘neutrality’ on whether the public, private or voluntary sectors delivers services but in practice it leads to bias towards outsourcing.

Centralisation – More and more policies, particularly those which set out operating frameworks for the marketisation of public services, are designed, planned and imposed centrally with little option or scope for local variation. Local government and health organisations wishing not to participate in some national programmes, for example treatment centres, have been overruled and informed that they have no option but to participate.

Focus on electoral participation - hence concern about widening the places and changing the voting systems postal ballots in order to reverse the decline in turnouts.

Consumerism - treating service users as consumers – citizen panels, using market research techniques to determine people’s views, which reduces opportunities to gain knowledge and increase understanding of the complexities of policies. Customer Contact Centres, using ICT to provide comprehensive transactional and complaint systems but focus on ‘customer relations’.

Personalisation – individual choice such as social care payment systems, individual budgets and vouchers.

Localism but policies set nationally with marginal local choice – despite rhetoric to the contrary, most key choices in housing, regeneration, education and health are determined by national policies, programmes and funding systems. The degree of local variation is often marginal.

New organisations for specific tasks – the distrust in local government is manifested in the formation of new organisations to carry out regeneration and development, hence the growth of Urban Renewal Companies and Urban Development Corporations and the extensive use of arms length companies and trusts.

Five marketisation methods

The marketisation process is multi-faceted in that it encompasses national legislative change combined with many small-scale management and operational changes which have a cumulative impact in creating market ideology and structures.

- 1) *Commodifying (commercialising) services and infrastructure* – services are changed so that they can be specified and packaged in a contract, thus extending outsourcing and offshoring. The welfare state infrastructure is also being commodified as new schools and hospitals are built via Private Finance Initiative projects.
- 2) *Commodifying (commercialising) labour* – the reorganisation of work and jobs to maximise productivity and assist transfer to another employer.
- 3) *Restructuring the state for competition and market mechanisms* – schools, hospitals and other facilities are compelled to compete against each other, funding is changed to follow pupils and patients, public bodies are reduced to commissioning functions creating opportunities for private finance and so-called partnerships.
- 4) *Restructuring democratic accountability and user involvement* – service users are treated as consumers; services and functions are transferred to quangos; arms length companies and trusts and privately controlled companies are established within public bodies.

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- 5) *Embedding business interests and promoting liberalisation internationally* – business is more involved in the public policy making process and promotes national, European and global liberalisation of public services.

“Freedom and flexibility has certain limitations because the government has been unwilling to allow any meaningful freedom or flexibility in the implementation of core policies. For example, the lack of the fourth option for the retention of council housing; the requirement that local authorities must establish a Local Education Partnership (80% controlled by the private sector) in Building Schools for the Future (BSF) projects; and the requirement to include an Academy in BSF projects. Local authorities are told ‘no academy, no BSF funding’.

Some sectors, particularly health, have been subjected to almost constant restructuring, reorganisation and reviews. Pilots and pathfinders become waves to mainstream policies frequently before any evaluation of their effectiveness and costs and benefits. This creates instability, distrust and cynicism further eroding the quality of democratic accountability.

The government’s transformation strategy for public services reform

Ten-year vision for local government

The Prime Minister’s Strategy Unit began in February 2003 to prepare an analysis of the key social, economic and political trends likely to impact on local government over the next 10-15 years, the scenarios that may alter the future environment within which local government operates and the implications of key trends and scenarios for local government over the next 10-15 years. This analysis was never published.

Meanwhile, a ten-year Local:Vision theme for the future of local government was being prepared by ODPM (ODPM, 2004). It built on the four principles of modernisation – choice in public services, putting people at the heart of public services, principles into practice and leading from the front line - which the now abolished Office for Public Sector Reform had established in 2002.

The ten-year vision was intended to establish a more coherent and stable relationship between local and central government, clarify accountabilities and responsibilities at each level for the delivery of services, improve local community leadership, increase levels of citizen engagement, secure improvements in public services and ensure the finance system is fair and fit for the purpose (ODPM, 2004).

The government commissioned further work on the Local:Vision from consultants (ODPM, 2006). The study examined the economic, social and environmental pressures on government. Privatisation and marketisation were not mentioned once in the report or the technical appendices, despite the fact that the consultants believed that choice should be the ‘improvement’ agenda.

The study identified ten core functions for local government in 2015 including “coping with stark differences within and between regions and places”, caring, planning, controlling and regulating human and physical flows and circulation, promoting economic growth, strategic marketing, brokering and marshalling key actors, representation and reconciling the diversity of individual and group expectations, needs, culture, identity and morality.

The description of these functions is revealing. The ‘coping with stark differences’ is primarily about ensuring an effective participation process to prevent fragmentation. The caring function is limited to ensuring that care and support exists and acting as a ‘safety net’. The ‘promoting economic growth’ is very vague and feeble given the analysis of the effects of globalisation. Even the ‘planning and mobilising local resources simply refers to a ‘coordinated business planning and resource allocation process’ and a single strategy for a locality (presumably a Community Plan). ‘Community leadership’ is claimed to be the single most important governance function in 2015.

Giving people greater power and influence over their lives, services and the future of their

community and improving the quality of life, public services, economic performance underpinned the Local Government Association (LGA) contribution to the debate on the future funding and role of local government. They made the case that reform must:

- *“give power to people to shape the vision for their place, re-design services and influence strategic and local decisions by councils and their partners;*
- *enable the bringing together of all public services in each area, in strong partnerships across the public, private, business, voluntary and community sector;*
- *devolving powers over the levers of economic growth – skills, transport, planning and housing – to highly visible, accountable and democratic leaders;*
- *provide more visible and accountable local leadership with local councilors as the advocate for the community;*
- *create a new local performance and accountability framework with visible and usable levers by which local people can hold councils and their partners to account; measure performance, risk and public satisfaction, supported by effective improvement programmes, and backed by intervention;*
- *reform the ‘balance of funding’ to give visible local financial accountability to the local taxpayer” (LGA, 2006).*

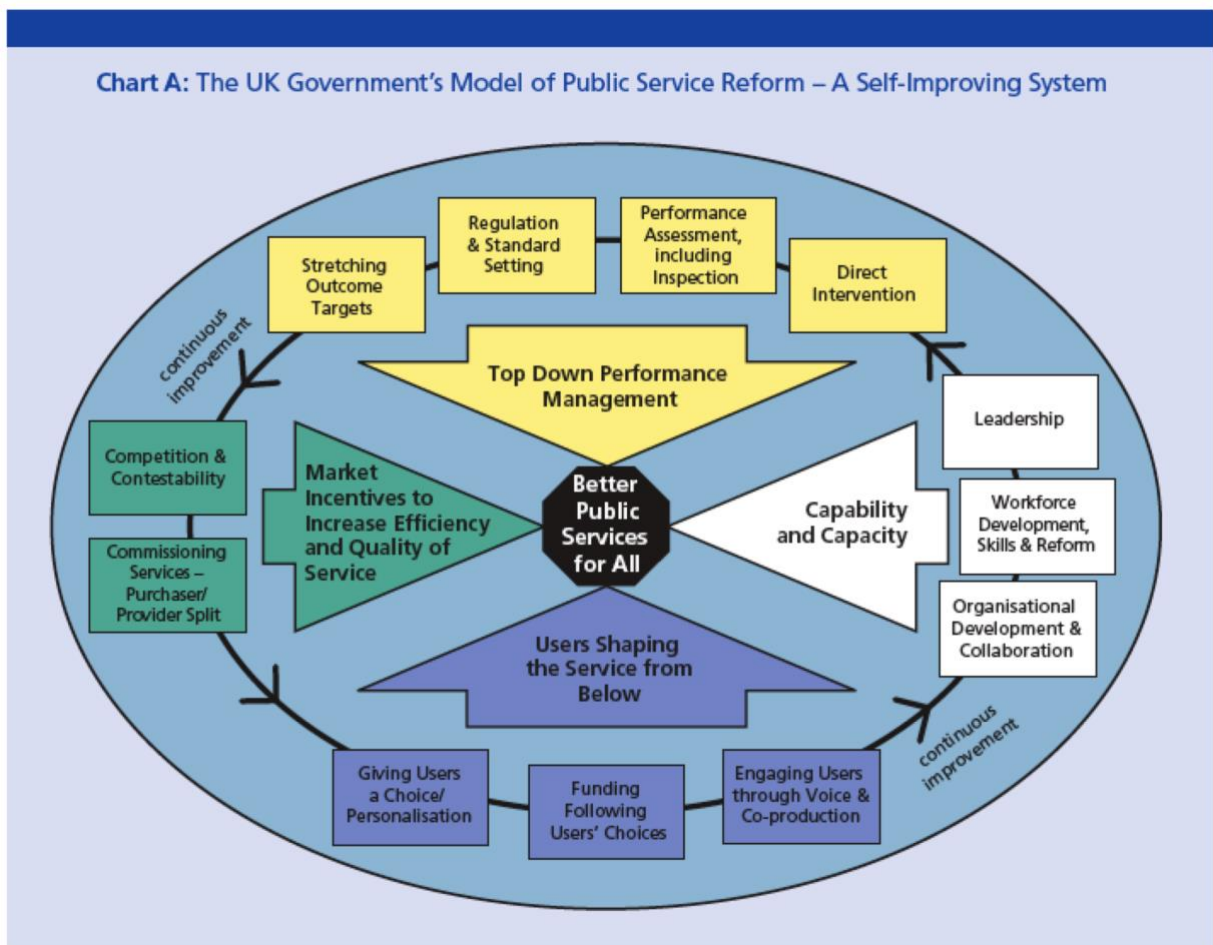
More partnerships, performance frameworks and accountability limited to ‘customer-focused performance reporting’ are unlikely to achieve any radical change in democratic accountability.

New focus on contestability and choice

The Government’s modernisation programme has developed over the last decade from Best Value, the Private Finance Initiative, performance management systems in each service together with the Comprehensive Performance Assessment and more lately Local Area Agreements and a renewed emphasis in the transformation programme focus on choice and personalisation in two recent Cabinet Office and Policy Review reports – *The UK Government’s Approach to Public Service Reform (2006)* and *‘Building on Progress: Public Services’ (2007)*.

The UK Government’s model for public service reform is claimed to be a ‘self-improving system’ with four key elements - top down performance management, the introduction of greater competition and contestability in the provision of public services, upward pressure from service users through increased choice and voice and measures to strengthen the capability and capacity of civil servants and local government to deliver improved public services (Cabinet Office, 2006).

Figure 1: The Government's Model of Public Sector Reform



There are fundamental flaws with this strategy:

Firstly, the emphasis on commissioning, competition and contestability in reality means the mainstreaming of procurement for virtually all services. This ultimately leads to large scale outsourcing.

Secondly, the other horizontal pressure to increase capability and capacity is a very narrow vision of public sector capability limited to supporting market mechanisms and commissioning, competition and contestability.

Thirdly, the model excludes employment. Although the capability and capacity part of the model includes 'workforce development' this is a narrow management perspective. There is no concern for the quality of employment and trade unions or staff involvement in the design and planning of public services. This model demonstrates that statements about 'valuing staff' are simply rhetoric and vacuous. Blair's Policy Review report on public services calls for greater engagement with public service workers to promote flexibility, innovation and service improvement to 'reorientate services around the needs of citizens' (Prime Ministers Strategy Unit, 2007). Again, there is no concern for the quality employment.

Fourthly, the upward pressure is supplied by 'choice and personalisation' which means further marketisation and has already commenced in health, social care, education, probation and other services. The government believes that corporate and transactional services can be separated and 'disengaged' from public service delivery thus allowing them to be relocated elsewhere and removed from direct democratic accountability because they are 'back office'. They believe that a very small 'public service ethos' is required for their delivery which 'frees' the public sector to focus on strategic policy and frontline delivery.

It is almost certain in the current neoliberal political climate that national and regional shared services centres will be strategic partnerships with the private sector or completely outsourced. The choice and personalisation agenda is likely to restrict the development of innovative and integrated shared projects in other services. Other aspects of marketisation are discussed in Part 6.

A second report on the transformation programme in March 2007 as part of Blair's Policy Review emphasised the personalisation and equity agenda in which service users become the drivers of change coupled with empowerment to shape services. Commissioning and contestability will be used to drive innovation and improvement with the third sector having a key role in service delivery. It advocates engagement with public service workers to promote innovation although this is dependent on staff and trade union acceptance of the transformation strategy.

Chapter 3

The future of the state and urban governance

Introduction

This chapter is divided into ten parts that examine the effect of different elements of the government's public sector transformation strategy on democratic governance.

- Changing the role of the state
- Personalisation and choice
- Commissioning, contracting and the decline of in-house provision
- Regional and local economic and regeneration strategies
- The growth of services markets
- The regulatory role of the state
- Role of the third sector
- More privatisation
- New models of governance and public management
- Empowerment and participation

Changing nature of the state

The 2007 Policy Review undertaken by the Prime Minister's Strategy Unit (which included a Ministerial Working Group and series of seminars for non-Cabinet ministers) included a paper on the changing role of the state (Cabinet Office, 2007), which claims the role of the state as a direct provider reached its peak in the later 1970s. It *"introduces the idea of the strategic and enabling state as a response to the continuing evolution of global and domestic trends"* (ibid).

The Policy Review argues that the central issue is reinventing *"effective state power for the current age"*, not the size of the state. The ultimate purpose and core idea of the strategic and enabling state is to *"redistribute power to people"*. The state should focus on outcomes *"rather than getting involved in the detail of particular decisions"*. Other features of the state are tackling insecurity, empowering citizens, rights and responsibilities, building trust and a smaller strategic centre (ibid).

The Policy Review paper on the role of the state concluded *"there is a good case for separating the core strategic functions from delivery, with an arms length relationship between the two. Whitehall would therefore comprise a set of strategic departmental centres and the centre of government itself – the Cabinet Office including the Prime Ministers Office and HM Treasury"* (Cabinet Office, 2007). Departmental centres would have four functions – defining outcome objectives, policy development, commissioning and managing delivery and work with stakeholders in delivery. Government departments would be much smaller with delivery activities *"significantly restructured"* and the delivery organisation *"might itself focus on commissioning"* (ibid).

When this model is applied to other public services such as local government and the NHS the consequences become even more apparent.

No evidence is supplied to support any of these contentions. This vision of the state is fundamentally flawed because the primary objective is to extend market forces in the public

sector rather than achieve social justice and sustainable development and a more effective state in the local, regional, national and global economies.

The Lyons Review suggested that the role of local government should encompass building and shaping local identity, representing the community, regulating harmful and disruptive behaviours, maintaining the cohesiveness of the community, helping to resolve disagreements, working to make the local economy more successful, understanding local needs and preferences and providing the right services and working with other bodies (Lyons Review, 2007).

But this is also a narrow view of the role and function of local government. For example, there is no reference to equalities and social justice, planning and regeneration, public health, sustainable development and the environment or the assessment of the impacts of economic and social change – the need for a new process to identify all the costs and benefits in a sustainable development/community well being framework...

The problem is perceived as the public having a weak understanding of how local government is funded, confusion about the division of responsibility between different levels of government and the cost of services. The suggested causes are the complexity of the local government funding system, the way local government is structured and/or confusion over division of responsibility between local and central government.

But local government is much more than a supplier of services. It also has responsibility for a wide range of planning, regulatory, regeneration, economic development and environmental functions. Until these are fully recognised, proposals for the future role and funding of local government will have limited effect and/or fail to address the deep seated problems in local economies.

Public sector ‘too big’?

“The public sector is overrepresented in the region, a reflection of the importance of state transfers to the region, and the low activity rates. The public sector makes up approximately 30% of the North East region’s workforce and 23% of GVA. The voluntary and community sector also account for approximately 4.4% of the region’s workforce and 2.4% of regional GDP” (OECD 2006).

The view that “the public sector is too big in Newcastle and the North East and is thus ‘crowding out the private sector’ has been a tenet of right wing analysis since the 1970s. The argument is rooted in the belief that pay rates are higher in the public sector so “takes first call on people of all skill levels, especially at the top” (Murphy, 2006). The claimed solution is to “gradually manage a fall in the absolute size of the public sector in the city” and to consider “radical action if pay differentials with the private sector prove an impediment to growth” (ibid). This would be achieved by ‘spin out’ programmes and commissioning models to reduce the size of the public sector.

Hollowing out and rescaling?

The ‘hollowing out of the state’ thesis (Jessop, 1994) and the concept of ‘rescaling’ both underpin the rationale for new city/subregional organisations in government commissioned studies for a City Regions framework (ODPM, 2006).

The ‘hollowing out’ concept assumes that “current trends erode the centre’s capacity to steer the system – its capacity for governance” (Rhodes, 1994). This is claimed to be the result of two processes. Firstly, the centre is fragmenting or breaking up as a result of the growth of the power of the European Union and the transfer of functions from the central state to agencies, arms length bodies and quangos. Secondly, the centre is less able to control the networks and new centres of power created by the fragmentation of the state. The privatisation of nationalised industries and state-owned corporations is said to have reduced the function and responsibility of the state.

The modernisation agenda is dominated by marketisation which requires both the central and local state to move from state provision to a more multi-functional role of commissioning, provider of last resort, market regulation and market management. Procurement operates within a EU and UK legislative framework. Market based systems in health and education are centrally imposed with no local opt outs, for example, tariffs, financial systems to allow funding to follow patients and pupils, the corporatisation of hospitals and schools into stand alone companies owning assets and employing staff, and choice based regulatory regimes.

The Private Finance Initiative (and new models such as BFS and NHS LIFT) and strategic service delivery partnerships has widened the role of private capital in renewal of the infrastructure and in public sector policy making. This required new skills and capacity in central government – the government established PFI units in all departments, maintained central control of PFI policy and finance through the PFI credit regime and developed new PFI models. New Labour's transformation agenda of competition and contestability, choice and personalisation and managing and regulating markets requires different capabilities. Outsourcing and transfers may reduce the size of the public sector but not its responsibilities.

The state has a more complex role requiring new capabilities, and in some cases greater capacity, in order to fulfil these functions. Where 'hollowing out' may be identified it is usually accompanied by new responsibilities. Time is also a key factor and ascribing change in a relatively short period can be misleading. Failure of some of these policies could quickly produce evidence of an opposite trend.

A process of 'rescaling' of state activities has been observed denoting *"the production, reconfiguration or contestation of particular differentiations, ordering and hierarchies among geographical scales"* (Brenner quoted in Somerville, 2004). The transfer of some state functions to new local bodies is claimed to represent democratic transformation with more open and participatory governance. A geographic reorganisation has new hierarchy and network of organisations.

The government's transformation programme is leading to a wider range of state functions undertaken by arms length companies and quangos. The extent to which rescaling is a function of the redesign of the local state or a consequence of it, is debatable. Whether it has led to a change in power relations and a degree of empowerment of community organisations is highly questionable.

Whilst local government has new powers of community well being they do not have any additional finance to make these powers a reality. The number of centrally determined, controlled and funded initiatives and programmes has increased. Local authorities and community groups can only make marginal change. This is not decentralisation by any meaning of the word.

The government has adopted the language of community action in the 1970s and 1980s and imposed a central perspective on citizen engagement. Whilst it has required 'consultation' and 'participation' requirements on a wide range of policies and local and central public bodies, there is also a central prescription and parameters on how this should be implemented. The promise of 'community empowerment' takes second place to the significantly increased influence of business interests in public policy making and impact assessment. The structure of Local Strategic Partnerships, many with a myriad of themes and participatory structures, has engaged community organisations in a centrally determined framework, which has drawn a layer of community, and voluntary organisations into so called community planning. Trade unions are deliberately excluded from the community planning process.

The modernisation by marketisation agenda also creates new demands from both community organisations and business interests, which the state has to mediate. The view that "commercial values are creeping into public services and the public realm which "should not be corrupted by the internal dynamics of the market" and that "the private sector has a place in the public realm only as a servant" (Compass, 2007). This demonstrates a lack of

understanding of how markets and the global economy operate, the extent of current marketisation and the impact of competition, contestability and choice regimes.

Personalisation and choice

The choice and personalisation agenda will restrict democratic accountability because it:

- promotes individualism and a consumer approach which also individualises causes, needs and responsibilities;
- promotes an asset based welfare state including direct payments so that individuals can purchase their own services and promotes ownership of assets in place of a 'user' perspective;
- fragments collective public interest making community action more difficult to organise. This in turn makes community representation and collective governance of schools and hospitals more difficult to sustain. It limits collective empowerment, which can only be achieved through organised political action.
- the contestability and performance management agenda focuses on school performance and competitive attractiveness will shape the basis on which community representatives will be attracted onto boards/governors. This will also determine the way users, parents will respond to consultation and participation processes and events;
- makes conflict more likely between service users regarding pro- and anti-competition agendas and whether, and to what extent, schools should respond to increased demand by expanding new facilities. There will also be different parents/patients responses to claims of 'failing' schools/hospitals and government imposed action such as consultants and outsourcing;
- makes disputes more likely to occur over the procurement, outsourcing or offshoring of support services.

The state should "help to empower citizens by introducing much greater diversity of service provision – extending the choices available to users and ensuring that the best providers (whether from the public, private or voluntary sector) are used" (Cabinet Office, 2007).

Commissioning, contracting and the decline of in-house provision

Commissioning is described as the means by which the authority "*seeks to secure the best outcomes for their local communities by making use of all available resources - without regard for whether services are provided in-house, externally or through various forms of partnership*" (DCLG, 2008). The Department of Health has a similar description of 'world class commissioning': "*The commissioning process involves assessing and prioritising population needs, focusing on strategic outcomes, procuring services, and managing providers to deliver the required outcomes*" (Department of Health, 2007).

Local authorities are urged to "regularly and rigorously assess and review the competitiveness of those services against similar services provided by other statutory bodies, local authorities or other service providers" (Para 6.11, Draft Guidance, DCLG, 2007). Commissioning is described as:

- *"User and community engagement and needs analysis;*
- *Strategically planning for services which deliver sustainable outcomes;*
- *Implementing plans, shaping markets, securing services and outcomes;*
- *Monitoring the delivery of outcomes, evaluating and challenging services"* (ibid).

Commissioning requires a clear separation between commissioning and service provision – a client/contractor or purchaser/provider split. Authorities are required to develop a mixed economy of provision and to stimulate and ‘make markets’.

Commissioning, contracting in reality, has a negative impact on democratic accountability in six key ways.

Firstly, the commissioning agenda requires the separation of client and contractor or purchaser/provider which creates two distinct sets of responsibilities, reporting systems and accountability mechanisms. The system is designed to expand outsourcing and the delivery of services by private companies and voluntary organisations. This can lead to confusion and disputes which work against the interests of service users and elected members. The commissioning function itself could be outsourced: *“Contestability could be extended to commissioning bodies as well as those providing services”* (Cabinet Office, 2007). One contractor would commission the service (with a contract to act as the client) and another contractor would deliver the service. This raises many fundamental questions about maintaining democratic accountability, safeguarding the public interest and the quality of employment.

Secondly, the rebranding of contracting is intended to conceal the reality, particularly in the context of budget constraints, that commissioning quickly gets reduced to basic contracting. Assessing needs, participation, reducing inequalities and innovation are marginalised in the pursuit of procurement, contracts and client–contractor relations.

Thirdly, the mainstreaming of procurement means that senior officers are in a powerful position in planning, managing and controlling the contracting process. Elected Members are usually presented with *fait accompli* in terms of contract decisions at key stages of the process. Framework agreements are widely used to ‘drawn down’ or allocate work to consultants and contractors with minimal consultation and accountability. The increasing technical nature and complexity of many contracts reinforces senior officer control.

Fourthly, a contract culture effectively means governance by contract in which the scope, flexibility and responsiveness of services is dictated by the comprehensiveness of legal rights and responsibilities in the contract and subsequent client and contractor interpretations.

Fifthly, the growth of large-scale managed service contracts will increase the proportion of services managed through Partnership Boards or Joint Venture Companies in Strategic Service-Delivery Projects. These Boards usually consist of the council leader, relevant cabinet member(s), the chief executive and service director plus directors and senior managers from the private company. The Board assesses performance, agrees plans and strategies and directs the contract. Most are highly secretive. The continued use of PFI for infrastructure projects will have a similar effect, with accountability further weakened by the sale of PFI interests and the growth of a secondary market (Whitfield, 2007).

Finally, the degree of scrutiny is constrained by ‘commercial confidentiality’ which is increasingly used to contain criticism internally and prevent public debate.

Contract economy

The OECD review concluded that *“Future growth depends on high value added products and services”* and not creation of a contract economy.

However, a substantial increase in outsourcing and shared services projects is likely to change the geography of provision. The establishment of national shared service centres will probably mean the relocation of jobs from London and the South East to the North, Wales and Scotland. Furthermore, this ‘growth’ strategy could also result in client/commissioning authorities in the South demanding the end of national pay bargaining so that they can obtain higher levels of savings from shared services centres in the North. However, relocation to the North is likely to be temporary as the same economic and political ideology which accepts outsourcing will later seek further savings from offshoring.

A 'contract economy' in the North is likely to drive down public sector wages and have a negative impact on trade union organisation. It will undermine their ability to maintain public sector provision in the North because accepting 'additional' jobs in a contract economy is not compatible with retaining in-house provision in public services in the North.

Regional and local economic and regeneration strategies

The OECD's territorial review of Newcastle concluded that "the current governance structure in place in the Newcastle region is outdated, and not well adapted to the tasks it faces. Among the main challenges are:

- *"The fragmentation of administrative institutions within the city region area, which results in a mismatch between the existing administrative structure and the boundaries of the city region, and the absence of a city region governance structure to deal with the issue....."*
- *Limited strategic capability at the city region level;*
- *Greater use of horizontal co-ordination among local authorities (both municipalities and county councils) across the North East region which could result in reduced transaction costs in the delivery of public policies and a greater ability to exploit economies of scale and, more importantly, may assist in allowing a city region economic development strategy to emerge behind which the city region can unite;*
- *Severely constrained financial/fiscal ability of local authorities to manoeuvre within the city region. Municipalities and counties have limited fiscal autonomy."* (OECD, 2006)

The OECD identified a number of key tasks including a strategic approach to integrate regional resources to increase competitiveness, supporting innovation as an integral part of fostering growth and promoting productivity, enhancing infrastructure and accessibility to support growth and developing a knowledge based economy.

The adoption of 'new public management' in Britain which included the introduction of competition in service delivery, a client/contractor split and the transfer of functions to quangos (quasi-autonomous non-governmental organisations). Increased autonomy for schools, hospitals and other services opting out to trusts and arms length companies is another part of this trend. However, it is misguided to believe that this amounts to a 'new community governance' of devolution to the community.

"The reforms cumulatively led to a fragmentation and a weakening of local government in the United Kingdom" (OECD, 2006). The OECD review did not assess the potential impact of New Labour's transformation strategy for public services. It could not, therefore, make the observation that this 'more of the same' strategy will further fragment and weaken local government.

None of the three pillars of regional administration - the Regional Development Agency, Government Office for the region and the Regional Assembly - are democratically accountable. The North East vote rejected regional elected governance in 2005. The RDA is private sector dominated as required by RDA Act 1998. The government is considering merging the RDAs and Government Offices and plans a more strategic role following a review of their activities (HMT and ODPM, 2006).

Given the Government Offices strategic role in working with local and regional partners to determine priorities and stretch performance, translating Departmental policies into operational delivery and supporting and challenging regional strategies to improve their quality and consistency, it will be essential that these activities are subject to stronger accountability and transparency. The OECD concluded that *"devolution, and simplifying the structures of government, may therefore be more important than central and regional government efforts to build capacity and stimulate leadership"* (OECD, 2006). Similarly, leadership cannot be a substitute for democratic accountability, nor will more partnerships with short-term goals.

However, the OECD gave contradictory advice on the role of the public sector.

“The public sector could play a much greater role in innovation as a source of innovation itself, and through its influence on the private sector. This opportunity has to a large degree been neglected nationally in the Newcastle region. The sheer size of the public sector in the regional economy makes it an important potential source of innovation, especially as a sophisticated consumer.” (OECD, 2006)

The review recommends a different approach to the provision of economic development functions:

“Encouraging private sector provision of services is also likely to be more effective than the delivery of services by the public sector economic development actors. One of the issues with the region is the relative dominance of the public sector in the economy, and the relatively weak private sector. The public sector has provided undoubted leadership in the region, however, a key goal should be to strengthen private sector engagement and leadership. Encouragement of private sector led or delivered initiatives at every opportunity is therefore more likely to be in the long term interests of the region than those managed by the public sector hierarchy” (OECD, 2006).

Unfortunately, the review little attention to the potential impact on the regional economy from the government’s public sector transformation strategy and changing role of the state discussed above. The review demonstrated a lack of understanding of neoliberalism which is surprising since the OECD has been one of its strongest advocates.

Strengthening business-led regional bodies

The Local Government White Paper proposed new City Development Companies (see below) to increase private sector involvement and investment and Multi-Area Agreements (MAAs) to encourage subregional collaboration. The assumption is that increased private sector involvement and better coordination will significantly improve performance.

“.....regional bodies have continued to be created on an ad hoc basis with little clear sense of where they fit in with the existing structure.....the result has been a complex and confusing picture of a multi-layered, fragmented array of bodies with overlapping responsibilities and strategies, multiple and complex networks, relationships and partnerships” (Audit Commission, 2007).

The government’s Sub-National Review of Economic Development and Regeneration in 2007 recommended reform in four areas.

Firstly, to empower local authorities to promote economic development and neighbourhood renewal. Consultation on legislation to require all upper tier authorities to carry out an assessment of their local economy and future challenges is imminent. Reform of the Local Authority Business Growth Incentive scheme, a proposed business rate supplement to fund economic development projects, a community infrastructure levy on new development to support infrastructure investment and the new Working Neighbourhood Fund to replace the Neighbourhood Renewal Fund.

Secondly, to support joint local authority working to strengthen sub-regional management of transport, to develop Multi-Area Agreements (MAAs) to allow groups of local authorities to agree economic development targets. The possibility of establishing statutory sub-regional arrangements – City Regions - to pool responsibilities for economic development policy areas will also be considered. MAAs are voluntary sub-regional partnerships which will require “transparent arrangements for ensuring financial and democratic accountability” and will be expected to include representation from businesses and the RDA (DCLG, 2007).

Thirdly, to strengthen the regional tier by finally moving to a single integrated regional strategy with economic, social and environmental objectives. RDAs will be strengthened and become

regional planning authorities with the abolition of Regional Assemblies in 2010. The scrutiny responsibility of Assemblies will be given to local authority leaders in each region. They will also have responsibility for agreeing the regional strategy.

Finally, reform of central government's relations with regions and localities. Each region now has a Regional Minister to be an advocate for the region and "to give citizens a voice in central government" (DCLG, 2007).

A new development framework?

Major unitary authorities such as Greater Manchester, West Yorkshire and the West Midlands should be given the same transport, planning and regional development powers as the Greater London Authority (Town and Country Planning Association, 2006). "These powers should be transferred to directly-elected local government wherever significant regional-scale authorities are created" (ibid). The TCPA's Hetherington Commission on the future development needs and priorities recommended a Development Framework for England (DFE) which established principles, spatial issues and policy approach but, apart from the above comments, was largely devoid of proposals which addressed democratic accountability. It was more concerned to establish a 'corporate planning' framework for a long-term infrastructure and investment programme and sectoral policies. "The globalisation of the world economy means that a DFE, except for publicly-funded schemes, must be based upon creating markets, not determining them" (ibid).

City Development Companies

Newcastle City Council and Gateshead Council have agreed to set up a joint City Development Company (CDC), a model proposed in the autumn 2006 Local Government White Paper. Newcastle City Council agreed to "*further build the NewcastleGateshead Partnership by developing a Multi Area Agreement with Gateshead Council.....establish a robust, operationally independent, private sector-led, joint economic development delivery vehicle to support the regeneration of the urban core and the growth of the local economy subject to the approval of a detailed delivery plan and risk analysis*" (Newcastle City Council, 2007).

The functions of the CDC could include coordinating a long-term programme of public and private investment in urban tourism infrastructure and the public realm, master planning some strategic areas, 'internationalising' NewcastleGateshead 'as a place of business' and accelerating activities to develop knowledge-intensive business activities. The CDC "would also be the principal driver for a potential Business Improvement District (BID), the sounding board for emerging plans for the city centre and the lead on a range of activities agreed by the Executive" (Ibid). The report contains a one vague reference to 'robust public accountability'.

One of the City Council officers driving this agenda has argued that the public sector is 'too big' and is 'crowding out' the private sector. He has advocated a "lead delivery vehicle with a critical mass of power and resources" staffed by experts in economic development, planning, regeneration delivery, communications and marketing and international diplomacy. It should have "whatever governance arrangements secure it the most space to get on with the job" (Murphy, 2006). The 'solution' is always private sector or pseudo public private partnerships with little or no thought given to the impact on local government, the public interest, democratic accountability and transparency.

None of the above regional and subregional proposals fully address the need for democratic accountability. The Local Government Association has promoted MAAs but have no proposals for their governance. They conclude:

"When councils are working across their administrative boundaries and decisions are being taken by a partnership there is a justifiable concern that these decisions should be seen to be democratically accountable. Ultimately that accountability will come through the ballot box when the individual councils represented on the partnership

come up for election. But enshrining transparent ways of working in MAAs – for example provisions about how the partnership is to be led and how the decisions arrived at – might add to the democratic accountability of sub-regional working” (LGA, 2007).

The paucity of proposals to meet democratic accountability requirements is mirrored in other proposals. For example, a proposal for Local Asset-Backed Vehicles (LABVs) – joint public/private companies to “deliver local growth” by exploiting public assets – recognise the importance of governance structures. However, this goes no further than the partners considering the type of projects to be undertaken, ownership of the company, how the returns and risks will be split and whether profits can be extracted from the company at different times (Centre for Cities and PricewaterhouseCoopers, 2007)

The growth of services markets

New Labour’s transformation strategy to increase choice and intensify competition between providers (public, private and voluntary sector) by setting up systems to choose between suppliers and to commercialise public sector organisations also increases markets. Two other developments follow. Firstly, gaming occurs as market forces and profit motives exploit gaps and loopholes in regulatory frameworks. Secondly, transnational companies increase market share through mergers and takeovers (Whitfield, 2006).

The government is intent on expanding service markets but this requires changing the role of the state. According to PricewaterhouseCoopers the “structure of supply does not closely reflect that of demand” – local authorities traditionally group services in functional units such as social services, housing whereas the private sector is structured around managed services, professional, ICT services and construction. They believe that the benefits of competition ‘highly contingent upon a number of conditions including high quality commissioning, the development of market capacity (market creating and shaping) and orientation of supply towards user choice (for example by instituting choice-based contracting)” (DCLG, 2006).

In-house services are considered a liability. “Self supply, whilst a credible position in some circumstances, has the major impact of limiting competition, especially when potential suppliers feel some element of bias may be factor in deciding whether to appoint an in-house team”. This is what they mean by ‘competitive neutrality’. The private sector has always complained about ‘unfair’ competition despite being the exponents of this strategy.

Effective competition, according to PwC requires the state to implement:

- Strategic market management to actively manage markets.
- Commissioning and procurement should be elevated in importance so that these functions incorporate a strategic perspective so as to advance local government’s wider role in ‘place shaping’. In practice, this means that all services should be planned and delivered using a commissioning perspective and framework, at both strategic and operational levels.
- Greater investment made in the development of commissioning skills and capacity in local government.
- “‘Received wisdom’ about the delivery of core services must be challenged. In particular, there needs to be a willingness to challenge current patterns of service delivery drawing on the best of the public, private, and voluntary, community and social enterprise sectors” (ibid).
- Central and local government need to take an active approach to engaging with – and where required shaping – the local government services market.
- Invest in market intelligence and analysis to improve the way particular market sectors operate within the market as a whole.

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- Low entry and exit barriers.
 - Competitive neutrality with a level playing field for all providers.

A series of sector studies covering libraries, leisure, transport, corporate services and IT, asset management and construction, neighbourhood and streetscene services the emphasis was on “orchestrating, brokering and steering, exploiting economies of scale, taking on a more strategic role (withdraw from provision), introducing a range of alternative providers, attracting new domestic and overseas suppliers (waste) – together with market intelligence, market dialogue and market shaping activities (ibid).

The implications for the state and local government are rarely discussed or examined because competition is accepted as a core requirement. No is the effect of diverting public resources and capability to carry out these functions. All the talk about place shaping is really about market shaping. Democratic accountability and transparency are not considered relevant.

The drive towards increasing the role of shared services raises a number of important issues about democratic accountability, particularly since the typology of shared services includes joint projects between local authorities, joint venture companies, strategic partnerships and outsourcing (Whitfield, 2007). There is a clear potential for a progressive shared services strategy using collaborative, lead authority and jointly managed projects to achieve better integration and innovation of services and ensure any savings are channelled to frontline services.

The regulatory role of the state

The Audit Commission’s review of the future of public sector regulation proposed five first order principles in a framework *“describing how these services are to be funded, commissioned and delivered (including the role that private and voluntary sector providers are to play in the provision of services). This framework is for government to determine.”* In addition, *“regulation should be conducted independently of government, which should not override the professional judgments that regulators make about individual public bodies or services.”*

It is transparent that the regulation of markets and the commissioning/providing divide has a central role in regulatory regimes. *“Where market mechanisms exist, regulation should distinguish between commissioning and provider functions and between public and non-public providers, but should not result in market distortion by imposing undue burdens on one type of provider.”* Furthermore, *“regulators must themselves be accountable and must provide value for money. Regulation must be proportionate and cost effective”* (Audit Commission, 2006).

Role of the third sector

The government is extolling the virtues of voluntary sector provision of public services. The voluntary sector consists of local, regional and national organisations, which have different responses to government policies. Some may seek to negotiate a role in service delivery without the knowledge or support of the local community.

There are also a wide number of different types of organisations in the voluntary sector as distinct from non-profit social enterprises and for-profit small businesses. Black and Ethnic Minority (BME) enterprises, Women-Owned (WO) enterprises may be in the social enterprise sector or simply be small businesses.

This government’s approach is almost certain to lead to conflicts between voluntary organisations over their role in the provision of public services, increase conflicts with trade unions where staff transfers are required in outsourcing (many voluntary sector organisations have a poor record as employers), and conflicts between community organisations, social enterprises and larger voluntary sector organisations. These issues are likely to be particularly

acute in the criminal justice system with the implementation of the National Offender Management Service (Probation and Prisons) and in the health and social care sector.

The government's plan for 'neighbourhood devolution' have been heavily criticised because of the lack of clarity about whether they will in fact achieve the step change in empowerment claimed.

"The middle class minimal user of services, the vulnerable/hard to reach and the migrant worker are all examples of constituencies that are addressed by this white paper. Will any of these people care enough to be engaged?"

It is also hard to see how some of the proposals, for example simply introducing budgets for councillors or local ownership of assets, will help to tackle endemic local issues around crime, education, health and so on. There is a real danger that a lot is invested to achieve very little." (PricewaterhouseCoopers, 2007).

More privatisation

The marketisation of services and commercialisation of in-house organisations inevitably leads to their privatisation. For example, Direct Service Organisations and business units are forced to compete, adopt commercial practices and employment policies and may become a mirror image of the companies they are competing against. Private companies seek to purchase these organisations because they provide a means of building market share. In a similar way, arms length companies seek to expand and become self-sufficient.

New services are frequently established either in partnership with the private sector or are entirely privately supplied. This increases the power of companies to use their market share to leverage an ever-greater role in provision. Infrastructure projects such as Building Schools for the Future and NHS LIFT provide new opportunities for service provision. The widening role of Strategic Service Delivery Partnerships, particularly into property management and regeneration, open new opportunities for privatisation of assets and infrastructure. The outsourcing of commissioning will further weaken the client function and open the door to new privatisation opportunities.

New models of urban governance and public management

Simplistic identification of options developed by the Audit Commission and the Improvement Development Agency as 'service first', 'democracy hub' and 'civic leader' (IDeA and Audit Commission, 2005).

A 'service first' authority *"is likely to be a traditional structure with clear lines of accountability"* whereas a 'civic leader' authority is likely to be a matrix structure. This is described as:

"Directorates based on corporate priorities will have less clear direct lines of accountability. Service managers may find themselves working to different directors on different projects. Power may rest less with big budgets and more with wide public interest and influential local partners. The centre may be somewhat disjointed from service delivery with members going directly to heads of service for day-to-day issues. (ibid).

In a 'democratic hub' authority *"there will be attractions in a devolved structure where frontline services and decisions are organised on an area basis..."* (ibid). Service first is the outsourcing model and to a slightly lesser degree in the 'civic leader' model. Interestingly, links with the private sector in the 'democratic hub' model are *"more cautious in order to respond to local people's needs"*. So the service first model, which is supposed to be about concentrating on the quality of services, and the 'civic leader' model do not prioritise responding to local people's needs! The dangers of this simplistic approach are self-evident.

The *Fitness for Purpose* report considers a 'strategic choice agenda' which requires authorities to consider what is distinctive about their area that could influence council

priorities, what is distinctive and important about how the council currently works internally, what local challenges the council faces and whether corporate strategy reflects this distinctiveness. The remaining strategic choices concern the priority given to service improvement, community leadership and democratic renewal, respectively; the values of the political party(s) in control towards the modernisation agenda and the interpretation of the models.

The distinction between the models is contrived. Expecting an authority to choose or to state its priority between service improvement, community leadership and democratic renewal is facile when all three are vitally important to all local authorities. Newcastle or any other city has not, and should not, be expected to make a choice between regeneration and conservation. Differences in emphasis do not indicate choice but reflect local conditions, heritage and social needs. All local authorities will argue they must focus on service delivery, democratic accountability *and* civic leadership. The organisational and management structures of the three models are equally vague and flawed.

A Good Governance Standard, based on six principles focusing on outcomes for service users and citizens, effective performance, the values of good governance, increasing capability and engaging stakeholders has had limited take-up (Office for Public Management and CIPFA, 2004). It failed to address the effects of the government's public sector transformation strategy, the growth in new organisational structures and partnerships and was devoid of a community/trade union and service users/staff perspective.

Empowerment and participation

The changing nature of electoral activity and citizen participation

The Power inquiry into Britain's democracy identified seven key groupings of causes for the decline in electoral activity. They ranged from problems in the current political climate such as the similarity of the main political parties and lack of competitive elections; problems with political culture and public attitudes such as the low levels of trust in the probity and competence of politicians, a weak or changing sense of civic duty and a sense of disconnection from the political system to a lack of resources such as information and knowledge about politics. The role of the media in promoting political distrust was another factor.

Changes in the structure of the state have also led to reduced accountability – a sense of powerlessness felt by citizens and the increased power of transnational corporations, increased power of the Cabinet over Parliament, the rapid growth of agencies, quangos and task forces, increased outsourcing to private contractors and consultants and the decline in the power of local government relative to central government.

Finally, the Inquiry also identified fundamental social and economic changes and the shift to a post-industrial economy which has led to the decline of traditional working class networks, the growth of leisure based and single issue networks but also continued high levels of multiple deprivation and a socially excluded class.

Models of governance/accountability

The Meta Evaluation of the Local Government Modernisation Agenda identified four components of internal and external accountability, which were later, used by the Audit Commission in the evaluation of governing partnerships (ODPM, 2005 and Audit Commission 2005).

Giving an account: Annual reports, reports to cabinet/board, audit committee and LSP, public events, open decision-making meetings;

Being held to account: Scrutiny, performance appraisal, internal audit, public meetings, annual audit letter, inspection reports;

Taking account: Research and consultation such as citizens panels, neighbourhood forums;

Redress: Complaints procedures, ombudsmen.

The Meta Evaluation report on accountability claims that “there has been some increase in accountability, especially in relation to taking into account and giving an account.” (ODPM 2005). It also concluded that improvement in ‘holding to account’ are less clear with little change in redress.

“LGMA policies have had a strong positive impact in making local authorities more accountable” with Comprehensive Corporate Assessment, Best Value, Community Strategies and Local Strategic Partnerships cited as having a *“significant impact”* with new political management arrangements and Local Public Service Agreements also having a positive effect.

The study identifies three main accountability limitations.

“One is the tension between the gains from partnership working (especially in terms of service improvement and stakeholder involvement), and the weaker accountability arrangements it brings. The second is the relationship between managerial and political accountability, especially where managers are now operating more in areas that were traditionally seen as the preserve of politicians. The third limitation is between contracting out and accountability, where there may be gains due to clearer specifications and monitoring but also limitations due to arm’s length provision” (ODPM, 2005).

Has the governance of cities improved?

The ‘State of English Cities’ study asked the question whether government policies have made cities better governed? (ODPM, 2006). It examined the main policies which have attempted to improve the governance of cities commenting on the main features, rationale, impact and policy lessons of Local Strategic Partnerships, Neighbourhood Management Pathfinders, Regional Development Agencies and Local Area Agreements although the latter two have not been subject to systematic external scrutiny. Improvements in the ‘community governance of cities’ through the Single Regeneration Budget, New Deal for Communities Programmes, Community Participation Programmes and reports that evidence about the impact of government policy on community involvement is partial. The combination of the Comprehensive Performance Assessment, Best Value, Community Strategies and LSPs have “increased local authorities accountability but *“most members of the public have not taken advantage of the new accountability mechanisms”* (ibid). This was in part due to a *“lack of transparency and the complexity of institutional arrangements.”* The assessment of policies to improve leadership and skills in cities and improve services essentially repeated the conclusions of the Meta Evaluation.

The study recognised that the government had made sustained attempts to promote more joined-up urban governance at neighbourhood, urban, City Regional and national levels. The balance sheet assessment concluded that whilst regional governance had become more complex *“questions remain about the local accountability of many regional institutions.”* In addition, *“it is difficult to build up a clear picture about whether urban services are improving because information is so dispersed.”* The overall account is one of *“mixed results”* (ibid).

Accountability theory of change

The Meta Evaluation of local government suggests a theory of change consisting of a number of accountability drivers which it cites as new Council Constitutions, new Ethical Framework, Best Value, Comprehensive Performance Assessment, public participation, Local Public Service Agreements, electoral pilots, finance, e-government and number of primary relationships (ibid).

These drivers are highly selective and exclude other drivers which undermine and reduce accountability. For example, the transfer of local government responsibilities to arms length companies and trusts, JVC or partnership boards in SSP projects and the wider role of commissioning and contracting are excluded.

There are different levels or layers of accountability, for example accountability to the electorate in general, to particular areas/communities, equality or interest groups, to other public bodies, to central government, to employees and trade unions and to organisations and companies with which it has contracts. The levels or layers of accountability are becoming more complex, particularly those to other public bodies as integrated working, shared services and partnerships become more prevalent. Elected members and community/voluntary organisation representatives are directors/members of a widening range of company and trust Boards. However, the lines of accountability are not straightforward because directors are legally required to put the interests of the company or trust first. Accountability to their constituents and the organisations they represent is secondary.

The assessment of accountability is flawed.

Firstly, accountability to whom is not fully addressed. Much of the accountability in the modernisation agenda is local government accountability to central government, which is dictated by funding regimes and performance management targets. The threat of being classified a 'failing authority' is real and there are other direct and indirect pressures such the non-approval of council projects if the local authority does not embrace the modernisation agenda.

Secondly, the studies do not recognise the growth of arms length companies, trusts and task forces in central and local government and other public bodies. Public-private partnerships such as Joint Venture Companies (JVCs), Strategic Service-delivery Partnership (SSP) boards, Local Education Partnerships (LEPs), NHS LIFT and PFI projects impose different, and sometimes conflicting, types and levels of accountability.

Thirdly, 'taking account' is a feeble and limited perspective which is not based on participative community involvement or an industrial relations framework. The statement that "local councils are increasingly taking the view of residents and stakeholders into account through numerous consultation and participation exercises" is correct up to a point. But they are 'exercises' and community views are 'taken into account' to the extent they are 'listened to'. Most community organisations believe that 'being listened to' does not constitute citizen engagement or participation. Public employees are also service users but many local authorities engage with staff and trade unions on a narrow industrial relations agenda.

Fourthly, the Local Government Management Agenda is narrowly defined so as to exclude the marketisation policies under the commissioning, choice, contestability and competition mantras now being mainstreamed in the public sector. Since restructuring democratic accountability and user involvement is one of the five main elements of the marketisation process, this omission is highly significant (Whitfield, 2006).

Finally, the studies do not take account of regulatory accountability.

Citizen engagement and participation

Citizen engagement and participation in public policy making generally, and specifically in regeneration and service delivery, is widely promoted by the government (ODPM, 2004, 2005a, 2005b, 2006, Home Office, 2005). The statements and reports advocating community participation in service delivery are an important and welcome development.

Participation should mean real choice in local decision-making. For example, community opposition to academies and other policies will need to be respected. Central government policies will need to be more flexible and must not impose policies nor withhold funding because of opposition. The emphasis on freedom and flexibility has certain limitations because there is evidence that the government is unwilling to allow any freedom or flexibility in

the implementation of core policies. For example, funding for the Decent Homes Standard was deliberately limited to three options - stock transfer, PFI or ALMO. Additional investment was not made available to local authorities where tenants and elected members wanted to retain direct control of council housing.

The reform agenda includes many statements on the importance of community participation in general and specifically in service delivery. The 'Together We Can' civil renewal document contains headings such as 'power to the people' and 'empowerment does work' (Home Office, 2005).

"The more effectively communities are engaged in shaping services, the more likely it is that quality will be delivered. The more that communities understand the issues and limitations around decisions on services, the more realistic and sustainable those decisions are likely to be. Indeed, reform and modernisation of the public services will not be accepted as legitimate unless it is based on citizens' support" (ODPM, 2005).

The same document recognises that participation and improving service delivery have a key role in challenging discrimination and promoting fair access. The National Audit Office has also stated that:

"Community participation is vital in ensuring value for money in public services. Services designed and delivered without community input risk wasting public money because they will be unused or underused if they are not what people need. Local people must have the opportunities to identify their needs and contribute to finding solutions, rather than feel powerless in the face of public authorities that deliver services on their behalf." (National Audit Office, 2004).

Improving the quality and responsiveness of services delivered at the neighbourhood level. This requires increasing *"the involvement of the community in the making of decisions on the provision of those services and on the life of the neighbourhood(s)"* (ODPM, 2005). The same study calls for more opportunities for joint action between those providing local public services and voluntary and community groups.

However, whilst there are increased opportunities for participation, the terms of engagement and the agenda is largely determined by government. Community capacity building, essential because of the decline of community development resources over the last two decades, is usually narrowly proscribed with the outcomes linked to funding regimes. Some community involvement programmes have been little more than a smokescreen to impose central government policy. Local authority engagement of community organisations and trade unions in Best Value Service Reviews has varied very widely (IDeA et al, 2001). In addition, the degree of grass roots involvement in Local Strategic Partnerships and other partnerships generally engaged voluntary sector organisations but frequently did not embrace grass roots campaigns and trade unions were specifically excluded. A very limited basis for 'partnership' and 'participation'.

Increased participation alone does not necessarily increase accountability. Similarly the publication of Best Value performance plans increases transparency but does not make the providers of services any more or less accountable. Only rigorous scrutiny involving trade unions, community and civil society organisations could achieve this.

The saga of changes to NHS participation organisational structures shed a different light on New Labour's intentions. Community Health Councils (CHCs) were abolished in 2003 and were replaced with Patients' and Public Involvement Forums and the Commission for Patient and Public Involvement in Health (CPPIH), alongside patient advice and liaison services (PALS), the independent complaints advocacy service (ICAS) and overview and scrutiny committees (OSCs).

The CPPIH was designated for abolition by the Department of Health's 2004 review of arms length bodies. A review of participation in health was initiated by the Department with a panel

of so-called participation experts. Their focus was limited to involvement of users and the public in the commissioning of health and social care, duties on health and social care bodies to “achieve effective involvement”, to “build public involvement in more flexible and creative ways, rather taking an over-prescriptive approach” and to build capacity in voluntary and community organizations (DH, 2006).

Local Involvement Networks (LINKs) have replaced patient forums. LINKs work with existing voluntary and community sector groups, as well as interested individuals to promote public and community influence in health and social care.

The promised ‘double devolution’ raises a number of key issues. *“It assumes that there is a mass market of citizens just waiting there, demanding to be given this responsibility”* (Compass, 2007). Engagement and participation is resource intensive and is increasingly focused on budget and expenditure decisions (how to spend a bit of local money) when there is a widening gulf between this type of involvement and the minimal level of ‘engagement’ in major project and policy decisions. A focus on local spending is more likely to speed up the competition and contestability agenda because participants may be more likely to advocate outsourcing to cut costs and squeeze more ‘outcomes’ from the budget.

“the state should embed and expand the range of opportunities for citizens to be involved in the design, delivery and governance of public services and should look to increase the opportunity for people’s voices to be heard and for choice, and sometimes direct payments, to be placed in their hands” (Cabinet Office, 2007).

Subsidiarity and democratic accountability

The capacity (defined as the ability, authority, and accumulated intellectual knowledge) of public sector organisations will be increasingly important in order to take advantage of the opportunities created by a genuine ‘freedom and flexibility’ approach. Capacity is also important to maximise the economic gains from public sector investment, regenerating communities, addressing market failures and maintaining and improving the public domain. Further fragmentation of local government and public bodies will inevitably erode and weaken the public sector’s ability to undertake these important tasks.

Governance and sustainable development

‘Promoting good governance’ is one of the five principles of the government’s sustainable development strategy together with living within environmental limits; ensuring a strong healthy and just society; achieving a sustainable economy and using sound science responsibly. Government departments have identified high-level contributions to delivering this strategy. The DCLG will be *“working to give communities more power and say in their decisions that affect them; and working to improve governance at all levels so that we can work at the right level to get things done”* whilst the Foreign Office will be *“promoting human rights, democracy and good political, environmental and economic governance overseas”* (DEFRA, 2005). The government’s definition of ‘sustainable communities’ includes that they provide *“strong leadership that responds positively to change”* and *“effective participation by local people, groups and businesses especially in the planning and long term stewardship of their community”* (ODPM, 2003). Similarly, participation and involvement is one of the six elements of social justice (the others being the distribution of opportunities, redistribution and improving life chances, reducing inequalities, eliminating discrimination and improving quality of life and community well-being (NWRA, 2005).

The Sustainable Development Commission’s (SDC) has called for a convergence between the modernisation agenda and sustainable development. They conclude that sustainable development needs ‘better machinery’ while the modernisation agenda needs a “sustainable core and a bigger public purpose than can be provided solely by prevailing views of ‘efficiency’ and ‘customer choice’”. They also note that there are a number of competing concepts to provide an overall framework for the next phase of modernisation such as devolution, new localism, public value, increased choice, personalisation and co-production but argue that

sustainable development is already available to guide the design of services and engagement of users (ibid).

The SDC suggests that there are critical affinities between the objectives of modernisation and the principles and practice of modernisation. These include new forms of public engagement in decision making, the whole system approach in sustainable development and joined up and integrated service delivery, long-term change action for systemic change and equity between generations, and a shared focus on outcomes, prevention and *“action to bring about cultural change and market transformation”* (SDC, 2005).

The SDC calls for a ‘strong local state’ and that “filling the ‘democracy gap’ is essential for sustainable development to take root”. Unfortunately, the SDC promotes the concept of the NHS and NHS Trusts (although not other public bodies) acting as *“powerful corporate citizens.”* Corporate social responsibility has serious weaknesses and is fundamentally flawed when it is applied to public bodies (Whitfield, 2006).

Despite ‘Promoting Good Governance’ (promoting effective participation systems of governance in all levels) being one of the five sustainable development principles, the SDC and the government approach to improving regional implementation of sustainable development are limited. A ‘proper accountability framework’ consists of identifying leadership and ownership at management board level, creating a business case, developing a network of champions and targets. The principles for Regional Sustainable Development Roundtables make no reference to accountability other than the need to be ‘inclusive’ with wide cross sector representation despite their critical friend role.

The profound effects of New Labour’s transformation

The government’s strategy for the transformation of public services is dominated by contestability, commissioning, competition and choice which will create a contract culture with the state responsible for ‘making markets’. Other elements of this strategy are the drive towards personalisation and individualisation and creation of an asset based welfare state with direct payments and financial stakes to substitute for the direct provision of public services. Vouchers are an inevitable outcome of these policies. Arms length companies, trusts and the encouragement of voluntary organisations to take over service provision is another component of this reform strategy.

The transformation strategy is flawed. Although it is dressed in a new language it is essentially ‘more of the same’ but on a much larger scale and applied across the entire public sector.

Firstly, although the government preaches the importance of having an evidence base in the policy making process, it provides minimal evidence to support the transformation strategy. For example, the Policy Review paper in the role of the state suddenly concludes that in-house services should be provided by arms length organisations. No discussion or evidence.

Secondly, there are few references to democratic accountability and no recognition that the third sector has no better record on this matter. The claims to ‘empower citizens’ are naive and not backed by a meaningful proposals – it is not organisational empowerment which is promised but a narrow form of individual power by exercising choice in the marketplace. There are references to ‘local accountability’ such as Foundation Hospitals and social enterprises but ‘democratic accountability’ does not feature.

The government is promising ‘double devolution’ but successful implementation of the transformation strategy will mean participation in procurement, participation in regulation frameworks, participation in contract management and participation in public private partnerships. If service users and the public are not involved in these functions, then they will be marginalized because these are the core functions of the transformed state. But achieving meaningful ‘community engagement’ in this agenda will be very difficult.

Thirdly, the government is fixated with 'outcomes' but is reluctant to articulate and debate the fact that the consequences of the planned transformation of the state will be a large extension of marketisation and privatisation of public services. The drive for increased efficiency and shared services agenda, seeks to divorce corporate services from frontline service delivery. Simultaneously, local authorities are encouraged to become 'community leaders' emphasising their role in strategic policymaking, separate from service provision, thus reinforcing a central tenant of the neoliberal transformation agenda.

Finally, the quality of employment, pensions, trade unions and equalities do not feature in any of the transformation strategy reports.

Globalisation is forcing ever-increasing competition between national and regional economies. Cities and City Regions compete as global cities (London, New York), within Europe and within nation states and regions. In Britain, the national spatial and growth strategy is concentrated in the south east. The increasing reliance on private finance for investment in the public infrastructure helps to accelerate competition between cities in addition to contributing to the implementation of the transformation and public services reform.

The potential consequences

The combined effect of New Labour's transformation policies will almost certainly have major consequences for the public sector. The impact on local/regional economies, employment, sustainable development and social justice will be examined in a forthcoming study. This report focuses on the impact on democratic accountability.

Fragmentation of public institutions: through commissioning, outsourcing and offshoring, the transfer of services to arms length companies and trusts and the establishment of new private sector or private-public organisations to take over state and local government economic development and regeneration responsibilities.

Diffusion of accountability: Lack of clarity about who is responsible between central policy, finance, local commissioner (client) and provider (contractor). Partnerships further diffuse responsibility between public, private and voluntary sectors. Company and trust Boards based on the one third public, business and user representation but accountability is superseded by prime responsibility to the financial and legal interest of the company.

Privatisation of responsibility: Personalisation and individual budgets may benefit a few users but reduce collective recognition of social needs and obscure the cause and effect of policies.

Failure to empower users: The gap between rhetoric and reality is almost certain to widen as 'empowerment' is exposed as fraudulent when more community organisations realise they are merely being offered participation in service markets and when transnational companies use their increased economic power gained through the government's commissioning strategy to reconfigure services in their corporate interest.

Weakening of trust and safeguarding of the public interest: In the event of the state being unable to fully control and regulate market forces it could result in a loss of trust by the public. The emphasis on individual and personal self-interest could gradually erode collective public interest.

Centralisation of policy making but localising user involvement: Despite a plethora of guidance encouraging increased participation the reality is that service users and public employees are asked to participate in local initiatives which are increasingly set by national frameworks with marginal scope for local flexibility and change.

Less transparency and disclosure: wider use of procurement is leading to increasing use of 'commercial confidentiality' and a contract culture. The Freedom of Information Act is fundamentally flawed in this respect. The lack of basic information about projects and contracts is a major inhibitor of participation.

Weakened intellectual public sector capability and capacity: public bodies are increasingly reliant on management and technical consultants, financial advisers and lawyers for advice and project management. This in turn reduces the ability of public bodies to regulate and control market forces.

Failure to improve and extend democratic accountability and governance systems: The ultimate potential failure would be the failure to improve the governance of local government and public bodies and to democratise quangos, arms length companies and trusts. The constant strive to establish 'new' organisations inevitably leads to the erosion of credibility and purpose of existing systems of governance. The procurement process also imposes conservatism – local authorities and public bodies become increasingly nervous about awarding contracts in-house for fear of threat of legal action by private contractors and/or being downgraded in performance assessments because they are not fully implementing government policy.

Chapter 4

The City Region concept

Introduction

The concept of City Regions has been promoted by the Northern Way strategy and by the government. This chapter examines the proposed framework for City Regions and the key issues that need to be addressed if Tyne and Wear were to be designated a City Region.

Different objectives

The rationale for City Regions rests on “three ‘in-principle’ logics” - improvements in direct public service delivery, location of ‘strategic’ policy making at the most appropriate (democratically accountable) scale and the enhancement of economic performance and search for greater urban competitiveness domestically and internationally (ODPM, 2006). A City Regions Commission made a similar case for increased competitiveness of core cities and a reduction in disparities between south and north (NLGN, 2006). But it also added two further advantages – improving community engagement and leadership to reduce the democratic deficit and improving efficiency through regional shared delivery of back office functions.

Another study concluded that there is a strong case for the devolution of economic development responsibilities to a lower tier of government and for radical financial devolution (IPPR, 2006).

A broader agenda

In addition to stronger economic development and public spending responsibilities, there are other important issues which a City Region agenda would have to address such as a new national spatial strategy with a more equitable distribution of growth areas and a new settlement between local and central government giving genuine local freedom, flexibility and ability to determine the provision of public services. In addition, ALMOs, trusts and arms length companies should be transferred back to local government with meaningful community and trade union participation in policy making and a new industrial relations framework.

The government’s City Region framework suggested two approaches – a developmental or a transformational approach (ODPM, 2006) It clearly favours the former. A developmental approach will involve the creation of semi-statutory partnership arrangements (which may differ between functions) through which resources would flow. In other words, City Regions would be created over and above the existing pattern of local government and would require a further layer of partnerships.

A transformational approach would be a more radical approach involving the restructuring of local government. The framework claims that the city region scale is less relevant to policy making and delivery for personal services that are inherently local and demand close relationships between service providers and ‘consumers’. Furthermore, such a framework is very unlikely to be applied selectively on those city regions where potential improvements in economic performance would help to reduce the gap in regional growth rates. Most large urban areas are likely to qualify for City Region status thus creating another tier of north-south inter-regional competition.

Rationale challenged

The rationale for City Regions needs to be much stronger and more coherent.

- There is an over-emphasis on the claimed economic value of City Regions and hence the methodology used for their geographic definition.

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- Reference is often made about the role of City Regions in an “open, globalising knowledge economy” – but there is lack of clarity whether this is a ‘fact’ or a forecast and whether the designation of City Regions could increase the power of northern regions in such an economy.
 - There is no analysis of the impact of City Regions and/or the government’s public sector transformation strategy on production and supply chains and the economic and employment consequences of national/global resourcing.
 - The footprint approach to determining a City Region boundary is limited to travel to work, retail services, culture and entertainment, football supporters, hospital services, and higher education catchment areas. This is a selective approach that excludes social and community identity and democratic structures.
 - The £29bn performance gap between Northern economic performance and the greater South East is cited as part of the rationale for City Regions. There is a danger that City Regions are promoted as an alternative to a new national spatial strategy. The DCLG City Region framework and accompanying documents make few references to the national spatial strategy. A strong case can be made for a new national economic and spatial strategy before City Regions are established.
 - The City Region concept is part of the “rescaling of institutional arrangements” theory which concludes that the erosion of power of the nation state has led to the reinvigoration of sub-national institutional arrangements at regional and city scales. This process, coupled with increased European Union powers, is claimed to lead to the ‘hollowing out of the state’ with shifting relationships between institutions up and down the local-global hierarchy. However, an equally cogent case can be made that state power has not been eroded to the extent claimed, that the state has not been ‘hollowed out’ but its role has changed, and ‘sub-national institutional arrangements’ have lost rather than gained power as a result of increasing centralisation of public policy making.
 - Sustainable development did not feature very strongly in the case being made for City Regions.
 - There is no recognition of whether City Regions will be more or less effective in reducing or eliminating inequalities.

Modernisation role for City Regions

- There is no recognition of the changing impact of the public sector modernisation agenda on the governance of cities, the economic consequences on supply chains, and the potential knock-on impact of outsourcing/offshoring on the local and regional economy.
- There is no recognition or linkage to the IDEA/Audit Commission’s ‘fitness for purpose’ models - service first, democratic hub and civic leader models, nor is there any analysis of public management issues which will be confronted by City Regions in all governance models.
- The economic and employment role of the public sector in the local and regional economy is not recognised (although the importance of public spending is discussed).

Democratic governance

- The democratic case for City Regions is very weak. Accountability seen simply as a ‘problem’ with regard to a transformative approach and no attempt has been made to consider how a city region could reinvigorate democratic accountability and participation. A democratisation model (p28) would mean adopting the London model for policing, transport, fire and emergency services, economic development and

strategic planning ie a new strategic authority with a city region mayor. This would trigger radical local government reform and does not directly address the accountability and participation issues.

Support for the City region concept

The City Region model has its roots in existing subregional development initiatives between local authorities in Tyne and Wear following the abolition of the Tyne and Wear authority in the 1980s. More recently the Northern Way strategy has argued that City Regions have a vital role to play in the resurgence of the North.

Northern Way

The first Northern Way strategy was written before the North East referendum and was particularly weak in addressing democratic governance and accountability. It did state that “a successful economic policy requires decentralisation and devolution of decision-making to regional and local levels and greater local accountability. Regional and local bodies must have the necessary capacity, leadership, flexibility and policy levers to deliver” (Northern Way, 2004). It also concluded that “we need to encourage local flexibility and to empower local stakeholders.

The Government still has an important role to play in setting the overall context and in targeting its policies and spending. But local communities should be responsible and accountable for decisions affecting their lives. Giving people a sense of pride in their area will help create safe and stable communities” (ibid).

Tyne and Wear City Region Development Plan and the Tyne and Wear Partnership economic strategy

The Northern Way has produced a series of studies on each of the proposed City Regions in addition to the main Moving Forward Northern Way strategy. The *Tyne and Wear City Region Development Programme* analyses the current economic position of the City Region and its strategic context. It also sets out how growth can be accelerated by the science city project, design corridor, supporting local enterprise, e-connectivity, sustainable communities and improving educational achievement and skills.

The rather more brief section on ‘working together to deliver’ notes that the document had not been approved politically across the City Region prior to submission to the Northern Way Executive. It does pose two questions – how can we work at the City Region level? And what capacity is required to deliver and how can it be built? – or “can the analysis and proposals outlined be delivered through existing governance mechanisms and delivery vehicles, or do we need to establish a process to look at new forms of governance and delivery?”

It suggests that some powers, such as strategic planning, transportation and possibly others, currently exercised at local authority or subregional level could be addressed at the City Region level. It notes that other European countries often establish metropolitan level Development Agencies to lead economic development.

The Tyne and Wear Partnership’s *Leading the Way* has a vision to be one of Europe’s fastest growing Metropolitan areas by 2024, driving the economic and cultural life of the North East. The Partnership identifies four key themes of capitalising on creativity and culture, a learning sub region, raising aspirations and changing places.

Flawed strategies

The City Region visions and values are fundamentally flawed because they do not make any reference to improving democratic, accountability, participation and transparency. This is despite ‘promoting good governance’ being one of the principles of the government’s sustainable development strategy; participation, involvement and governance being one of the key elements of social justice; and ‘well run’ sustainable communities require:

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- representative, accountable governance systems which both facilitate strategic, visionary leadership and enable inclusive, active and effective participation by individuals and organisations
 - effective engagement with the community at neighbourhood level, including capacity building to develop the community's skills, knowledge and confidence
 - strong, informed and effective partnerships that lead by example (e.g. government, business, community) (DEFRA, 2005, Annex A).

The City Region debate must actively promote effective participative systems of democratic accountability, governance and transparency, which engage people's creativity, energy and diversity at all levels and all sectors of society.

It is also significant that the City Region documents make little or no reference to the challenges and changes facing urban governance and the future of the state and local government. It is as if the 'economic agenda' can be progressed quite independently and separately from a 'public administration and local government financing agenda'. This is a serious error of judgement.

OECD study of Newcastle

The Organisation for Economic Cooperation and Development's (OECD) territorial study of Newcastle included an analysis of city and regional governance arrangements. It concluded:

"The weak and fragmented governance structure in the North East suggests that consolidating governance functions of local authorities and strengthening governance capacity at the city region level may be a good option.

The development of new strong governance arrangements progressively has the advantage of minimizing disruption, and the building of legitimacy with each step. Significant (imposed) reorganisation, and the provision of substantive power and resources to city region institutions may result in strong institutions capable of effecting change, and does seem to be a choice likely to effect lasting change, but is a bold and risky initiative. One option for strong institutional reform which has been shown to work in the UK, and which could be considered for the city region, is the option of an elected mayor, such as has been adopted in London.

European policy context

"The Regional Economic Strategy for example, sits within the context of a number of European, national, pan regional, regional and sub regional policy frameworks and strategies. There are the Lisbon and Gothenburg agendas, which are not well understood in the region." (OECD, 2006)

Chapter 5

Democratic accountability and the governance of City Regions

Introduction

Will City Regions create an opportunity to enhance and redesign the way that these new public bodies are democratically held accountable? Could they provide local government with genuine additional powers and resources, which could be used for locally designed modernisation and to enhance local democratic control?

“If the region is to maximise its economic development potential, addressing governance constraints will be a priority, regardless of the economic development strategy adopted” (OECD, 2006).

City Region governance

The Local Government White Paper proposed changes in political leadership structures intended to make local government more accountable and stronger. The government is advocating directly elected Mayors and directly elected executives but most councils are likely to opt for an indirectly elected leader for a fixed term. Other measures include reinventing the role of ‘frontline’ councillors with tiny budgets, improving petitions and new ‘Community Calls for Action’, bigger roles for parish and town councils, devolution of bye-laws and increased unitary/two tier council cooperation and shared services. However, these changes, even as a package, are unlikely to lead to *“healthy, vibrant and devolutionary democratic change”* (PricewaterhouseCoopers, 2007).

Proposals for devolution to the Birmingham and Manchester City Regions included a City Region Contract (financial frameworks for economic development that would devolve over £600m in annual regeneration, transport and skills spending to each City Region), A City Region Revenue-Raising power (to levy a small supplementary Business Rate of about £35m for strategic infrastructure), fiscal incentives from central government (creating a City Region Growth Incentive to promote cross-boundary working and business growth) and an agreed Whitehall framework (that gives City regions the financial and political support they need to succeed) (IPPR, 2006).

IPPR considered three options for City Region governance which were tested against four criteria – democratic legitimacy, clarity/visibility, strategic vision and delivery. Executive Boards have been proposed by the NLGN, Birmingham, Manchester and Sheffield local authorities but performed poorly against the criteria. Another option, apparently considered by Newcastle City Council, is to have City Region Commissioners – individuals would be elected to deliver specific portfolios at City Region level. This model fulfilled only two of the governance criteria.

The third option, which satisfied all four criteria, is a City Regional Directly Elected Mayor model. IPPR recommend that City Region Mayors would “take over substantial responsibilities from RDAs and other quangos, and that existing bodies (such as Passenger Transport Executives) be transferred to mayoral control. Mayors would have control of substantial budgets and powers which “could help to attract higher-calibre individuals to city politics, and deliver a step-change in leadership” (ibid).

The OECD territorial review of Newcastle concluded *“there appears also to be a growing momentum for greater devolution to local authorities and for mechanisms to build capacity in local authorities”* (OECD, 2006).

"There are also moves to increase devolution to neighbourhoods. The starting point for reform will be to consolidate governance functions of local authorities and improve their governance capacity in the city region.....It is essential to realize significant consolidation of the city governance functions accompanied by fiscal decentralisation, particularly in economic development activities. It is necessary to consolidate current government agencies and quangos and to build strong local authorities responsible to city region government....."

An argument for the creation of city regions may be as one means to limit damaging competition between agencies and local authorities. In terms of the operational form of city region governance, an elected city region body is likely to be the most effective option....."

The regional vacuum, the referendum result and the rising importance of city regions in the economy point to a possible solution to strengthen governance for strategic city region development – an elected city region body with its own finances. This could be achieved by merger, or the creation of a strong institution which is preferably directly elected" (ibid).

Another perspective

Evidence and experience leads us to conclude that:

- Improving democratic governance, accountability, participation and transparency must have equal priority with improving the economic development performance of cities and regions.
- Limiting the responsibilities and functions of local government to championing, commissioning, community leadership and enabling roles will be fundamentally inadequate for the local state in the 21st century. They are unlikely to be effective even in the regulatory and market making functions.
- City Regions are, in one respect, an organisational model and political structure. The powers, functions and role of government are equally important. If City Regions are created in combination with neoliberal public service reform then the potential benefits of City Regions could be dramatically reduced and constrained. Instead of strengthening democratic accountability, public control of policy and provision will be fractured and weakened, the private sector will be fully involved in the public policy making process, not just provision, and 'commercial confidentiality' will reduce transparency and disclosure in the public interest.
- Executive Boards, Commissioner and Elected Mayor models for City Regions are inadequate because they will not provide a genuine participative local democracy. More partnerships and quangos are not the means of achieving a step-change in participative democracy. Improved community leadership will only come from radical reform which provides genuine freedom and flexibility for local government and community, civil society and trade union participation in the public policy making process through which representatives will develop leadership skills. These models are likely to prioritise economic development at the expense of sustainable development, social justice and the delivery of core public services.
- There is a lack of understanding and/or selective analysis of the government's modernisation agenda. Government commissioned studies have drawn on a Local Government Modernisation Agenda, which excludes the main policies driving the marketisation agenda that erode democratic accountability and participation.
- The ten-year visions for the future of local government promoted by the DCLG will merely embed existing shortcomings and will fail to generate any substantive form of democratic renewal leading to further decline in electoral participation.

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- None of the 'futures' are based on a radical strengthening of the functions and responsibilities of local government but a reduction in current responsibilities and the addition of vague 'enabling' and 'leadership' roles. A radical transformation of local democracy could have a far greater impact on electoral politics and participation than the sum of the minor changes and gimmicks attempted to date. For example, there is a strong case for primary health care and public health to become a local government responsibility.
 - There is a failure to put democratic renewal, modernisation and economic development in a sustainable development and social justice framework thus marginalising these strategies and objectives.
 - None of the policies and strategies tackles the continued centralisation of public policy making or the increasing plethora of local arms length companies and trusts. None of the studies examine the potential consequences of continuing the marketisation and privatisation process, which are at the core of New Labour's modernisation strategy.
 - Capacity and intellectual capital - retaining and increasing public sector capacity and intellectual knowledge is vital in order to take action in the public interest. The wider use of framework agreements and management and technical consultants is accelerating the transfer of knowledge from the public to the private sector. This further reduces the capacity of public bodies to act in the public interest and to retain democratic control over all forms of public assets.
 - Public bodies must maximise the economic and social benefits from public spending and investment in the region. They need the capacity and power to develop local/regional production and supply chains to fully obtain the benefits of Decent Homes investment, the Newcastle-Gateshead Housing Market Renewal Pathfinder, the Building Schools for the Future programme and to obtain community benefits in training and employment.
 - The challenge of e-democracy and e-citizenship is how new information and communications technology can be harnessed to enhance democratic accountability and participation rather than being merely a tool to increase voter turnout and for market research surveys.
 - The current vogue of promoting 'community leadership' (and bemoaning the lack of it) in the context of neoliberal policies does little to help restore participative democracy.

More of the same at a subregional level, adding to the existing plethora of local companies, trusts and partnerships, is likely to reduce rather than enhance democratic accountability and transparency.

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