

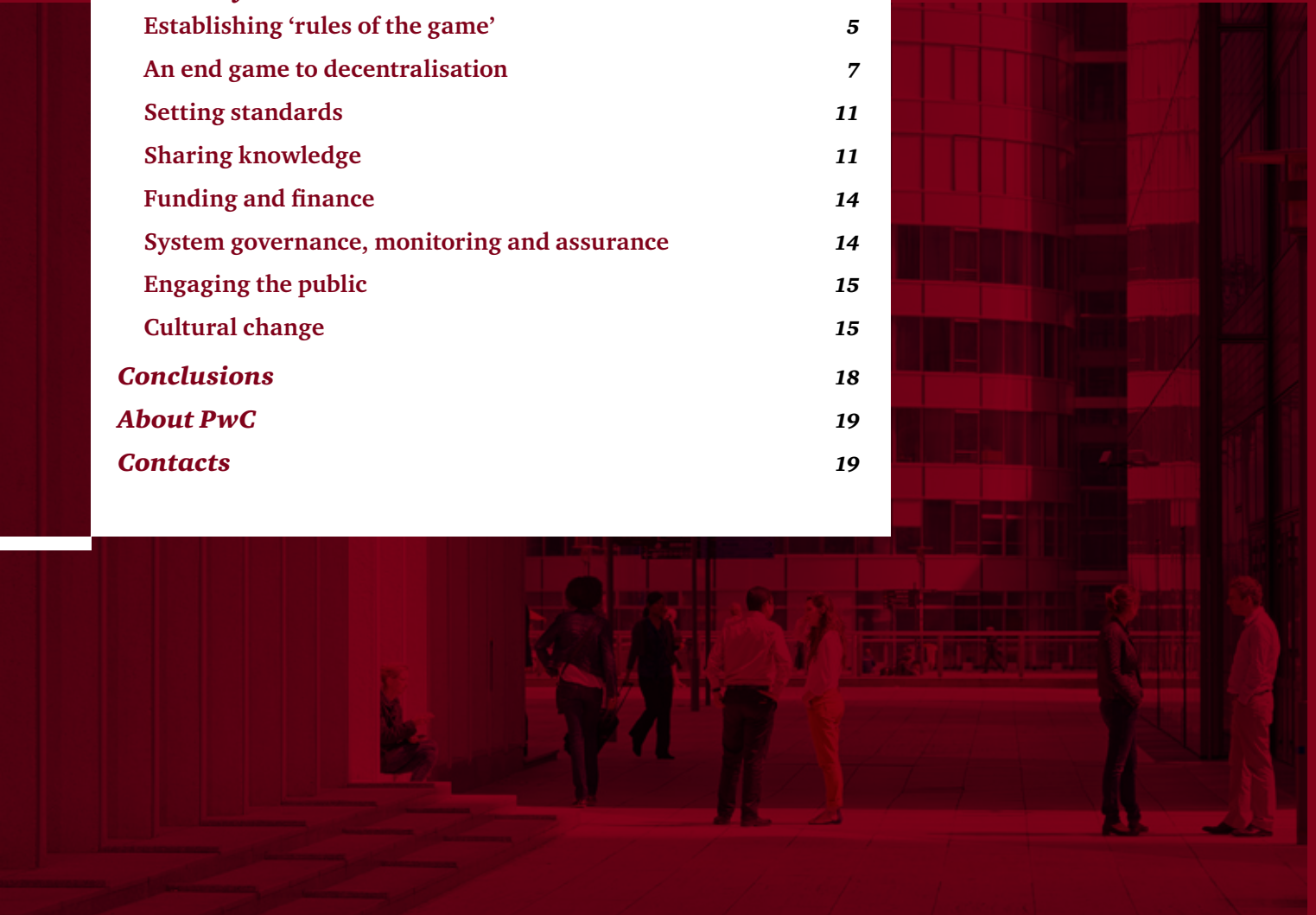
Beyond letting go:

The role of central
government in a
decentralised world

Talking Points

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Introduction

It is clear the momentum behind decentralisation in the UK is established. Embedded in the Spending Review is a commitment to further decentralise functions and budgets in order to maximise efficiency, drive local economic growth and productivity, and support the integration of public services.¹

“We also need to take radical steps towards the devolution of power in the UK, moving away from the imbalanced and overly-centralised system of government we inherited. Devolution to Scotland, Wales and Northern Ireland is well underway. Devolution within England has only just begun. This Spending Review is an opportunity to take a further big step forward.”

Spending Review 2015²

With the Government committed to a ‘deal’ based approach to decentralisation, driven by those places with the appetite and capacity to take on further responsibilities and powers, devolution in England will be multi-speed and ultimately a long term game. By the end of 2015, we can expect a handful of the 38 bids submitted to have been converted into additional devolution deals and some further funding identified for devolution to the Local Growth Fund. But it is likely that by 2020, we will only be beginning to assess what impact devolution is having on economic growth and public service efficiency and integration in Greater Manchester, Cornwall, Sheffield City Region and the other places at the forefront of taking on new powers and responsibilities.

Multi-speed decentralisation is also leading to an increasingly complex environment, with implications not only for the local and combined authorities seeking deals but also for how central

government operates. This Talking Points builds on our ‘Delivering the decentralisation dividend’ report which focused on the implications of decentralisation for local government and LEPs.³ In this report we explore the important questions that central government itself needs to address as it considers the next round of ‘devolution deals’ ahead of the 2015 Spending Review and beyond.

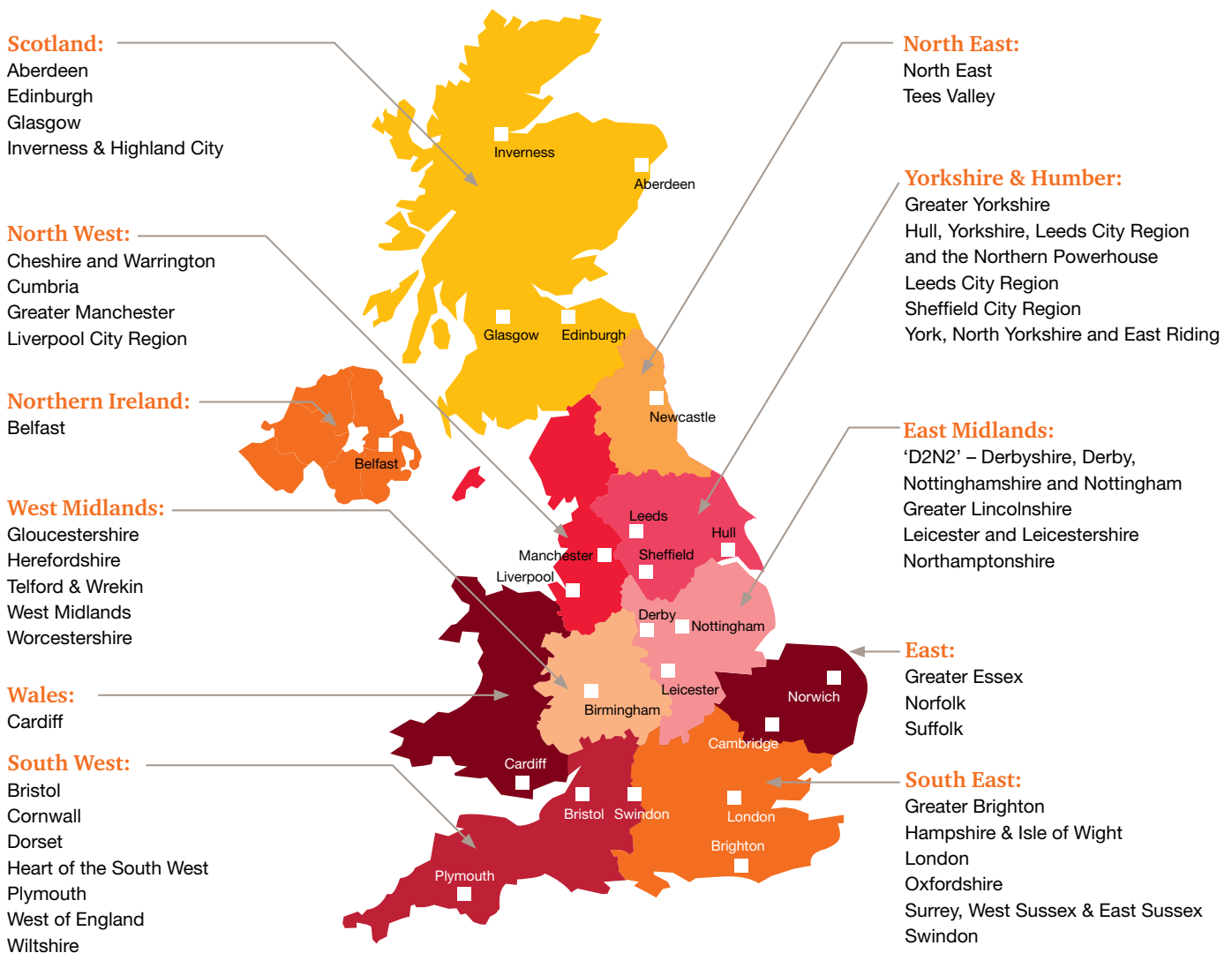
What is needed to foster new ways of working and better relationships between central government and local government? How can central government ‘let go’ in a meaningful way, managing risks so that the potential prize of localising responsibilities and decision making outweighs the price of increasing complexity? What role should central government play in setting minimum standards? As each department seeks to identify which budgets could be devolved into the Local Growth Fund, how can Whitehall manage the network effects of local decisions and ensure that local and central government are aligned when it comes to driving growth and improving productivity as well as delivering better outcomes for less?

¹ HMT Treasury, 2015, A country that lives within its means: Spending Review 2015

² Ibid

³ PwC, 2015, Delivering the decentralisation dividend: A whole system approach, www.pwc.co.uk/decentralisation

Figure 1: The decentralisation landscape – the 38 ‘devolution bids’ received by HM Treasury



The town hall view

From our work with local enterprise partnerships (LEPs) and local government, it is apparent that there are a number of barriers to decentralisation that central government could help to address.⁴ First, there are widespread frustrations around having to go door-to-departmental-door in order to reach a whole system settlement for local public services and investment in local growth. The integration of public services is increasingly cited as one of the potential benefits of decentralisation, but too often local initiatives are perceived to be hampered by central government.

Delivering local integrated public services and enabling a whole system approach to growth based on local priorities requires central government to act in a much more joined up way, cohesive way. The Cities and Local Growth Unit, through the City and Growth Deals process, has helped to join up departments better, but there is still a way to go. Joining up departments will

also require civil servants to think and act very differently to embed a decentralised and place-based approach within the central government culture.⁵

Our annual local government surveys also highlight the sustained and growing financial pressures on councils as a key barrier to delivering on decentralisation.⁶ A sceptical view – that decentralisation is no more than ‘devolving the axe’ – lingers from some parts. For others, it is the extent of the financial pressures that local government has found itself under that is driving the realisation that a more fundamental redefining of local public services is needed.⁷

Taking the gaze beyond organisational boundaries and focusing on the total public sector spend in terms of the ‘locality pound’ offers an avenue to overcoming fragmentation and investing in preventative measures that tackle the

underlying drivers of demand and deliver better outcomes more effectively. This could include, for example, pooling budgets between health and social care. The focus locally must be on finding more innovative solutions within the current financial envelope that balance stimulating growth with delivering high value public services in order to shift to ‘fiscal neutrality’.

To support this, central government could provide longer term, multi-year financial settlements for local government and public services, and enable the pooling of funding where appropriate.

4 PwC & Smith Institute, 2015, Delivering growth: where next for local enterprise partnerships? www.pwc.co.uk/leps

5 Tina Hallett, 4 August 2015, ‘A central government take on decentralisation by design’, Public sector matters

6 PwC, 2015, Local State We’re In 2015, www.pwc.co.uk/localgov2015

7 PwC, 2014, Redefining local government

Business perspectives

Ultimately, economic and productivity growth will be driven by the private sector rather than the devolution of powers from central to local government alone. Polling by the Institute of Directors has found that the majority of business leaders – 65% – are supportive of devolution to England’s regions, indicating that the private sector recognises that regionally controlled transport, planning, housing, education and skills strategies were more likely to enable them to create growth.⁸ However, there are concerns that devolution could lead to higher taxes or additional compliance costs, with significant opposition to devolving the power to keep or alter the rates of national business or personal taxes such as national insurance, income tax, corporation tax and VAT. Ensuring that business, via the local enterprise partnerships, is engaged and on board and that the prize of improved local growth and productivity stays centre stage, as further devolution deals are made is, therefore essential.



⁸ FT, 25 July 2015, Business leaders back English devolution, poll shows

Decentralisation by design: the role of the centre

To deliver the potential dividend of decentralisation, for both central and local government, the approach should be one of ‘decentralisation by design’, keeping a steady focus on the outcomes that can be achieved for citizens by moving decision making closer to the local level. Shifting decision making or responsibility for services from central to local will not in itself drive improvements. Indeed, for service users, the town hall can seem every bit as remote and bureaucratic as Whitehall. The challenge across all of government, central and local, is to truly put the citizen first when rethinking public services. The ultimate test of decentralisation must be this fundamental focus on delivering better outcomes, in terms of holistic public services, growth and productivity, and democratic accountability.

Central government has a significant role as an enabler for decentralisation, playing its part in moving to more collaborative relationships between central and local and ensuring that the momentum behind devolution continues, while maintaining sufficient oversight to manage risk and network issues. This will be a challenging balance to strike, particularly given the asymmetrical nature of decentralisation, with different places bestowed additional powers and responsibilities in relation to their appetite, capacity and capability.

This report highlights a number of areas where central government has a critical role to play in creating and operating in a successful devolved environment. Together these add up to a fundamentally new role for Whitehall. In each case, the devil will lie in the detail and central government needs to strike a balance between genuinely empowering local areas where the costs, benefits and solutions are localised, and maintaining appropriate national oversight.

Establishing ‘rules of the game’

With the deal based approach to devolution set to continue, through the Cities and Local Government Devolution Bill, central government needs to move beyond a “my door is always open” approach, and ensure local places are clear about what’s potentially on the table from central government, and what they need to provide in return. David Cameron has said that ‘money spent closer is often money spent wiser’,⁹ however cross-country analysis shows that for decentralisation to improve the efficiency of public services, local government needs to have the capacity to make high-quality decisions and local accountability needs to be effective.¹⁰ Smoothing the transition to decentralisation will therefore require investment in these areas to safeguard against the risk of political, fiscal and public service failure.

At the local level, the requirement for a directly elected mayor as part of the devolution deal process was highlighted by

9 David Cameron, 11 September 2015, ‘My vision for a smarter state’ speech

10 Social Market Foundation, 2015, One more time: repairing the public finances

our most recent ‘pulse poll’ of local authority leaders and chief executives as a barrier to decentralisation.¹¹ While there is also evidence that the willingness to concede to the mayoral requirement has grown over the past year, it remains a sticking point and potential distraction in some places. Despite its bumpy journey through the House of Lords, it is likely that the directly elected mayor requirement will remain part of the Cities and Local Government Devolution Bill and places will need to weigh up the benefits of the potential powers on offer and the outcomes that could be achieved, with the perceived price of moving to a mayoral model.

On top of an already complex system of local government, decentralisation looks likely to lead to an administrative mosaic where some functions, powers and funding are evenly decentralised, for example with LEPs covering all of England, while control over other areas is dependent on the terms of a devolution deal, be it for combined authorities or counties. This will require central government to act in a more nuanced and adaptable way in terms of its approach to different places and different service areas.



¹¹ PwC, 2015, Delivering the decentralisation dividend: a whole system approach

An end game to decentralisation

While it is right that decentralisation is driven by those places with the appetite and capacity to take on further responsibilities and powers, equally central government must ensure that multi-speed decentralisation does not lead to harmful fragmentation. There doesn't appear to be appetite from central government to spell out the end game for decentralisation in England, with the deal approach being to an extent experimental. While there are clearly differences in governance structures, the experience of Japan (Box 1) offers potential lessons on the benefits of setting out a longer term programme.

With the Spending Review including a requirement for all departments to consider what they can devolve to local areas and identifying which budgets will be devolved to the Local Growth Fund, departments will need to consider the extent of decentralisation and the geography that is most effective in terms of meeting budget challenges and delivering good growth outcomes.

IPPR North's 'Decentralisation Decade' explored a range of questions to test the functions that could potentially be decentralised in order to deliver improved outcomes as follows:¹²

1. How well is the function currently performing? Is there an obvious problem that needs to be addressed?
2. To what extent does the function currently deliver economies of scale, and to what extent does that explain the tier it is currently delivered at? How far does the function of government involve an element of redistribution where its organisation on a wider scale enables risks to be pooled or shared across a wide population?
3. To what extent might the decentralisation of this function lead to an unacceptable level of local variation and inequality or falling standards?
4. To what extent would this function benefit from the greater application of local knowledge and the potential for local innovation?
5. How far is the function democratically accountable and would accountability be enhanced by decentralisation?
6. Is there a high level of political sensitivity concerning this function and would decentralisation raise the risk of significant political issues?
7. If this function was decentralised, what might be the outcome?

This provides a useful framework for central government as it uses the Spending Review to consider the possibilities of decentralisation for this parliament and beyond (see Box 2).

International evidence suggests that at least a third of budgets in healthcare need to be devolved for there to be improvements.¹³ Equally, there will be other areas where decision making is most effective if it takes place at a centralised or regional level. For example, in the case of transport, decisions will range from minor roads where decision making is rightly at the local level, to national infrastructure projects like HS2 where national government will always have a critical role to play. There may also be cases where from an efficiency and effectiveness perspective it remains sensible for central government to be a service provider to local areas, for example in some shared services. In each case, departments need to also be clear on what precisely is being devolved, whether that be responsibility for setting policy locally or a more limited responsibility for service delivery. This detail of devolution will have very different implications for the role of central government.

¹² IPPR North, 2014, Decentralisation Decade: a plan for economic prosperity, public service transformation and democratic renewal in England

¹³ IMF, 2015, Fiscal Decentralization and the Efficiency of Public Service Delivery, Working Paper 15/59

Box 1: Decentralisation in Japan: a 15-year programme

Japanese government was heavily centralised under a system known as ‘agency-delegated functions’, whereby local authorities were expected to enact over 500 functions on behalf of central government agencies. By the 1990s, however, there was a growing consensus around the need for decentralisation and reform, which happened in three waves.

1993–2000: Laying the foundations

In 1993, the first resolutions were passed for a programme of decentralisation. By 1995, a Decentralization Promotion Law was enacted with cross-party support which made provision for a clarification and division of the respective roles of central and local government with a view to enhancing the independence and self-reliance of local authorities and establishing a ‘Decentralization Promotion Committee’.

2000–2005: Functional decentralisation

Building on these foundations, the 2000 Omnibus Decentralization Law provided for:

- the abolition of 561 ‘agency-delegated functions’, replacing them with ‘local autonomy functions’ with more limited national technical advice;
- a rolling programme of amendments to over 300 laws to curtail the extent of central involvement in local affairs and devolution of 64 different central government functions to prefectures and municipalities;

- the merging of municipal authorities and the creation of ‘special cities’ (population 200,000-plus) with additional devolved powers; and
- a process for the independent mediation of central–local disputes.

2005–2010: Fiscal decentralisation through ‘trinity reform’

From 2005, Japan considered significant changes to the local financial system. This included transferring some sources of tax revenue and collection from central to local government, rationalisation of the system of redistribution known as ‘national treasury subsidy and obligatory share’ and legislative reform to allow local authorities to introduce some local taxes and vary certain tax rates. Following two years of discussion, these changes were made under the Local Financial Reconstruction Law 2007.

This 15-year programme of decentralisation in Japan has not been without its challenges, not least as tensions have developed between prefectures and municipalities and between municipalities themselves. There have inevitably been disputes about the fairness of fiscal reforms and the extent to which they have masked central government cutbacks. But there has been a step-change in the role and capacity of municipal authorities – not least in the ‘special cities’ – with significant efficiencies in administrative and financial operations and improvements to local services and wider wellbeing.

In considering the submissions to the Spending Review, HM Treasury will need to take a place-based view to assess whether decentralisation package potentially on offer adds up to a joined up approach to local growth and public service reform. Overcoming long standing departmental siloes and instilling collaboration between central government departments will require strong political sponsorship and incentives.

Central government will also need to consider how to manage the tension between local decision making and national priorities, for example in the case of specialist local services with national significance, ensuring that the decisions made by devolved bodies do not negatively impact other areas or nationally. Where such issues emerge, central government needs to identify the appropriate levers to influence and

incentivise local areas to act in the national interest.

Alongside identifying the funding and functions that can be devolved from central to local, departments need to consider the wider implications of decentralisation in terms of the resources they can release. Decentralisation will inevitably lead many government departments to be significantly smaller than they are today.

Box 2: Determining departmental priorities for decentralisation

Based on the seven sets of questions to test the functions of government that could be decentralised, IPPR North developed a comprehensive set of aspirations for decentralisation on a departmental basis for the long and short term. [Table 1](#) sets out their priorities for the 2015 Spending Review, as well as the first 100 days of government.

Table 1: Potential priorities for decentralisation

Priority	Devolved from...	Devolved to...	Outcome	When	Type of decentralisation
Co-commission innovation functions of science and research between Technology Strategy Board (TSB) and catapults, and a pan-northern body or pan-region equivalent	BIS	Mezzanine (e.g. regional)	A more balanced economy	First 100 days/ first budget	Admin
Devolve apprenticeships, FE and adult skills funding (while maintaining national standards, entitlements and regulation)	BIS	Combined authorities	A better educated, more highly skilled and productive population	Spending Review 2015	Admin
Devolve a proportion of UKTI budgets and functions to combined authorities or equivalents	BIS	Combined authorities	A more balanced economy	First 100 days/ first budget	Admin
Set up a single funding pot for place-based budgets	BIS, DfT, CLG	Combined authorities	A more balanced economy	Spending Review 2015	Fiscal
Devolve the Affordable Housing Fund and housing capital budgets	CLG	Combined authorities	High-quality homes and integrated communities	Spending Review 2015	Fiscal

Priority	Devolved from...	Devolved to...	Outcome	When	Type of decentralisation
Enable housing earnback deals and variation in broad rental market areas (BRMAs)	CLG	Combined authorities	High-quality homes and integrated communities	Spending Review 2015	Fiscal
Set out five-year funding settlements with local government	CLG	Local authorities	Higher levels of democratic participation and accountability	Spending Review 2015	Fiscal
Remove controls on council tax	CLG	Local authorities	Higher levels of democratic participation and accountability	Spending Review 2015	Fiscal
Extend business rate flexibility and retention, removing most remaining controls by central government	CLG/HMT	Combined authorities and local authorities	Higher levels of democratic participation and accountability	Spending Review 2015	Fiscal
Delegate local strategy-setting for the media and creative industry within an national industrial policy	DCMS	Combined authorities	A more balanced economy	First 100 days/ first budget	Admin
Assist cities in the supply of energy and support the decentralisation of the energy market	DECC	Combined authorities	Environmental sustainability	First 100 days/ first budget	Admin
Devolve responsibility for energy efficiency	DECC	Local authorities	Environmental sustainability	First 100 days/ first budget	Devolve responsibility for energy efficiency
Devolve all 16–19 Education Funding Agency (EFA) funding and responsibility for careers advice	DfE	Combined authorities	A better educated, more highly skilled and productive population	Spending Review 2015	Admin
Devolve rail franchising and strategic transport planning	DfT	Mezzanine (e.g. regional)	Higher levels of democratic participation and accountability	First 100 days/ first budget	Admin
Allow earnback deals for major local transport funding	DfT	Combined authorities	A more balanced economy	Spending Review 2015	Fiscal
Devolve responsibility for and integrate skills and employment services locally for under-21s, integrated with the jobs guarantee and youth allowance	DWP	Combined authorities	A more inclusive labour market	Spending Review 2015	Admin
Co-commission employment support for JSA claimants closest to the labour market	DWP	Combined authorities	A more inclusive labour market	Spending Review 2015	Admin
Devolve responsibility for Employment Support Allowance (ESA)	DWP	Local authorities	A more inclusive labour market	Spending Review 2015	Admin
Use welfare earnback to incentivise city regions to assist with keeping the benefit bill under control	HMT	Combined authorities	A more inclusive labour market	Spending Review 2015	Fiscal

Source: IPPR North, Decentralisation Decade

Setting standards

One of the consequences of a multi-speed approach to decentralisation is the need to address the issues of standards. IPPR's Decentralisation Decade research suggested that central government has a role to play in setting national minimum standards, or outcome-based 'core entitlements', and establishing the range of variation that is appropriate across localities, ultimately providing a national safety-net in terms of public services provision.

In the eyes of the public there is a risk of postcode lotteries. Our 'Who's accountable now?' research with the public found that the vast majority believe that everyone should be able to access the same public services, no matter where they live (80%).¹⁴ Most also believe that ministers should set national service standards for councils to meet, with councils free to prioritise after meeting these standards (75% of respondents, rising to 84% of respondents over 60 years old).

While the experience of Germany, although with a different structure, (Box 3) suggests that decentralisation can lead to a race to the top rather than the bottom, the concerns of the public still need to be addressed. The issue of postcode lotteries looks set to remain high on the agenda particularly as responsibility for the NHS is devolved, as is the case in Greater Manchester. Central government needs to address how it might deal with 'policy tourists' who move between areas either to benefit from from generous service provision.

Sharing knowledge

As the deal process progresses, learning and sharing the lessons from frontrunners such as Greater Manchester will be key for other areas to progress in their own decentralisation evolution. The progress made to date on decentralisation has to a large part been driven by groups such as the Core Cities, with cities working together to make the case for the further devolution of powers and responsibilities to their local areas, for the benefit of both local residents and the national economy. The County Council Network and Key Cities group have followed a similarly

collegiate model, recognising that they can be more than the sum of their parts in making the case for decentralisation to central government.

However, with the case seemingly made, the mood seems to be changing quickly, with a one-upmanship emerging as places compete to get ahead of others in terms of what's included in their devolution deal. While the onus is to some extent on localities to ensure that best practice and experience is shared among peers, central government has an enabling role to play, at least through the transition period.

As well as sharing knowledge on the transition to decentralisation, there is a need to share evidence and best practice in terms of the outcomes that are being achieved both from collaborative working across a place and from having further powers or funding. This applies to the lessons that can be learned from what is not working, as much as the achievements that are being made. The Public Service Transformation Network, for example, has made progress in playing this role (See Box 4).

¹⁴ PwC, 2014, Who's accountable now? The public's view on decentralisation www.pwc.co.uk/whosaccountable

Box 3: Decentralisation in Germany: no race to the bottom?

The Federal Republic of Germany has a long history of decentralised decision making, shown by the relative autonomy of its 16 federal regions (Länder). In the early 2000s, however, the diverging political compositions of the Bundestag and Bundesrat led to a legislative gridlock. As a result, a cross-party reform commission was set up in 2002 to bring together representatives of national government and the Länder. In 2006, the newly elected grand coalition government implemented many of the commission's proposed reforms. These included the further decentralisation of education policy, environmental protection, prisons law, care home regulation and public sector pay.

At the time, there was strong opposition to the reforms – a 'race to the bottom' was widely feared. Researchers at Aston University, Birmingham, have recently undertaken a close analysis of the implications of these reforms and drew the following conclusions:

- **Prisons:** Some Länder have committed additional funding to prisons as a result of the increased public scrutiny of their role; the majority have chosen to cooperate in drafting new laws, with only larger Länder with strong political leadership going their own way and not cooperating on new laws.

- **Care home regulation:** Länder have increased rather than reduced scrutiny over care home provision. Rather than seeking to achieve cost savings (which would not accrue to the Länder) a degree of competition has emerged as to whose regulation will be most demanding and secure the highest-quality services. Länder have introduced reforms at quite different speeds.
- **Public sector pay:** This was an area of some controversy, with business concerned that richer Länder would poach the best workers and union representatives concerned about downward pressure on pay and conditions. Although it has caused some regional disparities (partly but not completely related to differences in the cost of living), pay has still risen as the public sector seeks to compete with local private sector employers in Germany's relatively buoyant labour market.

In each case then, far from there being a race to the bottom, the process of decentralisation has led to different degrees of innovation, reform, collaboration and even, in one case, a race to the top. Universal claims about decentralisation necessarily sparking a race to the bottom are therefore misguided and a closer examination of the mechanisms in different policy areas that might drive such races is needed.

Source: IPPR North, Decentralisation Decade

Box 4: The Public Service Transformation Network

The Public Service Transformation Network was established by the Chancellor in 2013 to help places adopt the service reform approach pioneered by the whole place community budget pilots in Greater Manchester, Essex, Tri-borough and Cheshire West and Chester.

The Network is made up of local places where partners – including departments, local government, local agencies, communities, voluntary and private sector organisations – are working collaboratively to integrate local services around the needs of individuals.

A key characteristic of the Network has been to replicate the central-local co-design of the community budget pilots, embedding civil servants in the places leading the public service reform agenda.

The focus of the work varies from place to place depending on local priorities, from health and social care integration in Greater Manchester, integrated employment and health services in the west London, to blue light collaboration

in Surrey and Sussex.

But regardless of the local priorities, every place is focused on better outcomes for residents. In Surrey, 250 firefighters have received training to give immediate emergency care so that road crash victims get potentially life-saving treatment faster. In west Cheshire, the council, health services, JobcentrePlus and voluntary agencies have integrated management structures and the front line to support 700 long term unemployed and vulnerable people back to work.

Initial analysis of front line service integration projects in 14 Network places indicates that £1.1 billion of total public value benefits will be realised by 2019, including £600 million fiscal benefits, of which £370 million may be cashable.

As well as promoting closer local-central collaboration, the Public Service Transformation Network is also responsible for sharing the evidence of what works – both with other places that

want to reform local services and nationally to inform policy decision being taken by ministers and senior officials.

Developing an evidence base

One of the initial examples of best practice to emerge from places was the development of Cost Benefit Analysis tools to support local partnership building.

The four whole place community budget pilots, led by New Economy in Greater Manchester, developed a unit cost database and methodology which provided the evidence of benefits needed to persuade partners, including central government, to implement a new service model.

In 2014, the Treasury adopted the methodology and published 'Supporting public service transformation: cost benefit analysis guidance for local partnerships' as part of its Green Book. At the same time, a national series of events introduced the tools to local places considering bidding for Transformation Challenge Awards.

Funding and finance

There is clear appetite from local government for further financial freedoms and George Osborne's recent announcement on business rate retention signals that this is an area central government is now willing to explore.¹⁵

Further local retention of business rates has the potential to better incentivise economic development and is an important measure to empower local economies to be engines for their own growth. In the context of reductions in grant revenue, the challenge for local authorities is how any additional income through business rate retention can be channelled to support business growth and inward investment.¹⁶

International evidence suggests that it is not enough to simply devolve spending; the positive effects on public services are maximised when revenue-raising powers are devolved at the same time.¹⁷ However, unlike other devolved parts of the UK, because of EU rules there are limits on the taxes that can be devolved to local or combined authorities within England as there is not the requisite devolved legislative capacity, and fiscal devolution is not currently on the table in the short run.

In the absence of fiscal devolution, central government will continue to act as a primary funder to localities, meaning that HMT needs to consider whether, and where, to apply appropriate levers to incentivise investment in local growth and public service reform to deliver national outcomes. However, there is a risk, already apparent in our research with local enterprise partnerships that this descends into local institutions spending disproportionate resource on responding to central government initiatives.¹⁸

A balance between local and central outcomes and priorities needs to be established, where local institutions are able to say 'no' to central initiatives that are not in line with their local vision and plans. In this new relationship between central and local, central government will need to rely more on incentivising, influencing and informing, and less on telling.

System governance, monitoring and assurance

There is a governance role for central government to play in managing the risks of decentralisation by focusing on the outcomes that are being delivered. Having

an understanding of how to safeguard against the political and service delivery risks inherent in decentralisation and potentially putting the brake on or reversing decentralisation, either nationally or for particular areas, needs careful consideration.

While there is some international evidence to draw on regarding the prize of decentralisation and evaluations in the UK are beginning to get underway, ultimately initiatives such as the devolution of health and social care spending to Greater Manchester are a step into the unknown. Central government must be assured that the local bodies being given additional powers have the capacity, capability and accountability to make the big decisions needed and to deliver on them. Managing risk and identifying potential failures early will be critical, particularly during the transition to decentralisation when the public still hold ministers ultimately to account. Councils have not historically had an established 'failure' (or success) regime to the same extent as in the health sector and central government needs to consider a support system for struggling places beyond (re) intervention.

15 George Osborne, Speech to Conservative Party Conference, 5 October 2015

16 PwC, 2015, Delivering the decentralisation dividend: a whole system approach www.pwc.co.uk/decentralisation

17 SMF, 2015, One more time: repairing the public finances

18 PwC and Smith Institute, 2015, Delivering growth: where next for local enterprise partnerships? www.pwc.co.uk/leps

Central government has an important system regulatory oversight role to play when it comes to monitoring and evaluating the impact of decentralisation, for example through the National Audit Office. While it remains to be seen if the House of Lords amendment proposing a requirement for the Secretary of State to present an annual report on devolution to Parliament makes it into the final Cities and Local Government Devolution Bill, central government clearly has an important role to play in honestly and robustly addressing the question, at appropriate times, of whether decentralisation is delivering the outcomes it sets out to.

Engaging the public

Our research with the public consistently shows that if real powers are transferred to highly accountable bodies then public perceptions of responsibility will change.¹⁹ But real accountability depends on fully aligning decision making, budgets and delivery when decentralising. The failure of past decentralising

initiatives such as regional assemblies and elected mayors demonstrates the importance of engaging the public in the decentralisation process.²⁰

The public usually needs time to understand who is responsible for exercising newly decentralised powers, but the experience of London and the devolved nations shows that the public tends to have a relatively good awareness of whether particular bodies have the powers to act in a particular area. This means that central government needs to hold its nerve: for at least a period of time ‘the centre’ will still be blamed for failures, either being seen as responsible for the act of devolution or because the public didn’t notice or understand that devolution has occurred.

If perceptions of accountability are to shift, communications and engagement are essential. Building the case for change and engaging the public in the debate on accountability is, therefore, an essential step for central government.

Cultural change

Ultimately a sea change in culture is needed at the centre of government to achieve decentralisation and manage the complexity that it brings. In an asymmetrical decentralised environment, central government needs to become accustomed to working with increased ambiguity. For some functions and geographical areas, central government may keep a firm grip on the levers of power, but in others, Whitehall will no longer have the levers, and central government will need to learn to operate through influence rather than ‘command and control’.

This is beginning to become apparent in terms of relationships with the devolved nations, but devolution deals open up a new layer of complexity. Operating simultaneously in different decentralisation contexts will require agility in terms of both policy development and delivery. Moving towards new ways of working focused on influencing, enabling and facilitating is a profound shift that central government must embark on.

¹⁹ PwC, 2014, Who’s accountable now? The public view on decentralisation www.pwc.co.uk/whosaccountable

²⁰ Our work with Institute for Government explores smarter methods of public engagement

In terms of breaking down cultural barriers between central and local, greater co-location of central government bodies based across the country or increased secondments between central and local government might be a start, fostering better working relationships and an environment where solutions can be co-created, as well as having the advantages of moving people out of Whitehall and closer to the front line.

There are important implications for leadership in Whitehall. New models of leadership will require system-like distributed capacity. Leadership is strongly and increasingly dependent on the ability to manage horizontal relationships across different organisations, departments and stakeholders. For this reason, leadership is becoming much more about mobilising and integrating activity, with

collaboration, enabling and influence increasingly pivotal to tackle challenges and deliver outcomes. With an evolutionary approach to devolution in place, adaptable leadership is critical.





Conclusions

The debate between central and local government has to move beyond a zero-sum conflict based on Whitehall ‘letting go’²¹, towards forging a new partnership between central and local based on a joint focus on the priorities and outcomes to be achieved, for citizens, localities and nationally.

In particular, central government could valuably use the Spending Review to:

- Deliver a more joined up approach to local growth and public service reform at the centre, for example, through strengthening the Cities and Local Growth Unit and incentivising collaboration across long standing departmental siloes, making it easier for local bodies to gain access and for quicker decisions to be made.
- Tackle further the cultural barriers between central and local government, for example, through greater co-location of central government bodies across the country and increased secondments between central and local government.

- Embed decentralisation into wider civil service reform and the reshaping of Whitehall, delivering ‘decentralisation by design’ and setting out how to manage the network effects of decentralised decision making.
- Be radical in assessing which funding streams and functions could potentially be devolved, now and in the rest of this Parliament, in order to deliver better outcomes and meet the financial challenges.
- Engage the public in the debate on the issue of national standard setting to show that decentralisation can lead to improvements, rather than become a ‘race to the bottom.’
- Establish a robust framework for governance, monitoring and evaluating the transition to decentralisation.

These are not easy issues to address, but are the set of challenges that central government needs to tackle head on if the potential prize of decentralisation, in terms of improved growth and productivity and public service efficiency, is to be delivered.

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Contacts



Tina Hallett

Government and Public Sector Leader
+44 (0)207 804 1704
tina.hallett@uk.pwc.com



Chris Buttress

Lead local government partner, PwC
+44 (0)7730 733 779
chris.buttress@uk.pwc.com

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