



Reimagine Local Government

English devolution: Chancellor aims for faster and more radical change



English devolution: Chancellor aims for faster and more radical change

- Experience of Greater Manchester has shown importance of strong leadership
- Devolution in areas like criminal justice will help address complex social problems
- Making councils responsible for raising budgets locally shows radical nature of changes
- Cuts to business rates will stiffen the funding challenge, even for most dynamic councils

With so much coverage of the Budget focusing on proposed cuts to disability benefits, George Osborne's changes to devolution and business rates rather flew under the radar. They should not have done more attention. These reforms are likely to have lasting and dramatic impact on public services.

Osborne announced three new devolution deals – for East Anglia, Greater Lincolnshire and the West of England. He also brought forward local control of business rates in London, Liverpool and Greater Manchester. So this seems like a good time to ask whether the devolution initiative can deliver all it promises – whether, in the words of Andrew Walker of the LGIU think tank, this is “a radical change for the better or just tinkering around the edges”.

One way to judge is to look at the experience of Greater Manchester, the first area to sign a devolution deal. What are the lessons for the new combined authorities? This is also a good time to reflect on an aspect of the government's strategy that has attracted relatively little attention – the financial implications for local government, particularly the consequences of likely changes in the distribution of resources around the country.

A new set of skills

It is clear that devolution, at least on paper, is now a national rather than a northern initiative: five of the 10 deals agreed so far are with local authorities in the southern half of the country.

Councils that have not yet signed up must be feeling pressure to join the club, not least in Yorkshire, where so far only Sheffield has done a deal with the government.

This is impressive progress for an initiative proceeding without a top-down legislative reorganisation and instead depends on painstaking council-by-council negotiations. However, as all the combined authorities are acutely aware, the benefits of devolution will not be realised unless they act swiftly and decisively to turn words on paper into reality on the ground.

Implementation has traditionally been a strength in local government. But until now implementation of new policies has typically taken place within the boundaries of individual local authorities. These devolution deals require a new set of skills – the ability to work across boundaries with neighbouring authorities and with other public bodies. They need to foster co-operative relationships across a geographical area, use influence and persuasion to drive change when ‘command and control’ is not an option, and they need to fundamentally re-think how they deliver public services.

These skills can and should be developed in-house, but some may need to be brought in from outside, whether through recruitment or engagement with external advisers.

Fast and flexible leaders

Strong leadership has been vital to Greater Manchester. In the absence of a single statutory authority, leadership has to be provided at multiple levels – most notably by the leaders and chief executives of the ten participating councils and of the authorities responsible for services such as fire, police and healthcare – not to mention representatives of the private and voluntary sectors.

It is not easy to create a flexible, fast-moving leadership team, empowered to take decisions, when multiple interests have to be accommodated. A venture with multiple parties like this simply cannot work without the drive and commitment of the

two key leaders, the mayor and the head of the paid service. A great deal will depend, in all areas where a devolution deal has been signed, on the personalities of these two key figures. Do they have the authority, determination and charisma to challenge vested interests? Can they build support for changes that cut across organisational boundaries?

In Greater Manchester there is no doubt that Sir Howard Bernstein's contribution has been immense. As head of the paid service for the combined authority, he has worked tirelessly with his fellow chief executives to create the momentum for change, supporting the vision of the interim mayor and council leaders.

Completing the jigsaw

One of the most interesting Budget measures was the government's extension of new powers over criminal justice to Greater Manchester, including significant involvement in the commissioning of prison and probation services. This is important because it adds one more piece to the jigsaw of devolved powers, meaning that levers of change – previously split between multiple bodies at local and central government level – are starting to coalesce in the hands of the combined authority.

We can only tackle complex social problems effectively through co-ordinated action on many fronts. Reducing offending is not simply a matter of improving the way in which offenders are managed within the criminal justice system. It requires action in many other areas, including family and children's services, education, employment and skills, healthcare (both physical and mental) and housing.

Devolution has the potential – and it is still potential rather than reality at this stage – to enable the combined authority to take action across all these fronts at once. So far, much of the progress in Greater Manchester has taken place behind the scenes, gradually building the informal coalitions that are necessary to effect change in this challenging environment.

Plans have been developed, for example, to transform the way services are delivered to vulnerable children, regardless of where they live and where they access services in the Greater Manchester area. The proof of the pudding will come in the next stage, when the combined authority implements its plans.

"Raised locally, spent locally"

One of the most important sentences in the budget speech was this: "By the end of this parliament, 100% of local government resources will come from local government – raised locally, spent locally, invested locally." This should silence those who say the devolution agenda as insufficiently radical.

For decades the majority of local authorities have been reliant on grants from central government and on the redistributed proceeds of the business rate. Less prosperous areas have been protected by equalisation mechanisms designed to take account of differences in both resources and needs. By the same token, councils that have encouraged economic growth could only watch as the extra revenue they generated in non-domestic rates and council tax was recycled to less successful areas. Although well-intentioned, the pursuit of equalisation



has resulted in an ever more complex system, which is only a handful of academics and financial experts fully understand. That satisfies no-one.

The localisation of business rates means there will be winners and losers. Local authorities that are successful in developing their local economies will be able to keep the additional revenue they generate. Those that are unable to do so, will no longer be protected.

Rates challenge looms

It is clear, however, that the Chancellor is currently unwilling to allow even the most successful local authority more than a measure of control over its own financial destiny. The freedom to generate and keep revenue from business rates will be granted within a tight national framework, with central government retaining control of the extent to which council tax and business rates may be increased.

The Chancellor may have decided to speed up the devolution of business rates in three of our largest conurbations (London, Manchester and Liverpool), but the budget also delivered a £7 billion cut in the rates paid by small businesses. While this is good news for entrepreneurs, it means that when local authorities eventually get to keep 100% of business rates, they will find the pot is smaller than they had expected.

What is more, the complete withdrawal of central government grant will have an impact across the board. Even some of the more dynamic authorities may find it difficult to drive growth at a scale and pace sufficient to make up for the loss of central support. That would change, however, if the government were willing to devolve wider fiscal powers and to fund national infrastructure on a more equitable regional basis.

The Chancellor talked in his Budget of "the most radical devolution of power in modern British history". It is the financial aspects that may prove in the end to be the most radical, and most controversial. The combined authorities will gain new powers and will be able to retain the benefits of improving their local economies. But the withdrawal of government grant support and the curtailing of equalisation will have harsh consequences, particularly for less successful authorities.

Both winners and losers will find that they are operating within a tight fiscal framework, where their room for manoeuvre is limited – unless and until the Treasury is willing to loosen the purse strings.



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