

REPORT OF THE GOVERNANCE AND RESOURCES SCRUTINY COMMISSION		
Devolution – the Prospect for Hackney Governance and Resources Scrutiny Commission – April 2017 Cabinet – July 2017	Classification Public	Enclosures Appendices Summary of Evidence Sessions

1. FOREWORD

The UK has one of the most centralised governments in Europe but the tide is turning and devolution looks set to be a trend that will continue. There are opportunities for a London borough such as Hackney to grab hold of, as well as risks to mitigate. The devolution process involves conversations with different geographies in different thematic areas with varying timelines and yet the goal of the London Borough of Hackney throughout must ultimately be the same – to seize the opportunities of devolution to deliver better services for its residents. This report serves two purposes – it can be used as a snapshot, perhaps even a ‘how-to guide’, for interested parties on what devolution means for London and specifically what it could mean for Hackney. It also serves to encourage the council that having a holistic plan, albeit a fluid and agile plan that can adapt to moving jigsaw pieces is essential. Other themes such as public involvement, accountability structures and being at the right tables to influence are common themes the Commission heard from the evidence it took. Devolution of health (already in pilot stage), and skills and employment (soon expected) provide opportunities for the London Borough of Hackney to be confident and assertive in seeking the best solutions for localised joined-up and person-centred services in these areas. In the UK we are living through uncertain times with the anticipated impact of Brexit and a shifting global order. Devolution adds further unpredictability, and yet it brings conversations we should seek to influence and, most importantly, it brings change that we must anticipate and harness.



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1. INTRODUCTION

- 1.1 Devolution has emerged as one of the Government's principal policies to achieve balanced economic growth. However the devolution being proposed in England is on a different scale to the devolved powers and finance for Scotland and Wales.
- 1.2 The English democratic system is more centralised than most other democratic systems around the world. For a number of years there has been a tendency for UK governments to centralise power, leaving English local government constrained in its freedom to make meaningful strategic decisions in the interest of their local population.
- 1.3 Devolution presents the potential for London's councils to implement a whole system approach across public sector services. The Commission's previous review [Delivering Public Services – Whole Place Whole System Approach](#) highlighted the need for councils and local partners to work across the system to deliver joined up services and services with a prevention focus that would be provided at the point of need to enable services to be improved and costs reduced.
- 1.4 Devolution could also create opportunities for new revenue streams in conjunction with redesigning services to have a stronger preventative orientation. On the other hand devolution of responsibility without devolved budgets could expose council budgets to additional pressures and pose a risk to existing council services.
- 1.5 Devolution is also likely to bring areas of responsibility the Council is not experienced in managing, therefore it is important the Council explores how it will deal with issues it has not managed before and identifies where it may lack legislation, relevant knowledge and skills.
- 1.6 The devolution process has the following important implications:
 - It could help boroughs deal with substantial financial challenges by creating new revenue streams, as well as more wide ranging responsibilities;
 - It could help create more effective public services by creating space for more preventative and joined up approaches to the big social challenges in the borough;
 - Devolution could redraw the map of English local government which would have very significant implications for the powers, scope and finances of councils.
- 1.7 The Governance and Resources Scrutiny Commission initiated this review 'Devolution – the prospect for Hackney' to explore the implications of the devolution process for Hackney. The overarching question framing this review was ***'What are the implications of London wide devolution for Hackney and how the borough can make the most of the opportunities?'*** In addition the Commission asked:
 - What does devolution mean for the emerging governance landscape of London (pan London, sub regional, borough) and what are the implications for Hackney?

- What joint working arrangements are currently in place across London and what is Hackney's response to this emerging picture?
- What are the implications for the council's finances and its governance structures?

- 1.8 London is unique and boroughs have their own powers; so does the Mayor of London and the Greater London Assembly (GLA). Working in partnership as a result of devolution brings risk around delivery of services and connection with communities. Our review highlighted key issues related to resources, power, accountability structures and public engagement.
- 1.9 The review highlighted the funding for London Boroughs is changing in an unprecedented manner and these developments have the potential to transform the financial risk landscape across London both positively and negatively.
- 1.10 In a bid to make local government a mechanism to drive growth, councils are to become more 'financially independent' by being given the power to keep and vary business rates. Nonetheless the financial freedoms afforded to Scotland and Wales are not being given to the English authorities. The Commission is concerned that devolved powers may not always include fiscal devolution and if the budgets are devolved, they are likely to be followed by cuts. Devolution of responsibilities needs appropriate resources to follow too.
- 1.11 One of the key policy and implementation questions that remains unresolved is accountability structures for the devolved areas. London already has its own elected mayor and city regional authority with devolved powers over policing, planning, economic regeneration and transport. In this review the Commission considered and debated what devolution may mean for the borough, the impact of devolution on accountability structures (borough and regional) and how services could be integrated under totally different systems of accountability (notably NHS / Local Government). Hackney Council's pilot will give some pointers to the challenges in this area.
- 1.12 Hackney Council was approved as a borough level pilot for health and social care covering the area of integrated services. We considered the Council's work on this pilot as an indicator of the issues likely to be raised by borough level devolution, notably the issue of governance and accountability. In addition we asked about the Council's plans and principles for devolution in Hackney.
- 1.13 The Commission believes that the Council needs to consider and debate what devolution may mean for the borough and that those discussions need to engage the wider public and local stakeholders. The public have to feel it is in their interest to engage in a debate, but the difficulty with this has been that the devolution deals to date are deals done in private and this has made it very hard to turn devolution into a visible democratic process. Opinion polls have suggested community engagement depends on how the question is phrased, nevertheless finding a way to articulate the debate so the public engagement is key.

- 1.14 Since this review commenced Britain has voted to leave the European Union (EU) and this has implications for Britain's economy. 'Brexit' suggested a wider desire for more local control. The implications of this have **not** been explored in detail by the Commission. However, it will inevitably have an impact on the ability to grow the local economy.
- 1.15 The review heard from a number of representatives from various national bodies and think tanks that have been involved in devolution or who have contributed to the devolution discussions at a pan London and national level. The Commission would like to thank the professionals and organisation for taking the time to participate in this review.
- Ben Lucas, Metro Dynamics
 - Ed Hammond, Centre for Public Scrutiny
 - Jessica Stoddert, New Local Government Network
 - Professor Tony Travers, London School of Economics and Political Science
 - Dianna Neal, Head of Economy, Culture and Culture
 - Professor Martin Dole, Professor of Further Education & Skills, University College London (Institute of Education).
- 1.16 Evidence for this review was gathered during four commission meetings and through carrying out desk research. The Commission received reports from a number of representatives from various national bodies and think tanks that have been involved in devolution or who have contributed to the devolution discussions at a pan London and national level. For brevity we will not repeat that information here, but it can be found with the agendas for [March 2016](#); [June 2016](#); [September 2016](#) and [November 2016](#). In this report we draw out the main themes from our findings and the basis for our recommendations.

2. SUMMARY, RECOMMENDATIONS AND OUTCOMES

Summary

- 2.1 Local services are vital to quality of life in any place and are fundamental to a strong business environment yet they are under pressure as never before. Devolving control may mean councils will be able to remove duplication, align services, get better results and save money. Our review highlighted the key issues related to resources, power, accountability structures and public engagement that this raises.
- 2.2 Particularly at a time of constrained budgets, localities need the freedom to radically reform and improve public services if they are to put them on a sustainable footing and offer opportunities to everyone in their communities. Linking policies for economic growth to those for service reform should enable councils to be in position to develop their local economy and get more people into jobs. Whilst being clear that the growth of a local economy does not always lead to local jobs, to work towards the Government's policy vision will require the freedom to invest in the local economy to drive growth. To enable economies to be competitive the existing centralized funding models need to change so that cities can invest in their economies to maximize their growth potential. To simply devolve responsibility with no fiscal devolution will not produce the results or outcomes envisioned.
- 2.3 A fundamental question in the review was the implications of devolution for Hackney. The absence of a detailed plan for London and the uncertainty from the Treasury about the areas that would be devolved in terms of responsibilities, budget and the complexities around accountability configurations has meant that Hackney Council has not yet been able to develop a holistic plan. The Commission believes in spite of these ambiguities it is important for the Council to develop a plan which considers its general approach to services, and develops a set of principles that capture Hackney's aspirations.

Decentralisation

- 2.4 Academics and think-tanks have argued that decentralisation could boost economic growth, better reflect differences in local identities and preferences, and allow more local variation and innovation in public services. To enable true freedom in how resources are used locally the solution is seen to involve the devolution of financial accountability too.
- 2.5 There is strong pressure from communities and local politicians for increased control over the way their areas are governed and fiscal devolution with decentralisation will enable local politicians to drive their local economy and better direct growth. However Westminster's politicians are frustrated that weak local accountability leaves them taking the blame for failings in policy areas over which they have little direct control. But in an historic move, London and England's largest cities have united to call for decentralisation with greater financial freedoms (fiscal devolution).

- 2.6 Many UK governments have come to power committed to devolving political power and control. While all parties have been good at making commitments to devolve power, governments have found it hard to implement decentralising reforms in practice. The devolution proposals are another attempt to decentralise the powers that both the communities and local politicians have pressed for.

Devolution for London

- 2.7 Current devolved powers to London's government have given control over the capital's strategic planning, policing, fire service, most aspects of transport in London and economic development. London is seeking further devolution to better shape and guide public service reform with greater flexibility and power over local spend.
- 2.8 During our evidence sessions we heard that devolution for London looks more likely to be regional for economies of scale. The Commission agrees that power should be exercised at the lowest level possible. However, this should be contingent upon the ability of the devolved body to exercise those powers effectively. The Commission is of the view powers should not be devolved based solely on a regional basis or because it can be - power should take into consideration economies of scale and should be devolved on the principles of subsidiarity and in a manner that ensures clarity to assist public understanding of where responsibility lies.
- 2.9 The Commission is of the view a decision should be based on political and economic ground at the appropriate level – a balance of subsidiarity and scale.

Devolution for Hackney

- 2.10 At the time of this review there was no clarity for councils on what the Treasury and Government would devolve to London. During this review the Commission was made aware that the fluidity of these discussions and the uncertainty of the commitment to London was hindering the development of council plans for devolution for London.
- 2.11 The review identified that the Council had not developed a set of principles covering the costs and benefits of devolution to Hackney. Hackney Council did not provide details of a holistic plan or their approach to devolution across the board. The ambiguity of discussions and proposals had impacted on the Council's ability to develop overarching plans for devolution in relation to impacted services. Nevertheless the Commission is of the view that having a set of principles would provide a guide for the Council in negotiations for devolution discussions.
- 2.12 Hackney advised the challenge was that neither the partnerships nor the geographies were obvious and that they were likely to be very different for each area of devolution proposed for London. This means the council need to remain open to working in different geographies. The different areas of devolution may require councils to form different partnerships.

Health

- 2.13 As the Commission commenced this review London received agreement from the Government to conduct health and social care integration pilots. [LB Hackney's bid was approved as a pilot scheme.]
- 2.14 The profound barriers to the rational system of provision of care to older people and the entirely different funding regime for local government and the NHS have proved challenging to the implementation of integrated services in practice. To successfully achieve the integration visualised would require breaking down organisational barriers created by the entirely different funding regime and accountability arrangements for local government and the NHS.

Skills and Employment

- 2.15 The Government has been conducting a review of the Further Education (FE) system and devolution of skills funding. The skills system is viewed as complex and a significant challenge for employers and learners to navigate. It is thought that devolution of skills commissioning and provision will help bridge the skills gap in London.
- 2.16 A key area for improvement identified was for a shared sense of purpose and an understanding of what the system is there to achieve. The review highlighted the need to understand if the FE system should (a) boost economic growth (employers), (b) produce social good (learners) or (c) do both? To date there seems to be a lack of clarity on who the skills system is for - students or employers - and devolution could present the opportunity to provide clarity on the purpose of the skills system.

Accountability and Governance

- 2.17 Devolution is being presented as positive for local communities. The devolving and of decentralising power could enable local people to make decisions in local areas, providing better public services and a stronger society.
- 2.18 London's boroughs need to be at the heart of shaping the capital's economic and fiscal future and a pan London devolution deal is likely to mean the loss of the current centre to local relationships. Even with elected Mayors for combined authorities there is a fundamental challenge in relation to who would hold whom to account. An LGIU engagement event on devolution raised accountability and adequate scrutiny as significant issues.
- 2.19 It is clear London devolution will require partnership working with other London boroughs and an agreement between the Mayor of London and the London boroughs. London's local authorities will need to consider new ways of working with other boroughs (sub-regional basis), partners and have a different working relationship with the Mayor of London, GLA and central Government. This review highlighted that London's boroughs have worked collaboratively before but for devolution there will need to be a formal structure.
- 2.20 Indications from Government show they are more comfortable with accountability as a regional body. It is anticipated that they will use London's

regional structure to provide the Mayor and GLA with more powers. We found no evidence to support the transfer of the current accountability structures into a new system.

Public involvement in devolution

- 2.21 The process and systems of devolution need to be visible and accountable to its citizens. One of the aims from this review was to give local Councillors a better understanding of the devolution plans, the discussions at a pan London level, the proposals for London and the impact of this at a borough level. The Commission has found that the bespoke nature of each devolution deal has meant there are no set objectives or defined measureable outcomes. This has left local areas calling for government departments to take a consistent approach to devolution and define how success will be measured and what successful outcomes look like.
- 2.22 The current approach to devolution lacks clear objectives and a road map of where it is heading. There needs to be clarity about the governance, accountability, principles and the expected outcomes from devolution. It is important that councils clearly define the outcome they wish to achieve from this process. The Commission urges the vision and proposals for the devolution deals to be debated at a local level and for the decision makers to seek the views of the local population to enable the development of the right principles for devolution negotiations.
- 2.23 The Commission also concluded that to find solutions that enabled London's citizens to hold the decision makers to account needed to involve the public. For this reason public engagement and involvement in the devolution process should be considered.
- 2.24 Devolution (the decentralising of power) will require co-ordination of effort. Co-ordination is needed between at least three main groups - national politicians, local politicians and, of course, the public. These groups must either support or agree to the reforms to ensure its success.

Recommendations

The Commission makes the following recommendations, the findings for which are presented in Section 6 of the report:

Recommendation One

The Commission believes the Government has not provided clarity about the services and areas that will be devolved and recognises that discussions about devolution for London are very fluid and that the Council will need to be agile in its approach. In spite of these very practical challenges Hackney Council could not explain its approach to devolution across the board or the key principles by which it will enter into discussions to influence and shape proposals. The review highlighted the absence of a coherent approach and detailed plan.

The Commission wishes to see the Council's plan for devolution that will guide its response to devolution discussions and its priorities for advanced areas of devolution like health and skills.

Recommendation Two

The Commission understands the lack of clarity from Government is hindering the progress of devolution. The Commission recognises the Council needs to respond in an agile way due to: the fluidity of discussion, variable geographies and proposals being agreed ad-hoc. However, it is important for the Council to have a holistic plan with a set of principles that provided a framework whilst still enabling the Council to respond as required. The Commission is of the view the principles should cover areas such as influence; protection from financial burden; taking proposals out for public debate at the earliest opportunity; accessible and simple structures for the public to navigate; openness to variable geographies, and finding the most appropriate partner.

The Commission recommends the Council develops a set of key principles that sits alongside its plan, in order to provide a framework for devolution discussions across devolution areas.

Recommendation Three

The Commission was of the view that taking the proposals out for debate would create person-centred services that could be co-produced with local residents. The way to achieve this would be engaging with the voluntary and community sector in devolution discussions at a local level. This would enable devolution to be seen as less technocratic and more accessible to the people, ensuring public accountability through effective community engagement.

The Commission recommends the Council when practically possible takes the devolution proposals or proposed changes out for public engagement to enable the local citizens to shape the service provision.

Recommendation Four

The Commission has identified that as powers are devolved it is not clear which accountability structures will be used and how Hackney residents would be able to hold relevant people, departments and organisations to account.

For governance and accountability, the Commission recommends the Council explores with devolution partners the possibility of setting-up of a local public account committee or equivalent accountability structure of devolution of local services.

3. FINANCIAL COMMENTS

- 3.1. Devolution could create opportunities for the generation of new revenue streams and expanding existing streams but it could also expose council budgets to additional financial pressures. It is essential therefore, that the Council is well placed to determine the financial risks of any potentially devolved responsibility and to take all steps possible to ensure that it is matched by a sustainable and adequate funding.
- 3.2 This is always the risk that Government will devolve a function but then leave local authorities to almost fend for themselves. In 2013/14, for example, the Government devolved the responsibility for the design of and operation of Council Tax Support to local government but since then has significantly reduced the amount of resources available to fund this responsibility. It is essential therefore that any devolution of responsibility brings with it an appropriate devolution of fiscal responsibility and flexibility.
- 3.3 We also need to ensure that we have the ability to manage and share financial risk with other local public service partners in order to mitigate the financial risks going forward to the Council and to achieve savings from devolved responsibilities. The development of governance arrangements will be key here not only covering the set up and resourcing of a devolved responsibility but also how decisions makers will be held to account and scrutinised by tax-payers and other interested parties.
- 3.4 We must also ensure that we are well placed to take part in any pan London wide discussions and negotiations, where London Government (i.e. the boroughs and the GLA) allocate out funding from Central Government for a devolved responsibility. The form and structure of Governance arrangements will again be key and we must ensure that in the development phase, the Council's views are well represented in any discussions between the boroughs, Government and the GLA.
- 3.5 Hackney's health pilot is in the process of establishing a ring fenced budget across health and social care for 2017/18 and the pilot is providing the opportunity for us to experience how to work with partners to make collective decisions within a financial envelope and how best to collectively manage financial risk. The experience gained here may prove very valuable in managing the introduction and implementation of any further devolved services.
- 3.6 Any devolution proposal must be fully scrutinised to determine all of the financial implications both positive and negative, as even proposals that appear to be attractive in the medium and long term can have negative short term repercussions. An example here is 100% business rates retention (BRR). Whilst Hackney may well benefit in the medium and long term from 100% BRR, we could be potentially worse off in the short term. Firstly, in order to ensure that the financial impact of 100% BRR is financially neutral in totality,

local government will inherit financial responsibilities from Government (the responsibility for the payment of public health grant for example) and secondly, the Council will still need external funding from central government to retain a sustainable 'Settlement' funding stream (business rates plus external funding). Our external funding will in part depend on our assessed needs and it is quite possible that when the Government reassesses local needs as part of its Fair Funding Review – a precursor to the introduction of 100% BRR, that our relative needs assessment will reduce, which in turn could reduce our overall 'Settlement' funding envelope. We will not know how we will be affected though until Fair Funding and 100% BRR financial modelling is published by Government. This raises a further major issue with short term financial devolution as discussed below.

- 3.7 100% BRR was due to be enabled by the 2016/17 Local Government Finance Bill. This Bill did not reach a third reading before the general election was called and so it was withdrawn. In the Queen's speech, the Government listed 27 Bills that it would take through Parliament in the next two years but the 2016/17 Local Government Finance Bill was not one of them, which casts serious doubts on the plan to introduce 100% BRR in 2019/20. It seems likely that the Government will want to press ahead on the Fair Funding review – which does not require primary legislation – but we do not know the Government's views on the priority and direction of travel for broader funding reforms, and on business rate retention in particular. It is worth noting that CLG officials have stated that they could move towards 100% BRR within the existing legal framework but whether they do or not will depend on whether the Government intends to introduce the full set of 100% BRR proposals, as set out in the 2016/17 Bill during this Parliament. We await clarification from Ministers
- 3.7 Another possible casualty of the withdrawal of the 2016/17 Local Government Finance Bill is the proposed London 2018/19 100% Business Rates and Pooling scheme. Currently 67% of business rates are devolved to London and so it may be possible to include the boroughs in the arrangement and move towards 100%. Again we wait for clarification from Ministers on this and again this will depend on whether the Government is committed to introducing full 100% BRR during this Parliament.
- 3.8 More generally, any other devolution proposal which requires primary legislation and is not included in the 27 Queen's Speech Bills, may not progress very far, at least in legislative terms, in the next two years.
- 3.9 The absence of a detailed plan for London and the uncertainty from the Treasury about the areas that would be devolved in terms of responsibilities and budget, means that it is not possible to estimate even in the most broad terms the financial implications of devolution in Hackney. Even costing the recommendations in this report such as the cost of administering public engagement to enable the local citizens to shape the service provision, and any costs of setting-up a local public account committee or equivalent accountability structure of devolution of local services, cannot be made at this stage.

- 3.10 All we can say is that any proposed devolution is likely to have financial costs and benefits (direct cost reductions, economies of scale and increased growth etc.) and that we need to be in a position to accurately determine these and have mechanisms set up to enable us to be actively involved in any subsequent discussions and negotiations.

4. LEGAL COMMENTS

- 4.1. The Local Democracy, Economic Development and Construction Act 2009 as amended by the Cities and Local Government Devolution Act 2016, enables public body functions to be devolved to combined authorities outside London through regulations.
- 4.2. In London, new legislation would be needed to further devolve central government functions to local authorities.
- 4.3. Any devolution of central government functions to local authorities in London is likely to be as a result of a devolution agreement with central government, as with the devolution of such functions to combined authorities outside London.
- 4.4. The HM Treasury, Mayor of London, London Councils and Department of Communities and Local Government signed a Memorandum of Understanding on Further Devolution to London this year – see section 5.5 of this report.
- 4.5. With regard to recommendation four on the possibility of a joint committee with devolution partners, section 102 of the Local Government Act 1972 permits two or more local authorities to appoint a joint committee of those authorities so long as it is not a function that the law requires to be discharged by a specified committee (LGA 1972, s. 101(5)). The number of members of the joint committee, their term of office (which must not extend beyond their term of office with the appointing authority) and the area within which the joint committee shall exercise its authority must be fixed by the appointing authorities; the membership may include persons who are not members of the appointing authorities (so long as they are not disqualified from membership). The creation of such a joint committee will require amendments to the Council's constitution requiring a decision of full Council.

5. FINDINGS

5.1 Background

Devolution has been the subject of political debate for UK parties of all political persuasions for over a century. All parties have been good at making commitments to devolve power, however governments have found it hard to implement decentralising reforms in practice. There are strong views over whether equality is best achieved by exercising power at the centre or through the development of strong regional and local institutions. There has been significant pressure for this since the 1970s. During the 2000s for example, the Lyons review proposed a 'place-based' approach to local government with joined up services and an emphasis on prevention. The dismantling of regional governance structures from 2010 has led to the pursuit of localism, a key democratic governance mechanism to address the perceived democratic deficit arising from the changing configuration of public institutions.

- 5.1.1 Recent governments have attempted to decentralise power in the UK. But while huge changes have occurred – particularly in Scotland, Wales and North Ireland and to some degree London – until recently, progress in the rest of England has been limited. However this is changing because the Government has been agreeing devolution deals with various English regions and there are Mayoral elections planned for 2017 in some UK cities and city regions.
- 5.1.2 There have been a number of recent legislation changes and programmes of work that have moved the agenda of devolution forward:
 - The Localism Act 2011
 - The Cities and Local Government Devolution Act 2016.
- 5.1.3 Devolution is seen as an important basis by which to overcome the alienation many feel as a result of decisions being made by distant authorities and organisations. Devolution is very different to decentralisation. Devolution is about power and the freedom to use resources as required to meet local need.
- 5.1.4 Since devolution commenced, in 2016 there were a number of changes to the current political landscape. There was a new Mayor for London, a new Prime Minister and new Chancellor of the Exchequer (and in 2017 after the end of this review there was a General Election). It should also be noted that since the 2010 election, the Government has been focused on tackling the deficit as a priority, and that as a result spending reductions play a major part in the progress of devolution.
- 5.1.5 Devolution for English councils will require institutional change. Change in how government departments act with local government and how local government interacts with the local community. Devolution will require organisations to look at their knowledge, attitudes and skills of the workforce to ensure it can understand, appreciate and respect the requirements of the different parts of the community (culture, ethnicity, behaviours to name a few).

5.2 What is Devolution, current position and the process

- 5.2.1 Devolution is the statutory granting of powers from central government to government at a sub national level. Devolution is often based on the Principle of Subsidiarity, the process by which legal powers and accountability are moved to the closest possible level to citizens and service users while maximising efficiency and effectiveness. Devolution can be driven by a number of different motives, subsidiarity is the principle we support.
- 5.2.2 Decentralisation is a more limited form of devolution. Devolution is devolving the powers to territories to make legislation relevant to their area. Put simply, Parliament gives added powers for service provision in fields such as education or health to cities or local authorities.
- 5.2.3 Localism, City Deals, Community Budgets and the partial localisation of business rates in England all point towards a growing desire of local control over how money is spent. In the summer of 2014 the Chancellor of the Exchequer signalled the start of the devolution programme aimed at devolving powers to cities in the north of England. The aim at that stage was to stimulate growth and productivity and tackle the north south divide.
- 5.2.4 The Localism Act 2011 contained some measures of devolution. The Localism Act sets out a series of measures with the potential to achieve a substantial shift in power away from central government and towards local people. This included: new freedoms and flexibilities for local government; new rights and powers for communities and individuals; reform to make the planning system more democratic and more effective, and reform to ensure that decisions about housing are taken locally. The rationale was that devolving control would enable councils to remove duplication, align services to get better results and save money.
- 5.2.5 The Cities and Local Government Devolution Act 2016 established a new legal framework for devolution and provided new powers for the Secretary of State, by order, to devolve to a combined authority a central government function and confer on a combined authority any function of a public authority. The 2016 Act also enables there to be strengthened accountability and governance for combined authorities, through enhanced overview and scrutiny arrangements and through new powers to establish, by order, the position of elected mayor. The Government has proposed devolution for those areas that choose to adopt the model of an elected Mayor. In 2017 there will elections for new city –regional mayors in several areas of England outside of London.
- 5.2.6 Devolution deals have been closed discussions between the Treasury and leaders of the city regions, with no opportunities for expression of the wishes of local citizens. Even council leaders have been the weaker party in negotiations. London was left at the margins of the broader discussion around devolution, which initially focused on narrowing the north/south economic divide.

- 5.2.7 Most of the deals announced so far involve some form of Cabinet made up of the partner authorities. The governance structures set up require a two-thirds in favour vote for major change. To date no powers will be taken away from individual local authorities without agreement. The bespoke nature of the deals has highlighted concerns about the ability to measure success. Local areas have expressed a desire for central government departments to take a more consistent approach to devolution.
- 5.2.8 Most other countries have more tax revenues available to them. By comparison to its international peers, the UK system is one of the most centralised of all countries in the Organisation for Economic Co-operation and Development (OECD) and the taxes set locally are equivalent to 1.7% of GDP. English local government also has limited powers to raise, retain and spend money locally.¹ To date for English local government resources, targets and outcomes have been largely driven from central government.
- 5.2.9 After the referendum on Scottish independence in 2014, much attention focused on the prospects for devolution of power and additional funding to local areas in England. The Scottish Parliament, the National Assembly for Wales, the Northern Ireland Assembly and the Greater London Authority already have some devolved powers. Currently Scotland, Wales and Northern Ireland have control of:
- health and social care
 - education and training
 - local government and housing
 - agriculture, forestry and fisheries
 - the environment and planning
 - tourism, sport and heritage
 - economic development and internal transport.
- 5.2.10 Scotland and Wales have been offered a more radical package of devolved tax powers, including the control of part of income tax, while proposals have been made for Northern Ireland to vary corporation tax rates.
- 5.2.11 However for English authorities Parliament in Westminster remains in control of:
- the constitution
 - international relations and defence
 - national security
 - nationality and immigration
 - nuclear energy
 - broadcasting
 - the UK tax system.

5.3 Importance of Devolution

- 5.3.1 Devolution is aimed at giving local people more of a say in how their community develops which in turn is aimed at giving them a greater stake in

¹ Devolution in England: the case for local government CLGC report 30 June 2014

the outcomes achieved to be a catalyst for self-reliance and help to build resilience.

5.3.2 Many academics and think-tanks argue that decentralisation of power - now fiscal devolution of resources - could boost economic growth; better reflect differences in local identities and preferences; and allow more local variation and innovation in public services. Therefore the drivers for devolution are:

- *Service management* – a fix to fragmented services, the benefits of seamless services (e.g. hospital / adult social care)
- *Economic growth* - there is the view devolution will provide opportunities for economic growth, innovation, employer engagement and integration of public services.
- *Place shaping* – communities’ desire to influence their physical, social and economic environment
- *Political* – the feeling of alienation by communities that Westminster’s policies and decisions fail to address local need
- *Local economy* – the need to build local economies that address local needs (e.g. the link between skill provision and local employers).
- *Cost saving* – where there are budget pressures on local services, devolution can be the basis for integration across authorities that may enable service levels to be maintained and enhanced while saving costs.

Institute for Government ²



² Institute for Government: *Skills devolution: our findings, and a framework to assist decision-making* (Pg 16)

5.3.3 In this review it was made clear that devolution should be viewed as a process not a single event and that decentralisation alone is not a panacea. It must be followed by resource and capacity. The local positioning of power will enable communities to challenge decision makers and provide a better opportunity for the local community to place-shape.

5.4 Decentralisation and Fiscal devolution

5.4.1 It has been noted that a number of UK governments have come to power committed to devolving political power and control. While all parties have been good at making commitments to devolve power, governments have found it hard to implement decentralising reforms in practice. This programme of devolution is another attempt to decentralise the powers that both the communities and local politicians have pressed for. In an historic move, London and England's largest cities have united to call for decentralisation with greater financial freedoms (fiscal devolution).

5.4.2 Decentralisation can take many forms. Decentralisation can be political – the decentralisation of authority and democratic accountability or the devolution of power to individual citizens or professions to allow more individual choice. At various times in recent decades there has been different emphases placed on both the objects of decentralisation and the recipients of the decentralised power.

5.4.3 There are strong pressures from communities and local politicians for increased control over the way their areas are governed. It is argued that with local control they could do more, or better with greater influence over the decisions in their areas. This particularly becomes prominent at the time when national decisions are viewed to be adversely affecting their areas, or if negotiations with central government are considered to be excessively burdensome and bureaucratic. Notwithstanding without powerful and accountable local government, it is ministers and Whitehall who bear the brunt of the blame for local failures. This has left Westminster's politicians frustrated that weak local accountability leaves them taking the blame for failings over which they have little direct control. So it is inevitable that because of the very nature of devolution, the Government will want to monitor and ensure the effective use of power and that it is used within its mandate. Government will also want to be prepared to revoke the devolved level of government at any time.

5.4.4 There has been decentralisation that has given with one hand but taken away with another. An example of this is the current education reforms. While free schools and academies may offer greater freedom and flexibility, the primary role in setting the rules has been drawn upwards from local authorities. What looks like decentralisation of one kind is also centralising on the other, removing citizens' ability to set priorities through local democratic structures. This type of decentralisation can be compatible with increased local (and individual) choice, however they also tend to be less responsive to differences in local community preferences. Similarly, public service innovations that decentralise power to individuals, such as personal budgeting, can lead to highly personalised services but they may be

disconnected from local democratic control. The postcode lottery for services make this even more challenging.

- 5.4.5 For London's devolution it is still unclear where the power will lie or who the recipients (regional or local) of power will be. Based on past experience it is likely to be large institutions with geographical coverage for economies of scale. For London boroughs this could mean the removal of local democratic accountability. If this materialises it will be important that the structures created allow local citizens to hold the decision makers to account.
- 5.4.6 In practice, devolution measures have been modest (and in some cases, such as education, powers have been recentralised) and in the form of decentralisation rather than true devolution. Initiatives to decentralise have been Regional Development Agencies, Local Enterprise Partnerships, health devolution pilots and skills (devolution of adult education budget and Work and Health Programme). More recent reforms in health (formation of Clinical Commissioning Groups) and education policy have reorganised structures with the stated aim of giving professions more control and room for manoeuvre.
- 5.4.7 There is the view devolution will provide opportunities for economic growth, innovation, employer engagement and integration of public services. Central to the government's plans for driving economic growth has been Local Enterprise Partnerships (LEPs). In the last 6 years 39 LEPs have been set up. LEPs are business-led partnerships between the private sector and local authorities, and are intended to steer local growth in local communities. LEPs were set up with aim of giving business leaders the potential to influence decisions on how public money is used in the development of the local economy.
- 5.4.8 The Mayor of London is the Chair of London's LEP. London's LEP submitted a bid for London and secured £236m from the Government as part of the first round of Local Growth Deals. London's growth plan at the time, aimed to support jobs and growth in the capital, including in key new sectors such as the digital economy. The investment would seek to ensure the capital's businesses and individuals have the skills and opportunities they need to succeed and to build a strong and sustainable economy. This vision is set to be delivered across London's 32 boroughs and the City, through solid investment in education and skills.
- 5.4.9 Devolution is being driven at a time when the fiscal environment is most challenging and at a time when the Government was strongly committed to a deficit reduction strategy - the aim being to see the nation's books balanced by the end of the decade. In addition, the current government has proposed reforms to local government grants, this will see local government receive a lower proportion of its revenue from central government. This is also being combined with the move to fund local services largely from Council tax and retained local rate income. These changes could potentially impact on the provision of council services. In this review the Commission was exploring the Council's plans, preparations and assessment of impact of this very significant policy change.

- 5.4.10 The government has taken steps towards the re-localisation of business rates (movement towards 100% retention by English local government) but this will still be subject to a complex equalisation funding formula. Despite this progress there have been strong calls for greater financial and fiscal devolution from central government to local government. The key aim being better joined up and integrated services locally to achieve better outcomes with less spending across the system.
- 5.4.11 The London Finance Commission (LFC) initially set up by the Mayor of London in 2013 recommended the devolution of the following taxes: business rates, council tax, stamp duty and property related capital gains tax, to London's government³. Following the outcome of the EU referendum the Mayor of London (Sadiq Khan) re-convened the London Finance Commission to assess the powers London needs to manage this uncertainty. The second report by LFC argues that by giving London's government greater power over the tax base and public services, the capital's leaders would be provided with a stronger incentive to develop the economy and be provided with opportunities to reform public services. This, it argues, would ensure London attracts international investment which would otherwise go elsewhere in the world - sustaining the city's attractiveness.
- 5.4.12 None of the tax raising powers proposed by the LFC have been taken forward by government (notwithstanding the move towards 100% business rates retention) and revenue raising remains overwhelmingly determined by central government. The business rates revaluation has increased business rates in Hackney by 46% and this increase is one of the highest in London. There is the potential that if the 100% business rates retention does not have a fair distribution system it could impact on the local economy and the Council's revenue, particularly if Hackney is unable to maintain or attract new businesses into the borough because of the severity of the current revaluation proposals. Its diverse small business economy could also be at significant risk. In a letter to the then Chancellor of the Exchequer Phillip Hammond MP, Cllr Nicholson stated
- 'It is becoming clearer that Hackney's economic growth in the new creative sectors and the future of our local traditional businesses are now seriously undermined by the disproportionate severity of the current revaluation proposals. All are now at risk of sliding into stagnation, forcing relocation instead of expansion, and replacing job creation and thriving business clusters with unemployment and empty buildings. Alongside the increased rates is the current economic uncertainty surrounding Britain's exit from the EU, already making planning for the future difficult for many businesses.'*
- 5.4.13 With cuts to local government grants and the move towards funding services from locally retained income this is likely to have differential impacts in London.

³ London's Government refers to GLA Comprising of the Mayor of London, London Assembly and 33 London Boroughs together.

- 5.4.14 Even though relaxation of central Government's control over spending programmes can be a component of fiscal devolution, on its own it is not fiscal devolution. True fiscal devolution would involve handing to local authorities the power to raise money through a range of existing and new taxes and charges; some responsibility for setting those taxes; and the facility to borrow.
- 5.4.15 Therefore it is considered that to deliver economic growth means retaining local resources to fund services and to invest in the local economy. Both of these enablers require significant financial decentralisation and devolution. Local authorities will need the ability to manage and share financial risk with other local public service partners to achieve savings. Successful devolution needs fiscal devolution too not just a transfer of power and/or responsibility. Therefore a consequence of fiscal devolution must be greater local decision-making on how the money raised locally is spent. In the absence of revenue raising power, devolution can only be partial and the exercise of local decision making would remain subject to central government direction.
- 5.4.16 The Government has recently given further impetus to devolution for London by offering new powers to combined authorities with Mayors. Greater Manchester is the first City to benefit from extra powers, with an elected Mayor to cover the whole of the Greater Manchester region - which takes in several council areas. The City of Manchester was the first local authority to take control of its transport budget, a housing fund, strategic planning and NHS spending. Since then the Government's Cities and Local Growth unit has negotiated 12 bespoke devolution deals in England including extended devolved areas to the City of Manchester. The powers being offered to combined authorities exceed those given to London's government. In response, the GLA and London Councils produced a proposal for devolution for London, including health and skills.

5.5 Devolution for London

- 5.5.1 The London wide government commenced in 2000. Devolved powers to London's government gave control over the capital's strategic planning, policing, fire service, most aspects of transport in London and economic development.
- 5.5.2 London Councils and London Borough Leaders have over recent years been driving a programme in pursuit of devolution and reform of public services for London, with London boroughs working in close consultation with the Mayor of London and the GLA.
- 5.5.3 The London Proposition document was produced in autumn 2015 (submitted to Government September 2015). [The London Proposition](#) document asked for devolution and public sector reform in the following areas (*details of the requests for each area can be found in the London proposition document*):
- Employment support
 - Skills
 - Health and social care
 - Financial devolution
 - Criminal justice devolution and reform.

5.5.4 The outcome of the EU referendum opened up the potential for an even more ambitious devolution deal for London. The Government invited London to agree a devolution deal in time for the 2016 autumn statement. Building on the government's commitments at Autumn Statement in 2016, the current progress of devolution as noted from Memorandum of Understanding on Further Devolution to London⁴ to the Greater London Authority (GLA) and London boroughs is:

5.5.5 **Development and infrastructure** - the government invited Transport for London (TfL) to bring forward proposals for financing infrastructure projects from land value uplift. There will be further work to explore the options for piloting a Development Rights Auction Model (DRAM) on a mayor infrastructure project in London.

5.5.6 **Criminal justice system** - At the time of hearing the evidence for criminal justice London was asking for devolution of the management of rehabilitation contracts. To date the offer from Government in this area is to work with the Mayor, the Mayor's Office for Policing and Crime (MOPAC) and the boroughs to improve the quality of criminal justice service delivery and enable more effective criminal justice outcomes for London. They have also invited the GLA to identify the criminal justice services that can best be delivered locally to provide a better integrated delivery of services in London (where appropriate). The aim is to compliment, enhance and support the national reform programmes and develop a shared view of the benefits and better outcomes in London that could be delivered by the devolution of criminal justice services.

Hackney reported the government offered local government the ability to manage the courts system. Taking on this area of responsibility could prove costly to local authorities. The last time local government inherited a quasi-judicial service (licensing) it resulted in a cost burden to councils.

5.5.7 **Fiscal devolution** - The government is committed to delivering 100% business rates retention for local authorities in England by the end of this Parliament. From April 2017, the GLA will take on responsibility for funding TfL's investment grant. In return the government will allow London to retain a higher share of locally raised business rates, as part of moving towards 100% local retention.

The government will explore options for granting London government greater powers and flexibilities over the administration of business rates. This includes supporting the voluntary pooling of business rates within London, subject to appropriate governance structures being agreed.

5.5.8 **Transport** - In the area of transport the request was for further devolution of transport routes to Transport for London (TfL) and concession fares e.g. freedom pass. The government, GLA, TfL and London Councils are committed to improving London's transport infrastructure. There will be the development of a new statutory Mayor's Transport Strategy during 2017, setting out plans to transform conditions for walking, cycling and public

⁴ Memorandum of Understanding on Further Devolution to London (8 March 2017) – HM Treasury, Mayor of London, London Councils and Department of Communities and Local Government
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf

transport and unlocking opportunities for jobs and housing growth. A key area of work will be to address the congestion challenges in London, informed by consultation with businesses, local authorities and the government. The government commits to working further with London government to ensure it has the powers it needs to tackle congestion.

5.5.9 **Health** - The most advanced devolution request is health and social care. In December 2015, the government agreed the London Health and Care Devolution Agreement, which established five pilots as the first step towards improving health and care in London through integration and devolution.

The unique characteristics of social care and the NHS make devolution to a borough level more feasible than at a regional or pan London level. The health devolution pilots were awarded at borough level. The London health and care pilots set up cover the following:

- **Haringey** will run a prevention pilot exploring the use of flexibilities in existing planning and licensing powers to develop new approaches to public health issues;
- **North Central London (Barnet, Camden, Enfield, Haringey, and Islington)** will run an estates pilot to test new approaches to collaboration on asset use.
- **Lewisham** will run a pilot seeking to integrate physical and mental health services alongside social care;
- **Hackney** will run an integration pilot, aiming for full integration of health and social care budgets and joint provision of services. This will also have a particular focus on prevention.
- **Barking & Dagenham, Havering and Redbridge** aim to develop an Accountable Care Organisation, where primary and secondary care are more closely integrated and patient pathways are redesigned with a focus on intervening early and managing the chronically ill.

The government has committed to continuing to work with the Clinical Commissioning Groups, London boroughs, GLA, Public Health England and NHS England in London to make progress in the areas to be set out in the Memorandum of Understanding (MoU). The MoU will be agreed by June 2017 to support the process for collaborative working for health and care.

Hackney's Devolution Pilot has made huge strides in a short time and will go live on 1 April 2017. It involves the pooling of all possible health and social care budgets and the creation of a new Integrated Commissioning Board which will jointly commission the bulk of health and social care. A number of 'Devolution Asks' including control over local health and social care 'estates', have been submitted to government in order to make devolution work and at the time of this review a response was pending as per these requests.

5.5.10 **Skills** - Another devolution areas showing real opportunity is employment and skills. Although London is not a formal devolution area it was announced in March 2015 that the Mayor of London would get devolution of skills provision. Of the 38 bids submitted to government for devolution deals, 80% asked for greater powers over the skills system to help bridge the skills gap. From discussions at the time, it was anticipated London may get agreement to co-commission contracted services.

In the Autumn Statement 2016, the government announced that it will devolve the Adult Education Budget to London from 2019-20, subject to readiness conditions.

The government has also committed to continued working with the GLA and London Councils so that employers can take advantage of the opportunities offered by the apprenticeship levy and will explore options for greater local influence over careers services, with a view to better aligning skills provision and careers services with local needs and priorities.

A pan London review of all further education (FE) providers was conducted with the aim of consolidating service providers. An example of this locally is Hackney Community College merging with Tower Hamlets Community College. The aim of this exercise was for a more sustainable sector because many provider are in deficit. The work in this area is separate to the devolution requests. Following completions of the FE review the request is for funding for London to be devolved to 4 sub-regional partnerships by-passing the GLA. The aim is to join up business demand to the skills and give the regions the freedom to decide on the provision. If this request is granted it would be in shadow form in 2018/19 and then fully implemented in 2019/20. Early signs are the funding request is unlikely to go ahead in the form requested but through the Mayor of London and the GLA.

For the area of skills and employment Hackney has formally joined the regional group called Central Forward London.



5.5.11 Central Forward London

The Central London Forward (CLF) partnership was established 10 years ago to champion the interests of central London's residents and businesses. Its current focus is on jobs, skills and growth in the context of discussions with Government on the potential for devolution to enable innovation in the delivery of public services to provide better outcomes for residents.

The CLF Board agreed in early 2016 to extend its existing partnership of 8 boroughs to include 4 associate boroughs: Haringey, Tower Hamlets, Hackney and Lewisham and to set up new governance for the purposes of employment and skills devolution. The partnership has governance arrangements that allow all boroughs to input into decisions and the policy direction at senior officer, Chief Executive and Leader / Mayor level.

In recent months CLF has worked to influence the Government's area based review of Further Education in the central London sub-region. This involved a framework for the rationalization of colleges, including specialisation, and an annual cycle for curriculum planning in collaboration with local authorities.

As part of the Growth Deal in 2014, the Government and CLF agreed to develop Working Capital as a precursor to further devolution. CLF is now engaged in the design and delivery of the new Work and Health Programme based on Working Capital.

CLF has undertaken to develop a new economic strategy with a framework to understand economic demand and employer need, drawing on local sectoral expertise. This includes the creation of Key Sector Panels focusing on Health and Social Care, Construction, Retail and Hospitality, and Emerging Sectors. The panels will consist of analysts, local authorities, groups of employers (HR Managers) and college curriculum planners and is tasked with setting out the skills needs, priorities and reforms that will meet the needs of employers. It is envisaged that the relationships created through these Panels will form the basis of future collaboration.

5.5.12 Employment support - One area of complex need for London is health and employment. The 2016 autumn statement announced the creation of a new Work and Health programme to be launch in 2017. The government announced that it will transfer the budget for the Work and Health Programme to London. London Councils (Representative group for all 32 London Boroughs) reported they have been in dialogue with Department of Works and Pensions (DWP) about the design and devolution of this programme. For the Work and Health programme London has been divided into 4 sub-regions. The aim is to get the boroughs to work together for economies of scale because people do not recognise borough boundaries.

In this area of work there is the request from London Councils to the Department of Works and Pensions (DWP) for co-location of job centres and co-commissioning - promoting the idea of local employment hubs - for the work programme contracted services. London Councils see this as a way to start integrating some of the employment services locally, to offer better and

co-ordinated job support. This would enable the implementation of a single front door with rapid access to multi-disciplinary employment support team – JCP and Local Authorities - giving support to the long term unemployed to get them back into work or to a better state of health and wellbeing. Our previous review *Delivering Public Services Whole Place Whole System Approach*⁵ highlighted the need for better co-ordination of arrangements for employment and health support to the long term unemployed.

For this devolution area the government has committed to a new strategic dialogue with the GLA and London Councils on employment support. The strategic dialogue will explore options for closer and better alignment of services for customers in London, to better support people actively looking for work, as well as those moving towards the labour market who need different forms of training and support. It will also review the level of integration between employment services provided by central and local government in London.

The CLF partnership was in discussion to agree a deal on the Work and Health Programme. The proposals for the Health and Work Programme would cover:

- London, via its sub-regions, to lead the design, development, commissioning and management of the Work and Health Programme, working with DWP;
- DWP to lead the development of the national Work and Health programme and for there to be a core minimum policy and commercial design elements of the programme in London that is consistent with the national programme;
- Within this framework, sub-regions will design and procure the Work and Health programme, to reflect local priorities and to enable the alignment and integration of local services with the programme. This means there will be four separate programmes in London, operating within a national framework;
- DWP and London to explore how to set up joint governance arrangements for the programme and to work together to evaluate and share learning from the programme.

It was highlighted that if councils became responsible for the hard end of employment support (the work programme) there would need to be multiple borough arrangements to take on the level of risk this type of devolution would present.

5.5.13 Housing - The main request in relation to housing is for the retention of all right to buy receipts within London, so London would be able to use those receipts more flexibly. The other requests in this area for London were nullified by the Housing and Planning Bill. It is unlikely that housing would get devolved to a borough level.

⁵ http://www.hackney.gov.uk/media/4360/Delivering-public-services-whole-place-whole-system-approach-final-report/pdf/Delivering_Public_Services_Review_Report_-_Final_

5.6 Our Evidence

5.6.1 We held 3 panel discussion evidence sessions and heard from a number of representatives from various national bodies and think tanks that have been involved in devolution or contributed to devolution discussions.

- Ben Lucas, Metro Dynamics
- Ed Hammond, Centre for Public Scrutiny
- Jessica Stoddert, New Local Government Network
- Professor Tony Travers, London School of Economics and Political Science
- Dianna Neal, Head of Economy, Culture and Culture
- Professor Martin Dole, Professor of Further Education & Skills, University College London (Institute of Education).
- Councillor Jonathan McShane, Cabinet Member Health, social care and devolution
- Tim Shields, Chief Executive London Borough of Hackney.

Key findings on Health

5.6.2 The NHS in London is one of the most important aspects of public services and the performance of London's NHS is of key concern, particularly as the population in London is rising at an alarming rate and resources to the NHS are flat in real terms.

5.6.3 As the Commission commenced this review London received agreement from the Government to conduct health and social care integration pilots. LB Hackney's bid was approved as a pilot scheme.

5.6.4 The *London Health and Care Collaboration Agreement* and *London Health Devolution Agreement*, will pilot new ways of working across London's large and complex health economy with the longer term aim for further devolution of London's health and care to the London system. The agreement aims to radically reshape healthcare provision across the city in line with the aspirations of the NHS Five Year Forward plan (STP); in addition to keeping Londoners as healthy as possible and maximising value from health and care estate. Nevertheless it is not clear how far the Government is really willing to decentralise / devolve power of the NHS in London.

5.6.5 Hackney Council advised from their devolution work on the pilot, they have a number of ambitious requests for local power such as control over NHS estates. Devolution of NHS estates will allow better co-ordination and management of primary care estates, leading to better care for residents and alignment of services. The Hackney pilot is currently working up plans for how devolved estates would operate in practice. The vision entails devolution of NHS estates at a pan London level, then locally through business cases the Boroughs and CCGs could be given flexibility and freedoms.

Hackney Health Pilot

5.6.6 Hackney's health devolution business case aims to protect local resources. The work on Hackney's pilot is made simple because of Hackney's coterminous local health economy and Hackney is one of the few areas with

a sustainable local health economy. Hackney's devolution pilot has a focus on prevention and better use of local resources which goes against the usual practice. Our review highlighted that in the current climate of cuts the usual stance would be to cut back on prevention work. There is the argument that this would not be sensible because it would lead to more spend elsewhere within the system. The hope is the devolution work will highlight how local resources can be protected with dedicated focus.

- 5.6.7 Under the current legislative framework there are services that cannot form part of the integrated commissioning vision for health and social care due to accountability. The potential for joint working has been limited due to the scope of the section 75 framework where some 'aligned services' are excluded. Hackney's pilot will pool funds from April 2017 covering all the CCG budget, Public Health and Social Care budgets which are within scope and those services that can legally be pooled into a section 75 agreement.
- 5.6.8 Hackney's pilot is in the process of establishing a ring fenced budget across health and social care for 17/18. They are currently piloting this concept so that system leaders can experience how they will work together making collective decisions within a financial envelope after April 2017 and to help them consider how best to manage financial risk. Doing this will enable integrated commissioning from a single budget, reducing duplication and joining up services along pathways. This will enable improvements in care and service integration and maximum benefit to be gained from the Hackney pound. Having integrated commissioning would also ensure that the transaction costs of commissioning were kept to a minimum. In the meantime from April 2017 there will be an agreed clear financial framework in place outlining how the partners develop and manage the pooled fund each year – the framework is set to be agreed by the respective organisations of the Council and CCG.
- 5.6.9 It is the desire of Hackney Council and the local NHS services for City and Hackney to fully integrate CCG, social care and public health commissioning budgets. The profound barriers to the rationality of care to older people and the entirely different funding regime for local government and the NHS have proved challenging to the implementation of this in practice.
- 5.6.10 To successfully achieve the integration visualised, would require breaking down the barriers to the rationality of care to older people and the entirely different funding regime and accountability arrangements for local government and the NHS. Hackney's pilot has established a programme board to provide strategic direction and oversee the programme going forward. One of the Board's role will be to develop an explicit understanding of accountabilities. Hackney's pilot has highlighted the need for legislation changes to really achieve the vision for integration of health and social care services. Published papers by NHS England suggest their preferred option would be to explore arrangements that veer more on the side of delegation than formal devolution. But delegation arrangements can largely be achieved through existing mechanism such as Section 75s of the NHS Act 2006. Currently Hackney's health devolution pilot has established its governance arrangements using the section 75 framework.

Key findings on Skills & Employment / Education

- 5.6.11 The Government has been conducting a review of the Further Education (FE) system and devolution of skills funding. This review seeks to rationalise FE provision to ensure the financial sustainability of colleges. In the governments of FE review Hackney is part of the central London area.
- 5.6.12 One of the key challenges cited by businesses is the skills shortage in London. It is thought that devolution of skills will help bridge the skills gap in London. Although London is not a formal devolution area it was announced in March 2015 that the Mayor of London would get devolution of the adult skills provision. In practice this would mean having the ability to restructure the further education system and training provision across London in order to provide a provision more in line with the needs of local employers. However, there are parts to the adult/FE education and skills system that are excluded from devolution discussions these are: apprenticeships, higher education and 16-18 education.
- 5.6.13 The incentives in the current adult skills system are perceived as discouraging a focus on local need. Most boroughs have a college provision but this does not mean it is providing education programmes exclusively for the local community it is based in. Currently courses are not being provided to meet the needs of the local economy because the current funding model for adult skills is learner driven. It is known for education and training people move across London in patterns that do not match borough boundaries. Traditionally courses or training provisions attract people from across borough boundaries. The Commission heard how Hackney's Brooke House (Bsix) College had submitted a proposal to remain a standalone sixth form with a reduced curriculum based on areas of highest student demand.
- 5.6.14 The skills system is viewed as complex and a significant challenge for employers and learners to navigate. This is compounded by the lack of high quality career advice. We heard how employer demand should be reconciled to the learner's needs however this would need to be an iterative process and not be led by the economy.
- 5.6.15 A key area for improvement identified was for a shared sense of purpose and an understanding of what the system is there to achieve. The review threw up the need to understand if the primary focus of the FE system should be (a) boost economic growth (employers), (b) produce social good (learners) or (c) do both? To date there seems to be a lack of clarity on who the skills system is for - students or employers - and devolution could present the opportunity to provide clarity on the purpose of the skills system.
- 5.6.16 The question to London in relation to skills devolution is, can London produce incentives to providers so that the skills provision for London covers the need? For this local colleges and the council will need to be responsive to the local labour market.
- 5.6.17 It was perceived that a pan London devolution deal is likely to mean the loss of the current centre to local relationships for FEs - currently local FEs have a direct relationships with Department of Education and Business, Innovation and Skills (BIS) skills funding. The Commission was urged to communicate in its devolution findings the need for local authorities to create a working

relationship with colleges and not a transactional relationship and for councils to consider the prospect of a joined up approach.

- 5.6.18 For skills and employment it was suggested the governance arrangement should be an effective Employment and Skills Boards looking at what the governance might be and the local levers they could use. This could be similar to the regional board set up that Hackney is a member of called Central London Forward.

Accountability structures

- 5.6.19 Accountability and governance arrangements are crucial considerations in any approach to devolution. The Mayor, GLA and London Enterprise Panel (LEP) are seen as principal regional governance tier for devolution in London. In this review the Commission wanted to establish whether existing or new configurations were needed to ensure the devolved responsibilities were accountable to London's citizens.
- 5.6.20 We found no recommendations or proposals for appropriate governance structures for devolution in London. Moreover the report by the Public Accounts Committee *Cities and Local Growth*⁶ expressed concern about insufficient scrutiny arrangements for local scrutiny of devolved functions and budgets. It cited "It is not yet clear whether there will be institutional scrutiny of devolution deals at a sub-national level, or what form this might take."⁷
- 5.6.21 In December 2014 the Government set out the standards of governance, transparency and decision-making that it expects from LEPs. However, the Government did not test whether LEPs were meeting the required standards before the first round of Growth Deals were paid out to them, and the National Audit Office's review showed there are significant gaps in LEPs' compliance with the standards expected.⁸ However, the Federation of Small Businesses raised as a concern with the PAC that LEPs could be dominated by vested interests, and that there is insufficient involvement of the small business sector.
- 5.6.22 The PAC's report 'Devolution in England - governance, financial accountability and following the taxpayer pound' also stressed that the taxpayer should be able to understand who is spending their money, to what end and where responsibility lies if things go wrong. It also suggested that documents regarding devolved spending should be made publically available by central and local government.
- 5.6.23 For Greater Manchester it has been reported that the new elected Mayor will report to the scrutiny committee of the Greater Manchester Combined Authority, drawn from the "Scrutiny Pool" of 30 Councillors from the ten authorities.
- 5.6.24 Although London's system is unique whereby the boroughs have their own sovereignty and so does the Mayor of London and the Greater London

⁶ [Cities and local growth – Committee of Public Accounts 15th June 2016](#)

⁷ [Cities and local growth – Committee of Public Accounts 15th June 2016, Page 15 para 23](#)

⁸ C&AG's Report, *Local Enterprise Partnerships*, paras 3.14 to 3.17 and Figure 17

Assembly (GLA), London's system of accountability already has in place a Mayor and scrutiny system at the different tiers.

- 5.6.25 Currently London has a mixed bag of accountability structures. It is clear that the budgets that need to be co-ordinated (e.g. NHS, DWP and boroughs) are often under the control of different authorities, making accountability and governance in the system complex. This shows a need for urban governance structures but with arrangements that suit London as a whole. One possible solution floated to address scrutiny and public accountability for devolution of services was for local areas to set up a Public Accounts Committee (PAC) similar the House of Commons PAC and this committee would look very tightly at spend.
- 5.6.26 The primary aim of a PAC is to hold public services to account and investigate spend. London would need to identify the level for accountability, where the PAC should sit (regional or sub regional) and there would need to be a link between local scrutiny and GLA scrutiny.
- 5.6.27 In terms of an accountable body, CfPS defined this to be a person / persons or organisation that is responsible for the provision of public services. A public service is defined as largely or wholly being funded by public funds or services of a public nature. It is anticipated that the number of organisations under this criterion would be quite broad and the powers for a local PACs would need to be provided by legislation. Without legislation to set up a PAC there needs to be an agreement between councils and local partners. A PAC would not be the council's public accounts committee but the local area's public accounts committee. This would not be a fixture of the council but set up outside the council's structure. The different organisations that would fit the criteria for membership would have different accountability structures. Therefore it was likely to be difficult to get agreement to a PAC type arrangement without primary legislation. Local PACs only make sense if you have two things, fiscal devolution and a full understanding of the devolution context. The way the powers are balanced will be important and the arrangements will need some kind of sovereignty to have clear governance and accountability structure in place.
- 5.6.28 In our evidence the Commission was advised responsibilities can bring opportunities but it can also bring risks around delivery of services and connection with communities. If local government is going to push for changes that give them complete responsibility there will need to be: consistency, understanding and sharing of risk. Our witnesses informed even though boroughs have a sense of what they want to achieve with devolution, it has not been demonstrated that London can work collectively under regional arrangements. The Commission raised questions about the level of risk and queried if local authorities were fully aware of the risks they would be taking on if responsibilities were fully devolved. The House of Commons PAC made clear the devolution of services should not absolve central government of its responsibility and that the Government needs to ensure that devolved areas receive adequate funding to sustain them. There is a risk of leaving authorities with devolved responsibilities to fend for themselves - particularly health and social care – when local government is already heavily stretched and operating in a beleaguered sector.

- 5.6.29 The Society of London Treasurers reported that the sector's financial and political governance arrangements are not designed to manage the regional or sub regional management of pooled investment or the distribution of pooled income, for example from a growing business rates base. It pointed out that through prevailing arrangements local government had become 'expert' at governing decisions about expenditure and lobbying central government to mitigate risk.⁹ Hackney's health devolution pilot also highlighted this challenge. For Hackney's pilot they have implemented a work around to develop a pooled budget and governance arrangements to enable the leaders to come together to make decisions, in the absence of a legislative framework.
- 5.6.30 Devolved functions at a pan London level will require the development of new forms of financial and political governance to manage and agree the distribution of resources across the city region. Therefore it is in the long-term interest of boroughs to contribute actively to the conception of pan London or regional governance arrangements. Any new set up has the potential to profoundly impact on the extent to which funding follows need and on the degree to which growth and other priorities are incentivised.
- 5.6.31 For fiscal devolution the London requests covered permissive powers to raise taxes and radical powers such as to setting VAT rates and the retention of right to buy housing receipts. For business rates, the request is for 100% retention of London's business rates within London and a fair funding principle. The requests are linked to the work of the LFC led by Professor Tony Travers using the recommendations previously reported. The request in this area is asking for the detachment of London's business rates from the rest of the country.
- 5.6.32 Given the diminishing resource position of most councils across the country and London Boroughs in particular, it is clear that the right package of financial devolution measures, incentives and powers could have a positive impact on the medium to long term financial health of the public sector.
- 5.6.33 The report by the Society of London Treasurers (SLT) supports fiscal devolution for London and recommended:
- '... that London Boroughs actively support implementation of the London Infrastructure Plan. They should use the process as an opportunity to define for themselves the sub-regional functional economic areas they believe makes most sense for them, their partners and London as a whole.'*¹⁰
- 5.6.34 The CLGC report *Devolution in England the case for local government*¹¹ supports the principle of fiscal devolution in England and call on the Government to work with local government to devise a fiscal devolution framework for local authorities. It also presents the argument that local authorities should have greater powers to raise, retain and spend money locally.

⁹ Society of London Treasurers

¹⁰ Society of London treasurers report

¹¹ CLGC report *Devolution in England the case for local government*

- 5.6.35 When the Commission asked how the case might be made to Government for true fiscal devolution, emphasis was placed on Boroughs being able to bring forward solutions to Government as case examples that demonstrated what works for their local population. Presenting cases that bring solutions to the challenges like spiralling NHS costs that the Government is facing.
- 5.6.36 Even though relaxation of central Government's control over spending programmes can be a component of fiscal devolution, on its own it is not fiscal devolution. True fiscal devolution would involve handing to local authorities the power to raise money through a range of existing and new taxes and charges; some responsibility for setting those taxes; and the facility to borrow.

Public involvement

- 5.6.37 There will always be the need for strong local political accountability for services. Local Government is more open and transparent than other centralised areas of government structure which can be seen as technocratic. There may be pressure on Government that tips the balance of decentralisation towards a more genuine devolution. Until then the question is, if the Government did devolve more powers to English Cities is there the possibility that the public can have a greater capacity to oversee the operation or even co-produce the devolved structures?
- 5.6.38 Public engagement should be part of the devolution process, but to date the difficulty with expanding public knowledge or engagement has been that devolution deals are being conducted in private and the government restricted any details of negotiations being shared. As negotiation is an inherent part of the process, this has made it hard to turn the process into a visible democratic process. Currently the opportunities for local government to engage the public is only at the start of the process.
- 5.6.39 The Government's timescales did not allow councils to conduct real public engagement over the summer of 2015. If conversations with local people were conducted at the start of the process councils could have asked residents for their views. Councils would have been able to use this information as the heart of their narrative for their bids to Government and would be in a strong negotiation position. To date the opportunity to involve local people has not been taken, primarily because of the speed of devolution discussions.
- 5.6.40 Public involvement in devolution was discussed at evidence sessions and it was agreed devolution proposals should be taken out for a wider public debate into places like schools and colleges, to obtain public buy-in into the process. The Commission was of the view taking the proposals out for debate would create person centred services that could be co-produced with local residents. Achieving this would involve engaging with the voluntary and community sector in devolution discussions at a local level. This would enable devolution to be seen as less technocratic and more accessible to the people, ensuring public accountability through effective community engagement.

- 5.6.41 There is an argument that people will engage and understand proposals if structures and activities are conducted at a borough level and what is of key importance to the public is access to decision makers so they can receive a hearing to enable them to influence or shape the decision made. The Commission was of the view, from their experience as local leaders that the public are not interested in devolution structures or processes but they are extremely interested in improving their lives and the area they live in. The view was people may be more willing to accept a decision that went against them if they have a hearing in front of the person/people who make the decisions, giving them the opportunity to put their points across.
- 5.6.42 Even though it's hard to make the initial part of the process transparent, once determined there could be an opportunity for the public to be involved in the process. One such option would be scrutiny. Scrutiny gives the public the opportunity to scrutinise the way the government works; where Councillors and the public can have a say in how the function operates.
- 5.6.43 If people have a strong sense of place it is easier to build a dialogue. In London this is particularly challenging because some people would describe themselves as a Londoner not as a resident of a particular borough. For the Commission one thing was certain, the views of citizens' and their involvement in the process could provide solutions and this would help to make the process tangible to local residents, combining vision and democracy.

5.7 Hackney

- 5.7.1 At the time of this review there was no clarity for councils on what the Treasury and Government would give to London for devolution. In this review the Commission became aware that the fluidity of these discussion and the uncertainty of the commitment to London was hindering the development of council plans for devolution.
- 5.7.2 Hackney Council confirmed they had no holistic plan outlining their approach to devolution across the board and this was due to the continuing discussion. The ambiguity had impacted on the Council's ability to develop overarching plans for devolution of services. In spite of this the Commission wanted to clarify:
- What the Council is trying to combine?
 - Its views on public accountability.
 - What the Council aimed to get out of the devolution?
 - The Commission wanted to establish the Council's thinking in relation to how devolution for London would impact Hackney and if the Council had devised a set of principles to take into devolution negotiations (if devolution was reduced to a borough level) which represented Hackney's aspirations.
- 5.7.3 It was identified that the Council had not developed a set of principles covering the costs and benefits of devolution to Hackney. The Council advised its key priority was to ensure they were not given areas of responsibilities without resources.

- 5.7.4 It is clear that central to the devolution process is negotiations. The Commission also understands that the fluidity of the discussion make it challenging to set priorities. Nevertheless the Commission was of the view having a set of principles would help the Council in negotiations and in devolution discussions.
- 5.7.5 The Commission raised concern about the impact on Hackney services and asked the Council if it had identified key priorities, benefits and costs. It also queried if the Council had given consider to the form accountability should take. Of key concern was the changes devolution would make to services and the impact of this on citizen's engagement with services because devolution could make accountability of services more opaque. Hackney advised the challenge was that neither the partnerships nor the geographies were obvious and that they were likely to be very different for each area of devolution proposed for London.
- 5.7.6 Hackney's health devolution pilot had considered the governance arrangements required to achieve full integration of health and social care. The Commission noted in regards to the health devolution pilot – which unusually has been devolved to a borough level – the key challenge was working out governance configurations. It was concluded that to achieve the vision of truly integrated services would require legislation changes to establish sovereignty for integrated services. Hackney's pilot highlighted without legislation changes to enable all the organisations to pull services together, the vision for integration, accountable services and joint governance arrangements could not be achieved.
- 5.7.7 For Hackney's health pilot they were in support of public involvement. This was demonstrated in its membership of statutory and voluntary organisations as well as patient and public involvement. We were also informed the Council planned to run local community engagement events for the devolution pilot proposals.
- 5.7.8 Hackney advised there was an understandable desire in the process for everything to fit neatly in the same partnerships councils have always operated in but this may not be the case for devolution. For devolution it was important for the Council not to be parochial and to consider the bigger picture. Hackney Council told us the geographies around opportunities for devolution were very fluid and they needed to remain open to working in different geographies. The different areas of devolution may require councils to form different partnerships. A practical example of the very different geographies open to the Council was cited to be Employment and Skills. Hackney had been invited to join the Central Forward Partnership as their Board had agreed to extend their work on employment and skills to Haringey, Tower Hamlets, Lewisham and Hackney. At the same time Hackney was formally invited by the Mayor of Newham, Robin Wales and Leader of Waltham Forest Cllr Chris Robbins to join the Local London partnership. In January 2016 the Local London partnership was formally constituted with Barking and Dagenham, Enfield, Greenwich, Havering, Newham, Redbridge and Waltham Forest.

5.8 Implications

- 5.8.1 Local communities want more of a say in how resources and the budget is spent locally. Some say, for example, that this could have been a contributory factor in the vote to leave the European Union. Devolution for England presents an opportunity to devolve power and resources closer to citizens. In this review we wanted to understand the implications of devolution to local people.
- 5.8.2 The benefits of devolution are well rehearsed and we also noted that devolution is expected to bring more democratic choice to the people to enable the institution (that are well informed about local needs, conditions and demands) to guarantee a more responsive and rational decision-making system. Devolution is being presented as positive for local communities and that by devolving and decentralising power this will enable local people to make decisions in local areas, which has been reported will create the conditions for sustainable growth, better public services and a stronger society.
- 5.8.3 There have been a number of reforms and attempts to decentralise power but many attempts to decentralise have not achieved the level of success or embedded the way they were visualised. This is thought to be linked to not having support from local politicians or the public and more importantly it is a result of the central institutions of Parliament and civil service resisting any significant loss of power.
- 5.8.4 The report by the Institute for Government pointed out in order to achieve success in this area there are a number of obstacles that will need to be overcome these are:

Resistance from national government

1. National government lacks trust in sub-national government competence and accountability for failure.
2. Those leading decentralising reforms are often unsuccessful at persuading other departments or ministers to give away powers.
3. Sub-national government can (and will) be reorganised at the whim of the executive.
4. National government resists devolving power to authorities that do not operate at the right geographic scale.

Resistance from local government

5. Taking powers from existing local politicians to give to a new sub-national government layer creates opposition.
6. Changing the boundaries of political units may jeopardise existing political composition and control.

Resistance from the public

7. The public are concerned about politics, but generally lack interest in sub-national government reform and tend (when asked) towards the status quo.
8. People only support a new institution when it is clear that it will make a difference to them.

9. The public are generally sceptical of the value of more politicians.
10. Concerns over identity and control can be a barrier to change.¹²

- 5.8.5 Devolution will be wide ranging on whole communities therefore the Government will want to be certain that overall, devolution will bring about a change for the greater good. The impact of devolution will go further than just addressing the needs of people benefiting from a devolved Government. There will be other effects to all the parties involved in devolved Government at any level, from the cost and time involved in setting it up through to the way local authorities are run in devolved areas, not to mention accountability and scrutiny.
- 5.8.6 Experience shows where effective use of power has been demonstrated central government seems willing to extend further powers to bodies that have proved effective and accountable. The Scottish Parliament, was given additional tax-raising powers since 1999. There are examples of successful decentralisation of power such as the devolved structures in London, Scotland, Wales and Northern Ireland. It is considered that the Scottish devolution was possible because most devolved powers were already collected within the Scotland Office.
- 5.8.7 The questions we found in this review without clarity were:
1. The detail about how decentralisation would work in practice (particularly in London) and if this would include devolution of resources (fiscal or otherwise).
 2. Will devolution be to regional, local or a combination of both (particularly for London)? Should this be a matter for the Mayor of London, for the boroughs or a combination of the both?
 3. The form and structures of governance and accountability.
 4. How decisions makers will be held to account and scrutinised by tax-payers and other interested parties?
- 5.8.8 The London proposition requests generally cover pan London. Since the devolution requests were submitted for London there have been a number of changes to the current political landscape. A new Prime Minister, a new Mayor for London, Britain's plans to enter into negotiations to exit from the European Union and a General Election called.
- 5.8.9 Through London Councils, Boroughs have been involved in discussion about what will be devolved to London, the discussions have been about devolution at a pan-London or regional level. The Commission queried what services, if any, would be contracted at a local level and how the governance for regional arrangements would work in practice.
- 5.8.10 Our witnesses told us for true devolution to proceed London will have to make a convincing offer to central government, an offer that demonstrated how services could be changed and improved and would tackle key areas of spend. The strongest areas from the proposition that were highlighted as devolution possibilities for London were: skills and adult education, health

¹² Institute for Government report - Achieving Political Decentralisation: Lessons from 30 years of attempting to devolve political power in the UK

and employment - areas of complex need and high spend - and health and social care. The Commission noted that if councils do become responsible for areas like the hard end of employment support, there would need to be multiple borough arrangements to take on the level of risk this type of devolution would present.

- 5.8.11 It is anticipated any devolution for London is likely to be regional to achieve economies of scale. However, a key factor in devolution should be to devolve on the principles of subsidiarity and in a manner that ensures clarity to assist public understanding of where responsibility lies. The Commission agrees that power should be exercised at the lowest level possible, however, this should be contingent upon the ability of the devolved body to exercise those powers effectively. Powers should not be devolved solely because it can be - devolving power should take into consideration economies of scale.
- 5.8.12 It is clear devolution for London will require partnership working with other London boroughs and an agreement between the Mayor of London and the London boroughs. London's local authorities will need to consider new ways of working with other boroughs (sub-regional basis), partners and have a different working relationship with the Mayor of London, GLA and central Government. This review highlighted that London's boroughs have worked collaboratively before but for devolution there will need to be a formal structure. This structure is likely to need legislation changes or be by statutory agreement to enable regional powers to be devolved. Throughout this review governance and accountability structures was an area that remained undeveloped and still strongly debated.
- 5.8.13 If local government is to take on new responsibilities, new structures, and new forms of partnership, then there will need to be a multi-level model of accountability that encapsulates this, clarifying the roles and responsibilities within the new ecosystem.

5.9 Next Steps

- 5.9.1 **A Holistic Plan and Principles** - Hackney Council could not explain its approach to devolution across the board. The review highlighted the absence of a coherent approach and detailed plan. The Commission recognises the Council needs to respond in an agile way due to: the fluidity of discussion, variable geographies and proposals being agreed ad-hoc. In spite of these very practical challenges, the Commission was of the view, it was important for the Council to have a holistic plan with a set of principles that provided a framework for discussions but that still enabled the Council to respond in an agile way. The challenges in relation to partnerships and geographies should not deter the Council from developing its own plan and a set approach that fit with the needs of its local community and the desired outcomes for services. This plan will help keep the Council focused on the outcomes they wish to see achieved locally.
- 5.9.2 Although the devolution journey may encounter changes to the path set, this does not mean the destination will change. When the Council enters into devolution discussions it should have a Hackney specific criteria aimed at achieving its desired outcomes. Evidence from the review highlighted that devolution was not an event but a journey. It was important for councils to

have a sense of what they wanted to achieve from devolution. Having clarity about the impact of devolution, how it will interact with pre-existing reforms or changes, their principles for devolution and the expected outcomes. The Commission urges the council to not to get caught up in the processes of devolution and to clearly define the outcome they wish to achieve before entering the devolution process. The Commission suggests that a starting point for the council designing a set of principles as described could be:

- a. Hackney Council will identify where it can influence discussions and have a clear plan of what the Council wants to achieve at those discussions
- b. Hackney Council will prioritise. It will take the most promising areas for devolution locally and clearly think through how involved the council wants to be in these areas e.g. health and skills.
- c. Hackney Council will be careful of financial burden. It will be cautious of being given an area of responsibility without parallel financial commitments.
- d. Hackney Council will ensure that devolution is politically debated
- e. Hackney Council will ensure that devolution is debated with the public and that they participate in shaping the outcomes
- f. Hackney Council will advocate for simple clear structures for accessibility and accountability
- g. Hackney Council will find the appropriate partner to work with for each devolution area.

5.9.3 Public Involvement - The process and systems of devolution need to be visible and accountable to everyone. Public involvement in this process will not only help obtain buy-in from residents and stakeholders - who may feel excluded from the discussion and development of proposals – but may also provide solutions to those challenging areas like accountability structures. Devolution needs to be tailored to communities as well as regional areas. Devolved areas should be given the time and resources to create new democratic methods and shouldn't be tied to pre-existing structures and processes. We are suggesting the voluntary and community sector should be seen as a necessary partner to cooperate with to challenge public authorities and elected officials to make sure that local people are at the heart of devolution.

6. CONCLUSION

- 6.1 We know the benefits of devolution are well rehearsed but London needs to develop a narrative that moves beyond the standard arguments about why devolution is good; instead providing a demonstration of what works and the successful outcomes that can be realised.
- 6.2 It was been noted that there have been many reforms and changes to public sector service provision over the last decade and the Commission believes it is vital that thought is given as to how the devolution proposals will interact with pre-existing reforms or changes that need to be in.
- 6.3 We learned one of the key drivers for devolution was growth in cities. Devolution should involve the handing down of power and at the very least some assigned revenue to allow discretion in the way the resources are used. An example of this is the transfer of public health from the NHS to local government.
- 6.4 A key policy being driven by Government is for local government to become more financially independent. The Government's proposal is to move towards 100% business rates retention which means the Council will need to establish itself as a responsible body for economic development locally and find ways to develop its local resources. The growth in popularity of areas such as Shoreditch and Dalston since 2010 has resulted in Hackney facing one of the biggest increases in business rates following the revaluation. The fear is the level of increase expected could put local industry at risk of sliding into stagnation, forcing relocation instead of expansion, and replacing job creation and thriving business clusters with unemployment and empty buildings. This would change Hackney from being an affordable business location and reduce the range of activities and jobs available to local people. The Council has a role to lobby Government for its preferred outcome. We note the lead Cabinet Member for Regeneration in Hackney has written to the Chancellor of the Exchequer Philip Hammond to urge the government to delay planned business rates increase (April 2017) until the Brexit negotiations are complete.
- 6.5 The big question this Commission was asking at the start of this review was **"What does this mean for Hackney?"** The fluidity and ambiguity of what is on offer has meant throughout this process we have seen no evidence of a plan that covers all important aspects like accountability and governance or criteria for devolution discussions at a borough or regional level. We believe having a plan with principles as a guiding framework will put the Council in a strong position to achieve its desired outcomes for the local population and local economy.
- 6.6 For devolution it is anticipated the change from policy to implementation may be rapid and Hackney Council needs to be ready. Political leadership will be crucial to devolution success and we are aware that for London's devolution there is a lead Chief Executive from Boroughs and for London Councils a lead Cabinet Member. It is also important that Hackney plays an active role

in this process and in discussions with London Councils who are taking forward the requests of local government for devolution to the GLA and Government for negotiation, so that it can maximise the opportunities of devolution for Hackney residents.

7. CONTRIBUTORS, MEETINGS AND SITE VISITS

The review's dedicated webpage includes links to the terms of reference, findings, final report and Executive response (once agreed). This can be found on [our web page](#).

Meetings of the Commission

The following people gave evidence at Commission meetings or attended to contribute to the discussion panels.

16 th March 2016 ¹³	Ben Lucas , Metro Dynamics Ed Hammond , Centre for Public Scrutiny Jessica Stoddert , New Local Government Network Science
15 th June 2016 ¹⁴	Professor Tony Travers , London School of Economics and Political
5 th September 2016 ¹⁵	Dianna Neal , Head of Economy, Culture and Culture Professor Martin Dole , Professor of Further Education & Skills, University College London (Institute of Education).
14 th November 2016 ¹⁶	Tim Shield , Chief Executive London Borough of Hackney Councillor Jonathan McShane , Cabinet Member Health, social care and devolution for London Borough of Hackney.

¹³ [March 2016](#)

¹⁴ [June 2016...](#)

¹⁵ [September 2016...](#)

¹⁶ [November 2016](#)

8. MEMBERS OF THE SCRUTINY COMMISSION

Councillor Anna-Joy Rickard (Chair)

Councillor Susan Fajana-Thomas (Vice Chair)

Councillor Ned Hercock

Councillor Nick Sharman

Councillor Deniz Oguzkanli

Councillor James Peters

Councillor Rebecca Rennison*

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9. BIBLIOGRAPHY

The following documents have been relied upon in the preparation of this report or were presented to the Scrutiny Commission as part of the investigation.

- The London Proposition by London Councils and Mayor of London, September 2015
- Devolution to Local government in England – House of Commons Briefing Paper, 24 June 2015 (number 07029)
- Local Action, National Success: How Outcome Agreements Can Improve Skills Delivery by UK Commission for Employment and Skills and Association of Colleges
- Making Devolution deals work by Institute for Local Government
- English Devolution local solutions for a successful Nation by Local Government Association
- Devolution: A state of the Nation by Local Government Intelligence Unit Andrew Walker, 9th March 2016
- Capitalising on the Boroughs - Promoting growth through greater financial devolution in London, by Society of London Treasurers
- Achieving Political Decentralisation - Lessons from 30 years of attempting to devolve political power in the UK, by Institute for Local Government

- Cities and local growth by House of Commons Committee of Public Accounts Sixth Report of Session 2016–17
- Devolution in England: the case for local government, House of Commons Communities and Local Government Committee
- A Proposition for London's Growth Deal 2, London Enterprise Panel
- Progress on Devolution and Public Service Reform, A London Councils Member briefing (August 2016)
- Devolution: a capital idea, *London Finance Commission January 2017*
- Memorandum of Understanding on further devolution to London – HM Treasury, Mayor of London, Department for Communities and Local Government and London Councils March 2017
- Briefing Paper Devolution: what it means for health and social care in England - Helen McKenna and Phoebe Dunn, Kings Fund, November 2015

10. GLOSSARY

Below is a list of abbreviations used within this report and their full title.

Abbreviation	Definition
GLA	Greater London Authority
Brexit	British Exit from European Union
EU	European Union
NHS	National Health Service
FE	Further Education
OECD	Organisation for Economic Co-operation and Development
GDP	Gross National Product
UK	United Kingdom
LEP	Local Enterprise Partnership
CCG	Clinical Commissioning Group
CLGC	Communities and Local Government Committee
PAC	Public Accounts Committee
BIS	Business, Innovation and Skills
IPPR	Institute for Public Policy and Research
MOPAC	Mayors Officer for Policing and Crime
TFL	Transport for London
DRAM	Development Rights Auction Model
LFC	London Finance Commission
CLF	Central London forward
MoU	Memorandum of Understanding
DWP	Department of Works and Pension

Appendix 1 – Summary of Evidence Sessions

The detailed discussion at evidence sessions will not be repeated in this report we have drawn out the key findings from these discussions that have implications for London and Hackney.

The key points from the evidence sessions highlighted the following in relation to devolution.

Generally

- Devolution is very different to decentralisation. Devolution is about power and the freedom to use resources as required to meet local need.
- Devolution is viewed as providing opportunities for economic growth, innovation, employer engagement and integration of public services.
- London needs to develop a narrative that moves beyond the standard arguments about why devolution is good.
- For true devolution to proceed London will have to make a convincing offer to central government through the build- up of case examples.
- Devolution is not an end process but rather should be viewed as a means to an end, with the aim of creating better value for the way resources are spent. Therefore thought needs to be given as to how the devolution proposals will interact with pre-existing reforms or changes that need to be in.
- The process has been viewed as opaque - lack of transparency and public engagement.
- Political leadership is crucial to devolution success.
- To achieve devolution London needs to work effectively with the Mayor, GLA and London Councils (London boroughs). Boroughs have not demonstrated that London can work collectively. The key to this will be the relationship between the GLA, boroughs and regional relationships. Any discussion about devolution not only needs to include devolution from central to local government. For London there needs to be consideration of regional devolution too.
- Local authorities will need to consider new ways of working: with employment and skills providers, having a different working relationship with the Mayor and GLA, with Government, with other partners and with other boroughs (sub-regional basis).
- Devolution is being driven at a time when the fiscal environment is challenging. Successful devolution needs fiscal devolution not just a transfer of power and/or responsibility. Devolution should involve the handing down of power and at the very least some assigned revenue to allow discretion in the ways the resources are used. An example of this is the transfer of public health from the NHS to local government.
- Devolution will have resource implications: development of sub-regional strategies, contract management etc. will need to be financed.

- It was highlighted that public spend in London is in silos. The question devolution asks is can London take this spend and use it in a different way to deliver a more effective impact for the local community. Focusing on getting better outcomes for Londoners.
- The most promising areas for devolution are the areas where there is spend on quite complex need. If councils became responsible for the hard end of employment support (the work programme), there would need to be multiple borough arrangements to take on the level of risk this type of devolution would present.
- The current approach to devolution lacks clear objectives and a road map of where it is heading. Local areas want central government departments to take a more consistent approach to devolution. Although boroughs have a sense of what they want to achieve with devolution, there needs to be clarity about the principles of devolution and the expected outcomes. It is important that councils clearly define the outcome they wish to achieve from this process. It is important not to get caught up in the processes of devolution.
- Partnership working and the responsibility for partnership leadership brings opportunities but it also brings risk around delivery of services and connection with communities. Consistency, understanding and sharing the risk will be important.

Specific to Skills and Education

- There are parts to the adult/FE education and skills system that is not capable of being devolved. These are apprenticeships, higher education and 16-18 education.
- The positives with the skills system were viewed to be the clarity on apprenticeships and pockets of good practice in the system.
- One of the key challenges cited by businesses is the skills shortage in London. Therefore the question is can London devolve spend so that it gives incentives for providers to provide the skills provision that London actually needs.
- The skills system is viewed as complex and a significant challenge for employers and learners to navigate. In relation to the skills system there needs to be a shared sense of purpose as to what the system is there to achieve (a) Is it to boost economic growth (employers), (b) produce social good (learners) or (c) both?
- Incentives in the current system are perceived as discouraging a focus on local need. Courses are not being provided to suit the local economy and compounded by the lack of high quality career advice.
- Funding for FE is not sustainable and a pan London devolution deal is likely to mean the loss of the current centre to local relationships. Currently local FEs have a direct relationships with Department of Education and Business Innovation and Skills (BIS) funding.
- Funding uncertainty prevents long term planning.

- The current funding model is learner driven and any changes to FEs current funding framework would be hard to reinstate if removed.
- The local college and the council will need to be responsive to the local labour market and employer demand needs to be reconciled to the learner need. This process needs to be an iterative process and not led by the economy.
- Although each borough may have a college provision it does not just provide education programmes for the local community but across borough boundaries. People move across London in patterns that do not match borough boundaries. Engagement with colleges needs to be a working relationship and not transactional; it's the prospect of achieving a joined up approach and having the spend at the point of delivery is key. This will involve having a trusted relationship between the parties.
- Institute for Public Policy and Research (IPPR) analysis suggests that a quarter of entry level vacancies in London are at mid-skill level (not requiring a degree or paying more than the London living wage).
- London's employment rate is below average and there is a skills shortage in certain mid-skill occupations.

Specific to Health

- Health spend is another key area. In London there is a huge pressure on the NHS. In times of austerity the usual stance is to cut back on public health budgets, but this would not be sensible because it can lead to more spend elsewhere within the system.
- Budgets that need to be co-ordinated (e.g. NHS, DWP and boroughs) are often under the control of different authorities. The health services in London is run by the UK government but increasingly involves the boroughs; policing is overseen by the Mayor of London; planning and housing policy are split between the Mayor and the boroughs; school education is a borough responsibility supervised by the UK government; transport is down to the Mayor; social care is (currently) a borough responsibility; open spaces are the responsibility of the boroughs (except for Royal Parks). London has some collaboration through London Councils but for devolution it was thought there would need to be a formal structure; possibly by statutory agreement to enable regional powers to be devolved.
- It is not clear how far the Government is really willing to decentralise/ devolve power of the NHS in London. There are profound barriers to the rationality of care to older people because of the entirely different funding regime for local government and the NHS.
- Published papers by NHS England suggest their preferred option would be to explore arrangements that veer more on the side of delegation than formal devolution. Delegation arrangements can largely be achieved through existing mechanism such as Section 75s of the NHS Act 2006.