DEVOLUTION REVOLUTION
THE NEXT STEPS TO DELIVER OUTCOMES

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New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.
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I would like to thank the many individuals and organisations that have contributed to this project. Particular thanks are due to PwC for their sponsorship, and the expertise and support of Niamh Sands and Nick Jones.

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Any mistakes or omissions in this report are of course my own.

**Abigail Gilbert**

NLGN
Devolution continues to set the agenda for local government, offering opportunities for councils to work in different ways, with their neighbouring local authorities, across the public sector, with business, and with the public. While the ripples from the EU referendum result will no doubt impact the ‘devolution revolution’, with ten devolution deals done a certain momentum has been established.

However, with many devolution deals still on the negotiating table, what are the critical success factors that those seeking to seal a deal should be considering?

Our work with NLGN has sought to address this question, designed to cast light on the practicalities of how local authorities can work together to create a vision for their place, develop a strategy to deliver that vision, and then negotiate the deal needed with central government. A few lessons stand out.

Firstly, the teams quickly embraced an ambitious agenda for growth for their area, recognising the need for any deal to be underpinned by strong economic rationale and supported by a clearly defined economic footprint. The dynamics that played out between how chief executives balanced priorities for their own authority with those of the combined authority area as a whole will resonate with those involved in forming a combined authority. Establishing evidence and a consensus behind the economic vision and strategy for a whole place is key to securing and delivering devolution.

A further challenge is in balancing a focus on growth with public service reform and addressing the question of how to reduce dependence on public spending. Many areas are moving forward with health and social care integration, for example, but few have taken this to its full extent, involving housing, education and business in ensuring that the population is healthy, skilled for the future and economically productive. To deliver the full potential of devolution, places need to match an ambitious agenda for growth with innovative public service reform.
Turning to the practicalities of translating vision and priorities into strategy and plans for execution provided further challenge. Questions over return on investment, linking interventions to expected outcomes, how deals will be funded, financed, and resourced in terms of capacity and capability, must be front of mind for those doing a devolution deal.

While clear political accountability and leadership capability are critical components of any devolution deal, it is clear that strong local authority leadership will not be sufficient to deliver the changes needed. A more distributed leadership, across the public and private sector, will be needed to deliver an ambitious programme of devolution and achieve outcomes. Central to this will be new approaches to risk, on the part of both central and local government.

Finally, and particularly in light of the EU referendum, public engagement will be critical if devolution is to be a success. While the 2017 mayoral elections will no doubt shine a spotlight on issues of accountability, engagement needs to reach beyond the ballot box if devolution is to be viewed as more than the introduction of new tiers of administration. As ambitious and innovative public service reform programmes start to impact the shape of local public services, finding new ways to engage and communicate with the public will be key. Digital has a role to play in enabling a new relationship between citizens and services.

While relationships with central government were a key area of focus for the game, what came out strongly was the need for a mindset change on all sides for devolution to be successful. The need to move beyond an ‘us and them’ approach applies to how local authorities work with their neighbours, with other parts of the public sector, with business, and with the public.

**CHRIS BUTTRESS**  
LEAD LOCAL GOVERNMENT PARTNER, PwC
England is in the midst of the largest programme of devolution the country has seen for generations. The creation of combined authorities and metro mayors is highly significant, giving cities a level of control over their economic and social destiny they haven’t had since the 19th century. At the same time, we are now negotiating the process of ‘Brexit’ which will see a host of new powers returned to central government from the EU. With everything in flux, this is a perfect opportunity to think about what is needed to make the next steps of devolution a success.

However, to date, the process of devolution deal-making has focussed disproportionately on structures and governance. While these are important, the more interesting question is about what the new combined authorities will actually be able to do to improve the lives of their residents, through public service reform and new efforts to generate and capture the benefits of growth locally. None of these questions are settled by a focus on form over function.

In order to investigate these questions further, NLGN ran a ‘game’ in which senior local government officers were challenged to solve their sector’s biggest problems. The game reflects a rapid development in the way councils are approaching the challenges of austerity. Instead of trying to solve their problems by simply looking at their own internal systems, or even by working across the local public sector, the devolution context demands that councils work on a greater scale. So this year, we set participants the challenge of reshaping the economy of a fictional city region, Chamberlainville, which became a combined authority and received its first devolution deal in 2015. Through the lens of approaching further devolution, we asked them to connect economic development and public service reform to achieve good, inclusive local growth.1

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1 PwC and Demos, (2015) Good Growth for Cities
We gave each game participant the job of leading one council in the Chamberlainville city region. Their task was to develop and pitch a second devolution deal to central government with a focus on making their place economically successful. This report uses the conclusions of the game to explore issues facing real combined authorities. It concludes that:

1. **Devolution is being held back by an ‘us and them’ mentality that continues to dominate relationships between central and local government.** This is exacerbated by a perception in councils that civil servants are hesitant to engage in conversations where both parties meet as equals, and a view in central government that local government lacks ambition and realism. Both sides must change in order to resolve this.

2. **Members of combined authorities must work together to become stewards of a long-term vision for place.** For devolution to work, places must find a way to make the differences between them work to their collective advantage. They need to collaborate to create a clear vision of place which integrates their economic strategy, their cultural offer and their plans for public service reform.

3. **Central government must create the conditions for local government to take risks.** For devolution to result in more innovative approaches to delivering inclusive growth and public service reform, central government cannot allow anything to be ‘off the table’ in the next round of devolution. They must also make the process more transparent and be clearer about what they need from local authorities. In turn combined authorities should be able to demonstrate the improvements to outcomes resulting from their collective endeavours in the first round of devolution.

4. **Devolution cannot just be about the mayors, and must create opportunities for far more distributed forms of leadership.** Making mayors and combined authorities work will require a very delicate balancing act between the role of the mayor, council leaders, councillors, communities and the wider public sector. But if it can be made to work, the new arrangements clearly offer huge opportunities for better governance and growth.

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Devolution has the potential to transform local government in a way we haven’t seen in decades. But to date, discussions have focussed on the form of devolution rather than on its function. The greater question of what local government is seeking to achieve with these new powers, and are those goals realistic, has been displaced. Through our research, we examined the changing nature of local and central government to ask what could be done if local authorities were given a neutral space within which to create their vision of future places.

We gathered senior local government officers, councillors and a number of central government experts to ‘game’ the future of a fictitious city region. We named this game after Joseph Chamberlain, the famous entrepreneur who built a civic powerhouse in Victorian Birmingham. Putting players in a fictitious locality gave them the chance to start from a fresh perspective. However, to keep the game grounded firmly in reality, we also modelled the finances on real spending data and set a series of realistic political constraints. The aim of the game was for a second devolution deal to be negotiated with central government which could enable the combined authority to deliver inclusive growth – an electoral promise of the Mayor.

At present, a disproportionate share of the proceeds of local growth go to centrally-managed programmes, rather than being recycled into improved wellbeing locally. To deliver more resilient, inclusive local economies, the teams sought to find ways to link strategies for growth with public service reform, harnessing the opportunities presented by a second round of devolution. To deliver inclusive growth councils would need to create economic strategies which would create attractive places to live and work. These would need to retain, develop and attract a high calibre workforce and present a clear offer to new and existing businesses. Further, this should be supported by public service reform which makes people healthy and able to participate in creating local value. Finally, it requires a skills system which enables people to secure good jobs, in turn improving the regional economy and improving the conditions for high productivity work. This is demonstrated in Figure 1 below.
The game was played over the course of 24 hours. Players were divided into:

**TWO CITY TEAMS** played by chief executives of county, district and unitary local authorities from around the country. Each player was made chief executive of one of the city region’s six metropolitan boroughs – each with a unique political history, financial and demographic challenges and physical assets.

**A CENTRAL TEAM** comprised of current or former civil servants from key departments. Their role was to set the terms of future devolution deal negotiations, and ensure that plans made over the next four years by the city teams stood up to scrutiny.

Other players were a metro mayor (played by a council leader), tasked with keeping the chief executives decisions in line with political sensibilities, and ‘the public’ (played by an NLGN staff member) who responded to the recommendations of the combined authority in real time via ‘tweets’.
Located on the north west coast of England, Chamberlainville has grown faster than any other city region since 2000. But it still has one of the UK’s highest rates of welfare dependency, presenting one of the most challenging financial and demographic local government contexts. The combined authority was formed in June 2015, when it received its first devolution deal, with devolved powers over business, skills, further education, housing, health and social care, transport and blue light services.

With these new powers came a significant financial challenge. Last year, the £2 billion combined net expenditure of the six authorities was made up of 27.5 per cent council tax, 18 per cent business rates, 10 per cent Revenue Support Grant (RSG) and 44.5 per cent specific departmental grants. However, central government will cut RSG completely by 2020 – an overall cut of £200 million. There will also be 15 per cent cuts to specific departmental grants, equivalent to £133.5 million. This means there will be a shortfall of £333.5 million from current spending levels by 2020.

**Figure 2** Chamberlainville city region financial breakdown

<table>
<thead>
<tr>
<th>SHARE OF BUSINESS RATES</th>
<th>INCOME SOURCES</th>
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<tbody>
<tr>
<td>Chamberlainville</td>
<td>Revenue support grant</td>
</tr>
<tr>
<td>Hestletown</td>
<td>Business rates</td>
</tr>
<tr>
<td>Thatcher’s End</td>
<td>Council tax</td>
</tr>
<tr>
<td>Blairford</td>
<td>Specific departmental grants</td>
</tr>
<tr>
<td>Bevanrise</td>
<td>40%</td>
</tr>
<tr>
<td>Prescottage</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>27.5%</td>
</tr>
<tr>
<td></td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>13%</td>
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To bring revenues in line with spending, our two city teams had to think holistically and create strategies which would create growth, while improving wellbeing and reducing demand on services. However, as in real life, things are not always straightforward. To secure further powers our teams had to negotiate with ‘central government’, balance the place interests of each constituent authority, accommodate the political interests of the ‘metro mayor’ and take account of ongoing challenges made by ‘the public’.

VISIONS FOR THE FUTURE

At the start of the game, both teams set about evaluating the assets and weaknesses of Chamberlainville City Region. They both then identified a series of key challenges and opportunities for the region over the coming years.

**FIGURE 3  CHALLENGES AND OPPORTUNITIES ASSESSMENT**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Opportunities</th>
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<tr>
<td>High public sector dependency</td>
<td>Strong entrepreneurial spirit and start up churn</td>
</tr>
<tr>
<td>Economic inactivity and unemployment</td>
<td>Port and offshore wind</td>
</tr>
<tr>
<td>Low paid workforce</td>
<td>Universities with strength in digital technology</td>
</tr>
<tr>
<td>Poor quality of education and ‘brain drain’ of graduates</td>
<td>Strong cultural offering</td>
</tr>
<tr>
<td>Cost of health and social care</td>
<td>Differences between councils</td>
</tr>
<tr>
<td>Inequality</td>
<td>Proximity to site of natural beauty</td>
</tr>
<tr>
<td></td>
<td>Working age population</td>
</tr>
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Based on these, the city teams were asked to set three priorities for the city region. They started with how they could build on existing demographic and cultural place assets (for example, working age population, leading industries
or sectors and a strong international reputation), then moving on to material place assets (for example, the port and proximity to a national park).

To set priorities, they considered how key challenges such as reliance on public sector employment, and an inability to retain high-skilled workers, could be addressed by strategies which married their cultural assets with existing material resources.

**FIGURE 4 PLACE PRIORITIES**

**TEAM 1**

1. Create a local labour market which can compete on an international stage
2. Create future economies which are underpinned by green energy and digital technology
3. Ensure that local economies are inclusive by creating a happy, healthy and work-ready population

**TEAM 2**

1. Create housing markets which meet need while also making ownership affordable to everyone
2. Secure the infrastructure needed to spark a digital revolution in the local economy
3. Harness local economic strengths and assets to develop an international reputation in a leading industry
To deliver these goals, the teams each came up with six big ideas which are outlined in Figure 5 (see more details in Appendix 1).

**FIGURE 5 CHAMBERLAINEVILLE: SIX BIG IDEAS**

1. **DIGI-GREEN**: Become a high skill, high investment economy with sectoral strengths in digital and renewable energy.

2. **CITY OF ASPIRATION**: A cradle-to-grave education and skills programme to create a more connected, streamlined, Chamberlainville-centred curriculum, tailoring education to local employment opportunities to create the workforce supply needed for industries to compete internationally.

3. **BETTER LIVES PROGRAMME**: A public service integration and reform programme which would apply learning from the ‘Troubled Families’ approach to all vulnerable people, to address issues such as mental health, substance misuse, crime, isolation and depression. Based on gain-share with central government.

4. **HOUSING GROWTH LANDHOLDING COMPANY**: A vehicle to get land to market for the creation of new residential developments meeting specific local needs. Based on a single Public Land Commission which would cross-subsidise affordable housing projects with revenues from private sales.

5. **DIGITAL ENTERPRISE ZONE**: Free wifi available across the city to boost the digital enterprise sector, particularly via a Public Service Innovation Catapult. Supported by business rate discounts to new digital businesses.

6. **PUBLIC SERVICE INNOVATION CATAPULT**: Venture capital fund dedicated to supporting growth in one of the cities’ regional strengths: public service. Objective is to develop technologically-savvy public services by capturing local skills and expertise in health and social care, and enable this workforce to become more entrepreneurial, linking to businesses attracted by the Digital Enterprise Zone.
The teams identified the clear outcomes that they were seeking to achieve for Chamberlainville. There was debate about whether to build on existing assets alone, or harness new opportunities. Groups questioned whether some ‘assets’ were significant enough to focus on, and the extent to which reinvention is possible. Some members of the group felt that a reputation would already need to be well established to secure investment and they were uncertain of the extent to which they could rebrand the local economic offer. For example, one team initially latched onto the digital technology and green energy sectors, despite clear information that the regional industrial strength was manufacturing.

Drawing on their analysis of the challenges and opportunities presented by the city region, the teams set about creating a set of three priorities. Interestingly, both teams touched on three core themes.

■ Putting in place the physical infrastructure for future economies
■ Creating an internationally competitive labour market
■ Maximising wellbeing and ensuring that local economies are inclusive

In conclusion, places will look to develop international relationships to develop their economy and deliver infrastructure for growth. They will try to ensure wellbeing is maximised and that their economic strategies are inclusive.
Public service reform is a key priority of current devolution. However, to date we have heard more about the process than about what local government will do to achieve this or any exploration of how it will relate to wider corporate goals of local economic growth and wellbeing.

In order to assess how local authorities might achieve these wider corporate goals, we asked each of our teams to come up with three ideas for transforming Chamberlainville. This section explores the ideas that emerged for the future of political, administrative and fiscal devolution, and the challenges and barriers preventing areas from achieving these outcomes and vision. In particular we look at strategic decision-making, public service reform and greater fiscal devolution.

**STRATEGIC DECISION-MAKING**

The central challenge for combined authorities over the next few years is to develop strategies which create a coherent economic vision, capable of generating buy-in from current and future residents and investors.

The clearest dynamic to emerge from the game was the tension between the need to forge a shared vision for the whole place, and the separate interests of the individual councils. When participants initially thought about Chamberlainville as a whole, they decided to pool elements of their services, to combine assets into city-wide vehicles to drive new housing, and to locate new developments where it made the greatest strategic sense for the city region as a whole. Their ideas were bold and ambitious.

However, it took the course of the game for them to achieve this integrated way of thinking. At the outset, after they were asked to identify priorities for the whole city region, each team member became the chief executive of one of the city region’s six different boroughs, each with its own political
financial and demographic peculiarities. At this point, their attitude changed and collaboration became more difficult. For instance, when one chief executive discovered that he had been given the region’s economic core, with the highest business rates, he joked that all other boroughs had better be ‘ready to negotiate’. Another chief executive of a wealthy, more rural council with comparatively high council tax income for the region argued that housing was ‘not a priority for us’ anymore.

Of course, not all initiatives will benefit all councils equally all of the time. But a shared vision of a place will need to accommodate and enable differences of emphases over the short, medium and longer term.

LESSONS FOR ACTION

Local tension can prevent local government from working together to deliver the kind of collective interventions needed. Local councils need to ensure they work together to articulate a shared economic future for their place to identify what binds them over what divides them. They will need to minimise competition between councils within a city region, so that they can more effectively compete externally.

Collaboration cannot be considered an add-on to use as and when is necessary, but must become central to leadership practice. Over the course of the game, players developed a more strategic, holistic approach. When programmes were not relevant to all of them, they found solutions which applied to smaller internal groupings. Additionally, instead of allowing political frustrations to limit accountability, they looked to strengthen democratic engagement through, for instance, community commissioning bodies and online forums.

With this in mind, for local government to become effective at collaboration they will need to:

- **Develop a clear overarching economic vision** for the shared future of their place. This needs to spell out what future success looks like and how all parts of the city or county region stand to benefit overall.

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3. House of Commons, Communities and Local Government Committee (2016) Devolution: the Next Five Years and Beyond.
the long-term it must be clear how the rewards of growth will be shared between everyone to achieve buy-in.

- **Put in place mechanisms to understand and analyse the impact of their shared strategy** over time. Insight into the outcomes of shared economic decision-making should be used to support a city regional theory of change. These mechanisms need to be put in place immediately to ensure that the pace of devolution continues.

**PUBLIC SERVICE REFORM AND PLACE SHAPING**

To realise their collective priorities, the chief executives of Chamberlainville asked for greater power to make decisions over a single, integrated public service offer and measures to support and sustain a competitive local labour market. Plans for public service reform and growth were shown to be inextricably linked in all transformation strategies. At present, local authorities have limited opportunity to upskill their population in meaningful ways which align skills with local economic opportunities.

In the game, both teams identified the need to link education with their plans to create ‘future economies’ to ensure that the local population could fill the jobs they were seeking to secure in their bid to transform the region. One team designed a ‘City of Aspiration’ (see Appendix 1) plan. This sought to deliver a cradle-to-grave education and skills programme, which would both tailor education to existing employment opportunities, and create a workforce ready for their future economy.

They also wanted to ensure that this priority supported their third ambition: to create a happy and work ready population. To this end, City Team 1 decided to implement an innovative ‘Better Lives’ programme to address issues such as mental health, substance misuse, crime, isolation, and depression. This would bring together the efforts made in adult social care, children’s care, community safety, drug and alcohol treatment, and the Department for Work and Pensions to create a system focussed on enablement and empowerment. The economic rationale for the Better Lives programme was that it would form part of an inclusive growth strategy: mitigating long-term exclusion of people from the labour market. The team
wanted this to be linked to a citizenship programme which allowed people to contribute social value to the local economy, recognising that some people would not be able to work but would want to contribute. This was to be delivered through a combined authority level ‘all ages’ commissioning vehicle, supported by a community commissioning group to ensure that services were more service-user led.

In contrast to this intensive demand management approach, City Team 2 decided to create a Public Service Innovation Catapult focussed on improving the efficiency of public services, moving to a more market-based system dedicated to improving quality and outcomes. The Catapult would function as a venture capital fund dedicated to supporting growth in public service markets. Their objective was to develop a digital-based public service offering. This would capture local skills and expertise in adult health and social care, and enable this part of the workforce to become more entrepreneurial by linking them to the technology sector they planned to grow through their Digital Enterprise Zone. This demonstrates that local government could seek to tie public service reform to other economic strategies.

To develop these growth plans, local government will also use their physical and political assets. For instance, in the Catapult idea they decided to scale up successful ventures, using the city region’s strong combined purchasing power and, where necessary, assets to site ‘locality hubs’ in relevant communities.

To reshape public services by supporting and unleashing innovation, the city teams also identified the need to play a proactive place shaping role. This would involve taking greater control over assets from the wider public estate in order to provide housing and locate public services to meet both present need and future ambitions. For example, City Team 2 wanted to create a single, public asset portfolio managed by a ‘Public Land Commission’ for all of the local public estate. This involved creating a council company for land sales, overseen by a Mayoral Development Corporation, which would bring together all public land to market for new residential development, tailored to local needs. More profitable ventures would subsidise others elsewhere. This was also linked to their plans for public health reform. Successful ventures arising from the Public Service Innovation Catapult would be linked with free sites to provide local hubs for effective services.
LESSONS FOR ACTION

Local government will seek to use devolution to transform public services in ways which improve wellbeing, and deliver more resilient and inclusive economies. As combined authorities compete with domestic and international regions to secure investment and jobs, it will become essential that they have the powers and flexibilities to shape their local economy in ways which improve its functionality. With this in mind, in order for city and county regions to realise their ambitions, they will need further powers to:

- **Reform public services** to ensure social policy develops to support economic policy. Education and skills training will become effectively tied to local work opportunities, and local public services such as healthcare, emergency services and probation services will be integrated to improve impact. Local government will need to harness existing powers and demonstrate that they are ready to take on greater shared responsibility.

- **Shape places by using public assets according to local priorities** to ensure that housing needs are met and public services are accessible. This will involve changing localised budgets for housing and development.

GREATER FISCAL DEVOLUTION

In addition to public service reform and place shaping, the teams identified the need for future fiscal devolution to support them in achieving their ambitions. The money available for investments in growth are expected to fall by 90 per cent by 2020. The future financial sustainability of local and combined authorities is dependent on their ability to attract investment, retain a share of the proceeds of future growth, and reinvest this in local services.

The Chamberlainville teams concluded that the only way for local government to genuinely become self-sufficient is through greater fiscal devolution. Both teams identified the proposed model of business rates

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devolution as having too many stipulations to allow them the freedom to manage these as best suits their local economic needs. The Government’s proposal for councils to retain 100 per cent of the growth in local business rates is undoubtedly a step in the right direction, but the new freedom is constrained by centrally-imposed parameters. Currently, setting business rates for specific industries, or in specific places, is outside of combined authority control. For the revenue stream to be genuinely devolved, it would involve responsibility for setting the rate, determining exemptions and discounts, and collecting and retaining the tax.\(^6\)

Both teams identified the need to go beyond simply reforming existing local taxes, and instead raise additional revenue. This was done in the context of wider economic objectives. City Team 2 sought to deliver a range of interventions to increase the production of wind energy off the shores of Chamberlainville to make the city region a net exporter of green energy. However to deliver this, significant investment was needed. Even after Growth Deal funding, pooling all public sector surplus assets to create greater borrowing capacity, tax increment financing (TIF) using prudential borrowing powers to raise money in capital markets, and pooling 20 per cent of their business rate increases over three years, they still faced a gap of £8 million.

This proposal raised an important challenge that still exists for local government: financing their investments to deliver growth. The Mayor interjected at this point, and told the team that they had the option, with business support, to raise up to a further £30 million a year through a business rate supplement. However, the team were hesitant to increase business rates before knowing whether similar strategies were taking place in their regional competitor city. In turn, they decided to make a bid to central government to set a local levy on renewable energy which would be reinvested in growing green technology across the region. This demonstrates two things: firstly, that the easier option is to ask for more money from the centre – the tougher challenge is taking the decision to pursue the power to raise local revenue directly. Secondly, that the current set up for business rates devolution inhibits competition.

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\(^6\) Core Cities (2015) A Call for Greater Fiscal Autonomy for Our Cities
In conclusion, current policy for the devolution of powers could create a system of first mover disadvantage. Allowing combined authorities to implement levies to allow reinvestment in specific sectors could be a pathway to partnerships between local government and specific industries. However, there are challenges here. Business rates, as a tax levied on property, is already biased towards specific, space-intensive sectors. Broader revenue flexibilities can increase resilience by reducing vulnerability to specific economic shocks, since local economies would be reliant on a more varied tax base.

**LESSONS FOR ACTION**

Over the longer term, fiscal devolution needs to be pursued in order to broaden the options available to local government so that it can support strong, strategic, economic decision-making and create distinct place offers. To move towards greater fiscal devolution, local government will need to have the following powers:

- **Full control over business rates** including the power to raise or reduce the levy, and invest the proceeds according to local priorities.

- **The freedom to raise additional new bespoke revenue streams** in line with wider economic strategies, to create a wider “menu of options” which support the emergence of more resilient local economies.
As devolution takes hold, the relationship between the centre and local government is inevitably changing. A code of practice for interactions between central and local government has been considered. But how and whether this could empower local government to take risks and innovate has not yet been worked out.

The final phase of the Chamberlainville game saw both city teams sitting down with a group representing Whitehall civil servants to negotiate a new devolution deal. The tensions at the heart of the dynamic between the centre and localities were starkly revealed. The first is the need to balance innovation with risk, and a coherent national agenda with local flexibility. And the second is how transparency and democracy are built into the process, and how far an ambitious timescale negates public engagement.

The relationship between central and local government needs to change in order for devolution to maintain momentum.

**BALANCING INNOVATION AND RISK MANAGEMENT**

In order for devolution to work, places will need to innovate. But innovation is – by its nature – risky. Central government must create the freedom for councils and combined authorities to innovate while accepting that this might mean occasional failure.

Creating a system which allows the differences between places to become an asset rather than a weakness is one particular challenge in the relationship between central and local government. The Government began the devolution deal process seeking to deliver deals based on the unique ideas of localities. Yet the striking thing about the deals in practice is not

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7 House of Commons Political and Constitutional Reform Committee (2013) Prospects for Codifying the Relationship between Central and Local Government.
how disparate but how similar they are. Local government has accused the centre of lacking transparency in the devolution process. As a result, rather than deals being bespoke and place-based, the vast majority have either failed to create bids which go beyond the tried and tested menu of options to reflect the specific needs of their own place, or have been prevented from engaging in radical plans.

The game highlighted that local government is willing to take on new risks in order to become more resilient, but central government must be ready to let them take these risks. For example, education was identified as extremely important for local government to be able to influence as part of a wider skills pipeline to deliver inclusive growth. Yet this is an area where local government is seeing its influence wane and the Department for Education is taking power back to the centre. All curriculum-shaping proposals were rejected by the central team in the game. Without the ability to intervene in core services which have the potential to generate future local rewards, the efforts of local government to resolve economic challenges will be undermined. With education such a vital part of making places work, central and local government will have to find an accommodation that works politically and practically for both parties.

The central team were asked to set out at the start a series of "red lines", reflecting their ministerial responsibilities, against which they would evaluate the city team’s requests for further powers. For this, they only came up with two constraints: no new money; and deliver on existing devolution commitments first. When asked to come up with no brainers, or positive selling points for greater devolved powers, they had a far more extensive list, including: net additional growth; plans to reduce spending; integration of services; community engagement or strengthened democracy; quick wins – turnaround within an electoral cycle; private sector buy-in (particularly big employers); use of assets owned by local authorities; and the creation of a distinct narrative of place. This suggests that central government know what they do want far more than they know what they don’t want.

However, when asked to share these “red lines” with the city teams, the central team declined. They were determined to play true to reality, and were not willing to publicise what they wanted, or what they might be willing
to give away. This reflects the general feeling of participants in the real life negotiations, that Government has also been unwilling to share "red lines" they clearly had in place. Despite being unwilling to accept a number of proposals that involved a handover of powers, the central team were also critical of all of the transformation plans they received, suggesting that they were not ‘radical’ enough. The question remains as to whether central government will create the space for the radicalism they desire, and whether local government will demonstrate such willingness to take on new risks in reality.  

For central government to incentivise risk, they may need to accept proposals which share the benefits of innovation. In the game, central government saw gain-share models – which propose that savings made by local public service innovation to national budgets should be split between the Treasury and the combined authority – as ‘new money’. However, in practice, such incentives would promote risk-taking behaviour and deliver more systematic transformations.

In order to challenge the Government’s “red lines” more effectively in the future, local authorities will need to develop tools which attribute future gains to decisions and interventions made as a result of devolved powers. Local authorities will need to be able to articulate ‘additionality’ in local economies over time, starting now. For example, during a discussion over a proposed Digital Enterprise Zone, the city teams recognised they needed to prove over time that they were generating net growth rather than just reshuffling it. It will be important in order to secure earn-back deals and gain-shares from public service reforms to recognise and prove this overall increase in growth.

LESSONS FOR ACTION

At present, this contradiction – a centre which demands radicalism, but only on its own very specific and frequently tame terms – could seriously frustrate the progress of further devolution over the next few years. So far, this has been designed to drive growth, deliver public service efficiency, and develop localism. While this is a good starting point, over the next few years it needs to be designed to offer combined authorities the specific levers they need to deliver inclusive and resilient economies.

8 PwC (2016) Beyond Letting Go: The Role of Central Government in a Decentralised World.
- As existing devolved powers demonstrate impact, nothing can be off the table. Local government will need to demonstrate their ability to deliver outcomes with a high level of financial competency and strong analytical rationale in order for central government to create levers which support risk-taking behavior. To demonstrate competency ahead of receiving new powers, combined authorities will need to evidence and demonstrate the improvement to public service outcomes and the strength of local economies resulting from their collective endeavours.

- Devolution must be the end of short-termism. When long-term strategies are underpinned by rigorous financial planning, they should be given the same precedence as ‘short-term wins’. In the long-term, strategic planning must be deliverable at a local level. The challenge is whether local government can do this and run a balanced budget. The current imbalance between transfer of policy responsibility, and transfer of resource capacity, should be redressed if central government want to see local government investing in long-term growth.

PUBLIC ENGAGEMENT AND DEMOCRATIC ACCOUNTABILITY

The pace set by the first full wave of devolution from Summer 2015 was fast, and led to a rapid process of negotiations which were largely held behind closed doors. Devolution deal processes have been accused of being undemocratic, and this was no different in Chamberlainville. The “public voice” was represented throughout the game in the form of tweets responding to policy ideas and devolution developments. This reactive dynamic reflected reality, in which deals were “done” then announced, and many places were prevented from even publishing the plans they entered into negotiations with. The challenge for future devolution will be how to turn this dynamic into a more positive, proactive one, in which the public have a stronger role in driving further reform.

In the game, participants were hesitant about democratic engagement. It took encouragement from the Mayor for City Team 2 to consent to a community commissioning body as part of the ‘Public Service Innovation Catapult’. Similarly, In City Team 1, feedback from the Mayor, harsh criticism from the public, and central government criticism were needed for the team
to decide to attach a Citizens’ Assembly to the Development Corporation. Teams were hesitant for two reasons: scarce resources and the officer time it demanded. Often, the teams preferred to make the default approach to accountability involvement of the Mayor.

There is a danger that this instinct means that “the mayor” becomes the end of the democratic discussion, rather than the start of it. Mayors should be able to create new excitement and increased engagement in local public services. However, devolution should also be about more transformative kinds of democracy. There is a great opportunity for local government to craft a more networked civic sphere, enabling people to take a much greater role in influencing the shape of their services. But to do this, local government will need to enter these processes with no pre-determined answers, and make itself open and ready to share ownership of ideas and strategies. This approach is default in some digital platforms. It also offers local government the chance to understand how they can ‘sell’ devolution to the public.

LESSONS FOR ACTION

- **Public input cannot be an add-on** after the deal, but rather a core element of designing future plans. This would inject an element into the system that might challenge both local and central government. For devolution to be genuinely revolutionary, an element of disruption is needed. This should be seized as an opportunity for local government to reconfigure the relationship between the citizen and the state, and utilise more creative forms of participation such as citizens’ juries.\(^9\)

- **Developing a more open national framework** with well-defined key principles may help to enable local government to consult the public about what is possible in the next stage of devolution.

- **Local government must develop their digital offer.** Local government can overcome some of the challenges presented by public engagement over the longer term by gearing their engagement strategies towards the new generation of digital natives.\(^{10}\) Digital technology should be used to enable service users, attract a future workforce, and empower that workforce to feed back into wider strategies.

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\(^{10}\) PwC (2016) Beyond Control: Local Government in the Age of Participation
CONCLUSION

Devolution presents the best opportunity that England’s cities and shires have to reboot their local economies, reduce public service demand and chart a course towards financial sustainability. In turn, it is anticipated that devolution will remedy the inability to deliver more inclusive growth from the centre. However, this first phase of devolution has focussed on process rather than outcomes, and been disproportionately defined by the centre. Powers have been devolved where there are opportunities to make savings and deliver efficiencies, rather than designed to create levers which enable combined authorities to deliver inclusive growth.

Old hierarchies still dominate proceedings, with central government being reluctant to trust local government, and local government often equally territorial about their responsibilities and unwilling to share ownership of ideas. The barriers that have created a culture of “us and them” must be broken down. To achieve truly integrated public services and long-term governance we need to see the end of hierarchical tiers of government, and move towards a system of mutual respect between different spheres of governance, with responsibility shared between agencies across place. This is the norm in other, more decentralised nations.

The relationship between central and local government needs to change to one of mutual respect: The relationship between central and local government must change in order for the benefits of devolution to be realised. Devolution will not work if there is a lack of mutual trust and respect. Local and central government must make adjustments to how they work and how they think in order to get the most from devolution and strengthen democratic accountability as a result.

- Government should incentivise and enable the development of their workforce to build skill sets and competencies in collaborative behaviour. More flexible exchange of workforce and expertise between local and central government should take place. In the short-term, this should
be focussed on developing the capacity of localities to identify areas for devolution and dispersing some Whitehall functions around the country. The civil service must also develop a greater understanding of how decisions made at the centre impact on localities. Over the longer term, careers in policymaking and strategic governance should flexibly move between localities and services to disseminate expertise and understanding.

**Combined authorities must work together to become stewards of a long-term vision for place:** Councils within combined authorities must take on the challenge of redefining their local economic offer by collaborating strategically with each other. For devolution to work, places must find a way to make the differences between them work to their collective advantage. To some extent, creative tension between councils within a combined authority can be part of what drives forward change and innovation. However, to develop long-term visions the sector will need to look beyond historical differences and develop a more strategic approach, which defends the interests of individual councils while also demonstrating the ability to work towards a greater common purpose.

- Local partners need to develop a clear vision for their place. They must do this to frame their future ambitions and push the boundaries of devolution as set by the Government. To support this, local partners in health, education, skills, and the private sector with a role in place shaping need to work together to put in place strong analytical capacity to evidence the improvement to outcomes they are making as a result of existing devolved powers.

**Central government must create the conditions for local government to make bold and risk-taking devolution bids, by making the process more transparent and clearly defining objectives:** Central government needs to treat devolution as a transformation in the way England is governed, driven by the knowledge local places have of their own cultural and economic context. To achieve a more bottom-up approach to delivering inclusive growth, central government will have to be more transparent about what is possible. In return, local government will have to be willing to take more risks. This will require greater transparency, both for democratic accountability and to better equip local government to deliver practical and innovative approaches.
In the future, nothing can be “off the table” without discussion. For devolution to deliver economic innovation and place-specific public services, central government must be genuinely ready to equip local government to deliver growth through investment in infrastructure and public service reform. As localities develop greater analytical capacity to measure success, central government must be prepared to enter into more sophisticated negotiations in the future, and offer stronger levers to drive inclusive local economies and improve wellbeing.

Devolution must create opportunities for more innovative and radical forms of democratic engagement and distributed leadership: To date, devolution has lacked a clear upfront pitch to the people themselves, despite the fact that they are the ultimate beneficiaries of economies that provide opportunities and services that meet needs. It is imperative that robust processes of engagement happen now to create people-led visions of the future. Leading the transition from "us and them" government to an entirely new social contract between citizen and state, local authorities must be ready to share ownership of ideas.

For future place leadership to be more collaborative and capable of harnessing the power of networks, traditional forms of institutional dominance must be overturned. Local government and other local public actors must be ready to enter discussions about the future genuinely not knowing what the answer will be. Future place leadership will have a mayoral figurehead, but the narrative and story of a place need to be crafted by all those who live there. Engagement must start now to identify what the public want from future devolution, and create lasting opportunities for citizens to shape their public service offer.
APPENDIX 1: PLACE TRANSFORMATION IDEAS

CITY TEAM 1

DIGI-GREEN

WHAT: Become a high skill, high investment economy with key sectoral strengths in digital and renewable energy. This will involve targeted reduction of public sector jobs and public subsidy. Aim to create 60,000 jobs in 10 years, halving the net subsidy to Chamberlainville, and creating 120,000 jobs in 20 years. This reflected a plan to become a net contributor to UK PLC.

HOW: This would be achieved by working with local company Panther Cars to transform into an electric car manufacturing plant. They also planned to create a multi-site enterprise zone across the city dedicated to the development of digital and green technology. This was linked to an ambition to begin manufacturing wind turbines in the region to be shipped across the world from the port; developing a network of electric car charging points across the city.

FINANCE: Growth deal funding of £30 million per annum, additional LEP growth deal funding, and surplus assets will be pooled to generate pooled borrowing capacity, tax increment financing (TIF) and pooled business rate growth, estimated to increase by 20 per cent over the next three years, still left a financial gap. Therefore they sought powers to place a levy on the local energy market.

GOVERNANCE: The process would be overseen by a Chamberlainville Development Corporation, comprised of representatives of the LEP, the six council leaders, six prominent business leaders, and representatives of the city region’s universities. It would be chaired by the CEO of Bevan Windfarm. Collectively this would be used to drive a single strategic plan and asset strategy. This would be supported by a Citizens’ Assembly to support engagement.

DEVO ASK: For power to implement a local levy on renewable energy, allocate enterprise zones, devolve DECC funding Guaranteed Enterprise zones, trade mission in July with Prime Minister or Chancellor.

SHARED BENEFIT: Indirect and long-term, creating jobs and increasing average wages to reduce welfare dependency.
CITY OF ASPIRATION

**WHAT:** Create a cradle-to-grave education and skills programme, which would create a more connected, streamlined Chamberlainville-based curriculum, tailoring the educational offer to employment opportunities to ensure the local labour market has international appeal.

**HOW:** Create new GCSEs in Chinese and coding, to give future Chambervillans a competitive advantage in terms of setting up future digital and green business relationships with China.

**DEVO ASK:** Control over the local curriculum, devolved careers budget and apprenticeship levy.

**GOVERNANCE:** Governed via locally-mediated relationships between academies, universities, key businesses, the LEP and councils. Create an Arm’s Length Academy Trust, which would be under the control of the Mayor and trade with all academy schools.

**SHARED BENEFIT:** Reduce out-migration of graduates to retain talent, increase wages over the long-term, and reduce spending on employment support allowance, crime, and adult social care costs.

BETTER LIVES PROGRAMME

**WHAT:** Apply learning from a Troubled Families approach to all vulnerable people to address issues such as mental health, substance misuse, crime, isolation, and depression.

**HOW:** Work with housing providers, CCGs, and primary care trusts. Utilise capacity present in the fire service to offer more flexible working arrangements to ensure cuts do not mean job losses but allow for increased productivity through diversification of work. Also potential for voluntary involvement of economically inactive women in the programme through associated bodies.

**DEVO ASK:** The team proposed a gain share model to retain 10 per cent of savings made to welfare payments (Employment Support Allowance, Personal Independence Payment, Universal Credit) as a result of the programme; and to lift the Housing Revenue Account borrowing cap.

**FINANCE:** Estimated cost per head: £40,000. Estimated set up costs: education partnership - £2 million, Better Lives, personal coaching - £5 million.
GOVERNANCE: Governance would work at a combined authority level, with an ‘all ages’ commissioning vehicle for Better Lives to work across adult social care, children’s care, community safety, drug and alcohol treatment, and the Department for Work and Pensions. A single key worker would link customers with all relevant services. This commissioning vehicle would be chaired by the Mayor, who would report to the combined authority. They envisaged this to be facilitated by a personal contracting model, maintaining a market-led approach, and underpinned by payment by results.

SHARED BENEFIT: Savings made from reductions in substance misuse, crime reduction, health cost savings, offender management, children in care costs, and elderly care, resulting in fewer hospital admissions.

CITY TEAM 2

HOUSING GROWTH LANDHOLDING COMPANY

WHAT: Create a new landholding company to get land to market for the creation of new residential development which meets specific local needs.

HOW: Optimise use of existing assets and derelict land across the city to address the pressures of Chamberlainville’s student population on the rental market in Prescottage by building new tower blocks of student accommodation; develop a new garden city on the disused airfield.

BLAIRSFORD: Creating assisted living properties close to both of the parks in Hestletown.

DEVO ASK: To widen the Public Land Commission to include all public sector assets; localise the powers and resources of the Homes and Community Agency (HCA), and ring fence allocation of HCA funding, with Government as a shareholder.

GOVERNANCE: Mayoral Development Corporation to take planning decisions on key strategic sites, delegating upwards on a site by site basis, with the property company itself at arms-length.

SHARED BENEFIT: Estimated deliverables: £80 billion over lifetime of parliament GVA; 10,000 new jobs over 10 years (construction, technology, ancillary); 70,000 houses over 5 years; 180,000 over next 20 years; £333 million uplift in public sector productivity; 50 per cent reduction in unemployment and commensurate reduction in benefit bill.
DIGITAL ENTERPRISE ZONE

**WHAT:** Free wifi available across the city to boost the digital enterprise sector, particularly in relation to the Public Service Innovation Catapult

**HOW:** Ultra-fast broadband should be installed across the city region, with business rate incentives for new digital companies.

**DEVO ASK:** Full control over business rates, ultrafast HPC investment from BIS/DCMS; powers over co-commissioning in Higher Education; UKTI trade missions; locating a centre of special excellence for the National Infrastructure Commission in the city region to capture learning generated from the programme.

**GOVERNANCE:** Joint working with universities, LEP and private sector

**FINANCE:** Delivered through a single pot investment fund, bringing together skills funding, devolved money from BIS and DCMS, and equity shares and pension fund finance.

**BENEFIT:** Combined authority capture business rate up-lift.

PUBLIC SERVICE INNOVATION CATAPULT

**WHAT:** A venture capital fund dedicated to supporting growth in one of the cities regional strengths: public service. Its aim was to develop technologically-savvy public service futures by capturing local skills and expertise in health and social care, and enabling this part of the workforce to become more entrepreneurial by linking them up with businesses attracted by the Digital Enterprise Zone.

**HOW:** The ‘Catapult’ would be located at a new university site located in the disused factory in Bevanrise; successful ventures could be scaled up from here using the city region’s strong combined purchasing power, with routes to market supported using the authority’s asset base where necessary.

**DEVO ASK:** Authorities would use their existing powers in health and social care integration, and ask for: additional local control of health, police and DWP commissioning.

**GOVERNANCE:** A Chamberlainville Senate, with central government, CCGs, local government, the LEP, digital companies, UKTI, the university and other relevant agencies represented. The Mayor would be made accountable for overseeing the Senate.

**SHARED BENEFIT:** Better demand management and new jobs which build on the existing strengths of the local workforce.
APPENDIX 2: GAME METHOD

The game was played over the course of 24 hours. Players were divided into three teams. A central team: comprised of central government experts. Their role was to set the terms of future devolution deal negotiations, and ensure that plans made over the next four years by the city teams stood up to scrutiny. Two city teams: played by chief executives of some of the most innovative local authorities in the country. In both city teams, each player was made the chief executive of one of the city region’s six authorities – each with unique political history, financial and demographic challenges, assets and potential.

Other players were a metro mayor, and ‘the public’. The metro mayor was played by a current council leader, tasked with keeping the managerial impulses of the chief executives in line with political sensibilities. ‘The public’ was played by an NLGN member of staff.

ROUND 1: SETTING PRIORITIES

CITY TEAMS

First city teams were asked to assess the city region’s challenges and opportunities, and set three priorities. Then, after each player was designated a council the teams were then asked to revisit the assessment.

The purpose of this phase was to:

- Understand which factors and considerations are involved when setting priorities for a whole city region
- Explore how priorities, challenges and opportunities altered after each player had their borough identity
- Explore how compromises are made, and consensus is reached
CENTRAL TEAM

Simultaneously, in a separate room the central team conducted the challenges and opportunities assessment, and selected ministerial briefing cards, allocating each of them a Whitehall department. Briefings outlined departmental proprieties, and specified concerns the department may have about giving away power. The team was then asked, bearing in mind the city regions opportunities and challenges, and their ministerial priorities, to set out a series of No Brainers (universal positives which would garner support), and Deal Breakers (red lines and no-go areas). These were to be used as principles, guiding their decision making about future devolution requests from the city teams.

The purpose of this phase was to:

- Identify differences between challenges and opportunities as seen from a central/local perspective
- How various departmental priorities could be met through new devolution deals (no-brainers)
- Which, if any, red lines central government would draw around devolution requests (deal breakers)

ROUND 2: PLACE TRANSFORMATION PLANS AND FINANCIAL PLANNING

PLACE TRANSFORMATION

The central team presented their no brainers and deal breakers and read out a statement from the Government, setting out the financial challenge facing Chamberlainville.

The city teams were then asked to come up with three place renewal strategies which would simultaneously manage demand, and increase revenues. They then put these ideas into a place transformation strategy, outlining the intervention; powers required; change from current arrangements; and likely partners.
The purpose of this phase was to:

- Identify how priorities are translated into plans for action
- Explore how revenue generation and service transformation can be connected
- Explore how local government justify requests for devolved power

The teams were then asked to present their transformational place plans to the central team, who interrogated them on the specifics and then spent an hour analysing the proposals, to identify what risks they thought each idea carried, and what conditions they would attach to any new powers requested.

The purpose of this phase was to:

- Understand what central government might attach as conditions to future devolution asks
- Explore expectations surrounding monitoring and evaluation
- Understand what central government perceives to be the greatest risks of devolution

FINANCE AND GOVERNANCE SPECIFICS

The city teams were presented with the assessment and tasked with developing more detailed financial and governance plans for each of their ideas, which explained how they would strengthen democracy while mitigating risks and meeting centrally mandated conditions. Detailed breakdowns of the city region and council level spending were provided to allow players to think about programme coalitions between just a few authorities.

City teams were asked to consider governance considerations such as: whether all authorities would be involved; what the legal arrangements for working relationships would be; who would be accountable; and how commissioning, consultation, and contracting would work. They were also asked to consider how their plans would be financed, whether this was sustainable, how risks would be mitigated, how savings would be captured
and shared, estimated time before return on investment, arrangements for pooling budgets, etc.

**The purpose of this phase was to:**

- Explore possible approaches to financial collaboration
- Explore possible governance arrangements
- Examine the impact of political constraints, through twitter, the public, and the mayor on the development of finance and governance plans

**ROUND 3: SHOCK**

While the city teams were preparing their finance and governance plans, the central team were given the chance to test the resilience of city team’s plans by giving them system shocks. The shocks were intended to reflect the uncertainty of medium-term planning and add dynamism to the budget setting process. The central team were allowed to give several challenges to each city team, with the constraint that for any shock scenario they developed, they would have to be able to offer a credible central government response.

Once the city teams had developed their plans, the teams were reunited for a final round of negotiation. This began with the city teams presenting their finance and governance plans. Each city team was challenged and questioned by the central team, who then administered the shocks.

Both city teams considered how the shocks impacted on their place transformation plans, come up with mitigating strategies, and identify what other asks they could make to improve their resilience. At the same time, the central team was asked to consider which, if any new powers it was willing to give to the city teams in a final round of negotiations. They had to come to a united decision about this.

Each city team was then told to select their two ‘crack negotiators’ who went head-to-head to settle upon a final deal.
The purpose of this phase was to:

- Explore whether it is possible for local government to design adaptability into their financial plans in light of economic shocks
- Explore the influence of political or media criticism or pushback on governance arrangements and strategies
- Identify how central-local relations developed under crisis contexts
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England is in the midst of the largest programme of devolution the country has seen for generations. The creation of combined authorities and metro mayors gives cities a level of control over their economic and social destiny which they haven’t seen since the 19th century. However, to date, the process of devolution deal-making has focussed disproportionately on structures and governance.

In April 2016, NLGN designed a game to explore how new combined authorities can use these powers to improve outcomes for residents. With the aim of delivering inclusive growth, participants were tasked with embedding devolved powers from the first round of deals into robust finance and governance arrangements, and negotiating with central government for further devolution. This report builds on the game to explore challenges facing real combined authorities over the next four years, and to create a roadmap for future devolution.