

Culture, leadership and skills

# building partnerships

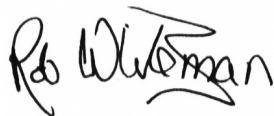
Insights from the Devolution Summit 2015

In association with:

# \ foreword

The government recently confirmed that 38 local areas across England have submitted proposals for devolution deals, and fiscal devolution has been announced by the Chancellor that will see councils retain the £26bn business rate income they raise at local level by 2020. So it is clear that devolution of spending and powers over transport, education and health across the country will be changing the public sector landscape.

We believe that engaging directors of finance in every element of the devolution discussion is essential for a successful outcome. We intend to help and support the public sector throughout this process of reinvention. Working across the public sector to include health, social care, police and fire and with other stakeholders to achieve solutions.



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# executive summary

Local government is facing a major funding challenge as a result of a combination of political economic and demographic factors. As funding has fallen, service demand continues to increase in high-cost areas such as social care. There are increasing calls for radical reform of the local government landscape. The prospect of wide scale devolution may offer a way forward for some localities.

The government recently confirmed that 38 local areas across England have submitted proposals for devolution deals. Whilst the detail of each individual deal is not published it is clear that there will be some rebalancing of budgets and powers over areas such as transport, education and health across the country. The first wave of new agreements is expected to be signed in the coming months and many expect these to be the first of an iterative process that plays out over years to come.

The devolution agenda is driving new and rapidly-evolving models of collaboration and a revitalised focus on place-based outcomes. However, it is clear that demonstrating good governance is key to both successfully bidding for devolved power and using it effectively.

This document seeks to provide the reader with an insight into the discussions that took place at the CIPFA Devolution Summit, which was supported by Grant Thornton. The audience consisted of chief executives and directors of finance who were all entertained and informed by impressive and knowledgeable speakers who included:

- Sir Robin Wales, Mayor of London Borough of Newham
- John Dickie, Director of Strategy and Policy, London First
- Mike Owen, Chief Executive, Bury Council
- Carol Cully, Assistant Chief Executive (Finance and performance), Manchester City council
- Adam Fineberg, Transformation and Change Advisor
- Alan Gay, Deputy Chief Executive, Leeds City Council
- Claire Wilson, Chief Finance Officer, Bury Clinical Commissioning Group
- Paul Dossett, Partner and Head of Local Government, Grant Thornton
- Adrian Jenkins, Managing Director, Pixel Consulting

The speakers engaged in lively debate and participants gave their views on a variety of subjects such as:

- The skills and cultural traits required for organisations to support effective collaboration and integration. Better outcomes have to be the ultimate goal.
- How local government can better engage with businesses in their areas. Improved mutual understanding against a backdrop of economic growth has to be achieved without alienating local residents.
- The barriers that stand in the way of joint working and how the finance community can work together to identify and remove these.

The day concluded with the identification of key topic areas that need to be considered in greater depth and these are now being taken forward as part of our ongoing work on devolution.


# \ introduction

The case for devolution has been well made and this agenda is now moving forward with real momentum. The drivers are clear:

- The referendum in Scotland.
- The austerity measures of the financial deficit.
- The conservative election victory.
- A growing sense that existing funding mechanisms are no longer fit for purpose.
- Evidence of a “democratic disconnect” between Whitehall and the rest of the country.

However as Mike Owen, Chief Executive at Bury Council said in his presentation:



**Devolution is only the mechanism to tackle the issues  
it is not a solution in itself.** 

Although the prospect of devolved powers and budgets is alluring, it is not the final prize and there are significant challenges en route. There has never been a greater need for councils and their partners to be absolutely clear and unified on their story of place and the outcomes they are collectively seeking within it.

Debates about governance have felt all-consuming to some, but are relatively less important than this clarity of vision. Of course, whilst these discussions take place, any benefits to treasurers are likely to be some way off and challenging budget reductions must be managed in the meantime – no loss of focus can be afforded.

At the CIPFA Devolution Summit in June five clear themes emerged, with a remarkable degree of consensus across a wide range of organisations.

# leadership, vision and culture

It was evident that strong and collaborative leadership with a clear vision was seen as absolutely fundamental to a successful deal. This had to be both at a political level and an officer level. Delegates were clear that the biggest barrier to greater collaboration was not finance or funding or legislation but relationships and politics.

In some cases examples were given of long-standing antipathies between local authorities that have threatened to derail devolution discussions, although in most cases it seems that a way forward had been found. The group identified three success factors for organisations in laying the foundations for collaboration:

- Create a clear and compelling vision based on evidence.
- Identify a clear map of shared benefits.
- Foster a sense of reciprocity and quid-pro-quo.

It is clear that the early stages of building or reinvigorating partnerships can be demanding and a significant drain on capacity. There is a tension for senior officers and politicians between looking to the future and managing more immediate local challenges, and effort in both areas must be finely balanced. We heard examples of organisations that have removed senior staff from their day-to-day roles in order to focus solely on devolution, asking less senior colleagues to run day-to-day operations.

Finance directors, as ever, have been required to ensure a sustained focus on in-year budget savings as well as support strategic discussions around devolution. When preparing devolution proposals, leaders need to be conscious of their authorities as part of a wider geography and focus on the “big picture” of what needs to be achieved.

They have to be clear on what specific powers and freedoms are required to produce a long-term and stable platform to support growth and improved delivery of public services. These decisions need to be based on evidence and the selection of targeted powers and budgets is made more difficult by the fact that there is, perhaps necessarily, no menu on offer from central government.

As one delegate said “The prize is how do the combined authorities deliver the best outcomes with the current financial landscape”.

Retention of political sovereignty was seen as an issue that may have been overcome on the Manchester deal but many expressed concern that this would still be a major barrier for their area. There is also tension between the relatively short electoral cycle against the long-term view required for economic regeneration and development. Throughout the day, one of the key preoccupations was the need to ensure collaborative leadership rather than parochialism and self-interest.

Many of our speakers recognised a change in behaviours and attitudes. In some cases, relationships that have been in deadlock for some time have seen a new-found willingness to collaborate and accept the rough with the smooth. Carol Culley, Assistant Chief Executive (Finance and Performance) at Manchester City Council recognised in her presentation that “you have to accept that you might not agree with all the decisions being made. Communication was critical to success as was a good governance structure”.

The question of who takes the lead in the partnership was keenly debated and many of the participating local authorities commented that they would be unhappy if the partnership leader was always taken from the dominant organisation. Some organisations fear being seen as peripheral and that devolution discussions are a takeover in disguise.

The Liverpool City region was identified as a good example where the Mayor of Liverpool is not the lead but Wirral Council's Leader, Phil Davies, had taken that role. The structure of leadership was also best supported where the leadership roles were filled by a combination from the stakeholder organisations. It was felt that this demonstrated balance and would lead to greater cooperation and understanding.

This leadership tension was also seen in the relationships between the counties and the districts where there was an opinion expressed that the counties natural assumption of leader was often resented by districts. Such assumptions created tension even prior to an initial meeting.

One of the main roles of leaders is to assist with the understanding of outcomes and the development of a clear vision that unifies local people and is supported by business. Both the public and delivery partners in each area must have brought into the vision, understand outcomes and how they are to be achieved. The practicalities of finding a solution will vary from place to place but a way of engaging the right people must be found in order to avoid accusations of simply adding a layer of bureaucracy. It was noted that the recent deal in Cornwall used innovative approaches such as use of civic leaders video and a range of local meetings as part of an engagement process.

The public sector is often seen as having a distinct culture to that of the private sector, which can complicate devolution discussions. However, there is a clear requirement to address the different culture, values and working methods of the individual organisations within that partnership irrespective of sector. Local government, health, police and fire were all seen as having different values terminology and practices, again reinforcing the argument about ensuring that the top table includes elements from all the stakeholders.



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# capacity skills and workforce

There was a great deal of debate around the skills required by the finance staff across all levels. The presentation by Paul Dossett about the finance function of the future made many in the room think about the skills needed for the new devolved administrations. This debate took two paths.

Firstly there was a need for greater commercial awareness within the profession alongside better ability to cope with volatility and ambiguity. Staff need to move towards an enabling function, being comfortable with managed risk-taking and rapid change. Attendees had a wide-ranging discussion about what types of commercial skills were required and how these could best be introduced and developed.

The second path was the more focused discussion on the technical aspects of accounting for devolution such as codifying and classifying expenditure under a devolved regime. Questions that arose included the impact on budget and management reporting

While the budget setting process is controlled by legislation, what about the monitoring and scrutiny of that budget and how does the relationship work on a day to day basis? The participants were keen that CIPFA looked at providing support in this area as many of these challenges will be common across every new structure.

There was an agreement that stakeholders must have an overriding set of principles that deal with the changing nature of local government but that beneath these principles the detail should reflect the individual circumstances of the partnership.

These principles needed to include elements such as:

- strong financial management
- clear strategic goals
- strong leadership.

Reference was made to the CIPFA/SOLACE Delivering Good Governance in Local Government framework which covered the principles of good governance in detail.

As pointed out transformation and capacity-building are not free from cost and a comparison was made with the City Deals, where support was initially available but as the scheme progressed there was less resource available. Is there something the sector can do to support itself with this type of requirement as the funding is unlikely to be available? What is the responsibility of areas that are further ahead in helping those that are just beginning on their devolution journey?

# \ partnership

Greater Manchester, often seen as the leading area in terms of devolution, benefits from mature and long-standing leadership arrangements and a track record of organisations working together. Many senior officers have been in post for many years. Most other areas pitching for devolution are not starting from such a well-developed position, and indeed many do not see themselves as pursuing the Greater Manchester approach in any case.

Two-tier areas raised the concern that the devolution agenda centres on the cities. The potential lack of central government support for unitary authorities was debated as it was evident that districts wondered how they would be able to drive the discussion due to their relatively small size. This led inevitably to discussion around local government reform and it was felt that all options should be seen as on the table.

Partnership working can be challenging across the same sector. Adding further sectors brings further complexity. The group felt that the relationships between CCGs and the local authorities need to be properly defined and whilst joint working is improving, there remain significant statutory and cultural differences. There have been some examples of collaboration that could provide useful learning points, for example the South East London Public Health Collaborative which was a 2013 partnership to bring together all the key stakeholders across Lambeth, Southwark and Lewisham to develop an integrated approach to public health. This project highlighted the need to ensure that staff involved from both sectors were clear on the goal to be achieved and workforce differences to be addressed.

On a practical level the lack of understanding of different finance systems, terminology, structures and performance measures was identified as an obvious area where organisations would benefit from support. In response to this, CIPFA's Health Panel is working to produce a glossary of terms due for publication in the autumn.

Any partnership will naturally be influenced by funding, with those able to bring greater leverage to the table having a louder voice. Concern was expressed that health and hospital trusts are under intense financial pressure often with budget deficits. The debate identified some examples where local authorities had already lent money to health trusts and CCGs under wellbeing powers. Primarily these were capital loans to support specific projects. However, the background of these financial decisions were to mitigate pressures on the local health economy that can have an impact on the wider partnership further down the line.

The power of veto and subsidiarity arose as part of the conversation around partnership working. Sir Robin Wales explained how at Newham there was still a push to ensure that delivery was at the most appropriate level. It is all about the outcome and if this is better delivered through a community group or town hall then that is where the decision and responsibility should be taken. However, it is important that everyone understands what is meant by subsidiarity and if possible identify a comprehensive map of which activities or services are best delivered at a more local level before any decisions are taken. One size will almost certainly not fit all and it would be useful to exchange lessons learned around approaches in this area.

This line of thought raised a number of interesting questions not least of which was the role of alternative service delivery models which some of those present did not see in this subsidiarity context. There was also the issue of the governance models that would be needed to support this model whether that is the reporting, audit or scrutiny.



# growth and productivity

The devolution agenda has generated a significant amount of literature, analysis and debate. However, there may still be a leap of faith required between the administrative introduction of devolution and the delivery of the desired outcome of economic growth. Whilst all those in the discussion understand the requirement of devolution to drive growth there is still nervousness about how this would be achieved.

This is perhaps supported by the academic literature around devolution and so it is necessary for each area to address some fundamental questions around the growth agenda including:

- How do you collectively agree the understanding of growth?
- How can growth be achieved?
- How do you combine strengths to achieve maximum growth for the areas?
- What does growth look like for the people of the area?
- How can you identify your return on investment?
- How will leaders sell the message of the greater good regarding growth?

With every deal being an individual arrangement between central government and the relevant combined authority, these growth agendas are likely to look and feel very different. Some in the room felt that devolution would be easier to achieve in areas where the proven preconditions for growth are already in place and concerns were raised about areas who don't fit the mould being left out.

The presentation by John Dickie of London First highlighted some of the challenges regarding the relationship between the public sector and business. It will be essential to ensure that this relationship strikes the right balance going forward if the economy and productivity are to improve. Local government is often engaged with its local citizens but is far weaker at engaging with business.

This often leaves business feeling isolated. Business is also keen to engage local government in the longer-term strategic direction of the area to ensure that there is growth. It was suggested that the short term and very localised demands of certain residents may outweigh the longer-term strategic view needed to ensure growth.

## Outcome-based delivery and return on investment

It was agreed that outcome-based delivery was the goal and any structure and decision needs to enable rather than frustrate this focus. Concerns were raised about availability of the skills, rigour and capacity required to define and measure the right outcomes.

Many were confident that outcomes could be clearly measured if they had been clearly defined and understood but the pace of the change was of concern as this could lead to error and consequently greater risk.

To show the success of the devolution agenda there will need to be evidence of a causal link between inputs and outcomes. This relationship can often create a challenge and the longer-term nature of the devolution agenda means that the link between investment and return may not always be clear. Factor such as time and geography may make the link between return on investment obscure.

- Investors may not see the benefits of that investment themselves.
- Investment may be long-term – beyond a political life.
- Investment such as housing may have a broad set of benefits.
- How a combined authority evidences this return will impact on their sustainability as business will want to see a return on investment in order to continue to grow the economy.
- Citizens will want to see an return on investment to show that the combined authority is doing well and deserves their trust.
- Central government will want to see a return on investment to ensure money is well spent and national policy objectives are being delivered.

The impact of upstream investment was a source of most discussion around the measurement of outcomes. Many delegates were confident of the measurement of capital and infrastructure projects but less confident, for example, in their ability to evidence improvement in health as a result of new approaches in a devolved context. The Early Action Taskforce was one of the organisations suggested as a leader in this area championing the need for early intervention.

Local authorities and other delivery partners need to work closely to ensure the commissioning process successfully delivers the agreed outcomes. Monitoring and measurement must be consistent and any disparities need to be reviewed.

Hand in hand with the concept of outcome-based delivery was the need to ensure that there was evidence for all decisions.

Evidence based decision making played an important part of the bid that Manchester submitted. All bids have to be supported by evidence and the Treasury are particularly keen that policy arguments are followed through with analysis and evidence. It was suggested that organisations such as the Centre for Local Economic Strategies could be instrumental in measuring the impact of the local government sector on the local economy.

# \ conclusion

Local government is often the public organisation that faces the greatest funding cuts. Yet it continues to provide services to its citizens ranging from libraries to leisure and from bin collection to building surveys. It is a vital part of the fabric of the country but in order to continue to deliver it must be prepared for radical change.

The future of local government lies in collaboration, integration and partnership and in the drive to deliver effective public services, roles, structures and responsibilities will need to be revised.

It was evident from the round table that there is an appetite for this sort of change, and this has been supported by the 38 devolution deals currently with Treasury. But it was recognised that collaboration has also been happening for many years outside of a devolved framework and had in many cases been highly successful.

In the room, which was full of leaders there was a recognition that skills needed to reflect this new environment and that good governance and excellence in financial management were integral in the success of any venture. The conversations were all about removing barriers, developing new skills and finding solutions.

The direction of travel has been identified but we urgently need to work together to ensure that everyone who wishes to participate is offered the opportunity and those that see their future down a different path have the financial and legislative freedom to operate.

## Key learning points from our devolution summit

- Relationships, trust and a vision shared between leaders are fundamental to successful devolution proposals.
- Building partnerships and making a case for devolution can be a serious drain on capacity – organisations cannot lose focus on immediate financial challenges.
- Getting the right governance structure is important to unlocking a devolution deal, but clarity of purpose and outcomes are much more important.
- New skillsets are required from finance functions – in particular a commercial focus and an ability to cope with volatility and ambiguity.
- Cultural differences across collaborating organisations and sectors must be recognised, respected and managed.
- Predicting and measuring the benefits of devolution, whether in terms of economic growth or social wellbeing, will require rigour and effort. This starts with clear thinking about outcomes, but a leap of faith may still be required.



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