



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Department for Communities and Local Government  
and HM Treasury**

# English devolution deals

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Department for Communities and Local Government  
and HM Treasury

# English devolution deals

Report by the Comptroller and Auditor General

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Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

18 April 2016

This report considers how central government is managing devolution deals being agreed between central and local areas.

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# Contents

**Key facts** 4

**Summary**

Background 5

**Part One**

The scope of English devolution deals 14

**Part Two**

Central government's management  
of devolution deals 26

**Part Three**

Key issues to take forward in  
devolution deals 29

**Appendix One**

Our audit approach 39

**Appendix Two**

Our evidence base 41

**Appendix Three**

Services and functions included in  
devolution deals 43

**Appendix Four**

Sheffield City Region devolution deal 45

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## Key facts

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**10**

devolution deals  
agreed to date

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**34**

devolution proposals  
received from local  
areas in England by  
September 2015

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**£246.5m**

additional investment  
funding per year, as  
part of devolution deals  
(£7.4 billion over 30 years)

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- 16.1 million** people living in areas subject to devolution deals
- 9** new mayors of combined authorities to be elected in 2017
- 155** staff in the Cities and Local Growth Unit
- 7** HM Treasury staff in their central team supporting devolution deals, supported by its departmental spending teams and other specialists
- 25%** real-terms reduction in local authorities' income between 2010-11 and 2015-16, taking account of both central government funding and council tax, as estimated in November 2014
- 8%** real-terms reduction in local authorities' income from 2015-16 to 2019-20, taking account of both central government funding and council tax, based on current estimates

# Summary

## Background

**1** The government has announced a series of devolution deals between central government and local areas in England. The deals respond to broadly-framed objectives to support economic growth and rebalancing, public service reform and improved local accountability. They are the latest in a range of initiatives and programmes designed to support localism and decentralisation.

**2** To date, ten devolution deals have been agreed. All of the deals transfer powers, funding and accountability for policies and functions previously undertaken by central government. The specific arrangements vary in each case, as they are negotiated and agreed separately based on local proposals.

**3** The transfers of functions range from full devolution of powers and funding to higher-level statements that set out a shared commitment to explore new approaches. In many cases, new governance and administrative arrangements will be established in the form of combined authorities with directly elected mayors spanning multiple existing local authority areas. The Cities and Local Government Devolution Act 2016 is the legislation that underpins many aspects of these devolution deals. Additional secondary legislation will be needed to enact some provisions.

**4** Within central government, HM Treasury and the Cities and Local Growth Unit (a joint unit of the Department for Communities and Local Government, and the Department for Business, Innovation & Skills) are responsible for coordinating the negotiation, agreement and implementation of devolution deals on behalf of central government as a whole.

## **Scope of our report**

**5** English devolution deals are a new and evolving policy area for government. The deals have the potential for significant changes to the investment of public money, and the specification and delivery of public services, in areas with deals. As much of the detail is emerging and still to be worked through, the effects of the changes being made will become more visible throughout, and beyond, this Parliament. Consequently, we do not conclude on the value for money of the devolution deals individually or collectively. This report:

- describes the English devolution deals that have been agreed so far, setting out the scale and scope of the agreements, and the new administrative and governance arrangements that will result (Part One);
- examines the role of HM Treasury and the Cities and Local Growth Unit in managing the devolution deals process so far (Part Two); and
- considers some of the key issues to take forward including accountability, impact measurement and capacity, highlighting areas that would benefit from greater clarity (Part Three).

**6** Part One of the report includes those deals that were announced in the March 2016 Budget. Parts Two and Three are based on fieldwork and analysis undertaken before these announcements. This report does not cover devolution arrangements for home nations other than England, which are being managed separately by the UK government.



## Key findings

Timescale and content of English devolution deals

**7 The scale and scope of English devolution deals increased substantially in the last 18 months.** The government announced the first devolution deal with Greater Manchester in November 2014, followed in July 2015 by a deal with Cornwall. At this point, the government also invited proposals from local areas as part of the 2015 Spending Review. It asked them to submit their proposals by early September 2015. The government received 34 bids from English areas. After receiving these proposals, the government prioritised negotiations in some areas and announced five deals – for the Sheffield City Region; the North East; Tees Valley; Liverpool City Region; and the West Midlands – before the Spending Review announcement in November 2015. It announced a further three deals in the March 2016 Budget, in East Anglia; Greater Lincolnshire; and the West of England (paragraphs 1.1 to 1.4 and Figures 2 and 3).

**8 While the specific functions and terms of each devolution deal differ, there are common themes in those that have been announced so far.** All of the deals include an agreement on devolved responsibility for substantial aspects of transport, business support and further education. Other policy areas included in some of the deals are housing and planning, employment support and health and social care. There are also similarities in aspects of local proposals that have not been accepted by central government, for example school-age education. The transfer of functions ranges from clearly specified devolution of powers and funding in some policy areas such as adult skills, to more limited approaches such as employment support co-commissioning (paragraphs 1.8 to 1.12, Figure 4, and Appendices Three and Four).

## Financial implications of English devolution deals

**9 The government has announced new additional investment funding of £246.5 million a year alongside the devolution deals announced so far, but there are other financial implications of devolution deals that await confirmation.** These include the full place-based settlements committed to in deals agreed before the 2015 Spending Review. The financial implications fit broadly into five types (paragraphs 1.13 to 1.23 and Figure 6):

- new additional funding provided by central government to nine of the areas with devolution deals to invest in economic growth – this currently amounts to £246.5 million a year, a total of £7.4 billion over a 30-year period. Setting this amount in context, it compares to £461.5 million a year provided to the Local Enterprise Partnerships in the same nine devolution deal areas under the Local Growth Fund, and £4.4 billion in total capital expenditure by the local authorities involved in these nine devolution deals in 2014-15;
- shares of existing funding that will be passed from central government departments to local areas, for example, consolidated local transport budgets and full devolution of adult education funding – there is variation in the phasing of these planned transfers, with for example, adult education funding fully devolved from 2018-19 to enable the development of local policies and strategies;
- devolved powers in tax, for example: pilots for retaining additional business rate growth beyond expected forecasts, and in two areas pilots of full business rate retention; and enabling mayor-led combined authorities to raise business rates by up to 2% to support local infrastructure projects, subject to approval by Local Enterprise Partnerships on behalf of business and industry;
- an enhanced role for local areas in managing two European Union structural funds (the European Regional Development Fund and the European Social Fund), giving them delegated powers to choose the projects that will be funded. Two of the deals announced in the March 2016 Budget – East Anglia, and Greater Lincolnshire – also have provisions to work toward Intermediate Body Status for the European Union Growth Programme part of the European Agricultural Fund for Rural Development; and
- funding to support housing growth: in Greater Manchester, £300 million of devolved housing loan funds will be made available over ten years. In four other deals, there are commitments to continue discussions on the devolution of housing loan funds, but no values or timescales are set out. In the East Anglia deal, announced in the March 2016 Budget, £175 million of national capital grant funding will be ring-fenced in recognition of local housing market conditions.

**10 The government intends over time to combine a number of funding streams into a ‘single pot’ to enable more local autonomy over investment decisions, and has announced £2.86 billion of initial allocations over five years for the first six mayoral devolution deals.** This comprises three funding streams: the additional investment funding referenced above; consolidated transport funding; and Local Growth Fund allocations. The government has set out a future intention to incorporate other funding streams into the single pot, removing existing ring-fences (paragraph 1.14 and Figure 5).

Central government’s approach to management

**11 HM Treasury and the Cities and Local Growth Unit are responsible for managing the negotiation, agreement and implementation of devolution deals on behalf of central government as a whole.** The Treasury and the Cities and Local Growth Unit have worked jointly in negotiating devolution deals. The Cities and Local Growth Unit is leading on implementation for all deals, with support from HM Treasury. Central government progressed quickly in negotiating and agreeing deals with the first seven local areas, including on behalf of some departments – such as the Department for Work & Pensions – where local areas told us they had more difficulty engaging on devolution deal negotiations (paragraphs 2.1 to 2.3).

**12 Central government’s management approach to brokering devolution deals is designed to support its policy of localism.** The government considers that devolution proposals should be led by local areas, and that central government’s role should be to respond to these proposals. As a result, the government has decided not to set out a clear statement of what it is trying to achieve through devolution deals, or a clear framework for how the deals will link to other ongoing localism initiatives. Local areas have looked to precedent in the form of deals already agreed in other areas to identify what they are likely to be able to achieve through the process (paragraph 2.4).

**13 Following the 2015 Spending Review, to which the initial timetable was linked, the government has not stated how quickly it intends to agree further deals.** Most of the deals agreed initially were with metropolitan city-regions, mainly in the north. This suggests central government had an immediate preference for areas that it considers will contribute the most in terms of economic growth. The expected scale and pace of future devolution deals is not known at present. The lack of a defined timetable has caused frustration and uncertainty within local areas that worked quickly to meet the initial September 2015 deadline for bid submissions (paragraph 2.5).

**14 As more devolution deals have been agreed, some aspects of more coordinated and effective management have emerged.**

Initially, the government adopted a loosely structured approach to managing devolution deals, but over time it has strengthened its management approach in some areas. For example, the Cities and Local Growth Unit is:

- tracking the progress of bids and the implementation of deals, and sharing this information with other government departments;
- establishing cross-government working groups to facilitate a collective approach to devolution across the civil service, enabling lessons to be learned from existing devolution deals;
- developing implementation plans and monitoring and evaluation plans with areas that have agreed deals, to address the need for greater detail and clarity; and
- developing its approach to monitoring and managing programme risks (paragraph 2.6).

Key issues outstanding

**Aligning national and local accountability**

**15 There are significant accountability implications arising from the agreement of devolution deals that central government and local areas will need to develop and clarify.**

These include the details of how and when powers will be transferred to mayors. Some clauses in the devolution deals refer to a balance of devolved and national interest in making local arrangements work effectively, but how this balance of interest impacts on national parliamentary accountability through departmental accounting officers is currently unclear. Devolution deals will rely more on local accountability, and the specific powers devolved or delegated to local institutions, including mayors, combined authorities and other local bodies, will vary across different parts of the country. Powers are also being transferred from a range of government departments, and government is removing ring-fencing from several existing funding streams. This will impact on the responsibilities of a number of departmental accounting officers to demonstrate that the devolved funding is spent as intended by Parliament and achieves the anticipated outcomes. In this context, the government needs to provide a clear statement of the new accountability arrangements. This should be aligned and coherent across government, reflected in departments' accountability system statements (paragraphs 3.2 to 3.16).

### **Local geography**

**16 The devolution deals agreed so far involve increasingly complex administrative and governance configurations, and there are risks around alignment with the administrative geographical areas for other linked policies.**

Local areas have been asked to make proposals based on functional economic areas. The first devolution deals, in Greater Manchester and Cornwall, were based on areas with established institutional arrangements and coterminous local enterprise partnership areas. More recent deals such as in the West Midlands set up more complex and untested arrangements. It is not yet clear how devolution deal areas will align with the local administrative configurations of other policy areas. For example, local NHS bodies are undertaking planning to support the NHS Five-Year Forward View. The six national NHS bodies responsible for planning guidance have asked areas to define their own local health economies and to consider devolution deals while doing so. In a context where geographical configurations for devolution proposals have yet to be resolved in many areas, it is not yet clear how these two processes will align (paragraphs 3.17 to 3.22).

### **Impact measurement**

**17 As devolution deals are new and experimental, good management and accountability both depend on appropriate and proportionate measures to understand their impact.** It is important to establish an evidence base, so that value for money can be assessed, as many of the assumptions about devolution deals are untested. Central government does not intend to use macro-level indicators to assess devolution deals as a whole. Together with local areas, it is jointly commissioning an independent panel to assess the extent to which additional investment funding will meet objectives and contribute to national economic growth. In terms of measuring how well the devolved functions perform, the Cities and Local Growth Unit told us that they will agree monitoring and evaluation plans with all areas that have agreed deals (paragraphs 3.14 to 3.16).

## **Resourcing and resilience**

### **18 There are risks, in central government and local areas, in progressing devolution deals within a challenging financial environment, and questions about the future role of government departments:**

- In **central government**: the departments that will be essential to making devolution deals work effectively are among those facing the biggest spending reductions between 2015-16 and 2020-21. The Cities and Local Growth Unit has increased its capacity – currently at 155 full-time equivalent staff – to handle multiple responsibilities, including city deals, growth deals and devolution deals. The Treasury has a team of seven staff directly negotiating and supporting devolution deals, with additional support from its departmental spending teams and other specialists. Despite the Cities and Local Growth Unit increasing its staffing levels, local areas are concerned about central government’s capacity to manage the negotiation and implementation of large numbers of deals simultaneously, and whether the Cities and Local Growth Unit would have the influence across government to maintain a sustained commitment from all relevant departments should the current levels of senior political commitment to the devolution agenda decline. The range and variation in policy areas included in deals must mean that the future service roles of government departments may be variable in regards to differently devolved parts of the country, with implications for the capacity and capability they will require in the longer term.
- For **local areas**: devolution deals include mostly new and additional functions and responsibilities to those already undertaken by local public bodies. However, this should not mean that the finance implications of the deals should be considered in isolation of the wider financial position for public services. The theory that supports calls for devolution – that planning and organising services across institutional and geographical boundaries will lead to more integrated and efficient services – also depends on the ongoing sustainability of local organisations that play a role in this integration. Recent National Audit Office and Committee of Public Accounts reports have highlighted ongoing concerns about the financial sustainability in a range of local public services that are either included in the deals or instrumental in making them work, including local government, health, further education and policing (paragraphs 3.23 to 3.29).

## Conclusion

**19** Devolution deals are a core component of central government's broader policy to decentralise power to local areas. Both central government and local bodies consider that the deals offer opportunities to stimulate and rebalance economic growth more effectively, and reform public services so that they are better designed for local users, leading potentially to better outcomes and improved value for money. While these assumptions respond to recognised barriers to achieving value for money, such as a failure to be locally responsive and to integrate services around users, they are untested.

**20** While it is a policy decision to limit central prescription or guidance, government must balance the potential benefits of this approach with the potential risks. The arrangements are experimental and unlikely to work as intended in all areas and for all functions and services devolved. Local areas are also starting from different places in terms of their history and strength of joint working. The government can do more to provide confidence that devolution deals can support economic growth and better value for money by resolving the issues we have identified relating to accountability, administrative geography and impact measurement. This will support the resilience of the new arrangements more effectively within the broader challenging financial context for central government and local public services.

## Summary of issues to take forward

**21** To improve the chances of success, and provide local areas and the public with greater clarity over the progression of devolution deals, central government should build on some of the more effective aspects of its recent programme management by:

- clarifying the core purposes of devolution deals and how these relate to the pace of negotiation on the remaining submissions;
- clarifying for parliament and the public who will be responsible and accountable for devolved services and functions, by updating accountability system statements in a way that is clearly accessible, coherent and aligned across government;
- confirming how appropriate monitoring and evaluation arrangements will be developed – and when – so that the impact of devolution deals can be assessed in respect of their economic growth and public service reform objectives;
- ensuring that new geographies being created by devolution deals, and those of other linked policies, take account of each other, to mitigate any risks of conflicting priorities; and
- ensuring it identifies and takes account of the risks to devolution deals that arise from the ongoing challenges to the financial sustainability of local public services.

# Part One

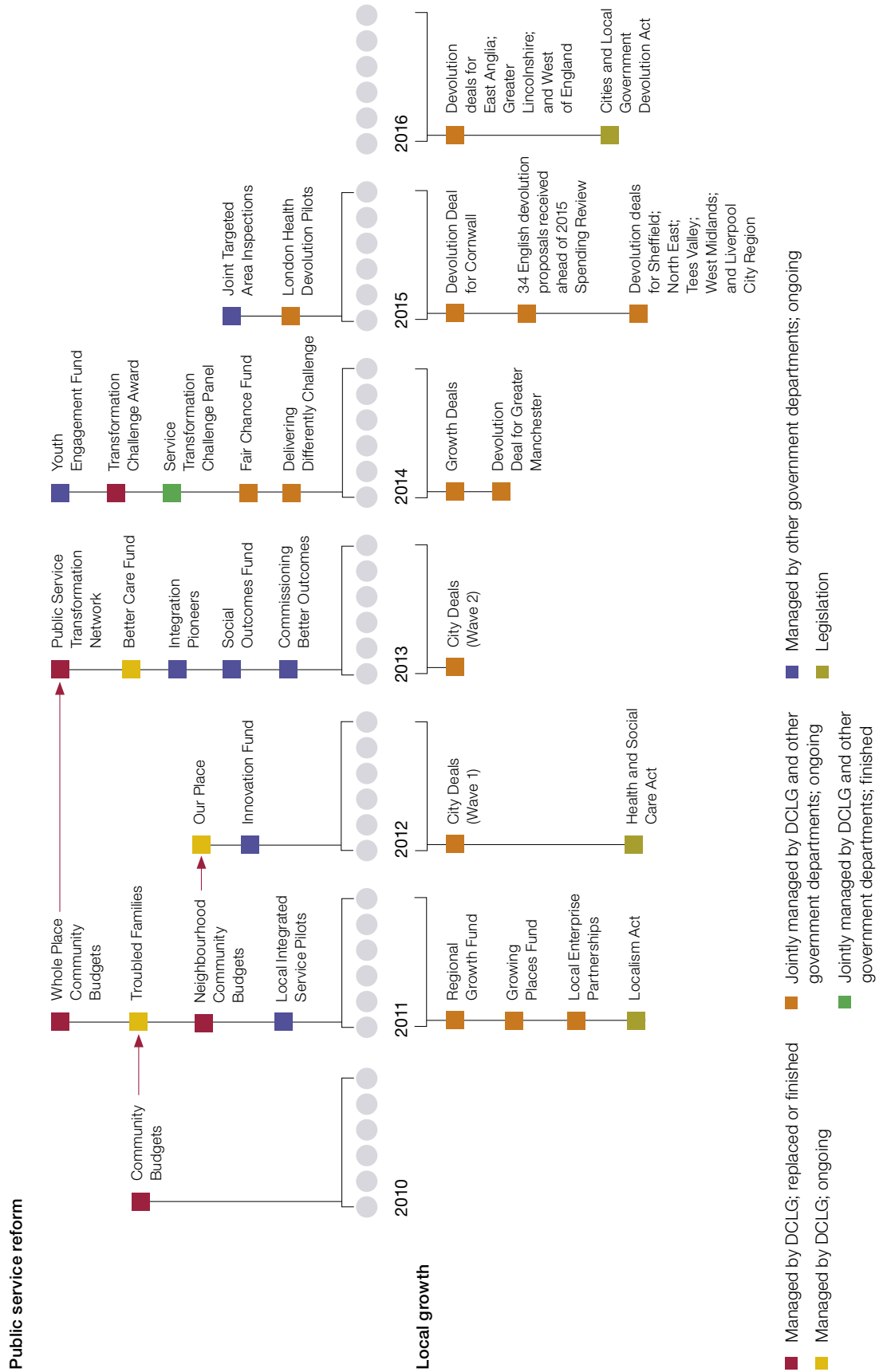
## The scope of English devolution deals

**1.1** Over the past 18 months the government has announced a series of devolution deals between central government and local areas in England. The deals aim to achieve broadly-framed objectives to support economic growth and rebalancing, public service reform and improved local accountability.

**1.2** So far, ten devolution deals have been announced. Initially, these were mainly – though not exclusively – in large city regions in the north. The 2016 Budget announced deals in other parts of England. The deals are the latest in a range of initiatives and programmes designed to support localism and decentralisation (**Figure 1**). They will transfer powers, funding and accountability for a wide range of policies and functions to local areas.



**Figure 1**  
Devolution deals build on recent localism initiatives



Source: National Audit Office analysis

## Timescale of proposals and deals

**1.3** The government announced the first devolution deal, with Greater Manchester, in November 2014. This was followed in July 2015 by a deal with Cornwall. In launching the 2015 Spending Review, the government invited proposals from other local areas. It stated that “city regions that want to agree a devolution deal in return for a mayor by the Spending Review will need to submit formal, fiscally-neutral proposals and an agreed geography to the Treasury by 4 September 2015” – a six-week timescale.<sup>1</sup> In August 2015, the government’s plan for boosting rural productivity referred to the Cornwall deal already agreed and called for “further proposals from local areas for devolution of significant powers in return for a mayor”.<sup>2</sup> Although government limited statements about its expectations of devolution proposals, the Secretary of State for Communities and Local Government stated that Local Enterprise Partnerships (LEPs)<sup>3</sup> should have a central role in the formulation and negotiation of devolution deals alongside local authorities and other partners.

**1.4** The government received 34 bids from areas in England in September 2015. After receiving these proposals, the government prioritised negotiations in some areas and announced five deals – for the Sheffield City Region; the North East; Tees Valley; Liverpool City Region; and the West Midlands – before the Spending Review announcement in November 2015. The government announced a further three deals in the March 2016 Budget, in East Anglia; Greater Lincolnshire; and the West of England. There are 16.3 million people living in areas now subject to agreed devolution deals (**Figure 2** and **Figure 3** on page 18).

## Geography and governance arrangements of deals

**1.5** In most cases, new governance and administrative arrangements are being established in the form of directly elected mayors and combined authorities.<sup>4</sup> The Cornwall devolution deal is the only deal where planned transfers of powers are to a single local authority area. In all other deals announced to date, powers will transfer to either the mayor or combined authority, spanning multiple local authority areas. These areas have been agreed because they are considered to represent functional economic areas that reflect labour markets and offer sufficient economies of scale.

1 HM Treasury, *A country that lives within its means: Spending Review 2015*, July 2015.

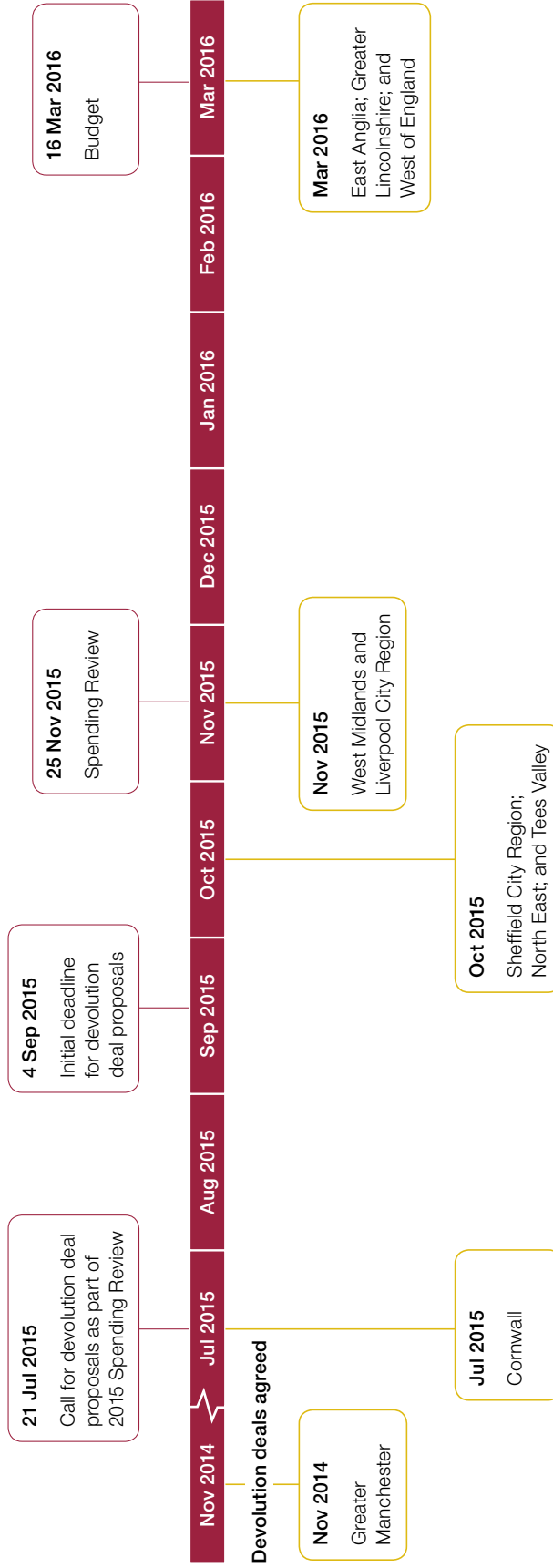
2 Department for Environment, Food & Rural Affairs, *Towards a one nation economy: A 10-point plan for boosting productivity in rural areas*, August 2015.

3 Local Enterprise Partnerships (LEPs) are business-led partnerships between the private sector and local authorities established with the purpose of driving growth strategically in local communities. See: Comptroller and Auditor General, *Local Enterprise Partnerships*, Session 2015-16, HC 887, National Audit Office, March 2016.

4 A combined authority is a legal structure that may be established by an order of the Secretary of State at the request of two or more local authorities.

**Figure 2** Timescale of key central government announcements and deals agreed

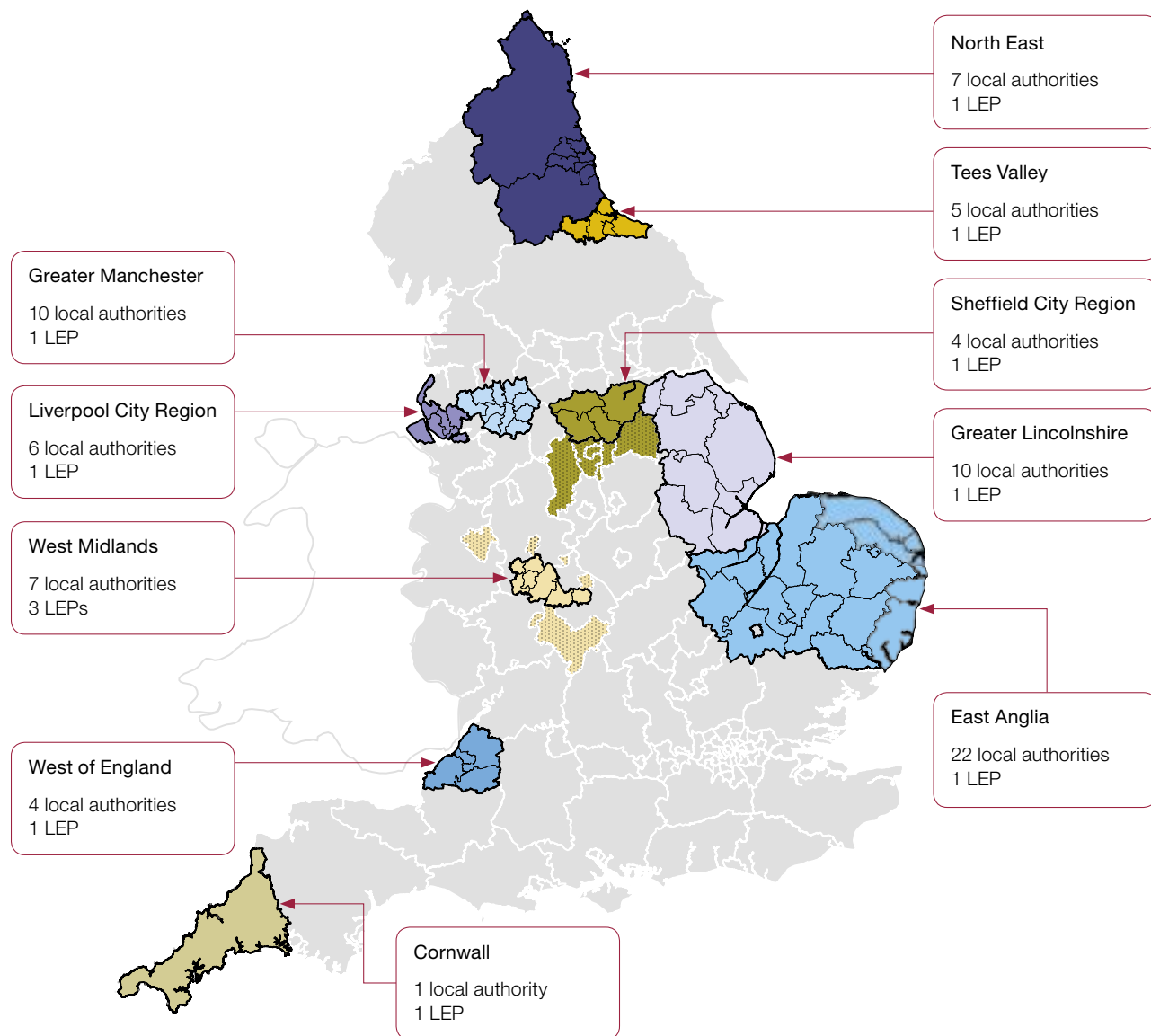
Key government announcements



Source: National Audit Office analysis of government announcements and devolution deals

**Figure 3**

Ten devolution deals have been agreed to date



 Non-constituent member

**Notes**

- 1 The local authorities referred to in this figure are the constituent members of the existing or proposed combined authorities. The Sheffield City Region and West Midlands combined authorities also include non-constituent members, and in the case of West Midlands a prospective non-constituent member, which have less voting rights than constituent members and whose residents will not be eligible to elect mayors. Two non-constituent members of Sheffield City Region – Chesterfield and Bassetlaw councils – have agreed to apply to become constituent members of the combined authority.
- 2 LEP = Local Enterprise Partnership. In eight of the ten devolution deals, the deal areas are coterminous with their member LEP. However, the East Anglia devolution agreement does not include the Greater Cambridge/Greater Peterborough LEP and the three LEPs that are signatories to the West Midlands deal include local authorities that are not part of the combined authority.

Source: National Audit Office analysis of devolution deal documents

**1.6** Nine mayoral elections are planned to take place in these areas in May 2017, and mayors will act as chairs of each combined authority. The Greater Manchester combined authority was established in April 2011, and those in the Sheffield City Region; the North East; and the Liverpool City Region were set up in April 2014. Five of the devolution deals – in the Tees Valley; West Midlands; East Anglia; Greater Lincolnshire; and the West of England – propose new combined authorities, the proposals for which require public consultation. The Cornwall deal is based on a single unitary authority and does not include mayoral governance.

**1.7** The Cities and Local Government Devolution Act 2016 underpins many aspects of devolution deals. These include amendments to existing legislation to permit elected mayors of combined authorities, and to allow the mayors to take on the functions of police and crime commissioners. Additional secondary legislation will be needed to enact other elements of the devolution deals, such as the conduct of mayoral elections and the tax arrangements of combined authorities.

### **Services and functions in scope of deals**

**1.8** The devolution deals transfer powers, funding and accountability for policies and functions previously undertaken by central government. The specific arrangements vary in each case, as they are negotiated and agreed separately based on local proposals, though there are some similarities in the types of services included in devolution deals to date:

- all of the deals provide for devolved responsibility for the policy and administration of substantial aspects of transport, business support and further education;
- most of the deals include agreements relating to employment support; and housing and planning including the establishment of development corporations to support complex regeneration schemes; and
- other policy areas included in some deals are health and social care, criminal justice, police and fire services and apprenticeships.

**1.9** There are also similarities in the types of services not included within devolution deals agreed to date. Local areas with deals already agreed or currently being negotiated told us that their proposals around school-age education, further fiscal devolution and more substantial transfer of housing and welfare responsibilities were not accepted by central government.

**1.10** Each deal is an agreement between central government and local leaders, subject to ratification from their local authorities. Most aspects are designed to lead to more substantial negotiations between local areas and relevant departments on the detail of implementation and funding arrangements. However, some elements do not provide for a specific transfer but indicate a commitment to continue or initiate discussions on potential areas for further future devolution. Appendix Three on pages 43 and 44 shows the range of services and functions transferred for all devolution deals agreed to date, and Appendix Four on pages 45 to 47 provides further detail of the Sheffield City Region devolution deal, to exemplify its core features.

**1.11** The extent of the transfer of functions ranges from clearly specified devolution of powers and funding to higher-level statements of shared commitment to explore new approaches. This is exemplified by two elements of the West Midlands devolution deal:

- **Full devolution of a policy area:** the adult skills element of the deal demonstrates a clear process towards what is described as ‘full devolution’. It is planned to proceed in three stages, over the next three academic years. The combined authority is now preparing delivery agreements with providers over the mix and balance of provision that will be delivered in return for allocations in the 2016/17 academic year. In 2017/18, following an Area Review, central government will work with the combined authority to vary the block grant allocations made to providers. In 2018/19, there will be full devolution of funding to the combined authority, which will be responsible for allocations to providers and outcomes to be achieved, consistent with statutory requirements. Central government has defined six readiness conditions for full devolution that will need to be managed before full devolution can be achieved. Local areas will also have the opportunity to determine if they want to accept full devolution. The deal does not include apprenticeship funding.
- **Narrower approaches to devolving responsibility and funding:** the same deal uses more limited terminology, including ‘co-design’ in reference to employment support for harder to help claimants. While the combined authority will have a greater role in varying the national approach based on local priorities, the Department for Work & Pensions will retain its core responsibilities for setting the amount of funding, the high-level performance framework, contract arrangements and managing the performance of providers, who will be solely accountable to the department.

**1.12 Figure 4** demonstrates how some local areas included different approaches to health and social care within their devolution deals.

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## **Figure 4**

### Health and social care in devolution deals

#### **Summary of key developments**

In February 2015, the government announced that local authorities and clinical commissioning groups in Greater Manchester would take control of approximately £6 billion in health and social care funding from April 2016. In its subsequent deal with Cornwall in July 2015, the government committed to co-producing a strategic plan to integrate health and social care. In December 2015, the government announced the London Health Devolution Agreement, which includes health and social care collaboration pilots in five London boroughs.

On the whole, the developments in Greater Manchester, Cornwall and London are characterised by collaborative partnership working between national and local bodies, rather than further devolution of the already mainly locally-controlled funding and responsibility for health and social care.

#### **Funding**

The Department of Health told us that no new funding is made available through the devolution of health and social care service areas. The £6 billion in local health care funding that is often included in discussions of Greater Manchester's arrangements comprises the commissioning budgets of clinical commissioning groups, some of NHS England's budgets for specialist commissioning and primary care, and the social care budgets of the ten local authorities in the Greater Manchester Combined Authority. However, Greater Manchester's devolution deal does stipulate that it will receive £450 million from NHS England's Five Year Forward View transition funding over the next five years to support the process. The Department of Health explained that other areas with similar proposals for health and social care integration would be able to access such transition funding from NHS England on a proportionate basis.

#### **Accountability and oversight**

The accountability for the quality and effectiveness of healthcare remains with the Department for Health, provider organisations, clinical commissioning groups and NHS England. Current legislation limits the scope for devolution of national regulatory functions and providers of regulated services will continue to be inspected by the Care Quality Commission and meet national registration requirements. Greater Manchester's elected mayor will not have any executive or budgetary control over the integration of health and social care. The Mayor of London will provide strategic political leadership, oversight and support through chairmanship of the London Health Board.

Source: National Audit Office document review and interviews with local areas and the Department of Health

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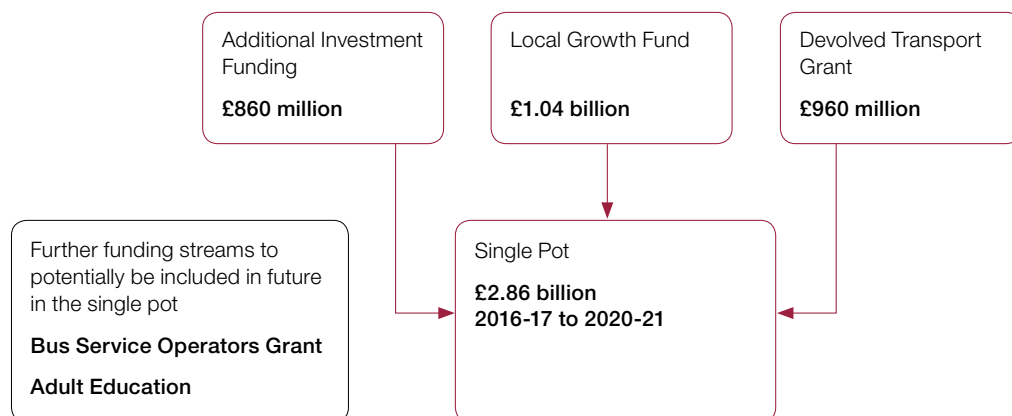
## Financial implications of deals

**1.13** Given the breadth of functions and policy areas covered by devolution deals, the financial implications of the deals are wide ranging. The government has not yet set out the full financial implications of the devolution deals announced so far, but they broadly break down into five main types:

- additional investment funding;
- shares of existing funding;
- devolved powers over taxation;
- devolved powers over European funding; and
- funding to support housing growth.

**1.14** Over time, the government intends to combine a number of funding streams into a ‘single pot’, with no ring-fences to enable more local autonomy over investment decisions. In the March 2016 Budget, the government announced that these allocations would total £2.86 billion over five years in the first six mayoral devolution deals (**Figure 5**). This comprises three funding streams: the additional investment funding referenced below; consolidated transport funding; and Local Growth Fund allocations. The government has set out a future intention to incorporate other funding streams into the single pot.<sup>5</sup> Local areas will be asked to develop assurance frameworks to provide confidence to central government that the single pot funding is spent with regularity, propriety and value for money. These will be subject to approval by the Department for Communities and Local Government before the additional investment funding is disbursed.

**Figure 5**  
Initial five-year allocations to the single pots of six local areas



**Note**

1 These allocations are for Greater Manchester; Sheffield City Region; North East; Tees Valley; Liverpool City Region; and the West Midlands.

Source: National Audit Office analysis of the Department for Communities and Local Government figures

5 The March 2016 Budget announced government’s intention to include the Bus Service Operators Grant and the adult education budget in future.



## Additional investment funding

**1.15** HM Treasury has provided new funding to all of the combined authorities that are subject to devolution deals, for investment in economic growth.<sup>6</sup> In each case, the Treasury has committed to a 30-year funding stream, subject to five-yearly assessments to confirm whether the spending has contributed to national economic growth. The combined authorities will decide how to allocate the funding. **Figure 6** sets out the amounts of funding in absolute and per capita terms for each devolution deal, alongside comparative data on Local Growth Fund allocations to Local Enterprise Partnerships and total capital spending by the constituent local authorities in each devolution deal area.

**Figure 6**

Additional investment funding in devolution deals and other capital funding streams

	Additional investment funding in devolution deals			Other capital funding in devolution deal areas	
	Annual amount	Population	Per capita annual amount	Annual Local Growth Fund to LEP(s)	Total capital spending of constituent local authorities, 2014-15
	(£m)	(m)	(£)	(£m)	(£m)
Greater Manchester	30.0	2.7	11	88.9	702.4
Sheffield City Region	30.0	1.4	22	54.7	367.4
North East	30.0	2.0	15	55.0	720.1
Tees Valley	15.0	0.7	23	17.4	180.4
West Midlands	36.5	2.8	13	105.2	915.6
Liverpool City Region	30.0	1.5	20	44.0	312.8
East Anglia	30.0	2.3	13	37.0	660.4
Greater Lincolnshire	15.0	1.1	14	21.0	270.6
West of England	30.0	1.1	27	38.5	311.2
<b>Total</b>	<b>246.5</b>	<b>15.5</b>	<b>16</b>	<b>461.5</b>	<b>4,440.7</b>

### Notes

- 1 For Greater Manchester, the additional investment funding was originally announced as 'earn back' in its City Deal in 2012. For all other areas listed, this is additional funding that has been announced within their devolution deals.
- 2 The combined authorities for the Sheffield City Region and the West Midlands also include non-constituent members that are not included in the population data, which is drawn from local authorities whose residents will be eligible to elect mayors.
- 3 Numbers may not sum due to rounding.

Sources: National Audit Office analysis of devolution deal documents; Office for National Statistics mid-year population estimates for 2014 (2015 release); Department for Communities and Local Government data on Local Growth Fund allocations and Local Government Finance data

<sup>6</sup> Additional investment funding was not provided in the Cornwall devolution deal.

**1.16** While there is some similarity in the total figures for additional investment funding provided to each local area as part of devolution deals, there is more variation in the allocations per person. The Treasury and Cities and Local Growth Unit told us that each amount was based on their negotiations with local areas. These took account of a range of factors including the extent of proposed governance reform, the ambition of efforts to drive local growth and the local economic profile. It is not clear how this translates to the specific amounts allocated.

### Shares of existing funding

**1.17** For the services and functions that will be devolved to local areas, central government's intention is for a proportionate amount of funding to be passed from central government to the mayor or combined authority. Both central government and local areas expect this to be 'fiscally neutral' in the sense that it represents a fair share of what would previously have been departmental spending, for example, the full devolution of adult skills funding. Over time, government's intention is that this funding will be incorporated within the single pots allocated to local areas.

**1.18** The devolution deals announced refer to central government providing place-based settlements to areas within the time frame of the 2015 Spending Review. There is variation in the phasing of these planned transfers, with for example combined authorities only receiving fully devolved adult education funding for those aged 19 and over from 2018-19, subject to assessment of whether they are ready to take on these responsibilities.

### Devolved powers in tax

**1.19** The devolution deals provide for some additional local powers over taxation. In March 2015, the government announced a pilot to enable Greater Manchester and Cheshire East to retain all business rate growth beyond expected forecasts, which would otherwise have been paid to central government. Five of the other devolution deals make a similar commitment to a pilot.<sup>7</sup> The government announced in the March 2016 Budget that two areas with devolution deals – Greater Manchester and Liverpool City Region – will pilot full business rate retention, and that the pilot would also be open to any area with a ratified devolution deal.<sup>8</sup>

**1.20** The government has also announced its intention to enable mayor-led combined authorities to raise levels of business rates by up to 2% to support local infrastructure projects. Increases will be subject to approval by LEPs on behalf of business and industry. In one case, this includes a LEP that is not a signatory to the devolution deal.<sup>9</sup>

<sup>7</sup> These are East Anglia; North East; Sheffield City Region; Tees Valley; and West Midlands.

<sup>8</sup> The Budget also announced that London will increase the share of the business rates it retains.

<sup>9</sup> Any increases the Mayor proposes in East Anglia would require agreement of both New Anglia LEP, which is signatory to the deal, and Greater Cambridge/Greater Peterborough LEP, which is not.

**1.21** These provisions exist within the context of a wider review of business rates as the government moves to a position whereby all business rates will be retained by local authorities by the end of the Parliament. Some deals refer to ongoing discussions about the wider reform of business rates, and how this will affect the combined authority area.

### Devolved powers over European funding

**1.22** All of the devolution deals agreed so far include a provision for the area to be granted – or to work towards – Intermediate Body status for two European Union Structural Funds (the European Regional Development Fund and the European Social Fund). This means that the local area would take on delegated powers to choose projects, taking into consideration those also funded by the investment funding included as part of the devolution deals. Two of the deals announced in the March 2016 Budget – East Anglia, and Greater Lincolnshire – also have provisions to work toward Intermediate Body Status for the European Union Growth Programme part of the European Agricultural Fund for Rural Development.

### Funding to support housing growth

**1.23** In the case of Greater Manchester, funding of £300 million of devolved housing loan funds will be made available over ten years. In four other deals, there are commitments to continue discussions on the devolution of housing loan funds, but no values or timescales are set out.<sup>10</sup> In the East Anglia deal, announced in the March 2016 Budget, £175 million of national capital grant funding will be ring-fenced in recognition of local housing market conditions.

<sup>10</sup> These are Liverpool City Region; Sheffield City Region; Tees Valley; and West Midlands.

## Part Two

### Central government's management of devolution deals

#### **Roles and responsibilities**

**2.1** HM Treasury and the Cities and Local Growth Unit are responsible for managing the negotiation, agreement and implementation of devolution deals on behalf of central government. The Cities and Local Growth Unit is a joint unit based in the Department for Communities and Local Government (DCLG), and including officials from the Department for Business, Innovation & Skills. It also includes officials that transferred from the Cabinet Office in early 2015. DCLG told us that its accounting officer is accountable for the implementation of devolution deals. This includes responsibilities to coordinate efforts across departments to ensure implementation remains on track, and to report annually to Parliament on the progress of devolution deals.<sup>11</sup> Other departments will retain ownership of accountability systems for their areas of policy responsibility.

**2.2** HM Treasury and the Cities and Local Growth Unit have worked jointly in negotiating devolution deals. The Cities and Local Growth Unit is leading on implementation for all deals, with support from HM Treasury.

**2.3** For the deals already announced, HM Treasury and the Cities and Local Growth Unit progressed quickly in negotiating and agreeing deals with the first seven local areas, including on behalf of some departments – such as the Department for Work & Pensions – where local areas told us they had more difficulty engaging on devolution deal negotiations. Local areas that have agreed their devolution deals have perceived their engagement with HM Treasury and the Cities and Local Growth Unit positively.

<sup>11</sup> The Cities and Local Growth Devolution Act requires that an annual devolution report is presented to Parliament.

## Government's approach to managing devolution deals

**2.4** Central government's approach to brokering devolution deals has been framed by the government's policy to promote localism. The government considers that devolution proposals should be led by local areas, and that central government's role should be to respond to these proposals. To support this approach, central government has limited its public statements to broad calls encouraging engagement, alongside a formal timetable for the submissions of bids linked to the 2015 Spending Review. As a result, the approach taken to managing the negotiation of devolution deals was not prescriptive:

- Beyond the high-level objectives of economic growth and rebalancing, public service reform and improved local accountability, central government has not set out a clear statement of what it is trying to achieve through devolution deals.
- Central government has not provided a clear framework for how the devolution deals link to other ongoing localism initiatives, including City Deals and Growth Deals. It is also unclear what factors central government will prioritise in deciding whether to agree devolution deals. Central government's view is that it can support localism by not providing more tightly defined objectives or a prospectus of potential options for devolution proposals.
- As a result, local areas do not have a clear reference point, and many have looked to precedent in the form of deals that have already been agreed to identify what they are likely to be able to achieve.

**2.5** Following the 2015 Spending Review to which the initial timetable was linked, the government has not stated how quickly it will agree further deals. Most of the deals agreed initially were with metropolitan city regions, mainly in the north. This suggests that central government had an immediate preference for areas that it considers have the potential to contribute the most in terms of economic growth. The expected scale and pace of future devolution deals is not known at present. The lack of a defined timetable has caused frustration and uncertainty within local areas that worked quickly to meet the initial September deadline for bid submissions.

**2.6** As more devolution deals have been agreed, some examples of more coordinated and effective management have emerged. The loosely-structured approach described above initially applied to all aspects of negotiating devolution deals. As the scale of negotiating and implementing devolution deals has increased, central government has strengthened some aspects of its approach to managing the deals. For example, the Cities and Local Growth Unit is:

- tracking the progress of bids and the implementation of deals, and sharing this information with other government departments;
- establishing cross-government working groups to facilitate a collective approach in central government, enabling lessons to be drawn across devolution deals, though these groups have only recently been formed;<sup>12</sup>
- working on implementation plans and monitoring and evaluation plans within six months of agreeing deals, to address the need for greater detail and clarity; and
- monitoring and managing risks across different deals and policy areas.

<sup>12</sup> These include a Decentralisation and Local Growth Programme Board at director general level; Local Growth Delivery, Cross-Whitehall Decentralisation, and the Northern Powerhouse working groups; and an analyst group to consider issues such as impact measurement.

# Part Three

## Key issues to take forward in devolution deals

**3.1** Central government's devolution deal agenda is new and still evolving. As a consequence of this, and of the loosely-prescribed approach it has taken to support localism, central government and local areas are still considering a number of key issues relating to accountability, geographical administrative boundaries, and resource sustainability. This part comments on significant areas that central government and local areas will need to address in order to build confidence in the operation and sustainability of new devolution arrangements.

### Accountability

**3.2** Our recent report *Accountability to Parliament for taxpayers' money* set out the essential features that any system of accountability needs.<sup>13</sup> These are:

- a clear expression of spending commitments and objectives;
- a mechanism or forum to hold to account;
- clear roles, and someone to hold to account; and
- robust performance and cost data.

**3.3** Central government and local areas are still in the process of working through how these essential features of accountability might work. There is variation in the extent of progress made.

### A clear expression of spending commitments and objectives

**3.4** Clear information about the government's spending and its financial position is vital to understanding what the government is accountable for. This in turn enables Parliament to track how effectively taxpayers' money has been used.

<sup>13</sup> Comptroller and Auditor General, *Accountability to Parliament for taxpayers' money*, Session 2015-16, HC 849, National Audit Office, February 2016.

**3.5** Central government has framed its objectives for devolution deals in broad terms around economic growth and rebalancing, public service reform and enhanced local accountability. These objectives, however, are not specific or time-bound. As stated in Part One, the government has not yet set out the total spending commitments and changes that will result from the agreement of devolution deals, and some of the details of how and when powers will be transferred to mayors are still being worked through.

### A mechanism or forum to hold to account

**3.6** Since 2010, central government has made a number of changes to local government funding to give local authorities more flexibility. This has given local authorities more control over their spending, enabling them to allocate resources to meet local priorities, and reduce reporting burdens. For example, ring-fencing and reporting mechanisms have been removed for most local services' funding, along with national performance frameworks and inspection activity that had been used to scrutinise local authority spending and performance. Devolution deals build on these new freedoms and flexibilities.

### **Accountability system statements**

**3.7** In 2011, the government proposed that accounting officers who provide decentralised funding should publish a system statement that clearly shows how they will get the necessary assurances nationally for Parliament.<sup>14</sup> Departments now increasingly rely on the accountability arrangements required of local areas – including external auditors, democratically accountable local councillors and the legal duties on local authority officers – to provide assurance on value for money and financial and service sustainability.<sup>15</sup> Our previous work shows that despite improvements in the Department for Communities and Local Government's (DCLG's) accountability system statement, it is not clear that DCLG knows whether the system is effective in securing value for money.<sup>16</sup>

**3.8** The Cities and Local Growth Unit told us that DCLG will be reviewing its accountability system statement each year to reflect any new developments. However, DCLG does not consider that the additional powers devolved in devolution deals require a fundamental reconsideration of the local government accountability system at this point.

<sup>14</sup> Department for Communities and Local Government, *Accountability: adapting to decentralisation*, September 2011.

<sup>15</sup> Comptroller and Auditor General, *Accountability to Parliament for taxpayers' money*, Session 2015-16, HC 849, National Audit Office, February 2016.

<sup>16</sup> Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014.



**3.9** It is clear that devolution deals will rely more on local accountability, and the specific powers devolved or delegated to local institutions, including mayors, combined authorities and other local bodies, will vary across different parts of the country. Powers are also being transferred from a range of government departments, and government is removing ring-fencing from several existing funding streams. This will impact on the responsibilities of a number of departmental accounting officers to demonstrate that the devolved funding is spent as intended by Parliament and achieves the anticipated outcomes. In this context, the government needs to provide a clear, updated statement on how it can assure value for money of devolved funding. This should be aligned and coherent across government, reflected in departments' accountability system statements.

### **Local scrutiny**

**3.10** The resourcing and strength of local scrutiny for services devolved as part of devolution deals will be an important area of focus for central government and local areas. Effective scrutiny will require appropriate resourcing and expertise in some functional areas and sectors not historically associated with local government. The Cities and Local Government Devolution Act 2016 requires every combined authority to appoint at least one overview and scrutiny committee comprising members drawn from its constituent authorities together with an audit committee, both of which will contain independent members. Greater Manchester is the only example among the combined authorities that have agreed devolution deals where new scrutiny arrangements at the combined authority level have yet been piloted, though they were not designed to address the specific provisions of the devolution deal. There is consensus locally and with expert advisers that the arrangements that have been piloted are not sustainable in their current form and are now seeking to establish new arrangements in line with the requirements of the Act before their new powers and services are devolved.

### Clear roles, and someone to hold to account

**3.11** As described in Part One, all but one of the devolution deals agreed so far transfer functions and funding to mayors and combined authorities, spanning multiple local authority areas. With elections planned for May 2017 in these areas, mayors will provide democratic accountability by chairing the combined authorities.

**3.12** The transfer of functions as part of devolution deals will have different implications for roles depending on the policy area. In some policy areas – such as transport and adult skills – the terms of the deal suggest a more substantial transfer of powers than in other areas, such as employment support or health and social care. Some clauses in the devolution deals refer to a balance of devolved and national interest in making local arrangements work effectively, but how this balance of interest impacts on accountability is unclear. In all cases, there is a need for central government to provide a clearer statement of how national and local accountability will work under the devolution deals, for example:

- where policy is devolved but national minimum standards remain (for example, health and social care); or
- where policy is devolved but central departments continue to set the level of funding and the high-level national performance framework (for example, co-commissioning of employment support between local areas and the Department for Work & Pensions (DWP)).

**3.13** The eight deals agreed most recently include clauses that commit the combined authority to jointly develop written agreements with central government on every devolved power or fund in order to agree, based on the principles set out in the deals, accountability arrangements between local and national bodies. The Cities and Local Growth Unit told us that these will be developed following the agreement of the detailed implementation plans it is developing with all areas with devolution deals.

### Robust performance and cost data to assess impact and value for money

**3.14** As devolution deals are new and experimental, appropriate and proportionate measures are needed to understand their impact, in support of both good management and accountability. While central government and local areas believe that economic growth and better outcomes will result from the devolved arrangements, these assumptions are untested. It is important to establish an evidence base so that value for money can be assessed, effective local arrangements can be shared more widely, and potential failure is identified early so that any harmful effects can be mitigated.

**3.15** The devolution deals agreed include commitments for the local areas to work with central government to measure impact. But as with other aspects of implementation, these are statements of intent, rather than clear plans showing how this will work in practice.

**3.16** There are three broad types of impact measurement that are important in this context. There is variation in the extent to which these are being progressed:

- **The impact of devolution deals as a whole**

Central government told us that it does not intend to use macro-level indicators to assess devolution deals as a whole. As with City Deals, the Cities and Local Growth Unit considers that attributing any impact at the whole economy level to this specific intervention would be too imprecise, as devolution deals are only one aspect of a broader approach to economic growth.<sup>17</sup> In their recently published Single Departmental Plans, the Department for Communities and Local Government, and the Department for Business, Innovation & Skills both only use the number of deals agreed as their measure of what government is achieving.<sup>18</sup>

- **The impact of additional investment funding**

Central government will evaluate the return on additional investment funding through five-yearly assessments. An independent assessment panel will review whether the investments have met objectives and contributed to national growth. Ministers will take account of this assessment in deciding whether to release the next five-year tranche of funding. In March 2016 a procurement commenced for an independent panel to conduct this evaluation, jointly commissioned between local areas and central government.

- **Service-specific performance of devolved functions**

The Cities and Local Growth Unit told us that they will agree monitoring and evaluation plans with all areas that have agreed deals. A cross-government Monitoring and Evaluation Group has been established to support local areas in developing these plans.

## **Local administrative geography**

**3.17** Accountability arrangements are clearer where political, administrative and economic geography is coterminous. The Greater Manchester devolution deal is with the Greater Manchester Combined Authority and its ten constituent local authorities and the Greater Manchester Local Enterprise Partnership (LEP). Both the combined authority and the LEP operate within the same geographical boundaries (**Figure 7** overleaf).

**3.18** In addition, Greater Manchester was able to draw on a history of local authority cooperation. In April 2011 it became the first combined authority created under the Local Democracy, Economic Development and Construction Act 2009. This built on the work of the Association of Greater Manchester Authorities, an organisation operating since 1986, representing the ten district councils in the metropolitan county of Greater Manchester.

<sup>17</sup> Comptroller and Auditor General, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Session 2015-16, HC 266, National Audit Office, July 2015.

<sup>18</sup> Government has recently published Single Departmental Plans, which set out the objectives and priorities for each government department. Available at: [www.gov.uk/government/collections/single-departmental-plans-for-2015-to-2020](http://www.gov.uk/government/collections/single-departmental-plans-for-2015-to-2020)

**Figure 7**

The Greater Manchester Combined Authority is coterminous with the Greater Manchester Local Enterprise Partnership and has an established record of joint working



Source: National Audit Office analysis of Greater Manchester Devolution Deal, November 2014

**3.19** In other areas, devolution deals are increasingly being negotiated and agreed with more complex and untested geographies. For example, the deal agreed with the West Midlands is based on a proposed combined authority made up of seven metropolitan authorities spanning the three LEP areas that are considered to be the functional economic area (**Figure 8**).<sup>19</sup> Five other district councils, across three different counties, in these three LEP areas intend to be non-constituent members of the combined authority, along with one unitary authority in a fourth LEP area.<sup>20</sup> Over time, the West Midlands Combined Authority hopes that all the district councils and the county council within the boundaries of the three LEPs will join the combined authority (either as non-constituent or constituent members).

**3.20** Our recent report on *Local Enterprise Partnerships* found that LEPs are uncertain about their place in wider devolution policy, particularly in areas where their boundary does not align with that of a combined authority.<sup>21</sup>

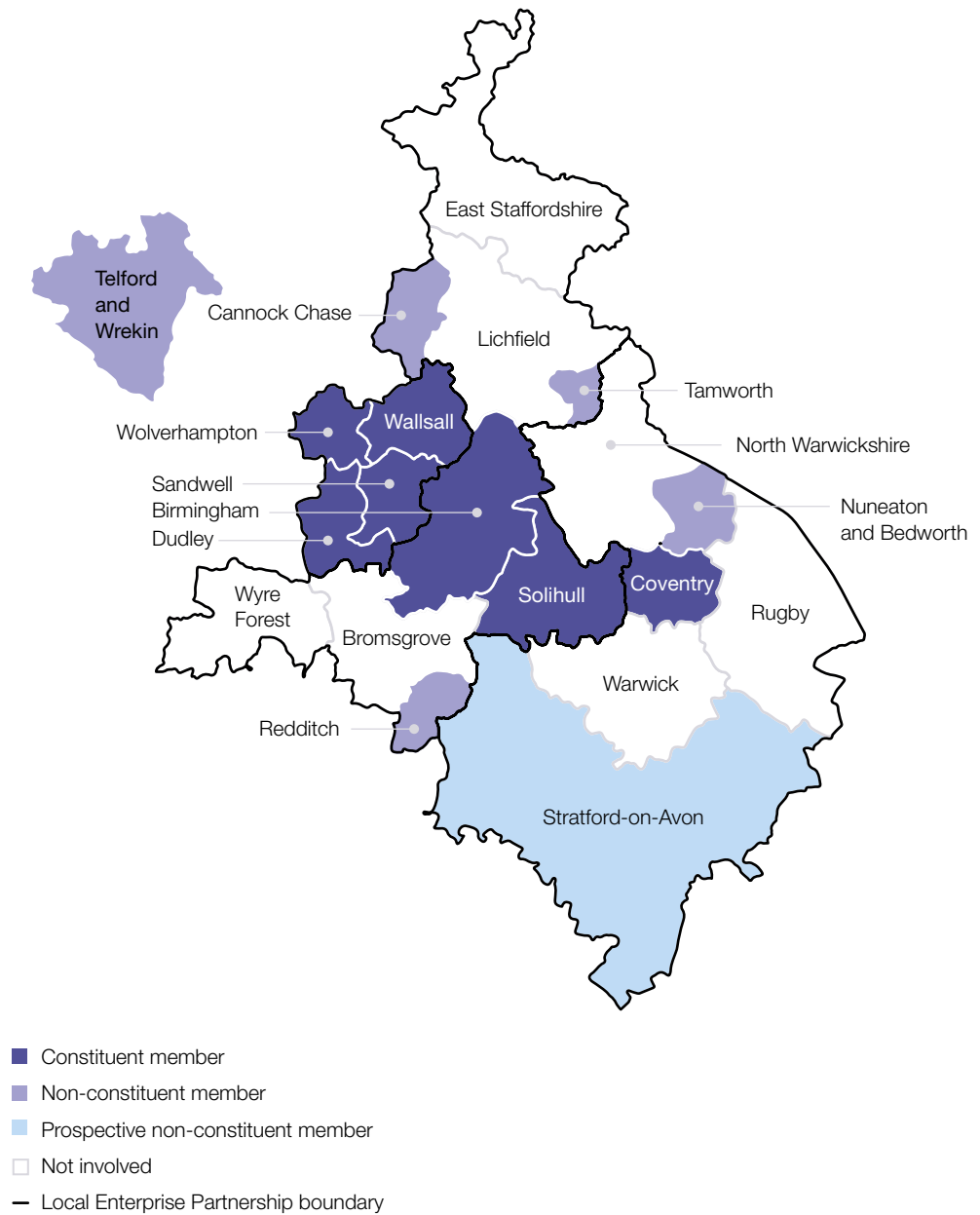
19 These are Greater Birmingham and Solihull; Black Country; and Coventry and Warwickshire Local Enterprise Partnerships.

20 Constituent members may only be signed up to one combined authority, while non-constituent members, who have less voting rights than constituent members, can be signed up to one or more combined authorities.

21 Comptroller and Auditor General, *Local Enterprise Partnerships*, Session 2015-16, HC 887, National Audit Office, March 2016.

**Figure 8**

West Midlands' devolution deal is based on a new combined authority with a complex geographical and administrative configuration



Source: National Audit Office analysis of West Midlands Devolution Deal, November 2015

**3.21** As devolution deals extend to more complex geographical areas, including two tier administrations, it will become more important to establish clear arrangements around administration, governance and accountability.<sup>22</sup> The expansion of devolution deals could encourage reshaping of existing boundary configurations. The Cities and Local Government Devolution Act 2016 gives the Secretary of State greater flexibility and influence when considering whether to seek parliamentary approval for requests from local areas, including potential new devolution deal areas, to alter their governance and geographies.

**3.22** The coherence between the proposed administrative arrangements of local areas that are subject to the devolution deals, and that of other linked policies is not yet clear. Government will need to manage the risk that unaligned geographical configurations might result in conflicting local priorities and constrain decision-making. For example, local NHS bodies are undertaking planning to support the NHS Five-Year Forward View. The six national NHS bodies responsible for planning guidance have asked areas to define their own local health economies and to consider devolution deals while doing so. In a context where geographical configurations for devolution proposals have yet to be resolved in many areas, it isn't yet clear how these two processes will align.<sup>23</sup> Similarly, DWP is currently reconsidering contract package area boundaries for the new Work and Health Programme, which is due to begin in 2017. For devolution deals with employment support elements, DWP is taking account of proposals from combined authorities on contract package area geography. However, once contract package areas have been defined, the scope to take account of the geographies of any future devolution deals will be limited.

### **Resource sustainability**

**3.23** Paragraphs 1.13 to 1.22 notes that central government has not yet set out the full financial implications of the devolution deals announced so far. In addition, the deals have been agreed in a financial climate of considerable uncertainty, following recent announcements in the 2015 Spending Review and the 2016-17 Local Government Finance Settlement. This section considers some of the resource challenges and issues to consider for both central and local government.

#### Capacity in central government

**3.24** In central government, the departments that will be essential to making devolution deals work effectively are among those facing the biggest spending reductions between 2015-16 and 2020-21. Administrative spending reductions in real terms in this period are 30% in the Department for Communities and Local Government, 28% in HM Treasury, and 17% in the Department for Business, Innovation & Skills.<sup>24</sup>

<sup>22</sup> Local government in England operates under either a one tier system—unitary authorities, metropolitan districts and London boroughs—or a two tier system—county and district councils.

<sup>23</sup> NHS England, NHS Improvement, Care Quality Commission, Health Education England, National Institute of Health and Care Excellence, and Public Health England, *Delivering the Forward View: NHS planning guidance 2016/17 – 2020/21*, December 2015.

<sup>24</sup> HM Treasury, Spending Review and Autumn Statement 2015, November 2015.

**3.25** The Cities and Local Growth Unit has increased its capacity – currently at 155 full-time equivalent staff – to handle multiple responsibilities including city deals, growth deals and devolution deals. Decentralisation is one of the Department of Communities and Local Government’s four departmental objectives, and it is currently reviewing the resources available to the Cities and Local Growth Unit. HM Treasury has a team of seven staff directly negotiating and supporting devolution deals, with additional support from its departmental spending teams and other specialists.

**3.26** There remain concerns from some local areas we spoke to about central government’s capacity to manage the negotiation and implementation of large numbers of deals simultaneously, with potentially more complex requirements, and whether the Cities and Local Growth Unit would have the influence across government to maintain a sustained commitment from all relevant departments should the current levels of senior political commitment to the devolution agenda decline. Government has recently published Single Departmental Plans, which set out the objectives and priorities for each government department. English devolution is prominent in the plans of HM Treasury, the Department for Communities and Local Government and the Department for Business, Innovation & Skills. In other government departments responsible for functions that are being devolved, there is substantial variation in the extent to which English devolution is prominent in their plans.

#### Local area resources and capacity

**3.27** In local areas, the devolution deals so far have been agreed on the basis that they are fiscally neutral, suggesting that new functions will not be transferred without proportionate funding. However, as noted in paragraphs 1.13 to 1.22, the full financial implications of devolution deals have not yet been confirmed. It is therefore not yet possible to determine the extent to which the commitment to fiscal neutrality will be met, and any impact this will have on the sustainability of either local government resources or other services being devolved.

**3.28** Devolution deals mostly involve adding extra functions and responsibilities to those already undertaken by local public bodies. However, this should not mean that the financial implications of the deals should be considered in isolation from the wider financial position for public services. The theory that supports calls for devolution – that planning and organising services across institutional and geographical boundaries will lead to more integrated and efficient services – also depends on the ongoing sustainability of local organisations that play a role in this integration.

**3.29** Recent reports by the National Audit Office and Committee of Public Accounts have raised concerns about ongoing financial sustainability in a range of local public services that are either included in the deals or instrumental in making them work:

- The government will have reduced its funding to local authorities by 37% in real terms between 2010-11 and 2015-16. This represents a 25% real-terms reduction in local authorities' income once council tax is taken into account.<sup>25</sup> The government announced a four-year Local Government Finance Settlement in February 2016. This represents an 8% real terms reduction in local authorities' income from 2015-16 to 2019-20, taking account of both central government funding and council tax.
- The government has reduced funding by 25% in real terms to police and crime commissioners over the same period.<sup>26</sup>
- In health, in December 2015, we reported that the Department of Health and its arm's-length bodies agreed that there would be a £22 billion gap between resources and patient needs by 2020-21 but it was not clear how the NHS would close this gap.<sup>27</sup> The Department of Health and its arm's-length bodies are taking steps to learn how trusts could reduce costs. For example, the review of operational productivity and performance in acute hospitals, commissioned by the Department, published its final report in February 2016 and made a range of recommendations for improvement.<sup>28</sup>
- By 2015, the decline in the financial health of the further education sector had been quicker than anticipated by colleges' plans, and forecasts prepared by the Skills Funding Agency suggested that without remedial action the number of colleges under strain was set to rise rapidly.<sup>29</sup> The government has set out the national framework for area reviews of the post-16 education and training sector, with the aims of establishing a set of institutions that are financially resilient and able to offer high-quality education and training.

25 Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014.

26 Comptroller and Auditor General, *Financial sustainability of police forces in England and Wales*, Session 2015-16, HC 78, National Audit Office, June 2015.

27 Comptroller and Auditor General, *Sustainability and financial performance of acute hospital trusts*, Session 2015-16, HC 611, National Audit Office, December 2015.

28 An independent review for the Department of Health by Lord Carter of Coles, *Operational productivity and performance in English NHS acute hospitals: Unwarranted variations*, February 2016.

29 Comptroller and Auditor General, *Overseeing financial sustainability in the further education sector*, Session 2015-16, HC 270, National Audit Office, July 2015.



# Appendix One

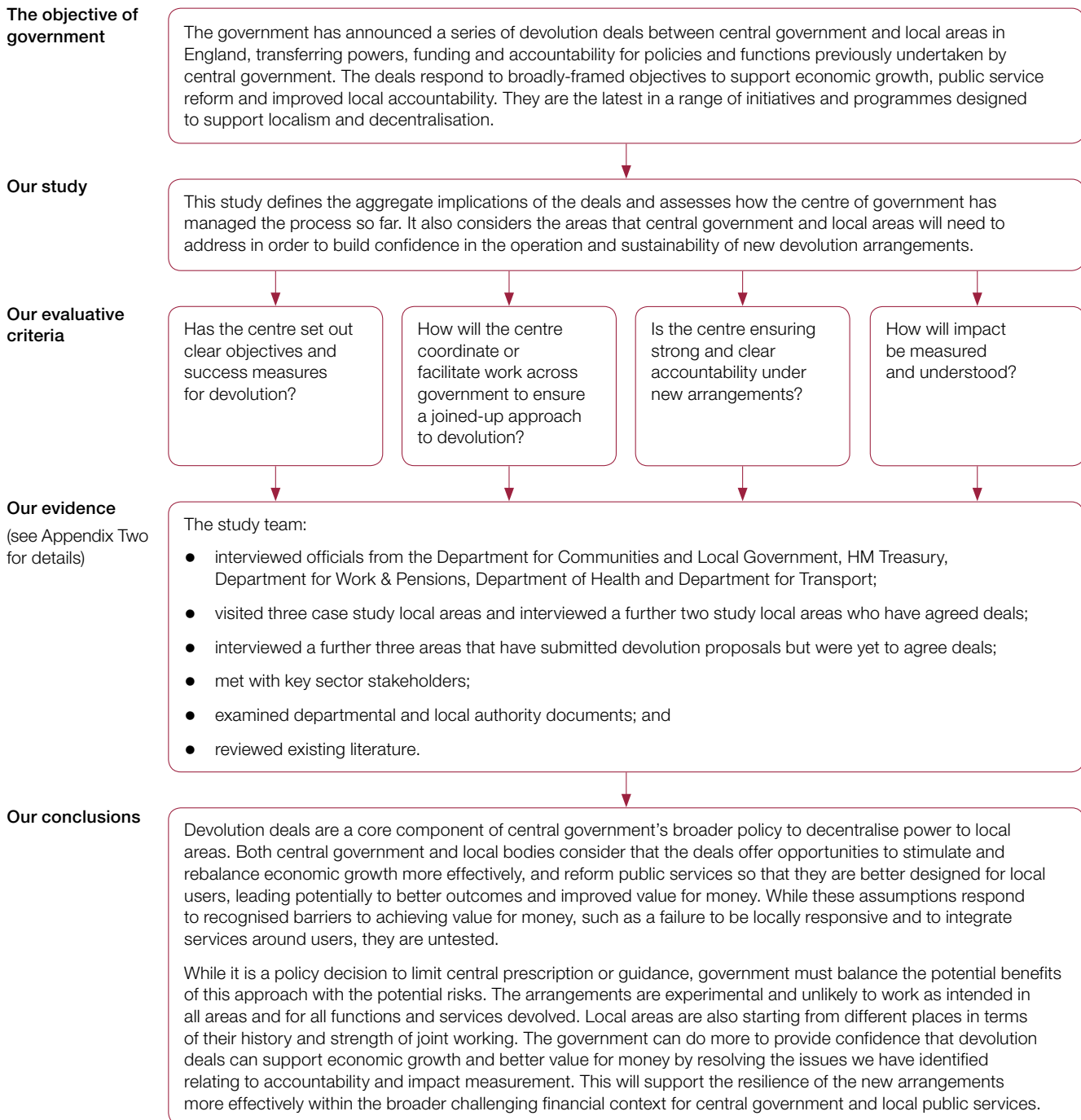
## Our audit approach

**1** This report considered how central government is managing devolution deals being agreed between central and local government. To develop our findings, we examined:

- the English devolution deals agreed so far, including the scale and scope of the agreements;
- the new administrative and governance arrangements that will result from the deals;
- the role of HM Treasury and the Cities and Local Growth Unit in managing the devolution deals process to date; and
- whether there are any unresolved issues around accountability, impact measurement and capacity.

**2** Our audit approach is summarised in **Figure 9** overleaf. Our evidence is described in Appendix Two.

**Figure 9**  
Our audit approach



# Appendix Two

## Our evidence base

**1** Our findings and conclusions on English devolution deals were reached following analysis of evidence collected between October 2015 and March 2016.

### **Interviews with central government**

**2** We conducted semi-structured interviews with officials from HM Treasury and the Department for Communities and Local Government, specifically the Cities and Local Growth Unit, to understand how central government was managing the process of agreeing and implementing devolution deals. This included how well HM Treasury and the Cities and Local Growth Unit have worked together and how they have coordinated effort across other central government departments.

**3** We also interviewed officials at the Department of Health, Department for Work & Pensions and Department for Transport to examine the role those departments are playing in negotiating and implementing devolution proposals and how they are managing future implications for their policy agendas.

### **Consultation**

**4** We met with key sector stakeholders to gather insights on how the devolution deals have been managed to date so far and the potential future benefits and risks. These stakeholders included the Local Government Association, the Centre for Public Scrutiny and the Institute for Government.

### **Interviews with local government**

**5** We carried out semi-structured interviews with eight local areas in order to examine the relationship between the local authorities and central government, both in the initial negotiations and when discussing implementation. We interviewed senior officials from combined authorities, local authorities of the existing or proposed combined authorities and Local Enterprise Partnerships (LEPs).

**6** The officials we spoke to were responsible for both formulating and negotiating the devolution agreements and, where applicable, also planning their implementation. We also discussed potential implications for scrutiny and performance management, and any current proposals for reviewing and redesigning these arrangements.

7 We visited three case study areas, and interviewed a further two areas, that had agreed devolution agreements. These were:

- Greater Manchester Combined Authority, Manchester City Council and Greater Manchester LEP;
- Cornwall Council and Cornwall LEP;
- Sheffield City Region Combined Authority and Sheffield City Council;
- Greater Birmingham and Solihull LEP on behalf of the West Midlands deal; and
- Newcastle City Council on behalf of the North East deal.

8 We interviewed a further three local authorities areas that have played a lead role in submitted devolution proposals but were yet to agree deals at the time we spoke to them. These were:

- Gloucestershire County Council;
- Hampshire County Council; and
- Lincolnshire County Council

### **Document review**

9 We examined documentation from HM Treasury and the Cities and Local Growth Unit, including project management documents tracking progress in negotiating and implementing devolution deals and guidance to officials on scrutinising and reviewing devolution proposals.

10 We reviewed associated local authority documents, including appraisals of existing scrutiny arrangements.

11 We also reviewed published material on devolution, including the devolution agreements and associated announcements, think tank publications (for example from the Centre for Public Scrutiny) and academic research.

- We have drawn on our value for money reports, and subsequent Committee of Public Accounts reports and Treasury Minutes which examine recent localism initiatives and assurance over public funds. These include: *Local Enterprise Partnerships*;<sup>30</sup> *Accountability for taxpayers' money*;<sup>31</sup> *Devolving responsibilities to cities in England*;<sup>32</sup> *Financial sustainability of local authorities 2014*;<sup>33</sup> *Local government funding: Assurance to Parliament*;<sup>34</sup> and *Integration across government*.<sup>35</sup>

30 Comptroller and Auditor General, *Local Enterprise Partnerships*, Session 2015-16, HC 887, National Audit Office, March 2016.

31 Comptroller and Auditor General, *Accountability for taxpayers' money*, Session 2015-16, HC 849, National Audit Office, February 2016.

32 Comptroller and Auditor General, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Session 2015-16, HC 266, National Audit Office, July 2015.

33 Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014.

34 Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014.

35 Comptroller and Auditor General, *Integration across government*, Session 2012-13, HC 1041, National Audit Office, March 2013.

# Appendix Three

## Services and functions included in devolution deals

	Cornwall	East Anglia	Greater Lincolnshire	Greater Manchester	Liverpool City Region	North East	Sheffield City Region	Tees Valley	West Midlands	West of England
<b>Transport</b>										
Bus Franchising	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Smart ticketing	✓	✓	✓	✓	✓	✓	✓		✓	✓
Rail		✓		✓	✓	✓		✓	✓	✓
Roads		✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Housing and public assets</b>										
Spatial planning		✓	✓	✓	✓	✓	✓	✓	✓	✓
Land Disposal and utilisation	✓	✓	✓	✓	✓	✓	✓		✓	✓
Mayoral or Combined Authority Development Corporations		✓	✓	✓	✓		✓	✓	✓	✓
Housing Investment fund				✓	✓		✓	✓	✓	
<b>Further education and skills</b>										
Redesign of 16+ further education system	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Apprenticeship grant for employers		✓	✓	✓	✓					✓
Early years pilot				✓						
19+ skills funding	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Employment Support</b>										
Work and Health Programme Joint Commissioning		✓		✓	✓	✓	✓	✓	✓	✓
Work and Health Programme pilot			✓	✓	✓		✓			✓
Universal Credit Pilot		✓								

*continued overleaf*

	Cornwall	East Anglia	Greater Lincolnshire	Greater Manchester	Liverpool City Region	North East	Sheffield City Region	Tees Valley	West Midlands	West of England
<b>Business support</b>										
Growth Hub	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Productivity Commission		✓								
Manufacturing advice				✓			✓		✓	
Export advice (UK Trade & Industry)		✓	✓	✓	✓	✓	✓	✓	✓	✓
HMRC customs support					✓			✓		
<b>Health and social care</b>										
Integration of health and social care	✓	✓	✓	✓	✓					
Local commission on health needs						✓			✓	
<b>Police and Fire services</b>										
Mayor takes on police and fire services			✓	✓					✓	
<b>Criminal Justice System</b>										
Commissioning of local criminal justice services			✓	✓	✓					
Youth Justice			✓	✓					✓	
<b>Water and coastal management</b>										
Integration of flood defence and water/coastal management		✓	✓							

✓ Commitments included in the devolution deal

✓ Areas for further exploration

#### Notes

- 1 The Apprenticeship Grant for Employers is included in devolution deals, but some responsibility was already devolved to Greater Manchester and the Sheffield City Region in 2014.
- 2 Redesign of the 16+ further education system will be applied to all areas in England by 2017 following Area Reviews, which are designed to ensure sustainable high-quality further education provision that meets the needs of local areas.

Source: National Audit Office analysis of devolution deal documents.

# Appendix Four

## Sheffield City Region devolution deal

**Figure 10** on pages 46 and 47 provides an example of the core features of a devolution deal, setting out details from the Sheffield City Region devolution deal, announced in October 2015.<sup>36</sup>

<sup>36</sup> Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/466616/Sheffield\\_devolution\\_deal\\_October\\_2015\\_with\\_signatures.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/466616/Sheffield_devolution_deal_October_2015_with_signatures.pdf)

**Figure 10**  
Sheffield City Region devolution deal

<p><b>Transport</b></p> <p><b>Transport</b></p> <p>The Mayor will be responsible for:</p> <ul style="list-style-type: none"> <li>● a devolved and consolidated local transport budget including all relevant devolved highways funding and a multi-year settlement; and</li> <li>● franchising of the bus service, which will support the introduction of integrated smart ticketing across all modes of transport.</li> </ul> <p>The government maintains commitments to:</p> <ul style="list-style-type: none"> <li>● the development of Phase Two of the High Speed 2 network;</li> <li>● the work of Transport for the North; and</li> <li>● exploring options to give SCR more control over planning and delivery of local transport schemes.</li> </ul> <p><b>Funding:</b> No specific additional funding is devolved but can draw on Additional Investment Fund:</p> <ul style="list-style-type: none"> <li>● The Department for Transport agreed a 10-year settlement with Sheffield City Region as part of its City Deal in 2012.</li> <li>● Consolidated local transport budgets are already devolved to local authorities.</li> </ul>	<p><b>Housing and Planning</b></p> <p><b>Planning</b></p> <p>SCR will:</p> <ul style="list-style-type: none"> <li>● create a spatial framework for managing planning across the city region and supplementary planning documents;</li> <li>● create a Mayoral Development Corporation to support delivery on complex strategic sites; and</li> <li>● work with government to support the operation of the Joint Assets Board for better coordination of asset sales.</li> </ul> <p><b>Funding:</b> No funding is devolved.</p> <p><b>Housing</b></p> <p>SCR will:</p> <ul style="list-style-type: none"> <li>● discuss with government the devolution of housing loan funds.</li> </ul> <p><b>Funding:</b> No specific funding amount is specified, or a time frame set for possible devolution, but can draw on Additional Investment Fund.</p>
<p><b>Investment Funding</b></p> <p><b>Additional Investment Fund</b></p> <p>Additional devolved funding which will form part of and capitalise a SCR single capital pot to invest in local economic growth.</p> <p><b>Funding:</b> additional £30 million per annum of capital (60%) and revenue (40%) funding for 30 years.</p> <p><b>Existing funding</b></p> <p>Government will work with SCR to agree a single pot for SCR to invest in its economic growth. This pot will comprise a flexible, multi-year settlement and will cover a range of yet to be determined existing funding streams</p> <p><b>Funding:</b> No funding amount is specified.</p> <p><b>European funding</b></p> <p>The government commits to working with SCR to achieve Intermediate Body status for European funding.</p> <p><b>Funding:</b> No funding is devolved but responsibility for allocating funds would transfer to SCR.</p>	

**Note**

1 SCR = Sheffield City Region Combined Authority; DWP = Department for Work & Pensions.

Source: National Audit Office analysis of Sheffield City Region devolution deal, October 2015



**Business Support**

**Trade and Investment**

The government commits to working with SCR on a range of support including:

- co-location and working with UK Trade & Investment;
- developing an export plan; and
- sharing relevant trade statistics data.

**Funding:** No funding is devolved.

**Business Growth and Support**

The government and SCR commit to:

- develop a devolved approach to the delivery of the national business support programmes from April 2017; and
- agree a joint programme for the commercial roll-out of ultra-fast broadband.

**Funding:** No funding amount is specified but can draw on Additional Investment Fund.

**Innovation**

The government will support SCR to undertake a Science and Innovation audit and other initiatives to support the Advanced Manufacturing Innovation District.

**Funding:** No funding is devolved.

**Skills**

**Adult Skills Budget (19+)**

Greater involvement in commissioning starting from 2016-17.

Fully devolved budgets from 2018/19 subject to local readiness.

**Funding:** No funding amount is specified. A funding formula for calculating the future grant size will take in a range of factors.

**Skills (16-18)**

SCR will:

- chair the Area Based Review of post-16 education;
- work with local stakeholders to publish a local skills strategy; and
- co-design with government the provision of career advice to meet local needs.

**Funding:** No funding is devolved.

**Employment Support**

**Co-design of Employment Support**

Co-design with DWP future employment support for hard-to-help claimants from 2017.

DWP sets the performance framework; SCR has 'some flexibility' to determine some local outcomes.

If employment support is delivered through a contracted-out programme, SCR will co-commission with DWP:

- SCR involved in tender evaluation.
- DWP sets out contracting arrangements and providers solely accountable to DWP.

**Funding:** No funding is devolved. DWP continues to set the funding envelope.

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