National Audit Office

Report
by the Comptroller
and Auditor General

Devolving responsibilities to cities in England: Wave 1 City Deals

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Summary

1 Cities are important for economic growth. The government estimates that, in England, 74% of the population live in cities and 78% of jobs are in cities. Since 2010, the government has aimed to create economic growth by shifting powers to local leaders and businesses, particularly in cities.

2 The government announced its plan to negotiate 'City Deals' with local leaders in its 2011 paper, *Unlocking growth in cities*.[1] It aimed to make deals that empowered cities to boost local economic growth. In 2012, the government signed the first 8 City Deals. Known as Wave 1, the deals covered England's 'core' cities – the cities at the centre of the 8 economically largest areas in England, outside London (Figure 1 on page 5). In 2014, the 8 cities and their wider regions had a combined population of over 12.7 million. The deals were individual to each city and covered a range of policies, such as transport, housing and skills.

3 Promoting greater joint working between central and local government is not a new idea. In recent years, for example, local area agreements and multi-area agreements were intended to help areas focus on an agreed set of priority outcomes. City Deals, however, were a new way of working. They provided local places with a chance to set out their own priorities and the negotiations allowed local leaders to explain their growth priorities directly to senior government decision-makers. In response, the government committed to removing barriers to cities' growth plans by providing funding and devolving specific decisions. The cities were primarily responsible for then implementing programmes agreed in the deals, with government support.

4 In total, the government has committed up to £2.3 billion to around 40 programmes in the deals, spread over some 30 years. The government expected almost all of this funding to be capital, for local authorities to invest in assets such as buildings and roads. The government expected local authorities and their partners to use existing resources to manage the deals' programmes. It also asked cities to set out robust accountability and decision-making structures to manage the deals.

1 HM Government, *Unlocking growth in cities*, December 2011.

5 The Cities Policy Unit (the Unit) negotiated the scope and objectives of the deals with the cities. The Unit was based in the Cabinet Office and also included officials from the Department for Communities and Local Government and the Department for Business, Innovation & Skills. It oversaw progress in implementing the deals' programmes, which relied mainly on direct contact between the cities and other departments. In early 2014, the Unit became part of the Cities and Local Growth Unit, a Cabinet Office, Department for Communities and Local Government and Department for Business, Innovation & Skills team, which coordinates the government's input to local growth policies. Altogether, 8 departments have a significant role in implementing the deals by providing additional funding or support. The Department for Communities and Local Government accounting officer is accountable overall for the deals.

6 Wave 1 City Deals were the first in a line of government deals designed to shift responsibility for creating local growth to local leaders and businesses. In 2013 and 2014, the government agreed a second wave of City Deals with 18 more places. New devolution deals with Sheffield, Greater Manchester and Leeds followed in 2014 and early 2015, providing more flexibilities than the City Deals. The government also made Growth Deals with England's 39 Local Enterprise Partnerships (LEPs), worth £2 billion in 2015-16. LEPs are partnerships of local businesses and civic leaders that lead on growth locally.

7 More recently, the government has indicated its intention to devolve responsibility for more public services. In February 2015, the government announced that local authorities and clinical commissioning groups in Greater Manchester would take control of £6 billion in local healthcare funding from April 2016. In May 2015, the first Queen's Speech of the new Parliament announced the government's intention to introduce a Cities and Local Government Devolution Bill, providing for the devolution of powers to cities with elected metro mayors.

Scope of our report

8 We reviewed Wave 1 City Deals' progress in the context of government's objective to empower local leaders to create local economic growth. In carrying out this work, we were mindful that the deals were a new way of working, designed to tackle specific local barriers to growth. We have assessed their progress in order to highlight lessons that are relevant to the other deals that followed – and to further initiatives the government is implementing, as part of its Cities and Local Government Devolution Bill. We did not audit the deals or cities' management of the deals' programmes. We did not rank the deals because each is unique to the relevant city's context and the nature of its agreement with the government. In many cases, the programmes are at a very early stage of implementation so it is too early to conclude on their overall impact. We did, however, discuss with cities the key challenges and success factors in implementing the programmes.

9 Our report covers:

- the purpose and design of the deals (Part One);
- the impact of the deals on local empowerment (Part Two); and
- the implementation and impact of the deals on growth (Part Three).

Our approach

10 We consulted the cities to understand the local strategic context for their deals. We also reviewed a small sample of the programmes in each deal, to understand the practical challenges involved and lessons learned from implementing them. We based our review on previous National Audit Office work and evidence of good practice when implementing programmes between central and local government. We also consulted the Unit and the central government departments that provide funding for and sponsor the programmes. Appendix One contains a detailed description of our audit approach.

Key findings

Negotiating the deals and the impact on local empowerment

11 The Unit's approach to the initial negotiations was effective in securing the cities' commitment to the Wave 1 City Deals. The Unit provided a single, coherent point of contact in government, working with the eight cities to develop their proposals. It then helped the cities to secure funding and support from other departments. The Unit helped cities cut through the complexities of central government and access decision-makers directly. This helped cities agree deals aligned to their ambition and local priorities (paragraphs 1.6 to 1.21).

12 The deals have been an important catalyst for cities to develop their capacity to manage devolved funding and responsibilities. In response to the prospect of receiving new power and responsibility tailored to local challenges, four of the cities have since established combined authorities. These bodies make decisions on economic development and regeneration issues that go beyond local authority boundaries and affect entire city regions. In most cities, the deals have led to local stakeholders agreeing shared growth objectives and refining how they present these to the government. Some cities have developed single appraisal frameworks that help them prioritise capital investment against those objectives. Three, Greater Manchester, Leeds and Sheffield, have all of these arrangements in place. The only formal condition for further devolution the government has identified so far is that cities need to elect a 'metro-wide mayor', which the Chancellor of the Exchequer announced in May 2015 (paragraphs 2.3 to 2.11).

13 **The government and the cities are providing the capacity and capability to manage the deals from existing resources.** The cities need to access skills, such as forecasting and modelling and also local knowledge, to maximise the impact on local growth of their decisions. City Deals did not include any general funding to support additional management capacity. The Unit expects cities to pool their resources to manage deals at a city-region level, consolidating people and skills across several local authorities. It is not clear, however, whether this approach is sustainable in the context of wider reductions in the government's funding for local authorities. Departments' resource constraints have impacted on the government's capacity to make bespoke, wide-ranging deals with more places (paragraphs 2.12 to 2.14).

Implementing the deals and measuring their impact

14 **There have been early impacts from some of the individual programmes agreed in the deals.** After agreeing the deals, cities and the government conducted more detailed negotiations about how to fund the programmes within the deal. Some of the programmes are about long-term capital investment. It will take time for some of these programmes to achieve their full impact. Others, covering issues like skills and training, can move ahead more quickly. Importantly, implementation also requires both sides to agree on how to fund the programme. We saw examples of programmes that have moved ahead faster where both sides agreed early on a funding mechanism that supports the cities' objectives and allows departmental accounting officers to provide assurance to Parliament on regularity and value for money. Government departments were able to support some cities' programmes through existing funding mechanisms. For example, the Department for Business, Innovation & Skills committed to providing £8 million through its existing grant-management processes for Birmingham to build its Institute of Translational Medicine (paragraphs 3.10 to 3.12, Figure 8).

15 **It has taken cities and departments longer to implement some programmes that required more innovative funding or assurance mechanisms.** For example, Greater Manchester's proposed 'earn back' deal required HM Treasury to calculate the extra tax revenues generated by local investment. The city and HM Treasury could not agree, however, how they would measure this in a way that would provide sufficient certainty and control over future funding levels. It was autumn 2014 before HM Treasury and Greater Manchester agreed a simpler arrangement that provides a capital grant, subject to the city proving the impact of its investment (paragraph 3.13, Figure 9).

16 **The Unit acknowledges that involving departmental officials responsible for specific programmes and funding streams earlier could avoid similar delays in the future.** The Unit prioritised agreeing the deals and setting out high level ambitions and commitments in a short time frame. This meant it did not consult with all the relevant departmental officials before ministers made those commitments. Some of the practical issues around funding and assurance were not considered until after the deals had been signed. The Unit acknowledges that early consultation with relevant experts would be beneficial, especially for more innovative proposals. It aimed to incorporate this into its approach to Wave 2 City Deals and Growth Deals (paragraphs 3.5 to 3.9, Figure 7).

17 **The government and cities continue to find it difficult to know what works best in boosting local growth without a robust and shared evaluation approach.** While some programmes have had early impacts, evaluating the effect of longer-term programmes in the City Deals on local economic growth is challenging. This is because the impacts occur over a long time and because it is difficult to assess what would have happened without the deals. The government and the cities could have worked together in a more structured way to agree a consistent and proportionate approach to evaluating the deals' impact. The cities have developed methods for monitoring the impacts of some programmes, but there is no consistent methodology or shared set of definitions around key measures such as jobs. The Unit does not have a plan for using this information to support cities and other local areas focus on the interventions that provide the best value for money. In developing its approach to evaluating Growth Deals, the government has developed a common set of measures that it expects LEPs to report against. The Unit acknowledges, however, that more needs to be done to create a consistent reporting and monitoring framework across local growth initiatives and to ensure the impact of programmes is evaluated effectively (paragraphs 3.15 to 3.23).

Conclusion

18 City Deals demonstrate a new way of working between central and local government: they enabled cities to present their local economic policies directly to government decision-makers. This was an important catalyst for cities to develop their strategies, capability and capacity to manage devolved funding and increased responsibility.

19 Some programmes in the deals have had an early impact, but there have been delays to some of the programmes that proposed innovative new funding and assurance arrangements. The need to align local decision-making with departments securing assurance has caused challenges for programmes reliant on new funding arrangements. Delivering the deals will require a long-term commitment from government and cities to monitor projects and the deals as a whole. It is too early to say if the deals will have any overall impact on economic growth. Without a shared approach to measuring the impact of the programmes, both sides' understanding of their impact will remain limited. Developing a robust, shared approach to measurement will be key to understanding what initiatives have the biggest impact on growth and therefore provide value for money in a more devolved environment.

Issues to consider

20 The government has set out its ambition to continue devolving responsibility for local growth to cities and other local places. Both the government and local places need to consider how to manage initiatives and funding effectively in this environment. Our review of Wave 1 City Deals highlights particularly that it will be important for government and local places to:

a Think through, from the outset, how the objectives of the deals will be delivered and funded in practice. Under the current government accountability model, this means considering accounting officers' duty to assure Parliament of regularity and value for money. It also means engaging the departmental officials who manage specific funding streams and programmes that might be affected at the same time as securing buy-in from senior officials.

b Building on the approach to monitoring programmes led by LEPs, develop information and evaluation systems that allow the government, cities and other local partners to monitor and evaluate local growth initiatives. These systems should reflect the objectives both sides have agreed and avoid unnecessary ambiguity in how to measure outcomes.

c Develop and safeguard capacity in central and local government to manage, monitor and improve initiatives after the initial negotiations, particularly in the context of funding reductions. Some local areas may need to develop skills such as modelling and forecasting expertise, and develop or maintain coherent growth strategies to guide their decisions.

d Identify and publicise what has worked well in delivering impact relatively quickly in a more devolved environment, as well as considering when devolution might take more time and effort to deliver results on the ground, or might require greater support from the government.

e Consider what local structures and processes support the effective and efficient deal negotiations, and management of devolved powers and funds, alongside any formal prerequisites government stipulates, such as elected metro mayors. These could include local governance, strategy and decision-making processes.