National Audit Office

Report
by the Comptroller
and Auditor General

Devolving responsibilities to cities in England: Wave 1 City Deals

HC 266 SESSION 2015-16 9 JULY 2015

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 810 people. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.15 billion in 2014.

Devolving responsibilities to cities in England: Wave 1 City Deals

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 7 July 2015

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

6 July 2015

HC 266 | £10.00

This report examines the progress of Wave 1 City Deals in the context of the government's objective to empower local leaders to create local economic growth.

10763 07/15 NAO

Contents

The National Audit Office study team consisted of:
Simon Bittlestone, Jordan Fung, Andy Nichols, Declan Smyth and Zaina Steityeh, under the direction of Aileen Murphie

This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

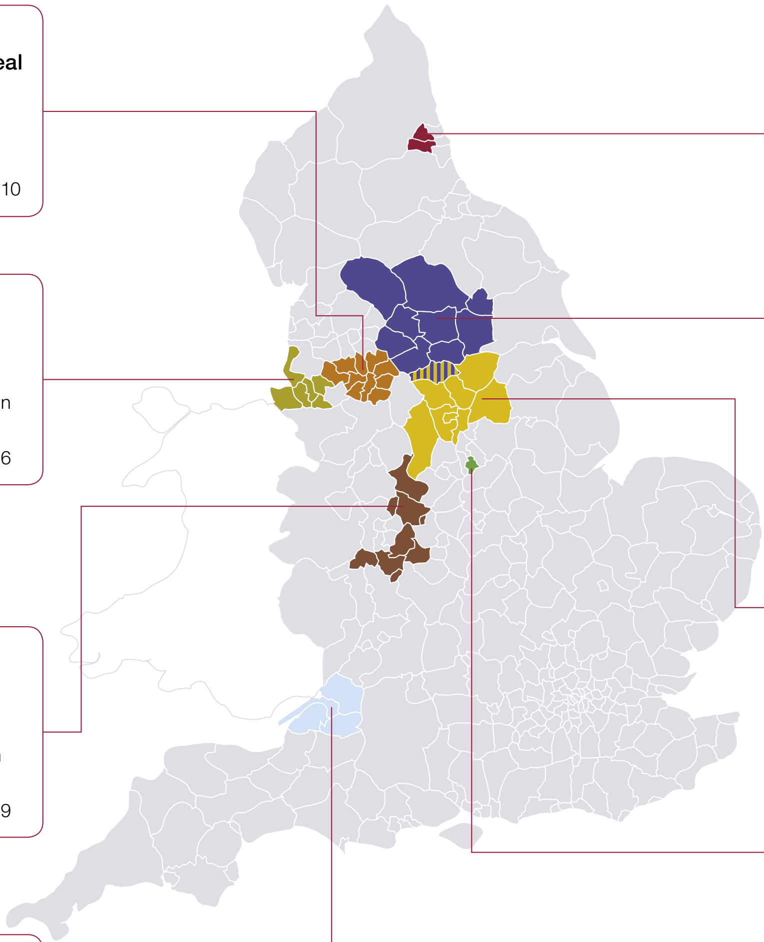
Key facts

8	£2.3bn	12.7m
cities in Wave 1 City Deals	maximum amount government departments have committed to Wave 1 deals over 30 years	people living in the local authorities covered by Wave 1 deals, in 2014

£900 million	potential total value of the government's commitment to Manchester's 'earn back' arrangement, the largest programme in Wave 1
£2.9 billion	total capital expenditure of the local authorities involved in Wave 1, 2013-14
8	government departments that committed funding to Wave 1 deals
7	months between the government announcing the Wave 1 deals and signing them with the cities
37%	average reduction in central government funding for local authorities between 2010-11 and 2015-16
4	city regions have established combined authorities since agreeing a City Deal

Figure 1

The eight cities with Wave One City Deals



Greater Manchester Combined Authority Deal

Core city: Manchester

Led by: Greater Manchester Combined Authority

Number of local authorities: 10

Liverpool City Region Deal

Core city: Liverpool

Led by: Liverpool City Region Combined Authority

Number of local authorities: 6

Greater Birmingham City Deal

Core city: Birmingham

Led by: Greater Birmingham and Solihull LEP

Number of local authorities: 9

Bristol and West of England City Region Deal

Core city: Bristol

Led by: West of England LEP

Number of local authorities: 4

Newcastle City Deal

Core city: Newcastle

Led by: North East Combined Authority

Number of local authorities: 2

Leeds City Region Deal

Core city: Leeds

Led by: West Yorkshire Combined Authority

Number of local authorities: 10

Sheffield City Region Deal

Core city: Sheffield

Led by: Sheffield City Region Combined Authority)

Number of local authorities: 9

Nottingham City Deal

Core city: Nottingham

Led by: Nottingham City Council

Number of local authorities: 1

Notes

1 The City Deals in this report are referred to by the name of the core city. A list of the local authorities and Local Enterprise Partnerships (LEPs) involved is at Appendix Three.

2 In 2012, the government signed the Liverpool City Deal with Liverpool City Council, and a separate deal with Liverpool City Region. This report focuses on the Liverpool City Region Deal which will be referred to by the name of the core city (Liverpool).

3 Newcastle's City Deal focused largely on activities in Newcastle and Gateshead. The deal was supported by the North East LEP and some programmes cover the wider LEP geography, which includes seven local authorities in the North East.

4 LEP: Local Enterprise Partnership, partnerships of local businesses and civic leaders that lead on growth locally.

5 One local authority – Barnsley Metropolitan Borough Council – is included in both the Sheffield City Region Deal and the Leeds City Region Deal.

Source: National Audit Office analysis

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.

Part One

Purpose and design

Objectives of City Deals

1.1 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.[2] Since 2010, the government has increasingly devolved funding and decision-making to local civic leaders and businesses, particularly in cities. It expects that giving more power to local leaders will stimulate growth.

1.2 In its 2011 paper, *Unlocking growth in cities*, the government announced its intention to make a series of 'City Deals' with local leaders.[3] In 2012, the government signed Wave 1 City Deals with the eight cities at the centre of the economically largest areas in England, outside London. The local authorities in the eight cities had a history of working together as part of the 'core cities group'.[4] In 2014, the eight cities and their wider regions had a combined population of over 12.7 million.

1.3 The government set three objectives for Wave 1 City Deals:

- to give cities the powers and tools they need to drive local economic growth;
- to unlock projects or initiatives that will boost their economies; and
- to strengthen the governance arrangements of each city.[5]

1.4 Wave 1 City Deals marked a new approach to how the government devolves powers to places. The deals enabled local leaders to negotiate bespoke arrangements with government departments according to their local growth priorities. Alongside the objectives set out above, the government intended to use Wave 1 City Deals to learn what works when taking this approach and apply this in later deals.

2 HM Government, *Unlocking growth in cities*, December 2011, p. 1.
3 HM Government, *Unlocking growth in cities*, December 2011.
4 Birmingham, Bristol, Manchester, Leeds, Liverpool, Newcastle, Nottingham and Sheffield.
5 HM Government, *Unlocking growth in cities: City Deals – wave 1*, July 2012, p. 1.

Other deals

1.5 This report focuses mainly on the Wave 1 City Deals. These deals are the most developed in terms of planning and implementing the government's policies to devolve funding and responsibility. These deals should therefore hold the most lessons for subsequent, similar initiatives (**Figure 2** overleaf). The government has since made:

- City Deals with 18 more places in England in 2013 and 2014, known as Wave 2.[6]
- 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 are meant to provide the vision and leadership to drive growth locally.
- 'Devolution Deals' with Greater Manchester, Sheffield City Region and Leeds City Region in late 2014 and early 2015. These deals propose additional local responsibilities than the existing City Deals.

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.

Negotiation

Central government

1.6 The Cities Policy Unit (the Unit) coordinated the government's input into the deal negotiations. The Unit was based in the Cabinet Office and had support from officials in the Department for Communities and Local Government and the Department for Business, Innovation & Skills.[7] The Unit aimed to be a single, coherent point of contact, helping cities negotiate deals with several government departments. Its long-term objective was to enable cities to negotiate deals directly with other departments.

1.7 The Unit appointed policy leads to negotiate with the cities, and other policy leads to coordinate the other government departments involved. Later, government departments engaged directly with cities to agree funding and monitoring arrangements on certain programmes in the deals. For many programmes, departments' arm's-length bodies had a role, such as the Skills Funding Agency on skills and apprenticeship programmes. The Unit oversaw the progress of each programme against implementation plans, which specified actions for cities, departments, agencies and other stakeholders.

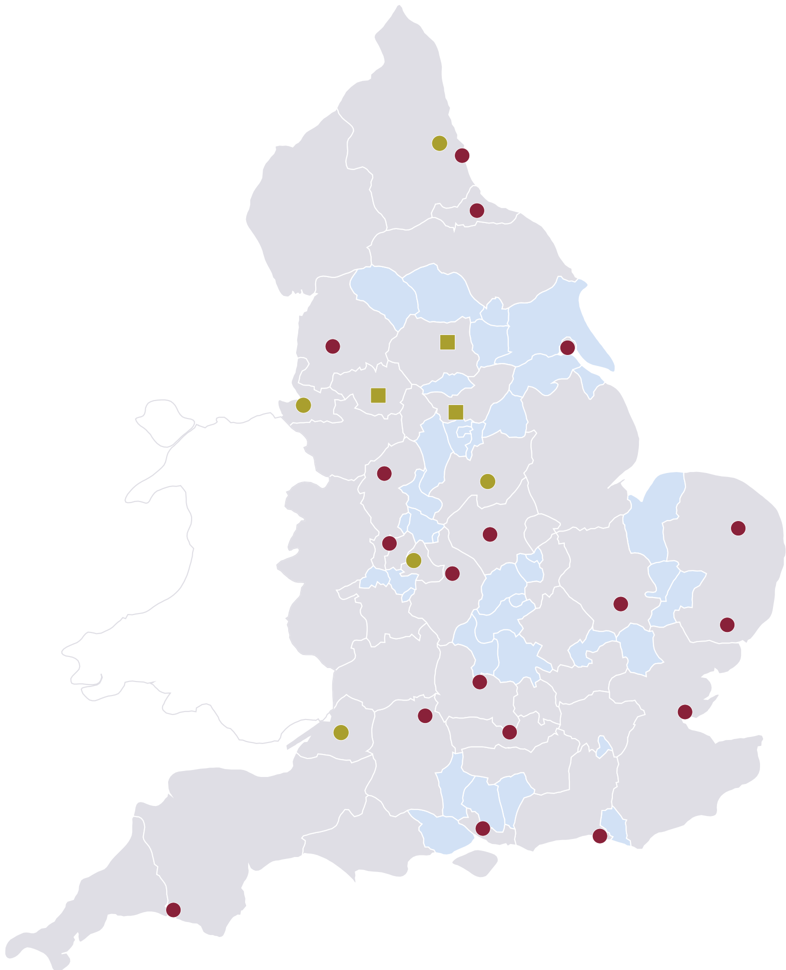
6 The Unit negotiated Wave 2 deals with 20 areas. Only 18 were subsequently signed in 2013 and 2014. Around the same time, it also made a deal with Glasgow and Clyde Valley in Scotland.

7 In early 2014, the Unit became part of the Cities and Local Growth Unit, a joint team of officials from the Cabinet Office, the Department for Communities and Local Government and the Department for Business, Innovation & Skills.

Figure 2

The government's deals for growth

Wave 1 City Deals were the first in a series of government initiatives to devolve responsibility for growth



Wave 2 City Deals signed with 18 cities

Up to £1.5 billion

Devolution Deal signed with Leeds City Region

2012	2013	2014	2015	2016

Wave 1 City Deals signed with 8 cities

Around £2.3 billion over 30 years

Devolution Deals signed with Greater Manchester and Sheffield City Region

Growth Deals

Signed with 39 Local Enterprise Partnerships £2 billion for 2015-16

Notes

1 Boundaries indicate LEP boundaries.

2 Areas shaded in blue indicate overlapping LEP boundaries.

Source: National Audit Office analysis

1.8 The cities viewed the Unit's role positively, overall. They considered that the Unit helped them make sense of a complex government landscape and also managed discussions with what was often several government departments and agencies.

Cities

1.9 The organisation that negotiated the deals varied from place to place. For example:

- Nottingham City Council negotiated its own deal.
- The Greater Birmingham and Solihull LEP led and implemented Birmingham's Deal.
- Newcastle City Council negotiated its deal, with support from the North East LEP. Some of the deal covered the wider-LEP geography.
- The Greater Manchester Combined Authority and the Greater Manchester LEP negotiated Manchester's Deal. The combined authority leads the deal's implementation. Sheffield and Leeds negotiated city region deals, involving nearby local authorities. New combined authorities now oversee these deals (paragraphs 2.3 to 2.5).

In total, the eight original deals included 50 local authorities (Figure 1).

Design, funding and aspirations

1.10 The resulting deals contained between four and nine tailored programmes. Each programme addresses a specific local priority, such as infrastructure investment, supporting local businesses, creating apprenticeships and housing. Some programmes were an opportunity for the cities to secure government funding or support to add momentum to existing local initiatives (**Figure 3** overleaf).

Programme examples

Skills

1.11 All the deals included a programme on skills. For example, the Department for Business, Innovation & Skills paid Leeds £4.6 million to establish eight new apprenticeship hubs and two Apprenticeship Training Agencies to create a NEET-free city region.[8] Sheffield wanted to ensure its local workforce has the skills local employers need. Its deal included a programme for it to broker apprenticeships with local small and medium-sized enterprises. It has control over £24 million in funding from the Skills Funding Agency, which it receives on a payments-by-result basis for each apprenticeship achieved. It also received £4 million to set up apprenticeship brokerage activity.

8 NEET means 'not in employment, education or training'.

Figure 3
Table of City Deal programmes by theme

	Skills	Housing	Investment/ Funding	Transport	Low-carbon	IT	Business support
Birmingham	✔	✔	✔		✔		
Bristol	✔		✔	✔			✔
Leeds	✔		✔	✔	✔		
Liverpool	✔		✔	✔	✔		
Manchester	✔	✔	✔	✔	✔		✔
Newcastle	✔	✔	✔	✔	✔	✔	
Nottingham	✔		✔	✔	✔	✔	✔
Sheffield	✔		✔	✔	✔		

Notes
1 Some cities have more than one programme within each theme.
2 Some of the deals included other programmes that do not come under any of the categories above, such as Birmingham's Institute of Translational Medicine (see paragraph 1.20).

Source: National Audit Office analysis

Investment and funding

1.12 Sheffield, Liverpool, Leeds, Birmingham and Manchester each proposed to combine government capital funding streams and business rate income in a single investment fund for each city. They intended that this would enable better long-term planning, more local autonomy over investment decisions and more streamlined reporting requirements.

1.13 Manchester's deal featured an 'earn back' initiative, which would incentivise local growth by allowing the combined authority to retain a portion of additional tax revenue generated by its investment.

1.14 Newcastle, Sheffield and Nottingham negotiated tax increment finance schemes. This would enable them, for the first time, to finance investment by borrowing against future, locally generated business rate income.

Business support

1.15 Bristol received £2.3 million from the Department for Business, Innovation & Skills to establish a city-led business growth hub; to bring together advisory and support services for small and medium-sized enterprises. Manchester negotiated an agreement that £4.4 million of its Regional Growth Fund allocation could be used to support its business support programme. This combined a number of services for small businesses and mid-growth start-ups, some of which the North West Regional Development Agency provided previously.

Transport

1.16 Leeds' deal proposed a £1 billion West Yorkshire Plus Transport Fund, consisting of contributions from local authorities in West Yorkshire and York, Growth Deal funding and a ten-year transport funding allocation from the Department for Transport.

1.17 Liverpool's deal focused on developing governance arrangements around existing work to improve the Port of Liverpool and increasing connectivity with rail and highways networks. It also sought to increase certainty over funding by establishing a transport investment fund worth £800 million over ten years, which combines funding from central government and local sources.

Housing

1.18 Newcastle's deal proposed to combine £25 million of local funding with national resources from the Homes and Communities Agency to deliver 15,000 new homes in the city.

Low carbon

1.19 As part of Birmingham's deal, the government committed to providing £3 million, subject to agreement with the Department of Energy & Climate Change. This enabled Birmingham to trial new technologies and engage residents, before implementing measures aimed at reducing domestic energy usage more widely.

Other programmes

1.20 The University of Birmingham and University Hospital Birmingham combined £12 million with £12 million they received from the government to establish a new Institute of Translational Medicine. This would cluster clinical research, trial facilities and academics and expand the city's life science sector.

Government funding for deals

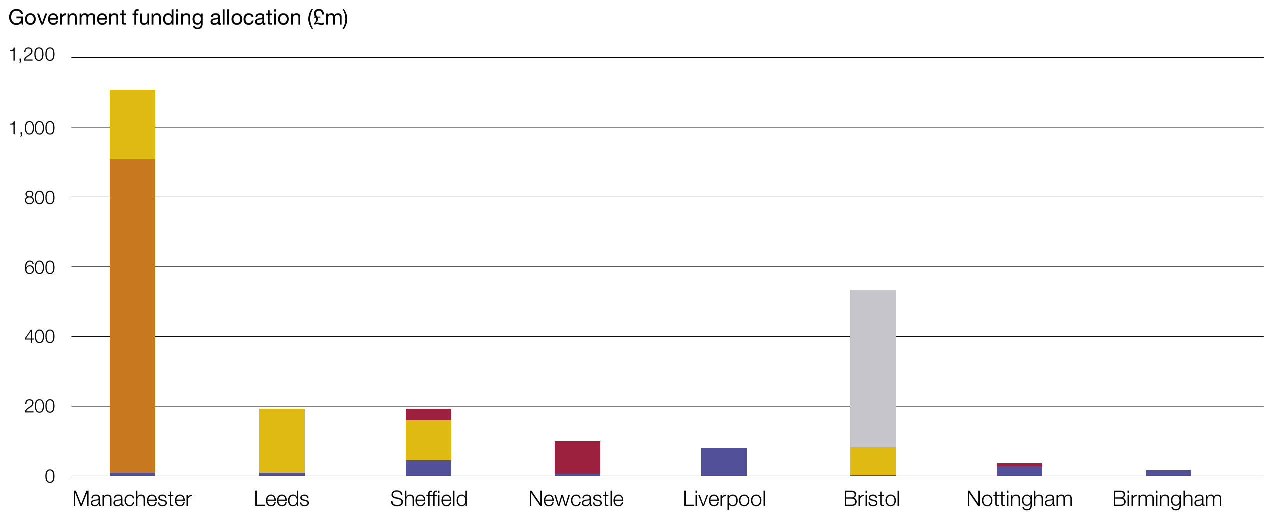
1.21 In total, the Unit calculates that eight government departments have committed around £2.3 billion to the deals (**Figure 4** overleaf). This funding comprises a range of separate grants and is spread over some 30 years. Of the total, the vast majority of funding is for capital investment. The Unit calculates that, at present, £106 million of the government's commitment to the deals is revenue funding.[9] While the government would have paid some of these grants to local bodies anyway, the deals were designed to give cities much greater say in how the money is spent. Greater Manchester's City Deal is the largest in central government funding terms, with the government committing up to £1 billion over 30 years.

9 For up to £750 million of Manchester's 'earn back' the proportion that is revenue will be based on a review every five years.

Figure 4

Government departments' potential funding commitments to the deals

In total, the Unit calculates that eight government departments have committed around £2.3 billion to the deals



	Manachester	Leeds	Sheffield	Newcastle	Liverpool	Bristol	Nottingham	Birmingham	Grand total
Tax increment financing			33	92			8		**133**
Business rates rentention (estimate)						450			**450**
Transport allocation	199	183	114			81			**577**
Earn back	900								**900**
Other	9	10	46	7	82	2	29	16	**200**
Grand total	**1,108**	**193**	**193**	**99**	**82**	**534**	**37**	**16**	**2,260**

Notes

1 Departments fund the City Deals according to the timing of each programme. The longest programme is Manchester's 'earn back', which the government plans to pay over 30 years. The departments committed to paying for most programmes over 10 years or less.

2 Business rate retention (estimate) refers to Bristol's 'growth incentive', for which the government has not limited its funding commitment. A figure of £450 million is used as the midpoint of the range of the Unit's estimate of the government's financial commitment over the programme's 25 years.

3 Funding allocation for Liverpool City Region includes a £75 million grant for the Mayoral Development Corporation in the Liverpool City Deal.

4 This figure includes funding that central government committed to the deals when they were initially agreed in 2012.

5 Figures do not sum exactly because of rounding differences.

Source: National Audit Office analysis of Cities & Local Growth Unit finance document

1.22 The government's financial commitment consists of four types of funding:

- The government committed up to £900 million for Greater Manchester's 'earn back' programme over 30 years. This is the largest single programme in the deals.
- The government enabled four cities to retain a greater proportion of business rates generated locally, which local authorities would normally pass on to the government for it to redistribute. Newcastle, Sheffield and Nottingham's tax increment finance schemes allow each city to retain the business rates growth generated in specific areas, up to a combined total of £133 million over six years. The government agreed Bristol could retain all the business rates growth generated in five 'enterprise areas' in the city region over 25 years. Unlike 'earn back' and the tax increment finance schemes, the government has not limited its financial commitment to this programme, but the Unit expects the government will contribute around £0.5 billion.
- The Department for Transport agreed ten years' of future allocations for major transport projects with Greater Manchester, Leeds, Sheffield and Bristol. It provided four years of allocations for other places, but gave longer allocations to the four cities to enable greater long-term certainty of funding to support confidence in the development and delivery of schemes. This is worth £577 million in total.
- The remaining £300 million of government funding is in the form of various specific grants attached to 20 individual programmes, such as skills programmes and growth hubs. Their value in terms of government commitment ranges between £0.3 million and £75 million. The departments funded these types of projects from existing grants subject to local competition, such as the Regional Growth Fund, or the proceeds of budget underspends.

1.23 Central government committed this funding within the initial deals. In some cases, the deals led to further funding later on, subject to further negotiation, or a business case. For example, the government announced £64 million funding for a transport project in Newcastle in the 2012 Autumn Statement. Newcastle considers it would have been less likely to receive this funding without its City Deal. Similarly, as part of its deal, Leeds agreed in principle with government its West Yorkshire Transport Fund, worth at least £1 billion from a combination of central and local government sources. The precise details of how this would be funded were agreed as part of its growth deal in 2014, with the government committing up to £600 million over 20 years. Like this Fund, many of the deals' other programmes are partly funded by local public or private sector contributions.

1.24 Overall, the government's funding for the deals is relatively small compared to its total funding for local authorities and other bodies such as LEPs and local authorities' total expenditure. For example, the government's funding for local authorities, both capital and revenue, was worth £36.1 billion in 2013-14,[10] while capital expenditure by the local authorities involved in the deals totalled £2.9 billion. In contrast, the Unit expected departments to grant cities £147 million funding attached to their City Deals in the same year. The government expected its funding for the deals to unlock additional contributions from other sources, particularly local authorities and businesses. The deals also include non-financial government commitments, such as enabling better joint working between cities and government agencies.

Deal aspirations

1.25 The Unit can only estimate in broad terms the total potential growth across the deals, based on aspirations that the cities have reported. It estimates that, if cities with the government's support implemented all their programmes successfully, they could create 175,000 jobs and 37,000 apprenticeships.[11] The Unit cannot, however, verify this figure and it does not know how this differs to what cities would have achieved without the deals.

10 Comptroller and Auditor General, *Local government funding: assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014. This figure excludes funding for schools and individuals that passes through local authorities.

11 HM Government, *Unlocking growth in cities: City Deals – wave 1*, July 2012.

Part Two

Impact on local empowerment

2.1 The government intended that City Deals would empower local civic leaders. The Unit did not specify what ‘empowerment’ should look like, or how it would be measured. In line with the Unit’s view of the deals as an experiment for new ways of working, it did not prescribe what arrangements local leaders should make. This makes it difficult to conclude on the success of the deals in terms of the government’s stated objective to create local empowerment.

2.2 We found, however, that the deals have been an important catalyst for cities implementing new governance arrangements, adopting economic growth strategies and increasing their capacity to prioritise spending in a more devolved environment. In this part we:

- set out how the deals contributed to cities’ development of: governance arrangements; growth priorities; and processes to prioritise investment; and
- consider whether central and local government have sufficient capacity and capability to sustain these developments.

Empowering cities

Local governance

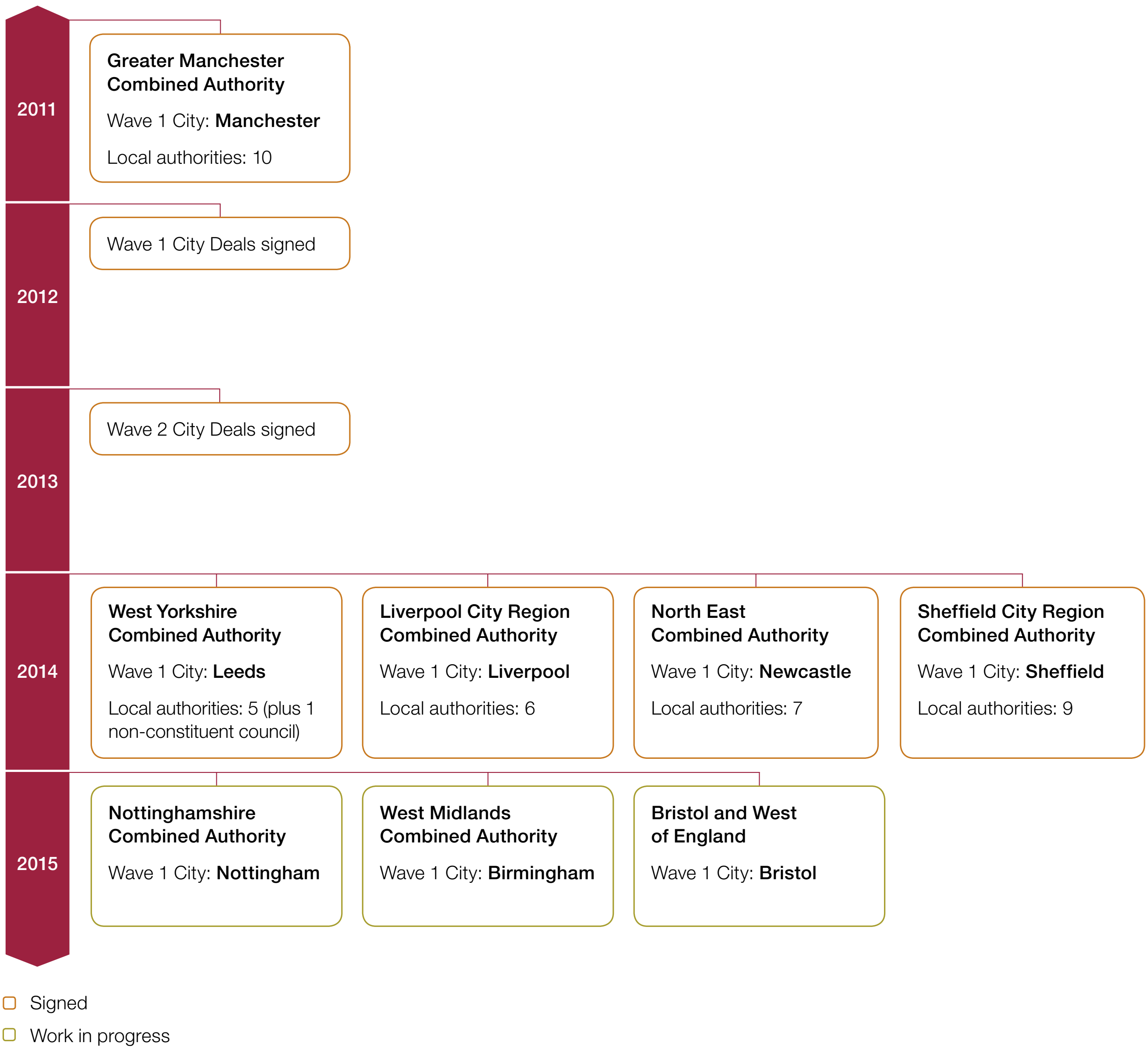
2.3 In return for granting more responsibility, the government asked cities to demonstrate stronger and more accountable governance arrangements for strategic issues that encompass their economic areas, or city regions. This is because enablers of growth often apply across the boundaries of individual local authorities. For example, transport infrastructure enables people to commute from suburbs to city centres where most jobs are concentrated.

2.4 The scope and size of the deals reflected each city’s governance arrangements for their economic area at the time the deals were signed. The government viewed in particular combined authorities as important for strengthening local governance arrangements and signalling increased readiness to manage devolved funding. A combined authority is a legal body made up of a number of local authorities with powers over economic development and regeneration functions. Greater Manchester, which secured the biggest deal in terms of central government funding committed, had already established a combined authority in 2011, which includes ten local authorities.

2.5 The process of making the deals was an important factor in bringing local authorities together around shared priorities for growth, leading to more collaboration. Newcastle, Sheffield and Leeds' deals referred to working towards a combined authority with other authorities in the region, as the vehicle for further devolution. Liverpool told us its City Deal was a catalyst for greater joint working between local authorities in the city region, leading to it establishing a combined authority. Sheffield, Leeds, Liverpool and Newcastle have established combined authorities since making their deals (**Figure 5**).

Figure 5
Developing combined authorities

City Deals prompted the formation of combined authorities to manage deals and oversee local economic development



Source: National Audit Office analysis

Identifying and articulating local growth priorities

2.6 Going through the process of making deals helped the cities to set out their priorities for local growth. Greater Manchester, which had an existing track record of working at the city-region level, based its City Deal proposals on its existing growth and reform plan.[12] Nottingham was in the process of finalising its growth plan at the time of its deal negotiation. It told us the deal helped it to refine its growth priorities. Sheffield and Leeds told us that the process helped them identify flexibilities around funding they already had. They focused on negotiating further responsibility in other areas that would support their growth priorities. In line with local changes to governance, cities with combined authorities have considered the strategic growth priorities encompassing their city region areas.

2.7 Having access to government decision-makers helped cities understand how to articulate local priorities to secure new funding and responsibilities. For example, Liverpool found that negotiating its deal helped it understand better what works when negotiating with government, such as setting out the potential national economic benefits of local investment in transport and logistics.

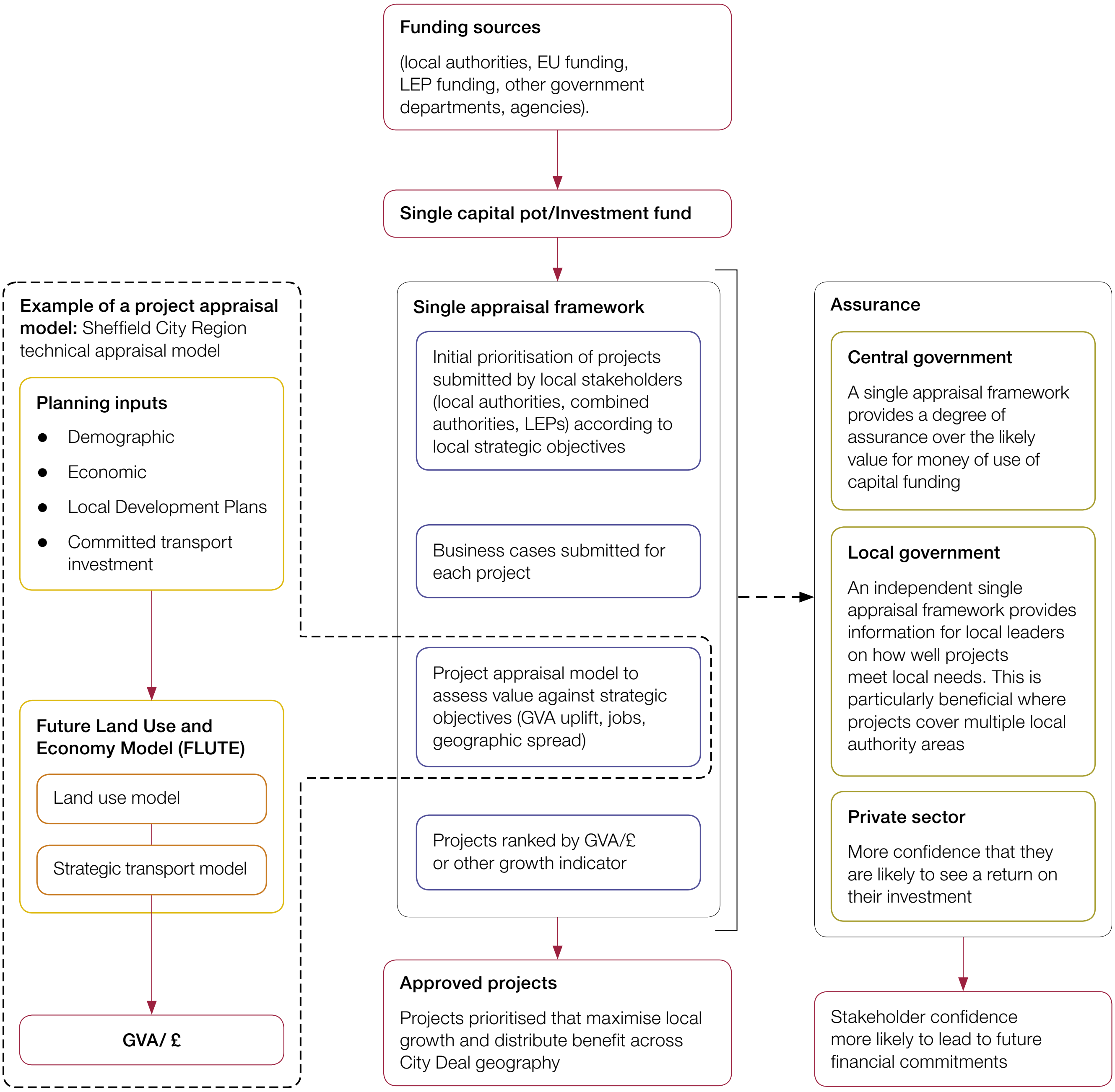
2.8 The government has encouraged places to refine their local priorities over the course of subsequent deals. Through Growth Deals, the government allocated a fixed sum (£2 billion in 2015-16) between the 39 LEPs in England. Each LEP submitted a list of projects in which it would invest Growth Deal funding. The Unit awarded the Growth Deals on a competitive basis according to the strength of each LEP's strategic economic plan.

Appraisal frameworks

2.9 Cities have developed processes and tools to help them prioritise investment according to their strategic objectives. Greater Manchester, Sheffield and Leeds have developed frameworks to assess the costs and benefits of different infrastructure projects. This helps them to prioritise capital investment in line with local strategic growth priorities. These cities plan to combine different sources of capital funding to prioritise investment across different types of scheme, such as transport, housing and business parks. They have developed investment frameworks that attempt to measure relative benefits across a range of schemes. The cities identified a range of potential benefits from this approach (**Figure 6** overleaf).

12 Greater Manchester Combined Authority, Greater Manchester Local Enterprise Partnership and Association of Greater Manchester Authorities, *A plan for growth and reform in Greater Manchester*, March 2014.

Figure 6
Single appraisal frameworks



Note

1 Gross Value Added (GVA) measures the contribution to the economy of each individual producer, industry or sector in the UK. It is used to estimate gross domestic product (GDP).

Source: National Audit Office analysis

2.10 In 2012, we reported how the government was devolving decisions over transport to local transport bodies. The Department for Transport intended these bodies would have prioritisation arrangements that took account of value for money, deliverability and environmental impact.[13] The single appraisal frameworks that cities have implemented following the deals build on the processes that they had in place to prioritise schemes within devolved transport funding.

Devolution deals

2.11 Some cities, such as Greater Manchester, Sheffield and Leeds now have in place a combined authority, defined strategic growth priorities, and a single appraisal framework for prioritising major investment. The government has, since the Wave 1 City Deals, devolved further powers to those cities. The only specific condition on governance that government has set for further devolution, however, was the Chancellor of the Exchequer's announcement in May 2015 that the government will transfer major powers only to those cities who choose to have a directly elected metro-wide mayor.

Capacity and capability to manage programmes

Cities' capacity and capability

2.12 Cities need to sustain and develop their capability and capacity to manage funding and responsibilities government has devolved through City Deals and subsequent policies. For this to happen, local authorities need people with expertise, such as in forecasting and economic modelling and also local knowledge. Local authorities pay for these people through their annual revenue budgets. Where the government is devolving decisions over funding to cities, it also needs to ensure that the bodies responsible have the capability to make decisions that maximise growth. Both cities and central government have so far relied on local authorities and local partners such as businesses and universities, contributing existing resources.

2.13 Some cities told us that wider reductions in the government's funding mean it has been challenging to devote sufficient resources to managing devolved funding effectively. We previously reported that the government's funding to local authorities would fall by 37% in real terms between 2010-11 and 2015-16.[14] The Unit expects local authorities to pool resources in their wider regions to maintain their capacity but has not assessed what efficiencies this generates. The risk of there being insufficient capacity to manage and oversee programmes locally is likely to increase if more funding, or more complex programmes are devolved.

13 Comptroller and Auditor General, *Funding for local transport: an overview*, Session 2012-13, HC 629, National Audit Office, October 2012.

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

Central government's capacity and capability

2.14 The government also needs to ensure it has capacity and capability necessary to make individual deals with places and support their implementation. The Wave 2 deals demonstrated how resource limitations can impact on how the government makes deals with more places. The Unit wanted to ensure that other departments had the capacity to make and implement the deals' programmes effectively despite there being 18 deals in Wave 2, as opposed to eight in Wave 1. It therefore focused on a smaller number of programmes in each area. It also wanted to make deals that it felt were suited to the cities' capacity and ambition to manage devolved funding. It considered that some cities would have required significant central government support to implement deals if they had been as expansive as Wave 1.

Part Three

Implementation and impact on economic growth

3.1 The Wave 1 City Deals each consist of between four and nine separate programmes aimed at achieving local growth. Through these programmes, the cities aim to create new jobs, invest in infrastructure or attract businesses to the area. The programmes vary in size, complexity and government involvement, but all give local leaders additional freedom from national policies. The government is relying on these programmes achieving their objectives to achieve its overall aim of boosting local economic growth through the deals.

3.2 We reviewed the implementation of 23 programmes. We focused primarily on the government's role in setting up and monitoring the results of these programmes. We did not audit in detail cities' local arrangements for managing the individual programmes. We did, however, discuss with cities the key challenges and success factors in implementing them. In our review, we were mindful that the programmes are at differing stages of implementation and operation, reflecting the range of activities included in the deals. For some programmes, the cities are aiming towards long-term capital investment in infrastructure, such as roads and buildings. Setting up these programmes has taken time, and the impact on growth will not be realised for years or even decades. In some other types of programmes, such as investment in skills and business support, cities have been able to make an earlier impact. We identify lessons and issues that take account of this variation, and are relevant to further growth and devolution initiatives the government is implementing. In this part we:

- highlight examples of successes and challenges in implementing the deals' programmes; and
- assess how the Cities and Local Growth Unit (the Unit) is monitoring the programmes' and the deals' overall impact on economic growth.

Implementing the programmes

3.3 To implement the deals' programmes, the cities, the Unit and the government departments involved had to translate the commitments into practical management structures, processes and funding flows. From previous National Audit Office work, we identified two key principles that help to ensure central and local government maximise the benefit of jointly owned programmes. Each programme needs to be:

- **Initiated successfully** objectives should be stated clearly, well communicated and agreed by all the partners involved in implementing the programme. There should be a clear and logical link between the programme's objectives and its funding and delivery mechanisms.
- **Overseen effectively** monitoring and evaluation processes should be embedded in the delivery of programmes, with quantifiable and measurable outcomes to identify problems early and refine the delivery approach. Clear and simple evaluation measures should enable comparison across programmes.

We considered the implementation of the 23 programmes we reviewed against these two principles to identify lessons.

3.4 The key findings and lessons that we have drawn from the programmes we reviewed are:

- When agreeing the deals, the Unit did not always involve people in other departments that would later be integral to programmes' delivery, leading to delays.
- The programmes where cities have achieved an early impact use funding mechanisms that align local objectives with departments' assurance requirements.

Engaging other departments

3.5 The Unit prioritised signing deals with cities within a short time frame to give the policy some initial momentum. It agreed the deals with cities within seven months of the government announcing the policy. The Unit's negotiating position was to support cities' ambitions. It then worked with other departments to agree the funding and reporting arrangements for each programme.

3.6 We have recently reported on the importance of departments considering implementation and operability when developing new programmes. This includes working closely with operational teams to ensure that policy reflects realistic assessments of how things work in practice.[15]

15 Comptroller and Auditor General, *Lessons for major service transformation*, National Audit Office, May 2015.

3.7 The Unit did not, however, engage some of the officials that would need to be involved in implementing programmes when agreeing the deals. The Unit engaged senior officials to secure high-level buy-in from other departments. The discussions did not always involve people that would later be crucial to implementation, such as officials that would approve cities' business cases, or administer funding. There were delays in some programmes where departmental delivery teams were not engaged early enough in the deal negotiations because:

- it was not clear what benefit there would be to the department from the programme;
- the Unit had committed funding for which there were separate competitive bidding criteria;
- the funding department did not consider the programme to be viable once it had carried out due diligence and assurance processes; or
- policy teams did not consider the programmes met the objectives of the departmental grants used to fund them.

This led, in some cases, to delays in implementing programmes or changes that reduced the programmes' predicted impact, or the degree to which the programme matches local ambitions (**Figure 7** overleaf).

3.8 The Unit recognised the limitations of its approach to making the Wave 1 deals. It undertook an exercise to identify lessons in summer 2012, after making the deals. It wanted to improve its approach for Wave 2 and Growth Deals. It concluded that it should engage other departments' policy and delivery teams earlier in the process. However, the Unit also considers there was some value in its approach of agreeing programmes with senior officials first to secure their commitment to innovative programmes. It considers that engaging more widely at an early stage could have reduced the degree to which cities' ambitions could be met.

3.9 Although the Unit's approach to negotiating the deals has led to delays in implementation, it initiated new relationships between cities and departments. Some of the programmes in the deals have progressed as part of subsequent policies, such as growth deals and devolution deals. For example, the West Yorkshire Transport Fund, which Leeds first proposed in its City Deal, commenced as part of its growth deal.

Figure 7
Delays in implementing programmes

Nottingham's Investment Fund

Nottingham wanted its Investment Fund to offer venture capital to businesses in the early stages of growth. Nottingham agreed with the Unit that the government would commit £25 million to the fund, matched by £20 million from local sources. After signing the deal, the policy teams in the Department for Business, Innovation & Skills and Nottingham took around a year to agree the level of acceptable risk and geographical spread for investments. Even when the Fund began, Nottingham felt it was not what it had agreed in the deal, as not all investments would be in the Nottingham and Nottinghamshire area.

Leeds' SME Skills Fund

Leeds planned to establish a SME Skills Fund to incentivise local employers, particularly small and medium-sized enterprises, to invest in skills. After it had signed its deal, Leeds had to go through a competitive process of bidding for the Department for Business, Innovation & Skills' Employer Ownership Skills Fund to finance this programme. Leeds received the funding, worth £17.5 million, in early 2015, two years later than planned. Leeds feels the grant conditions are more rigid than planned when it initially devised the scheme.

Newcastle's Housing Investment Plan

Newcastle's deal included plans for Newcastle City Council and Gateshead Council to develop and deliver a joint investment plan in partnership with the Homes and Communities Agency (HCA) to deliver 15,000 homes. Newcastle wanted to align local and national resources with a commonly agreed set of priorities. The HCA found it difficult, however, to agree Newcastle's initial proposals for funding this programme while also complying with the rules of its national funding programmes. This had to be resolved before the investment plan could be developed. The North East Combined Authority has now incorporated the plan into its activity. It is working with the HCA to bring forward a pipeline of sites for intervention should investment opportunities arise.

Liverpool's payment by results pilot

Liverpool wanted to develop new incentives for providers to offer training that leads to employment. As part of its deal, it agreed to set out proposals for how a payment-by-results system would work. The Unit and the Department for Business, Innovation & Skills supported the pilot in principle at the time the deal was agreed. Liverpool worked on proposals for a new system for around 18 months, with support from the Skills Funding Agency. However, the proposals did not align with government plans for funding simplification and further devolution of the skills budget, meaning the pilot did not proceed. The Skills Funding Agency has told us that going through this process provided valuable learning for how to align skills funding with local priorities.

Source: National Audit Office analysis

Programmes' funding mechanisms

3.10 To be successful in the context of City Deals' programmes, the funding mechanisms needed to align cities' greater flexibility for cities with departmental accounting officers' assurance requirements. We have previously reported on how, since 2010, the government has removed many conditions on how local authorities use the funding departments provide. Most government grants to local authorities are no longer ring-fenced, which means local authorities can use them for any legal activity. In 2013-14, the government paid 84% of its revenue funding for local authorities in general grants that were not ring-fenced and for which it had not expressed an intention for its use, compared with 67% in 2010-11.[16]

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

3.11 In the context of greater funding flexibility for local authorities, departments rely primarily on the local accountability system for assurance. Departments rely on local checks and balances for assurance that local authorities have used funding lawfully and with the best value for money locally. The Department for Communities and Local Government oversees local accountability systems for local authorities and Local Enterprise Partnerships (LEPs). This includes external audits, inspections and transparency and, in the case of LEPs, a monitoring framework.[17] For some grants, departments rely on assurance processes that take place before they pay out money to local authorities. These processes include operating a funding formula, a competitive bidding process, or placing limits on when local authorities can spend the grant.

3.12 Notwithstanding the different planned timescales for programmes' implementation, the examples we saw indicate that programmes that have moved ahead faster are those where both sides agreed a funding and reporting mechanism that supports the cities' objectives and allows department accounting officers to provide assurance to Parliament. Primarily, this involved departments making use of existing funding mechanisms, which already met departments' assurance requirements. Some of these programmes have made an early impact (**Figure 8** overleaf).

Using new funding mechanisms

3.13 Some programmes that relied on the government using new ways of funding the cities have taken longer to implement. For example, HM Treasury wanted to reward Greater Manchester accurately for generating additional tax through infrastructure investment. In November 2014, both sides agreed a simpler 'gain share' arrangement as part of Greater Manchester's Devolution Deal (**Figure 9** on page 33).

Funding and assurance for Growth Deals

3.14 The government has adapted the way it secures assurance over how LEPs use their Growth Deals funding. Local Enterprise Partnerships will provide assurance for their Growth Deal as a whole rather than for individual projects. Local Enterprise Partnerships have each drafted assurance frameworks. These set out how they make decisions, ensuring roles and responsibilities are clear and that there is transparency. They also explain how programmes are identified, appraised and prioritised. The work the core cities undertook as part of the City Deals process has continued as part of the Growth Deals. Sheffield and Leeds' assurance frameworks use their single appraisal frameworks for prioritising investment. We plan to consider the effectiveness of LEP accountability arrangements in a future report.

17 See footnote 16.

Figure 8

Examples of City Deals programmes with early impact

Programme	Description	Impact	Assurance mechanism used
Sheffield's 'Skills Made Easy'	Sheffield City Region aimed to create the skills that employers need in the city region by brokering apprenticeships with local small and medium-sized enterprises that had not previously engaged with publicly-funded training schemes.	By January 2015, Sheffield reported that it had created 1,600 apprenticeships and upskilled 1,300 people. It expects to create 4,000 apprenticeships by July 2016.	Sheffield City Council submits individualised learner records to the Skills Funding Agency (SFA). The SFA pays the council for each new apprenticeship in the same way as for other training providers – in arrears based on returns. The SFA has committed up to £24 million to the programme, in addition to £4 million the Council received for apprenticeship brokerage activity.
Birmingham's Institute of Translational Medicine	Launch of an institute to accelerate life science research from the laboratory to the patient, enabling drugs and medical devices and products to be tested and brought swiftly to market. This co-locates state of the art clinical facilities with a hub for firms to engage clinicians and academics. The Institute was match-funded by the Department of Health and the Department for Business, Innovation & Skills, with local contributions from the newly created Birmingham Health Partnership.	Birmingham Health Partnership intends to open the Institute later in 2015. It has attracted investment from global pharmaceutical companies and has unlocked more government funding, such as grants from the Medical Research Council.	The Department for Business, Innovation & Skills uses existing grant-management processes and grants Birmingham Health Partnership funding in arrears based on quarterly claims, which show spending is in line with the grant conditions.
Newcastle's Accelerated Development Zone	Newcastle's deal included provision for it to keep 100% of the increase in business rates in four areas of Newcastle and Gateshead. This enabled the council to borrow funds to start its investment programme in the areas.	Newcastle calculates that by March 2015 investment in the zones had created over 1,000 jobs	The Department for Communities and Local Government calculates the additional business rates collected as part of its wider local government financing. It is a relatively simple calculation to work out the extra amount due to Newcastle.

Source: National Audit Office analysis

Figure 9
Manchester's 'earn back'

Date	Event
July 2012	As part of its deal, Greater Manchester agreed with the government to implement a mechanism, 'earn back', which would enable it to keep up to £900 million of additional tax revenue resulting from a £1.2 billion local investment in transport infrastructure. The government agreed to pay this over 30 years from 2015-16 for Greater Manchester Combined Authority to invest in further infrastructure.
Summer 2013	HM Treasury and Greater Manchester agreed the formula to calculate future payments. This required complex calculations to isolate the additional impact of Greater Manchester's investment on tax revenues.
Summer 2014	Greater Cambridge's City Deal, part of Wave 2, proposed a 'gain share' model. This committed the government to paying capital grants in five-year tranches. Beyond the initial five-year period, the government will base its funding on an independent panel's appraisal of the economic impact of investment. Greater Cambridge had wanted an earn back model, but HM Treasury officials did not want to implement it in other areas until it had some evidence of the success of Greater Manchester's arrangement.
November 2014	In Manchester's devolution deal, the complicated 'earn back' formula is replaced by a simpler arrangement that mirrors Greater Cambridge's deal. Manchester and HM Treasury considered that the initial complex formula was not underpinned by a robust data source and did not provide sufficient stability or certainty to support further local investment. Glasgow and Leeds agreed similar models with the government during 2014.

Source: National Audit Office analysis

Monitoring and evaluating impact

3.15 Robust monitoring and evaluation of the impact of City Deals is vital to both the cities' and government's understanding of what works best in promoting local growth. Without information on what works, neither the cities nor government will be able to understand which local arrangements best achieve long-term growth objectives. Cities and the government also need monitoring information that shows whether programmes are progressing towards their objectives, to identify problems early and to refine their delivery approach. Good practice includes:

- monitoring and evaluation processes with quantifiable and measurable outcomes are in place from the outset;
- continual evaluation, with 'leading' measures that indicate progress towards longer-term targets; and
- clear and simple measures that aid comparisons between places and programmes as far as possible.

Monitoring and evaluating programmes' impact

3.16 We found some examples of monitoring and evaluation being built into programmes' delivery mechanisms from the outset:

- Greater Manchester's 'earn back' and Leeds' 'gain share' models require an independent panel to assess the impact of local investment on growth every five years. HM Treasury, the Unit and cities are in the process of appointing the independent panel.
- Sheffield plans to assess the projects it funds through its investment fund every five years to ensure they are on track to achieve the predicted benefits.
- The cities provide quarterly progress updates to the Unit, which include between 5 and 12 measures such as new jobs and apprenticeships (paragraphs 3.18 to 3.20).

3.17 The Unit, departments and cities could have done more, however, to ensure robust monitoring and evaluation plans were built into the programmes:

- The Unit's implementation plans did not require cities to consider how to include monitoring and evaluation in their programmes.
- Some of the programmes had objectives that are not measurable. For example, Leeds' deal includes a plan to increase exports to Brazil, Russia, India and China. Export data are not sufficiently detailed to measure this.
- There has been a lack of continuity in the personnel overseeing programmes in departments. A number of departments we spoke to were unable to explain the original intentions of particular programmes or how they have progressed.

Monitoring and evaluating deals' impact overall

3.18 The Unit coordinates the government's oversight of the deals' progress overall. It receives regular progress updates from each of the eight cities (as well as the 18 Wave 2 cities). It uses these for evidence of whether the programmes are achieving growth. For each return, the cities provide between 5 and 12 measures of programmes' impact. They use indicators such as jobs, investment and gross value added (a measure of local growth). The cities also provide a written explanation of progress against each of the measures.

3.19 The Unit uses the returns to compile an overall assessment of the deals' progress. It uses this to:

- update ministers and senior government officials;
- provide information on progress in each city; and
- track progress of delivery against key milestones, identifying any issues that it may need to address.

3.20 According to the Unit's monitoring information, the deals had created 25,000 jobs and 10,000 apprenticeships, as of December 2014. However, there are a number of limitations in how the Unit has collected this information, so we cannot rely on the Unit's information on the deals' overall progress:

- The Unit introduced the returns and measures after the deals had been signed. It did not have a reliable baseline from which to measure the deals' progress.
- Some key measures, such as jobs, are not defined consistently. The Unit did not supply a shared definition for measures common to more than one city, nor did it encourage cities to develop one between them. The government has since moved towards developing a common and consistent set of measures for monitoring programmes led by LEPs (paragraph 3.23).
- The measures do not cover all of the programmes implemented as part of the deals. The Unit prioritised which elements of the deals to monitor so it did not overburden the cities. Its prioritisation was based on measurability, likely public interest and significance to the relevant deal. It did not separately consider which programmes presented the most opportunities to learn lessons for devolving responsibilities in the future.
- The Unit does not check whether the information cities provide is accurate. It crosschecks some measures with other government departments. For example, it checks the number of apprenticeships created with the Skills Funding Agency. However, this is not possible for all its measures. The Unit does not monitor gross value added, as it does not consider data on this indicator of growth to be sufficiently reliable.
- The Unit is not able to identify or discount any displacement between cities (where one city might be growing at the expense of another) to understand the net national benefit of the deals. It is planning to consider how this issue can be addressed as the deals progress and more evidence of impacts becomes available.

3.21 Assessing the impact of City Deals is challenging because it will take many years for some of the programmes to have a measurable impact. It is also hard to assess what would have happened without the deals. In this context, we would expect to see government and the cities preparing early to collect information on leading indicators of growth to help inform decision-making before full evaluation results are available. In the context of learning for future devolution, we would also expect this information to be proportionate, with the Unit prioritising programmes it considers to have the most potential to learn from. The examples in Figure 8 show that there are some programmes that have had an early impact. These examples could provide the Unit with evidence on what has worked well to feed into future devolution. The Unit collects some information on the progress of these programmes, and plans to collect some information on early impacts of long-term programmes, such as on the amount of private sector investment. It does not, however, have a plan for using this information to support cities and other local areas refine their approaches and focus on the interventions that provide the best value for money.

3.22 The Unit does not intend to undertake a separate evaluation of City Deals' overall impact. The Unit considers that the challenges in identifying what would have happened without the deals and the complex variations between cities make meaningful assessment very difficult. However, it still expects the cities to be proactive in demonstrating the impact of the deals on local growth as a basis for claiming further devolved responsibilities from the government.

Monitoring growth deals

3.23 The Unit established a more structured way of monitoring the impact of Growth Deals than it did for City Deals. It has agreed with LEPs a range of data on inputs, outputs and outcomes that LEPs should use to demonstrate the impact of their deals. The Unit expects the LEPs to be proactive in demonstrating the impact of their Growth Deals as this will have a bearing on their future allocations. The Unit's monitoring of Growth Deals shows that the government is developing its approach to overseeing growth initiatives. It also reflects the government's significant financial commitment to Growth Deals, whereas City Deals were more focused on new ways of working, requiring a different type of monitoring. Growth Deals began in April 2015, which means it is too early to tell whether these measures will give the Unit enough information to monitor the value for money of each Growth Deal.

Appendix One

Our audit approach

1 This report examined the progress of Wave 1 City Deals in the context of the government's objective to empower local leaders to create local economic growth. In making our assessment, we are mindful that the deals were a new way of working, designed to tackle specific local barriers to growth. In most cases, the programmes are at an early stage of implementation. The lessons and issues we identify are relevant to the other deals that followed – and to further growth and devolution initiatives the government is implementing in the context of its Cities and Local Government Devolution Bill.

2 We reviewed:

- the purpose and design of the first eight City Deals, signed between the government and England's 'core cities' (Part One);
- the impact of the deals on local empowerment (Part Two); and
- the implementation and impact of the deals on economic growth (Part Three).

3 Our audit approach is summarised in **Figure 10** overleaf. Our evidence base is described in Appendix Two.

Figure 10
Our audit approach

The objective of government

In 2012, the government signed City Deals with eight of the largest cities outside London, known as Wave 1. It aimed to make deals that empowered cities to boost local economic growth. The deals are individual to each city and cover a range of policies, such as transport, housing and skills.

Our study

Our study examined the progress of Wave 1 City Deals in the context of the government's objective to empower local leaders to create economic growth. It also considers the lessons and issues that are relevant to other deals that followed and to future growth and devolution initiatives the government is implementing.

Purpose of our examination

The impact of the deals on local empowerment.

The impact of the deals on economic growth.

Lessons and issues that are relevant to future growth and devolution initiatives.

Our evidence

We reviewed the eight City Deal documents.

We interviewed officials from the Cities and Local Growth Unit and reviewed implementation and monitoring documents.

We interviewed officials from the Department for Communities and Local Government, the Department for Business, Innovation & Skills, HM Treasury, the Department for Transport, and the Department of Energy & Climate Change.

We conducted case study interviews with each of the cities involved in Wave 1 and relevant stakeholders involved in the design and implementation of the City Deal.

We also conducted case study interviews with five cities and their stakeholders involved in Wave 2 City Deals, signed in 2013.

Our conclusions

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.

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 their 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.

Appendix Two

Our evidence base

1 We collected the evidence below between January and May 2015. We independently reviewed and considered the government and cities' negotiation and implementation of the first eight City Deals signed in 2012 (Wave 1). Our audit approach is outlined in Appendix One.

2 To inform the scope and design of our fieldwork and refine our understanding of the purpose and design of City Deals and their impact on local empowerment and growth, we conducted interviews with officials from the Cities and Local Growth Unit (the Unit), other government departments and agencies, think tanks and academic commentators. We also conducted case study interviews with local officials and elected council members from the eight core cities and five cities in Wave 2.

3 An expert panel provided independent scrutiny and advice to the study team.

We reviewed the purpose and design of the deals (Part One)

4 We reviewed government documents to understand the government's objectives in signing the deals, including *Unlocking growth in cities*[18] published in 2011 and *Unlocking growth in cities: City Deals – Wave 1*[19], published in 2012.

5 We interviewed officials from the Unit to understand how it negotiated with each of the cities and its role in coordinating the government's input into the deals. We reviewed Unit documents, including funding spreadsheets that demonstrate the amount and timing of the government's funding commitments to the deals.

6 We conducted case study interviews with officials from each of the eight cities (and city regions), alongside local stakeholders including Local Enterprise Partnerships, to gather evidence on how they negotiated the deals. We reviewed the deal documents that ministers and city representatives signed to understand the different programmes that made up each deal.

7 We interviewed officials from the Department for Communities and Local Government, the Department for Business, Innovation & Skills, the Department for Transport, and the Department of Energy & Climate Change to understand their involvement in providing funding and support for programmes in the deals.

18 HM Government, *Unlocking growth in cities*, December 2011
19 HM Government, *Unlocking growth in cities: City Deals – Wave 1*, July 2012

We assessed the impact of the deals on local empowerment (Part Two)

8 We interviewed officials from the Unit to understand the government's intentions for empowering cities.

9 We conducted case study interviews with two council leaders, four chief executives of city councils, two chief executives of Local Enterprise Partnerships and other senior local authority officials from the eight core cities, to understand the impact the deals have had on local governance, strategy and appraisal frameworks. Where relevant, we reviewed supporting local authority documents that the cities provided or that are publicly available.

10 We conducted case study interviews with local authority officials from five cities in Wave 2 deals to understand what impact the deals have had on local empowerment in their area.

11 We interviewed officials from the Department for Transport to understand how they plan to rely on single assurance frameworks.

We assessed the implementation and impact of the deals on growth (Part Three)

12 We interviewed officials from the Unit to understand the government's perspective on how the deals would impact local economic growth and how the Unit planned to monitor the deals' progress. We reviewed the Unit's monitoring information, including a sample of the cities' quarterly progress returns.

13 Across the eight deals, we reviewed the implementation of 23 programmes where the government had devolved funding or decision-making to the cities. We selected these programmes based on their significance to each deal; the degree to which they were innovative; the level of funding attached; and to ensure we covered a range of policy areas.

14 To review the deals' programmes we interviewed local officials to understand the programmes' objectives, progress with implementation, and how they are monitoring progress and evaluating the impact. We asked the officials to provide their perspectives on the role of government departments and agencies in implementing the programmes. We did not audit in detail the cities' local arrangements for managing the individual programmes.

15 We interviewed officials from the Department for Communities and Local Government, the Department for Business, Innovation & Skills, HM Treasury, the Department for Transport, and the Department of Energy & Climate Change to understand their role in overseeing and supporting the programmes.

16 We gathered our evidence on each programme from the cities and government interviews and considered it against principles of good practice in implementing jointly-led programmes, particularly with a focus on growth, derived from previous NAO studies. These include our reports: *Funding and structures for local growth,*[20] *Case study on integration: Measuring the costs and benefits of Whole-Place Community Budgets*;[21] *The New Homes Bonus*;[22] *Regenerating the English regions*;[23] *Regenerating the English coalfields*;[24] and *Housing Market Renewal*.[25]

20 Comptroller and Auditor General, *Funding and structures for local growth*, Session 2013-14, HC 542, National Audit Office, December 2013.

21 Comptroller and Auditor General, *Case study on integration: Measuring the costs and benefits of Whole-Place Community Budgets*, Session 2012-13, HC 1040, National Audit Office, March 2013.

22 Comptroller and Auditor General, *The New Homes Bonus*, Session 2012-13, HC 1047, National Audit Office, March 2013.

23 Comptroller and Auditor General, *Regenerating the English Regions: Regional Development Agencies' support to physical regeneration projects*, Session 2009-10, HC 214, National Audit Office, March 2010.

24 Comptroller and Auditor General, *Regenerating the English Coalfields*, Session 2009-10, HC 84, National Audit Office, December 2009.

25 Comptroller and Auditor General, *Housing Market Renewal*, Session 2007-08, HC 20, National Audit Office, November 2007.

Appendix Three

List of local bodies involved in the eight Wave 1 City Deals

Core City	City Deal Name	Number of local authorities involved in City Deal	Local authorities included in the City Deal	Led by
Birmingham	Greater Birmingham City Deal	9	Birmingham City Council Bromsgrove District Council Cannock Chase District Council East Staffordshire Borough Council Lichfield District Council Redditch Borough Council Solihull Metropolitan Borough Council Tamworth Borough Council Wyre Forest District Council	Greater Birmingham and Solihull Local Enterprise Partnership
Bristol	Bristol City and West of England Region City Deal	4	Bristol City Council Bath and North East Somerset Council North Somerset Council South Gloucestershire Council	Bristol and West of England Local Enterprise Partnership
Leeds	Leeds City Region Deal	10	Bradford Metropolitan District Council Calderdale Council Kirklees Council Leeds City Council Wakefield Council Barnsley Metropolitan Borough Council Craven District Council Harrogate Borough Council Selby District Council City of York Council	West Yorkshire Combined Authority
Liverpool	Liverpool City Region Deal	6	Halton Borough Council Knowsley Council St Helens Metropolitan Borough Council Sefton Council Wirral Borough Council Liverpool City Council	Liverpool City Region Combined Authority

Core City	City Deal Name	Number of local authorities involved in City Deal	Local authorities included in the City Deal	Led by
Manchester	Greater Manchester City Deal	10	Bolton Council Bury Council Manchester City Council Oldham Council Rochdale Borough Council Salford City Council Stockport Council Tameside Metropolitan Borough Council Trafford Council Wigan Council	Greater Manchester Combined Authority
Newcastle	Newcastle City Deal	2	Newcastle City Council Gateshead Council	Newcastle City Council
Nottingham	Nottingham City Deal	1	Nottingham City Council	Nottingham City Council
Sheffield	Sheffield City Region Deal	9	Barnsley Metropolitan Borough Council Derbyshire Dales District Council Doncaster Metropolitan Borough Council Rotherham Metropolitan Borough Council Sheffield City Council Bassetlaw District Council Bolsover District Council Chesterfield Borough Council North East Derbyshire District Council	Sheffield City Region Combined Authority

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

National Audit Office

£10.00

ISBN 978-1-904219-94-1

9 781904 219941

Design and Production by NAO Communications
DP Ref: 10763-001