



National Audit Office

Report

by the Comptroller
and Auditor General

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

English devolution deals

Key facts

10

devolution deals
agreed to date

34

devolution proposals
received from local
areas in England by
September 2015

£246.5m

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

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

Summary

Background

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

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

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

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

Scope of our report

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

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

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

Key findings

Timescale and content of English devolution deals

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

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

Financial implications of English devolution deals

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

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

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

Central government’s approach to management

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

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

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

14 As more devolution deals have been agreed, some aspects of more coordinated and effective management have emerged. Initially, the government adopted a loosely structured approach to managing devolution deals, but over time it has strengthened its management approach in some areas. For example, the Cities and Local Growth Unit is:

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

Key issues outstanding

Aligning national and local accountability

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

Local geography

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

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

Impact measurement

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

Resourcing and resilience

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

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

Conclusion

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

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

Summary of issues to take forward

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

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