



House of Commons

Committee of Public Accounts

**Devolving
responsibilities to cities
in England: Wave 1 City
Deals**

Seventh Report of Session 2015–16



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*Report, together with formal minutes
relating to the report*

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Summary

City Deals are a new way of working between central and local government. They have provided local places with the opportunity to set out their own growth priorities and present them directly to the Government. In return, the Government allocated to devolving responsibility for funding and delivery of specific programmes. While some individual programmes in the deals have shown early signs of success, it is too early to assess the overall impact that City Deals could have on local growth. The Department for Communities and Local Government (the Department) accepts that the failure to put in place monitoring and evaluation arrangements at the start of City Deals makes it significantly harder to assess progress and know which programmes will have the biggest impact on growth. As the Government has set out its ambition to continue devolving responsibility for local growth to local places, the Government needs to be clear about how it determines the funding to be devolved to deliver services locally. The Department must develop a consistent approach to measuring impact alongside a more robust assessment of the capacity of local areas to implement and run devolved programmes. We also urge the Department to work with local areas to strengthen local scrutiny and accountability arrangements and to ensure public engagement both in the negotiation and implementation of future devolved initiatives.

Introduction

In 2012, the Government signed City Deals with eight of the largest cities outside of London. Known as ‘Wave 1’, these are the first in a line of government deals designed to give cities the powers and tools they need to drive economic growth. The deals were therefore designed to be individual to each area, with each deal made up of separate programmes covering a range of policies such as transport, housing and skills. The Government has committed up to £2.3 billion to the 40 programmes included in deals, mostly in the form of capital funding to enable local authorities to fund infrastructure investments such as buildings and roads. In 2013 and 2014, the Government announced a second wave of City Deals with 18 more places, and a devolution deal with Greater Manchester. In February 2015, the government announced that Greater Manchester would gain more devolved control of £6 billion in local healthcare funding. The Department for Communities and Local Government (the Department) holds policy responsibility for the deals, but a further eight government departments play a significant role by providing local areas with funding for specific programmes within the deals or support in implementing their deals.

Conclusions and recommendations

1. **The first wave of City Deals show some signs of early success, but they are not necessarily the most appropriate model for wider devolution.** It is too early to know the overall impact of City Deals, but some of the individual programmes within the deals have shown signs of early progress. For example: in Sheffield a skills programme has created 1,600 apprenticeships and raised the skills of 1,300 people; in Birmingham the Institute of Translational Medicine, to accelerate life science research, has attracted private sector investment. Cities have reported that they were able to explain their local growth priorities directly to Government, which in return presented them with more devolved funding and powers. While the City Deals process may be seen as ‘practising devolution’, we are conscious that the deals have focused on devolution of funding for capital projects and discrete programmes not public services. The lessons learned from the City Deals process are valuable, but we do not believe that either capital projects or individual programmes are necessarily relevant to the devolution of public services, which has featured in subsequent devolution deals.
2. **Recommendations: *The Department should actively share the learning and good practice it has gained through City Deals with public bodies involved in the potential devolution of public services, such as NHS England and the Department of Health. It should make a clear statement about how it will determine funding levels for devolved responsibilities.***
3. **The Department has not made clear who is accountable for public funds that have been devolved through City Deals.** The Department’s Permanent Secretary is accountable for City Deals overall, but the Department cannot explain clearly and simply whether responsibility for the outcomes of individual City Deal programmes rests with local or central government. We stress the importance of the taxpayer’s ability to know who to hold to account and to know how to actively participate in the design of devolution policy. The unelected LEPs play a big role in planning but the financial risk of failure lies with council tax payers locally. This disconnect between decisions and who pays is a concern.
4. **Recommendation: *Given the increasing pace of devolution, the Department should work with local areas to ensure there are effective and well-resourced local scrutiny arrangements and accountability systems to make certain that funding is well spent so the Department and local taxpayers have a clear understanding about how this money is spent. This is particularly important for devolved healthcare spending.***
5. **The Department’s lack of monitoring and evaluation in the deals makes it difficult to assess their overall effectiveness.** The Department did not include a consistent definition for common outcome measures with cities. Therefore, the claims for 25,000 jobs and 10,000 apprenticeships created so far are not based on consistent measurement and are of limited use when trying to understand what has actually been delivered. Furthermore, the Department is unable to distinguish whether any of the reported figures are new jobs, or whether they have moved from one economic centre to another as a result of these policy interventions. The Department accepts that it did not put an evaluation framework in place for

the first wave of City Deals to enable it to measure their effect on growth overall. We are mindful of the difficulty of assessing the impact of growth policies over the long term, but we do not accept the Department's explanation that it was too difficult to measure and evaluate key growth outcomes consistently between the cities and across government departments. We welcome however the Department's subsequent work in incorporating more robust monitoring and evaluation plans into Growth Deals and the 'gain share' arrangements for Greater Manchester and the Leeds City Region.

6. **Recommendation: *The Department must agree a common approach to measuring and evaluating the outcomes of growth programmes, including job creation, with other government departments and local areas, to ensure one geographical area is not 'growing' at the expense of another.***
7. **The Department lacks certainty over whether there is enough capacity locally to manage devolved funding effectively and sustainably. The Government has committed £2.3 billion to the first wave of City Deals.** Of the total, the majority of funding is for capital investment, with only £106 million in revenue funding. The Department relies on local areas pooling resources to manage the deals, but we are unconvinced that the approach it has taken to assessing whether local areas have sufficient and sustainable capacity to manage is adequately evidence-based. In a time of continuing austerity, local resources are being squeezed and the Department will need to develop a clearer way of ensuring local areas have the required capacity and capability in place to manage bigger and more complicated funding arrangements.
8. **Recommendation: *The Department must develop a more evidence-based approach to assessing whether local areas have sufficient and sustainable resources to deliver the City Deals in the wider context of Government funding restrictions.***
9. **Cities valued the role of the Department's Cities and Local Growth Unit in providing a single, coherent access point in Government but the Unit's capacity is limited.** As the number of City Deals and devolution deals increase, the Unit's capacity will come under increasing stress. We therefore welcome the Department's reassurance that it keeps under review the Unit's capacity, to ensure it can manage new pressures as they arise. There is a risk that the potential to learn valuable lessons for further devolved initiatives is undermined by poor record keeping, given some departments' inability to explain the original intentions of particular programmes in the deals. The Department acknowledged that this suggested sub-standard record keeping within the government departments involved in City Deals.
10. **Recommendation: *The Department should maintain its approach of having a single point of contact with local places, and be responsive to local areas that have less experience in managing more devolved funding. It must also work with other departments to ensure a step change in record keeping. Departments must maintain proper records on initial objectives and lessons learned.***

1 Assessing progress

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Communities and Local Government (the Department) and the Cities and Local Growth Unit (the Unit). We also took evidence from Birmingham City Council and the Greater Birmingham & Solihull Local Enterprise Partnership¹ and visited Bristol to meet with the Local Enterprise Partnership Chair and Chief Executive and the work stream leads for the Bristol and West of England City Deal.
2. In 2012, the Government signed City Deals with eight of the largest cities outside of London. Known as ‘Wave 1’, these are the first in a series of government deals designed to give cities the powers and tools they need to drive economic growth. The deals were therefore designed to be individual to each area, with each deal made up of separate programmes covering a range of policy areas such as transport, housing and skills. In 2013 and 2014, the Government announced a second wave of City Deals with 18 more places, and a devolution deal with Greater Manchester. In February 2015, the Government announced that Greater Manchester would gain more devolved control of £6 billion in local healthcare funding.²
3. The Department for Communities and Local Government (the Department) holds policy responsibility for the deals. Within the Department, the Cities and Local Growth Unit (formerly known as the Cities Policy Unit), negotiated the scope and objectives of the deals with each of the cities and is leading the negotiations over upcoming devolution deals. A further eight government departments play a significant role by providing local areas with funding or support in implementing their deals. The Government has allocated up to £2.3 billion to the 40 programmes included in the Wave 1 City Deals. While the Government would have paid most of these grants to local bodies anyway, the City Deals aimed to empower local decision making to take place over how these funds are used in a way that was more in line with local growth priorities. City Deals also aimed to encourage cities to implement stronger and more accountable governance arrangements and foster more local collaboration to unlock barriers to local growth.³

Measuring the effectiveness of City Deals

4. City Deals are a new way of working between central and local government, with cities reporting that they were able to explain their local growth priorities directly to government, and government in turn giving cities more devolved funding and powers. We heard evidence from city officials describing the process of negotiating and implementing City Deals as “practising for devolution.”⁴
5. It is too early to know the overall impact of City Deals, but some of the individual programmes within the deals have shown signs of early progress. For example: in Sheffield, a skills programme has created 1,600 apprenticeships and raised the skills of 1,300 people; and in Birmingham, the Institute of Translational Medicine, established to accelerate life science research, has attracted private sector investment. The Unit receives regular

1 [C&AG’s Report, Devolving responsibilities to cities in England: Wave 1 City Deals, Session 2015–16, HC 266, 9 July 2015](#)

2 [C&AG’s Report](#), paras 2, 6, 7

3 [C&AG’s Report](#), paras 5, 1.21, 2.2, 2.5

4 [Q 19](#); [C&AG’s Report](#), para 2.6, 2.7

progress updates from the eight cities on some of the programmes included in each of their City Deals.⁵ However, the Department accepts that it did not include a consistent definition for common outcomes measures with the cities. Therefore, the claims for 25,000 jobs and 10,000 apprenticeships created so far are not based on consistent measurements and are of limited use when considering what works well in unlocking growth locally.⁶ The Department is also unable to distinguish whether any of the reported figures are new jobs, or whether they have moved from one economic centre to another as a result of these policy interventions. We welcome the Department’s reassurance that it has included more consistent measures into the evaluation plans of subsequent Growth Deals and the evaluation of Greater Manchester and Leeds City Region’s ‘gain share’ agreements.⁷

6. In terms of evaluating overall impact, the Department accepts that it did not put an evaluation framework in place to enable it to measure the effect that City Deals could have on local growth. The Department judged that it would be “too difficult to assess what would otherwise have happened.” In its place, the Department relies on value-for-money assessments that are carried out by some individual government departments involved in funding specific programmes in the City Deals.⁸ The Department stressed that it did have a full evaluation going on for some City Deal programmes, including “very ambitious” plans to look at the gross value added of the investment fund in Manchester. However, while saying it did know the impact of some specific projects, it accepted there “is a gap in putting it all together” to determine what is working well for local growth.⁹

Understanding local capacity

7. The National Audit Office has reported that government funding to local authorities will fall by an estimated 37% in real terms between 2010–11 and 2015–16. Yet of the £2.3 billion in government funding committed to City Deals, only £106 million was in the form of revenue funding.¹⁰ The Department confirmed that it did not provide additional revenue funding to local authorities to implement City Deal programmes. The Department expects local authorities to pool together their current resources to meet costs associated with management and implementation, partly based on the assumption that “local authorities already do this kind of work.”¹¹ However, the Department was not clear on how it assured itself that local areas had sufficient and sustainable resources to support the effective implementation of City Deals. Instead of a robust evidence base, the Department’s process is “partly formal and partly a judgement call.”¹²

8. We challenged the Department further on its knowledge of local areas’ capabilities as devolution continues, particularly where a local area shows signs of stress or an inability to deliver its devolved responsibilities, and how it judged whether it would need to intervene locally. The Department told us that it relies on local government accountability system statements, and that it had monitoring arrangements in place, particularly around financial management. It said that it could intervene locally, though this was not a preferred option.¹³

5 [C&AG’s Report](#), paras 3.12, 3.18, Figure 8

6 [Q 59](#)

7 [Qq 34, 60, 61](#)

8 [Qq 33, 34, 58](#)

9 [Q 61](#)

10 [C&AG’s Report](#), paras 1.21, 2.13

11 [Qq 41, 52](#); [C&AG’s Report](#), para 2.13

12 [Qq 38–41, 52](#)

13 [Qq 43, 53](#)

The role and capacity of the Cities and Local Growth Unit

9. The Cities and Local Growth Unit, currently based in the Department, coordinated the Government’s input into City Deal negotiations with local areas. The Unit aimed to be a single, coherent point of contact, helping cities to negotiate deals that involved several government departments.¹⁴ We heard from city council officials that having one point of contact between the cities and the Government is a key factor contributing to the success of negotiating City Deals, but that it had taken time for the support to be put in place.¹⁵ The Department explained that, at the time of early City Deals negotiations, the Government Offices for the English Regions had only been recently abolished. It had therefore taken time to re-establish relationships with the local areas involved.¹⁶

10. The Department told us it valued the role the Unit played in managing the relationship between cities and the several government departments involved in City Deals, and that it aimed to maintain it in future devolution arrangements.¹⁷ We asked the Department whether it believed the Unit had sufficient capacity to manage the growing number of deals effectively. The Department explained that it had recently expanded the Unit’s capacity by appointing new senior officials. It added that it will keep under review the Unit’s capacity alongside the support it receives from other government departments involved in the deals.¹⁸

11. We noted the complexity of the Department’s task in coordinating the input of other government departments involved in City Deals, and asked what power it had to insist on acquiring technical support from them should it require additional expertise to support local areas. The Department explained that it expects support for City Deals and devolution deals to be part of each government department’s single departmental plan after the spending review. It added that representatives from each of the departments would be present at a programme board that manages the implementation of the deals. However, we remain concerned over how much leverage the Department has to guarantee support from other government departments.¹⁹

12. We questioned the Department on why a number of government departments involved were unable to explain the original intentions of particular programmes in City Deals, and whether this indicated poor record keeping. Since the original decisions were made to approve schemes, there has been a lack of staff continuity in the departments. The Department said the problem did suggest that “the institutional memory—the record keeping... was not what it should have been”, and said it would raise the issue at the cross-Whitehall programme board. We noted that, if departments cannot explain the original intentions of programmes, it undermines subsequent monitoring and evaluation.²⁰

14 [C&AG’s Report, para 1.6](#)

15 [Qq 23, 24, 29](#)

16 [Q 57](#)

17 [Q 67](#)

18 [Qq 88–90, 94](#)

19 [Q 91–94](#)

20 [Qq 63–66; C&AG’s Report, para 3.17](#)

2 Accountability for devolution

Clarity of accountability arrangements

13. We asked the Department what accountability it retained over devolved funding, and which programmes and funding local areas were accountable for. The Department explained that accountability is more devolved as funding responsibility is shifted to local places, with the Department responsible for assuring that an overall system of accountability is in place. We noted the potential risk of accountability lines blurring between central and local government if arrangements are ambiguous. The Department accepted that, currently, accountability over City Deals remains a “mixed picture.” In explaining the accountability of other government departments involved in City Deals, the Department explained that its former permanent secretary, Sir Bob Kerslake, wrote to each government department in November 2012 to set out a framework of accountability for programmes included in City Deals. The Department said each government department knows what it is accountable for individually, but admits that it is a “complicated picture when you put it all together, and it is moving and evolving.”²¹ We remain concerned about the lack of clarity over accountability and how it will work in practice.²²

14. We drew the Department’s attention to the West of England Local Enterprise Partnership’s submitted proposal for devolution, and noted in particular the LEP’s consultation document noting the “necessity for circumspection and confidentiality, up to the point when there was explicit agreement by the four partners on the content.” We were particularly concerned that the process involved no consultation with, or involvement of, taxpayers.²³ We asked the Department to clarify how it ensured that local taxpayers were consulted in the formulation of City Deals and subsequent forms of devolution. The Department was not aware to what extent local areas planned to consult the public on upcoming devolution deals. It added that it was keen to see greater local and public scrutiny as devolution progresses, and that it was awaiting the publication of the Cities and Local Government Devolution Bill (the Bill) to assess what further scrutiny arrangements are to be put in place. It further explained that after upcoming devolution proposals are put forward by local areas, the Department plans to assess how much backing the plans have from the associated local enterprise partnership and the wider constituency.²⁴

Devolution of public services

15. Birmingham City Council representatives told us that with City Deals they were “practising for devolution”.²⁵ The City Deal, the subsequent growth deal and the (hoped for) devolution deal were about devolving matters down to a more local structure, with the local body being more tuned in to what is needed and the investment being more likely to bring about success than an investment made directly by Whitehall.

16. Most of the programmes in City Deals were centred on capital funding and discrete programmes. We noted that devolution has now moved beyond simply devolving responsibility for capital projects and decision-making to devolving more responsibility

21 [Qq 72–80](#)

22 [Q 96](#)

23 [Q 47](#)

24 [Qq 49–51](#)

25 [Qq 17–19](#)

for public services.²⁶ 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 2016.²⁷ We asked the Department what work it had done to understand the risks posed by devolving more responsibility for public services, including health services, as opposed to capital spend. The Department described the Manchester devolution as “pathbreaking” and said that Cornwall would also have greater ability to co-commission with the NHS. It said that the Department of Health and NHS England were working with Manchester to determine where the balance of risk should lie, and characterised the arrangements as “not a transfer of the national responsibilities to Manchester; it is a co-commissioning and a shared responsibility.”²⁸

17. Currently, accountability and responsibility for the health service is held at national level. The Department told us that any decision to devolve powers to a city or local areas, within the framework of the Bill, would be a judgement call for Ministers and that, at that point “it will be extremely important to work out exactly what the accountabilities are”. The Department described how cities are often asking “not for a full devolution of all responsibility, but for much greater ability to influence and control what goes on within a national framework.”²⁹

26 [Q 45; C&AG's Report](#), para 1.21

27 [C&AG's Report](#), para 7

28 [Q 45](#)

29 [Q 46](#)

Formal Minutes

Wednesday 4 November 2015

Members present:

Meg Hillier, in the Chair

Mr Richard Bacon

Deidre Brock

Chris Evans

Caroline Flint

Kevin Foster

Mr Stewart Jackson

Nigel Mills

David Mowat

Bridget Phillipson

Karin Smyth

Mrs Anne-Marie Trevelyan

Draft Report (*Devolving responsibilities to cities in England: Wave 1 City Deals*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 17 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 9 November at 3.30 pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's [inquiry web page](#).

Wednesday 16 September 2015

Question number

Councillor Sir Albert Bore, Leader of Birmingham City Council, **Mark Rogers**, Chief Executive, Birmingham City Council, and **Katie Trout**, CEO, Greater Birmingham and Solihull LEP

[Q1–29](#)

Melanie Dawes, Permanent Secretary, and **Tom Walker**, Director, Cities and Local Government Unit, Department for Communities and Local Government

[Q30–96](#)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/pac.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2015–16

First Report	Financial sustainability of police forces in England and Wales	HC 288
Second Report	Disposal of public land for new homes	HC 289
Third Report	Funding for disadvantaged pupils	HC 327
Fourth Report	Fraud and Error Stocktake	HC 394
Fifth Report	Care leavers' transition to adulthood	HC 411
Sixth Report	HM Revenue & Customs performance in 2014–15	HC 393
First Special Report	Unauthorised disclosure of draft Report in the previous Parliament	HC 539