



House of Commons

Committee of Public Accounts

Cities and local growth

Sixth Report of Session 2016–17



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

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The Committee of Public Accounts

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Summary

Since 2010 the Government has devolved powers, funding and responsibility to local areas through a variety of means. The last six years have seen the creation of 39 Local Enterprise Partnerships and the agreement of 28 City Deals, 39 Growth Deals and ten devolution deals. This has resulted in rapid change in the local government landscape and the roles and remits of many of the bodies involved. There is wide support for the principle of devolving powers from the centre to local areas, which are often best placed to identify and respond to the needs of local people. However, we are concerned that not all devolution deals are coherent: they lack clear objectives; and are not aligned geographically with other policies or local bodies. There has been insufficient consideration by central government of local scrutiny arrangements, of accountability to the taxpayer and of the capacity and capability needs of local and central government as a result of devolution. We are clear that while devolution is driven by political decisions, this does not absolve central government departments of exercising sufficient and effective oversight of implementation. This is an untested policy and there are clear tensions emerging, with evidence of some devolution deals already beginning to unravel. As the devolution agenda progresses, in order to maximise the prospects for success, we will want to see greater clarity from government about what they are hoping to achieve and stronger consideration of the issues we highlight in this report.

Introduction

The Cities and Local Growth Unit is made up of officials from the Department for Communities and Local Government (the Department) and the Department for Business, Innovation and Skills. Together with HM Treasury, they jointly oversee and co-ordinate government's devolution agenda, and have recently overseen the negotiation and implementation of ten bespoke devolution deals, which devolve powers, funding and responsibilities to local areas. The broad objectives for devolution deals have not been set out in specific terms; however, they are broadly rooted in localism with the professed aims of supporting economic growth, encouraging public service reform and improving accountability.

Local Enterprise Partnerships (LEPs) are central to government's plans for devolution. Following the abolition of Regional Development Agencies in 2010, 39 LEPs were established as strategic partnerships to bring together the public and private sector, and identify economic priorities in their local areas. Each LEP is designed to represent a functional economic area. In 2014 it was announced that LEPs would be responsible for overseeing locally negotiated Growth Deals from 2015–16 to 2020–21, funded from the £12 billion Local Growth Fund. LEPs are accountable via a nominated local authority, and have signed up to local assurance frameworks that set out the arrangements for ensuring transparency, governance and value for money.

Conclusions and recommendations

1. **Government has not made the objectives of devolution sufficiently clear.** It is therefore not clear how they will judge success and measure progress. The experience of devolution in England and elsewhere provides inconclusive evidence for whether it results in economic growth and improved outcomes from public services. Given that these new policies are untested, it is vital that systems and structures to establish whether devolution is producing the desired effects are put in place as soon as possible. The Department, together with local areas, is establishing five-year reviews to assess some elements of the devolution deals. However, outside of these it is not yet clear how quickly central government would be able to identify if and where things are going wrong and at what point it would intervene to resolve any issues.

Recommendation: *Government should be specific and clear about what it is trying to achieve by devolving services to local areas. It should then set out how it will monitor progress against these goals. It should also be clear on where it believes that outcomes are a matter for local leaders to decide and where centrally imposed targets are more appropriate.*

2. **The experience of local areas in negotiating devolution deals has not been consistent with government's intended 'bottom up' approach.** The rhetoric surrounding devolution is that local areas are the driving force behind the deals. However in practice central government is stipulating certain requirements, such as around local governance, without making them sufficiently clear up front. For example, some local areas have expressed dissatisfaction that they have to adopt a mayoral model as a pre-condition of a devolution deal, even in cases where they do not think the model appropriate to local needs. The timing of devolution deal announcements has been driven by central government milestones such as spending reviews and budgets. Central government has not set out clearly what is required from local areas in putting forward devolution proposals, and equally what is and is not on offer from central government in return. There are unresolved tensions between a stated wish to let local areas put together innovative arrangements and a central desire to impose particular governance models.

Recommendation: *Government needs to be clearer with local areas what is and what is not on offer; and what is mandatory as part of devolution deals. Government should also listen to local areas about their particular needs to avoid a 'one size fits all' model being imposed.*

3. **The full financial implications of devolution deals are not yet clear.** The devolution deals include new investment funding which will be pooled together with local growth fund allocations and consolidated transport funding into 'single pots' for local areas. Although government announced in the March 2016 Budget that the initial single pots for six of the areas with devolution deals would total £2.86 billion over five years, we have yet to see an area breakdown other than for the additional investment funding element. The additional investment funding, the funding most associated with devolution deals, appears to have been more a product of local areas seeking to achieve parity with each other than a structured assessment of each area's local needs. There is generally poor transparency of per capita spending by area

across government, which means it is difficult to put into context, and therefore form any assessment of the appropriateness of, the differing funding amounts agreed with local areas in devolution deals and growth deals.

Recommendation: *As the full financial implications of devolution deals emerge, government should ensure that they are presented transparently in a way that can be compared between areas, including on a per capita basis.*

4. **The scale of devolution deals and the pace of the implementation is extremely challenging.** Government has set an ambitious timetable for local areas and itself in order for secondary legislation to be passed by November 2016, and therefore allow sufficient time for setting up the mayoral elections in May 2017. In order to meet this timetable, local areas need to publish and consult on their governance plans and final geographical composition over the summer. Any delay in this process, or in the passage of the required secondary legislation through Parliament, could put the proposed May 2017 elections at risk. The speed of the process so far has already led to a lack of meaningful consultation with stakeholders, including local MPs, councils and voters. Government must be mindful that once the a system is in place, unpicking it would be complex and expensive for local areas and confusing for citizens.

Recommendation: *Government should ensure that the timetable remains feasible and that it has clear contingency plans for potential delays in local areas or the legislative process.*

5. **It is not clear that combined authorities, LEPs and local partners have sufficient capacity and capability.** The pace of the change in the role and remit of both LEPs and combined authorities has been rapid. LEPs were established as non-resource intensive strategic partnerships, but are now responsible for overseeing delivery of the £12 billion Local Growth Fund, representing a significant increase in their responsibilities and influence over spending locally. There is varying capacity and capability across the LEPs, and a large number of them do not feel that they have sufficient resources to meet government's expectations or governance requirements. They are also relying on local authorities for staff and expertise at a time when local authorities are themselves trying to cope with severe financial constraints. Combined authorities are also now being given additional responsibilities which in many cases involves pooling local resource: a significant challenge in areas where there is a limited track record of joint working or combined governance.

Recommendation: *As part of the negotiation of the next round of devolution deals and growth deals, the Department should perform a structured assessment of local capacity at LEP and combined authority level.*

6. **The Government has not thought through the implications of devolution for central government departments.** The devolution of functions from central to local government has potentially significant implications for the required skills and numbers of staff in central government, as well as in local areas. However, government has not yet taken a civil service-wide view of the possible impact of devolution on their workforce needs. There would be an expectation from the taxpayer that in transferring funding and responsibilities to the local level, the headcount of central

government would consequently fall. The types of skills needed to manage the new arrangements are also likely to be different. As each devolution deal is bespoke, there are differing functions being transferred to each area and to varying degrees, and central government will need to take account of this variety when carrying out its workforce planning.

Recommendation: *Government should have a clear idea of how devolution will impact on departments' staffing and skills requirements, feeding this into the upcoming Civil Service Workforce Strategy.*

7. **Plans for proper accountability to the taxpayer at a central, local and ultimately parliamentary level are not yet in place.** While the specific powers devolved or delegated to local government will vary across different parts of the country, in all cases devolution deals will require effective local accountability arrangements to be put in place. Central government will also need to provide assurance to Parliament that the responsibilities transferred are being implemented effectively and that the taxpayer is getting value for money in return for the monies invested. We heard that the Department is developing, in conjunction with local areas, an accountability statement for every deal area, so that it is clear who is accountable for what. Powers are also being transferred from a range of government departments, and each of these departments will need to set out how its own accountability system will be affected. Despite these changes meaning that Parliament's oversight of significant elements of public spending may be considerably reduced, there has not been any consultation with Parliament to discuss the matter.

Recommendation: *Government must clearly set out accountability processes and relationships at all levels. It should share draft accountability statements with the Committee before they are finalised.*

8. **We are not confident that existing arrangements for the scrutiny at local level of devolved functions are either robust enough or well supported.** Robust and independent scrutiny of the value for money of devolved activities is essential to safeguarding taxpayers' money, particularly given the abolition of the Audit Commission. Local scrutiny committees are an important mechanism; however, given resource constraints and the absence of independent support there is a limit to what they can realistically oversee. Currently, local auditors focus on individual bodies' financial statements and arrangements for securing value for money, rather than assessing value for money itself. It is not yet clear whether there will be any sort of independent institutional scrutiny of devolution deals as a whole, or what form this might take. As more powers, funding and responsibilities are devolved to the local level, we are therefore concerned that a gap in the scrutiny of value for money might be appearing.

Recommendation: *Government should set out by November 2016 its plans for how it will ensure that local scrutiny of devolved functions and funding will be both robust and well supported.*

9. **It is alarming that LEPs are not meeting basic standards of governance and transparency, such as disclosing conflicts of interest to the public.** LEPs are led by the private sector, and stakeholders have raised concerns that they are dominated by vested interests that do not properly represent their business communities. There is a disconnect between decisions being made by local business leaders and accountability working via local authorities. It is therefore crucial that LEPs demonstrate a high standard of governance and transparency over decision making, at least equal to the minimum standards set out by government in the assurance framework. It is of great concern that many LEPs appear not to be meeting these minimum standards. The scale of LEP activity and the sums involved necessitate that LEPs and central government be pro-active in assuring the public that decisions are made with complete probity. The fact that 42% of LEPs do not publish a register of interests is clearly a risk to ensuring that decisions are made free from any actual or perceived conflicts of interest. The varying presentation and detail of financial information across LEPs also makes it difficult to draw meaningful conclusions or make comparisons across LEPs on how they spend public money.

Recommendation: The Department should enforce the existing standards of transparency, governance and scrutiny before allocating future funding to LEPs. LEPs themselves also need to be more transparent to the public by, for example, publishing financial information.

1 Policy coherence

Introduction

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 HM Treasury on English devolution deals and Local Enterprise Partnerships.¹ We also took evidence from Lord Porter, Chair of the Local Government Association, Professor Andy Pike of the University of Newcastle and Martin McTague, National Policy Director of the Federation of Small Businesses.

2. The Government has recently announced a series of devolution deals between central government and local areas in England. To date, ten bespoke devolution deals have been agreed. All of these deals transfer powers, funding and accountability for policies and functions previously undertaken by central government. The Cities and Local Growth Unit (a joint unit of the Department for Communities and Local Government and the Department for Business, Innovation & Skills) and HM Treasury jointly oversee and co-ordinate government's devolution agenda, and are responsible for coordinating the negotiation, agreement and implementation of devolution deals on behalf of central government. These deals are the latest in a range of initiatives and programmes designed to support localism and decentralisation, which include Local Enterprise Partnerships and the Local Growth Fund.²

3. Following the abolition of Regional Development Agencies in 2010, 39 Local Enterprise Partnerships (LEPs) were established as strategic partnerships to bring together the public and private sector to identify economic priorities in their local areas. Each LEP is designed to represent a functional economic area. In 2014 it was announced that LEPs would be responsible for overseeing locally negotiated Growth Deals from 2015–16 to 2020–21, funded from the Government's £12 billion Local Growth Fund. LEPs are accountable to a nominated local authority, and have signed up to local assurance frameworks that set out arrangements for ensuring transparency, governance and value for money.³

4. Devolution is an evolving policy area and the deals announced so far are still being implemented. However, these new arrangements mean significant changes to how public services are delivered and to accountability for large amounts of taxpayers' money. We have examined matters at this point so that the government can take account of our recommendations at a relatively early stage of implementation.

The objectives of devolution

5. The Department made clear to us that it has been a deliberate policy to not set out a clear statement of specific objectives that it is trying to achieve through devolution deals, and not to have a national framework for what is on offer to local government.⁴ The Department told us that its primary policy intentions with devolution deals are the introduction of directly elected mayors to improve local accountability, economic growth,

1 C&AG's Report, [English devolution deals](#), Session 2015–16, HC 948, 20 April 2016 and C&AG's Report, [Local Enterprise Partnerships](#), Session 2015–16, HC 887, 23 March 2016.

2 C&AG's Report, [English devolution deals](#), paras 1, 2, 4

3 C&AG's Report, [Local Enterprise Partnerships](#), paras 2, 3, 20

4 [Qq 45, 77](#)

and public service reform. However, we also heard from Professor Pike that the evidence that other devolution exercises have improved public service outcomes or economic growth is “extremely mixed”.⁵

6. These broad objectives are not specific or time-bound and the Government has not yet set out the total spending commitments and changes that will result from the agreement of devolution deals. Some of the details of how and when powers will be transferred to mayors are also still being worked through.⁶

7. An independent panel is being jointly commissioned by local area and central government to assess the use and impact of the additional funding being provided by central government to areas with devolution deals. The Department and HM Treasury anticipate that the five year reviews carried out by the panel will be able to measure the economic growth resulting from these policies and provide an assessment of their success.⁷ However, both departments were unable to provide assurance that central government will be able to identify quickly where things are going wrong and take action within these five year periods. The Department told us that there will be a reliance on local scrutiny functions and individual frameworks being put in place by a number of departments, each of which may well be slightly different.⁸

Bottom up or top down?

8. Although the Department told us that its approach to devolving powers is “bottom up,” it is clear that certain aspects of devolution are very much driven from the centre. The Department told us that different areas are able to choose the powers or budgets that they wish to be devolved, and to move at different speeds towards devolution. For the Department, the aim of this approach is to allow for innovation by local areas and to allow them to move at their own pace.⁹ When we challenged the Department on whether the process is genuinely ‘bottom up’ and led by local areas, it responded that it is not forcing devolution deals on anyone. Despite this, it is clear that some local areas perceive the mayoral model to be a pre-condition of devolution deals even in cases where they do not feel that this is suited to their local needs.¹⁰ This presents a risk that there will be low election turnouts and that local mayors will lack legitimacy as a result.¹¹ Moreover, the timing of devolution deal announcements is in line with central government milestones, such as spending reviews and budgets, which further suggests that these deals are running to a centrally, rather than locally, determined framework.¹²

9. While each devolution deal has bespoke features, there are several areas of commonality in the offers made in the ten devolution deals agreed so far. For example, all the deals include agreements for devolved responsibilities in areas of local transport, business support and further education.¹³ However, government has not made it clear in the first instance what core expectations they have of local areas in their bids and equally

5 [Q 9](#); Professor Andy Pike, University of Newcastle ([LEP0007](#))

6 [Q 94](#)

7 [Q 80](#)

8 [Qq 86, 123–125](#)

9 [Qq 41, 45](#)

10 [Qq 58–62](#)

11 [Q 26](#)

12 C&AG’s Report, [English devolution deals](#), para 2.4

13 C&AG’s Report, [English devolution deals](#), para 8

what government is able or unable to offer as part of the deal negotiation.¹⁴ For example, local proposals on school-age education have not been accepted by central government.¹⁵ For future deals it would be helpful to local areas to have this information transparently and up front so that they are able to focus their bids more effectively.¹⁶

Financial implications

10. As part of all of the devolution deals agreed so far, except that with Cornwall, HM Treasury has provided new funding for investment in economic growth. In each case, the Treasury has committed to a 30-year funding stream, commonly for £30 million a year, which will be subject to an initial assurance framework being put in place by local areas and five-yearly assessments to confirm whether the spending has contributed to national economic growth. However, the sums agreed within the deals have not been based on any robust assessment of each area's local needs.¹⁷ HM Treasury acknowledged that many of these totals for additional investment funding were arrived at through local areas wanting equivalent funding to those deals previously agreed.¹⁸ As a result the per capita funding ranges from £11 a year in the Greater Manchester deal to £27 a year in the West of England deal.¹⁹

11. We were concerned about the general poor transparency across government of per capita spending by area. It is a very useful indicator that can be easily understood by both members of the public and by Members of Parliament. We asked what data is available and the Department accepted that “it is a fair challenge as to whether we might need to improve what is available in these sorts of areas”.²⁰

12. In the March 2016 Budget, the Government announced, for the first six mayoral devolution deals, the combination of a number of funding streams into ‘single pots’. The single pots initially comprise three funding streams: the additional investment funding; consolidated transport funding; and Local Growth Fund allocations. The government plans to incorporate other funding streams in the future. The six single pots agreed so far total £2.86 billion over five years, but an area breakdown, other than for the additional investment funding element, has not yet been published.²¹ The Treasury told us that local areas will be asked to develop assurance frameworks to provide assurance to central government that the single pot funding is spent properly and provides value for money.²² These will be subject to approval by the Department for Communities and Local Government before the additional investment funding is disbursed.²³

14 [Q 46](#)

15 C&AG's Report, [English devolution deals](#), para 8

16 [Q 46](#)

17 C&AG's Report, [English devolution deals](#), paras 1.15, 1.16

18 [Q 156](#)

19 C&AG's Report, [English devolution deals](#), Figure 6

20 [Qq 160, 161](#)

21 C&AG's Report, [English devolution deals](#), para 1.14

22 [Q 80](#)

23 C&AG's Report, [English devolution deals](#), para 1.14

2 Implementation

The scale and pace of implementation

13. Government’s intention is that the elections for the directly elected mayors agreed as part of devolution deals will take place in May 2017. The Department set out the “challenging” timetable required to meet this deadline, with local areas needing to agree and consult on the governance details of its new arrangements over the summer. The governance proposals will include the specific powers that will be devolved to the combined authority and the mayor, and how the combined authority will be set up, including final geographical compositions and voting arrangements.²⁴ The Department told us that to meet the May 2017 deadline these local proposals will have to be decided locally in sufficient time for corresponding secondary legislation to be enacted by early November 2016.²⁵

14. We put it to the Department that there has, so far, been little meaningful consultation by either the Department or local areas with stakeholders, such as local MPs, councillors and voters.²⁶ We heard evidence from Professor Pike that the devolution deals have been perceived as “relatively closed and a bit opaque”, with wider stakeholders feeling “a little bit out in the cold”.²⁷ Devolution deals were typically agreed by government and council leaders and senior officials and only after the agreement is announced are the arrangements being consulted on locally and ratified by councils.²⁸

Local capacity and capability

15. The Department describes LEPs’ role as ‘strategic’, with a focus on formulating local economic plans and engaging the business community. It told us that LEPs are not, for the most part, delivery bodies, and that they rely on local partners and on capability in local government to oversee the delivery.²⁹ However, in a relatively short period of time LEPs’ role, remit and level of financial influence has increased, and in 2014 it was announced that LEPs would be responsible for overseeing the £12 billion Local Growth Fund between 2015–16 and 2020–21. Given that some LEPs were newly created whereas others were based on pre-existing structures, each has a varied history of joint-working, political engagement and therefore expertise in overseeing growth projects on this scale.³⁰

16. Overseeing billions of pounds of capital projects requires expertise in economics, modelling, forecasting, and monitoring and evaluation. It also requires robust governance processes, particularly given that LEPs are led by the private sector. However, the NAO’s report shows that an alarming number of LEPs themselves do not feel that they have adequate staff or skills. Only 5% of LEPs considered themselves to have adequate resources to meet the expectations of government, 69% did not think that they had sufficient staff, and 28% did not think that they had sufficiently skilled staff.³¹ The Department

24 [Q 94](#)

25 [Q 95](#)

26 [Qq 132, 180](#)

27 [Q 26](#)

28 C&AG’s Report, [English devolution deals](#), para 1.10

29 [Q 117](#)

30 [Q 112](#)

31 C&AG’s Report, [Local Enterprise Partnerships](#), para 2.24 and Figure 13

acknowledged that many LEPs are heavily reliant on local authorities. Given the severe financial constraints facing local government this creates a risk that such support may not be sustainable.³² Like LEPs, combined authorities are expected to take on increased responsibilities and to pool resources as part of their devolution deals. We heard from Lord Porter that certain areas, such as Manchester, have a strong track record of people and partnerships working together. In other areas, the capacity to take on additional and joint responsibility varies, and can be limited by whether there is a track record of joint working.³³

Implications for central government departments

17. The devolution of functions from central to local government also has potentially significant implications for the required skills and numbers of staff in central government, as well as in local areas. We asked whether government has taken a Civil Service-wide view of the possible impact of devolution on their workforce needs and the Treasury said it had not taken such a “whole system view” from the centre. The Department did accept that the types of skills needed to manage the new arrangements are likely to be different, with a shift from being “the planner and the designer to being the convenor, the facilitator and the system owner”. As each devolution deal is bespoke, there are differing functions being transferred to each area and to varying degrees. There will be both a capacity and capability requirement to manage the assortment of arrangements.³⁴

18. We felt that there would be an expectation from the taxpayer that in transferring funding and responsibilities to the local level, the headcount of central government would consequently fall.³⁵ The Department told us that “it is not an explicit expectation that there will necessarily be a quantified reduction due to devolution deals”.³⁶ But the Department added that “Over the Civil Service as a whole, in this Parliament, there will be further headcount cuts...That is part of all our spending review settlement. A number of different things contribute to that, and devolution is one of those.”³⁷ The Department told us that local areas were telling them that, through pooling their individual council resources across the new combined authority areas, they could “resource their combined authority and their mayor with the resources they currently have.”³⁸

32 [Qq 117, 118](#)

33 [Q 2](#)

34 [Qq 137–140](#)

35 [Q 140](#)

36 [Q 120](#)

37 [Q 140](#)

38 [Qq 119–121](#)

3 Accountability, scrutiny and governance

Accountability

19. The specific powers devolved as a result of devolution deals will vary across different parts of the country, and will require more effective local accountability arrangements to be put in place. The Department told us that is developing, in conjunction with local areas, a “clear accountability statement for every deal area, so that those of us who are accountable know what we are accountable for.”³⁹ The Department stressed the importance of having properly working frameworks in order to maintain oversight of the varying arrangements. It further told us that it needs “to keep on top of” such frameworks and that it has “had to do more to make sure that those assurance frameworks are working properly.”⁴⁰ The NAO reported considerable variation in the quality of LEPs’ assurance frameworks, which were not tested by the Department before allocating Growth Deal funding.⁴¹

20. Powers are also being transferred from a range of government departments and the Treasury told us, echoing what we heard from them in a previous evidence session, that each of these departments will need to set out how its own accountability system will be affected.⁴² HM Treasury told us that despite the overarching responsibility for the accountability framework for local government lying with the Department for Communities and Local Government, accounting officers of many other departments “also need to be clear about how they work in relation to an increasingly devolved world.”⁴³

21. With greater devolution of the delivery of public services, the ability of Members of Parliament to scrutinise that delivery could be considerably reduced. We were concerned that the impact that these changes will have on parliamentary scrutiny, and how financial accountability will operate, has not been sufficiently considered or discussed with us or elsewhere in Parliament. The Department told us it would consider how best to engage Parliament on the new assurance framework being established and the changing scrutiny role it will consequently have.⁴⁴ The Department also committed to engaging with the relevant Members of Parliament as implementation plans are being agreed for each deal to clarify “what is actually being devolved and what the future arrangements will be”.⁴⁵

Local scrutiny

22. Where powers, responsibilities and funding are devolved from the centre, it is vital that there is adequate local scrutiny of these devolved activities. The Department told us that all combined authorities are required to have local scrutiny committees, which have an important function; however they do not have independent support and there is very little resource in many local authorities to provide independent evaluation and

39 [Qq 41, 76](#)

40 [Q 45](#)

41 C&AG’s report, *Local Enterprise Partnerships*, para 3.16, 3.17

42 [Q 122](#); Public Accounts Committee, *Accountability for taxpayers’ money—oral evidence*, HC 732, 1 March 2016.

43 [Q 122](#)

44 [Qq 131, 181](#)

45 [Q 180](#)

scrutiny.⁴⁶ While there are arrangements in place for the independent external audit of local authorities, currently the role of local auditors is primarily to focus on individual bodies' financial statements. Although local auditors do consider whether there are appropriate arrangements for securing value for money, they do not explicitly assess the value for money of devolved services.⁴⁷

23. We heard from Professor Andy Pike that, with the abolition of the Audit Commission, there are currently limited institutional arrangements for assessing local value for money.⁴⁸ Central government relies on the system of local accountability for assurance over the value for money of funding it gives local authorities. The Department's core principles state that local authorities' prime accountability is to their local electorate, and that local councillors are best placed to decide what is value for money locally.⁴⁹ Given that services are being increasingly devolved to local areas, we raised concerns that there may be a gap in value for money scrutiny. It is not yet clear whether there will be institutional scrutiny of devolution deals at a sub-national level, or what form this might take.⁵⁰ The Department told us that they will be putting forward proposals for local scrutiny, and we will be interested to see whether these proposals allay our concerns.⁵¹

LEP governance and transparency

24. LEPs are business-led partnerships between the private sector and local authorities, and are intended to steer growth locally strategically in local communities. However, the Federation of Small Businesses raised concerns with us that LEPs can be dominated by vested interests, and that there is insufficient involvement of the small business sector.⁵²

25. As LEPs have the potential to give business leaders significant influence over decisions on how public money is used, it is essential that their decision-making is transparent to the public and free of perceived or actual conflicts of interest. In December 2014 government set out the standards of governance, transparency and decision-making that they expect of LEPs. This was an important step in safeguarding taxpayers' money, particularly in light of the sums involved in the recently negotiated Growth Deals and the increase in the scale of LEP activity. However, the Department did not test whether LEPs were meeting the required standards before the first round of Growth Deals was paid out to them, and the NAO's review showed there are significant gaps in LEPs' compliance with the standards expected.⁵³

26. The NAO's review shows, for example, that 42% of LEPs do not publish a register of interest, and 16% do not even publish a conflict of interest policy. The Department told us that many LEPs do have registers of interest but that these may not be published.⁵⁴ It is therefore unclear how the public are supposed to take assurance that LEP decisions are being made with probity. Furthermore, the Federation of Small Business told us that there

46 [Qq 87, 88](#)

47 [Q 36](#)

48 [Q 36](#)

49 C&AG's Report, [Local government funding: Assurance to Parliament](#), HC 174, 2014–15

50 [Qq 33, 34, 36](#)

51 [Q 89](#)

52 [Q 20](#)

53 C&AG's Report, [Local Enterprise Partnerships](#), paras 3.14 to 3.17 and Figure 17

54 [Q 135](#); C&AG's Report, [Local Enterprise Partnerships](#), Figure 17

is a lack of rigour in the production of annual accounts by LEPs.⁵⁵ The NAO reported that it is not always easy for the public to see where and how LEPs are spending public funds given the variation in how LEPs account for and present this expenditure, which also makes it difficult to draw comparisons across LEPs nationally.⁵⁶ The Department told us that they have now written out to LEPs in cases where they have not met the necessary standards.⁵⁷ Clearly though, if government is going to set standards for LEPs they should ensure that these standards are being met *before* funding is paid out to them. We will expect to see greater oversight by the Department in future.

55 [Q 38](#)

56 C&AG's Report, [Local Enterprise Partnerships](#), Figure 18 and para 3.20

57 [Q 133](#)

Formal Minutes

Wednesday 15 June 2016

Members present:

Meg Hillier, in the Chair

Mr Richard Bacon	Stephen Phillips
Chris Evans	John Pugh
Mr Stewart Jackson	Karin Smyth
David Mowat	

Draft Report (*Cities and local growth*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 26 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Sixth 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 27 June 2016 at 4.30 pm]

Witnesses

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

Monday 25 April 2016

Question number

Lord Porter of Spalding CBE, Chair, Local Government Association, **Professor Andy Pike**, Centre for Urban and Regional Development, University of Newcastle, and **Martin McTague**, National Policy Director, Federation of Small Businesses

[Q1–40](#)

Melanie Dawes, Permanent Secretary, **Simon Ridley**, Director General, Decentralisation and Growth, Department for Communities and Local Government, and **Catherine Frances**, Director, Public Services, HM Treasury

[Q41–181](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

LEP numbers are generated by the evidence processing system and so may not be complete.

- 1 Association of School and College Leaders ([LEP0001](#))
- 2 Cornwall Council and Cornwall and the Isles of Scilly LEP ([LEP0003](#))
- 3 Department for Communities and Local Government ([LEP0006](#))
- 4 East Devon Alliance ([LEP0002](#))
- 5 Federation of Small Businesses ([LEP0004](#))
- 6 Local Government Association ([LEP0005](#))
- 7 Professor Andy Pike ([LEP0007](#))

List of Reports from the Committee during the current session

All publications from the Committee are available on the [publications page](#) of the Committee's website.

Session 2016–17

First Report	Efficiency in the criminal justice system	HC 72
Second Report	Personal budgets in social care	HC 74
Third Report	Training new teachers	HC 73
Fourth Report	Entitlement to free early education and childcare	HC 224
Fifth Report	Capital investment in science projects	HC 126

Public Accounts Committee

Oral evidence: Cities and Local Growth, HC 913

Monday 25 April 2016

Ordered by the House of Commons to be published on 25 April 2016

Watch the meeting: <http://www.parliamentlive.tv/Event/Index/be93db87-b9a6-434f-b4ba-cda2c6b27281>

Members present: Meg Hillier (Chair), Mr Richard Bacon, Deidre Brock, Caroline Flint, Mr Stewart Jackson, Nigel Mills, David Mowat, Stephen Phillips, John Pugh, Karin Smyth, Mrs Anne-Marie Trevelyan

Sir Amyas Morse, Comptroller & Auditor General, Aileen Murphie, Director, National Audit Office, Keith Davis, Director, National Audit Office, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Lord Porter of Spalding, CBE, Chair, Local Government Association, Professor Andy Pike, Centre for Urban and Regional Development, University of Newcastle, and Martin McTague, National Policy Director, Federation of Small Businesses, gave evidence.

Chair: I will make introductions as people are coming in, because I am aware that one of our witnesses has important business in the other place.

May I first welcome and thank Lord Porter of Spalding, also known as Councillor Gary Porter to many of us, for coming at short notice because of a mix-up with witnesses? We appreciate your time, and we know that you have to rush off. If you can, please tell me when you might need to leave if that is before we finish. I am afraid we ran a bit late; we had lots to discuss today. You know where the door is and we will understand—we won't take it personally, Lord Porter. So I welcome Lord Porter of Spalding, who is chair of the Local Government Association and is here in that capacity.

I also welcome Professor Andy Pike from the Centre for Urban and Regional Development Studies at Newcastle University, and Martin McTague, the National Policy Director for the Federation of Small Businesses. We are here to take evidence on the National Audit Office Reports looking at the Government's devolution agenda. Although we are looking at one agenda, there are two reports in front of us today: one on English devolution deals—those in progress so far—and the other on local enterprise partnerships, an initiative that has been going a bit longer, which means that the NAO has got a bit more to get its teeth into.

The Committee is very clear that when money is passed down to local areas, whether it be local enterprise partnerships or through devolution deals to city regions, that does not absolve the Government of accountability for that money. Nevertheless, there can be a tension between local power and influence and what Government should do, and how we get that right is a big part of the debate. We are also keen to examine what capacity there is in local areas to ensure that the work being passed down to them is delivered, and how taxpayers can hold those local leaderships to account for the spending of that money and make sure that things are delivered.

One of the bigger questions that a lot of colleagues around the House have raised with us is how we will ever be sure that enough money—or not too much—has gone down locally. The Treasury may want to know that not too much is going down to a local level; it is about getting that balance. If it is not working locally, how does a local area go back and ask for more without the Treasury saying, “You’ve had your lot”? We have to get that tension out.

First, Stewart Jackson has a declaration of interest and then I am going to ask him to kick off the questioning.

Mr Jackson: Chair, I just want to declare that I am a vice-president of the Local Government Association.

John Pugh: I am also a vice-president.

Q1 Chair: We are rich with vice-presidents of the Local Government Association—so you are being watched, Lord Porter.

I go back to the point I just raised. I shall ask Lord Porter to start. How can you be sure, when you are negotiating these deals, that the right amount of money is being negotiated? Clever people in the Treasury and the DCLG are watching how this money is going down, there is a ministerial objective to get it down the line and you have to negotiate. Have you got the capacity at local level? You are from Lincolnshire; is the capacity there to ensure that you are going to get a good deal out of Government to deliver the agenda?

Lord Porter: I think we need to broaden the debate away from just the financial sense of whether this is a good deal; it is more than just the money. Some would argue that devolution is worth doing in its own right, without the additional funding that it might bring, just to be able to get greater local control over services.

Certainly, the Lincolnshire one has received less money than some of the first metropolitan deals that were going forward, but I do not see that as a barrier. Local government never has sufficient capacity to be able to do detailed bids. That is why the Government need to make sure it is as simple as possible for us so that we do not have further incidents like we have had this week in the Lincolnshire context, where all our legal officers were working over the weekend to make sure that the governance report is ready.

More lead-in time for some parts of the work might be useful, but if it is important to local councils to do the stuff, we will make the resources available; something else will be done slower than it would have been done otherwise. If the Government ever get back to the stage where they have plenty of money washing around, we will obviously make a good case for why we are the best

place to land it. But the prize, certainly from a local government perspective, is greater than the resource that we are putting in, and we will make it work—we will make the resource work.

Q2 Chair: Correct me if I am wrong—before I go on to the other witnesses—but my perception is that compared with Greater Manchester, Greater Lincolnshire was not quite such an entity in its own right. I will declare an interest: I have a lot of family in Lincolnshire, so I hope I am saying the right thing on their accounts. *[Interruption.]* I wouldn't want to intrude on private grief.

Seriously, Lord Porter, Manchester was well-established as a combined authority with a strong regional leadership anyway; perhaps not quite the same can be said in Lincolnshire. Do you think that put you at a disadvantage or at an advantage?

Lord Porter: Not a disadvantage, but we had to achieve things like trust in partners at a faster rate than would have been ideal. Ideally, we would all have been working together a lot longer. The seven districts in the county council have that arrangement, and we have been working well together, but with the two unitaries that have joined, there is the old geographical Lincolnshire thing that binds everybody together—although you will have guessed from my accent that I am not from there. They are a welcoming community anyway.

Manchester has a strong track record of people and partnerships working together and of leaders changing and partnerships still staying together, so that group of people is long tried and trusted. Lincolnshire met its first challenge two weeks ago, when we talked about some resource and how it would be deployed. I think they met their first challenge well—better than I would have anticipated, in fact—and agreed to do something for the benefit of the partnership that would not necessarily have benefited most members of the partnership, but it was necessary to make the partnership work. The longer you are working together, the easier it is to trust each other, because you would have built that up.

Q3 Chair: You are obviously speaking for the Local Government Association as well. There is that range—I chose those two as examples, but we are already seeing some deals that are supposedly done that are looking as though they might be unravelling a bit. There are letters to newspapers, people objecting and serious debates going on. Do you think that those authority areas are really wedded to it still or is a problem emerging already?

Lord Porter: If you ask anybody in local government whether they like the idea of devolution, they will all say yes. Some form of devolved governance has to be better for an area because you are bringing the responsibility closer to people.

In your opening remarks, you said that there is still a need for ministerial oversight and responsibility, but if devolution works properly that can't be the case, because if it is a devolved service, there is no way that a Minister or Secretary of State can, or should, be held to account for something if it fails. The blame should rest at a local level if the service has been devolved. As local government, we can't have it both ways: we can't say, "Can you give us the power to do this stuff and the resources to do it? And by the way, if we don't manage it properly, that's your fault back in London."

Chair: We will probably come back to the issue of provider of last resort. I will bring in Stewart Jackson, then Nigel Mills—I am just aware that Lord Porter has to head off, so we will focus on him.

Q4 Mr Jackson: The devolution deals are predicated on effectively no powers being taken from local authorities—principal authorities—such as county councils and district councils; there is some opaque issue about local enterprise partnerships, which has to be sorted out.

But just to play devil’s advocate, could you not make a case for saying in East Anglia, for instance, “We have already witnessed the upgrade of the A11, plans to upgrade the A47 and the A1, the “Norwich in 90” campaign and the bridge at Lowestoft”? In other words, these things have happened organically because of the vision and leadership of either the LEPs or the principal authorities and district councils. My question is: why do we need to move forward with devolution and transfer those ministerial powers, when the things that we want—effectively, infrastructure planning and business support—are happening anyway?

Lord Porter: That is the start, not the end of the journey. If all we ever get to is arguing about whether we build this road or that bridge, we will all have lost an opportunity. This should be about full public sector reform.

5 Mr Jackson: What does that look like then, Gary?

Lord Porter: Well, in Lincolnshire, we have got the health team now looking at designing more CCGs or all that STP, or whatever that health stuff is, outside our area. If we have a population of 1,060,000 or whatever, surely the health service should be designed inside the area.

If we have not got enough money as a country—everybody seems to have accepted that money has gone out of fashion and we don’t have enough to deliver all the services that people have come to want and expect—then we have to do something differently. You either have to push more down to local control, so that you can get the benefit of local experience working out how to do it, or go to a Russian system and centralise it all. But the hybrid model that we have clearly cannot do it. We have not got enough money in the system to carry on. My money is on pushing it local—and not just to local councils, but beyond local councils.

Q6 Mr Jackson: How are you going to manage the tension that has inevitably happened in previous reorganisations—that messy fractiousness? Certainly in the east, most people seem to be saying that the top tier will shrivel and disappear, so you will then have the strategic level and the districts. How will you manage that? It is going to be a difficult process, isn’t it?

Lord Porter: But nobody has said that that’s the model. People on one side of the argument are using that—particularly in the Anglia one, where people are saying, “Oh, well, you only want to do that because you want to get rid of the counties or the districts.” Well, reorganisation does not get rid of counties or districts; it gets rid of counties and districts. They would all disappear if we went down the reorganisation route, but devolution is not predicated on that.

I go back to the example of Lincolnshire because I live there. In Lincolnshire, there are 10 authorities sitting around the table plus the chairman of the LEP. In Manchester, there are 10

leaders of authorities sitting around the table plus the chairman of the LEP. It does not matter. The number is the number. If there is a criticism of the Anglia one, it is that there are too many people. It is like doing an accumulator bet: the more people you try to arrange a partnership with, the more the chances are that that partnership will not work. I would start off small and expand from that.

Q7 Nigel Mills: You made a bold statement that devolution would achieve better results than the current position. What is the evidence base for that statement?

Lord Porter: Because we have singularly failed now. Stewart has just spoken about a load of infrastructure projects that have been aspired to, but have singularly failed to be delivered. The A47 is still a death trap; you can't get anywhere. The bridge at Lowestoft is still a bridge. The bridge at Great Yarmouth is still—

Q8 Nigel Mills: With respect, Lord Porter, we are being a bit parochial here. What evidence does the LGA have for saying that devolution will produce better results?

Lord Porter: My staff will give you the full paperwork about analysing the cost of each type of service and how it will be broken down. Rather than me trying to have all the numbers in my head and giving you the wrong ones, I will make sure that my staff give you written answers.

Q9 Chair: We have a really good submission from the LGA on the issue. I am aware that we have other witnesses to bring in. Perhaps, Professor, you would like to comment on the wider point? Could you wrap into your answer the issue of how local representatives hold the new structures—the new mayor or combined authority—to account?

Professor Pike: On your point about the evidence base, we did a study in 2011 funded by DCLG. The international evidence for decentralisation and public service outcomes is extremely mixed. You can find arguments and evidence to support strong and weak decentralisation, with corresponding links to public service outcomes. From reviewing that international evidence, we concluded that the nature and substance of that decentralisation is most important in terms of what most influences the public service outcomes. It is how the decentralisation is designed, what objectives it has, and how it is involved in the local authority structures in a country. It is the size, shape and form of decentralisation that is important.

Q10 Nigel Mills: On size, does the evidence suggest that you need to have a certain level of population or something—a critical mass—for it to work?

Professor Pike: Yes, there is a certain scale in some of the international literature that suggests that it is sometimes cities and their regional hinterlands—the city regional model—that work best.

Q11 Nigel Mills: Are we talking about several million people, fewer than a million or 1 million?

Professor Pike: Yes, it varies greatly, as you would imagine, across an international context.

Q12 Chair: What is the range?

Professor Pike: The range would be, for example, from some of the prosperous parts of southern Germany, where there is not really an urban centre bigger than about 1.5 million people. It works quite well there with a federal-structured, two-tiered, decentralised system. You can scale that up to some American metro regions such as Chicago where there is a strongly federal, decentralised system and 15 million or 16 million people. It varies too much to draw any—

Q13 Mr Bacon: Can we use the southern Germany example for a second?

Professor Pike: Yes.

Q14 Mr Bacon: You say it works there with a decentralised, two-tier structure. Which two tiers in southern Germany are you referring to?

Professor Pike: We are talking about a federal structure in Germany—between a national level and a state level, effectively. Then you have local government beneath that.

Q15 Mr Bacon: So you are talking about the Länder and something below that as well. It is not actually a two-tier structure. Locally, it is a—

Professor Pike: It all goes to three tiers when you have city authorities beneath the level of the Länder.

Q16 Mr Bacon: When you said that there is not a metropolitan area larger than 1.5 million people, you mean a city of 1.5 million people with an area on top of it.

Professor Pike: City regions of 1.5 million.

Q17 Stephen Phillips: Our original bid in Lincolnshire was actually for the county of Lincolnshire, as Lord Porter will know, which was below 1 million. We had to bring in the unitary authorities from the north to push it over 1 million. Were the Treasury and DCLG right that fewer than 1 million was too small?

Professor Pike: You will have to ask them. I think the key thing, certainly in the way the process of decentralisation has unfolded in England in particular since 2010, has been a strong emphasis on big urban centres to try to address the local growth principle and rationale for decentralisation. As they have moved beyond the major urban centres for the City deals, Growth Deals and devolution deals, there has been a sense of trying to understand what makes an appropriate scale outside cities, hence the focus on these community-style deals.

Stephen Phillips: Thank you very much. I apologise that I have a delegated legislation Committee, but I shall come back.

Chair: You are busy with other legislation to deal with.

Martin McTague: There is a lot of good will in the small business community for this devolution process. We have surveyed quite a few of our members and got a generally positive response to it. I think the Government have got support in following this process, but at the moment, what we are seeing is really a private conversation between central Government and local government. There is some gesture towards involving business, but certainly very little in the way of involvement for small business. It seems to be—

Q18 Chair: What do your members think they're going to get out of it? What is the win for small business?

Martin McTague: They believe they will get closer to decision makers, which they believe will get better decisions. That is generally the view that most people are taking.

Q19 Chair: On things like infrastructure?

Martin McTague: Yes. They believe that some of their priorities will be responded to more effectively by local government than by central Government. But generally, I think the view is, "We'll wait. When the deals are negotiated at the central and local government level, that's when we'll get involved. It is at that detailed level that we think we need to be involved."

Lord Porter: Just to come back on that, in the one in Lincolnshire, that is not the case. The chairman of the local enterprise partnership led quite strongly with that. The Federation of Small Businesses is on the LEP, so I am assuming that the conversations I was having with my members, the chairman of the LEP was also having with her members, so a lot of that was driven—

Professor Pike: That is an exception, though.

Q20 David Mowat: I will ask the same question, actually, because the answer implies that your members are not engaged in the LEP, or that somehow the LEP does not adequately represent them in the geography that you come from.

Martin McTague: There is a very strong feeling among our members—we have given evidence to other bodies about this—that, at the moment, LEPs tend to be dominated by two vested interests: single businesses with a specific reason to be involved with the LEP, and the public sector through local government. There is very little, if any, involvement with small businesses across the country. If there is a small business involved, it tends not to have a constituency that it can refer back to.

Q21 David Mowat: Your point there is a different point, in a sense. Your point is that you think LEPs should have a bigger constituent in the small business community.

Martin McTague: They should, yes.

Q22 David Mowat: That may or may not be right, but in terms of the whole devolution agenda, I would be very surprised if in most places the LEPs are not a big part of it, and the LEPs are in many cases business-led. Perhaps the issue with small businesses is the fact that in lots of places, the chambers of commerce are strong and may have a voice, but in many other places, they can be quite weak. It is very patchy.

Martin McTague: It is very patchy across the country, but it is not even a matter of individual business organisations and whether they have representation. At the moment, the model is that individual businesses are meant to speak on behalf of all businesses. If 99% of all businesses have fewer than 250 employees, it is quite hard to represent that constituency. You might have a guy who has run a chip shop, but does that mean he can speak on behalf of every small business in his community?

Q23 David Mowat: Well, quite, but I am not sure what you are suggesting. It is almost an impossible task to have a—

Martin McTague: No, it is not an impossible task, because we made the point clearly to the Chancellor, and he backed it in the Budget recently. We feel that there should be a nominated person on the board of the LEP who has responsibility for that community. The process of reaching that—

Q24 David Mowat: For the community, or for the small business community?

Martin McTague: For the small business community. So, in other words, we recognise that it is harder to get to small businesses and have them adequately represented, but if nobody is accountable for that relationship, then nothing happens.

Q25 David Mowat: In fact, your evidence to us is that you think the LEP—I think this is a good idea—should have somebody on it who is responsible for medium-sized and small businesses. That is what you are saying, and it feeds into the process.

Martin McTague: Absolutely. And it is a two-way process. The LEP would be able to communicate with that community as well, and the other way around.

Q26 Mr Jackson: Professor Pike, is the problem of accountability and authority a cultural issue? If we look at police and crime commissioners, for instance, we have never had a culture of electing a police commissioner, so we have very low turnout and low interest in the elections, even this time. Given that the vast bulk of towns and cities that held ballots on a mayor said that they did not want one, with the exception of Bristol, I wonder if there is a danger, if a mayoral culture is effectively forced on these massive sub-regional entities, that it will lack authority as a result?

Professor Pike: Going back to the way that the process of decentralisation has unfolded, it has been quite ad hoc, a bit piecemeal and quite episodic; it has gone fast and then slow. It has had a lot of conditions put on it, and it has been slightly centrally-orchestrated. For all the talk of localism and decentralisation, the centre has really set the rules of the game with the timing of the framework, such as it is.

Mr Jackson: Perish the thought.

Chair: You've got to start somewhere. There is a bit of a trick in the name isn't there, to be fair?

Professor Pike: Indeed. The deals have been interesting in bringing quite a narrow cadre of actors together—elected politicians, appointed officials, external advisors—working in private. The decision-making, if you like, on long-term, large-scale decisions has been relatively closed and a bit opaque. That is where these questions about accountability and transparency really come to the fore. What you have then are wider sets of public actors—small business, trade unions, the civic sector, the further and higher education sectors, the environment sector—who feel a little bit out in the cold, certainly relative to where they were under the regional structures. The broader public engagement questions then become problematic, too.

It is as if we haven't really learnt the lessons from back in 2004 with elected regional assemblies, when there was not a great deal on offer, the public weren't engaged and it kind of fell into the sand. How can we do decentralisation differently to make it more of an open, inclusive process, so that it is not just an end in itself, but a means to better public service outcomes to make people's health and wellbeing and prosperity better, rather than a change in the structures for change's sake?

Q27 Nigel Mills: Professor Pike, perhaps going back to the lessons from the international evidence, what we will end up with here is a slightly patchy devolution, where some areas have it and some areas may not, and some areas will get everything and some will not get bits of it. Is that a recipe for success, or does that give you some concern that none of us will have any idea of who is doing what, where and when?

Professor Pike: The NAO's Report on devolution deals is very telling. The table that actually shows the different responsibilities that are now spread across the deals—

Chair: Can we just make sure we are referring to the right document? That is appendix 3 on page 43.

Professor Pike: Basically, through the approach the Government have taken, which has been a willingness to have a very localised, decentralised approach—albeit centrally-orchestrated—where you have these bespoke and tailored deals that are matched to local ambition and strategic planning, you are inevitably going to have this unevenness. Our work for the iBUILD research centre has basically revealed that the local areas like that, because they get a conduit straight to central Government to put their claims forward and develop their strategies and so forth.

There are also issues with it, too, in the sense that there is a lack of accountability, it is a very centrally-orchestrated process, and they didn't really know the rules of the game—what is on and off the table for these deals—at the start of the process. The criteria for what is or is not included

are not always clear. It is a novel, informal way of public policy making, which is quite new in the UK context. That produces these asymmetrical results. The proof of the pudding will be, with strengthened monitoring, assessment and evaluation criteria, whether those bespoke and tailored arrangements do the kinds of things that those areas want. That will be the true test of whether this system actually works.

Q28 Nigel Mills: There are two further questions that come there. You talked about whether we have bespoke monitoring and assessment regimes. I am not sure whether we are very clear on what those regimes are at all.

Professor Pike: Not too bespoke, because then it is all different everywhere all of the time; there are no common standards against which to measure things like value for money and so forth.

Q29 Nigel Mills: But do you think that, for this to be successful, we need common standards that could be used to assess how some of these important functions are working?

Professor Pike: Yes. I think it is a mix of both. To be fair to the Cities and Local Growth unit, it is trying to work towards that, in terms of trying to get frameworks in place to understand how to make sense of that, looking England-wide, to get these common standards. Clearly, there are bespoke and tailored things that each of the deals have been looking to do in their own particular areas, to address this infrastructure problem, that skills issue and so forth.

Q30 Nigel Mills: It strikes me that a lot of these deals are really quite similar. Everyone gets bus franchising and smart tickets. Nearly everyone gets rail and roads. Everyone gets land disposal and a mayor and social planning, and everyone gets the redesign of 16-plus education. In actual fact, there are little ticks that are not there for some, probably for some quite good local reasons. Do you not think that we started out with what we thought was a locally-negotiated thing, based on what we thought our priorities were, and what we have got is, "Well, you can have this", "OK, well we will take it all"? There are a couple of special deals in Manchester.

Professor Pike: Part of it is the process of deal-making, which both and local government and central Government have gone through. It is the idea of using the deals to promote governance reform, strategy-making and policy prioritisation in particular areas. There has certainly been learning by precedent, so "What did they get in their deal? Could we try to ask for that in our deal?" because there is no rulebook. There is no guidebook about what is on or off the table as part of this process. Places have inevitably looked at the deal that was last made and thought, "Yes, that would be something that we would like."

Q31 David Mowat: What I'm trying to get you to answer is this: are we going to end up with an effective system if manufacturing advice in Manchester is done by the Mayor of Greater Manchester, but next door in Liverpool it is done by central Government? That seems slightly bizarre, doesn't it?

Professor Pike: Does it provide a public service outcome for the public money that is spent, which has been appropriated for that area? That will be the guide. That will be the yardstick against which it will be judged.

Q32 David Mowat: But aren't you worried that central Government will lose the capability to pick manufacturing advice, and to do that effectively? It is now doing that in a third of the country rather than the whole thing. Would it not have been better to have that advice given locally everywhere, or nationally everywhere, rather than two thirds and one third?

Professor Pike: The gist of the idea is that you can have a much more pluralist approach, so different approaches can then be applied and followed in each area, appropriate to local partners. The economic base and structure in different city regions and regional economies are going to be different, so you are going to need different kinds of advice. It is hard to say you have a one-size-fits-all, top-down Whitehall blueprint that is characteristic of our very centralised system in the UK, and in England in particular, versus a system now where we tried to move, from 2010, towards a more decentralised, more bespoke, more tailored kind of system for delivering public policy. It goes back to the point that it is about the outcomes; a means to an end, rather than an end in itself.

Q33 Caroline Flint: Who do you think should be auditing the role of these new devolutionary arrangements?

Professor Pike: Obviously the role of the NAO is very important, in terms of following through on the public finance side of it. In some work we have been doing for the ESRC—the Economic and Social Research Council—looking across the issues and some of the responses to this, there is a sense that there is a bit of a gap, institutionally, in terms of maybe needing some kind of decentralisation commission that would look across the piece to try to solve some of these knotty issues about decentralisation geographies and the balance of funding. I am not sure quite where it would sit institutionally, but there is a bit of a gap between the centre and local levels. Historically in the UK we have had this oscillating pendulum in the post-war period between regional organisation, local, back to regional and back to local. We are maybe now drifting more towards a sub-regional set of institutional arrangements.

Q34 Caroline Flint: So there is a need for something to audit what's going on that is not there at the moment?

Professor Pike: Yes, it is a bit of a vacuum. If you look internationally, it is very unusual for a country the size of the UK to have no intermediate tier that deals with these issues that are bigger than city regions and local authorities. It is often some kind of, if only strategic, advisory and steering-type institutions that sit in that space, because it is quite a big space between the centre and the local in the UK.

Q35 Caroline Flint: You would agree that there has to be something of rigour within this that can do the number-crunching to see whether we are getting good value for money with taxpayers' money? Whether that is empowered locally or regionally or—

Professor Pike: Yes, for sure. The NAO sets the lead in terms of the rigour and the quality of its scrutiny of these things. You talked about opacity earlier, Chair. One of the interesting things is to look at the underlying economic analyses and evidence bases of all of the strategic economic plans that the LEPs produced, because there is quite a degree of unevenness across the picture relating to local circumstances and resources committed to these questions. The idea of having a more evidence-based, objective, stronger rationale behind the priorities that are being articulated locally would be helpful.

Q36 Chair: Can I just pick up on the local government audit, which is different to the role that the NAO plays nationally. Some of us remember the Bill going through that took out the Audit Commission, so there is no-one really to do the value for money studies in that gap. What would you see as the ideal set-up?

What would you see as the ideal set up? You said to Caroline Flint that there are different models; is there a good model anywhere else in the world, and is it costly? Presumably, it will have to be paid for by some part of the system. Where do you think that would best sit?

Professor Pike: That's institutionally, of course, the idea of having something in that space to follow through in the way the Audit Commission used to. We used to have the Improvement and Development Agency, too, which was important for the development, learning and knowledge sharing—that kind of stuff that was important, too. All that has been stripped out, and are we now realising that perhaps we shouldn't have stripped it out? We still need some of these checks and balances to keep an eye on what is done at sub-national sphere.

Q37 Chair: What's a good international example of what works?

Professor Pike: I'd have to have a look and refer back on that. I can send something through—

Chair: If you have any thoughts, please do write to us.

Q38 Mr Bacon: Doesn't the LGA do some of those functions that you were just talking about, in terms of sharing learning?

Professor Pike: They do indeed, yes. There is some very innovative partnership work between the LGA and Treasury, for example, in local partnerships on the infrastructure funding stuff, so maybe that is a mechanism through which these things can be done. But, the suggestion was that it is about rigour, teeth, a systematic, strong—

Caroline Flint: Independence.

Professor Pike: —independent appraisal of these issues at that level.

Martin McTague: The only point I was going to make is that LEPs have been around longer than these emerging combined authorities. In the evidence that we have gathered, we see a lack of rigour when it comes to analysis of their accounts. We couldn't find—I think it was less than 50% of

them actually produced auditable accounts that we could look at and see where they were spending the money. If that is the basis on which we have started, it is not good.

Q39 Chair: Just to refer colleagues, paragraph 3.19 in the Local Enterprise Partnerships Report shows that it is not even possible to know how much many of them pay their senior staff. Given that you are in business, and we know from the Committee's experience that businesses do not always want to tell us everything and do not have to because they are not public bodies, what would you recommend should be put in place to make sure that that happens? Would you see a kick back from businesses getting on board organisations if they have to be that much more transparent?

Martin McTague: I do. The two clear things, it seems to me, that there should be are, at least, a register of members' interests, which is lacking in a lot of the LEPs, so we can't discern whether there is some sort of vested interest involved in decisions that are being made, and some idea of value for money—we cannot even assess that. When it was on a fairly small scale, I think there was a bit of tolerance within the business community—we're not dealing with large sums of money here—but now we are talking about the local growth fund being quite significant sums of money, the tolerance for that kind of looseness is starting to disappear.

Q40 Chair: Thank you very much indeed. We look forward to receiving the written evidence from the LGA—I think there are LGA representatives in the room—on the wider issues; I know that the LGA has sent a letter on the LEPs Report, but perhaps more widely than that.

There is one other question that I forgot to ask—sorry, Professor. I think Lord Porter talked earlier about the boundaries. The geography is quite different for some of the different devolved responsibilities. The health boundaries do not seem to match up with the local authority boundaries. Have you looked at that issue and have you got any international examples of where that has worked well, or are they all coterminous?

Professor Pike: Yes, perhaps not peculiarly in the English context; we have not done our geographies well in terms of the political and administrative structures. The way in which decentralisation has unfolded since 2010 has magnified the difficulties. It is unusual in the English context to have—what we would say in the jargon—a coterminous set of boundaries. It works well in London and it works well in Greater Manchester, but outside those two, you start to struggle to find areas where the health area and the functional economic area, which the LEPs are meant to work to, and the combined authorities and so forth match up very well. We have quite messy, potentially dysfunctional, geographies.

Elsewhere, in other countries with federal systems, you have got this kind of two-tier structure between the national and the sub-national. Then the local government fits in within that—it is all nicely aligned and integrated—and maybe there is the potential to do things better: public policy outcomes might be better and better planned. Alternatively, if we are going to do things in a more asymmetrical way, we need to think about how we work with those rather messy geographies.

Chair: Maps—lines on maps—and politicians can cause a lot of argument. We are about to have the Permanent Secretary on to explain how she is going to deal with that, among other things. I thank you both, and Lord Porter, for coming and giving evidence. Do feel free to write to us. The transcript of this hearing will be out in the next couple of days. Our Report on this may be out towards the end of May, but we have a number of recesses. We will obviously send you a copy of

that. Thank you very much indeed, and do keep watching what we are doing, because this is a very big area of work for the Committee over the next four years.

Examination of Witnesses

Witnesses: **Melanie Dawes**, Permanent Secretary, Department for Communities and Local Government, **Simon Ridley**, Director General, Decentralisation and Growth, DCLG, and **Catherine Frances**, Director, Public Services, Her Majesty's Treasury, gave evidence.

Chair: For anyone who is interested, our hashtag for today's session is "localgrowth". Our second panel, the people actually accountable for delivering this policy and watching the money, are, from left to right, Catherine Frances, the Director of Public Services at the Treasury—welcome; I think this is the first time we have seen you at the Committee—Melanie Dawes, one of our frequent fliers, the Permanent Secretary at the Department for Communities and Local Government; and Simon Ridley, the Director General for Decentralisation and Growth at Communities and Local Government—sorry, HM Treasury.

Simon Ridley: You were right first time, Chair, actually: Department for Communities and Local Government. Don't be confused by the name badge.

Chair: Forgive me. Have you been in front of us before? I think you have.

Simon Ridley: I have, yes.

Q41 Chair: Yes, I thought so. Can I welcome you? You heard the whole discussion earlier. Melanie Dawes, I wanted to start with you, just to try to set the context. As I say, it is a very important issue for us and a lot of colleagues have raised issues with us over this—and it is quite challenging—about how you devolve and let go but also try to hold an accountability line. We talked with other people about accountability in Departments, and the Treasury—I think we'll come back to this—were quite complimentary about what you are trying to do on this, but we recognise it is a challenging area.

If you go to page 13, paragraph 21 in the summary of the Report, that first bullet point summarises what the NAO thinks, but we recognise that Ministers are entitled to make policy to let go and not necessarily set core purposes. I don't think we necessarily have a contradiction here, but I wonder if you could clarify where your thinking is on this so that we can frame the context of our discussion today, because we are hoping to have a really meaningful discussion about where this emerging policy is going.

Melanie Dawes: Thank you. I very much look forward to the discussion—thank you for inviting us again—on this topic. In the end, we are trying to reverse decades of centralisation, and the Government's approach is bottom-up—it is bespoke—and that means that we will get different areas choosing different selections of powers or budgets that they wish to be devolved and moving at different paces. What we are trying to do in the Department and what I take very seriously in my role as the accounting officer, is make sure that there is a framework in place so that we can trace those changes, so that we can be clear who is accountable and so that we have monitoring and

evaluation and assurance frameworks in place. It is an evolving landscape. We are very grateful for the NAO Report, because it is always helpful to have that advice—that independent scrutiny—in this area, because it is moving, and we take seriously your recommendations and look forward to what the Committee might say in this area, particularly in the area of scrutiny.

Q42 Chair: We appreciate it is difficult to set core purposes in one way, but it depends how you define it, because if you look at appendix 3 on page 43, which we referred to earlier, there is a lot of commonality across the different bits. You would have thought they might have all talked to each other before they put in. Clearly, some areas have certain differences, but there are a lot of common things there. Given that and that you are following the money down the line, when do you just say, “That’s it; we’ve let go,” and when do you say to an area, “Well, you’re trying to do what another area’s doing. Maybe you could learn from them and maybe we could follow and hold you to account better”? How do you set that framework from the centre and when do you let go?

Melanie Dawes: Often in DCLG and also in the Treasury, we’re trying to encourage Departments to let go. Old habits die hard: quite a lot of what we’re doing is pushing people to be more ambitious to take a different approach and to recognise the capability in local government to integrate services in a more effective way around the citizen and to know better what their local areas need by way of growth. We are often in the pushing seat, if you like, to try to achieve more change. Sometimes, where there is a very clear national policy—schools and academies are one example—the Government are very clear that they have a particular approach and that those powers are not available to be devolved. Sometimes that is the case. In other areas, and health and social care might be an example, there are very clear national standards. It is a very complex system. Achieving health and social care integration is something that everybody wants to achieve, but how quickly we can get there, given all the pressures on the system and the very serious considerations of making sure that the patient is well served through any change process, means that we are taking a more cautious approach in many ways. Manchester, with its very strong governance, built up over many years as you were saying earlier, is the place where the NHS and the Department of Health and Ministers have chosen to take a bigger step first. It depends a little bit on different areas.

Q43 Chair: Just picking up on that: if every area took on health—I know not all are—there would be some core purposes, agreed through your Department with the Government, about what that would mean for people locally, wouldn’t there? There are going to be some core purposes for some issues, if not necessarily for every area.

Melanie Dawes: Yes. Who knows? It is possible that we will see the Manchester model for health and social care in every area at some point in future, and we may well see it go further than it does today.

Q44 Chair: But they would have to adhere to national guidelines and approaches. There would be certain core basics that they would have to do. There will be some core purposes that the centre will have set previously that local areas will be happy to do; to do differently, maybe, but deliver the core purpose the same.

Melanie Dawes: Exactly. We will perhaps commission in different ways and integrate more budgets around the citizen in a different way. That is the opportunity that co-commissioning gives,

even if we are not actually devolving budgets or responsibilities, which is the case on health and social care.

Chair: I am going to bring in Nigel Mills, because we want to go a bit more into some of these areas. Nigel Mills, I will start with you, and then to Karin Smyth, both working together.

Q45 Nigel Mills: Don't you worry, Ms Dawes, that you are creating a bit of a mess? You are going to end up with some parts of the country having none of this and some having a lot, with all of them doing slightly different things. Is anyone going to actually know who is doing what, where, when and why?

Melanie Dawes: Well, I am a civil servant, so perhaps I am naturally tidy-minded. There are some people who say we should set out a clear national framework, but as you know, this is a policy decision that Ministers have taken. They want it to be bottom-up, to allow for more innovation, and to allow for areas to move at different paces, reflecting their own capability and clarity about the local partnerships that they wish to strike and believe that they can build new devolved powers on.

The most important thing for me, and the reason why I am comfortable about this as accounting officer, is that we have the frameworks in place. We need to keep on top of those, and the LEPs Report that we have in front of us is a good example of where we have had to do more to make sure that those assurance frameworks are working properly. We put in place more work to make sure that that is happening, but it is the framework that gives me assurance that, overall, we know what is happening at the system level.

Q46 Nigel Mills: Don't you think that, now you have got 10 or so of these deals, which are pretty consistent in a lot of things—there are some pilots and unique things—wouldn't it be better to say transparently and up front, for future areas that want one of these deals, that these are the core things they can have, so everyone knows they can bid for smart ticketing and bus franchising and apprenticeship grants for employers and whatever else is in there. Wouldn't that start to feel a little more consistent and considered?

Melanie Dawes: Sometimes I think we are damned if we do and damned if we don't on this. You could take that table as arguing that, in fact, there is a lot of consistency out there already. Local areas talk to one another, and certainly from a system level, when you are talking about, for example, devolving transport budgets, there comes a point, which we have more or less reached, where the Department for Transport is very clear that a devolution deal has a certain offer on transport that it is very happy to support and make happen.

We have a blend of things that are quite clear what the offer is. The investment fund is another example where it is pretty clear now what the offer is. We also have some clarity on the requirements, for example directly elected mayors. We are also trying to balance that with allowing scope for innovation, and we are still seeing that, but it doesn't surprise me that we have some commonality, because in the end what drives growth are the things that we know about: skills, transport and so on. These are the budgets that are bound to be in play.

Q47 Nigel Mills: What is the plan when all the areas that voluntarily want this have come forward, and you have got 20% of the country who have said, "No, it's not for us. We just don't fancy

it,” “We can’t agree a geography,” or something? You will just say, “Well, look, it’s crazy now that Derbyshire hasn’t got this, so you will have to find a way of taking it, or we will just lump you in with someone else,” or will you be happy, in five years’ time, for some areas not to have this devolution? You would have a few a civil servants sitting around trying to remember how to do bus franchising, because you do not have to do it very much now, or something. Will that not be a real, structural effectiveness problem, if you are not careful?

Melanie Dawes: I don’t know the answer to that question yet. We shall see. It is still quite early in the Parliament. We have struck quite a lot of deals in quite a short space of time, and a number of areas are still talking to us about striking deals. Each time I go and talk to local government—I go out as much as I can, usually every week, to talk to local authorities and local business leaders—I feel that the debate is moving on and that people are getting more interested in this, not less. We could see quite considerable further movement on this during the course of this Parliament, but where we end up I do not know. It could be that this is a journey for quite a long time.

Q48 Chair: May I just chip in? One of the issues that we touched on earlier, which is quite interesting and potentially very concerning, is the geography. You talk about the deals being done, but we are already seeing some concerns, and some of that might be reflected around the table—there is heavy East Anglian dominance on this Committee, for example. As Nigel Mills says, the geography does not always necessarily match up—you might have areas that are left outside, because they did not get in there early. That last lot, the last rump or the last half, might not be very coherent, but they might be forced to come together in a way that really does not make sense locally, or even nationally. Do you have any involvement in that? Because bottom-up does not always quite work; it may leave people out—I suppose that is the summary of that point.

Melanie Dawes: Simon might want to comment on this. Almost every area of the country is talking to us about the prospect of devolution, but at different levels and with different appetite right now. I think it is a good point: if you end up with a very small pocket that has been left out, that might be a concern. Equally, it might be a district council that just does not want to be a constituent member of any combined authority, which might be fine. It does not mean that the services will stop or that the council would be left out of the conversation altogether; mainly, it will be that it has just decided not to join in a wider package of devolution, but it would still be running its existing services. It is a fair challenge, but it is a little too early to say.

Q49 Chair: Perhaps we can hear Simon Ridley on this, because I can see that it sounds easy from your level, but it might be very problematic if you are resident in a very small area that is not covered.

Simon Ridley: A lot of what Melanie has been saying is that it is really important that we are a year or so into a process, which will be going forward for a number more years, in terms of setting up the deals that have been agreed and talking to places without deals. There is a legislative framework in the recent Cities and Local Government Devolution Act 2016 that provides the means by which areas that are not involved in a combined authority could join at a later date, if that is what they want to do, as well as the powers to form new combined authorities. There are a number of different ways in which the deals we have got and the discussions in other local areas could evolve over time. We are not, at any point, setting a map in stone that cannot develop as things emerge.

Equally, the powers being devolved in each area and the members of the combined authorities are known, so the debates that are going on in different parts of the country are known locally. As we make decisions and go through the statutory processes, there are a number of points at which the implications for services and for residents are considered both locally and centrally. There is a wide scope for a number of different outcomes.

Q50 Mr Jackson: May I just challenge you with an example? Mr Bacon will know this, because he has taken an interest in East Anglian devolution as well. Cambridge City Council has refused to have any part, at the moment. I understand that that is because the Treasury was unwilling to give way on the issue of affordable housing, which is Cambridge's No. 1 priority. You may say, "Well, they are a district council, so it doesn't really matter that much", but it is an economic powerhouse within East Anglia. My question to you is: how local is the devolution when someone like the leader of Cambridge City Council is saying, "We're desperately short of housing. We need a deal on housing," and the Treasury says, "That's not in the package. Take it or leave it," and the council walks away. It is a practical example.

Simon Ridley: It is important to recognise that the discussion across all the councils and leaders in East Anglia took place in the run-up to the announcement in the Budget of the East Anglia devolution deal. There is an aspect of that, to do with housing, which is different and bespoke to that area and is not common across all the other deals. It is critical that the partners who want to be part of the development and the implementation of that, the combined authority and the move towards the mayoral elections are consensual members. The Government is not forcing anybody to be part of the individual deals.

At the time of the Budget, Cambridge city did not sign the deal. We are continuing discussions with all the local partners as we take forward the work to implement that deal. We have not reached the statutory points of that process yet. We will keep discussing with all the partners to try to implement the deal. There is a proposal. A set of powers and funding are being devolved, a lot of which are bespoke to the area and unique to that agreement, particularly on housing. The local authorities that want to sign up have done so.

Q51 Mr Jackson: Yes, but it's a mess, isn't it? You have Cambridgeshire County Council saying, "There's not enough information. Go away and come back with more information." Norfolk, Norwich City Council and Peterborough City Council are doing the same. Breckland are saying, "No, we don't want to do it." Why was there not more collaboration, discussion and debate before this was announced? It is very unusual for all these local authorities to flatly refuse the present deal on offer.

Simon Ridley: There was a great deal of collaboration beforehand. This deal was worked up between the Government and the local partners. The local partners agreed to the deal—Cambridge city excepted—at the time of the Budget. There is a lot of complexity in developing the details of implementation, in setting up the combined authority and in that many partners coming together and finding new ways of working. We are working closely with all the local areas in that regard, as officials, to make sure they understand the processes.

Q52 Chair: Sorry—perhaps you could answer Mr Jackson’s point. You say they were set, but they are not agreeing the deals now, so there is some unravelling.

Simon Ridley: There is an ongoing discussion about implementing the deal.

Q53 Mr Jackson: They signed the letter because the Treasury said, “If you know what’s good for you, sign the letter,” basically.

Simon Ridley: Nobody has forced anybody to sign the letter. People have signed the letter on the basis of the deal that was agreed.

Mr Jackson: “Something might happen to your university in Peterborough—a tragedy might befall it—if you don’t sign the letter.”

Chair: We may be straying into political pressure territory, which is not Mr Ridley’s bag.

Simon Ridley: There was a development of a document that underpinned the deal, which the signatories and local leaders at the time felt they could agree to. We are continuing to take that forward. Some councils have had further local discussions and feel that, in different ways, the deal might not now be what they want to sign up to. We have not reached the statutory process to set up the combined authority that will be needed to get to mayoral elections in 2017, but we continue to work with all the partners on that. Everybody knows what is part of the deal.

Chair: We are going to come back to some of these specific issues. Did the Comptroller and Auditor General want to come in?

Sir Amyas Morse: No.

Q54 Nigel Mills: Will people in Cambridge get to vote for the mayor if their council has opted out, or is the opt-out irrelevant in that situation?

Simon Ridley: One of the critical things in setting up the combined authority is to determine the area. In setting up the combined authority, all the councils involved have to sign up to the area. The combined authority would not cover the area of the city of Cambridge on the basis that they were not signed up to it, so they would not be voting for the mayor.

Q55 Nigel Mills: An island of non-representation. So even though the upper-tier authority in an area signs up, the lower tier does not sign up. Is that right?

Simon Ridley: In setting up a combined authority, yes. Subsequently, it is possible to join.

Q56 Stephen Phillips: Coming back to the point that Mr Mills was making earlier—indeed, if you listened to the earlier witnesses and take this example, of which I was unaware—how could you have a devolution deal for Cambridgeshire that did not include the city of Cambridge, which is obviously the urban centre and the centre of the county?

Simon Ridley: That is a matter for all the individual councils that sign up to the deal and for Cambridge city, and for ministerial consideration.

Q57 Stephen Phillips: From the perspective of DCLG sitting here in London, presumably scratching your heads, it doesn't make any sense, does it? Even if, because she is a civil servant, you do not want Ms Dawes's perfection of coterminous everything, not to have Cambridge as part of the Cambridgeshire devolution deal would seem very strange and possibly counterproductive.

Melanie Dawes: Everyone would like the city of Cambridge to be part of the deal, but in the end this is a bottom-up approach. Nobody is going to force Cambridge to join if it does not wish to.

Q58 Stephen Phillips: But it's not that bottom-up, is it? We did not want a mayor in Lincolnshire and you forced us to have one.

Melanie Dawes: I don't think anyone from central Government is forcing a deal on a local area.

Q59 Stephen Phillips: All right, let me put it slightly differently, you can have a devolution deal, but only if you have a mayor. None of us—by which I mean pretty much all the Lincolnshire Members, the county council and all the local authorities—wanted a mayor, but if we wanted our devolution deal, we were told we had to have one. Why was that, Ms Dawes?

Melanie Dawes: As you have described, the offer that is on the table is for a combined authority with a directly elected mayor. The reason for that—in the end, it is a matter of policy—goes back to what you were hearing from the witnesses in the earlier session. It is about having stronger local accountability, so that the Government can feel confident about devolving bigger powers. If that opens the way for further devolution, that is the prize that local areas are signing up to.

Q60 Stephen Phillips: I understand that. I do not want to get into policy with you. I am taking issue with your suggestion that this is all bottom-up. In circumstances where we wanted something that neither DCLG nor the Treasury were prepared to give us, it was not all bottom-up, was it?

Melanie Dawes: It is a political negotiation—

Q61 John Pugh: But not a bottom-up one.

Melanie Dawes: I think it is a bottom-up approach.

Q62 Stephen Phillips: Bottom-up, provided that you agree with central Government.

Melanie Dawes: This is about local areas coming forward with their proposals and then entering into a negotiation with central Government Ministers about striking a deal.

Q63 Chair: We are in danger of straying into policy, but to take Mr Phillips's point to its logical conclusion, had greater Lincolnshire—the 10 authorities, the county and the other two—decided on and come up with a clear, solid, accountable approach about how they would work together to ensure that you could be sure that money was being spent properly, that they were accountable and that local people understood who was accountable, would DCLG entertain that? I know that you have a Government policy, so it is perhaps tricky for you to answer, but would that be something you would have entertained? Isn't it the accountability that is important, rather than the structure? Isn't that what you just said when you said the mayor is there for accountability reasons?

Melanie Dawes: We don't have a view about a particular correct answer for local areas. Those answers are emerging out of a process of negotiation. They are starting with proposals that local areas are putting forward themselves. Often, the local MPs have a view as well, and there is a process of political negotiation that leads to a deal being signed.

Q64 Chair: Perhaps that gives Mr Phillips a little door to push at. Good luck, Mr Phillips.

Before I go back to Nigel Mills and Karin Smyth and while are discussing Cambridgeshire, I want to ask about something else. This is referred to in a number of places in the Report, but I am looking particularly at figure 8 in part three on page 35, which shows a map of the west midlands deal that summarises some of the issues that Mr Jackson and others were raising about Cambridge. It also shows prospective non-constituent members—in this case Stratford-upon-Avon. Mr Ridley, can you explain what is meant by a non-constituent member, because it isn't entirely clear to me? Perhaps I am just slow.

Simon Ridley: It essentially means that you are a member of the combined authority but have not voted to be a full constituent member, which basically means that you have lesser voting rights and less of an influence on the decisions of a combined authority¹. You are sort of round the table but not as a full member.

Q65 Chair: So what do you lose out on by not being a full member?

Simon Ridley: Essentially, there is the same degree of influence over the decisions of the combined authority that are made—

Q66 Chair: Your residents don't vote for the mayor.

Simon Ridley: They do not.

¹ Clarification from DCLG: You may have lesser voting rights and less of an influence on the decisions of a combined authority

Q67 Chair: And what do you not get in other ways? You sit round the table and you have some of the same powers but not all, you said.

Simon Ridley: The combined authority is a statutory entity, effectively like a local authority, that is governed by a membership and that can determine policy in the various areas devolved to it, based on a set of voting and governance arrangements that are determined locally—a two-thirds majority to do this that or the other. As a non-constituent member, you have less or no voting to finally influence the decision. You are part of the discussion and you can represent the interests of your area directly, but you do not have the same level of decision-making power.

Q68 Stephen Phillips: Like Norway or Switzerland in the Councils of the EU.

Simon Ridley: It depends on the way the local area is set up.

Chair: That's a bit beyond Mr Ridley's area of expertise. He is a very clever mandarin, no doubt, but let's leave him out of Europe for now. We're going to come on to European funding in a moment.

Q69 Karin Smyth: In our earlier statements—unfortunately, we were a bit late, so Lord Porter had to leave—we heard the view that devolution in itself is a good thing, so we should let it happen. We also heard from the professor that objectives really matter. We didn't have time to interrogate that, but there are two slightly different views on that. He also talked quite a lot about outcomes. You said that you are letting that journey unfold and that you perhaps don't know how it's going to go. If we have an elected mayor in May next year, when will we have clear objectives for all of these deals? How are you going to measure them?

My final point is this. When we talked, a couple of weeks ago, about accountably for taxpayers' money, Sir Nicholas Macpherson talked quite a lot about your thinking in the Department, and we talked a lot about the fact that the data is not good at these levels. Can you talk to us about the objectives and when we will have them, and about the data at a local and a national level?

Melanie Dawes: That's a very good question. There are a number of different elements to it. Perhaps I can start by talking about the objectives for devolution as a whole, rather than in any individual area, because that, I think, is partly where Lord Porter was coming from. It is true that we've not set out a set of metrics by which the Government, at the macro level for the whole of England, expects to be judged in relation to devolution. I'm not sure that we've ever had any set of objectives for the centralised approach that we've lived with for many decades. In a sense, that is a policy decision. The Government made the decision that we can do better by devolving and giving more power to locally elected representatives, rather than doing everything at the centre in Whitehall.

When it comes to individual deals—and, indeed, individual Growth Deals, which were struck prior to the devolution deals that we are now talking about—we have put in place a framework that will allow for some evaluation against some agreed objectives. For example, in the case of the growth fund², we have agreed with every local enterprise partnership what their outcomes³ are and

what their trajectory is for the projects that they are expecting to deliver. We now have an aligned set of measurements of data—things like jobs created, homes built and so on—which is being used in every area, rather than the varied approach that we had at the beginning. There, we can be clear what the local growth funding is aiming to achieve, and we are tracking progress against those aims.

When it comes to devolution deals, in some areas we will have clarity about precise outcomes. For example, on housing, if we are able to agree a final deal in East Anglia, the housing element of that may well go with some specific house-building targets for that area, because we are essentially ring-fencing some of our national funding on housing for that deal area. We will almost certainly be agreeing some precise numbers there as part of that deal.

Q70 Mr Bacon: On that point, there have been a lot of housing targets over the last 10 to 20 years. What evidence do you have that housing targets work?

Melanie Dawes: The ultimate evidence is whether or not they are achieved.

Q71 Mr Bacon: Right. To restate my question, what evidence do you have that housing targets work?

Melanie Dawes: Where we've had individual programmes in the Department—Ms Smyth, I hope you don't mind if I just answer this question—as we did in the last Parliament, for example, on the number of affordable homes that would be built, we have achieved those targets. There's quite a good track record, actually, of delivering against them.

Q72 Mr Bacon: I was thinking of the 109,500 potential houses, which you will be deeply familiar with by now. You gave us a sample piece of paper that suggested that on 100 of the 942 sites, a few hundred houses had been completed out of the 109,500 potential houses. What evidence do you have that housing targets work?

Melanie Dawes: I had a feeling that you might be referring to public sector land, Mr Bacon.

Q73 Mr Bacon: Not only that, actually. There have been lots of targets; there were targets in the Barker report. It wasn't a point about a particular political party. There have been lots of targets under all parties of all political persuasions. I'm just interested what evidence DCLG has that housing targets work.

Melanie Dawes: The objective of the public sector land programme was to release the land. Without rehearsing in too much detail what we have discussed before, that target was met. There are some questions about including sites prior to the programme starting and so on, but I think we understand about the land release elements of that.

² Clarification from DCLG: Local growth fund

³ Clarification from DCLG: outputs rather than outcomes

Q74 Mr Bacon: Housing targets are really what I'm asking about.

Melanie Dawes: The figures that we sent you, in an attempt to shed some light on this, show that, for sites where we have judged at the point of sale that homes were on track to be built, when we look back at them some years later, they are still on track. If anything, more homes are going to be built than were planned at the time we sold the sites. Those data were a snapshot; they only actually related to sites where no homes had already been started.

Q75 Mr Bacon: That was not the purpose of my question. You mentioned housing targets; you seemed to say that, with the new deal and with the new local authority structure—perhaps a combined authority—there would be housing targets. I wanted to know what evidence there is over the last 10 to 20 years of attempts by the centre to impose housing targets, and what evidence there is that housing targets have produced the required result.

Melanie Dawes: Programme by programme, I think we have the evidence that individual programme objectives have been met or have not been met.

Q76 Mr Bacon: But there's a huge gap, isn't there?

Melanie Dawes: Has that been sufficient to tackle the nation's housing shortage? No, it has not. We have an undersupply of housing in this country—I think we agree on that.

Chair: We are going to park this now, because we have some other issues on housing, because the Manchester deal has housing funding, which we will come back to. I want to go back to Karin Smyth.

Melanie Dawes: I was halfway through my answer. I was trying to explain how we will know whether devolution deals have been successful; I was saying that in some areas we will have quantified targets, possibly on housing, in the case of East Anglia, but in many other areas what I hope we will see is mayors coming forward with manifestos on how they will use these powers. At our last hearing, you rightly pointed out to us that we need to make sure that all the work we are doing in central Government with local authorities has some resonance at some point for local people, so that that democratic process can have some reality and can have some life breathed into it. What we are doing at the moment to try to make that happen is agreeing with every single deal area what its implementation plan is at the high level—although, as I said, in some cases, that will be for local politicians to decide further down the line. We are making sure that there is a clear accountability statement for every deal area, so that those of us who are accountable know what we are accountable for. The next task will be to make sure that there is a clear communication plan of what those new powers are at the local level, so that that democratic process can have some clarity to it and can then become real in a way that is significant for local people.

Q77 Nigel Mills: But no general growth targets? You are not going to say, "For this devolution deal, your target is x thousand jobs or x percentage growth in the local economy."

Melanie Dawes: No, we have not asked for that with the devolution deals. That is a policy decision: not to try to require that to be set up.

Q78 Nigel Mills: Except you sort of have, haven't you?

Melanie Dawes: We have in some cases.

Q79 Nigel Mills: Because the £30 million—generally, it is £30 million, for all the deals bar two, I think—is for 30 years, but with a five-year assessment of how that area has contributed to national growth. So, presumably, there must be some measure there: “Your area has not grown enough,” or “Your area has grown enough.”

Melanie Dawes: We are just putting the final touches at the moment to the procurement for that independent panel evaluation that you referred to. That is quite an important part of the evaluation for the devolution deals—in particular, for the investment fund. That evaluation will take place in five years' time, when there have been enough years to judge the success of policies that have not yet been put into place. It will inform the Government's decision to release further tranches of funding in those 30-year costs.

Q80 Nigel Mills: What you are saying is, “We won't set you a target that you know, that you can work to and that you can independently assess to understand whether you are hitting it or what has gone wrong. Every five years some random committee, whose make-up we don't know, is going to do some kind of assessment and make some sort of recommendation, based on some sort of criteria that are not very transparent, on whether you get to keep your £30 million for the next five years or whether you lose it.” Is that not worse than having a target?

Catherine Frances: In the case of the investment fund that is going to different areas, there has been a conscious attempt not to dictate from the centre what local areas would spend that money on, because that is a set of decisions that will have to be made down the line, and it is quite appropriate that that is the case. What we and CLG have worked on together is a sense that we need to be robustly and independently evaluating what is being delivered and what the benefits are in terms of economic growth. In a sense, we need to be trying to capture some kind of economic growth measurement and asking independent academics to do so, because they are best qualified to do so. It needs to be designed for us not simply to look at a set of output measures, but to look at the overarching outcomes that we can see from that investment.

I also make the point that the Department, in releasing the funding, has worked up an assurance framework for single pot money—that is a set of money that goes to the devolution deals—to ensure that each local area has a value-for-money framework up front. The combination of those things is fairly robust and quite innovative, actually.

Q81 Caroline Flint: Who is going to do the auditing in all that? It is great to hear about being robust and independently evaluated, but apart from an academic study, who will do the auditing?

Simon Ridley: I think it is probably worth taking half a step back. We will be devolving a set of money that includes the investment fund to each of the combined authorities. We are asking them to have a local assurance framework, so that the projects they determine and the means by which they determine their investment strategies are based on some economic assessments. They have the kind of rigour to do that. Beyond that, for the investment funds specifically, there is an independent assessment of the economic impact of that to provide some assurance, because this is still money flowing from the centre. Combined authorities will then be audited locally, as local authorities, in the same way that councils are. They will be auditing their budgets and their finances.

Q82 Chair: Are they audited for proper propriety, not for value for money? Local government auditors are not—

Simon Ridley: So, the money will be seen through the independent assessment of the economic impact of the investments that the combined authority is making.

Q83 Karin Smyth: Is that by you coming here or by some combination of them going somewhere locally?

Melanie Dawes: We are procuring a pretty cutting-edge economic assessment. A panel will do that work. It is quite a complicated economic assessment, because it requires you to work out in quite a complex landscape what the different interventions will have achieved. That will all be very open and transparent. It is a very major piece of work. It is not something that is a small or minor piece of work at all. I think it is quite a significant investment, actually.

Q84 John Pugh: I just want to clarify a factual point. The £30 million standard bond that Nigel just referred to, which is what comes with most city region deals—you referred to it is as a fund—is it invariably just a revenue sum, or is it part revenue, part capital or what?

Simon Ridley: It varies slightly between the deals. It is largely revenue. Sometimes it is a mixture of revenue and capital.

Q85 John Pugh: So it can be revenue and capital, as long as it adds up to £30 million.

Simon Ridley: Yes.

Catherine Frances: The individual deals have a slightly different balance of capital and revenue as a result of the negotiations that happened with each place.

Q86 John Pugh: It all adds up to £30 million.

Catherine Frances: It adds up to the figures in the NAO Report, which are not £30 million in all cases.

Sir Amyas Morse: I just wanted to ask something. Supposing things were not going according to plan—I am sure they will, but supposing they did not—how fast would you know about it? In other words, you are in a position where you have not set targets and you are waiting to see, and I can understand you wanting to wait to see whether the economic benefits are delivered. I remember looking at some previous growth plans where people optimistically set up sites where nothing was going on at that moment and people just built industrial buildings where no one ever came to do any business and nothing very much happened. I hope that won't happen, but supposing that something happened that was clearly, setting aside the economic assessment, just plain not good practice or not working in anyone's money—how soon are you going to know about that? How big has the noise got to get before you start being able to react to things of that sort? I may not have picked that up from the discussions so far.

Melanie Dawes: Where this is a truly devolved power—for example the investment fund or some areas of skills, which are going to be operating in a much more devolved landscape than they are today once the devolution deals have been implemented—we come back to the power of local scrutiny. That is why all combined authorities are required to have much stronger scrutiny committees. I think that is an incredibly important part of this landscape.

Q87 Caroline Flint: I think the power of local scrutiny committees is a pretty mixed bag. I declare an interest: my husband is a councillor, and he is the chair of a committee of the council. They do not have independent support to their work; it is usually a senior departmental officer. Try though they might—and they do—there is very little resource in lots of local authorities to provide that sort of independent evaluation in the same way as our Select Committees have.

Melanie Dawes: We will be coming forward with proposals on this in the next few months. It is one of the requirements of the Act that we put in place stronger scrutiny arrangements, and I think it is a very important part of the framework that this really does work. I take your point that, at the moment, it isn't strong enough.

Q88 Chair: Maybe Karin Smyth wants to come in on this as well, but many of us have been in local government. A number of us have been through the different models, including the scrutiny models. I am not decrying my colleagues in local government, who do a good job, but inevitably, because of the resourcing, they will look at a slice of public service but could miss a huge other area. They also do not have a local equivalent of the NAO, because the audit of local government is purely on finance and not value for money.

Bear in mind—one of your predecessors spoke about this—that when Oxfordshire was looking for independent members for its new audit panel, under the new arrangements, they could find only one person in Oxfordshire. I wouldn't want to decry Don Valley—there may be a lot more people willing to do it in Don Valley—but if in an area like Oxfordshire it is hard, I imagine it must be hard in other parts of the country. There is a serious capability gap there, is there not?

Q89 Mr Jackson: Can I say, Ms Dawes, as you will well remember, although the meeting was truncated, we were here five months ago talking about fire and rescue services and fire authorities, which are also combined authorities. I went through a litany of what I would call dodgy practice, and one example in particular where, although you did have oversight and scrutiny, it did not work, to

the extent that your predecessor and Ministers were writing to them about their financial practices and the remuneration of the chief officers, and they completely ignored you. If you extrapolate that into these big combined authorities, I am very concerned that, without an audit commission, there will not be appropriate oversight and scrutiny.

Melanie Dawes: This is very important, and I hope that you will challenge us when we come forward with our proposals to make sure that they are strong enough.

Q90 Caroline Flint: When will that be?

Melanie Dawes: It will be very shortly—in the next few months.

Chair: We will do pre-scrutiny, if you like.

Melanie Dawes: We are currently in local government purdah, so it will not be in the next week or so.

Q91 Caroline Flint: Before the summer recess?

Melanie Dawes: I hope so, yes, but that will be a decision for Ministers as to when they bring them forward.

Q92 Caroline Flint: Are they well advanced?

Melanie Dawes: Yes, they are.

Q93 Chair: We will look forward and willingly find a gap in our diary to do that.

Melanie Dawes: What we are trying to avoid here is a situation where central Government have a hair-trigger and jump in too quickly. If we are going to devolve, we have to recognise that we are taking some different risks here, and that is part of what we are trying to achieve. I am under no illusion that we need to make sure that these local arrangements are really strong. We also need to make sure that the political process works really well, and that there is clarity for local electorates about something meaningful that they are voting on when they are electing mayors next spring.

Q94 Karin Smyth: That leads neatly into my follow-up question, because you said something very interesting about mayors and manifestos. It is helpful to think through the process of timing. After the local elections, the areas that have been offered devolution deals will come back by July and say whether or not they accept them. Is that right?

Melanie Dawes: Simon may be best-placed to set out the process.

Simon Ridley: Would it be helpful if I went through the high-level timeline? All deals have to come forward before the summer with what is known as a governance scheme⁴, which is the detail

of how the combined authority will be set up, where it needs to be set up, the voting arrangements and, crucially, the powers that will be devolved to the combined authority and the mayor. That is then essentially consulted on through the summer—

Q95 Karin Smyth: Consulted on in Government? Or for the electorate to look at?

Simon Ridley: No, it is published and produced locally. The local area then presents the scheme or writes to the Secretary of State, who then has to consider it and determine it, and we then need to produce an order. That will happen in September or October. That order gets laid before Parliament and made by Parliament, and we want to have that in place six months⁵ ahead of the elections for the mayors, which are at the beginning of November⁶. Then there is a period into the election.

Q96 Karin Smyth: It is incredibly tight.

Simon Ridley: It is a challenging timescale.

Q97 Karin Smyth: In November the local area will have agreed what is in there; what they are prepared to do; how they will sort out governance locally; and which local authorities are in or out—we had a problem in Bristol that some may be in or out—and that is the deal. We then have an election with a mayoral manifesto about what that mayor will want to do. So it is not just accepting the deal but saying what the mayor would like to see and how they would like to see that go further forward. So in May, when a mayor is elected who says, “I want to have an authority that does much more than this—health and so on,” they will come back to you and negotiate further. Is that how you see the journey progressing?

Melanie Dawes: It is possible that you will see powerful local mayors coming and asking us for more. We have agreed more with Manchester since the November 2014 deal: they have come back and challenged us in a number of areas and in successive decisions we have given them more. It is entirely possible that that will happen.

Q98 Caroline Flint: Has that happened with police and crime commissioners?

Melanie Dawes: That is a slightly different context, in that they have taken on responsibilities that were already there.

Q99 Caroline Flint: They are elected, though, aren't they?

⁴ Clarification from DCLG: governance review and scheme

⁵ Clarification from DCLG: they want to have laid the orders in six months rather than have it in place

⁶ Clarification from DCLG: elections will be in May 2017

Melanie Dawes: Yes, they are.

Q100 Stephen Phillips: But they were elected on very small turnouts, weren't they?

Melanie Dawes: Yes.

Q101 Stephen Phillips: So we will have these very powerful mayors in these combined authorities where there are devolution deals. Are you not worried that, rather like police and crime commissioners, local people will not understand that they are quite powerful people and only one in five of them will go to the election?

Melanie Dawes: This is a new part of the political landscape and I am sure it will evolve and strengthen. We have seen, though, in the last couple of decades how the London mayoralty, despite still being a very young institution in its current form, has developed into being a prize that is seriously worth having, that people do really care about—

Q102 Stephen Phillips: There is a general understanding that the London Mayor has got a lot of power and he is quite important in London. If I go and knock on doors in Thorpe on the Hill, where I live, and ask people, "You know we're going to have an elected mayor?" they will say, "Oh yes, we know there's going to be an elected mayor for Lincolnshire." I will ask, "What powers will he have?" but they will not have any idea at all. They will think it will be someone who will turn out in a nice chain, a red dressing-gown and a tricorne hat—

Chair: I think you mean a red robe. We don't want to upset—

Stephen Phillips: No, I mean a red dressing-gown, and a nice tricorne hat at the appropriate moment. *[Interruption.]* Forgive me; there is a serious point here. How are you going to get the message out there that these elections will be very important?

Melanie Dawes: To be clear, we will not be prescribing what mayors should wear from central Government, but I think it is a very fair challenge: we do need to make sure that local areas—the combined authorities will have been set up by this stage—do a great deal to communicate with their local communities what is on offer and what is at stake.

I think we will see successful mayoral models growing over time and becoming genuine figureheads, which can attract more concessions from central Government over time, if I can put it as boldly as that. We have seen the mayor in Bristol operate in a successful way over the last few years, although obviously a new model is being introduced beyond that. There is certainly no lack of a sense of responsibility.

Q103 Chair: I am aware of the time. There is a lot of enthusiasm in the room both ways on the subject, so I urge colleagues to ask tight questions and ask you, Ms Dawes, to be a little briefer in your answers. Others should indicate if they want to make brief points.

Q104 Mr Bacon: While we are on the point of any elected mayor, the money and the powers, could you clarify something? Figure 6 in the devolution deals Report says that many areas in the devolution deals have got exactly £30 million, and East Anglia is one of them. I am looking at page 72 of the Red Book, which refers to the devolution deal with East Anglia having a “£900m gainshare pot,” which, conveniently, would be £30 million a year over 30 years, but it adds, “£175m ring-fenced housing fund and devolved transport and adult skills budget,” which would take one up to £1.075 billion. Then there is £151 million on top of that for river crossings at Lowestoft and Ipswich, £50 million for a new world-leading centre for food and health research at Norwich, and £5 million to redevelop St Albans City rail station. The total in the Red Book for the East Anglia deal appears to be either £1.281 billion or, if those last three that I mentioned are, as it were, preordained, the £900 million plus the £175 million, so £1.075 billion. Were it to happen and come forward, the elected mayor, whoever it is, presumably would sit over a four-year period. Would it?

Simon Ridley: Yes.

Q105 Mr Bacon: So you certainly do not want to tell the locally elected mayor what to spend the money on. The amount is either £30 million or slightly more than that, multiplied by 30 years but really, effectively, the next four years. You are talking about roughly £160 million or £170 million-ish over those four years. Are you saying that that elected mayor person will have complete autonomy over what that £150 million or £160 million gets spent on?

Melanie Dawes: Not complete autonomy, no. This is operating within the framework of a combined authority with other local leaders as part of that.

Simon Ridley: Yes. The combined authority locally would have complete power to determine an investment strategy based on that fund. Where that fund is revenue, they have scope to use it for borrowing, for transport investment—

Q106 Mr Bacon: How will the revenue-capital split be decided?

Simon Ridley: It is in the individual deals, dependent on what was agreed. The decision making will depend on the precise governance of the individual combined authorities. The mayor, clearly, is the lead of that. He or she will need to agree it with the whole combined authority, but there is no central Government input into what that investment strategy is; it is determined entirely by the combined authority.

Q107 Mr Bacon: Right. I am slightly puzzled. I am trying to understand the rationale for an elected mayor, really. You said in your earlier answer that it was something to do with giving central Government the confidence to devolve more of these powers. There was a time, many years ago, when local government had a lot more confidence and power and central Government did less. Local authorities—Birmingham, Bolton, Norwich and whoever—issued bonds in the markets and then did things as a result of raising the money. That was without all these extra layers. What is the rationale that says you must have an elected extra layer—effectively, a fourth tier of government—in order to make this happen?

Melanie Dawes: It is a policy decision. Ministers have been very clear that this was part of their manifesto.

Q108 Mr Bacon: I am not questioning the policy; I am asking you to explain why there is a need for this.

Melanie Dawes: I agree with you that there have been times in its history when local government has done more. This is a policy decision that Ministers have made, that investing in strong political leadership in an area will galvanise a stronger relationship with central Government, yes, but also the ability to pull local people together around a common agenda. There is some evidence that mayors have been successful in other countries in driving that more sub-regional or city-based growth strategy, partly from a political level and partly simply in terms of policy.

Q109 Chair: Well, we have had a very mixed picture in the UK. We will not go through all of that, but I have a very good mayor in my area—

Simon Ridley: Chair, may I add quickly to Melanie's answer? The other key point here is that the local area is setting up a combined authority across a functional economic area, bringing together a large number of other local authorities, so it is providing a clarity of leadership for the agenda across an area that actually involves multiple local authorities. As we get into those geographies, it is the clarity of that decision making that is key.

Q110 Chair: What if you get a mad or bad mayor who does something terribly wrong? Do you think they are going to be held in check by the leaders of the local authorities? When do you intervene? You talked about risk earlier, Ms Dawes. What is your assessment of where risk will lie?

Melanie Dawes: What that dynamic between the locally elected leaders will be is a good question. Simon is quite right that this is about the combined authority and the mayor. It is not just the mayor that is the additional governance; it is both. That is a good question. It remains to be seen. I cannot imagine, though, that local council leaders within the combined authority are going to be sitting quietly and saying nothing if they disagree with where a mayor is coming from. But in the end, mayors will have an electoral mandate, which they will also be bringing to the table. So I would imagine that this is going to be quite an active debate, but it is hard to predict that from where we sit here.

Q111 Chair: Just to be clear, can a mayor impose a two thirds majority requirement, because Simon Ridley mentioned that?

Simon Ridley: In the main, there is a requirement of a majority around the combined authority. The precise way in which that majority is achieved and the precise proportion of it will differ local area by local area, through the deals, but the mayor has to operate, essentially, under the control of the majority of the combined authority.

Chair: We will probably come back to this. I want to bring Nigel Mills back and then Karin Smyth, if you have got anything else.

Q112 Nigel Mills: Finally, we will try to move on to look at local capability to deliver this change. I was looking at the experience of the local enterprise partnerships. What is your assessment of how well LEPs have worked? How effectively do they operate? Are you confident in their performance?

Melanie Dawes: Yes, I am confident in LEPs' overall performance. What we have seen them do over the last few years is pull together in some areas very strong strategic economic plans, which have persuaded us to invest quite significantly in Growth Deals. Where they have worked really strongly in partnership with the local political leadership, we have seen particularly persuasive arguments in favour of devolution deals. That has not happened in every area; some LEPs are not as strong as others and in some areas the local political leadership has not been as willing to engage them, so it is not a uniform picture, but are they making a difference? Yes, they definitely are.

I said at the very beginning that it is really important that we have the framework in place. I think we have put in place a good framework for local enterprise partnerships. The assurance framework we began to audit the moment we put it in—so we required LEPs to put in frameworks in April 2015, and we included a plan to audit as part of DCLG's 2015-16 internal audit plan, whether anything was actually happening on the ground. That work took place in 2015 and early into this year, at the same time as the NAO's fieldwork was taking place. It was very helpful in telling us where LEPs were not putting in place the framework. We have now acted on that and have required LEPs individually—we have told them where their failings were; we have written to them individually and required them to come back again and tell us through their section 151 officers, who are accountable, what steps they are taking and to confirm that they have addressed those failings as we start this new financial year.

Q113 Nigel Mills: Do you think that 39 is the right number?

Melanie Dawes: Broadly the right number? Yes. Again, that is to some extent a policy decision, but it fits with the evidence that we have. We may well see some change. Some LEPs are talking about coming together, but equally we might see some that are quite large.

Q114 Nigel Mills: But there is none that you think you will forcibly merge.

Melanie Dawes: No, we do not have a strong view here. In any event, if LEPs think they could do a better job if they slightly change their boundaries, we would be happy to listen to that.

Q115 Nigel Mills: Page 28 of the LEP Report sets out that the Government chose to band local enterprise partnerships for the Growth Deal—in effect based on their governance arrangements—into ones that would have low flexibility, ones that would be medium and ones that would be high. Presumably that banding means that some were a bit more risky to give money to than others, so you have to try and control what they did with it, and some you were prepared to trust completely to decide what they did with it. Is that banding reflected in the devolution deals, as to whether you thought, "That was a higher-risk LEP, so we're not going to do a devolution deal with that area," or have you left these things completely separate?

Simon Ridley: It is neither one nor the other, in the sense that there are no rules such that whether a LEP is in a particular band it means they can or cannot have a devolution deal. Devolution

deals are proposed between the LEPs and local authorities and are discussed on that basis. Clearly, as we are discussing the devolution deals with places, we are also discussing with them how we will implement the deals, how we will take the deal forward, and the capacity locally, but the fundamentals of the deal depend on the political and LEP leadership in that area, and agreement with Government.

Q116 Nigel Mills: Do you not worry quite significantly if an LEP has been there for five years and you are not all that confident in its governance, so you want to be relatively restrictive on how it can use money it has now bid for? Would you not think, “Well, I’m not sure local arrangements are quite strong enough here for us to proceed”?

Simon Ridley: The first thing I would say is that I would not overstate in the low-flexibility group, and some of the LEPs that we—you know, there is a sort of—kind of, incredibly, kind of fundamental concerns. Secondly, there are a relatively small number of LEPs in that category. Clearly, as we are working with places, as we implement devolution deals and establish the various mechanisms that we have talked about, we are discussing with local areas and combined authorities questions of capability, and local areas will want to deliver and generate the gains from that investment. So it is an ongoing conversation, as quite new bodies continue to develop.

Q117 Nigel Mills: I guess the feeling from the NAO Report, if I am going to give a quick summary, was that the NAO was not quite sure that governance and accountability arrangements—everything—were in place, tested and audited, to be very confident that these relationships and structures were always working how we want them to. And yet we seem to be doing something similar, with a fair bit more money involved, without even trying to make sure we have fixed the weaker ones.

Melanie Dawes: It is perhaps important to make two points here. One is that the LEPs’ role is strategic, so their role is to come up with the local economic plan and to engage the local business community on it as widely as they can to work on it in partnership with the local authorities. However, for the most part they are not delivery bodies; they rely on their local partners and a lot of capability in local Government to oversee the delivery.

It was on that basis that we judged that the right thing to do was to go ahead with the first year of the local growth fund, as we were putting in place the framework of assurance, but to audit it immediately, so that we could immediately test for any weaknesses and identify what they were, and then act on them quickly, which is what we’ve done. So it was a conscious decision to go ahead, but to test straightaway.

Q118 Nigel Mills: So the LEPs rely for their success on the delivery by their local partners—the local councils—because not that much private sector money has come in, has it? And those same councils will be the ones that are there to hold to account the mayor and presumably deliver most of what he wants to do, seeing as he or she will not have much of their own resource or teams or capacity. Effectively, it is the same people in the same local authorities who are trying to be the delivery mechanisms for both, at a time when they are facing quite significant funding challenges.

Do you actually have confidence that there will be the skilled people on the ground to implement smart ticketing and the buses thing, and all these other new powers? Where are these skilled people going to come from at a time of funding restraint in all those partners?

Melanie Dawes: It is something that we discuss, both in relation to local Growth Deals, which the LEPs are responsible for, and the devolution deals, which are being led by the combined authority and ultimately the mayor. So, in the case of the former, each year now we are conducting a financial sustainability assessment for each LEP, which means that the concerns that LEPs set out in the NAO Report will be brought out, if LEPs wish to raise them with us, and that will include an opportunity for them to say, "Actually, the real problem here is not our resources—it is the local authority's resources that are the problem". And we can get those issues out on the table and discuss them with the local authority involved, if necessary. So that is on the LEP side of the balance sheet.

In the case of combined authorities and devolution deals, will they have enough capacity? That is something that we keep under discussion with them. In some cases, for example the Manchester housing investment fund, they need new capability to run those funds, because they are effectively operating a brand-new loan scheme, which is a bit like a bank. And we have invested a lot of time and effort, through secondments and so on, in helping them to build that up, by way of providing support, but also to make sure we have got the right assurance as we devolve that money to them.

Q119 Nigel Mills: But how many civil servants who have been doing rail, or roads, or smart ticketing while sitting in Departments round here will you try to send out to these new authorities, so that they can keep using their skills and so that we are not paying people off here to have them reappear somewhere else, or not reappear? Presumably, for this to be effective, at some point we need to have people who are employed here not being employed here and doing the job somewhere else.

Melanie Dawes: At the moment, we are not planning a transfer of specific resources as part of the devolution deals. What we are offering local areas is the opportunity for secondments or to tap into expertise in Whitehall in particular areas if they need that. That is often very welcome, but equally, most local areas want to go it alone and do not necessarily want Whitehall people coming to tell them how to do things, just in a different way from how they told them to do it before.

It is something we keep under review. It is not something that local areas are particularly raising big concerns about. That is partly because the combined authority areas we are talking about often have quite a lot of capacity. When you put all of those local authorities together, the combined authority gives them a chance to pool their resources and to sometimes pool slightly more strategic resource than any of them were individually able to do before.

Q120 Nigel Mills: How many fewer civil servants in the Departments that are participating in this devolution do you think there will be by 2020?

Melanie Dawes: We do not have a figure for that, because it is not an explicit expectation that there will necessarily be a quantified reduction due to devolution deals, but all Government Departments are making savings again in their administration budgets as part of this spending review period. My Department is, BIS is, Transport is and so on.

Q121 Nigel Mills: But we are creating a lot of cost. If we did a devolution deal for every LEP, we would have 39 mayors with all the support staff and everything else. Are we really saying we are going to add all that extra cost in and not have any idea how much we take out somewhere else? Do you not worry that we are just adding an extra tier on to a load of costs for my local council tax payers—they will have parish councils, district councils, county councils, the mayor and Whitehall to pay for—without actually taking any of the cost out?

Melanie Dawes: At the moment, those areas are saying to us—Simon might want to comment on this—that they can resource their combined authority and their mayor with the resources they currently have, and that they are considering how they can make that happen. It is about pooling across quite large areas and making better use of the officer support that is already available in local government.

Chair: The Comptroller and Auditor General wants to come in. Can we pause there? It is worth highlighting that you and the Treasury say this is fiscally neutral. Mr Mills and others are raising interesting points.

Sir Amyas Morse: I want to understand a little better what you will be looking at in the sustainability reviews you are going to conduct. Can you tell us what the primary agenda of your sustainability discussions will be? Does it include an expectation that the LEPs will raise more private sector finance to go along with the public sector funding? In other words, when you are talking to them and reviewing their progress, will you be saying, “How are you doing in raising money?” I assume that means raising it from private as well as public sector sources. I am just trying to get a flavour of what the crunch element of the review will be.

Simon Ridley: The annual conversation that we have and will continue to have with each local enterprise partnership focuses on their economic strategy and the investment plans beneath it, funded by the local growth fund. We will be looking at delivery, spend and achievement of their various aims in terms of job creation and delivery.

Sir Amyas Morse: Delivery by the LEP?

Simon Ridley: Delivery of the local growth plan and the local Growth Deal, which the LEP oversees but is working very closely with local authorities and other partners to actually deliver. As Melanie said earlier, they are the strategic body that set the plan and agreed the deal. We look at governance questions, broader assurance questions—as Melanie said, we have the assurance framework—and the extent to which that is all in place. We also look at capability. That is an annual conversation. LEPs then provide for us a financial sustainability statement about how that is underpinned, and then in the delivery part of the conversation, there is a question about how it is funded, the money they are raising and the match funding they are raising from both public and private sources.

Sir Amyas Morse: So if they are not managing to raise match funding, would that be a question as to their sustainability? I am trying to make sure I’m understanding this.

Simon Ridley: LEPs get a central administrative core funding from us of £500,000 per LEP, which they are then expected to match with 50%—£250,000. If that was falling short, they would either face challenges of financial sustainability or would have made different choices about how they deliver. There is then their project funding to deliver projects funded by the growth fund, and if

they are looking to raise any money to support that it would clearly impact on delivery rather than on the organisation itself.

Q122 Chair: Can I ask for the perspective of Catherine Frances from the Treasury? It has not been a perfect outcome for LEPs along the way, though it may be getting better. Can you comment on the question the hon. Gentleman has just asked, as well as what lessons there are for devolution more generally?

Catherine Frances: We are enormously supportive of what the Department has put in place around issues on LEPs assurance—a tighter process of assurance going forward, internal reviews and so on. In terms of the funding of LEPs, and the points Simon was just touching on, they are a partnership body. They are bodies that are there primarily to bring the voice of business together with local government, and they are funded accordingly.

The wider lessons for devolution are around how central Government can assure ourselves that the taxpayer is getting value for money as we engage in devolution deals, and that accountability frameworks are clear and right. I think when Sir Nicholas Macpherson was here with you a month or so ago, he talked about the fact that, for each element of devolution, we need to be clear about where accountability lies. From a Treasury vantage point, we are very clear that Melanie has overarching responsibility for the accountability framework for local government, but departmental accounting officers also need to be clear about how they work in relation to an increasingly devolved world. There is probably more we can do to support them in that. It needs to be proportionate; it is different in different cases.

One of the things we learnt from the LEP example, and which the Department has just put in place, is that metrics and measurement systems are helpful, and we can learn a lot from that in the devolution deals context. As Melanie and Simon alluded to earlier, this is an evolving area, but each Department is starting to go through the process of thinking about what it requires and how it will require measurements to be taken locally. In each deal there is a commitment to work up a statement of measurement arrangements and monitoring arrangements between central Government and local government, which is very important.

Q123 Chair: What happens from a Treasury perspective if that does not get delivered? So, if there was a mayor who was not really up to it, or there was too much political disagreement or whatever, what would you do?

Catherine Frances: Sorry for giving you a more complicated answer than you might have hoped, but it slightly depends on the subject area. For example, if you look at the Department of Health and the devolution that has taken place in the Greater Manchester deal, all of the existing accountabilities, in terms of inspection criteria and who owns the money, carry on down the same lines as they ever did.

If you look at the case of adult skills, what you see is that BIS has set down a six-point plan in each devolution deal on how to move towards the increasing decentralisation of funding. You would have to ask BIS for the details, but it has a set of criteria and a set of defences in the system to preserve certain entitlements, for example to maths and English education. In each local area they are working through a set of questions around the configuration of the FE sector and whether it is viable and sensible, and then gradually devolving from there.

Q124 Chair: But that still raises this point—take adult education and adult skills. They have gone through the six-point plan and it has been delivered, but it is not working, or perhaps something more serious has gone wrong—money has been siphoned off to something else. You could say that is complete freedom locally, or you could say that is a big problem.

Catherine Frances: From a Treasury perspective—you would have to ask BIS and DfE for their comments—what is important is that the Department is putting in place clear expectations about the standards that are expected to be met, and clear frameworks for what happens when things start to go wrong with institutions. It is actually doing that with local areas at the moment.

Q125 Chair: But if something goes wrong, the rap is, presumably, with the mayor. Caroline Flint and I both represent boroughs that have had serious problems in the past. I'll leave Caroline Flint to comment on the current situation in Doncaster; there are certainly no problems in Hackney now, but it cost the British taxpayer £25 million or so to bail out Hackney Council in the bad old days. That is what happened. The last resort was for the Government to step in. That was without full devolution, admittedly: it was a different set up. What would happen now if something went wrong like that?

Catherine Frances: There is a difference between cases of the backstop powers and the catastrophic failure point, which Melanie might want to come in on, versus the individual frameworks that different Departments are putting in place with devolution deals. Those individual frameworks are being developed by Departments at the moment and the answer is slightly different in each individual case; the answer is slightly different on skills, slightly different on health, and slightly different again on transport. The question that we in the Treasury are keen to help Departments with is about when they look at their own accountability frameworks, and when they look at their own ways of thinking about the world; they obviously need to take a proportionate approach but they do need to look again at how they deliver, and be very clear what happens in each eventuality, in order to answer exactly that question. It is important that you can answer that question, but it is slightly different in each case and Melanie might be able to talk a bit more on that.

Q126 Chair: A quick answer, Melanie Dawes, on what absolutely happens if there is complete meltdown—although you could have a lot of problems in all of these areas that could amount to slightly shorter complete meltdowns, so could you briefly answer both of those queries? As I mentioned Doncaster, it is only fair to bring Caroline Flint in and then go back to Nigel Mills and Karin Smyth.

Melanie Dawes: In the end we will have the same backstop powers of intervention in a combined authority as we have in any local authority today.

Q127 Chair: So, the risk is still with HMG in Whitehall?

Melanie Dawes: Yes, so for example—and it does depend exactly how BIS decide to set up their framework and what they require—if they feel that a combined authority and a mayor are failing in their duty to deliver the services that were agreed, and there will almost certainly be statutory responsibilities within the skills area—

Chair: They can step in.

Melanie Dawes: They can step in.

Q128 Chair: What about financially, though?

Melanie Dawes: If it is financial, that is back in my overall accountability for the system, and it will be as it is now. Over the past year we have taken the points that you made in your Reports on financial sustainability—the Reports of the Committee and also of the NAO— very seriously and have seriously upped the ante in the Department in our oversight of risks so that we can understand where the emerging pressures are. I think my colleague Mr Duncan set some of this out when he came to speak to you a couple of weeks ago.

Q129 Chair: So, let's say a combined authority goes financially wrong because of very bad political management locally, millions of pounds of public money is at risk and it needs a lot to bail it out. Would that happen? Would there be a bail-out? You would hope to notice it beforehand, wouldn't you?

Melanie Dawes: I would hope we had got there long before a bail-out was needed. However, as we do now, we will keep an overview of risk in the system and understand whether there are patterns—for example, different types of authority that might be more likely to be under pressure than others—so that we can work out what kind of intervention might be needed. That might be about an individual service area, such as health, for example.

Q130 Chair: To finish up on that point, will you be consulting the Committee on the financial accountability frameworks or will you expect other Departments to do that for those that they are establishing?

Melanie Dawes: At the moment, we are—Simon is overseeing all this work across Whitehall—

Q131 Chair: Sorry, I'm not trying to trip you up, but just yes or no: will you expect those Departments to check with us? We have done accountability in Government and we do it often. I thought it was a simple question, so—

Melanie Dawes: They will all need to be published, both the system statements on a deal-by-deal basis, and the ones that operate on a Departmental basis. This will be a matrix—quite a complicated one. They will all be published and it is a very fair challenge as to how we might consult you on that. We will certainly be sharing with the NAO as we go along.

Q132 Chair: I partly raise that because some MPs are concerned that they have not been consulted by central Government on the devolution model. As they have pointed out, powers are going from central Government, which is an area that MPs scrutinise, to local government; it has

been given away from an area that they scrutinise to an area that they have a different relationship with, and they haven't been consulted formally as individual constituents—

Melanie Dawes: In many areas, such as skills, there will be legislation to achieve devolution, so there will be a chance for Parliament to look at the detailed arrangements through that route.

Chair: I love the way you have such faith that we can change legislation once Government have proposed it, but that is a debate for another day.

Q133 Caroline Flint: I am sure we will come back to this discussion, particularly on scrutiny, in more detail in other sessions. I am a big fan of devolution but, like a lot of colleagues here and in the House, I think the lack of attention to detail on scrutiny and the auditing of what is going on is a massive hole in the strategy. I just want to pick up on something that was said in relation to the LEP in the earlier session. According to the LEP NAO Report, as figure 17 on page 44 indicates, 42% of the business people involved in LEPs do not publish a register of interests. Figure 18 on page 45 shows that only a third of LEPs publish financial information on their websites. Given that Mr McTague, representing the Federation of Small Businesses, thought that this was a glaring error in the public accountability—and you did say that the LEPs were there to strategically inform what projects—why can't the Department demand better financial transparency?

Melanie Dawes: We are demanding better financial transparency. These are the areas where we set in place the internal audit review that I was referring to earlier that started last October and concluded in January and February this year and resulted in us writing to every LEP saying where they had fallen down on the standards which we expect.

Q134 Chair: They haven't been required to do it before. Was it actually the Department or Government falling down not by requesting it in the first place?

Melanie Dawes: We have required these standards.

Chair: From the beginning—

Melanie Dawes: From the beginning; this was in the assurance statement that we required.

Chair: They didn't take much notice of Government then.

Q135 Caroline Flint: What is the consequence of that if a business person does not provide on their register what their financial interests are? We are all expected to do it and we are held to account if we don't.

Melanie Dawes: In some cases, the LEPs have got the registers but they weren't published and so they need to publish them. That is very clear and that is what we said to them.

Chair: In some cases, then, you are suggesting—

Melanie Dawes: We will audit this again if we think we need to, and we will take this into account if they don't comply as we think about how to manage them in the future.

Q136 Caroline Flint: When these individual businessmen and women are making strategic decisions about different projects to support, has anybody gone through and clarified whether there is any conflict of interest for any of those individuals in taking part in a discussion on such an important strategic matter involving public funds?

Melanie Dawes: They are all required to have a conflict of interest statement. They are all required to go through that process. If you like, we can write to you to confirm whether or not we have any concerns on specific cases. I don't believe that we do and we are now requiring them to get a lot better at this. I should also clarify, while we have the opportunity, on page 44 all but one of the areas on the grid are required by us—none of them are optional apart from one, which is having independent scrutiny arrangements in place. I think that is because that goes through the local authority route.

Chair: I am aware that Nigel Mills and Karin Smyth may have some further points.

Q137 Karin Smyth: I recognise what Caroline Flint said about complexity. We have individual arrangements for each Department, we have the mayoral manifesto, we have the combined authorities coming together to have somebody to be held to account, and we have the systems statement from the Department, so it is a complex issue. The issue that still concerns me is our role as Members of Parliament when a voter comes to us to say X has happened or X has gone wrong—where we can hold to account and where the local holds to account. That remains the thread that will continue to exercise us.

My final question goes back to Ms Frances in terms of the issue of skills coming out of Government. If this goes the way the policy intends, the staffing and skills requirements of central Government will be quite different, won't they?

Catherine Frances: Yes, I think it substantially depends which part of central Government you are looking at.

Q138 Karin Smyth: My question, then, is are you thinking about what capacity changes will happen in central Government? What different skills need to be brought in, and how are you making sure that that happens?

Catherine Frances: From a Treasury perspective, we haven't done very much work on that in detail, but I think if you look at individual Departments—so, for example, the example Melanie gave on the housing investment fund in Manchester—individual Departments have started to work in that way.

In a sense, the question is—well, you know, if you are in the Department of Health, you are thinking about how you deal with devolution, how you work with NHSE and local bodies beneath NHSE, and how you work with local government. There are a lot of skills programmes designed to look at that. It is going to vary from place to place. We haven't taken a whole system view from the Treasury.

Q139 Karin Smyth: Do you think you should take a wider view? If this is the policy direction for a number of years from central Government, surely it requires the development of those sorts of skills and approaches to make it successful.

Catherine Frances: I certainly agree that it will require a change in certain skill mixes in certain Departments, but I would come back to the point that the heads of those Departments both will answer your accountability questions—there are clearly issues here on which we need to work up greater clarification to assure you through the accounting officer route—and head up Departments, and they will need to take a view about what skills and capability changes they need as they undertake certain types of devolution in their areas. In some Departments, contracts are still held centrally and it is a question of getting external influence from local areas; in some areas, it is about actually taking investment funds and handing over the running of them locally.

Q140 David Mowat: There will be a lot of stuff to work through in this, but to be clear, given that large chunks of expenditure and accountability are moving from the centre to other places, all other things being equal, am I right in saying for the avoidance of doubt that we would expect there to be headcount changes in the centre as a consequence of that? There is no ambiguity on that.

Melanie Dawes: Over the civil service as a whole in this Parliament, there will be further headcount cuts. That is planned. That is part of all our spending review settlements. A number of different things contribute to that, and devolution is one of those. On the point about skills, though, I do agree that for those areas of Government that are really devolving, this is a difference. This is a change from being the planner and the designer to being the convenor, the facilitator and the system owner, and that is a different role. I sit on the civil service people board, and there are a number of areas of challenge where we need to change the kinds of skills we have as a civil service. Getting in more external expertise, getting more commercial and getting better at engaging with the outside world is a perennial challenge for Whitehall, but devolution brings it into even sharper relief.

Q141 Nigel Mills: While we are on the accountability of the LEPs, I have two questions. First, are you tempted to try to change their structure so they are not all some kind of different company structure or partnership but proper bodies that have certain public duties? Secondly, do you now think they should all be reporting into the mayors, where they are going to have one in their devolved area? It will be a bit strange to have the LEP reporting up to you and not to the mayor that effectively has those powers.

Simon Ridley: On the first question, local enterprise partnerships have determined the structures they want to have and we do not have any plans to force them into one structure or another, and there does not seem to be any great need to.

Q142 Nigel Mills: Even though they have gone from doing not very much to spending £7 billion.

Simon Ridley: Well, their fundamental role of bringing the private sector into strategic leadership of the economic development of the area through the strategic economic plan remains the same. The money behind it to invest in projects to develop growth outcomes locally has gone up,

through the local growth fund, but the local authorities are still the accountable bodies, with the audit, financial, accountability and scrutiny structures behind that.

Q143 Nigel Mills: But if they decide where £7 billion is being spent, should they not be subject to all the demands, scrutiny and disclosures that we would expect from a public body, and not just be some strange partnership that was formed five years ago because that was easy?

Simon Ridley: They are partnerships that were formed. They are mixtures of private sector representatives and elected members of councils, in the main, so they are rooted in the democratic bodies in the areas for which they are determining these strategies and then making the investments. That overall strategic role is the one that remains.

Q144 Chair: But, Mr Ridley, Karin Smyth and I did a representative visit to Bristol and there were some very good things going on, but ultimately what we concluded in our Report—you might have read it—was that the LEP can make decisions but the council tax payers of the local boroughs take the rap if something goes wrong. The businesspeople on the LEP—I am sure a lot of them do very good work and put in a lot of time and effort—can walk away. They might have reputational damage, but they will not have any financial loss. There is a big accountability gap there. The reason we are talking about LEPs today is because that is an example of what has been devolved, and we are learning lessons for the devolution models.

Melanie Dawes: The financial accountability does run through the section 151 officers in the relevant local authorities, so they are ultimately accountable for the system, for its overall oversight, for the money going where it should and so on. That is quite important.

Q145 Chair: I know, but what I am saying is that if you are a businessperson who is the chair or a member of a LEP, you shape decisions and persuade the local authorities, in good faith—you no doubt will go through certain due diligence—but if it goes wrong, the buck stops with the council tax payers locally, not with you. I accept that businesspeople on the LEP may be individual council tax payers. There is quite a big gap between power and—

Melanie Dawes: I do agree that that is the situation, but local elected members are on the boards of LEPs to represent those local council tax payers. That is why we are resting on the overall system of local government accountability, and the way in which we are channelling the funding is so we are resting on those democratic institutions.

Q146 John Pugh: May I ask a few basic questions? Earlier, one of my colleagues referred to the situation as a bit of a mess. I think that it may not be, but I am going to try out my understanding of what I think is supposed to happen and you can tell me where I am wrong. There are two players on the field at the moment, aren't there? There are the people who negotiate the City region deals, who get the £30 million bung a year and are left, by and large, to do as they wish with that money. That is reviewed every five years. The local Growth Deals, which are run through the LEP, run parallel to that. They may well show very similar sorts of objectives in mind. You, Melanie, said that the behaviour of the LEPs is tracked by your Department, so they are, in some sense, answerable to central Government for what they do; you are looking at what they do. In terms of devolution

though, am I right in saying that none of the devolution deals have actually subordinated the LEPs to the city region—have they?

Melanie Dawes: No, they haven't.

Q147 John Pugh: And how many of them have given the city region cabinet an enhanced role in scrutinising the LEP?

Melanie Dawes: No, they haven't.

Q148 John Pugh: That is all I want to know. So, basically, you have two autonomous bodies. In Merseyside recently, the chair of the LEP—who represented Peel Holdings in his professional life, and the LEP and strategic priorities for Liverpool in his public life—stepped down. Who will appoint the successor there? Will it be central Government or could it be appointed locally?

Melanie Dawes: It is a local decision.

John Pugh: A local decision by whom?

Melanie Dawes: By the other members of the LEP, which will include the local council leaders and other local business leaders.

John Pugh: Right. So the LEP basically—

Melanie Dawes: As was the case when LEPs were originally set up.

Simon Ridley: And it is worth being clear that LEPs have very much been part of the discussion and development of devolution deals with us. LEPs are signatories to the vast majority of the devolution deals and to their different arrangements in the governance of the combined authorities on how they will relate to LEPs. They are not quite separate.

Q149 John Pugh: I just simply want you to confirm that although it is hoped that they will all congregate around the same vision, they are, essentially, autonomous beings, if I can put it like that.

Melanie Dawes: I don't think they are quite autonomous because the LEP board is partly made up of the locally elected members.

Q150 John Pugh: In some places.

Melanie Dawes: In all cases there are council members on the board. They are not a majority but they are represented.

John Pugh: But the leverage they have varies from place to place.

Q151 Chair: I just want to touch on a couple of quick points. Then I will bring in Richard Bacon, and then Karin and Nigel, if they have any final points. The Report mentions EU funds. I think that Cornwall is one of the authorities that is bidding to have a status that means it can be controllable. But, as I understand it, that is not something that can be guaranteed.

Simon Ridley: It's not guaranteed. In devolution deals, with respect to EU funding, we have agreed with the places where we are doing devolution something called partial intermediate body status. Forgive the jargon. It means that it is passing down greater powers to the local areas where we are doing this to determine the calls out for projects to be in line with local priorities, and to make the assessment of which projects are funded based on local priorities so that, in every local area, there is a growth committee. That growth committee would go to the intermediate body—that is, Cornwall—to determine which projects go forward, rather than straight to us.

Q152 Chair: So the growth committee would be a body under the mayor's office.

Simon Ridley: It's by each LEP area. The intermediate body is part of a combined authority's powers, so they then make the decisions rather than that coming straight to us.

Q153 Chair: So, are they carving up bits of money that Cornwall already has or are they helping to bid—

Simon Ridley: It's about determining the spend of the European funding for that region, so it is giving them more influence over a pot of European money that is available. It is still inside the regulations of the ERDF funding.

Q154 Chair: Of course, we don't know how much that money might be in future years. Obviously, there is a decision on 23 June that might influence it—but apart from that—

Simon Ridley: But we are essentially doing this from the beginning of the current programme.

Q155 Chair: Okay. One of the concerns that has been raised with us is around the timescale. There was that very tight six-week bid for local authority areas to get together. Is that the pace at which you normally expect to work, because a lot of bids—well, there has not been progress on some of them since then?

Melanie Dawes: In the months following a general election when there is an immediate spending review: yes. It is not what we would normally hope to work to. As I said earlier, we have had a lot of local authorities that came forward with ideas and proposals that we are still working with, so, for many, the timescale is considerably longer.

Q156 Chair: In the Report, there is a good table showing the per capita funding; Karin Smyth has explained to me why the west of England seems to get more—

Karin Smyth: We are a net contributor to the Treasury; we contribute £10 billion.

Chair: Maybe the Treasury can comment on that. It does seem that there is quite a variation on per capita funding. There are some reasons for that that the NAO go into, but they also say that they are not clear—

Keith Davis: Page 24.

Chair: Yes, paragraph 1.16 on page 24 says: “These took account of a range of factors including the extent of proposed governance” and so on. It is not clear how this translates to the specific amounts allocated. I wonder if you could comment on that, Catherine Frances?

Catherine Frances: Yes, absolutely. When we considered deals and deals’ readiness to proceed, as Melanie said, we asked places to bid and they then came forward—we were keen to do that so that they were part of the spending review process and we would get their ideas in—we looked at their readiness to consider governance reform, their policy-readiness, the sensibleness of their geographical proposals and whether there was any consensus around those issues that we have discussed. When we had then decided that we were negotiating with an area, we essentially arrived at numbers here that were the product of individual negotiations with each area; it was what was acceptable to both Ministers centrally and local representatives. There is a degree, as the Committee has commented on, of coalescence around a certain number of key numbers. To be totally frank with you, what I think was happening was that local people coming to negotiate with the centre were very keen that they were given an equivalent sum of funding to other people negotiating with the centre. So that sort of dynamic developed, but it is a product of direct negotiation with each place.

Q157 Chair: Okay. Do the National Audit Office want to come in on that?

Keith Davis: Well, that is clear and transparent about the basis of funding, isn’t it?

Q158 Chair: One of the issues raised with us is the difference in per capita spending, as the Committee has discussed with other budgets, between, say, London and another part of the country. Do you have a similar breakdown per capita of current spending that is devolved or sent down from Government? No, not devolved: that is being spent by Government in those areas now? Can you do a comparison?

Catherine Frances: Across all different policy areas or only in—

Chair: Let’s take for example—

Caroline Flint: Transport.

Chair: Transport is a good one, because most of the other local areas are taking it in and it is being devolved. Currently there will a spend on transport in London, which I guess might be quite high because we have the underground and so on, and there will be spending in Bristol, which doesn’t have an underground so the sum might be a bit less, and in Amber Valley, where spending is probably on roads, as in Lincolnshire where there are no railways. We have completely different areas, so there will be different amounts of spending and no doubt there will be a per capita

calculation done, or which could be done, by the Department for Transport. Presumably you have that information? Have you looked at that in relation to the per capita funding under the new deals that we are doing?

Melanie Dawes: I think, technically, you can look at any of these budgets and compare them to population levels locally but all the individual decisions will have been made on a variety of different factors.

Q159 Chair: But are they getting more or less than they would be getting?

Melanie Dawes: Generally, on the transport funding, the amount that is being allocated to local areas is pretty much what the Department for Transport expected would be that local area's element of the local transport funds, but it is now being given to them in a more devolved way. That is the prize for them.

Q160 Chair: Before I bring the CAG in, are those figures clear and available? If I, as a Member, wanted to look up and see how much my area got from a Department now, is there somewhere I can go and get that, or is that something that you can get us?

Melanie Dawes: I would be very happy to get back to you on what's available and to confirm that.

Q161 Chair: A lot of people are very interested in this so it would be very interesting.

Melanie Dawes: I think it is a fair challenge as to whether we might need to improve what is available in these sorts of areas, partly for the reasons of democratic accountability that we have been discussing.

Q162 Chair: There's a danger—and maybe a reality—that people believe that they will get less than they were already getting, or in some areas they may get more than they were getting already. It is about transparency, although Catherine Frances has given us some reassurance on that. Comptroller and Auditor General?

Sir Amyas Morse: Sorry, I was just trying to visualise the discussions for the various areas that came out at roughly the same number. I can understand that there might have been the same aspiration, but you are not saying that these areas all came in with the same opening bid, are you? They did not just miraculously all come in at £30 million. It must have been more that they came up with other numbers, but then when they came into the office and said, "We'd like £60 million or £90 million", you said, "Look, everybody's getting £30 million, don't be so silly, you're not getting that."⁷ Are you really saying that the means by which this pretty uniform set of funding happened was only that these areas self-limited their aspirations, and all said that they just wanted the same amount? There must have been another side to the dialogue, surely. I am sorry to be cynical, but I am just trying to understand it.

⁷ Figures clarified by the National Audit Office in correspondence to Committee, 10 May 2016

Catherine Frances: It is certainly the case that, as you would expect in any negotiation, places aimed at totally different levels. I am sure you would not be surprised to know that. As we were doing these negotiations, we were negotiating on a range of factors. What policy was being devolved and all that kind of questions were in play. In a sense, the money is just one element of that.

Sir Amyas Morse: But an important element.

Catherine Frances: An important element, indeed. I certainly wouldn't doubt that. Essentially, this was a point where we had to go to Ministers and ask them if they were happy with this level of spending, and locally the representatives had to decide whether they were happy with this level of spending too. It is not absolute uniformity by any means. A set of figures was arrived at. Perhaps I can come back on the point about the principle of fair shares of funding more widely. I understand the point you are making about transparency. That is very important, but it is also important to understand that in quite a lot of these areas of business, the budgets actually are not necessarily being devolved. In the case of DWP, for example, you still have contractual management that is happening centrally, but you have local influence over that, and in the case of the transport budgets—

Q163 Chair: We have some of the per capita figures for the ones that are underway at the moment, but we are just keen to see more of that sort of information.

Melanie Dawes: Yes, I understand.

Q164 Chair: Because if we are talking about transparency and accountability, your average citizen can get that, your average MP can get that, and your average councillor can get that. It is a useful way of making comparisons between the status quo and what is coming, because money is a major part of this and something that many will be watching. Just a couple of quick points from me before I bring in Richard Bacon. I want to cover the ground. We are already hearing about some fracturing. County Durham MPs have written urging their voters not to support this proposal. We have heard some of the concerns from East Anglia. There is actually not a uniform acceptance for things that have been billed by the Department as having been agreed. How many of them need to opt out before this policy becomes unsustainable?

Melanie Dawes: Well, I don't have a lot more to add to what we were saying earlier, which is that in the end if individual local authorities decide to opt out of a deal, that is a decision for them. Obviously we hope that they won't, but if that happens then that is a decision for them.

Q165 Chair: Take Greater Lincolnshire, because we know that there are 10 local authorities there. Let's say that in the end five of them decide not to go with it. Does it still carry on being a Greater Lincolnshire bid when there are five members who sit round the table but don't have the same voting rights?

Melanie Dawes: I think that remains to be seen. Our Ministers would have to take a view on that. Where a new combined authority or mayoral structure has been put in place, there is also a statutory test that has to be passed of improving the exercise of statutory functions in that area.

That might be relevant in some places. I think that it just remains to be seen, and we cannot comment any more on that now.

Q166 Chair: Suppose that there was a deal breaker. We know that Cambridge is pulling out because they want more control over housing. To make it sustainable, if Cambridge and a couple of other authorities were putting significant effort into making a really good devolved deal, would they be able to come back and renegotiate on parts of that? Would that be something that you would consider in order to make it a sustainable model for devolved local government?

Melanie Dawes: Well, the dialogue that is going on now on East Anglia is about what the local areas want to do. Some have said that they do not want to do it on the current terms. That is part of the conversation that they are having, and our Ministers are quite actively involved in discussions on that. We are still working with them on that deal.

Q167 Chair: Do you think that part of it is because of the rush that happened before, and people had to sign up for things that they were not ready for?

Melanie Dawes: I don't think that I can really comment on that. In the end, there is always a balance for any agreement that you are trying to strike. A deadline can help focus the mind; it can help get people over the line, but sometimes there is more work to do afterwards.

Q168 Chair: Okay. This my final question before I pass over to Richard Bacon and it relates to the issue of health boundaries. There have been some discussions locally about health, through the normal models of the Department of Health taking on responsibilities. I am not talking particularly about the Manchester model. How can health locally work on different boundaries from the emerging local devolution models? Does that make sense to you, Melanie Dawes?

Melanie Dawes: It is helpful when boundaries are coterminous. You can see that in places such as Manchester and Cornwall. Sometimes I think we just have to recognise that the geography is genuinely complicated.

Q169 Chair: We weren't talking about whether it is less complicated. It seems to me that health officials locally can get together and decide what works for them, and local government may put in a bid for what works for them. It is like there is no connection between the two. Where is the democratic accountability in a bunch of officials sitting in a room and deciding, and then finding it does not match up with your local authority?

Melanie Dawes: To be honest, this is an issue that is with us all the time. It is not just about devolution deals. The transformation areas from NHS England have been part of an active debate with local government, mainly in the county areas, because that is where some of the most difficult boundary issues have emerged.

Q170 Chair: That's my point. Health seems to act independently of this major Government policy on devolving to certain areas. I am puzzled as to what conversations you are having with the

Department of Health. Is there any attempt to get alignment? Given that public health is now with local government, that seems to make obvious sense. If you look at the Manchester model that may roll out wider in time, it would be crazy if they were all working to completely different boundaries.

Melanie Dawes: I would make two points. One is that we do try to co-ordinate this, and we have really stepped up the governance on this in Whitehall in the past six months. Simon's group is the place where we bring people together, and that operates at a senior level and includes the Department of Health, which does work very closely with us in fact.

Sometimes the boundaries are just not going to coincide. There are quite good reasons why health economies and economic areas are different. One is about where people live, primarily, and it is often about older people as well. The other is about where they work. In some cases, particularly once you get into rural areas, you do see a difference. That does not mean that we should not push back sometimes and ask the Department of Health to reconsider, so that does sometimes happen. From their point of view, there are also often quite clear trust arrangements already in place that define the way that service is delivered now. It would be silly of us to ignore those.

Q171 Chair: We may raise that with Simon Stevens when he comes in front of us.

Melanie Dawes: I think that would be helpful.

Q172 Mr Bacon: I do not have a lot to add. You said in relation to the policy that the elected mayor is the deal on the table for these devolution areas. That is the decision. You also said that there were no specific plans to reduce the number of people in the Department because functions will be carried on elsewhere by the elected mayor.

I don't think your evidence is suggesting that government is so good for you that we need to have even more of it, but we do have this situation where we are going to have something in addition to the councils. In my own area of Norfolk, Suffolk and Cambridge there are more than 900 district councillors. If you add on the 228 county councillors, you get to 1,100 and something. If you add on Peterborough, which is unitary, you get to almost 1,200 councillors, which feels a little top-heavy. That excludes the parishes, which would probably account for another 6,000 councillors. So there are 7,500 councillors for the area, one for every 300 people or so.

Notwithstanding that it is the Government's policy to cut the cost of politics and streamline the cost to Government and share services, I do not get a sense of where within all of that those streamlinings and savings and greater levels of co-ordination will occur. With an elected mayor, you are actually introducing what is in effect a fourth tier of government. How—hence the use of the word "how"—in light of the Government's policy, do you see that streamlining taking place?

Melanie Dawes: The question of political streamlining—if I can use that phrase—in other words, thinking about the overall numbers of elected members—

Q173 Mr Bacon: And local governmental.

Melanie Dawes: Yes, but political membership is a pretty high-level policy question. The Government's view is that this is bottom up, so if areas choose to come together within a combined

authority in different ways, they may decide to do that. But, in a sense, that is not something on which there is a particular view from where I sit. On the officer support—the executive support—we have already seen a lot more consolidation over the last few years. Chief executives are being shared; that has happened in East Anglia and is happening in London and all over the country. In some cases it is quite ambitious. To be honest, I think Whitehall could learn some lessons from it about sharing functions more actively. That is happening already. We are not requiring more of it as part of these deals, but it may well happen as part of them.

Q174 Mr Bacon: But as an accounting officer, you want to be sure that local government is efficient, effective and economic. Shouldn't you be requiring a bit more? When John Manzoni sat where you are sitting, by the way, he said that one of the things he was most concerned about was shared services, because they are not working that well. That is what he said, not that long ago. Shouldn't you be trying to encourage them a bit more, as part of your responsibilities as accounting officer?

Melanie Dawes: I think shared transactional services were probably what John was referring to. He is right: there is a very difficult history of those services in the civil service. There is actually more success in local government, where quite a lot of sharing is already happening—pension fund consolidation, sharing of officers, sharing of executive teams. The Government have not decided in this Parliament to set out a stronger agenda to require local government to do more sharing; it was a conscious policy decision not to try to dictate that from the centre. Where it happens, we try to support it. We certainly try to learn best practice from it as well, and I know that the LGA also tries to make sure that best practice is shared.

Q175 Mr Bacon: Is it the Government view that it is okay to have a four-tier structure?

Melanie Dawes: Well, that is the policy, yes.

Q176 Chair: One of the other issues we touched on previously was the number of people working in Whitehall Departments in London. We have had interesting conversations with a number of your colleagues about this. In answer to an earlier question, you indicated that there wouldn't necessarily be a move of people from Whitehall to some of the jobs with the same functions in the devolved areas of responsibility. Do you want to clarify that? Are you saying that the same number of people will be in Whitehall even with the new structures being set up?

Melanie Dawes: There will be fewer people in Whitehall by the end of this Parliament, in my Department and in other Departments.

Q177 Chair: Is that separate from this policy? That is what we are driving at. Is this policy going to lead to people being—

Melanie Dawes: It is the overall picture within which we are all working in Departments. In some cases, although it is certainly not the case now, devolution may be one of the things that Departments are able to use to manage with fewer resources. Interestingly, we are not finding that, as part of devolution deals, local areas are coming and saying to us, "Please can I have your team

from the Department for Transport as part of my deal?” That has not been something that they have particularly put on the table.

Mr Bacon: Perhaps that is because of the way the Department ran the intercity west coast franchise competition—perhaps they haven’t got the right skills.

Q178 Chair: Let’s not go there. But it will be interesting to see if we can ever attract that. I want to touch on the fact that Westminster City Council has tried to come up with a sub-regional public accounts committee for the tri-borough. Are you aware of whether that is working? Have you looked at that?

Melanie Dawes: I don’t know very much about it yet, but I’ll be interested to find out more.

Q179 Chair: I think the Centre for Public Scrutiny has done a report on the subject. We are always keen to see more public accounts committees; that is one area we could see an expansion in. My final point is about the accountability of MPs. I raised earlier the idea of the Public Accounts Committee looking at the financial accountability frameworks. I don’t know whether you are willing to make a commitment, because we can look at anything we want, but it would be good to look at those before they are implemented. If you talk to your colleagues across Whitehall, we can find the time to look at how financial accountability will be managed through devolution. We would be interested to do that. In a way, it might be one of the last parts we play in this, because as things are devolved it will not be a responsibility entirely for the Public Accounts Committee, although we may still have an interest in it. Is that something that you would consider?

Melanie Dawes: We’d be very happy to discuss a sensible way to do that with you, yes. May I add that we will be producing an annual report on devolution? That is one of the requirements in the new Act, and we are expecting to do it in the next few months. It will be a chance for us to set out some of this landscape. Indeed, if you have views on what that report should contain, it would be helpful to hear them.

Q180 Chair: I am sure that my colleague MPs will as well, because I have had a lot of interest in this hearing. Perhaps I can ask the NAO to engage with you on that. I appreciate your openness to do that and to take it as it is meant; I look forward to talking to you and your colleagues further.

With bottom up decisions and local government coming together at pace because of the spending review, can you make any commitment to involve MPs here in Parliament more in knowing what is going to happen in their local area? Obviously, there will be local discussions, but given that these are national responsibilities being devolved down, there is a role for national parliamentarians as well. Can you give any assurances to colleagues of mine who are concerned about their lack of involvement in this, from the perspective of Parliament? They may get involved locally, but they don’t really have involvement through parliamentary Select Committees.

Melanie Dawes: There has been engagement by many local MPs in the deal at the local level. As we come to finalise the implementation plans for each deal and to clarify the accountabilities, what is actually being devolved and what the future arrangements will be, it is a good idea for us to make sure that we engage with the relevant Members of this Parliament on what

that means. We are very happy to make that commitment. Our Ministers may wish to do it, or we could arrange official briefings, simply to make sure that the landscape is understood.

Q181 Chair: But not just understood, because MPs here will be discussing, debating and legislating on some of the frameworks involved. The money will then go down the line to local government. So we still have a role, even though the actual delivery of those services will be devolved. I flag that up because colleagues have raised concerns about that. I take your commitment there, though.

Melanie Dawes: It is a good point and I will raise it with my Ministers. We should discuss quite how to do that, but I am sure that they will be happy to engage with local MPs as part of this process.

Chair: I think that sooner rather than later is the message I am getting from people, so I pass that on to you as a bit of advice. Thank you very much for coming along. It is the beginning of a longer discussion, which will obsess us all over the next four years. Future Public Accounts Committees will be looking at it, too. You can pick up some of our concerns about this—about how things will be measured and monitored and how, in the end, those local areas will know that they are still getting the right amount of money. Even if they think that they got it right at the beginning, things change over time; how will that be evaluated?

There are lots of areas that we did not get time to go into today, so we will be having you back—we will be focusing on this a great deal. Thank you for engaging in this discussion and answering our questions. Our transcript will be out in the next couple of days. We will let you know when our Report will come out, but it will probably be towards the beginning of June.