



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 30 January 2020

Session 5



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PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
4th Meeting 2020, Session 5

CONVENER

*Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Bill Bowman (North East Scotland) (Con)

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

*Alex Neil (Airdrie and Shotts) (SNP)

*Anas Sarwar (Glasgow) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Graeme Greenhill (Audit Scotland)

Derek Hoy (Audit Scotland)

Fraser McKinlay (Audit Scotland)

Sally Thompson (Audit Scotland)

CLERK TO THE COMMITTEE

Lucy Scharbert

LOCATION

The Adam Smith Room (CR5)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 30 January 2020

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Jenny Marra): Good morning, and welcome to the fourth meeting in 2020 of the Public Audit and Post-legislative Scrutiny Committee. I ask people in the public gallery to switch off their mobile devices.

Agenda item 1 is a decision on taking business in private. Do members agree to take items 3 and 5 in private?

Members indicated agreement.

Section 23 Report

“Scotland’s City Region and Growth Deals”

09:00

The Convener: Agenda item 2 is consideration of the section 23 report “Scotland’s City Region and Growth Deals”. I welcome our witnesses, who are all from Audit Scotland. We have Fraser McKinlay, controller of audit and director of performance audit and best value; Graeme Greenhill, senior manager; Sally Thompson, audit manager; and Derek Hoy, audit manager for performance and best value.

I ask Fraser McKinlay to make an opening statement.

Fraser McKinlay (Audit Scotland): Today’s report reviews the development of city region and growth deals and their progress so far in enabling economic development. Four city region deals have been signed to date, with a further eight in development. So far, £5.2 billion of funding has been committed from the United Kingdom Government, the Scottish Government, councils and other partner organisations.

City deals were first introduced by the UK Government in 2011 as part of its policy to devolve powers to local regions. In 2014, the UK and Scottish Governments announced the first deal in Scotland, which involved councils and partners in the Glasgow city region.

The Scottish Government’s decision to introduce deals in Scotland was in line with its existing policy on cities and economic growth. However, at the time, it was not clear how the programme would contribute to existing economic development policy, and clear and measurable objectives for the programme were not established.

The deals represent a long-term funding commitment and bring additional money for regional economic development. They have enabled economic development projects to go ahead that might otherwise not have happened. The deals have also been a catalyst for increased collaboration and joint working. Councils are not only working together more closely with neighbouring councils but establishing valuable partnerships with local businesses, universities, the third sector and other external organisations.

Securing a deal can be a lengthy and complex process. It is not clear why some projects are selected for deal funding and others are not, and communities have had little involvement in the deals. Those factors limit transparency and the

ability to hold public bodies to account for their deal-related spending.

All individual deals include output measures, such as the number of new jobs that have been created. However, five years after signing the first deal, the Scottish Government has not yet set out how it will measure the long-term success of the programme, how it will assess whether deals are achieving value for money or how the programme will contribute to the outcomes in the national performance framework, which means that opportunities for deals to contribute to the national performance framework might have been missed.

There are also risks in relation to the capacity of councils and their partners to deliver deals against a challenging backdrop for the public sector. Governance arrangements continue to evolve, and it is important that such arrangements are kept under review to ensure that they remain clear and effective.

As always, the team and I are happy to answer the committee's questions.

The Convener: Thank you. I ask Colin Beattie to open the questioning for the committee.

Colin Beattie (Midlothian North and Musselburgh) (SNP): One of the most basic things is understanding the criteria under which the deals are put together. I understand from the report that the Scottish Government has given some high-level guidance. Has the UK Government given any guidance? Is the Scottish Government's high-level guidance in accord with what the UK Government is looking for, given that it is a partner in the deals?

Fraser McKinlay: In producing our report, we found that, as you described, the criteria for the deals are not as clear and transparent as they could be. That is partly because the city region and growth deals have evolved over the years. They originated in England, and then they came north of the border, starting with the Glasgow deal. To be fair, we have seen more coherence and a greater rationale as the later deals have progressed. I ask Derek Hoy to add to that.

Derek Hoy (Audit Scotland): That is correct. Progress has certainly been made over the past five or six years. Some of the later deals—for example, the Tay cities deal—have followed a process that is more in line with the guidance that the Scottish Government published in the "Scotland's Agenda for Cities" strategy and in the "Enterprise and Skills Review: report on Phase 2".

With regard to the UK Government's guidance, both Governments have been working together and there is evidence of that happening. There is a joint group called the Scottish city region deal delivery board, which is not the catchiest title.

They work together to help the local partners in deals to formulate their ideas and take forward the deals.

There is no hard guidance that sets out a process that should be followed. The general thinking behind the deals is that every one is different and therefore every one should be developed in its own way based on the priorities that are in place for the region. It is a process of negotiation. As Fraser McKinlay said, there is not much in the way of hard evidence about how the process takes place. It lacks transparency and we do not really see exactly what goes on during the negotiation phases. However, there is a process of negotiation rather than a set process to follow.

Colin Beattie: From what you say, it seems that the Scottish and UK Governments believe that leaving the deal process open ended will capture a broader spread of deals and opportunities. Is that right?

Derek Hoy: I think that it is fair to say that. The Scottish Government mentioned the possibility that opportunities might be missed if a tight process is followed. If the Government does not give the regional partners the opportunity to come forward with ideas and think about how they want to develop the deal in a way that will benefit their region based on that region's priorities, there is a possibility that they might not realise the full potential of the deal. That is the thinking behind it.

Colin Beattie: Is the high-level guidance that has been given sufficient to at least ensure that deals are in some way comparable? In other words, if we are going to be judging between deals, is there sufficient commonality in approach to allow them to be judged on a fair and equitable basis?

Derek Hoy: It is possibly too early to say. We will find out as the deals progress.

Colin Beattie: Some of the deals have been signed.

Derek Hoy: They have been signed but, because there is a long-term programme, we will not really see the benefits come out. We will not really know if the approach to the process has worked for a while yet.

Colin Beattie: From a simple point of view, if you are sitting in a joint group with the Scottish and UK Governments, you will want to see some commonality in the process that is coming forward from a disparate number of people in the market, and you will want to be able to evaluate one against the other to determine which is the one to follow, if a choice has to be made. Do the guidelines and high-level criteria ensure a sufficient commonality in approach so that the deals are judged fairly?

Derek Hoy: That is where there is a lack of transparency. It is difficult to answer that question without knowing the detail of how each deal is put together. The high-level guidance is in place, but it is difficult to say whether it is enough. Throughout the negotiation period, there is maybe a level beneath that we do not see, where discussions take place about whether deals complement one another, rather than put regions in competition with one another.

Graeme Greenhill (Audit Scotland): To build on Derek Hoy's comments, it is up to the individual councils and other partners in each city deal to come up with their ideas as to what should or should not be in their city deal. As Derek Hoy said, the Scottish Government's view is that overly detailed guidance could constrain innovative thinking as councils and their partners think about what might be in their proposal. The risk of not having the guidance is that councils and their partners come up with deals that the Government is unlikely to find suitable for its funding.

Our report says that there is a need for the Government to learn lessons from the deals that have already been signed, so that it can pick up on good practice from the earlier deals and provide that as a steer for subsequent deals that are coming through.

Colin Beattie: Fraser McKinlay touched on the capacity of councils to support the deals. Councils are a key element all the way through, but we all know that economic development is probably one of the first areas to be cut—that is certainly the case in my constituency. Do you have evidence that councils still have the appropriate level of skills, expertise, commitment and resources to ensure that the deals are properly put together and managed?

Fraser McKinlay: In the report, we recognised that as a risk. I know from the work that we do in local government that economic development is one of the areas that tends to be under the most pressure in councils, so there is a capacity issue there.

There are good and strong programme management office arrangements in place to progress the deals so, generally, that is in pretty good shape. There is no doubt that, if the city deals need to be plugged in to local and regional approaches to economic development, the pressure on economic development departments in councils could have a knock-on impact on progress.

Graeme Greenhill: It is still early days, so we do not have evidence that individual councils are underresourced in delivering their city deals, but there is a risk there. Councils are adopting different approaches. Some have formed

multidisciplinary teams to deliver the city deals, but others have a reduced number of people involved. Councils need to keep under review the resources that they devote to managing city deals and supplement them where necessary.

Colin Beattie: It is not only resources that are key but people with appropriate skills. The city deals are rather bigger and more complex than what an average council economic development service would deal with. Do councils have those skills and could the Scottish Government support them in that? Maybe councils have the skills and maybe the Government supports them.

Sally Thompson (Audit Scotland): A lot of city deals have used consultants when councils have not had sufficient resources and expertise. We have heard from people in councils that a lot of experienced staff have gone, so councils lack expertise in things such as developing detailed business cases and doing the analysis to assess the economic impact, so consultants have been brought in for that.

One of our recommendations is for deals to learn from one another as they go, because work might be done in one area that could be applied to another. There is a role for the Scottish Government to help to share good practice. That is done on an ad hoc basis, but there is scope to improve that.

Fraser McKinlay: It is interesting that the deals have managed the risk differently. In Glasgow, the economic commission has been created to bring in a range of experts to advise councils on the regional economic situation. In Aberdeen, there is a much stronger private sector presence on the governing board. Even where the deals are stretched on experience and skills, they have done good things to bring in expertise in other ways.

The Convener: I just make the observation that the strongest deals have always been the ones with the strongest political leadership and the weaker deals have been those that have been primarily officer led. The clue is in the word "deal". At the end of the day, it is a deal between the Scottish and UK Governments.

Alex Neil (Airdrie and Shotts) (SNP): I have three questions. If we compare the hype from all the parties in the deals with the reality, we find a big gap between them. For example, the Glasgow deal seems to involve a big number—it is well over £1 billion—but that is over 20 years. That averages out at £60 million a year, even taking into account the multiplier, which is probably around one. The deal is welcome—I am not saying that we should not do it—but I want to put it into perspective in relation to the Glasgow economy. The Glasgow city deal is not confined to Glasgow city and covers places in North

Lanarkshire. When we spread it out and look at it on a per capita basis or as a percentage of total public spend on infrastructure and economic development in the area, it is pretty minimal stuff, is it not?

09:15

Fraser McKinlay: That is a fair point. I do not think that the people involved would claim that city deals are the only show in town or that they will fix everything on their own. It is a welcome investment and, as we say in the report, some things have happened that would not have happened otherwise. That is why the rationale for the choice of project is critical. If you are getting additional money, you want to invest it in the things that will make the biggest difference in the long term.

You are right that the headline numbers look big. Our colleagues in the National Audit Office said the same thing about the English city deals. The numbers are big, but when they are spread over 20 or 30 years, they are not quite so significant. That is why we are keen to report on some of the spin-off benefits that we have seen. Glasgow is a great example where the eight councils involved are working together in lots of ways, and in a way that I am not sure they would have done otherwise. There is the hard benefit of money going in and infrastructure projects being built, but there is a wider benefit of more collaboration across the regions, which we can already see spinning off into other areas.

Alex Neil: Is that not an argument for channelling far more of the resources available to the three parties involved—the Scottish Government, the UK Government and the councils—through city deals rather than other budgets?

Fraser McKinlay: It is interesting that, whether or not the resources are funnelled that way, we can see evidence that the partners involved are starting to talk about how to use resources more collaboratively across the city regions. Whether or not there is a change in the formal mechanism to give the money to the city deal cabinet, across the country we can see more conversations about how partner organisations pool resources in a way that we have not seen recently.

Graeme Greenhill: It is important to remember that deals represent a long-term funding commitment from the Scottish and the Westminster Governments. We often hear from councils about the difficulty that they have with long-term financial planning, because they do not know how much money they will get from the Scottish Government beyond a three-year period. We do not completely buy that argument, but city

deals represent a long-term commitment from central Government that provides more certainty about funding.

Alex Neil: That may be an argument for putting more money through that mechanism than through other existing ones.

In calculating the economic impact of any programme, there are two factors that must be taken into account but which I do not see in your report. One is deadweight, which is about whether things would have happened anyway, without the programmes. The other factor is displacement, which is about whether the money that is channelled into the programme is displacing other programmes that will now not happen because of a reallocation of resources. Displacement is important during a period of tight budgets, as is deadweight. From your work on estimating the economic impact of the programmes, how significant are deadweight and displacement?

Fraser McKinlay: I will ask the team to come in on that. We have not done any direct work on the economic impact, but we have looked at the extent to which the deals have looked at that. As Sally Thompson mentioned, there has been a lot of activity on that, and we would expect those economic impact assessments to include deadweight or additionality and the displacement effect.

Alex Neil: To measure the value for money, you need to look at the economic impact for every pound that is spent. If you are not looking at deadweight and displacement, how do you calculate value for money?

Fraser McKinlay: That is an excellent question, and we have concluded that we cannot make an assessment of the value for money of city deals at the moment, because that evidence has not been presented.

Sally Thompson: When deals have been agreed, that has been done along with output measures, which will be based on economic analysis. Additionality is one measure; new jobs is another, as is additional gross value added. The measures are all slightly different, but they deal with those sorts of things.

The measures are fairly limited and do not look at the wider impact. They do not look at the bigger picture of the impact on the wider economy or on communities. There is a lack of linkage between the output measures and the national performance framework and outcomes that the deals would like to achieve. We have recommended that that should be addressed.

Alex Neil: You recommend that for councils and local government in Scotland. I understand that your remit is in Scotland, covering councils and

the Scottish Government, but surely the UK Government should be doing the same thing in relation to its function in Scotland. However, you do not comment on that. I realise that it might be difficult to do that within your remit, but even saying that the UK Government should do the same would help, given that agreement needs to be reached with it.

Fraser McKinlay: As you say, and as we explain in the report, we cannot comment on the UK Government, because it is outwith our powers. However, our colleagues in the National Audit Office have in recent years produced two reports on city deals in England, which have made exactly the same points. Our colleagues south of the border have covered the question of the extent to which the UK Government is evaluating the impact of the deals, in the way that you have described.

Alex Neil: There is a recommendation, but is it being implemented?

Fraser McKinlay: I cannot answer that at the moment. I have not followed that up south of the border.

Alex Neil: There is Treasury guidance on how the outcomes and outputs should be measured, so it is not as if the UK Government needs to reinvent the wheel.

Fraser McKinlay: There is an interesting difference or tension between the UK and Scottish Government approaches. That came up during the Local Government and Communities Committee's review a couple of years ago, when the then cabinet secretary and the UK Government minister were in front of the committee. The UK Government's policy is all about devolution—what was called localism back in the day—and economic growth, whereas the Scottish Government's approach is about inclusive growth. Those two things are measured in rather different ways.

We make the point in our report that, if the Scottish Government and councils say that city deals are about inclusive growth, we need to create a package of measures that define what that is and measure whether the growth is indeed inclusive. The approach down south is a bit different and is generally more about pure economic growth. North of the border, there is an interesting tension between those approaches.

Alex Neil: So we are heavy on inclusiveness here.

Section 6 of the committee's briefing, on the source of funding, says:

"The report indicates that the UK Government's funding for deals is additional to the block grant provided to the Scottish Government."

In other words, it is outwith the devolution settlement. Is that right?

Fraser McKinlay: Yes.

Alex Neil: Therefore, if the Scottish Government and councils do not agree to UK demands, if I can put it that way, in relation to those projects, they will not get the money, which is in addition to the annual settlement between the Scottish and UK Governments. Is that money within the jurisdiction of the fiscal framework?

Fraser McKinlay: There are a few issues in there. If I am understanding the first part of your question, it is the case that if they cannot agree the deal they will not get the money.

Alex Neil: That is not what I am asking. I am not asking about what would happen if they cannot agree the deal, but whether, in principle, if the Scottish Government did not agree to UK demands, it would still get the money. If the Scottish Government said that, rather than spending it on city deals, it wanted to spend that additional money on the roads programme, for example, would it still get it?

Fraser McKinlay: I am not sure that we have the answer to that.

Graeme Greenhill: It depends on the projects that are advanced in the city deal. The Westminster Government has said that it will fund only projects that relate to reserved matters. If a city deal proposes projects that are not covered by the Westminster Government's responsibilities, it will not provide the funding for the deal.

Alex Neil: I do not understand that, because as part of the city deal for Glasgow, nearly £200 million has been earmarked and agreed for upgrading the A73 road. That is clearly a devolved matter—roads are a devolved matter—and yet the city deal money, which I welcome because it is a great boost for my constituency, has been agreed. I am not complaining, but that is certainly not a reserved matter.

Sally Thompson: The UK Government clarified its position after the Glasgow deal was funded, so that deal sits slightly differently from the other deals. After Glasgow, the UK Government was very clear that it would generally fund only devolved matters, but even so there is a bit of flexibility.

Alex Neil: Did you mean that it will fund only reserved matters?

Sally Thompson: Sorry—yes.

Alex Neil: How, then, do you work it out? The money for a deal is going into one pot. Does the UK Government say that the money spent on reserved areas has to match its contribution?

Fraser McKinlay: Yes, that is the principle.

Alex Neil: What kind of reserved matters is money being spent on in the post-Glasgow deals?

Fraser McKinlay: I can ask the team to come back on that, but my main point is that it is not very clear. That point is about the transparency of how projects are decided—how, once the money has been agreed among all the partners, it is then divvied up and spent on individual things—and how that is reported back.

There is a wee tension in there. We would not want a pot of money, as you call it, to sit with lots of little pots inside it, with no flexibility on how they are spent. The benefit has to be from the whole. At the same time, the two different Governments—and, for that matter, the other parties—have a range of different interests and things that they want.

Alex Neil: In our follow-up with the UK Government, the committee needs to clarify the position. If the UK Government is funding devolved matters, and making it a condition that the deals do certain things, then that is totally contrary to the devolution settlement. If it says that it will fund only reserved matters, that is a different proposition.

We need to be able to trace how much money it is spending, and whether that is going to the right areas. Transparency is clearly very important.

Anas Sarwar (Glasgow) (Lab): My questions are connected to Alex Neil's questions. I will focus on collaboration and working together.

Our public discourse is often about battles between the UK and Scottish Governments. How is collaboration working between those two Governments? Is it still generally positive? What lessons might be learned for other areas?

Sally Thompson: Across the board, everybody has reported good working relations—at the council and national levels, and with partners more widely. As part of the audit, we spoke with the Scotland Office, as was, and with the Scottish Government. They both reported good joint working relations, as did partners who worked with both Governments to develop deals. There seems to be good, strong collaboration.

Anas Sarwar: Is it your sense that Glasgow and other city region and growth deals are not trying to undermine the devolution settlement, but rather demonstrating how working together at different levels of government—whether that be local, Scottish or UK Government level—can drive investment, growth and employment in cities and regions across Scotland?

Fraser McKinlay: We do not make any judgment on what it tells us about the devolution settlement, so—

Anas Sarwar: To clarify, I am not asking you to comment on that. I am asking whether, rather than taking powers away from that devolution settlement, the city region and growth deals are using the partners' different powers to drive investment.

Fraser McKinlay: There is no getting away from the fact that the birth of city region deals in Scotland came at a particular time: the run-up to the independence referendum in 2014. As I think the cabinet secretary said at the time, in his evidence to the Local Government and Communities Committee, the process was that the UK Government announced some money, and the Scottish Government did not have a lot of time to respond.

The Governments have done well in building on that start. They have recognised it as an opportunity and learned from the Glasgow city region deal, as Sally Thompson said. As the report says, when we follow the timeline in which the other deals have been agreed, we begin to see more coherence, and a better plan for how they work.

As Sally said, the relations seem to be working well. For me, the lessons are about having a clarity of shared purpose and objective. There is no doubt that the money helps; having relatively significant amounts of money on the table tends to focus minds a little. It has allowed councils, Governments and their partners to focus on a shared sense of purpose for the regions. From that perspective, there are good lessons about working both within regions and cross-border.

09:30

Anas Sarwar: Politics being politics, and politicians being politicians, a lot of the discussion and debate is about competition, with one Government committing X and another Government committing Y. Despite, at times, it looking like a competition or battle between two Governments about who can give the biggest cheque, you think that those on the ground who are running the city regions deals—the civil servants and council workers—are working well collaboratively.

Fraser McKinlay: Yes. Our evidence is that that is working well. I absolutely recognise the convener's observation that, at some level, the deals are a political process. We are not critical of that in any way, but that does not, or should not, preclude there being more transparency in the process, which is why we have made that recommendation. As Sally Thompson said, we see

lots of good co-operation and collaboration by those who are trying to make the deals work.

Anas Sarwar: Good. The competition is not just between the UK and Scottish Governments; over the years, there has been a problem with competition between local authorities. How is the relationship between local authorities working? There was a fear at the start of the Glasgow city region deal that Glasgow City Council would become the focal point and that everyone else would be add-ons. However, I get the sense from people that work on the deal has gone quite well, that there has been collaboration and that there are good relationships between local authorities.

Fraser McKinlay: I will ask Sally Thompson to come in in a moment. As we say in the report, from speaking to people who are closely involved, we know that it can be a pretty torturous process to get a deal over the line, particularly in the latter stages. As you say, a lot of that is not so much about the position of the national Governments but about different councils having concerns that we are going back to a regional structure. All that stuff comes into play. However, councils have got over that concern and have worked well. Do you want to add to that, Sally?

Sally Thompson: Yes. There is evidence of a lot of good joint working across councils, at councillor and officer levels. In Glasgow, for example, the councils divide up the responsibilities for different themes, so that Glasgow City Council does not do all the work. Although, I think, East Dunbartonshire Council does not have a project, it is very positive about the deal, because it can see the benefits and is involved in governance and decision making. The deal is very much a process.

In the Edinburgh and south-east Scotland city region deal, the elected members see the benefit of getting round the table and talking about things. Although they are meant to do that perhaps only once a quarter, they meet monthly. They proactively want to meet, because they can see the benefits. As we say in the report, it is early days and that has not led to any reform of services per se, but members can see the benefits of collaboration and talking.

Anas Sarwar: My next question is about services. Although it is not directly connected to city region deals, getting local authorities round the table and working together in collaboration is important. Are any seeds being sown, or shoots growing, as a result of collaboration on service delivery and in other areas? Councils face budget pressures and want a consistent approach to service delivery to be taken across different parts of Scotland. Is more collaboration taking place in other areas as a result of the city region deals getting local authorities round the table?

Sally Thompson: There are some examples of greater collaboration outwith the work on the city region deals. For example, we say in the report that councils in the Glasgow area come together to decide how to distribute pots of funding that do not come directly from city deal funding. I do not think that we have any evidence that the deals have led to any change in service delivery. It is early days.

Graeme Greenhill: As Sally says, it is a work in progress. Some of the longer-serving members of the committee will recall that, over the years, we have produced a couple of reports on road maintenance, in which we have spoken about some of the challenges associated with sharing services and collaborative working. As Fraser McKinlay said, money tends to focus minds.

Anas Sarwar: The Glasgow deal, for example, is worth £1.2 billion, and we are talking about many more billions of pounds if we add all the other deals. It seems that we badge those mass sums of money as a way of promoting the deals as a concept, but exhibit 6 shows that the year-on-year spending is relatively small.

On the commitments that the Governments have made, is that money that has been put aside and allocated for future years' budgets, or is there just a broad wish list, which is not backed up with hard cash?

Fraser McKinlay: I characterise it as somewhere in between. It is more than a wish list, but we would like it to be better built into medium and longer-term financial planning. One of the risks that we identified in the report relates to whether councils have a clear mitigation strategy in case the money does not materialise. Depending on which deal we look at, we see different levels of risk. Some deals are very public sector driven, so we expect that money to come, although we would like it to be more clearly built into medium-term financial planning.

One of the interesting things about the Aberdeen deal is that there is a much bigger private sector contribution. Clearly, if something were to happen and the private sector were to say that priorities had changed and that it was not going to give that money, that would be more of an issue for the north-east deal. We are keen that the deals recognise those risks and that they take steps to mitigate them as best as they can.

Anas Sarwar: I will go back to collaboration for a second. The Glasgow airport rail link has been announced with some fanfare many times. In direct relation to the Glasgow city region deal, there was an announcement in 2014. Since then, there have been several announcements and changes to the project. Although we have money allocated to deliver it, we do not have a firm

proposal on the table. Is there a built-in system to find a resolution when there is a clash on a project? That goes back to Alex Neil's point. Is the money committed only if everyone is 100 per cent agreed and on the same wavelength, or is there a conflict resolution system, to make sure that investment still comes in?

Fraser McKinlay: I will ask Sally Thompson to come in, but the governance arrangements in the city region deals are critical for that. As we describe in the report, although it is early days, the local governance arrangements are in good shape and well established. They have yet to be tested in those circumstances, but that would be the route for any disagreement around specific projects.

Just because a project is in a deal, that is no guarantee that it will happen. The Sheriffhall project, which is out towards where I live in East Lothian, is clearly controversial. That is in the Edinburgh and south-east Scotland city region deal and there is a long way to go on that. There are no guarantees, but the mechanisms are there to try and manage that. Is that fair, Sally?

Sally Thompson: Yes, that is fair. The national Governments are clear that, because the deals have such long-term timescales, some things will change, and they will need to keep an eye on that, in order to maximise the impact from their investment.

With regard to the Glasgow airport rail link, everybody is still committed to improving access to Glasgow airport. The same amount of money is committed to it. Everybody wants the same economic impact from it, but the best way to do that is still being discussed through the various structures.

Bill Bowman (North East Scotland) (Con): I want to go back to an issue that Colin Beattie raised, because I want to clarify the resource question. For example, in Dundee and Angus in the north-east region, the councils have difficulty emptying bins and fixing swings in play parks, yet they are having to put resources into working on a deal. Are you saying that the Scottish Government can or should do more to help councils with those resources?

Fraser McKinlay: I do not think that we say that explicitly in the report. Councils have a lot of different things to juggle, from the direct service areas that you described to supporting the deals. They have recognised that, as well as dealing with the short-term pressures of service delivery, they must invest for the future.

Team, do we have anything else to say on that question?

Graeme Greenhill: The Scottish Government is not providing any additional money to councils to allow them to manage the city region deals.

Bill Bowman: It is not providing money. Is it providing resources—people?

Graeme Greenhill: No, it is not providing anything like that. It is entirely up to the councils to deal with the issue. The councils will have to balance the development of their city region deal with all their other activities and functions.

Bill Bowman: In paragraph 30 of your report, you say that external consultants are being brought in to help with most deals. Are they bringing in just skills, such as modelling skills, or are they bringing in the expertise of people who have experience in putting together a deal?

Sally Thompson: It is generally expertise that they are bringing in, such as specific skills in economic modelling. Some assistance will be provided for bringing a deal together, although there is a lack of transparency on that process, so it is not clear. Generally, however, there is a lot of input from both the national Governments, which work with the councils to develop proposals that are acceptable to everybody.

Turning to the resource impact on councils, developing a deal can take some councils a long time, and it requires a lot of resource, so one of our recommendations is that we think that it would be helpful for the Scottish Government to share good practice about what has worked well, so that those who are involved in the deals can learn from one another and make the process more streamlined. That is where much of the work goes in at council level.

Bill Bowman: From looking at the various deals, do you have a feel for whether a commonality of consultants or firms are developing expertise that they will go and sell to more than one council?

Sally Thompson: A range of people have been used. I understand that some big national audit firms have been used, as well as some local economic specialists. The situation is quite varied.

Derek Hoy: The Scottish Futures Trust has been assisting with some of the later deals by providing guidance on how to put business cases together and so on. That has been particularly valuable for the smaller councils involved in the smaller deals, which have had a bigger draw on their resources. That has come across latterly. We heard that some councils have been grateful for the role that the trust has played in helping them to pull their deals together.

Bill Bowman: Do the councils involved know what support is available?

Derek Hoy: That has improved over time. For some of the earlier deals, people were feeling their way in the dark and were not too sure where to turn for guidance. As things have progressed, however, both Governments have played a better role in providing guidance and in signposting people to bodies such as the Scottish Futures Trust, as well as in signposting those involved in later deals to the earlier deals so that they can find out about how people went about doing things. That situation has improved slightly over time, although there is still some work to be done on that front, and the Scottish Government could perhaps play a better role in pulling together different deals and sharing information and learning. There has been some progress on that, at least.

Bill Bowman: Do you think that councils, if they are asked, speak to one another and are open about their experiences?

Derek Hoy: They might have been less open earlier on, because they might have felt that there was a degree of competition. They might have been keeping things close to their chests. Latterly, however, as it has become clearer how deals come together, and as councils have realised that there is not actually much of an element of competition, they have been a bit more open with one another, and they have been speaking to one another more.

Fraser McKinlay: We are now moving into a different phase, so there has not been a lot of recent activity in getting the deals signed or almost signed. The big challenge now lies in delivery. The requirement for skills and capacity in the first five years of the story—in getting the deals signed—is one thing, but we are now in a different phase.

We have been speaking about economic development, and it is worth remembering that councils have a long and pretty decent track record of capital programmes, and the programmes that are happening in the areas concerned are capital programmes that councils have been used to managing for many years. There is a skills and capacity element that kicks in there, which is not just about economic development; in the infrastructure-based deals, it is also about getting the things built.

In a sense, the interesting deals will be the likes of the Edinburgh and south-east Scotland deal, which do not involve infrastructure quite so much. There, it is much more about skills, data and digital, and the role that the councils and their partners need to play will be quite different. It is a case of facilitating and ensuring that things are progressing at the same time.

As we move into the delivery phase, the different deals will require different kinds of skill

sets. We have said in our report that people need to recognise that and to put in place the skills and capacity that we need.

The Convener: Bill Bowman asked whether councils recognise what support is available. Do you think that enough policy-making capacity is available at Scottish Government level in that regard?

Fraser McKinlay: I will ask my team to help on that point, but I would say, and the report sets out, that the policy backdrop in this area is pretty complicated. If we take a step back and take a look at the economic development landscape, we find that it is quite busy, and it is evolving quickly. We now have the south of Scotland enterprise agency as a new kid on the block. We make the point—as did colleagues down south—that the city region deals might make sense as economic regional areas, but they will not necessarily map across to other administrative areas that people are working with.

09:45

There is a lot to work through, both locally and nationally. It is not a question of lack of capacity, but there is a need to better articulate how city deals contribute to the whole. That is why, in the report, we strongly make the point that there needs to be a link to the outcomes in the national performance framework. It is a bit surprising that the city deals do not mention how they will contribute to the outcomes in the NPF. That seems to be a gap.

The Convener: Who is in charge of city deals for the Scottish Government?

Fraser McKinlay: Ultimately, it sits with the accountable officer in the appropriate part of Government, who is Liz Ditchburn.

The Convener: She is the go-to person on city deals.

Fraser McKinlay: I have forgotten what her formal title is but, ultimately, the director general for economy is the accountable officer for city deals.

The Convener: That person is Liz Ditchburn.

Fraser McKinlay: Yes.

The Convener: I presume that expertise has been built up over the course of the deals. Is there a lot of expertise in that team that enables people to apply the lessons that have been learned on other deals to the most recent deal and to advise that things be done a certain way? Is that what happens?

Fraser McKinlay: There is a lot of expertise in Government on the deals, but I am not sure that

the approach that you have just described would be taken, which would involve going into individual deals. I will ask Sally to pick that up.

Sally Thompson: As deals have evolved and the Governments have worked with an increasing number of deals, they have shared what has worked well on a particular deal. They will make recommendations. For example, Moray Council is trying to get more business input as it develops a deal, so the Governments would try to help with that. They do do that, but on an ad hoc basis or in a less transparent way, because it is all part of the negotiation process.

There is regular communication between national Government and those who are responsible for the deals. They have annual conversations but they also meet outwith that to talk about progress and what the risks are. There is good communication and assistance.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I have a few questions, the first of which is about the scope of the audit. From an Ayrshire perspective, my view of the growth deals is a positive one, but I felt that the report was rather negative. Was there anyone from Ayrshire on your advisory group? Did any Ayrshire voices contribute to the findings that you have presented in the report?

Derek Hoy: There was no one from Ayrshire on the advisory group. That group only had people from deals that had been signed, because those were the ones that we were looking at in more detail. However, we did speak to people from the Ayrshire growth deal to get their view on how things were progressing there.

Willie Coffey: Do you include MSPs in your consultative methodology? I do not think that MSPs have been consulted on their views. You spoke to elected members, but which ones?

Fraser McKinlay: We did not speak to any MSPs.

Willie Coffey: Is that something that you might choose to do in the future? There are surely many MSPs who would have a view on what will be major impacts on their communities.

Fraser McKinlay: That is an excellent thought. We will take that away and consider it—thank you. We can think about that for the future.

Willie Coffey: Thank you.

I think that the Ayrshire deal has been a pretty positive experience. Derek Hoy said earlier that although the three councils in Ayrshire might initially have been vying with one another a little for projects, that was largely ironed out, and the proposal that we have in front of us is a pretty good and strong one.

Both Governments have a say, but they come at the issue from different angles. The UK Government has a focus on industrial strategy, while the Scottish Government has a focus on sustainable, inclusive economic growth. Both Governments had a look at and had a view on the initial project lists. It was not as rigorous as devolved versus reserved; the process was fairly mutually co-operative, which led to the signing of the deal.

I will pick out one local project, which I have mentioned previously. The HALO project, which is worth £63 million, is not entirely funded from the growth deal. Its components are leisure, education, culture and commerce, and it is fuelled by renewable energy. We hope that it will contribute £200 million to local gross domestic product, support 1,500 jobs and deliver long-term sustainable economic and social benefits. What more should the Ayrshire growth deal have put down on paper to satisfy Audit Scotland about the concerns that you have raised today?

Fraser McKinlay: The concerns that we raise in the report do not relate to individual projects. We say in the report that things have happened that would not otherwise have happened. Our question mark in the recommendations that we make for Government and councils is that they need to be clearer about how projects are chosen, how the funding is directed to those projects and what we are expecting to get as a result.

Of course, with all such initiatives, there is an opportunity cost—if we choose to invest in one infrastructure project, that money will not go anywhere else. From our perspective, that is the bit that is difficult to see. We are not in any way suggesting that there is not good stuff happening here; we are saying that there is more that Government and councils can do to really demonstrate how the investment is going to make a difference in the long term, beyond some of the output measures that Sally Thompson mentioned earlier.

Willie Coffey: For the audit, I presume that you spoke to UK and Scottish Government officials. Did they not give you some indication of what their criteria for selecting and supporting, or not supporting, some of the projects that made it to the final list were? Surely they must have done so.

Fraser McKinlay: Not so much.

Willie Coffey: Did you ask?

Fraser McKinlay: Yes, we did, and that is why we say that the position is not clear.

To be fair—I again refer to the National Audit Office report that was published in 2016—the UK Government at the time was deliberate in saying that it would not worry too much about how the

deals compared across the country. It deliberately made the choice not to evaluate all the deals together, because the deal process was, as far as it was concerned, all about localism and devolving power to local places.

I think that the Scottish Government's approach has been slightly different. We have spoken about the reasons for that, which were, in a sense, to allow a thousand flowers to bloom, to encourage innovation and to make sure that the projects that came forward genuinely met a need and the aspirations of the local communities. That is absolutely fine, but it means that when we or, more important, people in those communities come along and ask, "Why did you choose this project and not that project?", it is not very clear.

Willie Coffey: Beyond the growth deal investments, for whatever period they last and whatever the sustainability of the projects that emerge, has any thinking been done about whether they will continue to need the same levels of funding to sustain them or whether they will become self-sustaining? Is there a sense of that in relation to any of the deals across Scotland?

Fraser McKinlay: I will ask the team to come in, but one of the points that we make about the difference between outputs and outcomes is that, once you have built a thing, whatever that thing is, you need to be clear about how it will contribute to economic growth beyond the point of the thing being built. The funding will not be there, because the thing will have been built, but it will have been built for a purpose, and that is the bit that we struggled to get a handle on. Is that fair to say, Graeme?

Graeme Greenhill: Yes. There is beginning to be talk about the second phase of city deals. The Government has committed—at this stage anyway—to ensuring that every part of the country is covered by a city deal or a growth deal before it starts to move into city deals 2. There are also emerging thoughts around the idea of a green city deal, whereby the investment will be much more targeted towards projects that will reduce emission levels.

Willie Coffey: That would chime with the plans and proposals in the Scottish national investment bank strategy.

Graeme Greenhill: Absolutely.

Willie Coffey: My final question is on your follow-up work. When do you think that it would be appropriate to look at the subject again, and at the progress of all the deals?

Fraser McKinlay: We have plans to do that. Graeme Greenhill can say where that is in the programme?

Graeme Greenhill: Our proposal is to come back in a couple of years' time. We will have to see what happens with this report, and a couple of years will give some time for the other deals that are currently in preparation to be approved; it will also give the deals that have been signed a bit more time to move into the delivery phase.

Willie Coffey: How will we get sight of progress on the recommendations that you make in your report? Should the committee write to both Governments and the councils for an update? I do not think that we want to wait two years to have an update on progress.

The Convener: We always have the option of taking further evidence on the matter, which we may well decide to do. Mr McKinlay, do you want to address that point?

Fraser McKinlay: I was going to say the same thing, convener—the committee will want to decide whether to write asking for an update and/or to have an evidence session.

In addition to our follow-up reports, we routinely do what we call an impact report, which is an exercise in which we look at the extent to which our recommendations have been accepted and implemented. We make those reports publicly available and send them to the committee. We tend to do an impact report between 12 and 18 months after the publication of a report. It is a shorter, sharper piece of work. It is not a follow-up audit as such; it is really a way of checking up on recommendations. Between the committee's efforts and ours, we should have a good sense of whether the recommendations are being implemented.

The Convener: The purpose of city deals is to generate economic growth and to create new jobs and new business opportunities. To my mind, a lot of the projects and opportunities have to be current, as well as cutting edge and competitive.

With the Tay cities deal, planning started quite a few years ago. Some of the projects were conceived four years ago, and it looks as though they will not be funded for another six years. Therefore, there will be a 10-year time lag before a project that was conceived four years ago is deemed to be economically beneficial. I understand the timescales—this is about long-term investment, and, as politicians, that is what we always argue for. What is your take on having a 10-year time lag before a project that is supposed to be cutting edge and competitive is started?

Fraser McKinlay: It is a risk, but, as Sally Thompson mentioned, I think that the people who are involved in the deals have recognised that risk. The content of the deals may well change over

time, partly for exactly the reason that you have just described.

Exhibit 6 on page 30 of the report is a graph that shows the pattern of spend over time. You can see that the expectation is that the bulk of the spend will peak around 2022-23. Just a couple of weeks ago, the director of the Glasgow city region deal said in his blog that they are trying to accelerate quite a lot of the work in Glasgow. That is partly in recognition of the risk that you mention, which is that the longer you leave these things, the longer you are not getting the benefit of them and the greater the risk that they might become out of date. It largely depends on the nature of the projects—some of them are a bit more future proofed. However, you are right to raise the issue, which you would expect to be looked at under the governance arrangements as the deals get into the delivery phase.

The Convener: But is it not right to say that the governance arrangements are pretty poor?

Fraser McKinlay: No, I would not say that they are poor. Locally, they are untested and some of the potentially difficult decisions about what should be in the deals are still to be made. However, the governance structures are sound and they are all in place, particularly at the local level. Nationally, I think that everyone would recognise that it has taken a wee while to get going, and things were really only formalised last year. Is that right, Derek?

Derek Hoy: Yes.

Fraser McKinlay: Locally, the joint committees and steering groups are in place and they are in a pretty good position to monitor progress.

The Convener: The media focused on transparency when the Auditor General released the report last week. I think that there has been a lot of confusion at the local level about why one project is funded under the city deal while another is not. Indeed, some of the people proposing the projects have been quite surprised. Your report says that there should be more transparency around the process.

Fraser McKinlay: Yes.

The Convener: Should some of the projects be funded under the normal infrastructure programme? For example, one of the final projects to be identified as one that will be funded through the Tay cities deal is a bridge at Scone. That decision came as a surprise to some of us in Dundee, although people in Perth were quite happy with it. Should such a project simply be funded under the normal infrastructure programme?

Fraser McKinlay: There is no doubt that one of the questions that has been raised about city

deals since their inception is about the extent to which things would have happened anyway. With some projects, councils have wanted to do them for quite a long time but did not have the funding. It is quite difficult to unpick that. We can see an evolution through the history of the deals. Perhaps the team has something to add.

10:00

Derek Hoy: It is fair to say that the majority of projects that sit under the deals had already been thought of and were waiting for funding to come along to enable them to go ahead. Perhaps the deals have brought a degree of time additionality to enable projects to happen sooner than they would have done. Indeed, projects might now happen on a greater scale than would have been the case or with a greater level of synergy with other projects that are already going on. The deals bring various types of additionality, but many of the projects were already in place.

The Convener: I have questions about the criteria. Correct me if I am wrong about this, but the Local Government and Communities Committee's city deals report, which was published two years ago, talked about the Levenmouth rail project not being included in the Edinburgh and south-east Scotland city region deal, and we know now that the Scottish Government has stepped up and put funding into that project. The project was not good enough for the city deal, but the Government has, for whatever reason, decided to do it. Other projects, such as the Scone bridge, have gone the other way, in that they have not been funded under the normal infrastructure programme, but have found themselves in a city deal. That raises questions about the criteria for funding decisions.

Fraser McKinlay: Yes, it does.

The Convener: Will you expand on that?

Fraser McKinlay: I am struggling to know what to say other than that it raises questions about criteria. As Mr Coffey mentioned and as I said in response to his question, we are not looking to be critical of individual projects and what they might bring. What we are saying is that it is not clear, particularly to local communities, why some projects are out and others are not, and why some are being funded separately by the Scottish Government.

Interestingly, more Scottish Government funding is being put in around city deals. We are not critical of that, but having a clearer set of criteria and giving a clearer understanding to people in partner organisations and the communities that they serve are important parts of the equation.

We have not touched on this much yet today, but the report mentions the fact that, as far as we can tell, there has been little community engagement in any of the deals. We mention the Tay cities deal, which was one of the later deals, as one that tried to do a bit more, but there was very little engagement in the earlier deals. They seem to be just a series of projects that appeared, and we found little evidence that local communities have any ownership of them.

Graeme Greenhill: The report talks about the need for the Government to better articulate how the city deals programme relates to the national performance framework—

The Convener: Do you mean the Scottish Government?

Graeme Greenhill: Yes. The Scottish Government needs to better articulate how the programme relates to the national performance framework and the outcomes that it includes. That would allow the city deal proposals to better reflect the outcomes that they and their projects are expected to have, which would provide the beginnings of a framework that would allow selection criteria to be applied to individual projects.

The Convener: Yes. It is not about transparency for transparency's sake; it is about transparency so that communities can better plan further economic growth.

The issue of power transfer has intrigued me for a while. I am thinking of when the city deals started in England, too—they have always been about not only investment, but the transfer of power to the cities and regions that manage that money. Correct if I am wrong, but when the greater Manchester city deal was signed, there was a transfer of power and the mayor's position was created—there was a lot more local power. Am I right in saying that no power has been devolved from the Scottish Government to local authorities in the Scottish city deals?

Fraser McKinlay: That is correct. The starting point is quite different. I mentioned that city deals were very much part of the UK Government's localism agenda in 2011. For example, as you said, the city mayor model was a requirement of the Manchester deal getting the money. I am not sure that that model was straightforward for lots of local authorities—it was not an easy thing to sign up to—but the model in Scotland has been quite different.

At the time of the Local Government and Communities Committee's inquiry in 2017, Glasgow Council and Aberdeen City Council made a pitch for that kind of devolution of power to come with the deals. That has not happened. At the moment, city deals in Scotland are about getting

local partners together to deliver the projects that are in the city deals, and no more than that.

The Convener: Why has that power transfer not happened?

Fraser McKinlay: That is probably a question that the Scottish Government, and, potentially, COSLA could answer better than I can. It seems to me that it was never part of the discussion in Scotland. That is probably a lot to do with the history of local government and how it works in Scotland as opposed to what happens in England. I am not sure that I have an answer for you.

The Convener: If we are drawing comparisons, I want to be clear about what we are saying. The situation in Scotland is different from what happened when power was devolved to Manchester. For example, power would not be devolved from Westminster to Scottish local authorities because it has already been devolved to Edinburgh. It would therefore have to be devolved from Edinburgh to local authorities. There is an exception that relates to tax, which, through the accelerator model and other models, has already been devolved a bit from Westminster to local authorities in Scotland. Is that right?

Fraser McKinlay: I am always cautious about drawing direct comparisons between how things work north and south of the border, because the starting points are quite different. What local authorities do, and the make-up of local authorities—

The Convener: Where would the power be devolved from in the mayoral example?

Fraser McKinlay: In Scotland?

The Convener: Yes.

Fraser McKinlay: I guess, technically, the creation of mayors would be a matter for agreement between the Scottish Government and COSLA. However, as I say, that model has not been part of the history or background in Scotland and I am not aware of any appetite to move in that direction.

The Convener: Apart from in Aberdeen.

Fraser McKinlay: That was a couple of years ago.

Liam Kerr (North East Scotland) (Con): I would like to go back to the convener's question on structures, and to something that Graeme Greenhill said.

Audit Scotland's report describes the role of Scottish city region deal delivery board, which is the main national governing body for signed deals. It consists of senior civil servants from both Governments and its job is to scrutinise performance, budgets and risks—that sort of thing.

However, the report also says that its role is still evolving. In paragraph 40, the report provides a specific example of an area in which the board's role is not clear. Does that not give you some significant cause for concern, particularly given the sums of money that are involved in the scope of the deals?

Fraser McKinlay: The point that we make in the report is that the board's role in evaluating the impact of deals is not clear.

We see the board playing a role in progressing and agreeing the deals, but, as I said, we are now moving into a different phase. We expected formal arrangements for the board to have been agreed sooner than they were. As paragraph 41 of the report says, they were finally—formally, in writing—agreed in 2019. Everyone recognises that that could have been done earlier.

We are now interested in the extent to which the board is fulfilling a role that is almost like that of a programme board in ensuring that the deals are progressing in the ways that they are supposed to. There is no doubt that governance and accountability arrangements, between the individual deals and the national picture, will be quite complex. We will certainly be keeping an eye on that.

Graeme, do you have anything to add?

Graeme Greenhill: I do not think that I can add an awful lot. As Fraser said, it is in essence a timing issue. In the board's early days, it was all about getting city deals off the ground. Once we move into the project delivery phase, the board's focus and attention need to be directed towards ensuring that the deals are actually delivering the impact that was originally intended. Action is required from the board to clarify what its role is in evaluating the impact of deals.

Liam Kerr: That being the case, in your assessment, do the people on the board have any specific expertise? The committee is always concerned that the right people are doing the right jobs. Do the people involved have any finance expertise? Is there an economic bent to any of that expertise? If, as Graeme Greenhill says, the role is fundamentally changing as we progress through the timeline, does that mean that the personnel will also change to ensure that the right expertise is always there?

Sally Thompson: The people who sit on the board are the senior officials from both the UK and Scottish Governments who are responsible for city deals policy. The board has changed its name and its role has evolved over time. It is now looking more at how it will evaluate the deals. Those are the people who sit on the board, but I do not know whether others will be brought in.

Fraser McKinlay: The interesting thing is the relationship between the local joint committees and programme management offices and the top-level board. There are a couple of interesting things about that. One is that some of those local governance committees are made up of elected members. They are joint committees under the legislation, so they are officially accountable to local communities. The reporting line between them and a national body that is made up of civil servants is interesting and we will keep a close eye on it.

The skills that Liam Kerr has described need to sit at the deal level. At the national level, people need to be able to understand progress, hold others to account and ensure good governance in the use of the money. People with finance skills would, of course, be required for that. Ensuring that people with the right skills are in the right places is important.

Liam Kerr: You mentioned that various civil servants sit on the board, and I have no doubt that they are very highly skilled. However, given the significant private sector involvement that we have heard about, such as in the Aberdeen deal, do you know whether any consideration has been given to getting a more diverse composition of people on the board—people who come from a commercial or business background, for example?

Fraser McKinlay: Do we know?

Sally Thompson: No.

Graeme Greenhill: We do not know.

Fraser McKinlay: I do not think that we know. We can try to find out, if it would be helpful.

Liam Kerr: That would be helpful. Thank you.

The Convener: As members have no further questions, I thank the witnesses very much for their evidence.

I now close the public part of today's meeting.

10:12

The meeting continued in private until 11:15.

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