

Cabinet Secretary for Economy, Jobs and Fair Work
Keith Brown MSP

Bob Doris MSP
Convener
Local Government and Communities Committee
Scottish Parliament

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Dear Bob

I was grateful for the opportunity to give evidence to the Committee's Inquiry on City Region Deals on 22 November, and I have read the recommendations contained in your final report with interest. In general, I think the Committee's report is helpful and makes a number of important points. A Scottish Government (SG) response to each recommendation is set out in Annex A to this letter.

City Region Deals represent a very important catalyst in helping to drive the achievement of inclusive growth in Scotland. They are a relatively new part of the economic development landscape. For this reason, I think that they do need to be given some time to mature before a body of credible evidence on their impact can be assembled. The SG is committed to growing Scotland's prosperity in a way that ensures every region and local community can benefit from new economic opportunities while inequality is reduced in tandem. Current and future growth deals are only one means of making our vision for inclusive growth a reality across Scotland.

In the Phase 2 report of our Enterprise and Skills Review published last year, we made it clear that the economic power and potential of Scotland's distinct regions must be harnessed. To ensure this potential is fully realised, we are working to enable formation of a network of Regional Economic Partnerships (REPs) covering Scotland. All growth deal activity sits within this evolving policy and operational context.

The Committee's report highlighted the landscape of programmes and interventions in Scotland aimed at growing an inclusive economy. At the conclusion of the evidence session I attended on 22 November, you asked me if it was time to

consider a new Scotland-wide regional economic strategy and monitoring programme.

It is entirely valid to call for continuous improvement of all complementary efforts in this area. However, as I noted in my subsequent letter, with the SG's high level economic priorities set out only two years ago in Scotland's Economic Strategy and our clear commitment to improving support for enterprise and skills outlined in the past year, I do not think that development of a discrete regional economic strategy is necessary at the current time.

Regional Economic Partnerships exist in a variety of forms and degrees of maturity across Scotland. Governance arrangements attached to the City Region Deals are influencing the way partners are engaging in the wider regional policy context. The SG wants to help nurture these new partnerships by assisting in the development of investment planning and monitoring and evaluation methods, focused on identifying clear evidence that inclusive growth is being accelerated.

My expectation of the new Centre for Regional Inclusive Growth, to be launched in the early part of this year, is that it will provide practical assistance to REPs aiming to plan and co-ordinate investment geared to achieving inclusive growth, as well as then going on to measure the impact of all relevant investment, be that public sector partners mainstream budgets; non-growth deal investment from SG and elsewhere; and the accelerant investment from the SG and United Kingdom Government (UKG) through the city and other growth deals.

The Committee's report made a number of recommendations linked to the relationship between the SG and the UKG. I would like to be clear that just as SG is committed to achievement of inclusive growth in every part of Scotland, we are similarly committed to 100% coverage of Scotland with a growth deal. We want the UKG to join us in this common purpose and work to accelerate plans to ensure every area of Scotland is given the opportunity to benefit from this extra catalytic investment.

I wholeheartedly agree with the Committee's recommendation that a timetable to achieve this be agreed between both governments, and I have shared this view with my UKG counterparts. Early agreement of such a timetable would provide reassurance to partners in areas such as Ayrshire, who have been working hard to frame and agree the content of a growth deal. I note the recommendations made by Committee about the relative economic strategies of both governments and the need to discuss respective investment contributions with HM Treasury. These are matters I have been, and will continue to, raise with the UKG. The primary SG objective is to unlock fresh investment for our regions.

I want to avoid being detained by technical arguments or semantic dialogue about our respective high level economic development policies. It is my belief that the achievement of inclusive growth to enable a more equal society in Scotland and across these islands should be a unifying goal for all governments.

Although detailed responses to each of the Committees' recommendations are set out in Annex A, I would like to comment briefly on some of the key themes

highlighted in the final report, including investment project selection, governance, participation and concerns expressed about the displacement effect on neighbouring regions and areas of investment in City Region Deals.

On this last point, I hope that our commitment to 100% coverage of Scotland with growth deals and REPs provides clarity and reassurance. It is perhaps unavoidable that different places are impacted upon by economic events elsewhere. This works at an international scale as it does within a single country. However, our 100% coverage ambition means that we want all of Scotland's regions to be given the opportunity to build on their unique strengths.

Combining issues linked to investment project selection, governance and participation, there is a central point I would make. I think it is worth restating what I emphasised at Committee that autonomous, democratically elected local authorities are at the centre of design and delivery of all growth deals. Working with partners, they are the best arbiters of what action will drive the regional economy with fresh vigour. We would expect, of course, that they seek to build a consensus among all local stakeholders, including the business community and local people. This means of connecting with stakeholders can and should be enabled by the regular processes employed by local authorities, all of whom will also be clear about their duties in relation to promoting equality.

The way that growth deals are developed is an evolutionary process. In our on-going engagement with partnerships and the UKG, we will be mindful of all of the recommendations made by the Committee. In particular, we will focus on issues linked to transparency of investment and partnership inclusivity. As we move forward, it will be increasingly important to see growth deal investments as part of a REPs entire effort to achieve accelerated inclusive growth.

There is an element of risk attached to any programme of investment aimed at encouraging inclusive growth. By working in partnership, both the SG, UKG and local authorities can focus on selecting the most impactful investments, informed by the regional context and assistance from SG in the form of e.g. our Inclusive Growth Diagnostic and, when launched, the work of the Centre for Regional Inclusive Growth.

The aim of generating inclusive growth is the golden thread running from our Economic Strategy, through our enterprise and skills ambitions, to work on the ground in those REPs being inspired by the city region and other developing growth deals. In the regional context, new REPs must seek to add value by finding their place among other key partnerships, such as community planning and those focused on fair work, planning and transport.

I would be happy to provide the Committee with any further information required. In addition, I will ensure that the Scottish Government assists Audit Scotland in its forthcoming work in the area of governance and accountability linked to the City Region Deals.

KEITH BROWN

**SCOTTISH GOVERNMENT RESPONSE TO RECOMMENDATIONS CONTAINED
IN “CITY REGIONS: DEAL OR NO DEAL”**

Paragraph 177

The Committee recommends the two governments work together with HM Treasury to agree a system where the singular focus is on the deal and the projects themselves and not on the artificial boundaries of what is a reserved project and what is a devolved one and the badging of who is funding what. For example, further clarification is required as to whether the focus should be on pure economic growth or inclusive growth. Whilst there has to be clear transparency and lines of accountability, the focus of all must be on maximising the benefit of a deal in a given area to as wide a proportion of the local community as possible.

SG Response

We agree with this recommendation. Our regular dialogue with the UKG is aimed at accruing maximum benefit for Scotland’s city regions and, beyond that, every other region and local area across the country.

Each deal is tailored to a particular city region, reflecting its individual economic opportunities and risk factors. Each partner contributes consistent with their own strategic investment aims. However, the focus of all should be the benefit derived for a particular area and the people who live there. It falls to both the Scottish Government and the UK Government to work in as joined up and seamless a way as possible, avoiding any unnecessary confusion for partners and local communities.

The covering letter for this note makes it clear that the SG wants to avoid being detained by technical arguments about respective high level governmental economic development policies. Investment in high quality, locally devised and developed projects will be the key to accelerating economic growth in a way that improves regional prosperity while reducing inequality. This is the sort of outcome that any government should prize.

Paragraph 183

First Recommendation

We recommend that the joint UK Government and Scottish Government Scottish City Region Deal Delivery Group issues guidance that provides for a clear, standardised, pan-Scotland system for evaluation of projects and that, afterwards, more information is published on which projects were included and which were not, and why not.

SG Response

We note this important recommendation. It is entirely valid to highlight the importance of consistency in project evaluation and transparency in the means of conducting those evaluations.

The terms of reference for the joint Scottish City Region Deal Delivery Group (now the Delivery Board) are set out at Annex B. The remit of the Delivery Board includes supporting and monitoring the successful implementation of agreed deals. Each deal is different and tailored to its city region. However, this does not mean that consistent methods and principles are not employed in framing the content of deals. One good example of this is the involvement of the Scottish Futures Trust (SFT). Involvement of the SFT helps maintain the focus of all partners on the collective aim of selecting those activities that can generate the optimal level of regional inclusive growth.

The Scottish Government will ensure that this recommendation is considered thoroughly by the joint Delivery Board. The Committee will then be updated on the Board's consideration.

Second Recommendation

We also recommend that there is more information publicly available on the scoring system used and who is responsible for the scoring. We are also minded to support a principle that the scoring sheets should be made publicly available after the process too.

SG Response

As with the previous recommendation, the Scottish Government notes the important points made by the Committee about consistency and transparency. The process for developing a city region deal starts with democratically elected local authorities and their regional partners developing a set of project proposals. These are then discussed with both Governments and with relevant national agencies, such as Scottish Enterprise and Skills Development Scotland, to explore the detail, the readiness of the proposals and any relevant constraints.

Initial proposals often exceed available funding and local authorities and their partners are asked to prioritise their asks. There is no general or mechanistic scoring process. Priorities are identified and refined relevant to each specific regional geography and specific economic circumstances. Ultimately, project business cases are produced and reviewed using the Five Case Model, consistent with HM Treasury's Green Book Guidance, which provides a consistent approach.

Again, the Scottish Government will ensure that this recommendation is considered thoroughly by the Delivery Board. The Committee will be updated on the Board's consideration.

Paragraph 184

We also recommend that all projects should be subject to a comprehensive equality impact assessment and a sustainability audit, both of which should be published.

SG Response

We accept this recommendation, and will assess the relative responsibilities of each public body involved in the various component parts of a city region growth deal, in terms of preparation and publication of such assessments. Thereafter, we will update the Committee on future plans.

A statutory duty has been placed on most Scottish public authorities (including cross-border authorities) requiring them to carry out an equality impact assessment (EQIA) when developing or implementing new policies or plans, and to publish those assessments.

In addition, Scottish public authorities that intend to enter into a relevant agreement on the basis of an offer which is the most economically advantageous must have due regard to whether the award criteria should include considerations to enable better performance the equality duty as set out in the Equality Act 2010.

Equalities and sustainability issues and impacts are considered as part of business case development in all city region growth deals. The Equalities and Human Rights Commission (EHRC) in Scotland has launched a programme of work to engage and collaborate with councils to ensure that the benefit of city region deals are shared equally by everyone in Scotland's communities. The conditions attached to city region deal funding require councils to work with the EHRC to maximise the equalities benefits of growth deals.

Ensuring sustainability is also a key part of the Scottish Model of Procurement, which is not just about cost and quality, but about the best balance of cost, quality and sustainability.

Paragraph 186

We recommend that the joint UK Government and Scottish Government Scottish City Region Deal Delivery Group provides clearer information on how displacement will be monitored and addressed. The Committee believes this is vital as any such effects are likely to be seen in parts of the country that fall outwith the geographic boundaries of the deal in question or in certain parts of the area covered by the same deal. An assessment of displacement should be a formal part of the Gateway Review process for the Glasgow Deal, and for any formal assessments of other deals, with the results made publicly available afterwards.

SG Response

We fully accept the core principle underpinning this recommendation that no part of Scotland should be disadvantaged. As the covering letter for this note highlights, we are committed to 100% coverage of Scotland with locally developed and agreed growth deals. However, the important question raised of any potential for displacement will be addressed by the Delivery Board.

The Glasgow City Region Deal represents a £1.13 billion infrastructure investment, with 5 year gateway reviews to ensure value for money. The Gateway Reviews will consider the economic impact of the investment and will be informed by a report from a UK-wide national panel and a Glasgow City Region-specific economic commission. We will ensure the comments of the Committee are considered in this context.

Paragraph 187

The Committee has additional concerns that areas of Scotland not currently covered by a city region deal may be doubly disadvantaged by displacement effects. **We recommend a clear timetable is provided on when such areas will benefit from investments of this nature.**

SG Response

We agree with this recommendation. The Scottish Government is committed to securing growth deals for all parts of Scotland and have asked UK Government to join us in this common purpose. This crucial dialogue continues.

Paragraph 189

We also want to see more information available on the risks associated for each individual project and for the City Region Deals as a whole. This means the far clearer and accessible publication of risk registers, as well as publication of any regular assessments of risk status made by the different cabinets or programme management offices. The risk registers need to cover issues such as the possible change of governments, the impact of Brexit, etc.

SG Response

We note this important recommendation. Risk registers are available for each of the City Region Deals. They are prepared and formally scrutinised by the relevant regional governance structures. They are also scrutinised by the Scottish City Region Deal Delivery Board. The Delivery Board will discuss this particular recommendation, with a view to enabling maximum transparency in sharing risk related assessments.

Paragraph 190

The Committee is not yet convinced that we have the overall governance structure correct for City Region Deals. We need to see more evidence that both governments, via the joint UK Government and Scottish Government Scottish City Region Deal Delivery Group, are taking a comprehensive and strategic pan-Scotland approach to the deals and will issue standardised guidance for monitoring deals and projects. **We recommend that the governments publish a timetable for this process.**

SG Response

The Scottish City Region Deal Delivery Board provides a mechanism for ensuring that there is a comprehensive and strategic pan-Scotland approach to the co-ordination of City Region Deals. The Board's approach to supporting monitoring activity includes establishment of a central team to develop effective and consistent monitoring approaches. The monitoring of deals is consistent with the Scottish Public Finance Manual and is set out in the annual grant offer letters. In addition, the Board is developing standardised templates and guidance for annual reporting. This is expected to be in place for reporting in FY 2018/19.

Paragraph 192

We note the evidence heard expressing some concerns about insufficient capacity and resources within local authorities to take forward complex projects of this scale, particularly around project evaluation and monitoring. **We recommend that the issue of appropriate resourcing is discussed between those local authorities involved in these Deals and the joint UK Government and Scottish Government Scottish City Region Deal Delivery Group to satisfy themselves that this work can be carried out.**

SG Response

We accept this recommendation. The primary responsibility to adequately resource local development of City Region Deals sits with the relevant local authorities. However, the Scottish City Region Deal Delivery Board will consider this specific recommendation and any problems being experienced by local partners as part of its on-going scrutiny function.

Paragraph 193

We also note the views expressed to us that the intention of those involved is that projects within Deals are not allowed to fail, but are adapted along the way to meet new requirements and changing circumstances. Whilst a degree of flexibility is to be welcomed, this will make it more difficult to assess the outcomes of any given project if it has been changed in any significant way. **We recommend that any such change process comes with the publication of new targets for GVA, job creation etc. so that it is clear what the new outcomes for the project will be.**

SG Response

We accept this recommendation in part. City Region Deals comprise a programme of interventions designed to bring about long-term strategic improvement to regional economies. Once a deal is agreed, its effectiveness is judged not only on the successful delivery of the various individual projects within it, but also on its overall economic impact.

We are at a relatively early stage in relation to City Region Deals in Scotland, but we can expect there to be a need to flex and modify specific projects, and record what that means for overall deal targets combined over the 10-20 year lifetime of a deal in order to ensure continued delivery of the economic impact sought from the overall deal.

Paragraph 194

The Committee welcomes efforts to incorporate inclusive growth, a prominent example of which is the current process underway in Glasgow to integrate the more recently-introduced concept into the projects selected as well as indicate that other projects and priorities may be pursued. The Committee would appreciate an early update from the Glasgow City Region Deal Cabinet on which projects will be progressed and which will not and for what reasons. **The Committee recommends that the Scottish Government also provides the Committee with full details of what will be changing.**

SG Response

We accept this recommendation and would support the Glasgow City Region Deal in sharing this material. Although the Scottish Government's formal approach to inclusive growth was set out in Scotland's Economic Strategy in March 2015 and the Glasgow City Region Deal was signed in August 2014, the Glasgow City Region Deal partners recognised the clear imperative to make sure that the deal delivered benefit right across the region. It therefore contained an explicit commitment to "spread the benefits of economic growth across Glasgow and Clyde Valley, ensuring deprived areas benefit from this growth".

The independent Economic Commission, Chaired by Professor Anton Muscatelli, has been asked by the Glasgow City Region Cabinet to help the city region partners develop an approach to measure and maximise inclusive growth in the delivery of individual projects as well as to support better articulation of the overall impact of the City Region Deal on inclusive growth.

Paragraph 196

Nonetheless, we want to see more sustained evidence that engagement with local businesses, the private sector more generally, charities, community groups and local people is meaningful (i.e. that it helps shape deals or projects) and not just a means of informing people after decisions have been made. Engagement also needs to be ongoing as these deals will run for 10-20 years each. **We recommend that an**

appropriate weight should be given in the scoring of projects to those that can demonstrate meaningful engagement with the local community.

SG Response

As democratically elected local government, it is for local authorities to lead this engagement. However, the Scottish Government is supportive of this recommendation in general. We would encourage local authorities to build on existing community planning and other community engagement to strengthen their regional partnership approach. The report on Phase 2 of the Enterprise and Skills review (June 2017) made it clear that there are certain characteristics which make successful partnership delivery more likely, including strong leadership across the public, private and third sector which fosters a culture of genuine trust and deep collaboration. The Scottish Government expects this to be demonstrated where government investment is sought.

Paragraph 198

In this respect, we welcome the recent developments in relation to the Ayrshire Growth Deal and the work underway through the Borderlands Initiative or as part of the Islands Bill. It is important though that these initiatives are not the 'poor cousins' of City Region Deals. We welcome the assurances from both governments that their ambition is towards greater coverage right across Scotland. As Lord Duncan said, this "should mean that the mosaic of Scotland is all coloured in" and "every part of Scotland should receive the benefits irrespective of whether it is in an urban area, near an urban area or there is not urban area at all for that". **We recommend that both governments jointly set out a clear timetable on when that will happen.**

SG Response

As stated, the Scottish Government is committed to securing growth deals for all parts of Scotland and have asked UK Government to join us in this common purpose. We look forward to Lord Duncan's positive words translating to a UK Government investment commitment as soon as possible.

SCOTTISH CITY REGION DEAL DELIVERY BOARD
Terms of Reference
(Updated August 2017)

Role of the Board

The Scottish City Region Deal Delivery Board – the Board - is a joint UK Government and Scottish Government Board with responsibility for:

- Providing assurance and advice to Ministers regarding the Scottish City Regions Deals programme.
- The oversight, monitoring and successful implementation of Scottish City Region Deals, including the effective monitoring of issues and risks relating to the programme, in accordance with best practice and any recommendations issued by auditors or the NAO.
- Overseeing the negotiations of any new deals and the agreement of the strategic approach to be taken.
- The appropriate escalation and advice through both Governments should major issues arise.

Remit of the Board

The remit of the Board will include:

- Monitoring and supporting the successful implementation of agreed Scottish City Region Deals by assessing delivery against agreed implementation plans.
- Oversee and support the development of project business cases and where relevant coordinate their final approval with Ministers
- Agreeing common Government positions and/or required mitigations to manage developing issues, risks or any slippage to a deal or specific project.
- Agreeing, as far as is possible, common negotiation positions which will underpin the negotiation of new City Region Deals within Scotland.

Accountability of the Board

- The Board will report to the SROs and Accounting Officers in both governments for the work of the Board and the successful implementation of Scottish City Region Deals.
- A report noting the status of implementation of Scottish City Region Deals will be submitted to Ministers on an annual basis, based on the outcome of the annual implementation review meetings, ahead of a joint UKG/SG Ministerial forum (if agreed by Ministers).

How the Board will function

- The Board will ensure that all City Region Deal areas have appropriate implementation documentation that has been agreed by both SG and UKG. This may include but are not limited to:
 - An implementation plan
 - A monitoring and evaluation framework
 - A regional governance agreement
 - A communication strategy
- The Board will monitor the implementation of agreed City Region Deals. This will be achieved by receiving progress reports at each meeting from SG/UKG deal leads.
- The Board will maintain and review at each meeting an issues log and risk register. Mitigations will be agreed and their implementation and success monitored by the group.
- The Board will escalate issues and risks as required through internal SG/UKG processes and ultimately to Ministers.
- The Board will undertake an annual implementation review conversation with each of the City Region Deal partnerships to discuss implementation progress.
- The Board will maintain a profile with City Region Deal Partnerships, undertaking annual implementation review conversations and inviting representatives to meetings as required.

Format of Board meetings

- Reports will be received at every meeting on all deals being implemented. These reports will include updates from both the SG and UKG lead on their government's delivery commitments, as well as a summary of the local areas' progress.
- Regional City Deal partners may be invited to attend meetings to discuss implementation progress.
- A risk register and issues log will be presented at each meeting. All SG and UKG deal leads will contribute to the issue/risk management process.
- A review at each meeting of the deals being negotiated, including a forward look tracker for each live deal outlining the critical path and key meetings.

Responsibility of attendees

- To update on deal implementation progress, developing issues and known risks at each meeting.
- To provide required updates to the secretariat by agreed deadlines to ensure timely sharing of papers.
- To utilise the Group's agreed PMO tools and techniques to ensure a consistent approach is taken as much as possible with local deal areas.

Membership

Core membership will be as follows (with additional attendees as appropriate):

- Scottish Government Cities Team Deputy Director (Joint Chair)
- Scotland Office Deputy Director (Joint Chair)
- Cities and Local Growth Unit Deputy Director (Mike Wiltshire)
- HMT / Scottish Government Finance
- Transport Scotland
- Other UKG/SG departmental/directorate representatives as required
- SG and UKG deal / local area leads

Secretariat for the meetings

- The Secretariat for the meeting will be jointly provided by SG (Region and City Partnerships Team) and UKG (Cities and Local Growth Unit). The agenda and papers for the regular meetings will be circulated at least five days in advance of the meetings.
- The group will meet at least quarterly unless there is urgent business. Regular meeting dates will be agreed at least six months in advance. Ideally a 12 month rolling programme of dates will be maintained.
- Meetings will alternate between SG and UKG offices and will be available by videoconference and/or teleconference.
- An agenda setting meeting will be held two weeks ahead of Board meetings by a Working Group of relevant officials from both UKG and SG representatives. The purpose of the Working Group is to support the Board with the implementation of City Region Deals.
- These terms of reference will be reviewed annually.