



OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government and Communities Committee

Wednesday 4 November 2020

Session 5



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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

27th Meeting 2020, Session 5

CONVENER

*James Dornan (Glasgow Cathcart) (SNP)

DEPUTY CONVENER

*Sarah Boyack (Lothian) (Lab)

COMMITTEE MEMBERS

*Keith Brown (Clackmannanshire and Dunblane) (SNP)

*Gail Ross (Caithness, Sutherland and Ross) (SNP)

*Alexander Stewart (Mid Scotland and Fife) (Con)

*Annie Wells (Glasgow) (Con)

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Lesley Jackson (Scottish Government)

Michael Matheson (Cabinet Secretary for Transport, Infrastructure and Connectivity)

Jon Pickstone (Scottish Government)

Iain Stewart (United Kingdom Government)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

Virtual Meeting

Scottish Parliament

Local Government and Communities Committee

Wednesday 4 November 2020

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (James Dornan): Good morning, and welcome to the 27th meeting in 2020 of the Local Government and Communities Committee. I ask everyone to ensure that mobile phones are set to silent. I remind members that broadcasting staff will operate the cameras and microphones; please allow a short pause when you are called to speak so that they can do so.

Our main item of business is to hear oral evidence about city region deals, but first we will consider whether to take agenda items 3 and 4 in private. Item 3 is consideration of the evidence on city region deals; item 4 is consideration of a draft letter to the Scottish Government on pre-budget scrutiny 2021-22.

As we are meeting remotely, rather than asking whether everyone agrees, I will ask whether anyone objects. If there is silence, I will assume that members are content. Does anyone object?

I take your silence as acceptance. We have agreed to take items 3 and 4 in private.

City Region Deals

09:31

The Convener: Agenda item 2 is evidence on city region deals, which is a policy area that the committee has watched closely since undertaking an enquiry on it in 2017.

I welcome Michael Matheson, Cabinet Secretary for Transport, Infrastructure and Connectivity in the Scottish Government, and Iain Stewart, Parliamentary Under Secretary of State at the Scotland Office of the United Kingdom Government.

This is an opportunity for an update on progress on deals and on how the two Administrations are working together to make the deals a success in these challenging times. The ministers are joined and supported by the following officials, who may or may not be called upon to speak: Jon Pickstone is a deputy director, and Lesley Jackson is the city deals policy manager in the Scottish Government's regional economic development division; Neil MacLennan is head of city deals and local government and Rebecca Hackett is a deputy director in the policy division office of the UK Government's Secretary of State for Scotland. I am grateful to you all for taking time to answer our questions, and I thank you for your written updates, which are included in our meeting papers. We have allocated up to an hour and a half for the session.

We will soon move to brief opening statements and questions, after I give some technical information on handling of questions. For the benefit of broadcasting staff, there is a pre-arranged order. I will call each committee member in turn to ask questions for a block of up to nine minutes. It would be helpful to broadcasting staff if members indicate which panel member their questions are addressed to. There may be a short amount of time for supplementary questions, if those are required, at the end.

Panel members should indicate clearly when they wish to answer a question. You can do so by raising a hand, which I will see on my monitor. You should not feel the need to answer every question if your views are in line with points that have already been made. Please give broadcasting a few seconds to operate your microphone before you speak.

Mr Matheson has some opening remarks.

The Cabinet Secretary for Transport, Infrastructure and Connectivity (Michael Matheson): I covered a number of key points in my letter to the committee last week and will not repeat those here. Instead, I want to take the

opportunity to reiterate the three key principles that underpin the deals and inform our whole approach to delivering this important programme.

The first is inclusive growth. The deals themselves cannot deliver a more inclusive Scotland. However, our overriding focus is on ensuring that every investment benefits local businesses and communities, helping our regional economies to become more inclusive and sustainable in the long term.

The second principle is partnership. This is a complex and wide-ranging long-term programme. The key to its success—now and in the future—is the strength of the relationships that we have built with regional partners across Scotland. As in any partnership, we have faced challenges at times—not least Covid-19—and we will do so again in the future. However, our ability to overcome those is a testament to the commitment of all involved in the successful delivery of this programme.

Finally, I will talk about regional empowerment. The deals are locally developed and led. The Government has a role in ensuring that investments deliver against key national priorities, such as inclusive growth, but regional partners make the key decisions across the programme.

I am, of course, happy to answer any questions from the committee. Thank you.

The Convener: Iain Stewart, please go ahead with your opening remarks.

Iain Stewart (United Kingdom Government): [*Inaudible.*]

The Convener: Mr Stewart is muted. I cannot hear him. Could we sort out Mr Stewart's volume, please?

I will call a brief suspension to allow this technology issue to be sorted out.

09:36

Meeting suspended.

09:42

On resuming—

The Convener: I apologise for the gremlins, Mr Stewart. Hopefully we can now hear your opening remarks loud and clear.

Iain Stewart: To err is human, but to foul up completely requires a computer.

Good morning. Thank you for the invitation to attend the committee and take questions.

Like Cabinet Secretary Matheson, I will not read through all of the letter that I sent you, as I am

sure that it has been shared with members. However, I will highlight a couple of key points.

I am delighted that we now have deals in place across Scotland. On the most recent ones, for Falkirk and the islands, quantum has been set. Each of the deals is at a different stage, with the earlier ones starting to produce some clear dividends. I will happily take questions on each of the individual deals as members wish.

I have been in post for five months, and work on the deals has provided a very good example of a situation in which all levels of Government—the UK Government, the Scottish Government and local authorities—can work very well together with other key stakeholders in the public and private sectors and with academia. This is a very exciting range of initiatives to help to secure long-term development and innovation in Scotland.

The Convener: I will start the questions. There are now, potentially, 12 Scottish deals, but fewer than half are live. Six years after Scotland's first deal, could Mr Matheson or Mr Stewart provide a time commitment on when all deals will be finalised and active?

09:45

Michael Matheson: You are right that a number of the deals are already in the delivery phase. It is fair to say that, of the £1.9 billion that we have committed to all the deals across the country, £1.3 billion is already funding deals that are actively being implemented. I was keen to ensure not only that we have deals across every part of Scotland, but that the remaining deals that are at the heads-of-terms stage progress to becoming full deals, and that those deals for which quantum has been agreed progress to heads of terms as quickly as possible. My view is that the existing deals that need to be finalised and progressed to heads of terms could be completed by the end of this financial year, and I am committed to that timeline, which should allow us to ensure that all the deals continue to make progress over the next couple of months, and that they are all finalised by some point in the middle of next year.

The Convener: Mr Stewart, do you have a comment on that?

Iain Stewart: It might be helpful to give you a short overview of the next milestones. We have a date of 19 November to sign the full deal for Ayrshire, which we hope will be followed swiftly by the full deal for the Tay cities. We hope to reach heads of terms with Argyle and Bute towards the end of the calendar year, with heads of terms for Falkirk and the islands and the full deal for Borderlands early next year, and the full deal for Moray over next summer. We have a clear agenda

for progressing the later deals in the programme as quickly as possible.

The Convener: Both of you seem confident that all the deals will be finalised by the end of the financial year. Are there any specific challenges preventing progress on the deals that are still in development? Obviously, Covid must have put the mockers on it to some extent, but are you facing any other challenges?

Michael Matheson: There are a couple of issues that have an impact on the timeline. Covid has had a bit of an impact, but not a significant one, on the preparation of some of the deals. One point that we have been keen to impress on deal partners is the need to ensure that, in developing their proposals, the details of their business cases are thought through and contain as much detail as possible, because that allows us to both carry out an assessment and provide feedback in a more timely fashion. We have continued to engage directly with the programme management officers to provide feedback on areas where we believe that further work is needed on any outstanding deals or aspects of deals. By and large, most of the partners respond to that engagement very well. The work that is carried out by our partners, particularly at local authority level, has an impact on the timeline, and the greater the level of detail that they can provide in the business cases, the better and the quicker we can make progress.

In addition, there are some issues relating to aspects of individual deals. Iain Stewart might want to say more about the Tay cities deal, which we had hoped to sign and finalise last week. There are some issues for the UK Government to pursue on that matter, but it is important that we try to make progress as quickly as possible on the Tay cities deal. I recently wrote to my colleague in the UK Government to try to clarify the timelines on that issue.

One thing that can have a bearing on timelines is there not being sufficient detail to make decisions, and we pursue that with the partners at region level to try to get the necessary information.

The Convener: Mr Stewart, would you like to comment on the Tay cities deal and anything else that you think appropriate?

Iain Stewart: Certainly. First, I concur with much of what Mr Matheson has just said about the importance of the partners producing properly developed business cases. Quite rightly, both Governments have a proper audit and scrutiny process to check that the deals are sound. Our officials work very closely with the partners to help them to do that.

Secondly, on Covid, at the start of the pandemic and subsequently, we have been in touch with the partners to see whether there are particular

issues, for example if construction has had to be paused or delayed because of the restrictions. Our general view is that although there have been some minor changes allowing some deals to draw down funds at different intervals, those have been satisfactorily resolved, and in general there has not been a desire to completely change the programmes or introduce new ones.

Finally, the Tay cities deal is ready to go, on the original terms, but we are trying to accommodate the request from various partners to receive the UK Government funding over a shorter time period. I am currently in negotiations with the Treasury to see whether we can get that agreed. If that is not possible, we are ready to sign on the original terms and revisit the reprofiling issue subsequently. There is a short delay—a matter of a few weeks—to see whether we can get that compression of the timelines agreed. I think that that would be a helpful development. The delay is for a good reason rather than because of problems.

The Convener: I have one more question, which is for Mr Matheson. Scottish ministers committed to at least matching the funding from the UK Government. Audit Scotland believes that there is a risk that that could result in the Scottish Government providing more financial support to a deal than it otherwise would. Do you see that as being a financially prudent approach or do you think that that is not the case?

Michael Matheson: We have taken a very measured approach to the deals. I am conscious that the bids often exceed the financial envelope that is available for individual deals, which will leave some partners disappointed that not all of the proposals that they have submitted can be met through the deal. We have taken a very prudent approach and have invested a level of funding in long-term deals to reflect what we believe to be the appropriate level of investment from the Scottish Government. We have matched the UK Government funding in all of the deals that have been agreed to date.

The level of investment that we are making reflects what we believe to be the appropriate amount for us to invest and is within the funding profile of those long-term deals. Many of the deals last for 10 years and some go beyond that. That is taken into account in our budgeting. We have taken an appropriate approach to the quantum that have been allocated to the deals.

The Convener: When something like that comes up in a report from Audit Scotland, does the Government respond and state that it does not agree with the findings?

Michael Matheson: Yes. The Audit Scotland report was a rather strange report, in that it

examined only the Scottish Government element of the deals; it could not look at the UK Government element, because Audit Scotland does not cover the UK Government. That was reflected in the report. It was a bit one sided in that sense.

However, we responded to the issues that were raised in it. If I recall correctly, the director general, Liz Ditchburn, wrote to the Public Audit and Post-legislative Scrutiny Committee setting out our response to those matters. I do not know whether Jon Pickstone or Lesley Jackson wants to say a bit more about that, but we did respond to the PAPLS Committee on the issues that were raised in the Audit Scotland report.

The Convener: Jon Pickstone, would you like to add anything?

Jon Pickstone (Scottish Government): I think that that is a point for Lesley Jackson, convener.

Lesley Jackson (Scottish Government): To reiterate the cabinet secretary's point, Liz Ditchburn wrote to the PAPLS Committee in April setting out our response to the Audit Scotland report. I do not think that there was anything in Audit Scotland's recommendations with which we fundamentally disagreed; they were very helpful. We have gone away and reflected on them, taking into account the cabinet secretary's point that Audit Scotland was very much focused on the Scottish Government half of the programme.

Sarah Boyack (Lothian) (Lab): We have had questions from people who have given evidence to us about the extent to which the deals are aligned with existing policy and ensuring that cross-policy connections are made, such as in relation to the national planning framework, the work that is done by the Infrastructure Commission for Scotland, and the Climate Change (Emissions Reduction Targets) (Scotland) Act 2019. How is that dealt with through the planning for and delivery of city deals? The evidence that we have had suggests that such alignment is not yet working.

Michael Matheson: Some of the deals, and the signing of them, predate some aspects of the national planning framework, including the publication of the report from the Infrastructure Commission for Scotland. There are aspects of the legacy deals that predate the updated national planning framework, the Infrastructure Commission for Scotland report and the climate change plan.

When we receive proposals for a deal from regional partners, the different directorates and ministers in the Scottish Government consider the proposals that sit in their portfolio area and whether they align with national policy and wider policy around areas such as the national planning framework and aspects of the Infrastructure

Commission for Scotland report. When we evaluate proposals for deals, we try to make sure that we consider how they align with broader national policy. That said, it is important to remember that the deals are largely driven by regional partners and that there will be varying degrees of difference among them, which reflect the competing needs in different parts of the country.

I assure Sarah Boyack that we consider how the proposals align with our broader national policy while taking into account that the approach that has been taken reflects the needs of the local regional economy, and that we try to balance those out. They may not always align perfectly but, broadly, they should fit in with our broader national approach.

Sarah Boyack: Does Iain Stewart have any comments about the policy focus?

Iain Stewart: I broadly agree with Mr Matheson that the genesis of the projects comes up from the local level. We look at how they fit into general, broad public policy objectives, and I think that they—particularly the later ones—do. For example, on the net zero ambitions, a lot of the later deals include exciting projects on reducing carbon emissions and other climate change-related projects. As Mr Matheson has said, there might not be a perfect alignment, but the projects are long term by their very nature and sit quite well with the broad policy objectives of both Governments.

10:00

Sarah Boyack: How do you track those different levels of decision making? We have had pretty critical comments from certain stakeholders about the transparency and effectiveness of the decision-making process. Both ministers have talked about changes that have happened over time, reviews and outcomes that are different from those that were set out at the start of the process.

The Scottish Trades Union Congress made the striking comment that

"The decision-making structures ... are opaque and undemocratic",

and a range of comments from other people were quite critical about the process. I listened to both of you talking about changes and timelines. What are your comments about those remarks?

Iain Stewart: Each of the deals has different review points, which differ depending on the nature of the deal, but there will be annual reports and conversations to ensure that the deals are being properly administered. There is widespread engagement with local stakeholders in the genesis of the projects. I point in particular to the Angus

part of the Tay cities deal as an exemplar of that. The specific proposals that were developed came from broad engagement with local partners. Local government also has an important scrutiny role in the genesis and administration of the projects, of course.

Sarah Boyack: Does Michael Matheson want to come in on the issue of accountability and transparency?

Michael Matheson: I agree with the points that Iain Stewart has made on that. It is also worth highlighting that there are deal committees that are responsible for oversight and taking forward the deal at the local level. By and large, a deal committee is made up of local elected members in local authorities, so there is a very clear line of democratic accountability in how some of the deals are progressed, given the way in which local councils are engaged in that process.

Iain Stewart referred to aspects of the Tay cities deal in Angus. An extensive public consultation exercise also took place in Ayrshire, which considered the key issues for any deal there, and a similar process took place in the Borderlands, where there was a consultation exercise to look at a wide range of priorities. It is important to acknowledge the process that many of our regional partners use in order to identify what the priorities are for them in their deals, which has helped to inform the finalised deal package.

Alongside that is the role of democratically elected local councillors in progressing a deal once it has been finalised. That process is often conducted in an open forum, and I believe that the minutes of the meetings are published for public scrutiny.

Sarah Boyack: When the deals are being implemented, will the outcomes be monitored? For example, Iain Stewart mentioned the zero carbon ambitions, and you talked about the national planning framework. Will there be a checklist so that people can see what is being delivered, whether that is jobs, the reduction of our carbon emissions or the impacts on local economies and businesses?

Michael Matheson: One of the pieces of work that we have taken forward recently is on the development of a benefits realisation plan so that partners are able to demonstrate the extent and nature of the impact that their plans and deals are having in relation to jobs and the delivery of inclusive economic growth. We have been taking that work forward in partnership with the Edinburgh and south-east Scotland deal partners, who are piloting that process. That work is at an advanced stage, and we are looking to roll it out to other deals.

It would be fair to say that we need to make sure that our partners are assessing and evaluating the impact that their deal is having on their regional economy and that they can demonstrate that more openly. If I recall correctly, that point was highlighted in the Audit Scotland report. The benefits realisation plan process can assist us in that. Once we have completed the guidance, we will expect all our deal partners to bring forward a benefits realisation plan and to report on it on a regular basis. That will be alongside the annual report that they have to publish for each of their deals in order to demonstrate the progress that they are making and the impact that they are having.

Alexander Stewart (Mid Scotland and Fife) (Con): Good morning, minister and cabinet secretary. The city deals have been a breath of fresh air in many communities. They have been an opportunity for both Governments to come together to ensure that they unlock investment, create jobs, and give hope to communities that maybe felt that they had been left behind in the past. They have invigorated communities and given them the opportunity to develop and move forward.

The whole idea behind the deals has been well received. However, as we have discussed, there have been logjams and blockages in relation to timelines and heads of terms. Council group leaders in Stirling and Clackmannan and in areas across the Tay cities deal region that fall into my region of Mid Scotland and Fife have communicated and engaged with me, as a member of this committee, to try to see why there were such problems. Those problems have continued to happen in some areas, and there has been a bit of frustration about engagement on the part of both local government and some of the partners. The transparency, scrutiny and governance have been questioned—Ms Boyack has already asked about that. I ask Mr Matheson and then Mr Stewart to develop that.

Michael Matheson: I will pick up on a couple of the points that Alexander Stewart has raised.

On the timeline of the Tay cities deal, we have been ready to sign that deal for a considerable period of time. Iain Stewart has already said that he is in discussions with the Treasury to see whether he can move that from a 15-year deal to a 10-year deal. That is what is presently holding up the signing of that deal and its becoming finalised. Iain Stewart can give more detail on that.

On the Stirling and Clackmannanshire deal, it is worth saying that people who are involved in it have recently met some challenges as a result of Covid-19. That has presented them with some financial challenges around the profile that they had planned for that deal. We have been in

detailed discussions with them on that in order to look at what amendment could be made to try to help to unblock the particular logjam that they face. We have offered additional financial flexibility in relation to, for example, the way in which the money can be drawn down so that it can be drawn down on a more frequent basis in order to give them greater flexibility.

We try to respond to issues of concern that partners raise when they are experiencing difficulty. However, it is not always the case that Government causes the difficulty. The difficulty is often caused as a result of issues that are outwith our control, but we can try to respond constructively in order to try to assist in addressing the blockage or difficulty that partners may be experiencing.

There have been issues in making progress in getting deals from the quantum to the heads of terms, or from the heads of terms to the final deal. Those issues sometimes relate to the detail in the business case that has been proposed. In some cases, there is a need for our partners to provide a greater level of detail, so that the Government can have a clear line of sight on what the ultimate outcome of a proposal might be, and so that we can have the level of assurance that we are looking for that the project can be delivered.

A variety of factors are involved, because the landscape is complex, as Alexander Stewart has rightly pointed out. Those factors can all have an impact and cause difficulties. In my view, there is a strong partnership across both Governments and with regional partners, and we are very much committed to addressing any issues that might arise through the deal process.

Iain Stewart: Mr Matheson is right. A lot of the issues are to do with business cases. He has rightly pointed out that we take a very collaborative and interventionist approach to help to resolve those issues.

Other events have happened that were not initially expected when the proposals were made. For example, in relation to broadband roll-out, there was a legal challenge to the reaching 100 per cent programme. That had an impact on the Inverness and Highlands deal. Such unexpected events can happen in public life. We have a strong partnership to help to resolve or unblock issues as much as possible.

I want to make a point about the Tay cities deal that illustrates the importance of having strong business cases from the partners. Within that deal, we have been able to progress and accelerate the Eden campus project, which is near St Andrews. The business case was well developed, so the project got through the approval process for the

UK and Scottish Governments, and funds can now start to be drawn down to get the project going.

We have a good programme timeline generally but, when there are opportunities to accelerate, we take them. If there are problems that hold things up, we intervene as quickly and as constructively as we can to resolve them.

Alexander Stewart: That is a good explanation of where we are and how we are progressing.

I would like to touch on the issue of the funding packages for city region deals that are agreed after the programmes and projects come together. When the work on the deals started, there was very much a level playing field, but the position seems to have changed. At times, after the UK Government has given its sum, the Scottish Government has increased the funding from its side. Why was that done? Why has the Scottish Government focused on providing slightly higher or lower funding across the city region deals? The publicity that such decisions generated sometimes put the Scottish Government in quite a good light compared with the UK Government. I would like to understand the thinking behind those decisions and that process.

Michael Matheson: Alexander Stewart will not be surprised to hear that one of the jobs of a Government minister is to try to do the right thing and to make the right decisions for regional economies in relation to such deals. We have provided additional funding for four deals—those deals might have been agreed or at the heads of terms or quantum stage. We have done that because we believe that those deals deserve a greater level of funding.

We could turn the question on its head and ask why the UK Government has not matched the additional investment that has been made by the Scottish Government. Clearly—

Alexander Stewart: [*Inaudible.*]

Michael Matheson: That might be your next question.

The Convener: There is no next question.

10:15

Michael Matheson: It is, of course, not for me to put questions in your mouth, Mr Stewart.

When we have assessed individual deals, we have recognised that there are proposals within some deals that require investment. For example, one of the key proposals in the Falkirk deal, which is being agreed at quantum, related to tackling some of the issues around the Grangemouth petrochemical plant and the wider industrial facilities in that area. Consideration was given to

what could be done to invest in order to reduce carbon output.

We see Grangemouth as a critical part of Scotland's industrial base, and decarbonisation in that area is a priority for us. Therefore, additional investment from the Scottish Government was agreed to support decarbonisation. We are working with partners in Falkirk to look at the best way of using the resources that we have been able to allocate, in addition to our overall deal funding, in order to achieve that objective.

Likewise, a significant level of additional investment has been provided to Aberdeen. A key part of the funding was investment to improve rail connectivity between the north-east of Scotland and the central belt, in order to reduce the time that it takes for trains to get from Aberdeen to Edinburgh and Glasgow. Part of the additional £254 million of investment in the Aberdeenshire deal has been provided to support the work to improve rail connectivity. That has been done for a variety of reasons; I am sure that Alexander Stewart will be well aware of the benefits that come from greater and better rail connectivity.

Some of the investment is additional funding that has been allocated specifically to support measures that the Scottish Government considers to be extremely valuable. For that reason, we have provided additional investment to support regional partners in driving forward changes in their local area.

Alexander Stewart: Mr Stewart, I have a brief—

The Convener: You are well over your time, mate. Sorry.

Keith Brown (Clackmannanshire and Dunblane) (SNP): I want to take up the deputy convener's theme on accountability and transparency. The deal in my local area is the Stirling and Clackmannanshire city region deal. I point out to Alexander Stewart that the partner is the county of Clackmannanshire rather than the town of Clackmannan. That deal was very unusual because, for the first time, the UK Government did not allocate funding to a number of projects. Instead, it allocated a quantum of £8 million for Clackmannanshire and asked the local authority to come up with projects within a year, which it did; it then had to wait a couple of years.

Given what Iain Stewart has said about accountability and transparency in Angus, will the Clackmannanshire part of the Stirling and Clackmannanshire deal be able to demonstrate transparency in which projects are supported? Will that reflect the priorities that have been put forward by all the local partners in Clackmannanshire, including the local authority's commission? At the origin of city deals, local

authorities were meant to be the driving forces of the deals. Will the deal reflect local priorities? What level of transparency will there be for the £8 million?

Iain Stewart: There will be the usual requirement for a full business case for any project bids that are made. Bids will have to go through the usual channels and will be subject to the scrutiny and accountability process for any deal.

You must forgive me, as much of this work predates my appointment, but my understanding is that, initially, Clackmannanshire Council did not put forward any projects in the first iteration of the deal, with everything being largely centred on the Stirling side. We were keen for each deal to cover its broad geographic area. My officials, who were there at a time when I was not, may also wish to comment, but it is a matter of going through the correct processes, and any bids will be assessed in the normal way.

Michael Matheson: Keith Brown raises an important issue; obviously, he previously had a ministerial role in dealing with deals. The original process for deals involved proposals and business cases that were to be developed being put forward, which the Governments would consider. They would then agree a quantum, the allocation of which would be based on the business cases that had been outlined by the regional partners.

That process changed a couple of years ago. Mr Stewart might be able to say a bit more about this if need be, but my understanding is that the change in approach was driven by the Treasury. The UK Government wanted to move to a process whereby the quantum was agreed first, and the projects were then considered within that agreed quantum. As I understand it, that change in the process came about as a result of a change in the Treasury's approach to those matters. That means that we now agree the quantum before we agree on what the projects might be. There has been a fundamental shift in how deals are agreed.

Keith Brown: I have a further point to make about the overall funding, which Alexander Stewart raised. People in Scotland are regularly told that the UK Government has, variously, broad shoulders and deep pockets, but I am more concerned about the fact that it has short arms.

Stirling-Clackmannanshire is a case in point when it comes to funding, with the UK Government cutting the quantum available as it got close to a deal. I have no problem at all if the UK Government wants to look good by putting more in, but I wonder why—when we started off with each Government putting in £500 million to the Glasgow city region deal, for example—the UK Government has moved away from that matching of funding with the Scottish Government. Is there a

reason for that? Is it because of financial constraint, or is there some other policy decision underlying that?

Iain Stewart: On the deals themselves, there is match funding between the Scottish and UK Governments. The point that has been made in previous questions and answers is that there is sometimes additional funding that sits alongside a deal to augment its impact and opportunities. Some of that additional funding will come from the Scottish Government, but there can also be investment from the UK Government.

I would point to a couple of potential examples. In Falkirk, Mr Matheson's area, where the bid is at a very early stage, one of the likely projects is centred on decarbonising bus technology, and Alexander Dennis Ltd will be closely involved in that. Things are at an early stage, but the UK Government's green bus fund could potentially involve some additional investment that would sit alongside the Falkirk deal.

In the Borderlands deal, one of the elements is a feasibility study for the extension of the Borders railway from Tweedbank to Carlisle. If that gets the green light—pardon the railway analogy—in the UK Government's connectivity review, that could involve additional investment that would stand alongside the city deal investment. I appreciate that those are both hypothetical examples, but they illustrate why you sometimes get side investments from the Scottish Government and the UK Government, which can complement the deals that have match funding from both Governments.

Andy Wightman (Lothian) (Green): I want to ask a question about an area that has caused a bit of confusion in the past. As I understand it, the UK Government has stated that it will fund only projects that are in the reserved space and are not devolved, although I understand that there has been some flexibility around that. Could you clarify that, Mr Stewart? Also, could you comment on any justification for such a policy, given that the city deals are designed to deliver economic stimulus over long periods of time, and those benefits will accrue to various aspects of the devolved/reserved space over time, regardless of the particular definition that was applied at the beginning?

Iain Stewart: You are broadly right that the UK Government will invest in reserved areas and the Scottish Government will invest in devolved areas. It is a sign of maturity that, if partners ask for particular funding for a project, we give due regard to that request. I regard all investment as welcome. If we are able to facilitate that, that is a good thing. If we are boosting tourism or culture, for example, in a way that is of broad benefit to the

Scottish economy, particularly as we bounce back from the Covid period, that is welcome.

Andy Wightman: Mr Matheson, do you have any comment to make on the matter, particularly given that there is some nervousness about signals from the UK Government that it might in the future spend directly in Scotland in devolved areas? That is a separate debate, but the area that we are discussing is an example of where the UK Government might do that. Are you comfortable with the way in which reserved and devolved competences sit within the city deals?

Michael Matheson: On the latter point, broadly, I would say yes, in terms of how the deals work. It is important to recognise that the Scottish Government regularly invests in areas that are matters of reserved policy. A good example of that would be with regard to digital connectivity. The digital Scotland superfast broadband programme and the R100 initiative involve areas of reserved competence, but we have had to step in and make significant investment in those areas. We tend to prioritise our investment on the basis of the cases that are put forward by regional partners, rather than on the basis of whether it involves something that is, strictly speaking, a reserved area or a devolved area. By and large, the way in which things break down is that they fall into those areas when the final projects are funded.

My understanding is that part of the reservation on the part of the UK Government in relation to investing in deals that involve devolved competences goes back to a concern that was raised by the Treasury about the idea that it was investing greater levels of funding in Scotland in areas that had, technically, already been funded through the block grant that is given to the Scottish Government. There was an idea that the Treasury was double investing in areas that are already taken account of in the budget allocation that goes to the Scottish Government. I think that that was part of the background to the concerns that you are raising.

10:30

On the wider issue of the UK Government starting to encroach into areas of devolved competence, that raises fundamental issues about the devolved settlement and the process that we go through to determine the types of investment that we make in Scotland.

I will give a practical example of that: without any consultation with us, the UK Government has set up a connectivity review to look at transport. We go through the strategic transport projects review, which is a very rigid, clear and dynamic process that involves engagement with local communities and local partners to identify their

priorities. If we get to a position where the process that we have developed in Scotland is completely ignored and pushed aside in order to allow a review that the UK Government has set up to override the democratic processes that we have in Scotland, that is completely unacceptable and cannot be tolerated. That is a clear power grab and a fundamental undermining of the democratic process and the devolved settlement that we have in Scotland, and it should not be tolerated.

With regard to your wider point, I have very serious concerns about some of the provisions in the United Kingdom Internal Market Bill on infrastructure and about how the UK Government is seeking to encroach into areas of devolved competence. That could have a fundamental impact on our decision making on key aspects of infrastructure investment, and some of the deals might be impacted as a result of any process that the UK Government uses to go over the heads of the Scottish Government.

Andy Wightman: That was helpful. We will not continue the debate in that area; I just wanted to draw the contrast. If one were to take a positive message out of the situation, the work that is being done on city deals is helpful at least in identifying a better understanding of the balance between reserved and devolved competence and of, if the UK Government intends to make direct investments, the process by which that might best be facilitated.

I will move on to a question about accountability. One wishes that it will not happen, but if, for example, five years down the line, a project went seriously wrong, who would be accountable for that? The people on the ground who are delivering it might be accountable or it might be found that there was not proper diligence or scrutiny at the Scottish or UK Government level. Normally, matters of accountability in the expenditure of public money by the UK Government, the Scottish Government and local authorities are relatively straightforward but, with a city deal, a mix of funders are involved and a mix of levels of Government will have had a stake and a role in approving it and financing it. What thought has been given to how we deal with the question of accountability if things were to go wrong?

Michael Matheson: You raise an important issue that reflects the complex nature of the way that deals operate and are taken forward. Because they are long-term investment programmes, they carry risk with them. We make the decision on what the priority is at the time, but circumstances can change, so the deal needs to flex and we need to be able to adapt it to reflect the new and changing environment in which we are operating, which, again, can bring risk.

On the issue of accountability, we are in a culture in which we like to have an individual who is accountable. The reality is that, given the way in which deals operate, a variety of people could be accountable. As the relevant Scottish Government minister, I could be accountable if the problem that arises is a result of decisions that we have made or of a lack of oversight on our part of how an aspect of a deal has been dealt with. There could be an internal failure in the Scottish Government or, potentially, the UK Government, or there could be a failure by regional partners to provide information to highlight problems that we were not aware of. Therefore, regional partners and Governments could be responsible for such a failure, or it could be one party or the other.

However, we have a process that we believe gives us a level of oversight and allows us, with partners, to identify where risks might emerge in particular projects, and to understand what those might be at an early stage so that we can consider what mitigation can be put in place to manage or reduce them. That early warning system helps us to identify where problems might start to emerge and what early action can be taken. I regularly receive reports from my officials on any areas where problems are emerging. We engage with regional partners to understand what those problems are and what actions they are considering to help to deal with them.

I realise that I have not given a clear answer on who would be accountable. It could be my responsibility, or the responsibility could be shared with our regional partners. We have a system in place that helps us to keep track of deals and the progress that is being made with projects, and which allows us to intervene early to address any issues of concern.

Andy Wightman: I think that my time is up, but if Mr Stewart wants to add anything, I will give him the opportunity to do so.

Iain Stewart: Thank you. Briefly, the short answer—as Mr Matheson has indicated—is that all of us, in effect, have a responsibility. In a very strict, technical sense, the Scottish Government has the accountable officer role. The way in which the funding works is that the UK Government's share of the money is transferred to the Scottish Government and the various deals draw down from that. However, that does not absolve the rest of the partners from responsibility. As we have discussed, a range of reports and early interventions can take place.

Although the quantum of city deals are equally financed by the Scottish Government and the UK Government, individual projects within them might have a different balance. For example, the Eden campus project is very largely UK Government funded, and other projects will be largely Scottish

Government funded. The process that we go through on approving the business cases is an important part of the overall process.

It is a complex picture, but I hope that it is a good example of joint working by the two Governments. We have demonstrated a good system of oversight of the deals.

Gail Ross (Caithness, Sutherland and Ross) (SNP): I welcome our witnesses. City region deals are very welcome, and my line of questioning is more about distribution than funding.

What I want to talk about pertains particularly to the Inverness city region deal. I want to know about the weighting between the city and the region. The city could claim that anything that happens in the city benefits the region, and the region could well dispute that. Is it up to local partners to decide for themselves in a local capacity, or is that part of the overall terms of agreement?

Iain Stewart: That is an example of the fact that, where bids come from local level, it is largely down to local partners—in Gail Ross’s area, that is Highland Council—to make proposals.

The answer that I gave to Keith Brown demonstrated that, although we are keen to see good coverage across the geographic area for the bids, we are also responding to what comes from a local level. That is the genesis of the idea; it is not about us saying, “We think this is a good idea, so off you go.”

The deal predates my appointment, but my understanding is that we provided what local partners in the Highlands wanted, so I fear that that is more a debate to be had between Gail Ross and her colleagues in that part of Scotland.

Gail Ross: Yes, indeed it might be. Does Michael Matheson have anything to add?

Michael Matheson: I recognise the point that you make and the concern that you express, and I agree with Iain Stewart that the projects that are taken forward or are proposed for a deal come from local partners rather than being directed by us. Different local authorities have engaged in different processes for identifying what the projects might be. As I mentioned, the Ayrshire deal has used a community engagement process to help to inform the priorities in its deal and, similarly, the Borderlands deal has involved a lot of local engagement with stakeholders to identify the priorities. It is important that all local authorities, when they are taking forward deals, have that wide-ranging engagement with stakeholders.

If Highland Council was to bring forward a proposal for a deal—let us say that it did not have one just now—that centred only on Inverness, you

would rightly expect us to challenge that but, in fairness, it has not done that. There are a range of projects in the Highland deal—for example, the science skills academy, the fit homes project and the affordable homes project—that are spread across the Highland Council area, including in areas that I know will be a priority for Gail Ross, such as Caithness. We would rightly challenge any proposals that came forward for a deal that was centred on a single population centre, but in fairness to Highland Council, its deal covers a range of parts of its area, including Caithness.

Gail Ross: That leads nicely on to my second question. Earlier, we touched on the allocation of funding in relation to Covid. What would happen if—for the sake of an example—Highland Council came to you with a proposal to reallocate funds for a project that was just emerging and had not been considered as part of the terms of the agreement? Would it depend on what the project was? How favourably would you look on that?

Michael Matheson: As I mentioned earlier, because the deals are long-term investment programmes, it is important that we allow a level of flexibility to reflect the changing circumstances. Some of the engagement that we have had with deal partners recently has been around the challenges that we face with Covid-19 and how it is impacting some of the projects that we intend to take forward. We have considered whether we can offer flexibility or potentially adapt projects to reflect the changing environment in which they operate.

There is flexibility around that in relation to being able to draw down funding on a more regular basis. In some cases, as Iain Stewart alluded to with the Eden project, partners can draw down funding ahead of the full deal being signed, if a very detailed business case has been put forward. There have been instances when partners have asked for flexibility on how some of the funding profile can be used, and whether they can front load some projects and run a longer timeline for others.

We are always open to engaging with partners to understand what any new emerging issues might be and to consider whether we can offer flexibility around the deal. In some cases, we have said to deal partners that something is not possible because it involves additional funding or does not sit within the deal. However, we are always open to engaging with partners to help them to pick up on issues that are emerging in their area, and to working flexibly with them to address any issues that arise that we can reasonably accommodate within the overall deal process.

The member will understand that anything like that would involve all the deal partners. Where a

deal spans more than one local authority area, all local authorities would have to be involved in considering any reprofiling of funding to support other projects that they are looking to take forward in their area.

10:45

Gail Ross: There is a group in the north of Scotland—in my constituency, in particular—that is made up of Highland Food & Drink Club, North Highland Initiative and other businesspeople. In written evidence, Highland Food & Drink Club said that it believes that city deals are

“being abused ... and more governance is required to achieve the best result for the area. The change required is to ensure industry is consulted openly and not just a select few—a plan drawn up—industry involvement”.

Highland Food & Drink Club obviously feels a bit left out of the process and has come up with the idea of a north Highland growth deal. If such communities are feeling left out of the process, is that an idea that might be considered over and above city region deals? Perhaps Iain Stewart can respond to that.

Iain Stewart: First of all, I very much agree with what Michael Matheson said about the flexibilities that are there, particularly in response to Covid. I think that I am right in saying that, at the outset, we approached all the local areas to ask them what the likely impacts were and whether they envisaged any new schemes. My understanding is that they did not come back with any new schemes, although there were some asks about the technical details of reprofiling the drawdown of money and so on.

I think that a new deal is a long way off. The issue that Gail Ross mentioned is on our radar and we will look into it, but it would be very problematic suddenly to tear up an existing deal that was a response to local partners' requests and swap it for something else. There would potentially be all sorts of contractual difficulties with that. However, we can certainly come back to the committee on the specifics of the case that Gail Ross has raised.

Annie Wells (Glasgow) (Con): I want to touch on the Glasgow city deal, which is the oldest one—it is now in its sixth year. Are there any examples of where the deal is starting to deliver? Can anyone give me a couple of examples of where the city deal is working well for Glasgow?

Michael Matheson: Annie Wells may be aware that the structure for the Glasgow city deal was different from that of the other deals in Scotland. It is very similar to the deals that were put in place in the cities in the north of England back in 2013-14, and therefore the responsibility for choosing,

developing and delivering projects in the Glasgow city deal is somewhat different.

A practical example would be the avenues project, for example in Sauchiehall Street, which has been part supported through the city deal funding. Another example is the Clydeside regeneration work that the Glasgow city deal partners have taken forward, which has helped to attract Barclays bank to develop its new office space on the south side of the river—the development was pretty advanced the last time I passed it. You will of course be aware that a variety of local authorities are involved in the Glasgow city region deal along with Glasgow City Council: Renfrewshire Council, Lanarkshire Council and Dunbartonshire Council are all involved, too. However, those are a couple of practical examples within Glasgow city where the deal has helped to generate some benefit.

Annie Wells: Iain Stewart, would you like to comment on any of the successes that we have seen?

Iain Stewart: Certainly. I can think of two recent ones that, although they concern the greater Glasgow area rather than Glasgow city, obviously have a huge impact across the region. The first is the Glasgow airport investment area, which is now well advanced. The other is the regeneration of the transport links around Ravenscraig, in the Motherwell area. Those are two extremely exciting developments that sit alongside the new business centre, which offers a much more flexible office space facility and which, I understand, is pretty much full now.

Linking that back to earlier comments about how the city deals can help the post-Covid recovery, the demand for that sort of flexible office space will be high, especially when compared to more rigid commercial premises. The fact that we can provide that at an early stage in the deal shows the great benefits that those investments can bring in relation to the regeneration of the economy in the years ahead.

The Glasgow city region deal is an exciting one, and I look forward to seeing more fruits of it appearing in the months and years ahead.

Annie Wells: Previously, I was on the Equalities and Human Rights Committee, so I would like to touch on the issue of equalities. To what extent are there adequate policies and processes to support and account for equalities and sustainability in planned outcomes and impacts?

Iain Stewart: My understanding is that, as with any other bid for Government investment, a bid has to be accompanied by a full equalities impact statement. My officials will correct me if I am wrong about that, but my understanding is that that very much has to be taken into account.

On the issue of longer-term sustainability, as I mentioned in response to earlier questions, longer-term environmental and green investments are a central feature of many of the deals, particularly the later deals, which links into our broader net zero ambitions. Meeting those important criteria is central to the genesis of the bids and the approval of them.

Annie Wells: Mr Matheson, do you have anything to add?

Michael Matheson: As part of the work that was carried out by the Equality and Human Rights Commission, it challenged us to ensure that we were able to demonstrate the inclusive nature of the benefits coming from projects in the city deals and city region deals. Accordingly, we now have a member of staff from the Equality and Human Rights Commission embedded in the Scottish Government's deal process. That person works with regional partners to ensure that, as they take forward the deals and the projects within the deals, they consider issues around equalities in their mechanisms for taking forward the projects, so that they can ensure that they are delivering inclusive economic growth.

We were challenged on that issue, and we now have a process that is much more robust and one that facilitates access to specific specialist advice and support for deal partners to assist them. I have no doubt that that will be a benefit in helping to deal with some of the equalities issues to which Annie Wells refers.

Annie Wells: Have I got time for a final question, convener?

The Convener: Yes—on you go.

Annie Wells: I have a general question. Is the city deals programme an example of the three tiers of government—the two Governments and local government—working well together? Is there an example of that that the committee could look at?

Iain Stewart: The general answer to that is yes. In the past 90 minutes, Michael Matheson and I have agreed with each other in many of our answers. I came to my role about five months ago, and it has been refreshing to see that there is a strong partnership, not just between us and the Scottish Government, but with local authorities and their partners. It is a positive and constructive engagement, which is a good model. Inevitably, there are bumps in the road and issues to be resolved, but those are tackled with a cordial and constructive approach.

I could highlight lots of projects. We have mentioned already the Eden campus project, which is now getting going. I understand that it is also going to be involved in the Michelin Scotland

Innovation Parc in Dundee with some of its hydrogen work. That is not entirely within the city deal programme, but it is an excellent example of how the city deals can help to link in to other investment and development projects in Scotland.

Working on the city deals is one of the more pleasurable bits of my portfolio, and I look forward very much to continuing that constructive engagement in the months and years ahead.

Annie Wells: Do you have anything to add, Mr Matheson?

Michael Matheson: My answer is similar to Iain Stewart's, in that we work collaboratively and engage openly with one another on the issues relating to deals and—[*Inaudible.*—]—as well. We have a good strong relationship in taking those matters forward. One of the strengths of our approach to taking forward deals is that it is done between the Governments and our partners in a mutually respectful way. We engage with each other, and all parties are treated equally, so that the Scottish and UK Governments do not impose on each other or on local authorities. We try to act collaboratively.

That is probably one of the key lessons from the deals: if you want to support positive working relationships across different strands of government, it must be done in a mutually respectful way that recognises the different roles of each layer of government and respects their responsibilities. The way that we have taken forward deals in recent times demonstrates how that collaborative approach can be made to work successfully.

The Convener: That completes our questions and concludes the evidence session. I thank Mr Matheson, Mr Iain Stewart and the other witnesses for taking part in the meeting and for identifying key issues for the committee's scrutiny of that important policy area. Thank you for your time.

That concludes the public part of the meeting. We will resume the meeting in private on Microsoft Teams in five minutes.

11:00

Meeting continued in private until 11:43.

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