



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Thursday 24 February 2022

Session 6



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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

7th Meeting 2022, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Daniel Johnson (Edinburgh Southern) (Lab)

COMMITTEE MEMBERS

*Ross Greer (West Scotland) (Green)

*Douglas Lumsden (North East Scotland) (Con)

*John Mason (Glasgow Shettleston) (SNP)

*Liz Smith (Mid Scotland and Fife) (Con)

*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Rt Hon Michael Gove MP (Secretary of State for Levelling Up, Housing and Communities and Minister for Intergovernmental Relations)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Mary Fairfax Somerville Room (CR4)

Scottish Parliament

Finance and Public Administration Committee

Thursday 24 February 2022

[The Convener opened the meeting at 13:30]

Replacing European Union Structural Funds

The Convener (Kenneth Gibson): Good afternoon and welcome to the seventh meeting in 2022 of the Finance and Public Administration Committee. We have one item on today's agenda, which is to take evidence on the replacement of European Union structural funds and levelling up from the Secretary of State for Levelling Up, Housing and Communities and Minister for Intergovernmental Relations, the Rt Hon Michael Gove MP. We have up to 90 minutes for the session.

I warmly welcome the secretary of state to the committee. Good afternoon, Mr Gove. I understand that you do not wish to make any opening remarks, so we will move straight to questions, if that is okay with you.

Rt Hon Michael Gove MP (Secretary of State for Levelling Up, Housing and Communities and Minister for Intergovernmental Relations): Thank you very much for the invitation.

The Convener: I will start and colleagues will come in subsequently.

United Kingdom ministers and the Conservative manifesto pledged to provide a fair and equal share of funding that fully replaces EU support. In Scotland, that would amount to around £183 million a year. However, Westminster's Treasury Committee, which is, as you know, chaired by Mel Stride, a Conservative MP, published a report on 27 January suggesting that the UK shared prosperity fund up to 2024-25 will suffer a 40 per cent reduction compared with the amount of funding that the UK received a year from EU structural funds from 2014 to 2020. Will you comment on those figures and on the steps that will be taken to ensure that the manifesto pledge is honoured?

Michael Gove: The first thing to stress is that the UK shared prosperity fund ramps up over time as the EU legacy funding diminishes over time. It is of course the case that, as part of the multiannual financial framework that the EU had in place, funds were committed to and are indeed being spent on projects in Scotland and across the

United Kingdom. As those funds wind down, the UK shared prosperity fund will ramp up to fill the gap, until eventually all legacy EU funding of projects ends.

However, it is also the case that the UK community renewal fund and the shared prosperity fund are not the only ways in which the UK Government provides additional funding, above and beyond the block grant, to replace the types of funding that the EU provided in order to ensure that we address productivity and other challenges across the UK. The levelling up fund is another means by which the UK Government can provide support to local government and other actors in Scotland and elsewhere.

The Convener: Basically, you are suggesting that there will not be any gap in funding. Is that correct?

Michael Gove: Yes. Our manifesto pledge was to ensure that, for Scotland, Wales, Northern Ireland and Cornwall, we maintain the level of funding that would have been provided had EU funding continued. Indeed, I hope that it will be the case that, by the end of this Parliament, we can look at the shared prosperity fund, the levelling up fund and other funds and see that the manifesto pledge has at the very least been met, if not exceeded.

The Convener: Okay. I am just wondering why the Treasury Committee expressed such great concerns. It seemed to be of the view that that would not happen and that there would be a significant reduction in funding, and the Welsh Government's analysis backed that view.

Michael Gove: The inference that I would draw is that it is a perfectly legitimate misunderstanding to conflate the UK shared prosperity fund money with previous EU funding and either to ignore, overlook or put to one side legacy EU funding—of course that diminishes, but it is still there—and other funds such as the levelling up fund and the community ownership fund.

If we are looking at money that is devoted to the types of projects that the EU used to fund, some of that money from the EU is still there. It is declining, as I said, and the shared prosperity fund will ramp up. If you take the UKSPF and legacy EU funding together, you get to, I believe, the manifesto commitment, and the levelling up fund and other funds take us, I hope, beyond that.

The Convener: I think that colleagues will want to explore that a little further, but I will move on.

The UK Government's shared prosperity fund is intended to replace, from April, the European Union structural funds that have been lost as a result of Brexit. However, the Scottish Government has yet to receive any detail of how much funding

will be allocated to Scotland, and the reality is that the Scottish Government has not been consulted and nor have Scottish ministers had any role in investment proposals or decisions on matters that are devolved to the Scottish Parliament. New guidance on the shared prosperity fund offers no evidence of respecting devolution or acknowledging the Scottish Government as an equal partner. Why?

Michael Gove: I would politely disagree. The first thing to say is that the UK shared prosperity fund and the other funds that the UK Government disburses are disbursed on the basis of objective criteria, which are there for assessment. It is also the case that we work in partnership with the actors in local government and the Scottish Government. It is explicitly the case that, for the UK shared prosperity fund, we want to ensure that there is intensive dialogue between us and the Scottish Government and its ministers on the basis on which the money should be distributed.

In England, we have been clear that the money will go either to mayoral combined authorities or, where there are no MCAs, to the lower tier of local government, which is the boroughs or district councils. Obviously, there is a different local government structure in Scotland. It seems to us sensible that the money should be distributed on the basis of the city and local growth deal geographies. However, we want to discuss with the Scottish Government how that is done.

We also want to ensure that money is allocated, as it will be in England, on the basis of a set of objective criteria that people can debate, judge and question. I would like to ensure that the Scottish Government is satisfied that the objective criteria that we set for the allocation of the funds meet with its approval.

The Convener: We are now at the end of February and the fund is going to start from April, but the Scottish Government still says that there has been no consultation or meaningful engagement. That is echoed by other devolved Administrations. Why would they be saying that? If there is going to be constructive engagement, why has it been left so late—to the 12th hour, if you like?

Michael Gove: We need to look at the level of engagement in the context of other conversations that we have had with elected representatives who represent Scotland: those in local government and MPs in Westminster. We will shortly publish our prospectus, which will outline how we believe funding should be allocated. At the moment, we are just making sure that we have adequate resource so that the manifesto commitment that you alluded to is met in full.

The Convener: Will you personally be speaking to Scottish ministers?

Michael Gove: Absolutely.

The Convener: Your visit has created a wee bit of a stir beyond Holyrood, I have to say. Earlier this week, I was contacted by the European Marine Energy Centre, which is based in Orkney and is the first and only accredited wave and tidal test centre for marine energy in the world. Over 16 years, the centre has contributed £306 million to the UK economy, supporting almost 200 jobs. Between 2016 and 2020, EMEC received more than £17.4 million from Europe, which was 52 per cent of its total funding.

However, EMEC is deeply concerned. It says that your levelling up white paper, which was published on 2 February, suggests that the UK shared prosperity fund will be allocated entirely through local authorities. That creates a real risk that EMEC and other unique organisations that are crucial to innovation and dealing with net zero will miss out on crucial funding. How will the shared prosperity fund or any other mechanism work to ensure that that does not happen? You said that there might be other funding streams, but if that is the case, it has not been communicated to organisations such as that one.

Michael Gove: I am grateful to you for drawing my attention to that particular project, the admirable work that it does and the reliance that it has had on partnership funding. I am sure that any allocation from the shared prosperity fund to Orkney Islands Council would be prioritised by Orkney's local elected representatives in a way that enhances the performance of the initiative that you mention.

However, as I mentioned at the beginning, as well as the shared prosperity fund, there is not just the levelling up fund, but funds through work that the Department for Business, Energy and Industrial Strategy does, for example, to ensure that we have a more diverse and secure energy supply. I would be more than happy to talk directly to Orkney's elected representatives and the leaders of that project to ensure that we have continuity of funding through the different streams for which the UK Government is responsible.

The Convener: I hope that they will be reassured by that. As you will understand, what has made so many organisations nervous is that, up until this meeting, they have not had any communication. I understand that they have tried to communicate with your department but they have not been able to receive the kind of assurances that you have just given me, which is why they have contacted me as convener of the committee.

Moving on, I note that the Scottish Council for Voluntary Organisations says that it remains “in the dark” about how the UK shared prosperity fund will reach its sector, which has benefited greatly from European funding over the years. How does your department intend to engage with Scotland’s voluntary sector at the strategic and delivery level to maximise the impact of the UK shared prosperity fund?

Michael Gove: My department is expanding its footprint in Scotland. We have a dedicated team of Department for Levelling Up, Housing and Communities officials whose job is to work with not just local government but civil society to ensure that the funding that they need and have a right to expect is delivered in as timely and unbureaucratic a way as possible.

It may well be the case that people in the voluntary sector have had access to support from the European social fund. The Department for Work and Pensions, which has a UK-wide footprint, has been responsible for that. I have been talking to my colleagues in the DWP and indeed the territorial offices about the relationships that they have had with organisations that have benefited from that funding.

One of the benefits of this committee hearing is that I can say—through you, convener—to elected representatives across Scotland who are either concerned about the future funding of worthwhile organisations or who see an opportunity in the funds that we have to support new initiatives that I urge them to contact me and my department to make sure that we benefit from the intelligence on the ground that you and other elected representatives can bring.

The Convener: Again, I find your answer very positive, but my concern is that, up to today, with the UK shared prosperity fund about to launch in a matter of weeks, those organisations have not been kept up to date. Obviously, they have to be able to fund projects and they worry that there will be gaps and breaks in funding. Can you assure us that that will not happen?

Michael Gove: Depending on individual projects, it may be the case that some voluntary sector projects are still in receipt of ESF funding, which will be tailing off, but we will do everything in our power to ensure that worthwhile projects that have been successful as a result of EU or other funds can continue to deliver for people in Scotland.

The Convener: A local authority chief executive brought a question to me. He is keen to know how you anticipate levelling up will influence other local authority investment decisions, outwith the levelling up funds and the UK shared prosperity fund.

Concerns have been expressed that, unless levelling up becomes a cross-cutting policy, regional inequality will not be addressed. If two or three UK sites are deemed suitable for a specific type of investment—I was going to give an example, but I will not mention it just now unless you specifically ask me to—what weighting will levelling up carry? For example, will a priority 1 area always be approved over a priority 2 area? In the first disbursement of levelling up funds, five of the eight projects were in priority 1 areas and three were not. How will we ensure that the money goes to where it is most needed?

Michael Gove: There are several very good points there. First, we look at a set of criteria. A priority 1 area is first in line, but we also need to assess the deliverability of particular projects. For example, Aberdeen City Council came forward with a particular bid for the levelling up fund. Aberdeen is not a priority 1 area, but the bid was prepared in an outstanding and effective way by Aberdeen civic leaders, so it deservedly and meritoriously secured that funding. However, it is also the case that in North Ayrshire, which is a priority 1 area, we were able to provide funding for a particular project, and quite right, too.

One of the things that we want to do is to work with local government in Scotland and the Scottish Government to address regional inequalities. The levelling up white paper was designed to acknowledge fairly that there are inequalities between the different nations and regions of the United Kingdom and within them, and that we want to work with every willing partner to address those inequalities.

There are, of course, some areas in which the Scottish Government rightly takes the lead because it has the devolved responsibility and it will have the knowledge of the delivery of public services. However, it is also the case that people in local government and civil society will have granular knowledge. There will sometimes be a strategic element, as well. If we are thinking about transport and connectivity, Sir Peter Hendy’s union connectivity review underlined that we sometimes need to think about investment in areas in a way that will improve connectivity within Scotland and between Scotland and the rest of the UK and, indeed, beyond.

13:45

The short answer to the chief executive of the local authority whom you mentioned is that we publish objective criteria. Being a priority 1 area means that the area is first in the queue, but it is not automatic that it will receive funding from the levelling up fund. However, as I have said, every part of Scotland will receive funding from the shared prosperity fund.

The Convener: When the levelling up fund was launched, which was less than a year ago, local authorities were given a very short window in which to prepare bids. I know that there was a big panic in my area to get the bid together. There was a meeting that involved the chief executive, me and the MP—who happens to be my wife, so there was not really any difficulty in getting co-operation. Although the local authority has a different political tint, we all agreed absolutely on the priority for our area, and we secured significant funding, for which we are very grateful. However, what would have happened if the MP had taken a completely different view from mine and that of the local authority, for example? There is a suspicion, given the documents relating to the process, that MPs in effect have a veto. I want you to address that issue specifically.

If you give local authorities only three or four months to prepare bids, it makes things very difficult for some smaller authorities. I know that they can share resources across boundaries, but sometimes they might want to invest only in their own area. They might not have the necessary in-house capacity, which will put them at a disadvantage. Smaller and poorer authorities could struggle in such circumstances. Did you really, in all sincerity, believe that the timescale that was given for the first allocation of the levelling up funding was adequate to ensure that the best possible bids were put together? You might want to rethink that and make more time available in future.

I have spoken to the chief executive since the award was made last October, and he has said that, even though four months have elapsed, there is no money yet. There are a number of hoops to jump through, including a final business case. One of the issues with the funding is the amount of bureaucracy, which is ironic given that the whole purpose is to try to minimise that.

I realise that that was a fairly convoluted question, secretary of state.

Michael Gove: Those are very fair points. It is the case that it was done at a fair lick. I will try to deal with all the points in order.

First, MPs and MSPs do not have a veto on the plan. It is an important requirement that they are consulted, and their support is of course a powerful additional force to be reckoned with. However, if a local authority puts forward a good bid that does not secure the MP's endorsement for whatever reason, the bid will still be looked at on its own terms and its own merits. It was great that there was an alignment in North Ayrshire.

The timing was not as extensive as it might have been, but we are giving more time for the two further tranches of funding to be allocated. I hope

that more local authorities in Scotland will come forward.

I think that we gave capacity funding to every local authority in Scotland, but we recognise that there is a difference in resources between, for example, Glasgow and North Ayrshire or East Lothian. One thing that we want to do—I talked to the Convention of Scottish Local Authorities about this earlier today—is to ensure that we can support local authorities to learn from one another and that my department can help local authorities to prepare their bids and let them know whether something is likely to succeed, by taking them through the criteria on which any allocation will be made.

We are learning from round 1, and we can do better. However, the £172 million that was allocated has been welcomed. The levelling up fund will be led and determined by the quality of the bids, and the money is broadly in line with the Barnett allocations. It is therefore just over 9 per cent of the total amount that was spent.

The Convener: You mentioned capacity funding of £125,000 for local authorities. I was advised that that did not go anywhere near the real cost of bidding and the work beyond that. I know that there will be a second round of that funding, but would you agree that there are some concerns, particularly in smaller local authorities that do not have resources, that they might have to buy in expertise to prepare bids, which again takes longer, and that that could be a disadvantage? There are 32 local authorities and in 2021 there were only eight awards, so is it worth their while going down that track if they are not going to get anywhere near an award and might be significantly out of pocket, which could have an impact on their council tax payers and service providers?

Michael Gove: It is my ambition to make sure that those in local government have the resources that they need to make appropriate bids. That was one of the reasons why I was pleased to be able to talk to COSLA earlier today. One of the advantages of my coming to this committee meeting is that I can again say directly to elected representatives, including those in local government in Scotland, that if they feel that they need additional support from my department to prepare bids, we stand ready to provide that support.

If any individual local authorities are worried that they might be shooting into the air, as it were, they should, without prejudice, get in touch with my department and we will work to give them a fair assessment of the likelihood of success.

The Convener: Thank you for that. I will now open the meeting to colleagues around the table.

The first to ask questions will be Liz Smith, followed by Daniel Johnson.

Liz Smith (Mid Scotland and Fife) (Con): Secretary of state, you will be aware that the committee has recently published its report on the budget for 2022-23. It was a unanimous report. Not only does it flag up quite a lot of concerns about the Scottish economy, it raises concerns about the budget process. One of the conclusions in that report is that there is not sufficient transparency between the UK Government and the Scottish Government about where the income streams come from and, just as important, where they are being spent. Those points were also raised by people who gave evidence to the committee during our scrutiny of the budget.

On the three new funds that we are discussing, are you confident that both Governments are absolutely clear about the amounts of money that are available and what the timescales are?

Michael Gove: Yes. We do not yet have perfect information, but we hope that there will soon be all the information that this committee, other committees and outside bodies need to be able to scrutinise effectively whether the resource being allocated is fair, predictable and being spent effectively.

The levelling up fund will be allocated according to objective criteria. It is a fund for which people compete, as we know, but my aim is to ensure that, in any given round of the levelling up fund, Scotland should get sums that are no less than would be allocated under Barnett overall.

The community ownership fund is smaller, but it is also bid led.

We want to publish objective criteria for the UK shared prosperity fund to show the amount that we believe that Scotland is entitled to under our manifesto commitment. As the convener has done, people can then judge whether those figures add up. Then we will say, within that envelope, how we believe the fund should be allocated to local authority areas. Of course, one of the things that I have to do is ask Scottish ministers whether the funding allocation makes sense to them and whether it is defensible.

Finally, scrutiny of the effectiveness of spend is also important. I welcomed the work of the National Audit Office and the Public Accounts Committee at Westminster on how some of our other funds have been spent, which made the point that we had not necessarily done all the valuations as rigorously as we should have done.

In the levelling up white paper, we proposed the idea of a UK policy laboratory, which would be a free-standing body, independent of all Governments, that could help to scrutinise how

effectively funds were being spent and could compare policies. If the Scottish Government was delivering more effectively for particular ends, that would show up for other Administrations, and there would be an objective and independent assessment of Scottish Government spend so that parliamentarians here could say, "Hold on a moment. Surely we should be doing as well as Wales is?"

Liz Smith: That is very helpful. Is it your understanding that that would be done on an independent basis for all spending across the UK?

Michael Gove: Exactly. That is our aim.

Liz Smith: That is very helpful.

In your helpful letter to the committee of 21 February, you spoke about engagement with the devolved nations on the three new funds. Could you expand on that? As the convener hinted in relation to investment, concerns have been expressed that the UK Government was choosing to engage much more with local authorities and stakeholders in local communities than with the Scottish Government.

I would like to know about the process. The Scottish Government develops many of its policy ambitions through what is called the national performance framework. If the process is to work, there must be some articulation between the aims and objectives of the UK Government and the aims and objectives of the Scottish Government. Could you expand on how you see that engagement taking place, especially in relation to the aims and objectives of the Scottish Government?

Michael Gove: It is through discussion with ministers that we can come to a shared understanding.

I will take one step back. When I was in my previous role in the Cabinet Office, I was charged with concluding the review of intergovernmental relations. That was successfully concluded once I had taken up my current role. As a result of that, there are specific intergovernmental committees that cover particular areas. For example, the secretary of state who is responsible for the Department for Environment, Food and Rural Affairs will meet the Scottish Government's Cabinet Secretary for Rural Affairs and Islands, ideally on a monthly basis.

We are setting up an intergovernmental committee that will cover precisely the areas that you asked about. That will mean that not just in advance of, but after the establishment of, the funding prospectus, I or my successors will talk to our counterparts in the Scottish Government, the Welsh Government and the Northern Ireland Executive to make sure that policies are aligned.

There may be disagreements from time to time, but I hope that such disagreements will arise only after we have gone through a process of trying to understand one another's point of view and our shared priorities. If the UK Government is spending in a way that is foolish, wrong or counterproductive, it will be possible for us to be fairly held to account and challenged, and to face any democratic consequences.

However, I want to co-operate. There has been a recent example of that in the way in which we approached the new green free ports that we are pledged to deliver together. The committee will be aware of the fact that, initially, there was a difference of approach between the UK Government and the Scottish Government, but thanks to the Scottish Government's finance minister's approach, we have been able to reach an agreement. That means that additional UK Government funding—money that is above and beyond Barnett funding—will come to Scotland and that the Scottish Government's strategic priorities on fair work and net zero will be respected.

Obviously, we would want to replicate that model. Notwithstanding the fact that the Scottish Government and the UK Government are composed of ministers from different political parties, we can and will, wherever possible, find agreement. That example seems to be a good benchmark to set.

Liz Smith: I reference the fact that the co-operation on deals such as the Tay cities deal was absolutely first class, because everybody was on the same page. The UK Government, the Scottish Government, local authorities and local interest groups were on the same page with regard to what the ambitions were for the Tay cities project, and I think that that was true of the other city deals, too.

If there was a slight difference between the Scottish Government's priorities through the national performance framework and those of the UK Government, how would that be resolved to the satisfaction of both Governments?

14:00

Michael Gove: Ideally, that would be done through open, regular dialogue and honesty on our part about where we might diverge.

I want to try to find unity wherever possible but one area where there might be a slight divergence is future energy policy, which is a sensitive issue. There is a reason why BEIS exists as a UK-wide department. For sombre reasons of which we are aware, energy security really matters, and there are legitimate divergent views about how to achieve it.

There is a difference in the emphasis on future investment in the oil and gas sector in the North Sea. The UK Government will almost certainly want to continue significant investment in that sector—investment in the north-east, Orkney and Shetland—to secure the oil and gas sector's future as part of a transition. I am sure that there will be ministers in the Scottish Government who would argue that some of that investment might be better prioritised elsewhere. That will be a fair disagreement on which people can reach conclusions but, in almost every other area, we could reach a constructive approach and agreement.

Liz Smith: This question is much more technical—I apologise for that—but it is important. You set out in your letter the methodology that has been used to measure the areas that you believe are most in need. That methodology is also on the UK Government website and is largely based on the indices that the Office for National Statistics produced.

When the Scottish Government makes an assessment of the areas that it thinks are most in need, it uses the formal Scottish Fiscal Commission budget analysis and estimates, with some based on ONS input and others not. I want to check that the UK Government's assessment of the areas that are most in need—that is, the methodology that you use—does not use data that is different from the data that is used when it comes to the Scottish economy. If there was different data, there could be different interpretations.

A conclusion from our budget report was that the Scottish economy sometimes suffers from the Scottish Fiscal Commission and the Office for Budget Responsibility having different timescales. Are you confident that the methodology that is being used to decide which areas are most in need uses a formula agreed by both Governments?

Michael Gove: I am absolutely confident that our assessment is objective. If there is any difference in the baseline set of assumptions and statistics, I am more than happy to come back to the committee in detail to explain why we have made a particular judgment where the Scottish Government might have a different view. The more that we can have an agreed statistical base that is set across the United Kingdom, the better. To my mind, that is the most important thing.

I am a great advocate for sharing data. I want to share with the committee, the Scottish Parliament and the Scottish Government as much data as possible about how we operate. If the Scottish Government has concerns about the basis on which we make the calculations, we will take an open-book approach, and if some of our

assumptions are out of kilter with the most up-to-date data, we will update them. We have nothing to hide in that regard.

One assumption is that more sparsely populated areas have less economic resilience. To take English examples, the assumption is that places such as north Yorkshire are sparsely populated and therefore have low economic resilience but, actually, they are relatively well off if we look at people's individual wealth because they have a higher proportion of retirees, second homes and so on. We could look at a place in Scotland, such as the area around Ballater, and say that it is relatively sparsely populated and so has slightly lower economic resilience, but nobody would say that it was an area of deprivation.

There are objective figures and then there is sometimes a way of using a slightly different set of objective criteria because it is a sharper way of getting to people in need.

Liz Smith: That is very helpful, secretary of state. It is absolutely crucial that the data that is used in making these decisions is agreed on, because, as I have said, and as has come up in our budget report, if it is different, that makes policy making all the more troublesome.

Michael Gove: Exactly.

Daniel Johnson (Edinburgh Southern) (Lab): I welcome the secretary of state to the committee. It is refreshing to have a UK minister, and I encourage him to go back and encourage his colleagues to do likewise, because it is important for devolution's sake that that happens.

I will focus on the levelling up fund, following on from some of the issues that Liz Smith and Kenneth Gibson raised. I begin with a contextual point. Productivity in Scotland, in output per hour, varies by about 40 per cent. It is at its highest in Edinburgh, at around £40 per hour, and at its lowest in the Western Isles, at £28 per hour. However, we do not need to go even as far as the Western Isles; in Glasgow and Dundee, it is about £31 per hour. There are huge disparities in relatively short distances.

I will ask you about two points. First, a thesis is required as to why that situation has occurred in the first place. Although there is a huge wealth of information on best value and impact, and six forms of capital are set out in the levelling up white paper, I do not necessarily see a thesis on why that has occurred. What work is going into that?

Similarly, is there a danger in focusing on local authority areas? You can invest in an area but, if we think about Edinburgh versus Dundee and Glasgow, some of the issues are about how the connections are made, and it is important that such decisions are not made in isolation. Are

those contextual points areas of work within this space?

Michael Gove: Yes, you are spot on.

Quite a lot of work in the levelling up white paper and in the analysis was commissioned and led by Andy Haldane, who, when he was chief economist at the Bank of England, looked at that in detail. My department has been looking at it. It is in the nature of my department that we have richer information on the situation in England, so we can draw some conclusions from that. However, the conclusions that we have drawn about regional disparities and productivity in England apply in Scotland, Wales and Northern Ireland more or less in the same way.

To go specifically to your point, this is not quite exact, but Edinburgh is to Scotland as London is to England. It is not just about the financial services and political capital; Edinburgh is also a magnet for talent, and it benefits from what economists call an agglomeration effect, or what has sometimes been called the Matthew effect: to them that hath shall be given. It is in the nature of Edinburgh that there is a certain level of educational institutions, prestige employers and—albeit that not every Edinburgh citizen would say so—transport links that enable people to get quickly to a place of work. Edinburgh also has a rich cultural endowment that makes it a very attractive place in which to live and work. Ditto for London.

Other cities have suffered as a result of some of their major industries disappearing. For example, historically, Dundee and Glasgow had manufacturing and engineering industries at the heart of their economic success when they were doing comparatively better. They also have some of the other problems that have, in the past, characterised places such as Sheffield and Bradford.

In thinking about how to improve productivity in those areas, we have to think first about how we can attract new industries. We cannot direct investment in the way that we did in the past. The shadows of Ravenscraig and Linwood show that, if investment is directed to areas without everything else being around it to sustain that, when chill economic winds blow, those areas do not get the long-term sustainable investment and economy that they need.

Glasgow has huge assets, but it needs more investment in higher and further education and in science and technology. We also need to look at some of the challenges that it faces with crime and drug and alcohol abuse, and the resilience of communities that have had an incredibly tough time economically. We need to look at a range of areas to ensure that we can get productivity up.

As you rightly point out, distance is an issue as well. Shetland and Orkney have benefited from oil and gas and from strong local leadership. In the Western Isles, the situation is very difficult, and connectivity is critical there. When I visited the Western Isles last year, it was reinforced to me that the Scottish Government and the UK Government can work together on everything from ferries and digital connectivity to thinking about investment in hydrogen and renewables in order to make the most of that community's potential. That has to be part of the whole approach.

Daniel Johnson: With that in mind, I will dig into the methodology a little more. My understanding of the way in which the funds were allocated is that, first, there was the indexation based on productivity, unemployment and qualification levels, all of which were given equal weighting.

Michael Gove: Yes.

Daniel Johnson: The assessment was then made on a scoring system, using value for money and impact, and looking at distribution across the three core themes of regeneration, transport and culture.

I have two key questions. The first is on the initial indexation. As you have just discussed, the issues are complex; I agree about their entangled nature. Nevertheless, they are quite narrow measures to use to capture the situation in the first indexation, especially when they are given equal weighting. Is that the methodology to be used forever and for all time, or is work going on to try to embed some of the more complex issues, such as geography, in the assessment?

Secondly, you have stated a number of times that there is an objective decision-making process. From my reading of it, the final decision, once the scoring had taken place, was a ministerial one—

Michael Gove: Yes.

Daniel Johnson: It was essentially discretionary, and perhaps it needs to be. However, it cannot, therefore, be entirely objective, can it? Will there be more work to open up the final round of decision making? There is anxiety as to precisely what was used to make the final decisions once the scoring had taken place.

Michael Gove: Totally—those are all fair points. On the first point, when you make an assessment of how to allocate funds, if you want to try to make it objective—which you do not have to do—you need to set out the scores that you assign to certain things, how you come to those scores and the factors that you are taking into account.

Way back when I was education secretary in the UK Government and we launched the pupil premium, we were thinking about how to give

more money to students with disadvantaged backgrounds. We used eligibility for free school meals as the measure. It was not perfect, but it was a simple proxy measure that helped us to get the cash out of the door relatively quickly to those who were more or less in need. That is what we have here: a set of measures that, although they are not perfect, enable us to be judged fairly.

Building on what you and Liz Smith have said, I am keen to ensure that we have the maximum amount of analysis. If people say, "This is more or less well intentioned, but actually the cash is going to the wrong places in the wrong way and you need to refine your formula", I am completely open to that. I think that the basis on which the judgments have been made is reasonable for the moment but, to answer your question directly, it is not set for all time. I am perfectly open to considering how, in the future, we can refine the allocation of those funds completely.

On your point about the element of ministerial discretion, that always has to be there. We may get all the data and put things in. For example, we may start off by thinking, "Okay—productivity or economic resilience?" and throw something in. However, as I referred to earlier, we may suddenly find that Richmond in north Yorkshire, or Ballater, come out as areas that, on the basis of the statistics, deserve the money, and we think, "That can't be right—we've got to revisit that."

Another thing that is in our mind is the need to show that the process has been objective, because all such decisions are subject to judicial review. Should someone want to challenge the basis of decisions, we have to be able to show how they were made. That is a good thing, because it also means that we can get more value for money for the taxpayer. If the aim is to improve productivity but spending an additional pound somewhere where productivity is already high will not get us that extra gain, the taxpayer, as well as the community that should have got the money, will lose out. The greater the transparency, the better.

14:15

Daniel Johnson: On a practical level, I am thinking about local authorities that are looking at bids for the next round of funding. Local authorities such as Angus Council and North Lanarkshire Council made unsuccessful bids, although North Lanarkshire is a priority 1 area. Will those bids and the fact that other local authorities did not submit any bids at all be taken into consideration?

Michael Gove: Yes.

Daniel Johnson: In the convener's constituency, the Ardeer project, which involves nuclear fusion, is part of the North Ayrshire bid.

That has energy security implications and potentially much wider externalities, but that does not seem to be captured in the current methodology. Might those sorts of things be considered in future funding rounds?

Michael Gove: Yes.

Daniel Johnson: That is very helpful.

I have a final question. The common thread through my questions is that productivity and ensuring quality are big complicated issues that cost money. The levelling up fund is worth £800 million in Scotland over the coming years, but that is set against a Scottish economy that is worth about £150 billion—give or take—a year. At a system level, what do you expect the outcomes to be, in financial terms or using other measures, from the levelling up fund?

Michael Gove: The levelling up fund is only one of the ingredients at our disposal. There are other ingredients, such as the separate funding for research and development, £100 million of which will go towards the three innovation accelerator centres, one of which, as I mentioned, will be in Glasgow. The shift in research and development spend will be part of the work, as will be, I hope, the way in which we continue to support increased competitiveness through the export orientation of business.

The judgment will have to be how successful we are in the missions that we have included in the levelling up white paper. Those are UK-wide missions. It is perfectly possible that devolved Administrations might take issue with aspects of the missions; they might regard them as insufficiently ambitious, which is fair enough.

We want the productivity gaps and the wage differentials between different parts of the United Kingdom to narrow. It should be the case that the productivity gap between, for example, London and Northern Ireland or London and Scotland narrows. We will measure that in our missions, but we have not set a metric when it comes to narrowing inequality and improving productivity within Scotland. However, if the Scottish Government wanted to do that with us, we would very much welcome that.

Daniel Johnson: Thank you.

The Convener: My understanding is that the £800 million covers all three devolved nations, so it is £450 million for Scotland.

Ross Greer (West Scotland) (Green): I apologise to the secretary of state, because I will probably have to leave the meeting slightly before it is formally closed.

I will stick with questions on the methodology. My first one is not specific to Scotland. Will you

explain the rationale for using House of Commons constituencies as a unit of measurement to cap the number of bids that can be made? It strikes me that that leaves the whole process open to suspicion and accusations of it being used potentially as a system of patronage for MPs in marginal seats whom the Government of the day would like to keep on side for electoral reasons. Will you explain why, despite those concerns, which have been made about previous funding systems, you felt it appropriate to use constituencies as a way of capping the number of bids?

Michael Gove: It is because of the vital role that elected representatives play in being champions for their communities. I know that people have suggested that there might be an element of the pork barrel in it, but the principal beneficiaries of some of the funds have included the convener of this committee and the deputy leader of the Labour Party. I can see why people can be sceptical and cynical about politics, but my argument would be to look where the money has gone and at the objective criteria that have been used. If the committee convener is re-elected with an even bigger majority in the next Scottish Parliament elections, that will be for many reasons; if it is a result of him benefiting from UK Government funding, that is something that I will have to take on the chin.

Ross Greer: I am sure that he will have your endorsement on the leaflets that go out in a few months' time.

I will move on to some Scotland-specific concerns about the methodology, which I am sure you are already aware of. Without trying to put words into your mouth, I am taking your initial response to the convener's line of questioning as, in essence, saying that you are operating the equivalent of a no-detriment policy for the amount of funding that Scotland is to receive compared with what it would have received if we were still in the European Union.

Bringing that down to a regional or local level, concerns have been raised by Highland Council in particular that, while the Highlands and Islands were considered a transition region under European arrangements and were eligible for more funding—which was certainly disproportionate to their population share—the Highlands were not a priority for the CRF and were ranked lowest on the scale for the levelling up fund. Could you defend the place that we have got to? It certainly appears that our Highlands and Islands local authorities feel that they are now being put at a significant disadvantage compared with if we were still in the European Union.

Michael Gove: You are right that, looking at the priority 1, 2 and 3 areas, there are places that one

would automatically assume to be priority 1 areas, such as Glasgow and North Ayrshire. However, some people might raise an eyebrow and ask whether Highland should be a priority 3 area, and that is a fair point. Referring back to an earlier question, that is why we need to keep such judgments under review.

With respect to the Highlands and Islands, one of the successful levelling up fund bids was from Inverness. Secondly, I am very conscious that, for a host of reasons, we need to do more to support the Highlands and Islands economy. That is why I deliberately chose to visit the Western Isles last summer to talk to councillors and businesspeople there. We are thinking hard in my department about how the specific needs of the Highlands and Islands can be addressed, for the reasons that you mention.

To go back to some of my answers to Daniel Johnson's questions, there are a range of tools. We have the UK shared prosperity fund and the levelling up fund, but there are other things that we can do in partnership with local authorities and the Scottish Government to deal with what are unique situations.

One thing that I would like to do is to use UK Government funding to directly provide improved ferry services for people from the Western Isles, Orkney and Shetland. Transport is a devolved responsibility, and I respect that, but my door is open to working with the Scottish Government in order to do just that. One of the reasons why we have set up a UK-wide islands forum is that there are common issues that islands all have—even though the Isle of Wight is a very different place from Anglesey, which is a very different place from Lewis, which is a very different place from the Orkney islands—which we believe we should bring together and work on.

Ross Greer: On that point about transport—this is particularly relevant to the Western Isles ferry services that you mention—evidence was submitted to us with concerns about the differences in methodology between Scotland and England, with transport connectivity being a much more straightforward part of the process in England, where there is a 25 per cent weighting for it.

The argument that is being made, which I am sure everyone around this table would agree with, is that transport connectivity means lifeline services for some communities in a way that it does not for many other communities across the UK. Transport is important to everyone but, for some folk, "lifeline" barely scratches the surface of how important it is.

Could you explain a little bit about why there is that significant difference in the methodology

between Scotland and England? Could you respond to the concerns that have been raised with us that that essentially puts some of the least connected communities at a disadvantage because their lack of connectivity is not being taken into account in the methodology, whereas if they were in England, it would be?

Michael Gove: I think that is entirely fair to point out. We need to address precisely those connectivity questions that you raise. One of the reasons for publishing objective criteria to begin with is precisely so that such concerns can be addressed.

That goes back to the point that I made in response to Daniel Johnson and Liz Smith: you can very rarely get a perfect set of objective criteria that captures every level of need. However, as a Government, you can put forward a set of rules and use that as the basis on which you are allocating money, and then, when people say, "Hold on—as a result of that, we're unfairly losing out," you can accept that point and allocate additional funding and/or make changes to the methodology in order to address that concern.

Part of the purpose of the original union connectivity review that the Prime Minister commissioned from Sir Peter Hendy was to inform some of those decisions better. For the reasons that you rightly raise, I am concerned about the fragility of the Western Isles economy and recognise the need to ensure that it has the ferry connections, and other transport connections, that it deserves.

Ross Greer: I would like to drill down into that. I understand your point entirely and I think that it is right that there are differences in methodology between the different nations to recognise different local contexts, but can you explain why the transport connectivity methodology is different, given the particularly acute transport connectivity issues that we have in some areas of Scotland?

Michael Gove: I think that it is a consequence of the policy advice that we will have received from officials about what would be the best and most equitable way of allocating resource. As I mentioned earlier, I think that we can look at a range of different factors and be aware of the need, as you quite rightly point out, to be conscious of the fact that, in considering some of the connectivity challenges that Scotland has faced, we might not have given all the weight that we should to connectivity, but that has been because there are other connectivity challenges that are faced by Scotland—and Wales and Northern Ireland—that we have put front and centre. However, the process of policy evolution, which involves input from colleagues such as yourself, is designed to address that.

Ross Greer: Going back to the point of there being no detriment to Scotland overall in terms of funding, would you be willing to confirm now an extension of that principle to the Highlands and Islands specifically? Can you confirm that your intention is to ensure that the region is no worse off in terms of funding through these arrangements than it would have been if we were still in the European Union?

Michael Gove: I want the Highlands and Islands to be even better funded.

Ross Greer: Thank you—I look forward to seeing that.

The Convener: If only you were a Highlands and Islands MSP, Ross, that would have been a great victory for you.

Douglas Lumsden (North East Scotland) (Con): Secretary of state, you mentioned earlier that meetings are still going on with the devolved Scottish Government. One of the things that I liked about the levelling up fund when I was a leader of a local authority was the fact that we could go directly to the UK Government. For me, that was true devolution. Will that be up for negotiation with the Scottish Government, or is that something that will always be reserved to the UK Government?

Michael Gove: The levelling up fund will always be reserved to the UK Government—the ultimate decisions will be for the UK Government. We want, wherever possible, to work with the Scottish Government, but, ultimately, these are UK-wide funds.

I should add that my colleague, Neil O'Brien is talking to Richard Lochhead, the Minister for Just Transition, Employment and Fair Work, about the shared prosperity fund.

We always want to reach agreement, but, ultimately, it is a reserved matter.

Douglas Lumsden: As was mentioned earlier, there is always a conflict, in that local authorities have their own priorities, which are set out in their local outcome improvement plans, and the Scottish Government has its own priorities, which are set out in the national performance framework. What you are saying is that it is always the local outcome improvement plan that will determine whether a bid is successful, not the devolved Government's national performance framework. Is that correct?

Michael Gove: Yes. Again, we will take the Government's priorities into account, because we want to reach agreement wherever possible, but, as you will know better than anyone, Aberdeen City Council's bid for money from the levelling up fund was the fruit of a huge amount of work that was done by the local council, with the local business community, taking into account the views

of everyone who cares about the city. With a bid like that, we had to say yes. Even if the Scottish Government said, "Hold on a moment, that's not our priority," it would seem, to me, wrong—for the reasons that you outline—for Aberdeen's civic leaders not to be rewarded for their efforts, hard work and leadership.

The whole thing about devolution is that you work with every tier of government. When I was speaking to the Convention of Scottish Local Authorities earlier, I was able to quote from the report by Lord Smith of Kelvin—the Smith commission report. As well as recommending that additional powers be given to the Scottish Government, Lord Smith said that he hoped that Holyrood would give additional powers to local government in Scotland.

That is a devolved matter—it is for the Scottish Government to decide—but I think that that is right. One of the things that we are trying to do in England at the moment is give more powers to local government, and I think that it would be great for local government in Scotland to assume more powers. As your example shows, Aberdeen has been enhanced by great civic leaders.

Douglas Lumsden: Thank you.

Michael Gove: I was thinking of Jenny Laing.

14:30

Douglas Lumsden: I really look forward to seeing that project coming to life. I think that it will completely change the city centre of Aberdeen.

One of the other groups that we have in Aberdeen and the north-east is the regional economic partnership between the city council, the shire council and Opportunity North East, and I guess that there is scope for ONE to be involved in bids for money from the levelling up fund, too. It tries to get private money to match the public money that we have, so it could be involved when we are putting together new bids for funding.

Michael Gove: Yes, completely. Again, last year, when I was speaking to Sir Ian Wood and Kate Forbes at an Opportunity North East life sciences and healthcare initiative in the Foresterhill campus, they were clear about the fact that working together across geographies in the interest of the north-east is critically important.

Earlier, I mentioned our view of the future of the oil and gas sector. Aberdeen and the north-east are still relatively prosperous compared to other parts of Scotland and the UK, but prosperity can diminish as well as grow. It is absolutely vital that, when we think about the future of energy, we think about the north-east, Aberdeenshire and beyond. It is vital that we secure additional investment in the oil and gas sector as part of a fair transition,

and we can only do that by using the UK Government's influence and funding, alongside the efforts of strong local leaders, and, I hope, in partnership with the Scottish Government. For the reasons that we are both aware of, safeguarding jobs and prosperity in the north-east depends on investment in the oil and gas sector, and, for all the sombre reasons of which we are all aware, energy security in the long term depends on maintaining oil and gas as part of the energy mix in the future. We are committed to doing that, and it is a key part of uniting and levelling up.

Douglas Lumsden: I absolutely agree. While we still have a demand for oil and gas in this country, it is best that we produce it ourselves, particularly in the light of what we see happening in Ukraine and what that might mean in terms of energy security.

I have one last question. What more can the UK Government do so that local government does not feel disenfranchised by the Scottish Government?

Michael Gove: I think that that can be done by having a three-cornered conversation. I was delighted to be invited by COSLA to speak at its conference earlier today, and I outlined the approach that the UK Government is taking in England and the partnership that we want to have. I think that the Scottish Government will quite rightly be able to highlight some of the funding and other challenges that parts of Scotland face, but we can also stress that there are things that the UK Government does that are part of the reserved space that mean that we will be in conversation with people in local government and in business, and we can talk to the Scottish Government about that.

It is quite right that Kwasi Kwarteng or Greg Hands are in Aberdeen, talking about the future of energy. As a result of those conversations, they can discuss with Kate Forbes or the First Minister everything from land use planning to investment in hydrogen and how we ensure that the oil and gas sector plays a part in the transition. That is quite right: it involves people working together, respecting their own responsibilities but recognising that there are particular needs for investment at those levels. I think that that is the way to go.

Michelle Thomson (Falkirk East) (SNP): Good afternoon, secretary of state. We have talked a lot about the specific methodology that was used for the levelling up fund. You mention the use of objective criteria. Despite that, we have ended up in a position in which, as you said, the failure to integrate connectivity data from Scotland has contributed to Orkney, Shetland and the Highlands being placed alongside areas such as the City of London in the category of areas that are least

likely to benefit from the fund. How confident are you in the methodology that was adopted?

Michael Gove: The methodology helps to make the decisions. As I pointed out, about two thirds of the allocated funding was allocated to priority 1 areas, where the level of deprivation is greatest. It is also the case that the Highlands benefited and that we are working with island authorities through the islands forum to ensure that they can have the best possible bids.

The funding is allocated, as Daniel Johnson said, according to a set of criteria. Priority areas are identified according to a particular methodology, which can be critiqued. Although an area can be at the front of the queue as a result of being a priority 1 area, that does not mean that priority 2 or 3 areas lose out. One priority 2 area and two priority 3 areas received funding from the levelling up fund.

Michelle Thomson: I must admit that that leaves me no clearer. I will say it again: we have ended up in a position in which Orkney, Shetland and the Highlands have been placed alongside the City of London in the category of areas that are least likely to benefit from the fund. How on earth did that happen? I gently suggest that, had you consulted the Scottish Government, it might have been able to inform you that that was a ridiculous outcome. I am asking you to reflect, with the benefit of hindsight, on the methodology that was used to arrive at that position.

Michael Gove: That is only one part of the methodology. Of course—

Michelle Thomson: Is it the right part? Is it a good outcome when that happens?

Michael Gove: The outcome was £20 million going to Highland Council and three projects being funded in and around Inverness.

That was just the first of three rounds of funding. The conclusion about whether funding has been distributed equitably will come at the end of the process. It is a bit like deciding who the hero or heroine of a play is going to be on the basis of which character appears first and before you know how the play is going to turn out. We will have to wait until the curtain falls at the end of the allocation of all three rounds. If we find that whether an area is in priority 1, 2 or 3 has been an important, but not completely determinant, factor, I hope that we will consider what has worked and what has not.

Michelle Thomson: That is a rather heroic attempt to talk the issue away, but let us carry on.

What engagement have you had with Audit Scotland? We have bounced around the idea of governance, which is important, and you have said that there should be scrutiny of the effectiveness

of spending. What agreements have you made with Audit Scotland that are in the public domain and that you can share with us today about how you will be accountable to Audit Scotland for your spend in Scotland?

Michael Gove: I am accountable to the UK Parliament, to Audit Scotland and to any body that you would like to suggest for how the spending is designed and allocated and for the evaluation framework. The only thing—

Michelle Thomson: What specific agreement have you made with Audit Scotland in that respect?

Michael Gove: I am waiting for Audit Scotland to make any suggestion to me about what it would like to do, the information that it would like to have and the evaluation that it would like to make. The same applies to any independent body or academic institution.

As outlined in the levelling up white paper, we are creating a UK policy lab that will allow policy outcomes to be compared across Scotland, Wales, Northern Ireland and England for the first time. For example, one of the difficulties that we face is that we have a richer data set on educational outcomes in England than we do for other parts of the United Kingdom. That means that education and skills comparisons between Scotland and England are difficult. The decision by the Scottish Government—an understandable and devolved decision—to withdraw from some international educational assessments means that Scottish citizens are in a poorer position on data.

We want to change that. I would welcome it if any partner in Scotland or elsewhere wanted to ensure that we have effective and comparable data on public sector performance and governmental performance. However, I cannot compel Audit Scotland or any other independent body to do anything other than its leadership wishes.

Michelle Thomson: Given that Scotland has a different education system, as you well know, and given what we have seen with transport connectivity, I would not be entirely confident about the methodology for that.

I want to just—

Michael Gove: That is precisely the point. Of course Scotland has a different education system, but one issue is that we cannot know reliably the extent to which curriculum for excellence has been working, because we have much more objective data about what happens in schools in England than we do in Scotland. The English education system competes and participates in more international tests and measures of performance

than the Scottish system, so we do not even have that sort of objective basis on which to judge.

For all sorts of reasons, I would love it if we were in a position to identify what is working in Scotland's education system so that the bits of that system that are doing less well can emulate the very best, and so that the bits of the English education system that are doing less well can learn from high-performing schools and local authorities in Scotland. However, at the moment, we just cannot do that, because we do not have the data.

Michelle Thomson: I sense that this is breaking news, Mr Gove. Not only do you want to take away powers from the Scottish Parliament in some areas that previously resided with the EU but you now want to do so in some areas of education, which is totally and utterly devolved.

Michael Gove: No, I do not want to take away any power. I just want people to be able to make more meaningful comparisons. As you rightly point out, we all have a responsibility to ensure that we are held to account for the policy judgments that we have made and that those are open and transparent. My argument is: bring it on. If anyone wants to assess or analyse the effectiveness of UK Government spend, whatever the means is, I would be delighted with that. However, in assessing the effectiveness of UK Government spend, we also need to be able to look at objective data about the effectiveness of Scottish Government spending, and we have less objective data on that.

It is not for me to determine the policy, but I think that voters everywhere would then be in a position to make a judgment about the relative merits of individual policies in the jurisdictions that they inhabit and of the Governments for which they vote.

Michelle Thomson: That will be the case only if people can compare apples with apples, and that is precisely my point about the methodology, which was called so wrongly in relation to transport connectivity. I again make the point that you could have spoken to the Scottish Government in the first place, and it would have pointed that out.

I want to quote from my local council, which is Falkirk Council. On the delays, it notes:

“there was increasing concern over damage to reputations, of the applicants, the Council and the UK Government, such was the lack of engagement by the UK Government”.

You will probably be aware that that local council won some money, although it also comments that it felt that the approach involved

“cherry picking a small number of high-profile projects.”

What will you do specifically to engage effectively, primarily with the Scottish Government, here today in the Scottish Parliament? What are you going to do differently?

Michael Gove: As I mentioned, we have concluded the intergovernmental relations review. That means that all UK Government ministers in the departments that have relevant responsibilities will meet their counterparts in the Scottish Government, the Welsh Government and the Northern Ireland Executive on a regular basis.

Michelle Thomson: At what point? Will that be after it is a done deal?

Michael Gove: Oh, no—it will be on a regular rhythm. Obviously, it will depend on what each of those jurisdictions wants. I speak nearly weekly, and sometimes more often than that, to the First Ministers of Scotland and Wales, and I did so with the First Minister and the Deputy First Minister of Northern Ireland when they were in post. For understandable reasons, most of the recent conversations have been about Covid, but any issue can be raised in those conversations.

In advance of the publication of the levelling up white paper, I held a call with all the First Ministers to outline the additional investment that we are making. I will also meet on a monthly basis whomever the Scottish Government nominates to discuss housing and local government. I have also spoken to representatives from COSLA; I addressed its conference today.

14:45

I have visited and will visit any local authority in Scotland that would like me to—whether that be Glasgow, Falkirk or Edinburgh or, as has been the case in the past, Aberdeen, the Highlands, the Western Isles and so on—to ensure that we work for them. My department has increased the number of UK Government civil servants who are working in Scotland to ensure that that is the case. The more the UK Government can work with every elected representative in Scotland, including in Falkirk, the happier I will be.

John Mason (Glasgow Shettleston) (SNP): Last—I will let others decide whether it is least—I would like to return to the question of whether the money is going to the neediest areas, although I realise that colleagues have already touched on that. In your helpful letter to the committee, Mr Gove, you say that 60 per cent of the bids have gone to priority 1 areas in Scotland. I find that a little bit surprising. If we are really levelling up, should it not be 100 per cent?

We have a cross-party group on industrial communities, which tends to focus on the former coalfields and other industrial areas. It also works

closely with the Industrial Communities Alliance. It did an analysis of the 105 successful bids and made the point that, of the 94 successful bids in England, Scotland and Wales, only 42 came from the poorest third of sub-regions, going by gross value added per head, and that 14 of the successful bids came from sub-regions in which GVA per head is above the UK average, including six in London. Based on those figures, people might think that the money is not just going to the poorest areas.

Michael Gove: In a way, your question is part of the debate that I had with Ross Greer and Michelle Thomson. The priority 1 areas were identified in a particular way, and it is perfectly fair to say that the process by which we arrived at the priority 1 areas could be improved.

The thrust of your entirely fair question is that, if we are trying to deal with low productivity, poverty, and inequality, surely the money should go only to priority 1 areas, but Michelle Thomson and Ross Greer take the view that priority 1 areas miss out on some of the subtleties of the sets of challenges that some communities face.

Even within some of the wealthiest regions and cities of the United Kingdom, there is inequality. Any representative of Edinburgh or Glasgow would say that alongside the wealth of Morningside is the poverty of Wester Hailes, or alongside the wealth in the west end of Glasgow is the reality of life in Drumchapel. Geographies that fall into priority 2 or 3 areas can have within them areas that need help.

Your broader point about the coalfield communities is very fair. I am conscious that we need to take account of the legacy of industrial scarring in parts of central Scotland; that is a factor. However, those are not the only communities in Scotland that have economic challenges.

John Mason: I take your point that there are poorer people in all communities. I have been in Aberdeen and seen the poorer areas there, for example. However, it could also be said that, in general, a poorer person who lives in a richer area will do better than a poorer person in a poor area. Would you accept that?

Michael Gove: Overall, yes. There will always be exceptions to the rule, but that is a fair point.

John Mason: I also take the point that you made in answer to Michelle Thomson that the first bid that appears will not necessarily be typical of what will come thereafter. The first one in Glasgow that I am aware of is for £13 million for the Pollok stables. I am all for horses and I am all for a bit of culture, but some people would feel that that is not the top priority if we are trying to level up the poorest communities in Glasgow. I presume that

we could build 130 houses for that money. What is your answer to that? I would have thought that that bid sent out a strange signal.

Michael Gove: There are two things to say about that. The first is that the bid came from Glasgow City Council. Glasgow is a great city with a great council and a great council leader, but if, as an elected representative in Glasgow, you think that the council should take a different approach towards its bids, that is fair enough. We will assess them.

My second point is that poorer parts of great cities can also benefit from investments that make the city overall a magnet for additional investment. It can legitimately be argued that investment might have been better targeted at the east end rather than the south side of Glasgow, but it is also the case that investment that makes Glasgow overall more successful should benefit all its citizens.

John Mason: I take that point. I am very much in favour, for example, of the fact that, as you will probably know, the Burrell Collection has been upgraded. However, by that argument, you could say that any expenditure anywhere will give poorer areas a boost, but it needs to be targeted to some extent.

I go back to your letter. One of the questions was about what would happen if, during the bid process or in spending the money, something untoward were to happen. You answered that to an extent, but what would happen if a bid came in and inflation—which is a bit higher and looks likely to remain persistently higher than most of us expected—took off? Would there be any extra money?

Michael Gove: I would not want people to think that they could bid X and then return and say, “Costs have risen, can I have an extra amount?” By definition, if it is a good bid that is well funded and has a good business case, and it proceeds, but right at the very end there is a need for additional finance to make sure that things can be delivered, we would always look sympathetically at that.

However, it should be the case that, as bids come forward and are fairly assessed, the business case will take account of potential inflationary or other pressures. All sorts of things can happen; the unexpected can hit economies or individual communities, so I would not want to be insensitive, but it is important that there is a degree of budget discipline when bids are put forward.

John Mason: I am all for budget discipline. In your letter, you talked about helping to “troubleshoot delivery issues”, which is a bit vague, but I am encouraged by the fact that you have said that you would “look sympathetically” at

such situations, which is a bit stronger and will probably reassure people a bit more.

To change the subject, you have a very long ministerial title. I want to ask about the intergovernmental relations part of it. Liz Smith touched on the budget and issues such as transparency, but I am thinking about the timing of it. It is clear that the past few years have been strange, so, in a sense, we can leave them aside. For me, the ideal scenario would be for the UK to set its budget, after which Scotland, Wales and Northern Ireland could set their budgets, and then local government could set its budget. That would seem to be the logical process, but we have not had that recently.

I do not know whether that falls within your remit; I am sure that the Chancellor of the Exchequer and other people have a part to play in that, too. In the longer run, do you think that we can get to a place where first the UK sets its budget, then the devolved Administrations and local government set theirs?

Michael Gove: Ideally, we can, but one of the things that I have found is that finance ministers in any Government tend to make decisions and the rest of us find out about them afterwards.

John Mason: That is a fair answer—it is actually quite a good one. I will leave it at that.

The Convener: That exhausts questions from members. I have a few more to wind up, but not too many, and I will give you the final word, secretary of state.

Following on from John Mason’s question about inflation, I note that the prospectus for the levelling up fund, which was published in March 2021, explained that

“Once funding awards are decided, relevant local institutions are responsible for their delivery.”

It states:

“Further contributions from the Fund will not be provided to meet cost overruns after funding has been agreed.”

That was in March last year. Is there an update on that position? You seemed to hint in your answer that there is a possibility of flexibility. We are now in a situation in which we could face 7 per cent inflation, and I am concerned about sustainability. We do not want to have projects that are 80 or 90 per cent complete and end up with white elephants because there is no money available to finish them. It would not help the UK Government, local authorities, the Scottish Government or whoever if that was the case.

Are you telling us that that position has softened? You talked about fiscal discipline, which we all accept is important. However, are you saying that that is no longer written in tablets of

stone, as it appears to have been in March last year? I appreciate that the inflationary situation may not have been envisaged a year ago. We might say to people that they just have to manage 2 per cent inflation, but we are getting to 7 per cent, and who knows what the impact of today's conflict will be? How will that be managed?

Michael Gove: Going back to my point about finance ministers, I do not think that the chancellor would thank me for saying that people can automatically add 5 or 7 per cent to the cost of such projects. As you rightly point out, we all expect a degree of budget discipline. I take your point about projects that are close to completion and not wanting to spoil the ship for a hap'orth of tar. The position as outlined is the position, but of course ministers always exercise discretion on flexibility in order to make sure that successful projects can be delivered.

The Convener: I think that that is an important caveat. In effect, you are saying that you will look on an individual, project-by-project basis to see whether an increase is justified in certain circumstances.

Michael Gove: Exactly. The whole point is that we want to work closely with local government and delivery partners in order to make sure that projects are successful.

The Convener: Okay. In today's discussions, you have touched on things such as education, ferries and local government, all of which are devolved. As you will know, education, along with the legal system, was part of the Act of Union 1707, which preserved Scotland's unique education system. However, we know that, for example, a £559 million adult numeracy fund will be managed by the Department for Education across the United Kingdom. Is that a first since 1707? Maybe I am just not aware of it, but my understanding was that, on such matters, you might allocate funding to Scotland, but the decision would be made here in Scotland.

Michael Gove: Yes, the decisions would be made in Scotland about how that funding would be allocated. Without wanting to quibble with your essential point, it has manifestly been the case that, before devolution and since 1707, Scotland has had its own distinctive education system, but it has also been the case that Scotland's universities, four of which predate the Act of Union, benefit from UK Government funding as well, so—

The Convener: It is about the funding being managed by the UK Government, not the funding being allocated.

Michael Gove: There are two things here. One is that some of what we will be doing in adult numeracy, and indeed in education overall, is

providing digital resources for people across the United Kingdom that anyone can turn on and off, as it were. On the money—the funding for adult education and adult numeracy—we will talk to the Scottish Government about how that will be distributed but, ultimately, it will be for the Scottish Government to decide.

The Convener: Okay. I want to move on to another subject that we have touched on a wee bit. The levelling up funding white paper explains that the UK Government is to embark on

“a process of sustained and systematic engagement and consultation with a wide range of stakeholders, including devolved administrations, on the White Paper.”

It states:

“We will be setting out further detail on a number of these policy commitments in future publications. In addition, we will introduce legislation to Parliament to underpin in statute the changes fundamental to levelling up, alongside wider planning measures.”

We touched on Audit Scotland. In the legislation, will Audit Scotland have a formal role in looking at how effectively funds are spent in Scotland?

Michael Gove: I am completely open to that.

The Convener: Thank you very much for that. That is very positive.

We have 30 seconds of our 90 minutes left. As I said I would a minute or two ago, secretary of state, I will allow you to make any further points that you wish to make before we conclude the meeting.

Michael Gove: I just want to say thank you very much to you, convener, and all the members of the committee. As was indicated earlier, the more that UK Government ministers can appear in the Scottish Parliament to answer your questions, the more that demonstrates how devolution can and should work. I will, on behalf of this committee, stress to all my colleagues in the UK Government that a warm welcome and tough questions await them when they come to Holyrood. It is both a duty and a pleasure to come here.

The Convener: We are all pussycats up here, you know.

I thank you formally for coming along in person, which is really important to the committee. We really appreciate people making the effort to do that. I know that you could have spoken to us virtually, but that would not have had the same impact and we would not have been able to scrutinise quite as effectively. The committee has an important role to play in scrutiny, and we look forward to working with you and your colleagues in the months and years ahead. Thank you very much.

Michael Gove: Thank you.

Meeting closed at 15:00.

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