

Scottish Affairs Committee

Oral evidence: [Scotland and the Shared Prosperity Fund](#), HC 1089

Thursday 4 March 2021

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Members present: Pete Wishart (Chair); Mhairi Black; Andrew Bowie; Deidre Brock; Wendy Chamberlain; Alberto Costa; Sally-Ann Hart; John Lamont; Douglas Ross; Liz Twist.

Questions 1-77

Witnesses

I: Professor David Bell, Professor of Economics, University of Stirling, and Chair of the Scottish Government Steering Group on the Replacement of EU Structural Funds, and Professor John Bachtler, Professor of European Policy Studies and Director of the European Policies Research Centre, University of Strathclyde, and Co-Chair of the Scottish Government Steering Group on the Replacement of EU Structural Funds.

II: Ivan McKee MSP, Minister for Trade, Investment and Innovation, Scottish Government, and Hilary Pearce, Deputy Director, European Structural Funds and Subsidy Control, Scottish Government.



Examination of witnesses

Witnesses: Professor David Bell and Professor John Bachtler.

Q1 **Chair:** Welcome to the Scottish Affairs Committee's first oral evidence session of our new inquiry into Scotland and the shared prosperity fund. We will kick off in dramatic style with two senior academics and a Minister from the Scottish Government. On our first panel, we have Professor David Bell and Professor John Bachtler. I will let them both introduce themselves, starting with you, Professor Bell.

Professor Bell: My name is David Bell. I am professor of economics at the University of Stirling, and I also chaired the Scottish Government's steering group on the shared prosperity fund.

Professor Bachtler: Good morning, everyone. My name is John Bachtler. I am a professor of European policy studies at the University of Strathclyde in Glasgow. I am the director of the European Policies Research Centre, based at Strathclyde and Delft universities, and I have been co-chair of the Scottish Government's steering group.

Q2 **Chair:** You both obviously know each other, with your joint endeavours in looking at this. With all your examinations and studies of how all this will develop in full, what is your impression of what the shared prosperity fund will look like for Scotland? We will start with you, Professor Bell.

Professor Bell: We actually do not know that much as yet; that was part of our deliberations—the Scottish Government set up our steering group in the absence of any clear understanding of how the shared prosperity fund might be designed. We have been given assurances that the devolved settlement would be acknowledged and respected, and that the funding would be no less than the previous European structural funds would have been. We got a little bit of indication during the past 12 months or so, but we do not as yet have a prospectus. That is why over the next 12 months we will actually have a sort of interim fund, which was announced yesterday. The prospectus for that fund was published by MHCLG. We are waiting to find out. The steering group looked at ways in which that fund might be designed to take into account Scotland's experience and policy priorities.

Q3 **Chair:** I have two points on that. Could you just talk a little bit about what you think yesterday's announcement represents and how much further it takes things forward? Again, I come back to what I asked you at the start: what is your impression, given your study into this, of what this will eventually look like for Scotland? Maybe start by telling us the relevance and significance of yesterday's announcement and then come on to that.

Professor Bell: Yesterday a fund was announced, which I think will be worth £220 million. Effectively, as far as we can understand, it will have to be spent, or at least committed, over the next 12 months. The lead authorities for that fund will be the local authorities in England and also in Scotland. None of the grants are to exceed £3 million. We have, I think,



about 400 local authorities overall. We then have a set of places that were announced yesterday as priority areas, which cover Wales, Scotland and England—a separate arrangement is being made for Northern Ireland.

- Q4 **Chair:** Can I just stop you there, Professor Bell? Obviously, there has been discussion about these priority areas. Can you tell us a little bit about how they were determined and how they have managed to find themselves at the top of the queue when it comes to this?

Professor Bell: There is an indication of the sorts of things that might have been used to construct the index that was eventually used to select these 100, including productivity, unemployment—various measures. This is the sort of thing that we discussed quite a lot in our steering group, including how you would assign areas or priorities spatially with the shared prosperity fund. That in itself is not an easy task. If you remember, the European structural funds used 70% of per capita GDP in the EU as a trigger point. However, MHCLG has come up with a list, and I think it will explain in more detail how that index has been constructed, but unless I made a mistake, I didn't see those details in the publications released yesterday.

- Q5 **Chair:** Professor Bachtler, I don't think Professor Bell dodged the question, but we are interested in your views on how you think this will all eventually work itself out and what it will look like, so I will ask you that too. However, first, given that we are discussing the announcement yesterday, do you feel that it will cover the year of transition, and do you have any particular views on the amounts given over and the priority list?

Professor Bachtler: If one looks at the headlines, there is a degree of continuity with the way in which structural funds have been implemented. The two strands of place and people are similar, in some respect, to the European regional development fund and the European social fund. As in the deliberations of the Scottish Government's steering group, there is a commitment to reducing inequalities and to sustainable, inclusive growth.

The kinds of priorities identified, which David just listed, also appear in the proposals of the steering group. There is a commitment to additionality—that it has to be additional to other funding—and to integration and innovation. How that will take place is not clear. I think the issues about which there are differences, which the Committee may want to explore, are first, that in Scotland, under the Scottish Government's programme, there is arguably a stronger emphasis on inclusivity from the perspective of social justice, and particularly in terms of poverty, whereas yesterday's proposals, reflecting long-standing UK policy, have more of an economic rationale, focusing on productivity, growth and regeneration, and obviously also on skills, and with some references to inclusivity. There is also a commitment to local delivery, which is similar to that of the steering group.

The questions in my mind are, first, about coherence and how the fund proposed yesterday will link with other strands of funding proposed by the UK Government, and also, importantly, how it links in with the Scottish



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Government's priorities and programmes. There is a reference to alignment with national and local plans in the community renewal fund proposals. I think there are questions about how the UK-wide competition will work. There is also a commitment to monitoring and evaluation, but again, that is something to be developed, as David indicated.

There are elements of continuity with what has gone before, under the structural funds, and there are elements of similarity with the steering group's proposals, but I think there are also important differences and important questions that are still open.

- Q6 **Chair:** Thank you. We have the Minister coming in following this panel, who will obviously tell us about the involvement of the Scottish Government in all this. However, I think you are right to refer to some of the announcements that we have had in the past couple of weeks, particularly around the levelling-up fund and the provisions of the United Kingdom Internal Market Act, which gives direct funding to local authorities. Do you feel there is any sense that the Scottish Government have been bypassed in all this? Is a new relationship being formed with the UK Government becoming directly involved in funding local authorities in Scotland?

Professor Bachtler: A lot of that is unclear. There is a statement in the prospectus that came out yesterday that the devolved Administrations will have a place within the governance structures for the UK shared prosperity fund. However, in any multi-level governance system, to use the jargon, as in the UK, one would ideally expect there to be a close partnership with different levels of Government. If one looks across Europe, the approaches that have been most successful are those that have worked very much in partnership between different levels of government—national, sub-national and local. Let's say there are important open questions about how the devolved Administrations, and the Scottish Government in particular, in this case, will be involved, in terms of the way in which the fund operates—the way in which it aligns or not with Scottish Government policies and instruments.

- Q7 **Chair:** Professor Bell, the word is that the role of the Scottish Government is as yet unconfirmed when it comes to SPF. How do you feel about how these relationships and dynamics are shaping up? Is there a sense from you that maybe the Scottish Government is perhaps being bypassed in this?

Professor Bell: Well, it is difficult to say. As John says, as yet a lot is unclear. Clearly the UK Government has had a lot on its plate in the last 12 months or so, and whether that has interfered with the discussion and co-operation between the two Governments is unclear, but certainly as I understand it there has not been that huge contact between the UK and Scottish Governments on the design of where we are going.

One point I will also make, in relation to our current discussion, is that one of the things that was very much emphasised to the steering group was that the multi-annual framework gave a secure base to plan for the future.



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That was something that came through very strongly. What we have got now is a one-year fund. Thereafter we are not clear what timescale the budgeting framework will be over.

- Q8 **Chair:** What do you make of the fact that there isn't clarity about this? I am asking you as two guys who were on the steering group and have looked at this very closely. What I am getting back is that we haven't got a clue about how this is all going to look and play out. What does that suggest to us as a Committee about how we actually examine properly what is going on?

Professor Bell: It has been quite difficult for the steering group, I might say, that we have had to, in a sense, plough our own furrow. Clearly we took as our starting point an assumption that from the initial announcement the funding would be roughly the same. It is important here to emphasise that, actually, the funding for the last multi-annual round amounted to €25 per person per year in Scotland. It amounted to four times that in Wales, but that is still very small beer in relation to overall public spending. Overall public spending Scotland is around £11,000 per person per year, so it is very difficult to pull out a clear signal about the effectiveness. I am talking now about going back to the old EU structural funds, because still we aren't talking about huge amounts of money.

- Q9 **Chair:** This is all a little concerning, it has to be said, listening to both of you telling us this, with very little clarity about what to expect. Is there any last thing you want to say about where we are going with all this, Professor Bachtler?

Professor Bachtler: Yes, just to develop one of the points that David made about timing, there is a lot to criticise about European structural funds, and some of the points are made in yesterday's prospectus, but one of the strengths of it was that there was a clear emphasis on strategic planning—evidence-based analysis, a sort of theory of change in terms of what it is you want to achieve in terms of the outcomes, and time for consultation, with different stakeholders and partners.

The prospectus produced yesterday is just for a pilot, to inform the shared prosperity fund, but one of the things that we will be looking for in the future is a clear commitment to a strategic approach that gets around the somewhat bad record we have in the UK for interventions that are designed and implemented in a rush, and that don't have predictability to enable those investing funds, from whatever source—public and private—to plan.

Chair: Thank you both for that. I will now pass over to my colleague, John Lamont.

- Q10 **John Lamont:** Thank you, Chair, and good morning to both the professors. My question is about the various pots of European structural and investment funding that were available to Scotland. Could you both please identify what the biggest weaknesses were in those types of funding support that were available?



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Professor Bachtler: I think the biggest challenge, particularly over the last five to 10 years, has been their regulatory complexity. What we have seen over time is a layering of rules and regulations, driven by concerns about value for money, effectiveness and various management issues. And those rules were designed for an EU of 28, so you have got rules that would need to apply to some of the central and eastern European countries, which are getting €60-70 billion, and to relatively small programmes, as in developed parts of the EU such as Scotland. Yet those rules have had to be implemented in much the same way.

Also, particularly where the structural funds formed a relatively small part of the economic development effort, it was relatively easy for managing authorities to have problems in implementation, and that is at different levels—at local level and at Scottish level—in terms of different stakeholders. It is particularly the administrative costs that have been problematic. I think that is probably the main concern that people have had.

Over the years, the management control systems have become progressively more complicated to design. Paradoxically, in this current period—from 2021 onwards—in the EU, there has been a big simplification drive. Nevertheless, if one talks to managing authorities across Europe, they don't feel that their life is going to become a lot easier.

Q11 **John Lamont:** So there is perhaps an opportunity with the new Shared Prosperity Fund to make the process simpler and less bureaucratic. Professor Bell, would you agree with that?

Professor Bell: Yes, I agree with what John has just said. There is one other point that should be brought in. In a sense, it is slightly tangential to our discussion, but as the steering group we were never very clear where LEADER funding sat, because it is not part of the European structural funds. Nevertheless it has had quite an impact on rural communities around Scotland and around the UK as a whole. It is actually part of the agricultural budget. So that is one thing that I guess we perhaps haven't developed, but where LEADER funding should be going, if anywhere, also seems to have dropped out of people's thinking.

Q12 **John Lamont:** I can think of a number of projects close to me here in Coldstream that have been funded from the European Union; they have European branding all over them. But they are sitting idle or dormant, unable to be utilised because of the conditions that have been attached to those funding pots. How widespread is that—projects that have been funded by the European Union that are so tied up in conditionality that they cannot properly be utilised? Professor Bell?

Professor Bell: Sorry, I know that is a problem, but I don't have the figures to clarify that. I mean, it is all part of this difficulty of designing rules that are meant to run across 28 nations.

Q13 **John Lamont:** You say you do not have the figures. Is that because the figures do not exist, or is there data that demonstrates that projects that have been funded from European funding have not actually been used or



been completed?

Professor Bell: I do not have those figures to hand, but they may well exist.

Professor Bachtler: It has been a problem, particularly with capital projects, that once the investment has taken place, there has been difficulty running those projects, because of the problems of having the required revenue funding. I note that, in the community renewal fund, there is quite a lot of emphasis on revenue funding.

If one looks across the EU at the period that we are just completing, 2014 to 2020, which is going to be finalised in 2023, I think that something like two thirds of programmes have had problems with what are termed "irregularities" of various kinds. That is emblematic of the point I was making before about the difficulty of compliance with EU rules. Nevertheless, I think those are management problems that should not detract from the overall record of structural funds, which is actually positive if one looks at the broader picture. But, at project level, the case that you mention is not an isolated one.

John Lamont: So, again, there is hopefully an opportunity to ensure that funding of this type provided through the shared prosperity fund is utilised more effectively, and is not just pumped into things that are not actually producing anything for society or the economy. I think that is all from me for now, Chair.

Chair: Thank you. Wendy Chamberlain.

- Q14 **Wendy Chamberlain:** Thank you very much, Chair, and welcome to both witnesses. In his opening questions, the Chair probably touched on some of these issues, but just talking generally about the information from the UK Government on the shared prosperity fund, one of the key things I noted was the fact that the position paper the steering group produced was followed a week later by the heads of terms in the spending review from the UK Government. How much awareness did the steering group have of what was likely to be in those heads of terms?

Professor Bachtler: I think, as David said, we were sailing pretty much in the dark in much of our work. We had very little to go on. There were the formal statements that were made in the House and elsewhere, but we were essentially designing pretty much everything in terms of objectives, priorities, structures, delivery mechanisms and monitoring and evaluation without reference to the UK proposals, which we saw yesterday.

- Q15 **Wendy Chamberlain:** You spoke in your own opening remarks about continuity, and what you have seen so far, but also about issues around interconnectivity. Professor Bell, you also mentioned where LEADER fits within it. What do you feel, therefore, are the key information gaps that the UK Government need to fill?

Professor Bell: I guess we have to start from the strategic aims of the fund going forward. For us, what was important was the alignment of those with Scottish Government priorities, which, as John said, are slightly



different, with more emphasis on poverty and inclusion. Then there are the mechanisms whereby the fund would work, which goes back to our earlier conversation about what determines eligibility, what would determine how the funding would be structured, what role there might be for match funding, what, importantly, would be the timespan over which assurance could be given about the funding, and, finally, evaluation. We economists, thinking about value for public money, believe that it is very important to rigorously evaluate programmes like this.

- Q16 **Wendy Chamberlain:** Thank you. This is my final question. In the Lords yesterday, my colleague Lord German asked about shared prosperity fund administration, and the Government were not able to assure the Lords that they were committed to at least matching current EU funding for Wales, but did say that they had committed to match overall UK receipts. From a steering group perspective, is there a potential concern that the devolved nations might lose out compared to what they experienced under EU structural funding? Professor Bachtler first, and then Professor Bell.

Professor Bachtler: Yes, that is a concern. As far as I know, the UK guarantee about continued funding at the same level only applies at the UK level. I might be wrong, but I have not seen anything that commits the UK Government to match at the Scotland level. Also, that refers to the point that I think I made earlier about the competition for funding being UK-wide, so there is no guarantee that Scottish local authorities would get any minimum level of the share of the cake, certainly at this stage.

- Q17 **Wendy Chamberlain:** That assessment of areas most in need is at a UK level, so I can see how that would be a challenge. Professor Bell, any final comments before I hand back to the Chair?

Professor Bell: I agree with John. We have seen the list, and the representation of Scottish local authorities within the 100 chosen for the UK as a whole is about the same as you might expect. Clearly, if funding was, as with this new fund, to be determined competitively, then there is no guarantee. You could do better or you could do worse than, say, your population share. With universities, we are used to that because UKRI funding is UK-wide, so we compete against all of the rest of the country. That issue seems a pretty important one to resolve quite quickly.

Wendy Chamberlain: Lovely. Thank you, Chair.

Chair: Thank you, Wendy. Deidre Brock next.

- Q18 **Deidre Brock:** Welcome to both of our expert witnesses. It is wonderful to have you along. I note from the written evidence that we have received from a number of organisations that they are concerned about what they feel is a high degree of uncertainty about the shared prosperity fund. What impact do you think that uncertainty has had on the ground in Scotland? Are you able to share your views on that?

Professor Bell: One thing that I was personally struck a great deal by during the deliberations of our steering group was the commitment of

voluntary organisations around issues such as helping young people to access the labour market and so on. There are organisations around Scotland. I was in contact with the Right Track in Glasgow, who do exactly that and help young people into the labour market. If European funding is a major source of their activities, the uncertainty might have led to people moving on. In some respects, we want the fund to be novel, but there is a huge amount of experience around helping people access skills and so on that, on the other hand, we really don't want to lose. I don't have figures on what has happened, and of course it has all been complicated by the pandemic, but it seems to me that it is unlikely that there will not be some loss of skills in, for example, managing these kinds of transitions between unemployment and work.

Deidre Brock: That is concerning. Professor Bachtler?

Professor Bachtler: I would agree with that. We have to remember that structural funds have been part of the Scottish economic development landscape for 45 years. At one time, Scotland was the third largest recipient of EU funds across the EU. It has been a very stable part of the framework, of the governance, and priorities have changed.

I think there are probably three issues that we can see stakeholders being concerned about. One is the sustainability of funding, which David just alluded to. The second relates to partnership and the way in which different stakeholders have been involved. Scotland has had some problems over time, but nevertheless has a very good reputation for the way it has engaged across the sector with local authorities, voluntary sector, businesses and other organisations, so there are questions there that stakeholders are concerned about.

The third issue is at the macro level. We have seen from research that, with a break in the continuity of funding, such as structural funds, which have been an important area of intervention and a provider of investment for so many years, there is a risk of having an impact on growth. Work that has been done by the London School of Economics has shown how a change in status and a change in funding regimes, and the disruption that that causes, have potential negative effects. In a sense, we are already seeing a gap. The current programme commitment period ended at the end of last year, and the shared prosperity fund proper is not coming into force until next year.

Q19 **Deidre Brock:** So you are suggesting that that uncertainty is possibly going to lead to a drop in economic growth?

Professor Bachtler: That was the conclusion of the research. Now, that conclusion was drawn in quite different circumstances to now. If one looks at the annual implementation reports on structural funds in Scotland, we see that there has been an impact from Brexit. They have reported regularly on the impact of Brexit on business confidence and third sector confidence, and on top of that we have the pandemic. It would be very difficult to disentangle a growth effect currently. It is part of the bigger picture of disruption, if you like.



Q20 Deidre Brock: It is likely that we have had some effect, but it is just difficult to disentangle, as you say.

Turning to the UK community renewal fund, which is going to be the short-term replacement for European funding, some of the organisations that have submitted evidence to us have expressed concerns about introducing a competitive element to the allocation of that funding. You touched on this before when speaking to Ms Chamberlain. What kind of method would you prefer to see used, if that is introducing notes of concern for the organisations about having to compete with each other, and then potentially losing out? What method would the steering group, for example, prefer to see? Are you able to offer a concrete suggestion of what the steering group has been looking at?

Professor Bell: In principle, I am not necessarily against having some form of competition, but whether that would be seen as fair is a reasonable question. We have competition over, for example, the Big Lottery Fund, which distributes quite a lot of money across the UK as a whole. We were largely driven by the same sort of consideration that the structural funds have used for decades, and that, in a sense, is being reflected in MHCLG's list of priority places: if you are trying to level up, then you direct funding towards places that are in clear need of some assistance in raising GDP per capita, incomes or whatever indicator you are thinking about.

Then you go back to the discussion that I had with Mr Wishart earlier on, about how you design an index that will rank different parts of Scotland or the UK, and say that those falling below some threshold will be eligible and those above the threshold won't be eligible. Alternatively, do you find some way of combining those two elements and say, "We have a certain number of authorities that are eligible" and allow them to compete with each other? Competition doesn't make for stability. That is certainly an issue. One thing that came through a lot was that stability was very much welcomed by those who could therefore take a longer-term view about how to engage with community and economic development.

Q21 Deidre Brock: I think it was Professor Bachtler who mentioned the very good reputation Scotland has for strong partnerships across numerous sectors within Scottish society. On the levelling-up fund—you were speaking to the Chair about this at the beginning—you indicated that there was currently little information on what criteria were used to place different parts of the UK into the different priority levels. You said that you thought that the UK Government will be offering some information around that or an explanation at some stage. Are they not placing their horse before their cart? Informing us after the event, once they have decided what those criteria will be, seems an opaque way of deciding this.

I ask largely because of the concerns raised about the stronger towns fund, which the National Audit Office did an investigation into last year. We read in the media today that some 90% of what I think is the first tranche of the levelling-up fund is being assigned to Conservative-held



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seats. What criteria could be introduced that would instil confidence in the UK Government's distribution of those moneys? What would you recommend?

Professor Bell: We perhaps did not come to a specific conclusion, but the steering group discussed this issue extensively with interested parties from right across Scotland. We did expose this issue. In so doing, people get an appreciation of the difficulties that there are in trying to be fair around the allocation of these kinds of resources. We take the view that a bottom-up approach to the design of the mechanisms would be a good thing to do. I won't comment further than that.

Professor Bachtler: David has made some very good points. It is worth reflecting on why the UK, among other countries, moved away from centrally allocated grant schemes, which make sense in terms of providing business aid, where you want to make sure that there is rigour and robustness in the approach to competition. But, going back now almost 30 years, what we have seen across European countries, including in structural funds, is a recognition that central Government finds it extremely difficult to allocate funding on a transparent and effective basis from the top. The EU solution was to have regional programmes, which is how the Scottish programmes were regarded in EU terminology, but even then, over the last number of years, the EU has been recognising that the region level—Scotland, in an EU context—is still very, very high in order to target money effectively because places are so different. They have different development paths, different mixes of needs, and, crucially, different institutional contexts, so they are working in different policy frameworks and you need to try to adapt your policy as locally as possible.

I think what we saw for a Scottish approach was that there would be allocations to regional partnerships—in the Scottish context, sub-regional partnerships—and it would be within them that decisions were made on the allocation of funding. Within sub-regions, competitive bidding is potentially a very good tool, because it has the potential to drive up quality and rigour in terms of funding. It is not necessarily appropriate in all sectors, but I think that was the line of thinking and the logic that we had.

Q22 **Deidre Brock:** Professor Bell is nodding—so it is down to enterprise bodies and similar?

Professor Bell: Yes. One thing there was that we felt that whereas some larger local authorities would have the capacity to compete, that would not be true of some local authorities in Scotland, which are very small and maybe do not have the capacity to compete on the same grounds. That was part of the rationale for thinking at regional level.

Deidre Brock: That is very interesting. Thanks very much to you both.

Chair: Thank you, Deidre. Mhairi Black.

Q23 **Mhairi Black:** Thanks to the witnesses for giving us your time—it is much appreciated. To begin, the UK Government's spending review included



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heads of terms, and one of them says that the total amount of funding made available will “ramp up” until it at least matches “current EU receipts”. Am I correct in understanding that to mean that we will not be able to match EU funding immediately, or is that an oversimplification?

Professor Bachtler: If one looks at the spending profile of European structural funds, it typically starts slowly and then speeds up towards the middle of a seven-year funding period, because it takes time for projects to be developed and then actually submitted and implemented. So if, let us say, we were in the structural funds in the current period from the beginning of this year onwards, apart from the fact that there has been a delay in the regulatory approval at European level, it would take time for the Scottish programme to be finalised, negotiated and then opened for business. So, one would expect that in 2021, 2022 there would not be a great deal of spending. Nevertheless, partners would know what the strategic framework was, and they could prepare projects based on knowledge of the rules and the way forward.

Now, I think the prospectus provides some guidance, and potentially, as it is a pilot, there could be some important lessons learned of the type we have been talking about, but, at the moment, it is difficult to see what the funding profile will be, and it is difficult to see what the Scottish funding profile is. Perhaps that is indeterminate, because unless there is some sort of allocation to Scotland or the other devolved Administrations, we will not know until the projects are actually submitted and selected.

Q24 **Mhairi Black:** That is helpful. Professor Bell, do you have anything to add?

Professor Bell: Spending programmes are typically lumpy. Even the city and growth deals, some of which were agreed some time ago, might be coming in over the next couple of years. They will be increasing their funding. I agree with John that it will certainly take some time for the shared prosperity fund to build up, but that is an inherent characteristic of these funds, especially where they involve capital spend.

Q25 **Mhairi Black:** Excellent. Thank you; that is really helpful. To move on to a slightly different topic, we have heard various evidence about the level of communication and interaction between the UK Government and the devolved Governments, but also with relevant organisations. Against that backdrop, can you talk us through the logic of why the Scottish Government felt there was a need to have their own consultation about how to set up their own proposals for the fund? Was that helpful? Any information there would be really useful.

Professor Bell: I guess that the assumption that all the devolved Governments made was that, given that the fund had been announced in 2017, the shared prosperity fund would kick in during the coming financial year. The devolved Governments were all keen to see the design of the fund before deciding how to act on that. For whatever reason, that design was not forthcoming. Therefore, I guess they decided to act on their own, and that led us to where we were.



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I was engaged first in about August 2019, when we started this path, which led finally to a report in November last year. I guess that we had assumed that we would be reacting to proposals coming from the UK Government, but we did not get much more than the occasional ministerial statement. We had a momentum of our own, in terms of consultations with interested parties and so on. In a way, that is how we have ended up where we are with our own report. We have now got this pilot scheme, but the shared prosperity fund itself is still a little bit away.

Q26 Mhairi Black: Excellent, thank you. Is there anything else you would want to add?

Professor Bachtler: No, apart from the fact that it was always understood that there was going to be a UK replacement for structural funds, so we anticipated that the UK Government would have the role of the European Commission, in terms of the design and so on. But as regional and local developments had effectively been a devolved responsibility, and structural funds had been devolved to the Scotland level, there was an assumption that it would be a Scottish Government responsibility. It was particularly through the internal market Bill that that assumption changed in a significant way because that was making it clear that the UK Government was intending to implement economic development interventions directly in Scotland in a different way from what had been done in the past.

Q27 Mhairi Black: Does the fact that the internal market Bill has given us a little more detail as to how the money is directed have a major impact on the proposals that the Scottish Government have put forward?

Professor Bachtler: The fact of the UK Government having a role is not necessarily surprising. In other multi-level governance systems, you see different levels of government working together in the regional and local development field. I think what was surprising was the lack of involvement of the Scottish Government—in so far as we understand it as observers, although we were in the steering group—in the process of developing this new system, and the fact that, at the moment, it is not clear how the Scottish Government or the other devolved Administrations are going to be practically involved in the governance.

The proposals developed through the steering group were designed to nest, if you like, within the Scottish system of economic development, so it was clear where the different strategic and operational decisions would be made and how they would align with existing policies at Scottish and sub-Scottish levels. That is the problem that is faced now: it is really not clear how the new system is going to be aligned with what we had anticipated or what we have known up until now.

Mhairi Black: That is really helpful, thank you.

Chair: We have three people left who want to ask questions, and the order is Andrew Bowie, Liz Twist and Sally-Ann Hart. I am conscious of time, so I appeal to my colleagues to keep their questions brief, and appeal to our witnesses to give equally brief answers. I call Andrew Bowie.



Q28 Andrew Bowie: I will keep this as brief as possible. I have questions about the shared prosperity fund and its management by the UK Government through the internal market Act. I was taken by something that Professor Bachtler said in response to Ms Brock about the EU developing and adapting policies to become as local as possible. Do you think that is what the UK Government are doing through the internal market Act in working directly, or seeming to want to work directly, with local authorities?

Professor Bachtler: It is difficult to second-guess what the motivations are. I think the UK Government have a very clear levelling-up agenda, which is a good thing for the UK overall, because of long-standing regional inequality in the UK. The UK Government have recognised not just in this document, but in previous documents such as the industrial strategy, the importance of place—in other words, designing interventions in accordance with the needs and opportunities of places. The community renewal fund talks about the importance of place and of local delivery, but if one looks at effective systems across the EU, local delivery is great but it needs to operate within a coherent strategic context, so that there is no disconnect between funding instruments provided by different levels of government, or even by the same level of government. I think that is the question we are asking at the moment.

Professor Bell: Certainly, the standard theory says that the outcomes are better delivered when they reflect the priorities of local communities and so on. Then, the question is about how you deliver those and what level of partnership should best be designed to deliver those. Nothing is necessarily inherently wrong with different levels of government reacting to the different potential outcomes out there, but it would seem odd to entirely miss out one level of government in order to deliver on your objectives, if broadly these objectives are the same.

Q29 Andrew Bowie: You have taken the words right out of my mouth, Professor Bell; I was going to move on to that. It does seem to me that, for all that the politicians make a lot of noise about this, the priorities of both the UK and the Scottish Government—the Scottish Government might not use the phrase “levelling up”, but they are promoting sustainable economic growth around the country—are broadly similar.

Therefore, do you think that the discussion at political level might actually be a distraction from what is potentially a very good framework as we move forward—that is, central Government working with local delivery organisations—and that if we can bring things back and actually have a grown-up debate at the table about how we work together with the two Governments, we might be able to constructively move forward?

Professor Bell: Clearly, a constructive way forward would be a good outcome here and I agree that levelling up is part of the agenda—there may be slight differences in how that is interpreted—but I think that that issue is best resolved by engagement, rather than just moving ahead without the possibility of having those debates.

Q30 Andrew Bowie: I am conscious of time, so I’m going to ask just one



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more question, and either of the professors can come in here. We talked earlier about multi-level governance and how it is not unusual for central Government to be involved in the delivery of funding to different levels. Is there an example of a country in the world that does it right, that has got it absolutely spot on, in delivering structural funds from the centre to local delivery organisations and that we can look to and think, “That’s the model that we here in the UK should be looking towards”?

Professor Bachtler: I don’t think any country has got it absolutely right. Every country has adapted and experimented in different ways. I think two countries that would be worth looking at in more detail, because they have long experience of multi-level governance, albeit in federal systems, are Germany and Austria.

In the regional development field, Germany has what it calls a “joint task” between the federal and the Land—the state—level. It is a partnership-based body that collectively designs the policy and ensures the implementation at sub-national level. That is a characteristically German approach: it’s very formalised and everything is very clear.

Austria has a completely different system. It is essentially an informal framework system, but it’s equally effective in bringing together different interests from the Austrian regional state level and the local level, as well as other stakeholders, in order to develop strategies, and it ensures that there is buy-in.

I could go on at some length about different systems, but I would say those are two that would be worth looking at in more detail.

Andrew Bowie: Thank you very much.

Q31 **Liz Twist:** You have probably touched on some of these things already. The UK Government so far have promised £1.5 billion a year as part of the shared prosperity fund. Considering the effects of the covid-19 pandemic, what is an appropriate amount of funding for Scotland going forward, over the longer term? Who would like to start with that? Professor Bachtler? Professor Bell?

Professor Bell: That is a “How long is a piece of string?” question. It all depends on what your priorities are. I think levelling up is a high priority. The phrase used by the Scottish Government might be different, but there is the same implication that the left-behind parts of the country should be helped to increase productivity so that incomes increase and there isn’t the gap between the better-off parts of the country and the less well-off. There seems to be fairly strong evidence that it is the case—that that gap is the largest in Europe. Actually, £1.5 billion out of total managed expenditure is quite a small amount in total to address that problem, but inequality is a problem that is very, very difficult to solve. I guess partly it is about priorities, and, clearly, over the last year we have expended £400 billion on dealing with covid, which puts the amount of money that we are spending here into perspective. I don’t think I could give you a definitive answer, but what we really want to be able to do is to understand where even small amounts of money are having an effect—a demonstrable



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effect—on helping particular areas. Pilot schemes may well help us to do that, but the problem is a vast one—the overall inequality; and I suspect that it will not be easily solved with the kinds of moneys that have been devoted to this in the past and are likely to be devoted to it in the future.

Q32 **Liz Twist:** That sounds like you are saying it is not a huge amount of money and we need more. Is that correct?

Professor Bell: It is the priority that you put on this issue and the finding of instruments that deliver the outcomes that you are really seeking.

Q33 **Liz Twist:** Thank you. Professor Bachtler, is there anything you would like to add?

Professor Bachtler: Yes, just on the funding: I think the terminology is on average “reaching” about £1.5 billion a year. I am not sure that is the same as averaging—that there will be £1.5 billion per year across the period.

In terms of your question: I think it is important to keep the covid recovery separate from what should be a sort of medium to long-term regional policy, if you like, or a levelling-up strategy; because, as we saw yesterday, the kind of sectors and activities that will need support in recovery—hospitality, transportation, parts of manufacturing, and so on—are not necessarily the same as those where you would want to focus a regional policy; but nevertheless I think what is critical is that everything we know about covid is that it is likely to have exacerbated socioeconomic inequality. Those areas of deprivation in the central belt, say, are likely to be facing a still tougher time going forward, and the disparities will potentially be widened. I think the shared prosperity fund should focus on those areas like skills, business, poverty, education and so on, that are important for the longer term.

Q34 **Liz Twist:** And then additional funds on top for covid-19.

Professor Bachtler: Yes.

Q35 **Liz Twist:** Can I ask both of you, just very quickly: if, like EU funding it relies on match funding, is there any risk that its allocation would be based on the availability of the match funding, rather than the need? Just to finish, could you comment on competitive tendering, which I know you have talked about already.

Professor Bachtler: On the issue of match funding, I do not think that there is an obligation to provide match funding, but the assessment of value for money that is undertaken under the eligibility, or delivery, requirements refers to the amount of match funding or leverage that is being provided; we are not clear at the moment whether that is going to be an obligation. It looks very much as if it might affect whatever algorithm or rating scale is used for deciding on projects.

Professor Bell: Just a couple of things on match funding: I think it may disadvantage very small local authorities, which may find it more difficult to access match funding and do not have as large reserves. The other



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thing, I guess, is that if this match funding or parts of it ultimately come from Scottish Government funding, there is a question about whether the Scottish Government funding is being drawn in to fund a scheme that has really been approved at UK level. Again, there is an argument for what kind of co-ordination there needs to be around this specific issue—as well as all the other issues, but match funding is an important one.

Chair: We might just have to leave that there. Thank you, Liz. Lastly, Sally-Ann Hart; sorry you are at the end, Sally-Ann.

Q36 **Sally-Ann Hart:** I will be very quick. I think some of the questions have been asked, so I am going to go straight to the question. Good afternoon to the panel. What scope is there for the UK shared prosperity fund to complement some of the other schemes and initiatives of the UK Government—for example, the city and growth deals and the levelling-up fund—and is there scope for it to complement the priorities of the Scottish Government? Professor Bell first, I think.

Professor Bell: At the moment, we have quite a lot of different funds. In a way, I think we need a strategic overview as to how these all fit and what is the overall objective around growth, inequality, poverty, or whatever that might be. There is no reason why they should not complement each other. It seems to me to be important to be sure that there is nothing that is being missed out when you put all these different towns, cities and growth deals together. Do they make strategic sense, and if so, where are the opportunities to use the shared prosperity fund to make good on gaps in current provision? Clearly, it would be a waste of public funds to duplicate what is going on through these other funds, and equally, it would be a waste of public funds not to pick up on issues that the existing set of funds has missed out.

Q37 **Sally-Ann Hart:** So not working in silos. Professor Bachtler, do you have anything to add to that?

Professor Bachtler: It is not unusual anywhere in Europe that you get parallel funding streams that are broadly in the same fields. Under EU funding, we have experience of structural funds, rural development funding, Horizon 2020, and other funding streams needing to be accommodated. In general—and this is common in other countries for domestic policy—it is at the regional level that you try and knit these funding streams together into some sort of strategic framework. That is where ideally, at Scottish Government level, they would become a strategic board, panel, or some sort of institutional level that could knit together these different funding streams with Scottish funding priorities, so that local authorities and other stakeholders know exactly what the strategic framework is.

Chair: Thank you. I am very conscious that we have to let the Minister get away by 1.30, and we have not heard from him yet. I will bring you in earlier, Sally-Ann.

Sally-Ann Hart: Don't worry; I am listening.



Chair: We will make sure that you get a chance to ask your question of the Minister. Both the professors—a brace of professors—thank you ever so much once again. It is good to see you again, David; you have always been a good friend to the Committee. Professor Bachtler, thanks for coming along for the first time.

Examination of witnesses

Witnesses: Ivan McKee MSP and Hilary Pearce.

Q38 **Chair:** We will now move on to Minister Ivan McKee, who will introduce himself, and we will maybe forego any introductory statement, unless it is an imperative, short introductory statement. We will leave that up to you, Ivan.

Ivan McKee: Good afternoon, Pete. It is great to be here. Just to introduce myself, I am Ivan McKee. I am the Scottish Government Minister for Trade, Innovation and Public Finance, and I am delighted to be here today to answer your questions on the shared prosperity fund.

Q39 **Chair:** Thank you ever so much. I know that you were listening to that previous session, because you are next to me on the Zoom call, so I know that you have been paying attention to what has been said.

Can I just get right down to this? What has been the involvement of the Scottish Government in the designing of the shared prosperity fund? What is your interpretation of where we are going with all this, and how do you assess what has been proposed in light of, and by comparison with, what Scotland has enjoyed from European structural funding?

Ivan McKee: The first part of the answer is not at all, which is hugely disappointing. Despite various efforts to engage in “a grown-up way”—to quote Andrew Bowie—with this process, we have been rebuffed and ignored by the UK Government at every turn. I have a long list of correspondence that I have sent to various UK Government Ministers over a period of many months, seeking engagement but which has been ignored—meetings have been cancelled at the last minute and so forth. That has been hugely disappointing. One conversation that we had with the Scotland Office was frankly quite embarrassing, because they knew less about what was happening than we did. At that level, it has been very disappointing.

In terms of the value of EU funding, clearly, as have been articulated, it has been of huge benefit to Scotland over many decades, stretching back prior to devolution. Those funds have always been managed in the Scottish context, so it is clearly a significant change in direction. It is obviously enabled by the UK Internal Market Act, and it is clearly part of an assault on devolution—I would not want to put it any less strongly than that. Areas have been devolved since the start of devolution and prior to that. The UK Government has now clearly set its stall out as wanting to engage, operate, act and take control of many aspects, which is hugely



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disappointing. It really speaks to an agenda that is challenging the very premise of devolution, and it needs to be seen in that wider context.

In terms of where it is going, who knows? Clearly, we are very concerned about it on that level. We are hugely concerned about the quantum of funding, and that has been mentioned. The words “up to an average of” do not mean an average of. It means that the peak might reach that number, but it might not, and those numbers are well short of the numbers that we have calculated for what Scotland has received and would have received in equivalent EU funding going forward. We are concerned at a lot of levels. We are also obviously very concerned about the communities, local organisations, individuals, businesses and others that this impacts on. We continue to seek to engage with the UK Government as best we can at every opportunity to try to influence them, if they are willing to listen, which we have not seen any evidence of. Hopefully, they will be willing to listen to the extensive work that David Bell and John Bachtler have done over many months with a huge range of stakeholders in Scotland. They understand the complexities of what this is all about and how it needs to be designed to fit the Scottish context.

Q40 Chair: Thank you for that. There was the announcement yesterday in the Budget of the community renewal fund, with £220 million of funding for a one-year pilot project. Was the Scottish Government consulted on that? A yes or no would probably suffice for that question.

Ivan McKee: No.

Q41 Chair: Given that you were not consulted, and that this is now how it is going to be operating in the course of the next year, what do you make of it? I think you touched on it briefly. What we have seen in the last few weeks is the UK Internal Market Act being in place, and we have seen the levelling-up fund. Is it your view that there seems to be a concerted attempt to bypass the institutions of the Scottish Parliament and Scottish Government in order to have a stream of direct funding from the UK Government coming into Scotland? What can the Scottish Government do to respond to that, if you get the sense that this is where we are going?

Ivan McKee: The answer to that is yes, that is very clear. I do not think there is any secret about that. In terms of what we can do about it, clearly that operates at two levels. At the political level, it is really important to call out those who, on the surface of it, would say that they support devolution, and to compare that with the actions that the UK Government are supporting, which are clearly running counter to that. The people of Scotland recognise that very well. As I said, we are also hugely concerned about the communities, businesses and individuals that this impacts on, and we seek to continue to engage with the UK Government going forward as best they can, if they are willing to listen to us.

Chair: Thank you. That will do for me just now. We might come back to some of these issues towards the end of this session, but I know your time is tight, so let's go straight across to John Lamont.

Q42 John Lamont: Good afternoon. I want to start generally about your



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ministerial responsibilities and your colleagues in government. You are currently the Minister responsible for trade, innovation, finance and public finance. You must have a really difficult time being an SNP Minister just now, trying to focus on your job, given that the former First Minister has been in court over serious sexual assault allegations and there has been wall-to-wall news coverage of the ongoing Scottish Parliament Committee investigating the mishandling by the Scottish Government of those sexual assault allegations. How are you bearing up, Minister McKee?

Ivan McKee: I am absolutely fine, and focused on the day job, Mr Lamont. I would suggest that you do the same and stop trying to detract from the behaviour of the UK Government with regards to trying to ride roughshod over devolution. That is what we are here to talk about, not to talk about the distractions that you maybe want to focus on instead. Get back and do your day job.

Q43 **John Lamont:** Do you accept that the Scottish Government has failed the two women complainants—

Chair: Sorry, John—

Ivan McKee: You're embarrassing yourself, John, you really are.

Chair: We have a limited amount of time with the Minister today. We are trying to find out details about the shared prosperity fund. All these issues are important and can be addressed, but we have a limited amount of time. Please can we stick to the questions around the shared prosperity fund, if that's okay.

John Lamont: Last week in the Committee session, when we had a UK Government Minister, a number of SNP members, including yourself, asked—it was a session on universities, you might recall—

Chair: John, listen. I am trying to get the best amount of time and attention from the Minister. We want to try and make progress with this. Please can you confine your questions to the shared prosperity fund. We have the Minister here, prepared to answer questions on this.

John Lamont: So it is fine for SNP members to ask questions of UK Government Ministers but not for Conservative members to ask wide-ranging questions of the Scottish Government.

Chair: John, could you please ask your questions to the Minister? He is sitting here waiting to answer them. Could you please ask your questions to the Minister?

Q44 **John Lamont:** So it is one rule for SNP members and a different rule for Conservative members, it would seem. Minister, do you welcome the announcement this morning from Liz Truss that an agreement has been secured with the US Government on the whisky and textile tariffs being lifted for four months?

Ivan McKee: Absolutely, of course I do. It is good news. When I was in the US before covid, I spoke to US TR. I actually met the new US trade



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representative, Katherine Tai, at that point, and impressed on her the importance of this issue to Scotland. It is great that that has been taken forward. It has obviously taken far, far longer than it should have done if the UK Government had been focused more on this initially, and it is only for a short period of time. We look forward to seeing what happens next, but we are glad that the tariffs, worth half a billion pounds to this sector, have been lifted, even if only for a short period of time.

Q45 John Lamont: Do you accept that this can only be achieved because we have now left the European Union and have an independent trading policy? If we were still within the European Union, this agreement with the US would not be possible.

Ivan McKee: Absolutely not; that is absolutely not the case. If you had done your homework you would know that that is the situation. If you look at the WTO ruling on this, it names the UK as one of the parties. It gives the US, along with the other European countries. It allows the US the ability to impose those tariffs in any way they see fit across any combination of those countries, and that is something the US could have done at any stage.

If you look at the tariffs that are in place, placed by the US when the UK was still part of the EU, there were differential tariffs placed on different EU countries, depending on how the US saw that scenario. They pick and choose where they want to place those tariffs. This is not something that is a consequence of Brexit. Differential tariffs on differential sectors and countries is something that the US could have done in any event, anyway. In fact, the UK is in a weaker negotiating position because it is not a party to the types of tariffs that the EU is able to impose on the US, and therefore it weakens the negotiating hand of the UK in that regard.

Q46 John Lamont: But the rest of the EU are still subject to these tariffs and the UK has been able to secure this agreement because we, as an independent trading nation, are able to do these negotiations on our own behalf, as opposed to—

Ivan McKee: What I would be interested to know—maybe you can answer the question—is what did the UK have to trade away in order to get that? That would be interesting to know in the context of where the UK might want to go with a US trade deal and what threats that would cause to food standards, agriculture and the health service across Scotland and the rest of the UK.

John Lamont: I am not the Minister here answering the questions; you are, Minister McKee. Thank you, that's all I have. Thank you, Chairman.

Q47 Chair: We are going to try to reorder some of the questions

Chair: We are going to try to reorder some of the questions so that we can maximise input from Members. We will take Wendy Chamberlain next, then Douglas Ross, then Deidre, and then we will bring Sally-Ann Hart in early before we go to Mhairi and Andrew Bowie. Can everyone please try as much as possible to stick to what we are trying to secure from the



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Minister, because we only have a limited amount of time? I now hand over to Wendy Chamberlain.

- Q48 **Wendy Chamberlain:** Nice to see you, Minister. I will keep my questions similar to what I covered in the last session. In your opening remarks to the Chair, you picked up a lack of communication. My first question is: were you aware of the spending review heads of terms on the replacement shared prosperity fund in advance of your position paper?

The second question is this. You have obviously talked about that lack of information, and clearly there are some key information gaps, but how do you counter COSLA's written evidence to our Committee, which says that it had very good engagement with the UK Government? How do we balance that out?

Ivan McKee: COSLA can speak for themselves. Our engagement, as I said, has been very poor. The group led by the professors worked on the position paper for a considerable period of time, and that came to a conclusion as part of its natural process. They had been working on that, and they produced their early report a few weeks earlier, and then we produced our position paper. That process ran to its own agenda and its own timescale, and we weren't aware of where the UK Government were going. As always, we get told at the very last minute what they are doing, and it is often different from what they told us previously.

- Q49 **Wendy Chamberlain:** You say that COSLA can speak for themselves, but what engagement have the Scottish Government had with COSLA, given that COSLA feel that they have had the information they needed from the UK Government?

Ivan McKee: We have had quite considerable engagement with COSLA, local authorities, the third sector and all manner of organisations. We held a series of consultations when we put our paper together, which the expert group led across the country. They were significantly over-subscribed, so there has been a very extensive amount of engagement between the Scottish Government and all levels across Scotland in terms of where we want this to go. I think that talks to the strength, depth and maturity of the paper that has come forward in that context, because it talks to some of the complexities that need to be addressed—there are many of them. Frankly, the UK approach is fairly haphazard, fairly slapdash, fairly last minute, and really misses those complexities, many of which have been outlined by the professors this morning.

- Q50 **Wendy Chamberlain:** I suppose what I am trying to get at is that if COSLA is speaking to the UK Government and you are speaking to COSLA, was there not information sharing there?

Ivan McKee: Again, you need to ask COSLA what they have been told by the UK Government. I would be very surprised if COSLA had been told things by the UK Government that we hadn't been told, but you would need to ask them about the specifics of that. I would be surprised if that was the case.

- Q51 **Wendy Chamberlain:** Thank you. I am conscious of time, but you will



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have heard me mention in the last session the question that my colleague Lord German asked in the Lords yesterday. It was specifically about Wales, but obviously that was where the UK Government confirmed that they could not give a detail of a figure for Wales that would match what they received previously through European structural funding. Is that a concern that you share in relation to what the devolved nations might end up with?

Ivan McKee: Yes, it is a huge concern. We have articulated a number of £183 million per year over the seven-year period, and those calculations are there: those are the funds that we would have to replace in the current cycle; they are the funds that we had in the previous EU cycle. Clearly when you look at what is out there, it is very uncertain because much of it is based on competition; much of it isn't clear in terms of that profile. All we know is that the community renewal fund is £220 million for one year, and beyond that there are these aspirational numbers that don't give a clear profile for the shared prosperity fund. Obviously, they fall well short of the numbers that, as we have articulated, are required for Scotland.

Wendy Chamberlain: Thank you, Minister.

Q52 **Douglas Ross:** Minister, just to go back, obviously tariffs are a truly important issue to my Moray constituency. I have more Scotch whisky distilleries than any other MP, and also Johnstons woollen mill, producers of cashmere. In response to my colleague Mr Lamont, you said that the four-month suspension that the United Kingdom has agreed with the US was not a consequence of Brexit, and the United Kingdom is in a weaker position in regard to negotiations than the EU. Could you explain your rationale for that, given that these tariffs still apply in the EU?

Ivan McKee: Yes, because what I said is that it is part of a negotiation, so I would be interested to know the broader context of that. Of course—

Q53 **Douglas Ross:** Thank you, Mr McKee—sorry, I know you are trying to put that back to Mr Lamont, but could you just explain your rationale in terms of the wording you used? How are we in a weaker position if we have negotiated these arrangements?

Ivan McKee: Very clearly, because the WTO counter-tariffs against Boeing that were awarded by the WTO were awarded to the EU, not to the UK, so the UK does not have that negotiating cap in its hand, whereas the WTO tariffs that were awarded to the US were awarded to the US to place against members of the EU, including the UK, which is named in that WTO ruling, which you would know if you had done your homework, to place as the US saw fit. So the US is able to place those tariffs or remove them as it sees fit. The UK is not able to place tariffs against the US with respect to the countervailing position with Boeing, because WTO awarded those tariffs solely to the EU to place as it saw fit.

Q54 **Douglas Ross:** Sorry, you have mentioned people doing their homework a number of times. How can you justify a nation being able to negotiate a four-month suspension in which they will hopefully be able to resolve this



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long-running issue as being in a weaker negotiating position than the remainder of the European Union that still has these damaging tariffs?

Ivan McKee: I told you, because I have just explained to you how those WTO rulings worked—

Q55 **Douglas Ross:** But you are aware that the tariffs, if you have done your homework—

Ivan McKee: You won't let me finish—

Q56 **Douglas Ross:** Sorry, Mr McKee. You are aware that the tariffs are still in place in the European Union. From Monday they will be removed in the United Kingdom, backdated to today. That seems like a pretty strong negotiating position.

Ivan McKee: It is a position—

Chair: We have let this run because it is part of the responsibilities of Minister McKee, but can we please have an answer to this and then we will move on?

Ivan McKee: Absolutely. As you will be aware, through the carousel process the US is able to move those tariffs around as it sees fit. We have been calling for them to remove those tariffs right through this period because it has cost the sector half a billion pounds. We are glad that they have done so. You will be aware also that they made changes previously around shortbread and so on and so forth, with which we took advantage, and they continue to change the tariff profile as it impacts not just the UK, but other members of the EU, and that is part of the ongoing process. So we are glad that's happened, but we will see what happens in the next round. As I say, at the end of the day the UK—

Q57 **Douglas Ross:** Thank you. Sorry, Mr McKee, I know your time is short, but I don't think anyone can really think it is a weaker position when we have negotiated a successful deal that has been welcomed by the industries affected.

In your earlier answers, you said that the focus of the Scottish Government will continue to be on the communities, businesses and individuals. Do you think these communities, businesses and individuals will simply welcome additional investment in Scotland? They want to see the two Governments working together. They want to see both Governments that they are represented by at the Scottish and UK level investing in communities. Far from it damaging devolution, this shows that our two Governments can both work to invest—

Ivan McKee: No, absolutely not.

Douglas Ross: Mr McKee, I'm sorry, but I have been patient with you—

Ivan McKee: You haven't.

Douglas Ross: If I am allowed to complete my question, Mr McKee, I would be most grateful. How are the communities, businesses and



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individuals, whom you say you have the best interests of, going to react to the Scottish Government saying, “You shouldn’t get this money,” when they are simply interested in seeing investment in their local areas?

Ivan McKee: That is a ridiculous question. Of course we are not saying they should not get the money. The point is how the money flows. First, they will be getting less—

Douglas Ross: Sorry, I just want to speak to the Chair very quickly and I will come back to you, Mr McKee. Mr Wishart—

Chair: Both of you—

Douglas Ross: Can I ask you to remind our witnesses that there is a respect between both the Committee members and the witnesses? Can Mr McKee refrain from derogatory remarks and just focus on the questions that I put to him, please?

Chair: Ivan, please.

Ivan McKee: Indeed, of course, and that cuts both ways. In terms of the funding, I have already made the point that the funding that will flow to communities, individuals and businesses in Scotland will be lower under the shared prosperity fund than it was under the EU funding. Those numbers are clear, and we are still not even clear what the actual profile under the shared prosperity fund is. All we have seen is a maximum number, not the actual profile, so the first point is that there will be less money flowing.

The second point is that it is not co-operation. I have given many examples. The UK Government has refused to engage with us and bring us into the tent to discuss what this is all about. They have not engaged with the process that we have gone through of extensive consultation across Scotland, which was welcomed, so to talk about growing up at this stage is a bit late in the day. We should have been engaged in this process prior to the various steps that they have taken to exclude us from the process.

Of course communities want to see the benefit of those funds and they want to see Governments working together, and we are very happy to do that, but you have also got to recognise that there is a devolution settlement that specifies what is reserved and what is devolved. It is a clear political act by the UK Government to cut across that. As somebody who sat in the Scottish Parliament previously, I am surprised that you are also supporting this attack on devolution.

Q58 **Douglas Ross:** Thank you, Mr McKee. I am supporting investment in Scotland, in my community in Moray and across Scotland. In your answer there, you said those numbers are clear and then you went on say, “We are still not clear about the numbers.” Which is it?

Ivan McKee: It is clear, if you had been listening, that the number that we have articulated is £183 million per year. Secondly, it is clear that the numbers that the UK have indicated is up to—up to—£1.5 billion. We are



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clear what our number is of what is required; it is not clear what the UK profile of their commitment is, because it doesn't give the numbers other than a theoretical maximum that they maybe hope to get to at some point.

Douglas Ross: Sadly, your answers have not been very clear today, but thank you for your time.

Ivan McKee: I have been extremely clear.

Chair: Can I just make a general appeal to colleagues on the Committee? Can we cool it just a little bit? What we are trying to do here is to get the best possible response from our witnesses. We want them to help us with our inquiry. If we could be a little bit more respectful in how we question our witnesses, it would be very helpful to people who are taking the bother to listen to the proceedings of the Committee. I am sure we won't get any of that from Deidre Brock.

Q59 **Deidre Brock:** Absolutely not. Thank you, Chair. Welcome to the Committee, Minister. I wanted to ask a question I put to the professors in the previous session about concerns raised about the impact the uncertainty surrounding the shared prosperity fund is having in Scotland. We have heard quite a lot about the good reputation that Scotland enjoys for its strong partnership working across different areas and different organisations. Could you share with us what impression you have gained of the difficulties that organisations are having in dealing with that uncertainty?

Ivan McKee: Absolutely. Again, if you go back to what David and John said earlier, there is disruption there. There is uncertainty on the funding profile and how that is going to be distributed, on the process, which was outlined only yesterday by the UK Government—it looks like there is an element of competition in that. That of itself is very late in the day, but does not give clarity to the level that is required. The potential impact that will have on economic development and growth within Scotland has already been articulated. That lack of stability is obviously a concern right across the landscape. There is the lack of opportunity for coherence, because effectively we have been cut out of the picture in this. The UK Government have not sought to align with the work that we are doing on economic development and the strategic direction that that has. That coherent strategic context, as John Bachtler mentioned, is very important for those organisations to understand the direction that these funds are taking.

Q60 **Deidre Brock:** The strategic group that the two professors chaired came up with a series of recommendations. What are the recommendations that you would most like to see the UK Government take away from all that work and apply in whatever funding it seeks to distribute in Scotland?

Ivan McKee: The first thing would be to have it aligned with the overall economic development direction around inclusive growth and the wellbeing



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of the economy that the Scottish Government is working towards, so that we have got strategic coherence there.

There are pieces roundabout the evaluation mechanism, which a lot of work was done on, as to how those funds should best be allocated within Scotland. The UK Government have published this kind of league table of one, two and three ranked areas of Scotland, with very little clarity on how they have arrived at that or what the process for that was. There are some surprising aspects to that. The process for working through the regional economic partnerships, which is something we highlighted, has been very important in Scotland, and this doesn't appear to recognise that at all. The point the professors made is that, to a large extent, that disadvantages smaller local authorities which may not have the capability to put forward bids in that competitive environment.

That is just three, but there are many others where I think the UK Government would do well to have listened to the strategic group and engaged with us constructively on this process over the last year or two. Then they might have ended up with a solution that was better suited to the Scottish context than what they have.

Q61 Deidre Brock: It does seem like a lot of work has been put into it, so it would be a shame if it was effectively ignored.

Can I also ask—perhaps for the benefit of those watching, almost—what happens if you have concerns in the future about the way that any funding is allocated by the UK Government? You heard me mention earlier the concerns that were raised by the National Audit Office about the distribution of the stronger towns fund. As I think we have heard there is also the levelling-up fund and the opacity, if you like, around what criteria were used to determine the priority levels, which is already starting to raise concerns, and the distribution of those funds—in the initial stages anyway—to constituencies held by a certain political party.

Ultimately, what powers will the Scottish Government have, particularly now that the internal market Bill has been introduced, to intervene if they think that allocation is inappropriate or doesn't fit with the strategic outcomes that the Scottish Government think are more appropriate? What can the Scottish Government do? What mechanisms are there for it?

Ivan McKee: The problem is that much of that is very unclear. As I have said many times, there has been a lack of engagement—ignoring letters, ignoring requests for meetings, cancelling meetings at the last minute and then having meetings where, frankly, we knew more about what was happening than the Scotland Office did. Up to now, we have not been reassured or given much comfort that we will be in a position where the UK Government listen to any perspective that we have got on this. Not taking into account the work of the strategic group talks to that.

Obviously we will continue to do what we can to support communities and organisations across Scotland, but it is a difficult position. It talks also to that lack of strategic coherence in how we make these various funding



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streams work together, because we haven't seen any evidence from the UK Government that they are willing to engage at that level.

Chair: Sorry, Deirdre, but we will have to leave it there, because I am really keen to bring in other members of the Committee before the Minister has to go. That means that we go across to Sally-Ann Hart.

- Q62 **Sally-Ann Hart:** Thank you, Chair, and good afternoon, Minister McKee. Just looking at the scope for the shared prosperity fund, do you think that there is scope for it to complement other schemes and initiatives of the UK Government—for example, the levelling-up fund, and the city, regional and growth deals? Despite the political differences between the UK Government and the Scottish Government, is there scope for it to complement the priorities of the Scottish Government?

Ivan McKee: The answer, of course, to those questions is yes, it could, but it requires an intent and a willingness to engage that so far we have not seen. We would be very keen to engage with those schemes. I mean, the levelling-up fund obviously has switched at the last minute from being—we were led to believe—Barnettised to being a fund that will be operated across the whole of the UK, so there is still a lack of clarity as to where that fund is going.

The city region deals have been joint working between the UK and Scottish Governments; we are both putting money into those, so that has clearly been a different focus. Obviously, the Scottish Government works across a range of other support mechanisms for communities and organisations across Scotland. Of course we would welcome coherence across that, but as I say, for that to happen we need to have a level of engagement from the UK Government on this that we haven't seen so far.

- Q63 **Sally-Ann Hart:** So you would say that the coherence—the working together—on the city and growth deals has worked well. Are there lessons that can be learned from the administration of city deals to be taken forward with the shared prosperity fund?

Ivan McKee: Yes. It is not under my ministerial remit so I am not hugely familiar with it. I know that there have certainly been bumps in the road there at various points, but as a process where both Governments have put funding in, it is one example that could be looked at.

- Q64 **Sally-Ann Hart:** I will just ask one more question, if that's all right, Chair; I know that we are pressed for time. The UK Government will be administering the UK shared prosperity fund and it intends to engage with the Scottish Government. I think we heard from our previous panel that there is some lack of clarity about how it will work practically, so what discussions have taken place between the UK Government and the Scottish Government about how the administration of the shared prosperity fund will work in practice?

Ivan McKee: Very, very little. As I said, we have had requests for meetings ignored and we have had meetings cancelled on us at the last minute. So there has been very little of that engagement. We find out



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when everyone else finds out what the UK Government is planning, which is obviously not a satisfactory situation.

I have been informed this morning that a UK Government Minister wants to meet me at 4 o'clock this afternoon, so that is welcome, but clearly arranging meetings at such short notice is not a very professional way to address these issues. That is obviously a point of concern. So we will see where that discussion goes, but the level of engagement has been very disappointing up to now.

Sally-Ann Hart: Thank you. No further questions, Chair.

Chair: Thank you, Sally-Ann. Mhairi Black.

Q65 **Mhairi Black:** Thanks, Chair, and thanks, Minister, for giving us your time today. In a previous evidence session, the Scotland Office Minister, Iain Stewart, confirmed that further details about the SPF, including its structure, would be provided in the Budget—yesterday—and there would be an opportunity to engage with stakeholders. So, barring that meeting at 4 o'clock today, have you had any further detail or information or opportunities to engage?

Ivan McKee: No.

Q66 **Mhairi Black:** Nothing. Excellent, thank you. Following on from that, this is where it is really concerning. The convention of local authorities has given us a slightly more positive account of the communication it has had with the UK Government and, in particular, UK civil servants and the Scotland Office. Earlier in your remarks, you said that at one point the Scotland Office appeared to know less than even you did. How does that marry up with the experience of local authorities?

Ivan McKee: As I say, you would need to talk to them about that. All we can reflect on is our experience and our extensive engagement with COSLA. I have met with the relevant COSLA committee, and Councillor Steven Heddle from Orkney, who sits on the COSLA committee, was part of the expert group that the professors led. So our engagement with COSLA and with local authorities has been fairly extensive through this process. In terms of the specifics, you can ask them what it is that—

Q67 **Mhairi Black:** Is it clear to you what role the Scotland Office has played in this whole process?

Ivan McKee: I think it has been clear. Things will be moving on, obviously, because now more announcements have been made, but I think it was fair to say that from our perspective there appeared to be a lot of disconnection within the UK Government between where the local government Ministry was, where the Scotland Office was, where the Cabinet Office was and so on. So there were a lot of players in this, and there was a long period when there seemed to be a lack of clarity as to who was running the show and calling the shots. I do not know if that was part of the reason why it took them so long to get their act together on it.

Mhairi Black: Excellent. Thank you, Chair.



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Chair: Thank you. Andrew Bowie.

Q68 **Andrew Bowie:** Thank you, Chair—it came to me quicker than expected; I appreciate that. Minister, thank you very much for giving up your time today. Minister, you can confirm—from what you have said already, I think it is quite obvious—that you believe in devolution.

Ivan McKee: Yes, indeed.

Q69 **Andrew Bowie:** Absolutely. And you can also confirm that you do trust our local authorities—yes?

Ivan McKee: Yes, of course.

Q70 **Andrew Bowie:** So if you believe in devolution and you trust our local authorities, why can't you trust them to engage directly with the UK Government in spending this extra money that will be coming to Scotland to spend on specific projects for the benefit of local communities?

Ivan McKee: First of all, it is not extra money. As I have said already, it is a replacement for EU funds, and it is actually not a replacement because it is less in quantum than those EU funds would have been. So it is not additional funding. In terms of local government engagement, if you have read our paper on this, you will understand the extent to which local government and regional economic partnerships were central to the localism aspect of our proposals. Our proposals were very strong on this; they understood the Scottish context much better than the UK proposals have with regards to the community renewal fund. We do not know what the shared prosperity fund will look like yet, because that is still to be clarified.

Certainly, compared with the community renewal fund, we had a much better understanding, from working with local government and working through that engagement process, of arriving jointly with them at a process that allowed localism across Scotland to be most effective in allocating those funds, in terms of the Government mechanism and addressing specific aspects within the Scottish context that were very important.

Q71 **Andrew Bowie:** Thank you, Minister. Do you not think that maybe the reason that councils such as Aberdeenshire, and COSLA, have been more favourably disposed to the UK Government's proposals is that they have been continually let down by the Scottish Government? It comes from a recurring pattern of behaviour: local planning decisions called in and overturned by a central Government based in Edinburgh; and Aberdeenshire Council is £50 million underfunded, with a £100 million-backlog in urgent repairs, and a £400 million-backlog of road repairs.

The idea that they can engage directly with the UK Government to get replacement funding, as you so correctly pointed out, to spend on these projects without having to go through the Scottish Government, which has let down so many of our regions in Scotland over the years, might very well be the reason why their response has been more positive than the Scottish Government's.



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Is it not the case that the reason you are against this, and so opposed to the UK Internal Market Act and our proposed management of the SPF, is that it will shine a light on just how shoddily local authorities have been treated by the Scottish Government?

Ivan McKee: Absolutely not. You will be aware of the local government finance settlement that we are taking through as part of our Scottish budget, which is well understood to be a very generous settlement that meets the needs of local government in Scotland. I think you maybe want to reflect on the fact that you are talking about Aberdeenshire, and on why you are doing that. If you look at the ranking that has been published by the UK Government for the community renewal fund and the levelling-up fund, Aberdeenshire is not one of the priority areas. In actual fact, it is not in the first category, or the second, but the third. I think that maybe talks to the importance that the UK Government places on Aberdeenshire. That may be something you want to reflect on.

Andrew Bowie: I am talking about Aberdeenshire because I represent an Aberdeenshire constituency, Minister, and the interests of my constituents and my region are obviously very important to me. I think you saw yesterday, with the UK Government committing to an energy transition deal and energy transition fund, and an underwater hub base in the north-east of Scotland, that the UK Government's commitment to north-east Scotland stands head and shoulders above the Scottish Government's, who have historically underfunded this part of the world, and everybody up here is aware of that. On that note, thank you very much, Chair.

Chair: Thank you. Let us go over to Liz Twist.

Q72 **Liz Twist:** I am not going to trouble you with the question about whether £1.5 billion is enough, Minister, because I think I can predict the answer on that one. May I ask you very specifically about the match funding issue, about whether there a concern about allocation being based on that rather than need, and about risks and benefits from competitive tendering? Finally, the UK Government provided assurances to the Welsh Affairs Committee that Wales would receive its average level of EU funding each year. Have you had any similar reassurance from UK Ministers or officials?

Ivan McKee: To the best of my knowledge, we have not had anything with regard to guarantees on funding. Hilary is just confirming that we have not had anything in the last minute. The answer to that question is no, we have not, so we are no clearer on what those funds look like.

The competitive nature of the funds is clearly a concern, because you end up in a position, as I have said before, with local authorities that do not have the scale to be able to put together bids. They are obviously at a disadvantage against others, which may not reflect the needs requirement. The competitive nature may lead to a situation involving authorities that require things on a needs-based basis—or, more accurately, projects or communities that require such things because, at the end of the day, this money doesn't stop at local authorities. It



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cascades down—the projects are very community-based—and communities and local organisations that require it may not benefit from it as a consequence.

Liz Twist: Thank you.

- Q73 **Chair:** Thank you, Liz. While we still have you, Minister, I have a couple of final questions. In response to Mr Bowie, you mentioned where Aberdeenshire was on the list of priority areas. I have not seen that list, and I am not sure exactly which areas are in priority 1. Maybe you could share that and give us a flavour of what sorts of local authorities are in that? When you are doing that, perhaps you could tell us whether they fit into the priorities of the Scottish Government, which are probably about community development, or whether it is more about the profile of the UK Government, which we understand is more around issues to do with economic growth. Just give us a sense of who is in that.

Ivan McKee: I will be glad to do that, and some members of the Committee may find it interesting—I see that Wendy has perked up there, so I'll come to that in a minute.

The first aspect is that we don't know how they have arrived at the priority lists. There is one list for the levelling-up fund, and there is a separate one for the community renewal fund. They broadly overlap, although Dundee, it would appear, is on the priority list for the levelling-up fund, but not for the community renewal fund, which is interesting—a place not that far from yourself, Pete. Fife comes it at category 2, not category 1, and I know that many parts of Fife will raise more than an eyebrow at that particular categorisation.

Aberdeenshire, as I have already mentioned, is in the third category. Highland, Orkney, and Shetland are all in the third category, as is Na h-Eileanan Siar—sorry, they're in the second category. Shetland, Orkney, and Highland are all in the third category, which is an interesting approach that maybe talks to a lack of understanding, frankly, of Scotland and of how these communities—

- Q74 **Chair:** You can confirm this for me, but my recollection of European structural funding is that a vast proportion of that went to the highlands and islands just because of the democracy population requirements and access to services. Is there no attempt to match that up in the priority areas of the UK Government?

Ivan McKee: All we have seen is what was announced yesterday and, unless there is more detail to that, we have the two separate rankings. You are absolutely right that, under the European context, the highlands and islands was a separate region, which benefited in a number of ways as a consequence in recognition of the particular challenges there. That appears to have completely bypassed the UK Government officials who have pulled this particular list together by, I assume, just looking at things across a UK context and not taking the time to understand Scotland.

- Q75 **Chair:** Lastly, before we let you go, I sense your frustration about how a



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lot of this has emerged and developed. I could sense some of the frustrations about your relationship and meetings with the UK Government. We are where we are with this, Minister. We are going to have to design a form of funding across the United Kingdom, and we know that the UK Government are committed to this. In your view, what would be the type of shared prosperity fund that would work for the Scottish Government? How would we get close to what was being delivered in the European Union, or even improve upon that? What would work for you in terms of how this was going to be packaged up and delivered?

Ivan McKee: Absolutely. I think we have the answer to that question right in front of us in the work that Professors Bell and Bachtler talked about. The work that they led was a very extensive, very deep consultation across all aspects of those affected in Scotland, and that very much aligns with the Scottish Government's economic development priorities and our commitment to localism. It has that coherent strategic approach to it. It has a transparent and comprehensive mechanism for evaluating priority areas that addresses issues of governance, monitoring and evaluation, and that is off the shelf and ready to go. If the UK Government were serious about this, they might want to have a wee look at that, and then we can engage in a sensible conversation about how they build that approach—that Scottish approach—into their fairly ham-fisted attempt to have a one-size-fits-all UK approach instead.

Q76 **Chair:** I am presuming you have put that to the UK Government, and that they are aware of the work of Professor Bell and Professor Bachtler. I know you said that you are having a meeting again with the UK Government this afternoon, so I am presuming that you are going to put that to them once again to see whether there is any sense that they might be able to look at your priorities for this funding.

Ivan McKee: Yes, and it is not just our priorities, but the priorities of those who engaged in that very extensive consultation, which reflects the position, frankly, of those right across Scotland. I would be very keen to have a conversation with them and, assuming the meeting this afternoon goes ahead and is not cancelled, as the other previous meetings have been, I look forward to that discussion.

Q77 **Chair:** I am just conscious that we did not get an opportunity to hear from Ms Pearce. I don't know whether there is anything that you have heard that you want to comment on or give your view about from the Scottish Government side.

Hilary Pearce: Thank you. I will just add to what Mr McKee just said. We published the Scottish plan on which the steering group had worked on 19 November last year, and in our development of the plan and the work of the steering group we kept in contact, at official level, with MHCLG officials, to explain what we were doing and how we were developing that plan—the basis on which we were doing it—and we sent it to them immediately. The conversations have, in effect, been characterised by one-way dialogue in that we feel that we have been open and transparent



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about the development of our plans, but had nothing forthcoming in response from MHCLG in the development of the shared prosperity fund.

Chair: Thank you for that. That's very helpful. We are intending to have a UK Government Minister come along and help us in the course of this inquiry, so we will see what they have to say in terms of some of these points.

Minister, thank you very much again for taking these questions. Some of them were perhaps more temperately put than others, but we are grateful to you for coming along today. I know that you have helped out this Committee as much as possible. If there is anything else that you feel you could usefully contribute to the work of this inquiry, please feel free to get in touch.