House of Commons

Scottish Affairs Committee

Oral evidence: City Region Deals, HC 1253

Tuesday 10 July 2018

Ordered by the House of Commons to be published on 10 July 2018.

Watch the meeting

Members present: Pete Wishart (Chair); Deidre Brock; Hugh Gaffney; Christine Jardine; Ged Killen; John Lamont; Paul Masterton; Tommy Sheppard; Ross Thomson.

Questions 1 - 100

Witnesses

I: Councillor Susan Aitken, Leader of Council and City Convener for Inclusive Economic Growth, Glasgow City Council; Councillor Gail Macgregor, Dumfries and Galloway Council; and David R Martin, Chief Executive, Dundee City Council.

II: Paul Wheelhouse, MSP, Minister for Minister for Energy, Connectivity and the Islands; Dr Morag Watt, Cities Team Leader, Scottish Government; and Oonagh Gil, Deputy Director for Enterprise and Cities, Scottish Government.

III: David Mundell, MP, Secretary of State for Scotland; and Gillian McGregor, CBE, Director, Office of the Secretary of State for Scotland.

HOUSE OF COMMONS

Examination of witnesses

Witnesses: Councillor Susan Aitken, Councillor Gail Macgregor and David R Martin.

Q1 **Chair:** I welcome you to the Scottish Affairs Committee to help us out with our one-off inquiry into the progress of city deals across Scotland. We are grateful to have three witnesses who represent each of the different scales of that—a mature city deal, one that is hopefully in the process of being signed off, and one that is aspirational. For the record, could you say who you are, who you represent, and anything by way of a short introductory statement?

David Martin: Good morning. Thank you for the invitation to come and talk to the Scottish Affairs Committee today. My name is David Martin and I am the chief executive of Dundee City Council. I am associated with the Tay Cities deal.

Cllr Macgregor: I am Councillor Gail Macgregor from Dumfries and Galloway Council. I am here to represent Borderlands and to hopefully give you an insight into where we have been with it, where we are going, the journey we are on and the challenges that may or not arise from it. I am privileged to be here to speak to you today.

Q2 **Chair:** I understand that you are the group business manager and secretary of Dumfries and Galloway Council.

Cllr Macgregor: I am the recently retired group business manager and secretary.

Chair: Congratulations on your retirement, if that is something that one welcomes.

Cllr Macgregor: There seems to be a trend.

Cllr Aitken: I am Councillor Susan Aitken. I am the leader of Glasgow City Council and the chair of the Glasgow city region cabinet, which oversees the Glasgow city region city deal, which was the first city deal in Scotland, signed off in mid-2014. It is fairly advanced in terms of a number of projects that are already completed or well under way.

Q3 **Chair:** We will start with you then, Ms Aitken. Could you roughly describe the status of your city deal and your personal involvement? Where are we just now in terms of each of your specific deals?

Cllr Aitken: My personal involvement with the Glasgow city deal has been since May 2017, when there was a change of administration in Glasgow City Council and, indeed, in a number of the eight member authorities that make up the Glasgow city region. The make-up of the city region cabinet changed. Glasgow is the lead authority and whoever is the leader of Glasgow City Council chairs the cabinet, so I took on that role on becoming the leader of the council last May.

I was not involved directly in any way in the early processes of the deal, however, as part of my learning as the chair of the cabinet, I am now as familiar as I can be, without having been there, with the processes that took place, how the different projects were chosen and the overall programme.

One thing to make particularly clear about the Glasgow deal is that it is largely an infrastructure deal, although not entirely. There is perhaps some misconception about that. There is a fairly significant element that is about innovation, and the Tontine building in Glasgow, which was the first project to be completed, has been a successful example of that. The Imaging Centre of Excellence at the Queen Elizabeth University Hospital was part of the city deal and the MediCity project in north Lanarkshire was as well. They were very much focused on innovation in tech and life sciences. There was also quite a significant element about employability and addressing labour market issues in the region, but the bulk of the £1.3 billion investment focused on infrastructure.

The way that the Glasgow city deal worked was that the programme came before the deal, if you like. A pitch was given, "Here are a set of projects," and the two Governments were asked for funding for those projects. The projects came first, if you like, and they were conceived as a programme of infrastructure projects that would link up and drive economic growth both within the individual projects and across the entire city region.

Some of those infrastructure projects, such as the Cathkin relief road in south Lanarkshire, are completed. Others are significantly under way, such as work around the M77 corridor in East Renfrewshire. In Glasgow—the projects in my own city are the projects that I am obviously most familiar with—work is well under way on the Sauchiehall Street element of the "Avenues" project, which has become particularly relevant in the past couple of weeks, and on significant public realm infrastructure work in the east end of the city in the Calton and Barrowlands area, and in the north and canal area, where a huge amount of social housing is being built in Sighthill.

Q4 **Chair:** Thank you. I know yours is all very new, Ms Macgregor, but perhaps tell us exactly where you are in term of its status.

Cllr Macgregor: That is the point. My status within it is the same as every other elected member in Dumfries and Galloway, and indeed across the other four local authorities. We are very much at an early stage in the preparation and development of it. It is important to note at the moment that, while this is a city regions hearing, we regard Borderlands very much as a rural growth deal and it comes with enormous challenges. Obviously, we represent 9,000 square miles, so it is a massive area geographically, with only 1.1 million residents, and is spread across five local authorities. The buy-in from all locally elected members across the five local authorities is absolutely crucial, and we are all contributing into that process at the moment.

As you rightly say, we are in the early stages. We submitted a proposition document to the Government in September 2017. The UK Budget announcement in November 2017 committed us to working with our partners toward a deal. That comes with great strengths and there are a lot of positives to come from it, but it will also represent some challenges, which I hope we will pick up in the questions later. As far as the timeline is concerned, as I say, we are in the early drafts of strategic outline business cases with civil servants. Next week and over the summer, we will enter into dialogue with Departments to refine and develop our strategic outline business plans. The importance of that is that we include all the local authorities within what will essentially be the deal put forward to the UK and Scottish Governments in September.

On that point, I would like to note that we have a timeline, but as yet the Scottish and UK Governments do not. It is important that, within discussion, we all move toward developing a proper timeline.

Q5 **Chair:** We will explore some of those relationships with you in the course of this session. Mr Martin, where are we with the Tay Cities?

David Martin: Where we are with Tay Cities is that we submitted an integrated Tay Cities deal proposal to both the Scottish and UK Governments just over 15 months ago. The process before that was, we think, quite inclusive and transparent. In building our cities deal approach, we tried to learn from Glasgow and others that have come before us and to take an approach that recognised that, although the infrastructure programme is critical, it is not the only aspect of the city deal that matters. It is about inclusive growth and trying to make sure that we have a long-term, integrated, close working relationship with both Governments, national agencies in Scotland and local people. We have tried to work on that basis.

We built up the projects by going and asking people what they thought should be in them, as well as having some of our own ideas as partners about what the priorities were for the regional economy. Finally, we endeavoured to make sure that the whole agenda was strategy-led; we tried to make sure that the Tay Cities pitch reflected the UK's industrial strategy and Scotland's economic strategy and aligned our proposals with both of those. That led us to a £1.8 billion pitch with about £840 million—if my memory serves me correctly—of asks of the Scottish and UK Governments. We have been negotiating on those projects ever since.

We deliberately put the projects in the public domain from the outset and wanted to be clear on that; you can find out anything you want about any of the Tay Cities projects on the Tay Cities website, and have been able to do so since we submitted our bid. Ever since then, we have been working with officials of both the Scottish and UK Governments to refine thinking, to develop outline business cases a little further and to answer questions and queries about what contribution those projects would make to improving productivity and inclusive growth in our area.

Q6 **Chair:** Can I ask, just while we are on the Tay Cities deal—and as a local

Member of Parliament I declare an interest in this particular issue—were we not promised that it would be signed off early this year? We are now almost at the parliamentary recess in Westminster, which suggests to me that there will be no signing-off of this until we return sometime in October. Why has there been that delay? Could you explain to us what, in your view, is happening just now?

David Martin: Obviously you are talking to parliamentarians from the Scottish Parliament later, who perhaps will want to give you their view on that. From our perspective, the deal was complicated, integrated and thought through, so quite reasonably you would expect a degree of dialogue to and fro on individual projects to refine thinking on them. In my opinion, 15 months is longer than we expected; we would have hoped to be in a position by now to have at least got to the heads of terms stage. Our discussions with officials and Ministers from both the UK and Scottish Governments have always been positive, and we stand hopeful that the timeline for a heads of terms deal at least would be sooner than the parliamentary recess; but obviously I am in the hands of others for that.

Q7 **Chair:** Maybe you could help us, Ms Aitken, with how city deals are proposed and agreed. We have taken a good deal of reference in some of the questions we are asking from some of the stuff that was debated in the Scottish Parliament and its Committee. I think it was Highland Councillor John Robertson who described the early stage of a city region deal as a "process without process". Is that a sentiment that you would necessarily agree with and endorse? Could you talk us through what it is like at the beginning of this? Maybe that could help Ms Macgregor in terms of things she might have to consider.

Cllr Aitken: I was not there at the beginning, so I am giving a second-hand opinion about this. I think it is fair to say that the Glasgow deal was different. It was constructed in a different way. One of the critical comments that has been made about the Glasgow deal is that because the programme and the projects came first, they were perhaps things that were sitting on a shelf and were taken off and dusted down, and people said, "We'll stick that in the city deal." There is definitely an element of truth in that, but the eight local authorities between them started with 80 projects and whittled those down to 20 infrastructure projects and the additional innovation and employability projects attached to those.

Looking at it retrospectively from my point of view as someone who is relatively new to the leadership of the deal, there is a clear programme. If you look at the way the different elements of the Glasgow region programme join up, there is a clear thread through it about connectivity across the region, about connectivity to employment opportunities and economic opportunities, about skills pipelines into the economic opportunities that are being created and about freeing up land for development and building. That is a particularly big issue in Glasgow—affordable housing is a big theme across the Glasgow city region. But the focus is on economic growth, as it has been from the beginning.

David rightly mentioned inclusive growth. The newer deals have the benefit of more advanced thinking politically, certainly by the Scottish Government, about what inclusive growth is. Those that have come out since the Scottish Government's 2015 economic strategy, which specifically identified and defined inclusive growth at its centre, perhaps have more clarity. With Glasgow's, there was always the intention that it would be about trying to create employment and economic opportunities, particularly for deprived areas, but the only criterion projects had to fulfil was GVA. There was a much narrower definition of economic growth. Any changes we make to projects as we go along are still about GVA. Those are the rules. We have to comply with the Treasury Green Book.

Over the past year, we have tried retrospectively to engineer in inclusive growth. We have worked with the Commission for Urban Economic Growth at Glasgow University, which is chaired by Professor Anton Muscatelli. They have recently finalised an inclusive growth matrix for us, which I think will be applicable to deals across Scotland. That builds on work that the Scottish Government has already done, and it will allow politicians, particularly in the Glasgow city region deal, to look beyond GVA and measure and assess impact on lives and communities.

Q8 **Chair:** You are at the very early stages, Ms Macgregor. Is it an opaque process?

Cllr Macgregor: It has to be pretty opaque. At this stage, what you have picked up on is absolutely accurate. We are at the stage where we are able to tailor a much more inclusive growth deal—there is no question about that—because of the work that other areas have done. Obviously, project selection in our area is a bit more challenging, because of the geography in the five local authorities. One of the key messages we really need to get across, particularly in relation to the Treasury Green Book, is that the Borderlands rural growth deal cannot be the same as a city deal. It is not the same. The message that really needs to be put across is that many smaller projects will add much greater inclusive economic connectivity value than one very large, £50 million project.

We will work through the process and develop the project brief. What we then submit to the Scottish Government and the UK Government in the later stages will probably indicate that, as I said, we cannot have one expensive, big-hit deal. That is not going to add value across the five local authority areas. We need to look at much smaller, more tailored deals to get the vibrant economic benefit we really want to see from the Borderlands growth deal.

Q9 **Chair:** Thank you. Mr Martin, could this be made easier for local authorities? We are discussing opaqueness and the difficulties with getting all this started. Is there anything that both Governments could do to try to make the burden easier for you guys in local authorities?

David Martin: I do not believe, Chair, that the process was opaque. From our point of view, the councils in the Tay Cities have worked collaboratively for a long, long time. Part of that is because the local government boundaries bear no real regard to the way the social and economic geography, travel-to-work areas and the housing market work on Tayside, so collaboration is necessary and indeed welcome. We have been doing it for a long time. An example of that would be Tayside Contracts, which has been running since the last local government reorganisation in 1996. There is a lot of history of collaboration, which is driven by a desire as well as the pragmatic realities. Working together and working with communities was a natural approach.

There is a strong commitment, particularly in Perth and Dundee, to social justice and inclusivity. We do not believe that the choice is productivity and growth versus inclusivity. We believe that those two things need to work together, and that it can indeed make economic sense for them to work together. We have tried very hard in our city deal to deliver a major inclusive growth package and to deliver inclusivity through the variety of projects—I will happily discuss them later if you wish—that are part and parcel of the deal. That makes sense to the Treasury, too, because failure demand costs money and of course tax expenditure, and income rises if everybody participates.

On that basis, our consultations about the projects were driven, as Susan said, by an idea of what our strategic direction was, but we wanted to sense check that with businesses and communities. We spent some time doing that, and we brought that together into the final deal submission.

Q10 **John Lamont:** The city regional deals and the growth deals are supposed to be led by local councils. I guess the thinking is that local councils are best placed to decide what local priorities should be. I just wonder how that works in practice.

Cllr Macgregor: We have learned from the other deals, so we are in an advantageous situation simply because of that. Our experience—particularly at officer level—and the feedback we have received is that cross-border and cross-region working is working very well. Ultimately, the contact with both Scottish Government and UK Government officers and Ministers has been excellent to date. That is a great positive, which has possibly come out of failures in the past.

There will be continual challenges as we go forward, particularly in respect of governance, because we all have very different governance structures, but as far as tailoring it to the local authorities' needs is concerned, it is very clear that each individual council has been able to lead on what it feels is important for its region. That will feed into the overall deal. We have a lead officer south of the border and a lead officer north of the border, and they liaise with each other, and with Scottish Government and UK Government Ministers, on a regular basis.

The negatives and the shortfalls that have happened previously have perhaps been picked up at this stage with the deal we are proposing to go forward with. Most importantly, we have five local authority areas—I cannot stress that enough—with five very different governance structures. We have one council that is still living under the old county council model, and we have four unitary authorities. The challenges that creates mean that we really have to communicate. So far, that has been very, very positive.

Cllr Aitken: The experience in Glasgow, certainly now, is that it is very much local authority-led. One point to make is that we have found that the creation of the city region and the formalising of the eight local authorities working together has been a really positive development. The way I describe it is that the city deal itself has become just one deliverable for the city region, and those eight local authorities are now working beyond the city deal in partnership. Those relationships are working really well.

For example, the regional education collaborative has been on the same model, and there are very clear links between the aims and objectives of the city deal and the priorities of that regional education collaborative, around skills pipelines and those kinds of issues. That has been a really positive development that is very much local authority led, but with the policy priorities of the Scottish Government helping to drive it, so there is a partnership. The Scottish Government are moving much more towards a regional working model, with regional delivery particularly on economic issues, because it makes sense in Scotland to do that.

It is clear that the Glasgow city region in particular is the driver of the Scottish economy to a very significant degree. It is clear now that those eight local authorities working together is good for the city region, but it also has beneficial impacts for the Scottish and UK economies, for the reasons that David outlined. We have had very strong support from both Governments for that direction of travel—of working.

Another point to make about the Glasgow city region and the way that the cabinet is structured, with the chief executives group that sits parallel to that, is that there is distributed leadership. Although Glasgow is the lead authority, all the authorities take the lead on a particular area or role. Glasgow leads on inward investment and the macroeconomic issues. I think Renfrewshire leads on skills and enterprise and East Renfrewshire leads on utilities—a utility forum was set up, which has been really successful, because that is crucial to infrastructure delivery. I cannot remember off the top of my head, but each local authority has its own portfolio. That has worked very well and it gives that local leadership at local authority and regional level.

David Martin: I endorse that. The key issue is that our city deal is structured around a joint committee. That means that the accountability leadership sits with the councils. But having said that, these are partnership deals. They are integrated and work around a shared vision, so we could not deliver this were it not for particularly the private sector and the voluntary sector working with communities and, in our case, FE and HE institutions, which are essential. They all have places on the joint committee. That is a critical aspect.

The leadership of place is at the heart of a successful city deal for us. Although the council—in my case, the city council of Dundee—has learned a lot from its own regeneration journey over the past 10 years, we are at quite a critical point halfway through a 20-year investment programme. The city deal will help us to kick on. Through those first 10 years we have learned that you cannot do this on your own. You absolutely have to do it in an integrated and joint way. That means distributed leadership is an essential part of any city deal. It also brings with it some ambiguity. You have to be willing to work through issues very much in the public domain, in a collaborative and constructive way and sometimes take compromised positions on particular issues.

Cllr Aitken: That is a really important point, particularly when it comes to infrastructure, because that means planning. Obviously, individual local authorities have the lead on planning, so there will be some sensitivities and negotiations. We are already experiencing that with one project, in particular in the Glasgow deal, which is a Renfrewshire project but has an impact in terms of planning decisions in both Glasgow and West Dunbartonshire, too. The local planning committees have the say on what happens, as is rightly the case.

Q11 **John Lamont:** Obviously, the bulk of the funding comes from the UK and the Scottish Governments, which have their own political priorities. Do you feel, as local councils, that you are therefore having to fit into those national priority objectives and outcomes at the expense of your local priorities that you may otherwise have had? From that, do you have any tension between the political priorities of the UK Government compared with the Scottish Government? Obviously, they are two different Governments with two different agendas.

Cllr Aitken: I haven't experienced that so far. I would say that the Scottish Government's conceptions and understanding of inclusive growth are more advanced, but through the industrial strategy, for example, we are starting to see the UK Government take up some of these ideas. Certainly, I have not experienced any clashes or tensions in my just over a year of leading the city deal. One of the earliest things I did was to write to both Governments to seek—"permission" is the wrong word—clarity that they would allow flexibility within the programme and the individual projects for inclusive growth.

Some of the projects that were identified at the beginning were just focused on GVA, and if member local authorities are not convinced that their impact on improving life chances in our most deprived communities was going to be strong enough, we have the flexibility to do some retro-engineering on some of them. Both Governments have indicated that they are happy for us to do that, with some caveats. The overall quantum remains the same—we always understood that—and each local authority retains its quantum.

Having said that, if a project falls, it is the politicians in the cabinet—the council leaders—who would make the decision. We are not at that stage yet, and we may not be, but we could say, "This isn't delivering. We are not convinced that this project is going to meet its targets," or, "It is going to fall short of delivery in terms of cost, so we are going to take it out."

We have the ability to do that. There are then rules about what we replace it with. It would need to be replaced with a project that has at least equal value, in terms of GVA. The Treasury has set clear rules about how we make decisions about which projects we bring in, but it would be our choice as the local authorities—the collective leadership—to say, "Stop," at any point, if we decide that is necessary.

Cllr Macgregor: I think ours is possibly slightly more challenging. As I have already indicated, the work and dialogue between UK local government and the Scottish Government has been very positive, but we are obviously still at the project development stage. We are looking at moving towards heads of terms by September 2018. The process has been quite quick from start to finish, if we get to that stage in September—fingers crossed that we do.

Obviously, we are going to have finer policy nuances between the English and Scottish sides. That may create a bit of a challenge for Dumfries and Galloway, the Borders and the Scottish Government in determining how some of that quantum is spent. At this stage, I don't have an answer for you. That is going to have to be dealt with as we move further down the line. We don't know what the quantum is yet, and we haven't looked at what the structures for governance will entail, although we are going through that at this stage. Realistically, that will be a fairly large challenge. For obvious reasons, the Scottish Government will not particularly want funding to be vired south of the border, and will want to retain areas in the devolved portfolio.

That is something we are strongly working on at the moment. I have to emphasise that none of it is insurmountable. The dialogue is very positive, and that is a good thing, but there is going to be a bit of a challenge.

David Martin: Quickly, the question is about whether the funding arrangements draw away from or compete with local priorities. The answer is: not in the case of our cities deal, partly because of my point about the drivers being Scotland's economic strategy and the UK Government's industrial strategy. There is a lot of alignment. Our ask was for 45% of the total funding from both Governments. I appreciate that resources are tight for everybody, but there is a significant local and private sector component to the partnerships, which perhaps would not have been available had the resource not been there.

The other point to make very briefly is that, as other colleagues have said, this is not just a programme for investment, although one hopes to be successful in that. It is not negotiating a significant impact over a 10-year period. It is a changed relationship between the Governments and regional partners, which we hope to sustain for the foreseeable future. That means you work problems out. If we do get to a place where there is a challenge, we hope we can find a way through by working constructively.

Q12 **Tommy Sheppard:** Good afternoon. Can I just explore how the process starts in the first place? What sort of resources do you need to work up a deal, and does that involve you having to redirect people and money away from areas that you might not want to? Following on from that, what sort of support for the bid process do you feel you get from both Governments, and is it adequate?

Cllr Macgregor: Across the Borderlands the entire five local authorities have managed internally to find sufficient funding to cover support officers to develop the work that is being done at the moment. Most have one dedicated officer full time, and then perhaps a part-time member of staff who is building that up. If more capacity is required as the projects develop further, obviously that is going to be a challenge, given the strains on local authority budgets. I think more development funding might be required at this stage. Certainly councils dig deep, in terms of their workforce and their ability to deliver on projects like this. I think at the moment we are okay, but it does not come without its challenges, because we are simply at the stage where we are putting proposals and the deal on the table. Once we get to the point where we are actually having to develop those deals and drive them forward within each individual local authority area, I think we will require more capacity.

David Martin: In Tayside, this is our core business. One of the things that it did encourage was bringing together the economic and skills teams and related professionals from the four local authorities. That was a very positive exercise. The whole was greater than the sum of the parts and it allowed us to bring our resources together and to divide the labour. We also got help and support from some private sector companies and from two of our major universities, to try and develop our thinking and our programme, so that was a very positive aspect. But you are right: it was absolutely clear that this is demanding of local authorities and requires an awful lot of work in quite a short period of time.

There is never enough resource to try and address this, but there is no doubt that the process, which is what you are asking about, was beneficial, in the sense that it brought us closer together as the Tay Cities area and created, I think, a sense of a Tay Cities economy, which perhaps wasn’t quite as strongly to the fore beforehand. That also applied to local politicians working together. I think there was a meeting of minds around pulling together to try and deliver a major step change for our area, so I think the process has been challenging but actually quite positive.

Cllr Aitken: I think that is right: it is core business. All of the officers in each of the individual local authorities who are working on economic development, inward investment and public realm improvement—all these things—would be doing this anyway. So I suppose the difference is the change in pace—the additionality that the city deal brings is that we are able to do a lot of this stuff much quicker than we would have done otherwise. That means all of the authorities need to step up.

The Glasgow deal has a programme management office for the deal itself, which is funded from within the deal, from the local authorities’ own contribution to the overall quantum, and each authority contributes to that proportionately. It is led by a fairly newly appointed—within the past year—director of regional economic growth, who is employed by Glasgow

City Council. He still has a role within Glasgow City Council as well, so he is quite stretched, and has a lead economic development role. I think that the more we individually, as local authorities, understand that our economic growth—all of the work we do to grow, inclusively, our local economies—should be done in a regional context, the bigger the benefit for all of us collectively.

It is probably fair to say that the smaller authorities surrounding Glasgow will feel an impact on growth; Glasgow has an impact well beyond the boundaries of Glasgow itself. The more we understand that we need to do this collectively on a regional basis, the more we will direct our individual resources in that direction anyway. There is a bit of a pay-off there. The challenges are around pace and ensuring that delivery matches expectations, but it is too big an opportunity not to make sure that we get it right. We all, individually and collectively, have to step up to that challenge.

Q13 **Tommy Sheppard:** In terms of evaluating different project bids—bear in mind that we are about to meet representatives from both Governments—do you feel that the information they request is clear, or are there any problems? Are there any differences of approach between the Governments in the criteria for evaluation, and does that present any problems?

Cllr Aitken: Retrospectively, all the projects in Glasgow were evaluated according to Treasury Green Book rules and on the basis of expected GVA delivery, including economic growth, improving productivity and growth in income across the region or within the individual projects. That was applied universally and consistently to all the projects. There was a bit of a difference in approach at the time; the Scottish Government would have emphasised the inclusive part of growth more. None the less, those Green Book rules would have to have been adhered to. David and Gail will be able to say more on that.

The choosing of the Glasgow projects predated both the Scottish Government's current economic strategy and the UK Government's current economic strategy and the industrial strategy. However, I think it is fair to say that there is clear alignment across the three. For example, the UK Government's sectoral approach, with a focus on growing key sectors and skills pipelines into those sectors, was already being thought about.

It was a challenge, but my understanding is that the criteria for choosing projects was that they were Green Book-compliant and that they were judged to have the highest GVA delivery and the highest GVA impact. Those were the ones that won, from the long list of 80 projects.

I am not an expert, but I understand that certain things trigger GVA impact, such as improved connectivity. Apparently, any project that includes a bridge is immediately believed to have a high GVA impact, because of its connectivity impact. There are quite a few bridges in the Glasgow city region deal, which is probably not a coincidence. However, I think you will need to explore that more with the people who were there at the time.

Cllr Macgregor: I won't rehearse what Councillor Aitken has just said, because I agree with it entirely.

Chair: I am conscious that we have only another 20 or 25 minutes. You don't all need to answer all the questions.

Cllr Macgregor: On this one, I don't think we are yet at the stage where I would be able to contribute.

David Martin: Very briefly, Convener, I actually think that the discipline associated with good project management and proper option appraisal has generally been a strength of city deals to date. Not all public infrastructure projects fall into that category. We had the same issues that Susan identified with Green Book approaches. There have been no significant differences between the Scottish Government's approach and that of the UK Government.

Chair: Thank you. Tommy, are you satisfied?

Tommy Sheppard: I don't want to put words in your mouth, but it sounds like everybody is singing from the same hymn sheet on the drivers and governance of this?

Chair: We want to discuss the reserved/devolved issues with you later in the session, so we will leave that there just now.

Q14 **Ged Killen:** I want to talk about local authority engagement with communities. I was a councillor in the ward where the Cathkin relief road was built. Although that was a ready-to-go project, as Councillor Aitken said earlier, there was still a lack of awareness about why it had been chosen, how it was funded and how the whole thing worked in the early stages. It was only when the project got to the planning stage that people could engage with it. How do you think your council has engaged? Have any lessons been learnt? You are obviously at different stages. Are you doing things differently?

Cllr Aitken: My understanding is that there wasn't much engagement with communities on project selection. I can for Glasgow, certainly. It is up to the individual local authorities once their project has been chosen to do that themselves, with support from the project management office, which provides very strong support on good practice on community engagement, for example. It is up to South Lanarkshire, North Lanarkshire, East Renfrewshire—whoever—to talk to local communities and explain to them why there are bulldozers up and down this particular road, or why there are planning applications.

In Glasgow, the biggest areas of community engagement have been in Sighthill, where significant works are going on in the Sauchiehall Street and Garnethill area, and in the Carlton Valleys area. Particularly in Sighthill, there have been models of community engagement in the work that has gone on. They have used charrettes and all sorts of different methods to make sure that communities are driving the specifics of what is built. The decision to do stuff in Sighthill was not the community's, but the decision of what is done is very significantly driven by the community.

Cllr Macgregor: For us, again at an earlier stage, all our elected representatives from all spheres of government have been very engaged with the community and very much in favour of taking out ideas and having discussions with them. On a formal basis, since March we have been holding a number of stakeholder engagement events and workshops, and we are trying to refine ideas and take projects to the communities and see what would be preferable to them.

We held a conference last month which had 300 people from across all sectors—private, public and third sectors. That continual engagement with our communities is a lesson that we have learned from other areas and is very positive now.

The South of Scotland Enterprise Partnership will be holding about 28 sessions across the whole of the south of Scotland between now and almost our heads of terms date. We will be utilising them as a tool to engage further with other local authorities and obviously other businesses. I think it has been very positive and what comes back will be incredibly interesting.

David Martin: Briefly, Convenor, it is important to stress that the city region deals process is not a substitute for a land use planning system and all the checks and balances that are involved with that.

The Community Empowerment (Scotland) Act 2015 has changed the expectations and raised the bar for agencies such as councils to be able more meaningfully to involve communities at the earliest possible stage. We have done a bit more, in the context of the Tay Cities deal, but I have to say that most of the engagement was still not at granular community level. That is something that we obviously aim to do as we move forward on other projects, in the way I have suggested.

Our experience from Dundee is that when you engage fully and meaningfully with communities, you get an awful lot more back. The community planning process in Scotland has been going for a long time, and since 2003 it has become more refined. All community planning areas have 10-year visions for their particular place. That has helped to shape the individual projects and also provides a check and balance for community engagement and what happens in a particular area.

Q15 **Ross Thomson:** We have already touched on this in previous answers. Having been involved in signing off a city deal in the Aberdeen city region, and looking at the governance structures that were put in place in two local authorities—that involved a rotating chair, the private sector, our local bid and the rest of it—I am interested in looking at Glasgow as an established deal and Borderlands as an emerging deal in terms of governance structures. For Glasgow, it would be interesting to hear more of the details about how you work with local authorities. There are a lot of council leaders, a lot of people with interests—how does that work in practice? What kind of support do you have from the two Governments in how you manage that and assess the progression of projects?

Cllr Aitken: In practice, we meet every two months. We have a cabinet in parallel. The chief executives have their meeting. The chief executives attend the political cabinet, if you like, but they don't have a vote and they don't speak unless they are asked to. It works fine. There are eight local authority leaders sitting around the table as the leaders of their authority, but understanding that we are working collectively for the economic growth of the city region.

Interestingly, when the Glasgow city deal was first set up, only one party was represented around the table. That is no longer the case; it is fairly cross-party now. I have certainly not found that to be a problem in the chair. The clarity in Glasgow is that Glasgow is the lead authority, so Glasgow maintains the chair, but we obviously have that distributed leadership on other issues, so other local authority leaders will chair working groups and forums related to their particular area of leadership. Renfrewshire chairs the regional education collaborative, for example.

In terms of governance, I think that there is still work to do. There are lines of accountability back to our individual local authorities. There is still work to do to make sure that locally elected members know and understand how that works. The main decision-making committee in Glasgow, for example, will still sign off specific areas of spend for Glasgow projects; even though it is not our council's budget but the city deal budget, that comes to our city administration committee and we will sign it off. I know that the wider elected leadership, certainly in Glasgow, doesn't have clarity about exactly how the city deal works and how it links in, so there is still more work to do, and that is a priority for me.

We have not had the direct involvement of either Government in the cabinet up until now, but we are going to over the coming year. We have made a decision that we want to open up some of those meetings and specifically invite both UK and Scottish Government representatives to attend and engage with them.

Q16 **Ross Thomson:** Briefly, just out of interest, I want to ask about having other external people involved in the governance. For example, in Aberdeen it is Aberdeen Inspired, which is our business improvement district, and Opportunity North East, which is Sir Ian Wood and his team. Does that happen at the main board or do you do it in the working groups; do you have any kind of external people involved?

Cllr Aitken: We have two main external groupings in Glasgow. One is the commission on urban economic growth, which is chaired by Anton Muscatelli of Glasgow University. Des McNulty from the commission attends—sometimes Sir Anton himself does, but someone from the commission attends all the cabinets. There is also the Glasgow city region economic leadership board, chaired by Lord Haughey. It had not had any direct involvement in the Cabinet—I don't think there had been any attendance. Since I took the chair, Lord Haughey has been attending.

But we don't have yet in the Glasgow region a clear interaction with the business community. One of our deliverables is that we have to lever in £3 billion of private sector investment off the back of the public sector investment. We basically need to get a shift on with that, so a priority for me, as the chair, over the coming year is to formalise engagement with the economic leadership board, which is made up of business people who understand the investment landscape and the wider business community in the region.

Q17 **Ross Thomson:** Gail, in terms of an emerging deal, are you looking at what you need to put in place to implement the deal? I know you have already talked about five local authorities being involved and the challenges that creates. What do you think needs to be put in place to make this effective?

Cllr Macgregor: I think we're very good at what we've got already. As I highlighted earlier, we have a lead officer from Dumfries and Galloway Council and one from Cumbria Council who meet on a fortnightly basis. We then have a lead officer group, which involves our chief executives and our leaders, who meet monthly. I have to say, at this stage, the engagement from the UK and the Scottish Government at those meetings has also been very strong. There are lessons being learned as we go forward.

To be realistic, it is too early to say how the authorities are going to work out their governance going forward. They will retain responsibility for the deal until it is signed off. Thereafter, it will be recognised that we will probably require two accountable bodies—one south of the border, and one north of the border. I have to say, we are looking at legal structures and governance structures in that respect, and we really do not have the answers to that at this stage. Hopefully, once we have agreed our bid and it is submitted in September, we will get that in place.

Q18 **Deidre Brock:** Just to clarify, the local authority is what leads these bodies. The bodies you mentioned, Susan, are authorised, if you like, by the council to feed in and to offer advice. So there is quite a clear position from the local authorities that these bodies are authorised by them.

Cllr Aitken: Yes. Decisions relating to the city deal are made by the city region cabinet, not by the individual local authorities. Certainly, it is the case that a committee of Glasgow City Council could not overturn a decision made by the city region cabinet, for example, but committees of Glasgow City Council can make decisions about spend within the Glasgow projects. There is a continual sense-check that those projects remain the priorities of the elected members of Glasgow City Council.

Chair: I am conscious of time, and I want to get the best out of all of you that we can. We will move on to Mr Paul Masterton.

Q19 **Paul Masterton:** A question for you, Ms Aitken. Obviously, the Glasgow city region deal is the one that I am interested in from an East

Renfrewshire perspective. Other than a couple of slight delays, which you would probably anticipate on these big projects, everything seems to be going pretty well, although I was disappointed that you did not mention the jewel in the crown, which is obviously the new wakeboarding centre. That is the most exciting project, surely. You guys have your gateway review coming up soon. I want to understand how you are planning on using that to assess where you are with the project and where you go to make sure that we complete delivery on all these projects.

Cllr Aitken: There has been an agreement that the first gateway review is too soon to start to assess economic impact—that will take longer. What we are looking at, though, is impact evaluation and progress evaluation on a selection of projects. We have a local evaluation plan, the first draft of which has been through cabinet. We will use that at local level to make sure that we are complying with the gateway review. December next year is when that final gateway review report will be.

We have chosen three projects for impact evaluation: the canal and north gateway, so the Sighthill work; the Cathkin relief road; and the M77 strategic corridor, which is East Renfrewshire's project. The impact that will be looked at there will be around things such as how much land that previously was not available for development is now available for development. What has the reduction been in vacant and derelict land? For the M77 and the Cathkin relief road, what is the improvement in connectivity? Has there been a decrease in congestion? Has there been an improvement in travel-to-work time? Those are the kinds of impacts. As I say, it is too soon to talk about specific economic impacts, but are we making progress on some of those key priorities? They will be slightly different for each of the three projects.

Thirteen projects have been chosen for progress evaluation. That is much more just a case of, are we as far along as we should be by this stage in the calendar? Have we been through planning? Have we started build? It is that kind of more infrastructure-focused progress. We have set out the evaluation plan locally. We will have the next one of those at our next cabinet meeting, which is in August, and another one at the end of this year, and then we work towards the gateway review at the end of December 2019. There is a parallel local process and national process.

Myself and, I think, all eight leaders and eight chief executives have been interviewed by SQW, which is conducting the gateway review. Anton Muscatelli's commission has a very big role working both with them and the city region to look at how we evaluate and what we evaluate by 2019.

Q20 **Deidre Brock:** Could I ask about the impact that the devolution settlement has on the process of agreeing and managing the city region deals and city deals? Particularly when it comes to funding, there have been suggestions of some tensions in terms of the distinctions between reserved and devolved projects. Could you elaborate on that, perhaps starting with Mr Martin?

David Martin: I think the approach we have tried to take to this is to make a compelling case, driven by both the UK industrial strategy and the Scottish economic strategy, for a programme of projects that makes sense to everyone. We are trying hard not to pre-guess or pre-ascertain what might actually be the decision of both Governments. There are some areas where there is a degree of ambiguity or potential for joint funding—for example around the culture and creative industries space. There are some issues around transport.

From our point of view, the issue for the Tay Cities region is to make a compelling case for investment and to try to maximise the contribution that both the UK and the Scottish Governments feel able to make. That undoubtedly gets into some degree of the debate around capital revenue funding, for example, but from our point of view we have tried very hard in our £1.8 billion ask and our £800 million request for funding not to get too deterministic about what the UK Government would finance and what the Scottish Government would finance, because, after all, this is an entire economic and social inclusive approach that will benefit the whole of our area.

Q21 **Deidre Brock:** Do you think you are pushing at a bit of an open door with that attitude or the particular way you are approaching this?

David Martin: I certainly hope so, because part of the success of the Tay Cities deal is that the UK and the Scottish Government take a positive view of what the outcome will be for the deal, rather than perhaps getting, if I can put it this way, too hung up on who funds what. I completely recognise that there has to be a clear line of sight through the negotiation of the settlement as to what funding is available for what purpose.

Q22 **Chair:** On that point, it has been reported, or at least rumoured—perhaps you can clarify for us—that there might be a mismatch in funding for the Tay Cities deal. There is a suggestion that the UK Government are not in the position to be prepared to match what has been invested by the Scottish Government. Is there any truth to that at all? Are you expecting this to be match-funded properly between both Governments?

David Martin: What I would hope, Convener, is that the full £800 million we have asked for is wholly funded and wholly made available by both Governments. I am not trying to duck your question, but the issue for us is that the discussions between both Governments are obviously something to which we are not party. What we have had is very positive feedback from Scottish Government officials and UK Government officials in any lobbying we have done of Ministers of both Governments as to the validity of our case. We remain hopeful that we will find a way of getting a deal that makes a transformational difference. My fear would be that we level down in any kind of discussion between both Governments, rather than levelling up. That would be a huge missed opportunity for Tayside.

Q23 **Deidre Brock:** Ms Macgregor, I know it is early doors—

Cllr Macgregor: Absolutely. I think things will become more apparent once we get to the stage where we are having to identify what is devolved and what is reserved in respect of expenditure. As I said earlier, civil servants from both Governments have been very helpful. Dialogue is very strong, but in terms of policy and inclusive growth, I do not think the UK Government see it as such a big thing as the Scottish Government. There could be some slight wrangles around that and some nuances that will need to be ironed out. At this particular stage, we do not have the specific projects on the table. As I said, civil servants on both sides have been very helpful, and that will hopefully continue. We do not have a quantum yet, either, which is making things quite challenging.

Q24 **Deidre Brock:** Sorry?

Cllr Macgregor: We do not have an overall quantum of funding idea yet, which is making things very challenging. I think going forward into September, when we submit our heads of terms, will be where the devolved/reserved challenges may arise, but nothing is insurmountable.

Q25 **Deidre Brock:** What kind of discussions are you having at the moment about the type of governance structures that might be set up to oversee that particular deal? It is, I would argue, more complex, because you are both sides of the border. As you say, different local authorities have different governance structures in themselves.

Cllr Macgregor: To be honest with you, they are simply looking at the final governance arrangements at the moment. They are seeking legal advice just now as to how it can work cross-border with entirely different governance structures between England and Scotland. Until we get that legal advice back, we will not be able to put a structure in place. That should hopefully be done by the end of August.

Q26 **Deidre Brock:** Susan, are there the tensions between reserved and devolved funding? It has further developed, of course.

Cllr Aitken: It may be an issue in future, but we obviously have our quantum, we have our money and we are spending it. Where the city region is seeking to leverage in further funding from both Governments in future, as we will, we will need to have clarity about what our pitch is to each Government—clarity about what they are looking for and what they are prepared to fund. There is work to be done on both sides. As long as we are clear about what we are seeing, we can deliver what we expect to deliver through any additional funding that enhances or naturally flows from the work that has been delivered through the city deal. It is up to us as a city region to make the case and show we are making a sound business and economic case in order to leverage in further funding, whether it is through the UK industrial strategy or equivalent funds from the Scottish Government.

Q27 **Hugh Gaffney:** I want to talk about the tension between the Scottish and UK Governments' different policy approaches to economic growth. The Scottish Parliament report on the city region deal suggests that the mismatch could be a source of tension when agreeing the focus on the deals. Have the different policies affected your own city deals? Has there been tension in the city deals? That is basically my question. A lot of questions today have been about tension, but you seem to be a happy, clappy family, and we are all doing well.

Cllr Macgregor: No, there are challenges. There will always be tensions, but as we are at the moment, the civil servants are managing that very well on both sides of Government. More importantly, local government are leading with their priorities and what they understand the local areas require. As you say, it is about selling it to the UK and Scottish Governments and ensuring there is buy-in from everybody. We are not a happy, clappy family all the time—absolutely not—but, as I say, nothing is insurmountable.

David Martin: I have a quick comment on that, Convener, to answer Mr Gaffney's question. This is a negotiation, and with a clear vision and a clear shared plan, that reduces the tensions involved. Inevitably, they are there. I don't think "happy, clappy" would be how I would describe it either.

May I give a quick example of a project where you can get past these tensions? V&A Dundee is an £80 million spend, which has got funding from the Scottish Government, significantly, and also from the UK Government. It is a lot more than a museum; it is catalytic. It is transforming both the view of Dundee and the wider Tay Cities area, leading to increased private sector interest, leading to increased investment interest across a whole range of sites, not just in Dundee, and redefining the view we have of tourism, culture and the arts. It is also about the transformational agenda and regeneration in Perth and Dundee, over in St Andrews and through the Angus areas. That was something that both Governments agreed they would support, and we are now reaping significant—and I mean significant—benefits from that. With a lot of the projects in the Tay Cities deal and, indeed, in others, if Governments can see their value, we can get past all of those tensions and concerns. I think we will make significant impacts on UK, Scottish and sometimes even international agendas.

Q28 **Chair:** That is it. Thank you for getting the session kicked off and for providing an understanding from the local authority perspective. If there is anything else you feel you could usefully contribute to this very short inquiry, we would be very grateful. Thank you for your time just now.

Examination of witnesses

Witnesses: Oonagh Gil, Dr Morag Watt and Paul Wheelhouse.

Q29 **Chair:** Thank you ever so much, Minister, for appearing for the second time in front of the Scottish Affairs Committee—since I have been chairing the Committee, anyway. For our record, please say who you are and who you represent—anything by way of a short introductory statement. Could you also introduce your colleagues at the same time?

Paul Wheelhouse: Thank you. Good afternoon. My name is Paul Wheelhouse. I am the Scottish Government's Minister for Energy, Connectivity and the Islands. My colleagues are Dr Morag Watt and Oonagh Gil from the Scottish Government.

With your indulgence, I will just read out some introductory remarks. City region deals are an important part of the Scottish Government's support for economic development, and they are there to add value to the significant investment already made by the Scottish Government. Currently, there are three city region deals in delivery in Scotland: Glasgow city region, Aberdeen city and shire, and Inverness and Highland. We have agreed heads of terms for Edinburgh and south-east Scotland, and a full deal is imminent. Heads of terms for Stirling and Clackmannanshire were signed at the end of May.

Together, these deals add up to £1.125 billion of committed funding from Scottish Government and £1.7 billion of regional partner investment, and the UK Government have committed over £1 billion over the next 10 to 20 years. Taking into account additional funding contributed by the Scottish Government to the Aberdeen city and shire and Stirling and Clackmannanshire deals, the commitment made so far by the Scottish Government is £1.384 billion. This is a significant amount, but let us put it into some context.

I will say a few words on each of the inquiry's themes, starting with policy objectives. The Scottish Government's position is clear: we believe that Scotland's economic strategy is focused on securing inclusive economic growth that not only increases our competitiveness but does so in a way that reduces inequalities as well. Delivering inclusive economic growth is at the heart of our ambitions for city region deals. The key to accelerating economic growth in a way that improves regional prosperity while reducing inequality will be investment in high-quality and locally devised and developed projects. This is the sort of outcome that should be prized by any Government, and we want to see measures such as the Gini coefficient and the Palma ratio go in the right direction. These are means of measuring the amount of inequality in society. It falls to both the Scottish and UK Governments to work in a way that is as joined-up and seamless as possible, avoiding unnecessary confusion for partners and local communities, and recognising that strong regional economies within Scotland benefit the UK Government as much as they do the Scottish one.

The split between reserved and devolved is, as I understand it, a requirement of HM Treasury. They are concerned about what I am told is called double counting. From what I and my colleagues can see, through the deals being agreed, there seems to be rather an arbitrary position, and it is not always clear what is and is not in these categories. That makes little sense to the regional partners and communities that we serve, and they want us to focus on supporting the area and on unlocking opportunity. Both Governments share an ambition to deliver the best possible outcomes and do all we can to see Scotland thrive, although perhaps we have different views about the best constitutional arrangements to secure that outcome. Of course, I welcome any additional funding that delivers economic and social benefits for Scotland, and I put that on record.

In terms of project selection at the proposal phase, city and regional deals recognise that local authorities and regional partners are best placed to identify what is needed to strengthen their regional economies over the longer term, and how to best achieve that. Regional partners come together to develop their project proposals, building on each region's unique economic assets. The set of projects is then assessed and prioritised through discussion and workshops that consider—among other things—the potential for transformative impact, the ability to leverage additional investment, and the potential to deliver inclusive economic growth as well. Ministers then make a final choice. From what I hear, our process within the Scottish Government for ministerial approval is perhaps somewhat more straightforward than at Whitehall. That is not a criticism, but rather a reflection that the processes are different, and we believe we have the advantage of simplicity.

With regard to funding the process, the Minister's position has been clear: the first city deal arrived in Scotland without prior discussion with the Scottish Government, and we were asked to match the £500 million investment made by the UK Government into the Glasgow city region deal. There was little time for discussion, but we welcomed that invitation and continue to expect these deals to be funded on a 50:50 basis with UK Government Ministers. The Scottish Government stand ready to work with the UK Government when it is in the best interests of the people and businesses of Scotland.

Beyond cities, discussions with the UK Government are under way on growth deals for both Ayrshire and Borderlands, and we want to see the UK Government commit to 100% coverage across Scotland, as we have already done.

Turning to the Tay Cities deal, which I understand would be of considerable interest, regional partners are lobbying for a total of just over £400 million, or a minimum of £400 million, from the Scottish and UK Governments. Keith Brown, the former Cabinet Secretary for the Economy, Jobs and Fair Work, wrote to David Mundell, the Secretary of State for Scotland, on 12 June asking for heads of term by the end of June 2018. The UK Government were unable to commit to this at the time within that timescale and while we have had no formal reply, we have been informed by officials that the earliest possible timescale that the UK Government can manage for the heads of term agreement is now mid to late July. We continue to engage via our city team officials on the detail of the proposals.

Together with the UK Government, we have set up the Scottish City Region Deal Delivery Board, to ensure robust governance and accountability of deals as they are delivered over the next 10 to 20 years. This is not an approach that sees us signing something off and losing interest. This is a long-term strategic engagement. Benchmarking performance across a range of inclusive growth indicators, we believe, will be a vital part of monitoring and evaluation of the impact of the city region deal in each case. Scotland's Centre for Regional Inclusive Growth is due to launch later this year and will host a consistent framework for monitoring and evaluating Scotland's regional partnerships, city region and, indeed, growth deals.

Deals are not an end in themselves, of course; they are a catalyst. Discussions are underway with all regions of Scotland not just to secure city region or growth deals—important though they are—but to support and enable a set of strong regional economic partnerships across Scotland. In conclusion—you will be glad to hear, Chair—these are regional economic partnerships that build on the foundations laid by city region deals and their governance structures, which you have heard about this morning, and which also have a clear and active role for the private sector, to help create and deliver a clear economic plan for the region concerned.

Q30 **Chair:** Thank you for a very comprehensive account of where we are. It is fair to note that you have been in this position, with responsibility for city deals, for two weeks.

Paul Wheelhouse: Just under two weeks.

Q31 **Chair:** I am quite happy for you to refer to your officials if you are looking for support on some of the historical related issues we want to explore with you.

This is a joint investment, with the UK Government working in partnership with the Scottish Government. Can you describe how this has worked out, particularly with your different priorities? We have heard a little bit about that from local authority partners today, where there is a focus from the Scottish Government on inclusive growth while the UK Government are more about GVA and industrial strategy. Also, if there is anything you might want to note around where the Scottish Government and the UK Government tend to get involved, which is in the reserved and devolved space, whether there is anything you would recognise as tensions between them. Can you talk a little bit about some of these things and your view about how good the partnership is and the working arrangements and relationship that you have?

Paul Wheelhouse: To start with the positives, in the first city region deal, we did not have an awful lot of notice. It was a particularly politically charged period—July 2014 will give you a clue as to the timing—but we responded positively to that and were able to work with UK Government colleagues to bring that deal to a reality. Things have improved in that respect. Going forward, there has been more and better engagement between Ministers. From my understanding—having spoken to Mr Brown, as the former Cabinet Secretary and by participating in discussions where city deals were being raised, along with my involvement in the Cities Alliance in Scotland as well, as ministerial attendee at that particular forum—I understand things have improved. Not to say that everything is perfect and, certainly, with the most recent deal that was discussed—the Stirling and Clackmannanshire city deal—there were still quite a bit of last-minute alterations to both the quantum of funding and, indeed, the project content at the 11th hour. So things are not yet perfect, but generally speaking, things have improved.

As regards the approach to the policy objectives we have, we share a lot of common ground. There is a particular difference of opinion around economic growth and inclusive economic growth, with the latter being our primary focus in the Scottish Government and the former being the main focus for the UK Government. Those things are not incompatible. I believe inclusive growth does drive higher rates of GDP growth. We are certainly faced with plentiful evidence; indeed, Professor Joseph Stiglitz, who may be familiar to many members of the Committee—a Nobel laureate in economics—describes tackling inequality as the foremost challenge that many Governments face.

Scotland’s economic strategy leads the way in identifying the challenges and provides a strong vision for change. That is because we know there is plentiful evidence that by narrowing inequality, you raise the overall economic growth rate of your country. I am sad to say that the UK and some other states such as the United States have a particularly poor Gini coefficient in comparison with states such as Norway and Germany, which are at the other end of the spectrum, with a much more positive relationship between the highest and the lowest income groups in society. Indeed, the Palma ratio would also suggest that states like Iceland, Denmark, Norway, Sweden—even Poland and Germany—are far better in terms of their levels of inequality within their society than is the case within the UK; so Scotland, within the UK, we are trying to focus very much on trying to narrow the amount of inequality there is in our society. We know that by unlocking our best asset—our human capital, our people—we can achieve greater economic growth. Raising productivity and tackling inequality are two related objectives that can improve the growth rate and performance of the economy.

Q32 **Chair:** How does the Scottish Government evaluate city region deal proposals made by the local authorities, and on what basis are decisions made about the proposals?

Paul Wheelhouse: In terms of their evaluation, as we have heard from Susan Aitken in particular this morning, there is a process whereby at the local authority level they have their cabinet on the case—this is an unusual construct in comparison with other city deals but Glasgow does have a cabinet structure where they have focused with the other partner local authorities on identifying projects, monitoring projects and evaluating their performance. In the case of other local authorities, clearly we also want projects to be identified, as I said in my opening remarks, by local authorities, to be driven from the grass roots, to be ones which are meaningful in tackling local economic strategic objectives, but also ones which fit in the case of the Government economic strategy in Scotland. Inclusive growth, internationalisation, innovation and investment are the four pillars of the Scottish economic strategy, and clearly inclusive growth is a very important one to us; so we are looking for local authorities to identify projects that can perform well in that context. Obviously, as a Government—any Government—we are having to evaluate where we put our resources. Clearly, if we can put resources in city region deals, which can contribute strongly to delivering on our economic strategy, that is a positive thing to achieving our overall objectives.

As I described earlier, in terms of the governance aspects of this, we do have the Scottish City Region Deal Delivery Board. Oonagh Gil is represented on that. That is a joint UK Government and Scottish Government board responsibility, providing assurance and advice to Ministers regarding the Scottish city region deals programme—both UK Government and Scottish Government—and oversight, monitoring and successful implementation of the city region deals, including effective monitoring of issues and risks relating to the programme, in accordance with best practice. So there are opportunities if projects are not looking like they are going to be strong performers for that to come back to that group and to be escalated, if need be, to Ministers to make determinations if there needs to be a change in approach.

Q33 **Ross Thomson:** I have a supplementary just on that point about the evaluation of progress on projects. Sir Ian Wood is very widely respected and sits on the governance board of the Aberdeen city region deal, and in relation to the £200 million that was pledged by the Scottish Government at the time, in relation to improvement in rail links between the north-east of Scotland and the central belt, he said at that meeting it was "taking a hell of a long time" and "I have no idea what the timescales are or what even the substance of the improvements are." Given that this proposal was first unveiled in 2008 and there is a real frustration in the north-east at the progress, can you give us an update in terms of what the current timelines are, and when you expect works to start on that particular project?

Paul Wheelhouse: Certainly. I recognise these are very important projects. Indeed, one of the reasons why the Scottish Government put additional resources in was because the overall quantum of funding that the Aberdeen City and Shire partners were looking for was not going to be possible under the finalised agreement; so it was topped up, effectively, by the Scottish Government in relation to key infrastructure investments to try and support the overall aspirations—not just of Sir Ian Wood and his very positive organisation, Opportunity North East, which I very much welcome as an important player locally. The Scottish Government did make a commitment to invest a further £254 million over the same 10-year period as the city region deal.

There has been some positive movement; £2 million of digital investment has already been used positively, leveraging, as I understand it, over £50 million of further private investment for the city. So that is one very small amount of the funding that has had a very positive result; but the transport-related investment that Mr Thomson fairly asked about included £24 million for the design and construction of a new grade-separated junction at Laurencekirk as one of the key projects and £200 million to help improve journey times and increase capacity on the rail links between Aberdeen and the central belt.

On rail improvement, the Scottish Government are determined to improve journey times, capacity and performance for passengers, for sustainable freight transport and for businesses on the Aberdeen-to-central-belt corridor. We are currently progressing the development of potential options to improve capacity and journey times between Aberdeen and the central belt, including a consideration of double-tracking between Usan and Montrose, through the Aberdeen to central belt reference group. The consultants Arup have been appointed to undertake a comprehensive assessment that is expected to identify the optimum package of investment and service changes that will secure—hopefully, for Mr Thomson's constituents—the best possible return for the £200 million investment.

We believe that good progress is being made. Stakeholder engagement is continuing. I understand the frustrations of Sir Ian Wood and other local stakeholders, but I hope that that gives Mr Thomson some confidence that the proper preparations are being made, with consultants having been appointed. They have recently completed the data-gathering phase of their work and are now focusing on producing a report for Transport Scotland detailing the options to improve connectivity and journey times along the entire length of the route.

Transport Scotland expects a final report listing the infrastructure and funding options from Arup in late September. The options will then be considered by the reference group and presented to Ministers before a decision is made on which options to progress towards delivery. I hope that that helps to answer Mr Thomson's question. We will clearly keep a close eye on that and try to make sure that we keep stakeholders informed.

Q34 **Ross Thomson:** Is that September this year?

Paul Wheelhouse: Yes. Late September is my understanding.

Q35 **Ross Thomson:** To give a bit of confidence to those in the north-east, there was understandable anxiety after a Transport official revealed that the dualling to Montrose "will never happen". Are you able to give us a guarantee that that dualling is still on the table and that it is still the intention of the Government to deliver?

Paul Wheelhouse: At this stage, having identified that our consultants are looking at this, I think we need to wait for the professional advice. I am not aware of any such decision having been taken, if that gives Mr Thomson some reassurance. I am new in post so have not yet had the chance to look at this in much depth. With your permission, Chair, I will ask Oonagh Gil or Morag to clarify that. I am not aware of anything myself.

Dr Morag Watt: I can certainly confirm—I am not close enough to the project group itself—that, as I understand it, that option is still on the table and is still being considered by the consultants.

Chair: Could you maybe write to Mr Thomson in more detail? Thank you.

Q36 **John Lamont:** The UK Government and the Scottish Government normally provide roughly equal amounts of funding for these growth deals. How do you calculate the headline level of funding that you will provide?

Paul Wheelhouse: It is an important question. In previous examples we have been led by the amount of funding available from UK Ministers. There is obviously a concern about the devolved/reserved split, and we appreciate the tensions around that. In the past, we have certainly waited for guidance from UK Ministers—most recently in the Stirling and Clackmannanshire deal.

The initial indication was that the UK Government could commit a budget of £50 million, so the Scottish therefore looked at options costing around £50 million to contribute to the ultimate package. In practice it ended up being £45 million from the UK Government and £50 million from the Scottish Government, because of the additional resources that we put in. We would certainly start from the position of trying to work with UK Government colleagues to find out the quantum that they can commit and then working to match that.

Q37 **John Lamont:** I have the most connection with the Borderlands growth deal. It is currently being evolved and worked out. Do the Scottish Government have a figure in mind so far?

Paul Wheelhouse: I'm not aware that a figure for the contribution sought from either the UK or Scottish Government has been formally discussed. I appreciate that I missed most of the evidence given earlier, but my understanding from colleagues in the south of Scotland—I should declare an interest as a resident of the south of Scotland—is that a piece of work is being done by Regeneris to look at the composition of what should be put into the Borderlands deal.

We understood that that would come forward by autumn, but I caught a colleague from Dumfries and Galloway Council saying that that might be as early as September, so we would then have an idea as to what kind of projects our partners in borders are looking for. We already have an idea of the themes—for example, energy, digital and food and drink—and that is very helpful, but to get an idea of the quantum that is likely to be required from the Scottish Government and the UK Government, I guess we will wait to see what comes out of the exercise that is being undertaken with Regeneris—the economic consultants that have been appointed.

Q38 **John Lamont:** Lastly, there have been some press reports recently that the Scottish Government were considering withdrawing from the JMC procedure, by which the growth deals were being approved. There was further speculation that that might scupper future growth deals. Do you want to comment on those reports from the Scottish Government?

Paul Wheelhouse: I can certainly say that we are working on the basis that the Borderlands and Ayrshire growth deals and the Tay Cities deal will come forward. We are asking for those to be taken forward. I am not aware of any plans to withdraw. I will confer with my colleagues, Oonagh and Morag, who have got longer experience of this. I am not aware of any such commitments to leave the JMC.

Q39 **John Lamont:** I think it was in the *Courier*. There was some chat that the Scottish Government were going to retaliate.

Paul Wheelhouse: I am sure there is always plenty of chat in the *Courier* about the Scottish Government.

Oonagh Gil: I am not aware of that.

Paul Wheelhouse: It is not something that appears anywhere in my briefing—put it that way. It is not something that is deemed to be an official line.

Q40 **Chair:** My apologies to Mr Killen—I will bring him in shortly. While we are on specific city deals—I declare an interest in Tay Cities, obviously—what is the reason for the delay? We were told that we should expect an agreement on the Tay Cities deal at the beginning of this year. We have found that Stirling and Clackmannanshire has now gone ahead of Tay Cities. There seems to be some suggestion that this is about the UK Government's failure to meet the Scottish Government's match funding of the quantum. What is your understanding about the delay of the Tay Cities deal?

Paul Wheelhouse: In truth, there is a bit of a black box around the UK Government's position on this. I assume you will be able to ask Mr Mundell in the next session about the reasoning for that. Originally, the city deal partners came forward with ambitious and bold plans. They probably then recognised that the total quantum of funding that they were looking for might exceed what was likely to be available. They have come back with requests for at least £400 million in total from the two Governments. We are happy to move to a heads of terms agreement on that basis, and we have indicated that to the partners and, indeed, to Mr Mundell.

The letter that Keith Brown sent on 13 June to the Secretary of State—David Mundell—made clear our commitment to try to achieve a heads of terms agreement by the end of June. The feedback we have had through officials, rather than as a direct response to Mr Brown, the Cabinet Secretary, indicates that mid to late July is the earliest that the UK Government can achieve heads of terms. We don't yet have clarity on why that is the case. I don't know whether Oonagh can add to what I have said.

Oonagh Gil: You are quite correct that the Stirling and Clackmannanshire deal came ahead of the heads of terms for Tay Cities. That took up a fair amount of resource, in terms of engagement with our colleagues in the UK Government. Now that that has been delivered to heads of terms, we are absolutely looking forward to taking forward the Tay Cities deal to heads of terms.

Q41 **Chair:** Last one on this. Can we expect to see the heads of terms for the

Tay Cities deal before the Westminster recess, which is in two weeks on Thursday? Is there any possibility that that might happen?

Paul Wheelhouse: From the Scottish Government's perspective, we are keen to achieve a heads of terms agreement as early as we can.

Q42 **Chair:** And you are ready to put in place a heads of terms.

Paul Wheelhouse: We are ready to do that.

Q43 **Chair:** In your view, it is the UK Government that is having difficulties.

Paul Wheelhouse: Yes. There may be valid reasons for the delay, but we are certainly willing to move quickly. It is UK Ministers who will have to explain why there is a difficulty on that point.

Chair: I am grateful for that. Ged Killen—I am very sorry that you have to go last.

Q44 **Ged Killen:** When he gave evidence to the Scottish Parliament Committee, Dr Peter O'Brien of Newcastle University described the process of deal making to be "quite opaque and secret however you look at it". Do you agree with him, and do you think the decision-making process could be made more transparent?

Paul Wheelhouse: If people feel that, you have to acknowledge that transparency perhaps needs to be improved. I take that on the chin, from a Scottish Government perspective. However, deal proposals are developed by regional partners. It is important to recognise that. That is a very important part of our focus on how they are constructed. They harness their local intelligence to identify the best projects for their area, and then come forward with those and try to influence the amount of funding that can be attached to the deal. They then integrate that, as we have heard described this morning. They also close in on what can ultimately be agreed.

There are obviously areas where transparency is improving. I understand that you heard from Susan Aitken, just before I arrived, about what is happening in Glasgow. There are good examples of the integration of consulting with communities, such as in the Sighthill area, with the Glasgow north canal project. I think that is a good example of how there has been interaction with local communities. Therefore, hopefully, local stakeholders in that area feel that they have been well engaged and feel that they are part of the process, but we certainly respect the fact that this is largely driven from a local level. I think there is good governance; we are learning from governance as we are developing more city deals. Later projects will probably benefit from some of the governance improvements that happened in some of the earlier projects. That will help too, but if there are particular recommendations around improving transparency, of course we will listen to them, but it has to be driven, really, by local stakeholders. That is very important, so that what happens before they come to us is of their making.

Q45 **Ged Killen:** Part of the problem is that each local authority is individually identifying a range of project and then coming together to decide which of those will be advanced. It is that point—which projects were considered originally, which were chosen and why were those that were not chosen rejected? That is certainly the conclusion that came out of the Scottish Parliament Committee report at that stage. It is all well and good at the planning stage—Sighthill and Cathkin relief road in my constituency; I was a councillor for that ward—and a lot of engagement goes on, but, given what we have heard, it seems to be at the point where the projects are selected that there is an issue. Is there anything more that could be done there?

Paul Wheelhouse: Perhaps there may be. It might be helpful to explain that there is good engagement with our industry leadership groups, for example, so where there are sector-specific proposals in areas like life sciences, where there have been a number of examples, or in digital, we would hope—I believe this to be the case—that there would be interaction through Scottish Enterprise with the industry leadership groups to ensure that there is a coherence between what is proposed at a local level in terms of projects that are put on the shortlist and what might fulfil the needs of key sectors. Equally, we would want to see similar arrangements for other communities of interest, such as communities themselves and other stakeholders at local level. There is good work going on in the background. Could that be more transparent, given that you are expressing concerns about this, and Mr O'Brien has also expressed concerns? Perhaps there is room for greater transparency. I do not know whether Oonagh, who is probably closest to this, can add something of value to give the assurance to Mr Killen.

Oonagh Gil: We certainly recognise the criticism coming from the Local Government and Communities Committee of the Scottish Parliament, and the delivery board is looking at that very point and will take forward some thinking on that around how, across both Governments, we can improve the transparency of that decision-making point.

Q46 **Tommy Sheppard:** Good afternoon. You said, Minister, that you hope this will go forward on a 50:50 basis with the UK Government; it more or less has been up to now—the Scottish and UK Governments putting in the same sort of quantum of money. I would be interested in knowing, from your perspective, when it is decided what the level of quantum will be for any given deal. Do you know now, in advance, or is it done after the bid process when you see what sort of projects might be capable of being funded?

Paul Wheelhouse: The truthful answer to that is it can often be at the very last minute. As we saw in Stirling and Clackmannanshire, within the final month up to the deal being signed, there was significant chopping and changing in terms of the quantum of funding that was available. I was addressing a point to Mr Lamont before he had to head off. We started from a position where we understood that £50 million was the target figure. At one point, it dropped as low as £35 million that the UK Government was committing. It went back up again, down again and up again.

In the last 24 hours, there were several changes to the projects that were included and the quantum of funding that was being committed. That is frustrating. Thankfully, a deal was reached, so all's well that ends well, which is important in this case. But there is no doubt that it is a frustrating process. It would be helpful to have a little more transparency. I referenced earlier that I believe the processes from a UK Government perspective are far more complex in reaching agreement than those for the Scottish Government. We have a leaner process to reach agreement than perhaps is the case for the Scotland Office and their parallel teams in BEIS and other Departments. It might be more complicated. But there is certainly a fair degree of change that is undertaken, even at the last minute, as we saw in Stirling and Clackmannan.

If it would help, Chair, we could provide details of the final approach to that deal, which would give some sense of the complexity of the changes that were happening even in the last hours.

Q47 **Tommy Sheppard:** So the bid process isn't just a matter of setting priorities within a predetermined quantum; it can actually upscale the project itself.

Paul Wheelhouse: Yes. As I say, there were certainly significant changes. We started with the figure of 50 and ended up with 45.1 being committed by the UK Government. We matched that 45.1, of course, and added in £5 million of further funding to help with the Kildean business park and some infrastructure in Callendar as well. We had always had 50 in mind, so that is why we were able to do that, but there were significant changes in the UK Government's asks of us, and the project mix, even up to the last few hours.

Q48 **Tommy Sheppard:** The reason I ask is that I have picked up a degree of frustration from those involved in the Edinburgh bid, with people saying, "We're working up projects that will never go anywhere. If we knew exactly how many millions we were bidding for we could come up with something to fit that". I am not sure whether you are aware of that frustration being extant in other places.

Paul Wheelhouse: I am aware, certainly from Scottish Cities Alliance discussions and from meeting the stakeholders in respect of the FinTech sector, that there are projects in the city region deal that are in that space, around Quartermile and in other areas, that were being discussed. I can understand the frustration, maybe with the lack of certainty about the overall quantum, but it is important that we interact with the team leading the process from the local government angle regarding the prioritisation of their projects, so that they can help us with which are the most important ones to them and to live within whatever envelope is available. To some extent, that may guide how much funding is committed as well. Ultimately, in a situation where public finances are tight, it might even help: if a very compelling list of projects comes forward you might go a little further than you had otherwise planned because you can see the importance of the projects and their potential impacts. It is important to have that engagement. It is led from the local authority and local partners' direction. They come forward with projects they believe might have an impact. Obviously, if the projects are closely tied in with local economic strategies, sector strategies, the Scottish Government economic strategy and, indeed, any parallel commitments that UK Ministers are looking for in terms of their economic strategy, they are more likely to be strong projects in the first place and have a high chance of success.

Q49 **Tommy Sheppard:** Moving on to a different point, any given city deal will have a number of different funders and probably an even greater number of deliverers, so do you think the current accountability mechanisms for the management and governance of the deals adequately reflect that? My supplementary question, which I might as well ask now, is: from your perspective, where does the buck stop if the thing goes very badly wrong?

Paul Wheelhouse: Ultimately, the reality is that Ministers and local partners both have a responsibility. We have the responsibility to make sure that public money is spent wisely and that there are good returns on Government investment in projects. Clearly, there is a strong role for local partners in terms of accountability and responsibility for the delivery of the projects they have brought forward. The accountability, to some extent, is shared, but for different purposes. We have the oversight, the need to ensure that taxpayers' money is spent wisely, but equally we have accountability to local stakeholders and, indeed, to ourselves and to UK Government Ministers. Local partners need to be able to deliver on what they have committed to do. Once the funding is given over to them, the delivery of the project is managed locally, as we see in Glasgow with the cabinet approach, and in other areas with their bespoke delivery methods in each case. That responsibility is shared across the local government partners in each growth deal or city deal. I don't know whether Oonagh wants to add to that.

Oonagh Gil: I just want to say that the remit of the delivery board that I jointly chair is in large part to ensure that there is plenty advance warning of things not going as expected. I would hope that through that board and also through the internal monitoring mechanisms we have—my team speak regularly to partners who are delivering city deals—we are absolutely alert to when projects are not performing as expected. We can then engage early to understand that and to support decision making on what the best step is. As the Minister said, these are public funds, so there is of course a duty on all partners to make sure that they are deployed really to best effect and that we are as sharp as we can be in terms of ensuring that that delivery is happening as expected.

Paul Wheelhouse: I will add that ultimately if the board decide that something is potentially serious, they would escalate that to Ministers for ministerial action, as well. Typically, it will be led by senior officials, such as Oonagh, in terms of the board, but if they feel it is necessary to escalate and to get Ministers involved, from either the UK Government or the Scottish Government, then that is what would happen.

Q50 **Chair:** How would that work between you and the UK Government then?

Just say there was a project in difficulty and you identified it as failing. It would come to your desk, Minister. How then would that be communicated to the UK Government?

Paul Wheelhouse: I anticipate that there would be dialogue around the impact of this on the overall delivery of the city deal, of course, and there are risk registers that I have maintained for each of the deals. That helps to flag up, hopefully well in advance, when a problem becomes a serious one—maybe something that is going into amber, rather than red. But early action can prevent it becoming a serious issue.

Clearly, we would want to engage with UK Government colleagues. With the exception of Inverness, these projects are all 50:50 funded and therefore we have a joint interest in making sure that projects are either brought back on track, if they can be, or that alternative projects are identified.

The gateway process in Glasgow will obviously take five new intervals, 2019 being the first one. We will take decisions about how the next tranche of funding is to be allocated and obviously if there were concerns about any of the projects they could be addressed at that point.

Q51 **Tommy Sheppard:** Again, I am speaking just from the Edinburgh perspective, but two of the major players in the city deal there are the health service and the universities, both of which are in charge of large amounts of public money that ultimately they get from the Scottish Government on behalf of the Scottish taxpayer. I am wondering, within the Scottish Government, do you have the capacity to think strategically across Departments? Is there any communication you have with colleagues in health or in higher education about how an objective such as social inclusion is being driven through different Departments, and then connecting up and having influence on the City deal, not just from the Scottish Government's direct source but indirectly through other agencies as well?

Paul Wheelhouse: We do work on a cross-portfolio basis. If I may, because it's related to something that has happened historically before I took on this responsibility, I will bring in Oonagh on this point, just to address that.

Oonagh Gil: Absolutely. The team that Morag heads up has responsibility for making sure that across the Scottish Government we are really strongly connected with our policy colleagues at official level. One of the opportunities that city deals bring is indeed that dialogue and discussion, and the opportunity to make sure that we make more of the collective investments and commitments, and that we join up across projects to deliver better outcomes. Certainly at official level throughout the Scottish Government, we are doing what we can to make sure we have that discussion with colleagues and with those beyond, in delivery partners.

Dr Morag Watt: Absolutely. Across the Scottish Government, across the policy areas and then beyond, I think the effects are going beyond, into the universities themselves.

Q52 **Paul Masterton:** I will just return to a point that Tommy made earlier about some of the criticisms or comments that he has heard in Edinburgh, which I understood are around funding. I suppose it is a bit of a chicken and egg scenario, because if you, as the Scottish Government and indeed the UK Government, were simply to say, "We want to do this really good deal and we're going to give you x million pounds. Off you go!", the local authorities will just try to plug that gap.

You have rightly identified, from a Scottish Government perspective, the fact that you're looking for a return on your investment. So there is some sense in making local authorities do the groundwork, in terms of identifying strategic projects that you can then make a decision about how much funding you may then want to be part of, rather than effectively just writing a cheque for them to go off and do their own thing with it.

Paul Wheelhouse: I think that is right, and I suppose there is always a danger—you will see this at local level when you are dealing even with smaller community projects—that people try to make the project fit the funding, rather than finding the funding to fit a good project. We are trying to see local partners come forward with strong projects that will deliver economic growth and prosperity and, in the case of the Scottish Government's interest, tackle inclusive growth. We then want to pick the best of those projects, get their sense of the priority they place on the projects as well and engage with them on that level. You will get stronger projects, with people designing good projects, without necessarily knowing how much money they have to fit, but I do understand the frustration at the local level, as a number of Committee members have mentioned, in that, in an ideal world, you would want to know how much the overall package was worth and then prioritise, but that is part of the process. Once the original list has been drawn up, we focus on those that will have the most impact on the local level.

Q53 **Paul Masterton:** Part of the reason for these deals is to help economic development in areas. A lot of them are also targeted at regeneration, and obviously the funding is a huge part of that, but have you given any consideration in the Scottish Government not just to providing funding and support, but, linked to that, whether there is an argument for additional devolution of powers down into local authorities, to help them to take more control over these issues on a day-to-day basis, rather than temporarily handing over powers to deliver a project that are ultimately still devolved to Holyrood, rather than to local authorities?

Paul Wheelhouse: I suspect we will probably look very closely at that area in relation to the Islands deal. We have not yet discussed it today, but it comes out of engagement with the three Island authorities and authorities such as Argyll and Bute, North Ayrshire and Highland, which also have islands with populations on them. Because of the Islands Bill, which has just been passed in the Scottish Parliament, we are looking to reflect, where we can, on Island-proofing our approach. One of the asks of the Island authorities, and the wider network of authorities, has been around giving them responsibilities at the local level. Those are discussions that we have yet to have, but we will be having them.

That is the most obvious area, in the deals that have been discussed, where those kinds of issues are likely to arise, but as we have discussed already, there is obviously a lot of responsibility being taken on by local partners in the Glasgow, Aberdeen city/shire and other city region deal areas for delivery. We have placed a lot of trust in them: we believe they are capable of doing that, as I am sure that UK Government colleagues would agree. We are having those kinds of discussions, certainly in the context of the Islands deal.

Oonagh Gil: We are very happy to have discussions with regional partners on exactly that sort of issue, and are connected up with our colleagues who are working on the local governance review in Scotland, which is of course another place for that kind of dialogue to take place.

Q54 **Deidre Brock:** Minister, this leads on from who is ultimately responsible for the success or failure of a deal, but I wanted to ask you about a specific incident that has been brought to my attention. I have a copy of a letter sent to the Secretary of State for Scotland from the leader of Clackmannanshire Council regarding her concerns about the announcement by a local MP, Luke Graham, that he is setting up some sort of forum to consult on how the Clackmannanshire deal is done, apparently in opposition to the local authority's own Clackmannanshire commission. It is causing considerable confusion for stakeholders—they are not sure who they are dealing with—and, I am told, potentially involves UK civil servants. I was wondering, first, whether you were aware of that and, secondly, what sort of legitimacy that sort of forum would have in the city region's formal process.

Paul Wheelhouse: I suppose it is frustrating for us as well. I do not want to be overly critical, but one aspect of the ultimate package, which relates to the Clackmannanshire element of the Stirling and Clackmannanshire deal, is that a business case has to be provided to the UK Government by next summer. I will just check the month; I think it is—

Oonagh Gil: May.

Paul Wheelhouse: May of next year; thank you. The funding that has been identified from a UK Government perspective—I appreciate that the money going in is around £8 million—is conditional, which, as I understand it, is unlike any other aspect of the city region deals that we have dealt with so far, in that a process has been established where the business case for just one part of the regional deal has to be cleared by UK Ministers next May. That means, effectively, that there is no certainty from the local stakeholders' point of view.

I am not aware of the detail of what Mr Graham may or may not have suggested—I have not seen that—but clearly the governance structures that we have talked around already are very much Government to Government, and Government to local authority partners. Ultimately, we want to have accountability through the local government partners in this instance, and for them to engage in whichever way they believe to be appropriate with local stakeholders as to how that money is identified.

Again, if I may, I shall bring in my colleagues Oonagh and Morag, who have been involved in the latest deal. They may have a view on that.

Q55 **Chair:** Just before you do, this is really concerning. I have the letters here from Councillor Forson who, as Ms Brock identified, is very concerned about the process. It is all right for Members of Parliament to take an interest in how money is going to be spent, but the attendance—I think I have still got Mr Graham's letter here—of UK Government officials at the meetings gives a sort of stamp of credibility and authority that would not be afforded to any other Member of Parliament. There are strict guidelines when it comes to the governance of city deals—how could this be accommodated?

Paul Wheelhouse: I do think that it is important to maintain boundaries. Certainly as a representative of the south of Scotland, I have to maintain these boundaries myself, even when I am acting as a Minister. In avoiding confusion, I think that that is perhaps an unfortunate suggestion that has been made in relation to Clackmannanshire. I can quite understand why the leader of the local authority is frustrated by that process. Perhaps I should invite Oonagh to comment on any knowledge she has of what is proposed.

Oonagh Gil: Just to note, this is quite an unusual element of a city deal. The proposition in the Stirling and Clackmannanshire heads of terms is up to £8 million of the funding specifically for Clackmannanshire, subject to—as I understand it—business cases being agreed in outline by the UK Government by May next year. Certainly our expectation is that that is for regional partners to develop their thinking around the propositions and how best to secure the outcomes that we are looking at. That is how we would expect that to be taken forward.

Paul Wheelhouse: You will appreciate that it is difficult for Oonagh to say this, but I would be concerned if one of the local authority partners is concerned. That does raise some flashing lights and alarm bells for me. We will have to listen very carefully to the concerns raised by the local authority. Stirling, obviously, as one of the partners in the city region deal, might also have a view as to whether that is an appropriate precedent for it and its own activities.

Q56 **Paul Masterton:** We started to touch on this earlier, but generally the city deal projects have proceeded okay, with the usual difficulties in infrastructure projects of this size. Ultimately, if a local authority were failing to deliver in terms of what it had signed up to and committed to, would the Scottish Government look to intervene, in effect to take back to control, to see that project through if necessary?

Paul Wheelhouse: As Oonagh suggested earlier, I would hope that we do not get to that point. The risk register will have been applied, so anything would be flagged up as a concern. We would have engagement through the strategic boards and with the local partners, on what has gone wrong here, what is the problem and can we help. We recognise that different sizes of local authority are involved—that was a point made in the context of the Scottish Parliament's Local Government Committee reports on the resource levels of different local authorities. Clackmannanshire is one of the smallest in Scotland, for example, and Glasgow is the biggest. Therefore, there may be different capacity issues that we have to address, so we could step in to help at a much earlier stage, if it has a professional support requirement perhaps, or to help by other means. We would hope to avoid that situation, because it is not something that we would do lightly, and we would have to have a discussion with the local authority and private sector partners involved, where appropriate, and with UK Ministers, as to what the best course of action is to take. We wouldn't take a precipitate decision, and I would hope not to get there anyway with proper governance and accountability in place. We would have a tripartite conversation, rather than taking a unilateral decision.

Q57 **Paul Masterton:** It is not a massive concern, but because all the keystone city deals were quite successful, there has been a real rush to cover every part of Scotland with a city or regional deal. I know there is a clear process in place around governance structures and trying to get it through, but I suppose I have some concerns that in the rush—this is as much a UK Government policy initiative as anything else—to get all of Scotland covered and push these things through very quickly, we might end up with some projects down the line not being quite as well thought-through as the initial deals were.

Paul Wheelhouse: That is clearly a very respectable position to take on this. We would want to avoid dragooning people into a position where they were moving faster than they ultimately wanted to. There are some growth deals that are maybe at a single local authority level. It could be Argyll and Bute or Moray Council—it is proposed that Moray Council would take forward discussion—or Falkirk. These are areas where a lot of good work is being done. I am aware of the work in Falkirk in some detail.

We would not want to push local partners faster than they can go. If anything, we are trying to respond faster, as we have heard in the case of the Tay Cities deal, to meet the aspirations of local partners. Appropriate checks and balances have to be applied to ensure that they go through a sense check and the projects are going to be viable, but we also have to trust that local partners are capable of delivering as well. It is about being as positive as possible, saying, "If you need help, ask for it, because we are willing to give professional support, if that is needed."

Q58 **Chair:** Can we just talk about the devolved/reserved space elements of how these matters are funded? I am particularly referencing the Scottish Parliament's Local Government and Communities Committee, which recommended that the UK and Scottish Governments should work together to agree a funding system for city region deals not restricted by the "artificial boundaries of what is a reserved project and what is a devolved one". Do you think there is a problem with this distinction between funding from the two Governments?

Paul Wheelhouse: We take the view, as I said in my opening remarks, that to some extent this is arbitrary. I understand, particularly in relation to UK Government funding, that there may be issues regarding whether it is the Treasury, BEIS or other Departments, such as DCMS in the case of digital investment. There are internal structures there that need to be restricted. When we are talking about Borderlands, it becomes even more complicated, because of the cross-border element. Some responsibilities are devolved, so the Scottish Government will potentially be funding those activities in relation to Scottish local authorities, but the UK Government will be doing the reserved and devolved spends south of the border.

I recognise that there are different structures in place that the UK Government have to live with, so it is perhaps too simplistic for me to say that it should be easier, but we do think that to some extent the division is arbitrary. If the economy grows and there is more rapid growth in gross value added and GDP and greater equality within the population, you will see improved economic outcomes for the UK Government and the Scottish Government. We will effectively be helping to deliver the UK Government's aspirations, as well as our own aspirations in Scotland. It should be a win-win for both Governments. Perhaps there is room for flexibility.

Q59 **Chair:** I just wonder whether it puts added pressure on the Scottish Government. When Lord Duncan was last in front of this Committee, he prefaced this with, "Unfortunately, everybody wants a bit of Scottish Government money right now because it is mostly for infrastructure that local authorities have pitched for". Is there a sense in these city deals that there is more demand for what would be included in the devolved space? Does that put any extra pressures on you when you raise this with UK Government? What do they say in response to any of these concerns?

Paul Wheelhouse: On that latter point, I might ask Oonagh and Morag to come back in, but in terms of the principle about the Scottish Government being under pressure on infrastructure, certainly we are. We are obviously the Government responsible for investment in roads and other key investment in infrastructure. On digital, there is obviously an unusual situation where the Scottish Government are investing in an area that is ostensibly reserved, but we are trying to show that Scotland has achieved a higher performance than would otherwise be the case if it had been left to the vehicles in place at the UK level.

Clearly there is enormous pressure. In relation to the overall scale of impact of the city deal process on capital funding, I think it is around 3% in terms of the annual commitment for 2018-19. The cost to us of our commitments on the city deal is about 3% of our total capital spend. We are committing more than £700 million to the Aberdeen western peripheral route, outside of the city deal process in relation to Aberdeen city and shire, and Balmedie to Tipperty road. Together, that is a three quarters of a billion pound package. The Queensferry Crossing project is outside any city deal process—that is a £1.3 billion investment. We have a £3.6 billion investment programme in the financial year to come, subject to budgets.

Q60 **Chair:** Would it be fair to say that the UK Government should be a bit more relaxed about helping to fund? I know they say that they are not prepared to double-fund expenditure in Scotland, but apparently they are able to double-fund in Northern Ireland in order to secure a coalition arrangement. I just wondered whether there is any way that we can impress upon the UK Government that they could maybe loosen it up.

Paul Wheelhouse: We certainly agree with that. I know the former Cabinet secretary Keith Brown very much believed that there was perhaps greater room for flexibility on that, and that perhaps some of the divisions between devolved and reserved in terms of spend in this respect were artificial or at least arbitrary.

As I say, we do understand where they are coming from, but in the context of the package that has been offered to Northern Ireland, there is obviously some debate between ourselves and UK Ministers around whether that should be Barnettised or not. If it were, Scotland would have received the equivalent of about a £3 billion package. That is therefore a significant issue for us, but on the deals that we are talking about, we believe that we could probably move faster if there was less concern about the double counting issue. I do not know whether Morag would want to add to that.

Q61 **Chair:** Don't feel you are obliged to, because we have in fact run out of time. We are very grateful to you, Minister, for your appearance here today. I know you are new to this brief, but thank you ever so much. It was a very helpful contribution. If there is anything else that you feel we might have missed or you could usefully contribute to this very short inquiry, please feel free to get in touch.

Paul Wheelhouse: We will do. There is some detail there that we have committed to provide to you, so we will do that.

Chair: I know that both your civil servants were taking notes, which was helpful too. Thank you very much.

Examination of witnesses

Witnesses: David Mundell, MP, and Gillian McGregor.

Q62 **Chair:** Secretary of State, we are very grateful to you for once again appearing before the Committee to help us out in this very short inquiry concerning city deals. I understand that you now have exclusive responsibility for this area, which is no longer within the remit of Lord Duncan. Is that right?

David Mundell: Within the Scotland Office we allocate matters among ourselves, and I am focusing on city deals.

Q63 **Chair:** We are very grateful to have you today. I think we all know who you are, but please give anything by way of a short introductory statement.

David Mundell: I first want to introduce Gillian McGregor, who is the director of the office of the Secretary of State for Scotland. She will give evidence alongside me today. I wanted to clarify one point, in case there had been some misunderstanding in the media about the nature of this meeting—that it was an emergency or urgent meeting. I was invited back on 15 May to attend this meeting, so it was certainly one that I had scheduled. I will be doing an equivalent meeting in the Scottish Parliament when they return after the recess.

The UK Government launched the city deals programme in December 2011 with the publication of the "Unlocking growth in cities" White Paper. This set out our ambition to transfer powers and decision making to local leaders and businesses to support economic growth. Subsequently, the localism and decentralisation agenda has evolved, with the UK Government agreeing growth deals with 39 local enterprise partnerships across England that will see around £13 billion invested in local economies.

To further demonstrate the UK Government's support for localism, we introduced devolution deals, which meant additional powers, funding and accountability, with policies and functions in local areas in England. Most notable among those is the devolution of the health and social care budget of about £6 billion to Greater Manchester. We want the deals to be an important catalyst for cities, implementing new governance arrangements, developing economic growth strategies and increasing capacity to manage devolved funding and spending.

The city regional growth programme in Scotland started in 2014. We now have five agreed, with three more in negotiation. So far, the UK Government have committed more than £1 billion to support the programme. The UK Government's objective for each deal is simple: to support balanced economic growth and to improve the health of the local, regional and national economy. Glasgow and Clyde Valley was our first Scottish deal, in August 2014. Subsequent announcements paved the way for negotiations with Aberdeen and the north-east, Inverness, Edinburgh, Stirling and Clackmannanshire, and Tay Cities. That means that we have a deal either agreed or in negotiation for each of Scotland's cities. We have also announced our support for an Ayrshire growth deal and for a Borderlands deal, which will be a cross-border arrangement covering local authority areas in the south of Scotland and the north of England. I hope we will shortly be in a position to announce a Moray growth deal.

Each deal is bespoke to its city region and includes a range of projects brought forward by local partners that are meant to be a coherent, long-term economic programme over 10, 15 or 20 years. In Glasgow and Clyde Valley, there is a £1.13 billion infrastructure fund that is supporting 20 projects across the region. We have a £180 million oil and gas technology centre in Aberdeen, which is driving world-leading innovation. There is investment in digital connectivity in the Highlands. Each deal is locally driven and is meant to be a key component of growing Scotland's economy and improving people's lives. At their heart, city region deals are about collaboration. They are a tripartite arrangement between the three levels of government in Scotland.

It is important to appreciate that city region deals have brokered a new way for Governments to work together, from the regular ministerial discussions on deals, to the joint negotiating workshops that we hold with our partners and the delivery board between our officials, on which the director will be able to answer your questions.

Q64 **Chair:** Is there anything to add, Director McGregor?

Gillian McGregor: No, I have nothing to add to that. I am very happy to answer questions about the governance arrangements in place with Scottish Government colleagues.

Q65 **Chair:** You said in your introductory remarks, Secretary of State, that this is a new way for Governments to work together. All of us who have observed this process have been encouraged by the way the different Governments have worked together, characterised by a 50:50 commitment on the quantum of spending. Could you talk us through how you think this working arrangement will work? Are there any issues you feel will need to be addressed? Are you satisfied with the way this has worked out?

David Mundell: I think in any such arrangement you always learn as you go. We have learned from Glasgow and Clyde Valley, which was first, and from working through the different deals. One decision I am very clear on is that we should have the appropriate governance and operation arrangements in place that are bespoke and appropriate to each deal, because the number and range of partners has been different. If we look at the Inverness deal, you have a local authority involved that is very closely co-ordinated with Highlands and Islands Enterprise and accustomed to working very closely with it. When we came to take the Edinburgh and south-east Scotland deal forward, you had a significant number of local authorities who were not really accustomed to working together on a regular basis in the same environment. There was not a pre-existing structure for them to slot into. That deal also has significant involvement from the universities.

I have concluded that bespoke arrangements are best to fit the local circumstances, provided we have in place the overall governance arrangements that we would want with our colleagues in the Scottish Government.

Q66 **Chair:** You mentioned local authorities. Most of this is local authority-driven. How do the UK Government assess proposals put forward by local authorities, and on what basis are those decisions made?

David Mundell: Ultimately, decisions are made based on Treasury rules; the Treasury requires to be able to sign off that they can fund individual proposals. However, it is generally a collaborative effort with the Scottish Government. Proposals evolve from their starting points. A whole range of proposals are brought forward. Sometimes they are quite blue sky at the start. Sometime they are proposals that people have had available for a period of time and have taken from the shelf and dusted them down. Sometimes they simply evolve as the circumstances go forward.

Each proposal that we deal with has to gain the Treasury's approval. I don't think that anybody in this Committee or any other Committee in this Parliament would expect otherwise. It is my understanding, from my dealings with the Scottish Government, that they have to go through these objective financial tests. For example, when we did the Stirling and Clackmannanshire deal, because the then Minister, Mr Brown, was a local Member of the Scottish Parliament, the matter was referred to Mr John Swinney to evaluate and to be the connection with the clearance process, as I think it might be called, so that those objectivities remained in the process.

Q67 **Chair:** I am just wondering if there is any tension at the heart of some of the processes engaged by the UK and Scottish Governments. The UK Government have been very clear about the Treasury rules and about GVA having to be at the heart of everything and having to correspond with the industrial strategy. However, we just heard from the Scottish Government Minister that at the heart of what they are about is inclusive growth. Do those different approaches present any problems?

David Mundell: In practice it hasn't. I am aware of projects on which we have taken a different view and one of us has funded that project and the other hasn't, but I am not aware of a situation in which a different view on growth was an issue. For example, in the most recent deal that we have been involved in—the Borderlands arrangement, which will cover the south of Scotland and the north of England—I am quite happy for it to be referenced as an inclusive growth deal, even though it will apply across the north of England, where we would not necessarily use that term.

The Scottish Government clearly see the deals as an opportunity to reduce inequality through their interventions. We see them as an opportunity to increase growth, and in so doing reduce inequality. Our objectives are fundamentally the same. We may have a different terminology and emphasis, but the objective is the same. That is why I think we have been able to go along quite comfortably together.

Q68 **Chair:** It is just a difference in emphasis, not in approach. Is that how you would characterise it?

David Mundell: That's how I would characterise it.

Q69 **Tommy Sheppard:** Secretary of State, would you intervene if you felt a local authority was not delivering on a deal?

David Mundell: There are two elements to that. If the governance structure—Gillian may be able to say a little bit about that at this stage—fed back that there were significant issues, I think we would want, in conjunction with the Scottish Government, to engage in a dialogue with that local authority and to understand the issues and circumstances.

Obviously some of these deals are for a very long period of time, in relative terms—15 to 20 years—so I envisage a wish to have a re-evaluation as we move forward. I think you heard earlier that we are going to have the five-year gateway review in relation to Glasgow. At that point, Glasgow City Council and the other councils involved may have changed their priorities and there may be a wish to have a further discussion. If we got to that point and someone said, "X council has completely failed to deliver any of the things that it undertook to deliver," I would see the way forward—that having come through the board—as a discussion between ourselves and the Scottish Government and then a discussion directly with that local authority. Gillian, you might want to touch on the board structure.

Gillian McGregor: Yes, I can say something about the different levels. As the Secretary of State pointed out, the local partners are key to all this, and we have regular dealings with the local partners and local authorities who are drawing up the projects. There is then a working group at Government level, which comes together to review what is happening on individual deals.

One of the key things we have set in place for governance is our Scottish city region deal delivery board, which we chair jointly with Scottish Government colleagues. That is a chance to look at the city deals across the board and pick up any risks and challenges that emerge. We have an escalation process, so if we felt something were going seriously wrong, we could escalate it to our respective Ministers, but in that board, which works well—it meets quarterly; it has met three times this year already—we have a good process for trying to resolve those issues before they get to the point where we have to escalate them to Ministers.

Q70 **Tommy Sheppard:** My experience is with the Edinburgh city region deal. I may be wrong about this, but it seems to me that once the agreement is reached, the various funders put in money, which goes into a pot, so it is pretty much impossible to ring-fence UK Government money for a particular project and say, "That's been spent on that." That is why I am trying to tease out whether you think this process of accountability and governance, which gives all the people putting money in the ability to intervene, is adequate. Ultimately, where does the buck stop? I appreciate that you would want to talk to the Scottish Government if you felt it was really not working, but is there a way in to take corrective action?

David Mundell: The funding mechanism means that we adjust the block grant and our funding goes directly to the Scottish Government to distribute to the local authorities. Some people may suggest that they could then use that money for some other purpose, but there have been no issues of that type and I do not have any concern about using that mechanism. We would have concerns if we allocated funding for x and then x showed no sign of happening or was changed to y without any discussion, but I am satisfied that the mechanisms that are in place do not really allow for that to happen. Because their focus is on major projects, there tends to be a relatively small number of projects in each deal. That increases our ability to keep an eye on them, so to speak.

Gillian McGregor: Part of this is making sure that we have effective follow-up with each city deal as it progresses. As part of our evaluation, with Scottish Government colleagues, we are embarking on annual conversations with the partners who are leading on the city deals about what has gone well and what the challenges are. To add to the governance, we will be going through proper gateway analysis of projects, so I am satisfied that the governance arrangements are in place to spot when things are going wrong and to ensure that the money is being invested in the way that was intended.

Q71 **Tommy Sheppard:** Can you say a little more about the joint delivery board? How does that operate in practice, and what happens if there is a difference of opinion between the UK Government and the Scottish Government?

Gillian McGregor: As I mentioned, the joint delivery board meets quarterly. Those are the formal meetings. They are half-day meetings, where we run through all the different city deals and work out where we have got to on them. That is not the only time we meet—there are regular conversations between the people in our office and our Scottish Government colleagues as we go along with these deals. We have developed the relationships to the point where, if we have differences of opinion or differences of approach, we are able to have those conversations in a constructive and open way.

It is often a case of different emphasis. I think at the end of the day we have a good relationship, because we know we are trying to deliver growth for Scotland and we have that as a common theme. If there are differences of opinion, we as civil servants would seek to deal with them in a constructive and effective way, so that we can cut through it.

However, there are occasions, particularly when we are getting to the point of a deal being signed off, when it can get quite stressful, because the timescales are such that we are all under a bit of pressure, but I am sure that Scottish Government colleagues would agree that we manage to cut through that and deliver what we are supposed to deliver.

Q72 **Chair:** On that point, we know there is a particular issue with the Stirling and Clackmannanshire deal that was just signed off, hence the reference to it all being very last minute. Why does it need to be so last minute, when so much planning goes into this in the run-up, where projects are discussed and debated?

David Mundell: I agree with you, Mr Wishart, in a sense, and it’s not just these deals. I just think there is an institutional way of working where everything does end up at the last minute. We have talked about it in the Chamber in relation to issues that affected the EU and other negotiations that the UK Government and the Scottish Government have had. I think the wire is what focuses people. My preference would be to proceed on a more planned basis, but that just isn’t always possible.

Q73 **Chair:** Is it not the UK Government's responsibility to set the quantum—the amount of total funds that are dedicated to a particular project? How is that then decided? How do you decide how much to put into a particular deal? What is the basis criteria of actually doing this?

David Mundell: It has been assessed normally on the basis of the projects that have come forward and that are credible, and that can deliver economic growth and jobs as we would envisage them, and that's why. There is quite a lengthy evaluation of the projects. With some of the projects, there would be a universal view that that project was a good thing to do and everybody would be agreed. There are some projects, inevitably, that are a bit more speculative and that require a bit more filling-in of the blanks.

Our approach is very much to look at what projects have been put forward and what can we fund within those criteria.

Q74 **Chair:** While we are on specific deals, is it going to be the same with Tay Cities? We were told that that would be signed off early this year and we are now two weeks away from the parliamentary recess. I understand that Keith Brown at that point wrote to you to say that the Scottish Government are prepared and ready to go with the Tay Cities deal, so it is not really going to be a matter for them in terms of a negotiation. What is the hold up? When can we expect to see Tay Cities signed?

David Mundell: I would very much like the Tay Cities deal to be signed off as soon as possible. Obviously, I was in that dialogue with Mr Brown before he was removed, or changed—

Chair: Promoted, we say.

David Mundell: Whatever. We were in a dialogue. Mr Matheson, as I understand it, is now going to be responsible, and immediately on his appointment I have asked to meet up with him, because I want to be clear that his approach—not just to the financing, but to how we relaunch it—and the process would be the same.

Hopefully, once we have been able to have that discussion, we will be in a position to take it forward, because I fully appreciate that the partners are very enthusiastic, and that is very commendable. I was in Dundee, as you probably know, relatively recently. I met the chief executive and leader of the council. I was in Perth and I met the leader of the council there, and I had the opportunity to see the Perth City Hall project for myself, for example. I am very keen to go, and I hope that over the course of the summer we will be able to do that.

Q75 **Chair:** In your view, what is holding it up?

David Mundell: I think that now—I say this not in an accusatory way, because it is just about logistics—it will just take me and Mr Matheson to have a conversation.

Q76 **Chair:** Are the UK Government prepared to totally match-fund what was agreed as a quantum—this £1.8 billion that we keep hearing about?

David Mundell: I think that £1.8 billion has been mentioned in the context of all contributions and what they might bring about, but clearly that is not the level of quantum proposed, by either the UK Government or the Scottish Government. What we have been about is ensuring that we have evaluated the projects and that we have a view on what our contribution will be. I think that at this point in the cycle that is a dialogue for me and Mr Matheson.

Q77 **Chair:** Could you give the Committee any idea of what the UK Government are prepared to commit to the Tay Cities deal, even if it is just a ballpark figure?

David Mundell: Not today; but it will emerge. The other factor—I hope this will reassure you in particular, Chair—is that I want to see in the deal a geographic balance of funding across the region. I am very supportive of some of the innovative projects in Dundee, but we also want to see projects in Perth and Kinross, Angus and north Fife, so that is another criterion I have in mind when signing off the deals.

We know from the feedback on the Highland deal that there was a public view that it was very Inverness-centric. You will have heard Mr Stone, the Member for Caithness, Sutherland and Easter Ross, raise that issue, and your colleague Mr Blackford's constituents and councillors in Skye have raised it too. I am very keen to ensure that, as well as a total funding package, the deal can be said to have a degree of geographic balance.

Chair: It is an ambition that I share, Secretary of State, so thank you for that.

Q78 **Deidre Brock:** Secretary of State, I want to raise the issue of accountability and who is ultimately responsible for the deals. In particular, I want to raise something we discussed earlier with the Scottish Minister for Energy, Connectivity and the Islands. It relates to a letter sent to you by the leader of Clackmannanshire Council, in which she expressed great concern about an organisation that Luke Graham, MP, has announced he is launching to consult on how the Clackmannanshire deal is done, seemingly in opposition to the local authority's own commission, and it is suggests that it is with the use of UK civil servants. It seems that an MP belonging to your party has decided that he has no faith in your ability to consult people in the area, or indeed to deliver the deal. Can you tell us what you think of Mr Graham's behaviour in this regard? Do you think it would be better if the council was allowed to negotiate the deal with the UK and Scottish Governments itself?

David Mundell: I encourage MPs to be active and engaged, so I think that it is very positive that Mr Graham has been so engaged in the process, and that he fought and lobbied so hard to ensure a balance in the funding going to Clackmannanshire as part of the Stirling and Clackmannanshire deal. I don't think that his approach is inconsistent with that of the council in that regard. In his letter, which the council leader helpfully sent to me, he said that his forum will be able to provide input. It will do so, but it won't decide what happens.

Q79 **Deidre Brock:** But the council leader says that knowing which the authoritative body is causing a lot of confusion among stakeholders already. What official part can something like that play in these processes? There seems to be some question there.

David Mundell: I very much welcome Mr Graham's input and the input of MPs from across the spectrum. Mr Wishart's colleague, Mr Law, has been very active in the Tay Cities deal, for example.

Q80 **Deidre Brock:** Are UK civil servants involved in Mr Graham's organisations?

David Mundell: What happens is that if a Member of Parliament asks me to engage with civil servants on these matters, I am very open to doing that. I have done that across parties and across regions. If Mr Wishart or others want to engage directly with the civil servants, I am very happy for them to do so.

Q81 **Deidre Brock:** Do you think it is right, though, that MPs try to circumvent the proper processes in this way, using UK civil servants? I am sure we are all aware of the civil service code and how appropriate it is for them to involve themselves in potentially party political promotions. Should they be looking to the best interests of their constituents?

David Mundell: I don't think that is in any way an accurate characterisation of what happens.

Q82 **Deidre Brock:** Those are concerns that have been raised.

David Mundell: We have all been in the real world, where local MPs, councils and council leaders don't always rub up against each other smoothly. That is the nature of things. I think I might even have heard Mr Wishart be critical of Perth and Kinross Council from time to time.

Q83 **Deidre Brock:** Is Mr Graham setting up this organisation in opposition to the Clackmannanshire Council's own Clackmannanshire commission, which is the authorised body of the council itself? That is the suggestion—the accusation, if you like.

David Mundell: It doesn't appear to me that that is the case. It appears to me that Mr Graham is looking to encourage stakeholders to have an input into how a fund, which he fought very hard to secure, could be best utilised in Clackmannanshire. Ultimately, our partner is obviously the council, and we will continue to work on that basis.

Q84 **Deidre Brock:** How do you think Mr Graham should make it clear to the stakeholders he engages with that he has no authority—that it is not a legitimate organisation with any legitimate role to play in these discussions?

David Mundell: Of course it has. Without being rude, Ms Brock, I find your characterisation of the role of MPs quite bizarre. I see it as a legitimate role for me as a Member of Parliament to comment on council issues, to suggest how the council might better deploy its resources or contribute. I think Mr Graham is perfectly entitled to do those things. To suggest it is not legitimate is wrong. Ultimately, however, Mr Graham is not the council. The council is a statutory body, which is within the process. There is no capacity in that sense for Mr Graham to usurp the council.

Deidre Brock: I just wanted to ask one quick question about the deal.

Q85 **Chair:** I will let you come back in a minute. Thank you for your response, Secretary of State; there are two things I would observe. First, there are very clear governance structures when it comes to city deals. I think you and I would say that they have to be totally and utterly respected. Nothing that individual Members of Parliament do should get in the way of those structures. Secondly, I am looking forward, when the Tay Cities deal is essentially done, to setting up a forum such as that and securing Scottish Office support. Would that be offered to every Member of Parliament?

David Mundell: If you asked for civil servants to come along to a meeting you were going to have to discuss input into the process, I would have no difficulty with that happening, within all the usual rules of propriety. These deals are supposed to be bottom-up, with local people and local contributions. That is what I want to encourage. As we were just saying, I am sure your views have not always coincided with the council's views. It is helpful to have that variety of views.

Chair: Thank you for that. I look forward to the invitation to the Scotland Office Minister and civil servants being accepted when this is launched.

Q86 **Deidre Brock:** Just quickly, the Minister and his civil servants mentioned the unprecedented arrangements for the Stirling and Clackmannanshire deal, where a chunk of it is withheld until the UK Government gives its approval. As I say, I believe that is unprecedented in other deals, and I think it is not really in the spirit of the tripartite collaboration you mentioned. I wondered what lay behind that.

David Mundell: I give you credit for your ability to characterise things in a way that is unduly negative. What happened was that a fund of money was created for Clackmannanshire because, at the point of signing the deal, there were no projects within the reserved area that were available to be signed off. Rather than pulling the drawbridge down at that point and essentially having what I felt was a disproportionate balance between Stirling and Clackmannanshire, it was agreed that there would be a fund available so that projects that were being worked on in Clackmannanshire could fall within the ambit of the deal. I regard that as a very positive thing. Rather than saying, "Right, we've had the cut-off; Clackmannanshire, you didn't get enough projects in and you can't have any money," we created a fund so that projects that come forward over the course of the next year or so can be funded. I think that is a positive thing.

Q87 **Deidre Brock:** Does that set a precedent for other deals?

David Mundell: I would not exclude it. I would rather be in the position where those projects had been worked up before we got to that stage, but I do not rule it out. In this deal, the Scottish Government themselves have, I think, a £15 million fund for tourist projects, all of which have not been identified. It is a commitment to the tourism board generally in that area. The ideal would be for the projects to have all been worked through by the point at which we signed up, but as I said to the Chairman earlier, I place a lot of emphasis on ensuring that we have a geographic balance in the deals, and I did not want to see potential projects in Clackmannanshire excluded. If, through either Mr Graham's or the council's efforts, projects emerge, we will be delighted to fund them. We are not holding money back. That is not a correct characterisation of the situation.

Gillian McGregor: It is important to add that any projects that come through from Clackmannanshire would be subject to exactly the same governance and assessment that other projects are subject to. From where we sit as civil servants, our aim is to work with all the partners to try to deliver the best outcome. As the Secretary of State has said, that means that we will talk to a variety of partners. We are not political; as civil servants, we are trying to deliver the best outcome under the deal.

Q88 **Paul Masterton:** Obviously, local authorities—particularly where you have multiple authorities, the Scottish Government and the UK Government—can all have slightly competing priorities. How have you been able to manage those and come up with a package that has won buy-in from everybody? Did you just accept that some projects will be put in that are maybe not of the sort the UK Government would ideally like money to be to, but they understand why they are important for what a particular local authority wants to get done?

David Mundell: We try to work from the bottom up with the projects and not to be judgmental about them, if I can put it that way, subject to their meeting the criteria I set out earlier. There can of course be a difference of emphasis. There has to be a dialogue around that, but so far we have found that the steps that we have followed in a sense whittle the projects down. On virtually every occasion we have started with a large number of projects, and over time it has become clear that some were not viable, had not been thought through, or did not command local stakeholder support, or that, inevitably, the local authorities had other funding priorities that they wanted to put an emphasis on.

The system generally has worked its way through until we have a list of credible projects from everybody's perspective. That is usually how we have ended up going. Occasionally there are projects that we have funded, or a project that the Scottish Government have funded in its entirety, depending on the nature of it.

Q89 **Paul Masterton:** I was quite struck in our first panel by the very high levels of positivity that all three of the witnesses felt towards city deals.

They seem to be an example of where the Scottish and UK Governments can work very well together and put otherwise well-known differences aside to work in the best interests of Scottish communities.

David Mundell: I think they have been. You have taken evidence from Scottish Government officials. I pay tribute to the Scottish Government officials, who have worked very closely with mine. I am not going to say that in our ongoing discussions Mr Brown and I have agreed on everything. We didn't, but we were able to have a very frank discussion about issues and about the projects in a way that made an assessment of them and our relative contributions to them.

We have been able to work in a very business-like way, and I think many of the projects have made a real difference. One that some of your constituents might benefit from is the Tontine business centre in the centre of Glasgow. To me, that epitomises what this is all about. It took a building that no longer had a purpose and revitalised it into a business space where people can come together and create an energy that benefits their own businesses and helps create new ones. There are some really positive projects out there.

Q90 **Ged Killen:** Secretary of State, can you tell us what the relationship is between the UK industrial strategy and the support being provided through the city deals? I think Lord Duncan told the Committee that there was overlap but it was not linked and the strategy was not a driving force. Keith Brown said that was news to him, so can you tell us what the situation is and how the strategy influences the UK Government's priorities?

David Mundell: It does influence the UK Government's priorities, but obviously the industrial strategy was a development of the current Prime Minister's tenure, and came into being after she took office in 2016, along with Greg Clark the BEIS Secretary. That saw the development of the industrial strategy to an extent, so some of the city deals had begun before the industrial strategy was in place.

Secondly, we have sought—and the Edinburgh city deal is a very good example of this—alignment with the industrial strategy in terms of the support that it will give for artificial intelligence, robotics and agri-tech. These are really significant elements of the industrial strategy, and a very important part of that deal.

We are also looking to support the new concert hall in Edinburgh, which I wouldn't characterise as part of the industrial strategy. We are supporting that because Edinburgh is the foremost international festival venue in the world and it is an important component of that. We want to support it because it has a significant economic benefit within the Edinburgh area. At the heart of how we proceed now we clearly want the industrial strategy, but there are elements that are not in that strategy.

Q91 **Chair:** Can we have a little discussion about the devolved/reserved space? I want to read you something that the Scottish Parliament report said on regional deals. It called for less of a distinction in this arrangement between UK Government funds only for areas within the reserved space and Scottish Government fund for the devolved space. It said that the two Governments work together with HM Treasury to agree a system whereby the singular focus is on the "artificial boundaries" of what is reserved and what is devolved and the badging of the funding of the two. Is that too much of a straitjacket; this idea that when it comes to city region deals the Governments will fund only what is within their space?

David Mundell: The starting point is that both Governments' funding arrangements are based on their responsibilities: the financial settlement and the funds that the Scottish Government now raise through their tax powers create the Scottish Government budget for devolved matters. The taxes and funding that we generate fund reserved areas, from which the block grant clearly also comes. We have taken a view, for example—I have just referenced the concert hall—that if something is of national significance, we are prepared to fund it. We have agreed in the Stirling and Clackmannanshire deal, for example, to fund a national tartan centre, which I think is of significance to the whole of the United Kingdom. There is flexibility, but it most certainly would not be the Chancellor's position that he should be funding roads and transport infrastructure in Scotland, which is a devolved matter.

Q92 **Chair:** So as we go forward with the further regional deals and the conclusion of the Tay Cities deal, are you seeing or sensing, and are you happy with, a greater degree of flexibility?

David Mundell: Inevitably, in more rural areas as well, there has to be a greater degree of flexibility because the projects are different. You don't have a critical mass; you have engagement, obviously, with further and higher education, but you don't have the focal points that you have in Edinburgh or Dundee in relation to those institutions. I am open to a degree of flexibility, but I should not in any way pretend that that is the wholesale view.

Q93 **Chair:** I recognise what Lord Duncan of Springbank said last time he appeared before the Committee—I think I raised the issue with him. He prefaced what he said with, "Unfortunately, everybody wants a bit of Scottish Government money right now because it is mostly infrastructure that the local authorities have pitched for." Of course, that infrastructure rests within the devolved spend. When we look at the projects—certainly when I look at the Tay Cities project—a lot of it seems to be within the devolved space, with the building of roads and infrastructure projects. Is that possibly a bit too onerous for the Scottish Government when it comes to financing and funding these projects?

David Mundell: We could probably have a lengthy discussion about those individual infrastructure projects. We have generally sought to discourage what I would call "business as usual" infrastructure projects—things that might already be within the Scottish Government's budget planning—being brought forward. I still think the deals are about bringing forward things that would not otherwise happen within that timescale rather than coming forward with a list of projects that the council perhaps had on the shelf or had lobbied for over a number of years.

Q94 **Chair:** I think everybody would see that as fair enough. I am thinking of the one big infrastructure project in my constituency—the cross-Tay link road, which is part of the Tay Cities deal. Because of the social usefulness of such a project, is that something you think the UK Government might be interested in helping out with?

David Mundell: That sounds like a bid, Mr Wishart. We will take it away.

Q95 **Chair:** Lastly on this issue, I know that the UK Government have said that the reason they do not get involved in some of the funding arrangements in the devolved space is double spending. Of course we have to take that seriously, but why are you prepared to double-spend in Northern Ireland? An extra £1 billion of public spending went there.

David Mundell: We have of course had a lengthy debate in this Committee about the additional funding in Northern Ireland. That was additional funding for specific projects in relation to which funding was not otherwise being provided.

Q96 **Chair:** So it was all right for Northern Ireland but it is not all right for Scotland?

David Mundell: I wouldn't characterise it like that, as I am sure you would expect.

Chair: Okay. Well, we tried hard with that one.

Q97 **Hugh Gaffney:** Lord Duncan has stated that "there may be elements of co-operation between the two Governments" where UK Government "spend complements the inclusive growth ambition of the Scottish Government," so the UK Government "step into traditionally devolved areas in order to make that happen." Can you expand on what criteria would have to be met for that to happen?

David Mundell: In response to the Chair's previous question, I indicated that I certainly think there is scope for the UK Government to fund projects that could be considered as having national significance or a benefit to the national economy. Aberdeen harbour is probably a good example of that—that has a very strategic benefit for the UK, as indeed does the oil and gas centre there. Those are the criteria that I would suggest in relation to those areas.

Q98 **Chair:** Lastly, what is the next big city region deal you will be looking to bring forward? We had the Borderlands deal, which sounds very exciting, represented here.

David Mundell: We have committed to taking forward Borderlands, which is a challenging deal because it involves local authorities on both sides of the border and a lot of practical issues will have to be addressed there. Again, we have worked very well with the Scottish Government. They are establishing a south of Scotland economic partnership and we have dovetailed very effectively on the consultation for that, so people right across the south of Scotland have been able to have their input. We have also worked well with Cumbria County Council, Northumberland County Council and Carlisle City Council.

We have also agreed to participate on the Ayrshire growth deal, and officials are heavily engaged in that just now. I want soon to be in a position to confirm our involvement in the Moray growth deal, which has been brought forward. That leaves three parts of Scotland: the Islands, Argyll and Bute, and Falkirk. Certainly, in my discussions with Mr Brown, our view was that both Governments would want to do something in those areas.

Q99 **Chair:** Is it your ambition and intention that all parts of Scotland will be covered by some sort of growth deal?

David Mundell: It is, but there are different stages in the process. I am hoping to go to Argyll and Bute later in the summer, for example. There is a need to have a process in which they each emerge. As we have discussed, they require intense activity at certain points. You need to complete that and then move to the next stage, and then another one can come into the process.

Q100 **Chair:** On that positive note, we will bring the session to an end. Thank you once again, Secretary of State, for coming to the Committee. Is there anything else you can usefully add to help us as we consider this subject?

David Mundell: I am grateful that, as we heard from Mr Masterton's remarks—I am sure Scottish Government colleagues would say the same—this is a positive area. There are many areas where we have differences, but these growth deals have been a basis on which we have been able to come together across levels of government and across the political terrain. I hope that can continue.

Chair: Let's all hope so. Thank you, Secretary of State.