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CONTENTS

Col.
DECISIONS ON TAKING BUSINESS IN PRIVATE 1
SUBORDINATE LEGISLATION 2
Diligence against Earnings (Variation) (Scotland) Regulations 2024 (SSI 2024/293) 2
CITY REGION AND REGIONAL GROWTH DEALS 10

ECONOMY AND FAIR WORK COMMITTEE
31st Meeting 2024, Session 6

CONVENER

*Colin Smyth (South Scotland) (Lab)

DEPUTY CONVENER

*Michelle Thomson (Falkirk East) (SNP)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Daniel Johnson (Edinburgh Southern) (Lab)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Lorna Slater (Lothian) (Green)
*Kevin Stewart (Aberdeen Central) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Cornilius Chikwama (Audit Scotland)
Richard Dennis (Accountant in Bankruptcy)
Neil McInroy (Economic Development Association Scotland)
Ivan McKee (Minister for Public Finance)
Paul Mitchell (Scottish Building Federation)
Catherine Young (Audit Scotland)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 27 November 2024

[The Convener opened the meeting at 09:33]

Decisions on Taking Business in Private

The Convener (Colin Smyth): Good morning, everyone, and welcome to the 31st meeting in 2024 of the Economy and Fair Work Committee. Our first agenda item is a decision on taking in private items 4 and 5 and all future discussions of evidence heard from today in the inquiry that we are undertaking. Do members agree to take those items in private?

Members *indicated agreement.*

Subordinate Legislation

Diligence against Earnings (Variation) (Scotland) Regulations 2024 (SSI 2024/293)

09:34

The Convener: Our next agenda item is further consideration of a negative instrument. We discussed the instrument at last week's meeting and agreed to invite the Minister for Public Finance to attend the committee to answer questions.

The purpose of the instrument is to amend the figures that are contained in part 3 of the Debtors (Scotland) Act 1987, which sets out how much money an individual is allowed to keep before any payment can be taken from wages to recover debts. The regulations increase that amount to £750 a month.

I am pleased to welcome Ivan McKee, the Minister for Public Finance; Richard Dennis, who is the chief executive of the Accountant in Bankruptcy agency; and James Messis, who is the local taxation policy team leader in the Scottish Government. I ask the minister to make a short opening statement.

The Minister for Public Finance (Ivan McKee): Good morning, convener and committee, and thanks for asking me to come along to answer questions on the Diligence against Earnings (Variation) (Scotland) Regulations 2024. The regulations update statutory tables that dictate how much money an individual keeps before any payment can be taken from their wages to recover debts, and they set the scale of payments that can taken above that level.

The Scottish Government has reviewed and updated the statutory tables every three years since 2006, and it last updated them in 2023, which was earlier than the anticipated three-yearly uprating due to the cost crisis and high inflation rates at the time. The Scottish Government understands that many people who are subject to an earnings arrestment are the most vulnerable in society, and we know that many more people are struggling with debt due to the cost crisis and high inflation.

During parliamentary scrutiny of the Bankruptcy and Diligence (Scotland) Act 2024, we committed to update the tables again in April 2025 to help people who are struggling due to the continued cost crisis. The regulations fulfil that commitment and also make minor amendments to the tables that will increase protection for the lowest earners while, at the same time, allowing those individuals to repay their debts if their income increases above the protected threshold. It means that, if they are subject to an earnings arrestment, an individual will be able to retain more of their earnings after an earnings arrestment has taken effect, especially if they receive a low income.

I understand from the *Official Report* that the committee has wider concerns about council tax, mainly because earnings arrestments are most commonly used by local authorities that are seeking to recover council tax arrears. To promote the adoption of best practice on debt collection, the Scottish Government has allocated funding to Citizens Advice Scotland for an expanded council tax debt project, building on last year's successful pilot, with a total of six local authorities participating. The pilot aims to identify how collection processes can be aligned with recognised best practice.

At present, the council tax reduction scheme is the Scottish Government's primary means of protecting households from council tax payments that they cannot be expected to afford. The scheme is a sophisticated means of targeting reliefs based on income and need, and it continues to play an important role in helping households whose finances have been impacted by the cost crisis. Just under half a million households—roughly one in five in Scotland—now get some level of reduction through the scheme, which saves households on average more than £850 a year. We will continue to explore ways to ensure that people who are financially vulnerable are protected and that debt collection is handled sensitively and appropriately.

I acknowledge that stakeholders and the committee have recommended increasing the protected minimum amount to £1,000 a month, and reform of the bandings that are used to calculate earnings arrestment deductions. However, I have heard concerns from stakeholders including the Convention of Scottish Local Authorities and the Institute of Revenues, Rating and Valuation about the impact that such an increase to the protected minimum amount would have on local authorities, which are by far the biggest users of this type of diligence. I know that those stakeholders wrote to the committee about their concerns during the debates on the 2024 act.

During those debates, I made it clear that I could not simply ignore those representations, in the same way as I cannot ignore the call that earnings arrestments are too harsh. That is why I have committed to consult on the protected minimum amount and the bandings and to engage all stakeholder views. It is essential that we find a good balance. If we make earnings arrestments ineffective, there is a risk that creditors will simply resort to pursuing bankruptcy or direct deduction from benefits more often, which I would like to avoid. The consultation will be published next year.

I am happy to take any questions, convener.

The Convener: Thanks very much, minister. You are correct in saying that the committee unanimously recommended in our stage 1 report on the Bankruptcy and Diligence (Scotland) Bill that the amount that is protected from being seized by creditors should rise to £1,000. My colleagues will have questions on why that has not been adopted.

You will recall that I lodged a stage 3 amendment to raise that level, but I did not move it because, during stage 3, you committed to

"shortly launch a consultation to look at the bandings of earnings arrestments."—[*Official Report*, 6 June 2024; c 87-88.]

There was also a commitment to reduce by half the amount that a person pays on the first £1,000 of earnings. You have not yet carried out that consultation, but you are making proposals today. Why did the Government not carry out the consultation? I appreciate that time was tight after the passing of the bill, but when the commitment was made you were aware of the timing to bring in regulations by 1 April, so I am curious as to why there was not a more formal consultation before we got to these proposals.

Ivan McKee: There are two things going on in parallel. As I said, we were keen to bring forward the uprating by two years from 2023 to 2025. We recognise the impact of inflation and the high cost of living, so I thought that it was important to do that. Of course, that can run in parallel with the consultation, which will collect information, evidence and views on where we proceed beyond that, with further uprating of the tables and the bandings.

The Convener: You obviously intend to ensure that the uprating comes in at the beginning of April each year, and the regulations will come in at the beginning of April 2025. Does that mean that any further consultation will not result in changes being made until April 2026 at the very earliest?

Ivan McKee: I think that that is right—unless officials have any further comment on that. We do it at the start of April, at the start of the financial year.

Richard Dennis (Accountant in Bankruptcy): We do it at the start of April to fit in with how payroll software providers build the changes into the software that they provide to employers. That is also why, ideally, we need to get upratings through before Christmas every year to give people time to make adjustments to their software before April.

The Convener: So, a consultation would be carried out in time to ensure that any future regulations come before the Parliament before the end of 2025 to ensure that any changes are implemented in 2026.

Ivan McKee: That is correct.

Lorna Slater (Lothian) (Green): Thanks for coming in at short notice, minister. I have not lodged a motion to annul because I am glad that the threshold is being raised. It is an urgent thing that we need to resolve; we all understand that we need to reduce the impacts of significant deprivation due to earnings arrestment.

However, I am very disappointed that the threshold was not raised to £1,000 as recommended, and I would like to hear a bit more from the minister on the thinking about that. I hear what he says about needing to balance the needs of creditors, which, in this case, are primarily councils, which also pay the costs of poverty. We need to understand the impact of someone having their wages garnished when they earn only £750 a month does not account for different circumstances such as whether the person is already being paid less than the living wage. Does that drive people into deeper poverty?

I want to understand why the threshold was chosen, particularly since there are delays in the system and it will not come in until next April. That is several months away and inflation is still a concern. It feels like we are behind the curve in that. By putting in a threshold of £1,000, we could have created a bit of space while we did the further consultation.

Ivan McKee: As I have said, it is a balance. You could choose to set the number anywhere, but we think that the threshold is set at the right place. The cost to councils of increasing it to £1,000 would be significant—the number that was quoted is more than £20 million, I think. Frankly, there is also a balance to be struck between those vulnerable people who cannot pay and need to be protected and those who choose not to pay. That is an important point to bear in mind. We need to pitch it at the right level.

The changes that we have made mean that the amount that somebody who is earning £1,000 pays has been reduced to £37, which is down from the £65 that they would have paid previously. It is a significant reduction at that level. That is on earnings from an employer; they could also be earning through benefits, which are not impacted by the changes.

It is a question of getting the right balance. We need to set the threshold at the right place that ensures that councils can continue to collect council tax where that is the right thing to do.

Lorna Slater: We have heard that the consultation cannot be started until April. What will be considered as part of the consultation? An equality impact assessment was not conducted for the instrument, but we have just discussed equalities matters whereby the poorest people are those who are most impacted by the change.

As far as I can see, there is no assessment around the minimum threshold for people’s need to spend for disability, illness and care needs. What are the minister’s thoughts on the disincentive to work that is created by garnishing wages in such a way for very low income people? How quickly will the consultation get going and be wrapped up, and what will be considered during the process?

Ivan McKee: I defer to officials on specific timing, but we plan to get the consultation launched early in the new year. It is important to remember that this is all in connection with debts that have not been paid.

09:45

It was assessed that an equality impact assessment was not required. The impact is on people who earn less—that goes without saying. It is about getting the balance right between how much they can afford and then, coming to councils, ensuring that there is not a disincentive for payment if debts are not pursued below that level. It is important to get that right.

Perhaps Richard Dennis can comment on the timing of the consultation.

Richard Dennis: The committee will be aware that we struggle with proper evidence for policy making in this area. You will be aware that the bank arrestments protected minimum threshold was put up to £1,000 in November 2022, which I think is why the committee thinks that £1,000 is the right number for this, too.

I can tell you nothing whatsoever about the impact that that increase has had on the debt that has since been collected through bank arrestments; we simply do not have the data. I can tell you that there are more arrestments than there were in 2022, but I cannot tell you whether that is more arrestments being served on the same person to try to find funds or whether it is more individuals being served bank arrestments—we simply do not have that data.

A lot of the things that we will do in the consultation are really about calling for evidence. The Bankruptcy and Diligence (Scotland) Act 2024, which has just been passed and has not yet commenced, gives us power to collect more of that data so that we can get into a better position.

I know that the regulations are only a first step and do not go as far as the committee and others would like, but the percentage changes, as well, are very significant. They impact all the way up the scale. Somebody who is earning £3,400 a month will pay less under the regulations, so we are not just protecting those at the very bottom. Somebody who earns £1,500 currently pays £160 and will only pay £112 under the regulations.

The regulations take a first step in a direction that we expect to be continued after the consultation. We are trying to balance it so that people who earn significant amounts pay more, but we are trying not to have too serious an impact on council finances. Currently, we do not know how the money that councils collect splits across the bands, so I cannot tell you whether we have the balance right in the regulations, which is one of the reasons why it is important not to push them too far.

Lorna Slater: I have a final question, which is a larger question. I note again that councils are the significant creditor here. The minister has described the system of reductions in council tax as sophisticated—I would perhaps say that it is complicated—and we have talked about a lack of data and evidence and how complicated the whole space is. I feel that some of that is a consequence of the failure to reform council tax properly and that all the add-ons and accommodations have had to be made to deal with the fact that council tax is currently not a progressive tax and weighs heavier on people with less means. Would a full reform of council tax help to resolve these problems, is there an appetite to continue that work and how does it fit in with the larger question of ensuring that councils are properly funded but in a fair way?

Ivan McKee: The joint working group with COSLA is working on proposals for reform and collecting evidence, opinions and views on that. It is also looking at data collection and best practice and is, as I said, working with Citizens Advice Scotland on how we manage best practice for the collections process.

The formal process itself depends on what kind of council tax reform proposal comes forward, but if it was any kind of property-based scheme, you would still need to assess whether people were due relief or should be considered for relief as part of the process. By definition, the fact that you own or are liable for the tax on a property does not necessarily have a relationship to your ability to be able to pay that tax from your earnings. Whatever property-based system is in place, we would still need a system to assess people's ability to pay based on other factors. I do not think that that kind of system would necessarily take us to a place where we would not need some kind of relief scheme in place, as well.

Daniel Johnson (Edinburgh Southern) (Lab): I want to circle back to how the level was arrived at and the evidence. I very much appreciate the insight about the lack of data, but I have always been taught to be suspicious of round numbers. Although £1,000 is a nice round number, £750 seems like a very nice round number. I appreciate that there is a lack of data, but what methodology was used to arrive at £750 or was that just a judgment? The flipside of the question is: what would have been the consequence or potential cost of going with £1,000 rather than £750?

Ivan McKee: If you express it in weekly amounts, it is not a round number, but I take your point. I will defer to Richard Dennis on the specifics of that.

You are right to a certain extent—you need to pick a number, and a round number is as good as any other number, plus it makes it easier to communicate and understand. We are making the increase from the previous amount to the lower level of £750, which seemed to be the right place to pitch it. However, you are absolutely right about the lack of data in this space, which, as Richard Dennis said, makes it difficult to be able to understand the impact of a threshold and to do a more evidence-based calculation on where we should pitch it.

Richard Dennis: I am afraid that I like round numbers. We did a lot of estimates looking at the maximum of average earnings, different measures of inflation and household income. We came up with a calculation that was something like £732.11, and I decided to err on the side of making the figure a bit bigger and rounder.

The Convener: I think that the point is that the committee prefers our round number of £1,000 to the one that the Government has chosen. It is important to say that, because of the changes in the banding, people who are on lower incomes will pay less per month, but, overall, they will pay the same because, ultimately, the debt will be pursued. To be clear, will the consultation specifically include consultation on raising the figure to £1,000?

Ivan McKee: It will ask for opinions on where the bands and levels should be and for the evidence to support that.

The Convener: Okay, and will the consultation start early in the new year?

Ivan McKee: Yes.

The Convener: As there are no other questions, I am happy to ask the committee to note the Diligence against Earnings (Variation)

(Scotland) Regulations 2024 at this stage, and I thank the minister and the panel for attending.

09:52

Meeting suspended.

09:55

On resuming—

City Region and Regional Growth Deals

The Convener: Our next item of business is the first evidence session in our inquiry into city region and regional growth deals.

On Monday, some committee members visited the National Robotarium at Heriot-Watt University to learn more about how the Edinburgh and south-east Scotland city region deal has supported that facility. I thank Stewart Miller, the chief executive, and Emily Fletcher, the events co-ordinator, at the Robotarium for what was—I think that members will agree—an informative and enjoyable visit.

It is probably the first time that the committee has questioned a robot in evidence during an inquiry. To be fair, Ameca is the world's most advanced humanoid robot, showcasing just how far robotics and artificial intelligence have come and the enormous potential that they offer, so it might be some of the best evidence that we have taken during the inquiry—there is no pressure on our panel this morning, then.

The National Robotarium is an example of a project whose build was made possible through a city growth deal. There was £21 million from the United Kingdom Government, and £1.4 million from the Scottish Government through the Edinburgh and south-east Scotland city region deal, which is one of 12 such deals across Scotland. The aim of our inquiry is to consider the implementation and effectiveness of those deals and how they contribute to local and national economies.

This session aims to provide members with an overview of the deals. I am pleased to welcome our panel: Cornilius Chikwama is audit director and Catherine Young is a senior manager, both from Audit Scotland; and Neil McInroy is chair of the Economic Development Association Scotland. They will be joined shortly by Paul Mitchell, who is operations director at the Scottish Building Federation. As always, members and witnesses should keep their questions and answers as concise as possible so that we can get through as many questions as possible.

I begin with a question on the funding landscape for city and regional growth deals; it may be mainly for Audit Scotland. It is fair to say that the funding landscape is complex. There are numerous different funding sources, all from organisations with their own priorities, timescales and governance arrangements. What are the implications, if any, of that cluttered landscape? Could the projects that are coming forward through the city and regional growth deals have been funded through the normal traditional funding mechanisms, such as Government grants to councils or direct Government funding to a particular project? Would that have been a simpler way to deliver those projects?

Cornilius Chikwama (Audit Scotland): I am happy to start on that, then I will bring in my colleague, Catherine Young.

As you set out, it feels like a complex landscape. There are different organisations and funding streams coming together, with different governance arrangements for how that funding is made available to the projects. With that complexity, however, comes the benefit of bringing organisations to work together on shared missions, with shared visions and outcomes.

A lot of what the deals are trying to achieve would have potentially required those organisations to work together anyway. One might see the complexity of the funding arrangements as being necessary for that partnership working, in bringing together a wide range of organisations to deliver the shared outcomes. Nonetheless, there have been some challenges with how the deals have been co-ordinated—in 2020, Audit Scotland published a report, "Scotland's City Region and Growth Deals", which looked at some of those challenges.

I will hand over to my colleague, Catherine Young, who can set out some of the issues that were identified in the report.

10:00

Catherine Young (Audit Scotland): Audit Scotland's 2023 report, "Scotland's City Region and Growth Deals: Progress of the 2020 audit report recommendations", highlighted the challenges that those deals currently face. As Cornilius Chikwama said, that long-term commitment to funding brought into being projects that might not otherwise have gone ahead. Indeed, the deals have been a catalyst for working together regionally and identifying a list of priorities for regions.

Trying to manage in the current financial climate has been a challenge, and deals are responsible for managing any increasing costs. As Audit Scotland has highlighted, they are very much alive to the risks in that regard. Deals have been encouraged to access alternative funding streams when financial challenges have presented, but those do not always align with the requirements of the deal—for example, in relation to drawdown and the time that projects may need to get started.

The Scottish Government has encouraged deals not only to look for alternative funding streams, but to look at the scope of some projects. That may involve looking at whether to descope, and at the best options and scenarios for trying to achieve the benefits that those projects had originally set out to achieve. The current landscape has been challenging for deals, but they are alive to that issue and are working regularly with the Government to seek solutions where there are difficulties.

The Convener: Have those difficulties translated into the pace of delivery, for example? I can recall being involved in the first discussions about the Borderlands inclusive growth deal 10 years ago, when I was a councillor, and many of those projects are still at a very early stage. Is that because of the cluttered landscape, or simply because of the complexity of the projects?

Catherine Young: It is probably a combination—

The Convener: You do not have to worry about switching on your microphone. We have people to keep us right and switch them on for us, so we are okay.

Catherine Young: It was flashing red—sorry, convener.

In the wider economic landscape, since we published our 2020 report, we have seen the costs of materials rising, and labour shortages, so business cases are taking a little bit longer than normal to complete. That has all had an effect in the form of delays or—as I said—the descoping of projects and having to look at alternative options.

The cluttered landscape has contributed to that. As I mentioned, there are alternative funding streams available, but—as we highlighted in our 2023 report—there are challenges around the capacity to access those funding streams in line with when projects need money or when there is tendering to be done. It is probably a combination of all of those things.

The Convener: A point that has been raised with me is that the deals bring in almost an element of unfairness, in that a project can jump ahead of other projects because it is part of a growth deal. Do you have an opinion on that?

A prime example is roads. Transport Scotland will undertake a detailed strategic projects review and take a view on the priorities for investment in transport projects, but suddenly a growth deal comes along, and a road that was somewhere at the bottom of the list jumps the queue because it becomes part of the growth deal. Have you come across that issue at all?

Cornilius Chikwama: Our work—Catherine Young can come in on this—has not looked at the level of individual projects within deals, so we are unable to confirm that that is happening or make a judgment on it. I am not able to comment on that, but other colleagues might want to say something.

Catherine Young: At the very start, when a deal is formulated, there is a strategic outline with a long list of priorities for the region. As Cornilius Chikwama said, we did not look at what was in the pipeline of work versus what was in the strategic outline. The deals go through quite a rigorous process, from the strategic outline to an outline business case and then a full business case.

We highlight in our 2023 report that any initiative should look at what is needed in that region for the economy and for the people there. We highlight the need for transparency, and that any information on prioritisation should be available to the public so that people can see why the decisions on specific projects were made.

The Convener: I turn to Neil McInroy. Do EDAS members have any take on the idea of a cluttered landscape, and the complexity of growth deals?

Neil McInroy (Economic Development Association Scotland): EDAS is a diverse organisation, so I am speaking broadly for the sector—there is not a unified view from EDAS.

The rule of thumb is that we want to streamline funds—that seems to make sense for governance and efficiency. The question to be asked with growth deals is this: if the funding comes from a different source and a project is entering an already cluttered landscape, to what extent does that bespoke approach provide added value over something more streamlined?

If we think about economic development in Scotland, there is clearly a case to be made for streamlining things through local economic or regional economic partnerships as a way of giving local areas the volition to steer projects and make their own decisions on what their priorities are, rather than having a bespoke project come from above.

There is a question around whether there is national volition, or whether we give that power to locals to decide, but the rule of thumb is that we should try to streamline as much as possible.

The Convener: I welcome to the panel Paul Mitchell, who is operations director at the Scottish Building Federation. I will give you a chance to catch your breath, Paul, so I bring in my colleague Daniel Johnson just now.

Daniel Johnson: I will focus my questions on the overall function and purpose of the growth deals, and whether those elements are clear. In a sense, this follows on from the point that was unearthed regarding the cluttered landscape.

Do you feel that there is clarity around what each of the growth deals seeks to achieve? Are those aspects well defined and compatible with one another, and are they always compatible with national policy and objectives? Perhaps colleagues from Audit Scotland can begin.

Cornilius Chikwama: In looking at the deals through the work that we have done, we feel that there is sufficient clarity around the outcomes that the deals are trying to achieve and the projects that have been scoped to deliver those outcomes. Catherine Young might want to comment on the extent to which they represent a coherent set of projects, given the follow-up work that she led for Audit Scotland looking at progress on the recommendations in the 2020 report.

A greater challenge arises when we look at the current landscape. There have been further changes to the regional and local economic development landscape, partly as a result of various interventions by the UK Government. One example is green freeports, and investment zones and the shared prosperity funds are layered on top of that.

It is not currently clear to us—although I qualify that by saying that we have not done any specific work on this—how all those interventions targeting regional economic development come together to deliver a coherent package that delivers outcomes for areas. When we look at deals on their own, the projects and outcomes are clear, but when we start to look at the wider landscape, it feels like it has become quite cluttered since the deals were introduced.

Daniel Johnson: Are you confident that the projects within deals are compatible with one another? Sometimes one looks at these deals and everything looks great, but what end are the projects all driving at, and are they all consistent, even within growth deals? Are you confident that that is the case?

Cornilius Chikwama: It is difficult for us to comment on that. When we did the more comprehensive audit work on the deals in 2020, only four deals had been signed at that time, and they were in the very early stages of implementation. When we did the follow-up work, a few more deals had been signed, but we were looking mainly at progress on the recommendations that we had made previously. We did not drill down into the deals to test the coherence. You make an important point in that regard, and the committee may want to explore it further. My colleagues may have something to add on that.

Daniel Johnson: I see that Neil McInroy is nodding away, or at least gesticulating. Neil, what are your thoughts on those points?

Neil McInroy: It is an interesting and penetrating question; I am enjoying the conversation. In and of themselves, the deals provide clarity, but it is important to broaden the scope and look at where they sit within the wider Scottish economy landscape.

My other job involves working for a US research organisation, and I think that it is fair to say that many economies are at an inflection point—they are moving from the old economic growth model to something that is newer, more innovative, sustainable and greener. That means that we need laser-focused clarity in the deals so that they start to play into that inflection point. I do not think that we have that. The efficacy of the deals relates more to traditional economic growth and productivity concerns, and not to the wider transition of the economy to new horizons.

We need clarity on how the deals disrupt traditional investment and resourcing patterns, trigger innovation and create different dynamics in the structure of the Scottish economy. In that sense, they are not clear—they tend to take a scatter-gun approach. That is not to say that the projects are not good; some of them are excellent. However, in terms of providing a strategic direction for the Scottish economy, there is a lack of clarity in the deals around that inflection point.

Daniel Johnson: I see that Catherine Young wants to come in. I will add one more point first.

Is Audit Scotland aware of whether the UK Government or the Scottish Government are looking at this area? Given that it involves Government money, I am interested in whether they, as well as Audit Scotland, are looking at that. What are your thoughts on that?

Catherine Young: I will add to Neil McInroy's points first. We highlight in the 2023 report that the deals are a catalyst for bringing together regional partners to sit around the table and look at different ways of doing things or funding things. We commented in that report that we could see progress in aligning the deals with wider goals to benefit regional economies.

I am not aware of any such work. I know that the UK Government and the Scottish Government regularly engage with the deals, but the committee may want to pick up that question directly with Government. As I said, we definitely felt, in our 2023 report, that there had been more progress. There were five regional economic strategies at that time, and we could see that there was alignment with some of the programmes in the national strategy for economic transformation. However, drilling down a bit further would be required to find the information that you are looking for.

Daniel Johnson: How will we know if these deals have succeeded? Are there clear goals and measures, first at interim points, so that we can see whether they are on track, and secondly, when we look back? Will we be able to tell which ones have delivered, or do we not have clarity on the goals?

Cornilius Chikwama: At a high level, the deals specify the outcomes that they are working towards; those are mostly around new jobs, but they are also about leveraging private sector investment into the regions.

In our 2020 audit report, which looked at the early stages, we identified a lack of clarity on how success would be measured. The 2023 follow-up report that Catherine Young mentioned identified that, in the deals that had been established by then, some progress had been made in setting up arrangements for monitoring the outputs and outcomes, and then the impact, of the deals. We have not seen any formal reporting on that—my colleagues may correct me if I am wrong—but the arrangements for reporting on progress were put in place for each of the deals as they were set up.

10:15

Catherine Young: We make it clear in the 2023 report that benefits could be seen at different times throughout the deals. The challenge is to try to present a picture across Scotland at any given time. Our understanding is that the Scottish Government plans to use the metrics that the deals currently collect to present that overall picture in due course, when deals have progressed, and more deals have come on since then.

We identified a marked improvement around performance reporting and the availability of information from when we first reported in 2020, with easy-to-read reports and regular reporting on performance. However, it is difficult to get the overall picture and make the links with the national performance outcomes overall, because the deals are so different in what they are trying to do, and the outputs are quite different. Nevertheless, there is information there at a granular or local level.

Neil McInroy: At a business case and microproject level, I understand that there was good reporting. The question is—as Daniel Johnson hinted at in his question—how that is aggregated and linked up with the direction of the Scottish economy, and how it links to things like the wellbeing monitor and where we are going as a country. That is the question—it is about the link between the micro and the macro.

Daniel Johnson: I will ask one last question, which is a fundamental one, and I will leave my questions there. If growth deals did not exist, would you reinvent them? Are we creating something because we do not have a regional tier of government, whether that is old-school regions or combined authorities, as we have in other parts of the UK?

Neil McInroy: I work internationally, and I know that these deal resources are a strange sort of beast. It seems that they were born out of the problem of centralisation of the economy in England, and they were aligned to devolution in England. The deals were a mechanism to decentralise resources in overcentralised England, and we have inherited that.

Look, money is good—of course it is.

Daniel Johnson: We will put that in our report.

Neil McInroy: Of course money is good and, when it comes to local economic activity, it is great. Based on what happens internationally, you would want to see greater streamlining. That is linked to the point that the convener made. You want devolved resources that are laid down, so that you say, "You have this pot of money. Here are the national targets, and here is what you want to do locally—get on and do the job." The deal-making process seems like a faff, or perhaps not that but it is a product of the context that we are in. We are where we are, and we have to do the best with what we have.

I have worked in England extensively, partly on some of the deals, and, interestingly, they get good press there. They are linked to the combined authorities and to the mayors, and they get good press. You could say that Manchester city centre has done well out of the process, but one in four children is still in poverty there. I would argue that, if you look at the longer history of how the deals have worked and how they dig into some of the aspects of economic and social change, you find that they have not been a massive success down there.

Streamlining is best, and there is a faff connected to the deals, but we are where we are.

Cornilius Chikwama: Our starting point is the work that Catherine Young highlighted, which showed additionality from the deals and that they contributed something. Would we recommend continuing with the deals or replicating them now? We would not want to comment on that directly as auditors, as it is more about the policy choices. However, given the current context, in which we have a new strategy for Scotland's economy—the national strategy for economic transformation—and the new interventions targeting regional economic development that I have mentioned, such as the green freeports, investment zones and other developments, it is the right time to consider whether we want to continue with the deals as they are now or whether, because the context is different, we need to look at alternatives. Those will probably be policy choices for Scottish ministers and for the Scottish Government.

Daniel Johnson: Thank you very much. Paul Mitchell has not said anything. Is there anything that you want to contribute before I finish, Paul?

Paul Mitchell (Scottish Building Federation): The decentralised nature of the 12 deals that we have now makes it hard to collect data and information on them and to collate that in one single place. I guess that that is the flipside of the decentralisation coin, but it makes communication with contractors a little bit trickier.

Daniel Johnson: Thank you very much.

Kevin Stewart (Aberdeen Central) (SNP): I want to ask about governance. If we were to ask the average Joe and Josephine in the street, they would not know much about city region deals at all, but even those who know something get rather confused, to say the least, around governance. Poor governance often leads to poor delivery. What do you think of current governance arrangements, which are a hotchpotch and depend on the area? Do the governance and the scrutiny that comes from it help to drive forward the best possible projects?

I will go to Mr Chikwama first.

Cornilius Chikwama: I am looking at my colleague, Catherine Young, who led on most of the work that we have done on governance. If it is okay, I will hand over to her.

Kevin Stewart: Yes. Thank you.

Catherine Young: It is fair to say that it is a fairly complex picture. One size does not fit all when it comes to the decisions on how to structure the governance of the deals. From an audit perspective, when we did the follow-up work we were looking for an improvement in the transparency of the process and rigour around how projects go through various stages, from outline to full business case. We found evidence that there was regular review of the arrangements and that changes were made when there were seen to be gaps or ways in which local arrangements could be strengthened. There has also definitely been an improvement in the relations between the local and national arrangements.

The process is not without its challenges. One challenge that the people involved in deals mentioned to us was the length of time that it takes to progress through the various stages. Governance can be overly complex in some cases. I guess that that is the flipside of some of the rigour that has been put in place, which has made things slightly more complex.

We did not come away from the progress work thinking that a lot more needs to be done on governance. For us, the important thing is that, as the deals progress, people check that the arrangements are still fit for purpose, and our overall picture was that progress had been made on that. However, as I said, because so many elements and partners are involved, one size does not fit all and nor could the way in which the governance is set be prescribed. The heads of terms for each deal set out what the structure looks like. As I said, a fair amount of information on that is published on each of the deal websites.

Kevin Stewart: You said that we cannot prescribe, but would not some kind of uniformity be helpful, particularly for the likes of Mr Mitchell's members? Might some uniformity in how all this operates be helpful for the folks who are bidding to build various bits and pieces of infrastructure and kit?

Catherine Young: Yes—no doubt that would help. The project management officers meet regularly to share experiences of what is going on in the deals. Perhaps there is an issue to feed back to the Scottish Government on the access point for some of the deals.

Kevin Stewart: Mr Mitchell, I have mentioned you, so you had better come in.

Paul Mitchell: I agree. It goes back to the decentralisation question. If you push the decision making and the autonomy out to the different regions, you will get different approaches and different decision-making structures. That is part of the reason why, when we surveyed our members, the majority came back and said that they either had not heard of or were not aware of city deals, or had not had the opportunity to engage with them because the picture is so complicated across the country. A standardised approach would be helpful in being able to communicate to our members the benefits of the city deal and regional deal programmes.

Kevin Stewart: Thank you. Mr McInroy?

Neil McInroy: It is important to separate governance, management and delivery. We need the governance to be democratic and accountable and have scrutiny.

Kevin Stewart: Is it democratic?

Neil McInroy: It could be more democratic. That is linked to the earlier point that the deals are not funnelled through the democratic auspices of the local authorities as strongly as they could be. In saying that, however, there has been great governance in terms of working across local authorities as part of some of the deals, and that coming together is a good thing. As I said, management and delivery are one thing but, on governance, we need to strengthen the democratic oversight. That would mean placing the deals more securely within the auspices of local government or regional bodies.

Kevin Stewart: You said that money is good, which I think we would all agree with to a certain degree, particularly when the money is going to projects that we want to be driven forward.

Some of the deals are now quite mature compared to the more recent ones. If we go back to the original deal, which was the Glasgow city region deal, in 2014, I remember at that point, or not long after that, taking evidence at the Local Government and Regeneration Committee, which I used to chair, about the ambitions at that time. Many of the ambitions were projects that had sat on shelves for a number of years gathering dust, and there was a bit of competition between the local authorities about which of the projects would be the priorities.

Some of those projects were probably outdated at that time, but some folks still wanted them to be driven forward, and I think that it is fair to say that there was maybe a lack of maturity in making the top picks. Has that changed, or are we still in a situation, even with the most recent deals, where the best projects or the innovative ones that are changing the world are not picked?

I will start with Mr McInroy.

Neil McInroy: I am not close enough to know. It is probably variable, and maybe there is a bit of that off-the-shelf stuff that lacks innovation or creativity.

Scanning out a little to the broader question, the deals are conceptualised by questions of growth and productivity, and they are focused on capital investment and skills. However, real innovation in the economy comes from total factor productivity, which involves innovation, technology, ownership models, culture, place, investment in public services and making people feel good about themselves. Academics say that that makes up 60 per cent of productivity.

The deals do not tap into that total factor productivity enough. There is not enough investment in the DNA of what creates innovation, entrepreneurship and buzz. That is symptomatic of the wider lack of funding in the Scottish economy towards economic development knowledge and ken, and also of the "It's aye been" attitude. There is a sense that we dinnae think oot o the box enough here in Scotland. The deals should be a stimulus for new levels of creativity and thinking. Part of that is to invest in place, culture, people and the creativity of the economy. I am not sure that the deals are banging into that as much as they should be.

I say that based on experience from other parts of the world, where I see innovation and creativity and really dynamic funding. I feel that the deals do not trigger that as much as they could.

10:30

Paul Mitchell: The Scottish Building Federation does not really have a great insight into the decision-making process for what projects are and are not picked. From my perspective—I looked at this recently in preparation for this meeting—there are innovative projects out there. The Robotarium in Edinburgh is a great example of that, but civic infrastructure also has to be high up the list. That is ultimately for the city region elected representatives to decide.

Cornilius Chikwama: To paraphrase the question, it is about whether we are assured that money has gone to the right things or, at least, to the best projects. It is clear that all projects are required to have a business case, which then informs the decision on whether a project is funded. That feels like good practice for informing investment decisions. When we look at the evidence on how that business case process has worked, it is clear that some projects have been delayed because the business case was not prepared on time.

That process around business cases feels like a sensible way to inform the decisions. We might want to look more generally into how the business case process is working across all the deals. However, from Audit Scotland's point of view, that is good practice for informing investment decisions.

Catherine Young: There is now a requirement to complete the benefits realisation plan at that business case stage. That comes back to the outcomes that have been identified for the regions. As Cornilius Chikwama said, there are so many infrastructure projects, but there are other projects, including investment in skills and innovative projects. It is difficult. As Cornilius said, it is good practice to have a business case, and we would expect to see that plan at the outline or final business case stage. With some of the capital infrastructure projects, that was not there at the outset. It is a step in the right direction to set out why a project is going ahead and the benefits that it should bring to the region as a whole.

Kevin Stewart: I want to take you back to the days before city region deals. In the north-east of Scotland, the Aberdeen city and shire economic forum, which became Aberdeen city and shire economic future, was unique in the fact that two local authorities, businesses and others co-operated to drive forward the economy in the north-east. That was held up by some as best practice. It was quite a clear governance model. Not everybody agreed with it, I have to say, but it was pretty clear who was doing what.

Have we compared at any point the actual outcomes from the likes of ACSEF, which did not have a huge amount of government money thrown at it but still did well, compared with what has happened since we have formalised some of this with city region deals? Audit Scotland can go first, please.

Cornilius Chikwama: We have not, to my knowledge, although Catherine Young might correct me. I do not think it is—

Kevin Stewart: Should we have?

Cornilius Chikwama: That is a difficult question. Outcomes are driven by a wide range of factors, including different economic contexts over time. Are we likely to identify differences that we can attribute purely to those differences in governance arrangements? I am not sure. I am not convinced, but there is the potential to look qualitatively at whether the governance arrangements that we have now are better than the ones that we had before. I am not sure that we will be able to see whether that will be seen in the economic outcomes of the regions.

If we look at the scale of the funding provided by the deals, especially stretched over a period of 10 years, which is generally the horizon within which most of the deals are working, I am not sure that we would expect to see a huge impact on the regions, given the scale of the funding and the scale of the projects.

Kevin Stewart: I am surprised to hear an auditor say that they would not like to compare what went on previously to look at the outcomes.

When looking at all of this over the piece, we have missed out on looking at what happened, and at the best practice that was in place at the time and what it achieved compared to what we achieve now with a huge amount more money. We have missed a trick in not comparing and contrasting in all of this.

Cornilius Chikwama: To clarify, comparison is important. I am trying to highlight whether we will be able to make any judgments, by looking at outcomes, that one governance arrangement was better than the other. It is a conviction that I have—I am not sure that such an approach to the evidence will help. It would be helpful to compare and contrast the governance arrangements. I completely agree with you, Mr Stewart, that there are lessons to be learned by looking at how the different governance arrangements have worked.

Kevin Stewart: It is not just about the governance; it is the entire ethos. Do you have anything to add to that from Audit Scotland's point of view, Ms Young?

Catherine Young: From an audit perspective, we might have expected them to have looked at that locally and, if lessons were learned from how things were operating, to draw on and build on them.

The deals have been a catalyst for more regional partnership working and there is now a network to share learning about how things operate and how to do things more efficiently or cost effectively. I shine the spotlight back on the local area to ask what has been learned about governance, as Cornilius Chikwama said, and outcomes and to see how the current deal arrangements could build on that.

Kevin Stewart: Some would probably argue that deals have been forced partnerships in some cases, but we had probably better not go into that.

Neil McInroy: The local economic and regional economic landscape is scattered with various bits of governance management delivery mechanisms. The question here is this: to what extent do we need new governance management delivery to deliver a new funding approach? Governments like to say that they want something new. The question is to what extent a new governance management delivery system will make a material difference to the outputs. Do we just build on the old?

We know that, as a general rule of thumb from across many places, consistency is a good thing. The system might not be the best form, but we can put money and other things into it. It might not be exactly perfect, but at least it is consistent. Of course, the wider public knows about that thing that was there. The rule of thumb is that we should be consistent.

At the end of the day, action eats structure for breakfast, in a way. It is about delivering, but the rule of thumb of having something consistent and grafting on to what we already have is a good rule. In Scotland, we have local economic development departments and economic partnerships such as the one that Kevin Stewart talked about that relate to the business community. Perhaps we should think more about grafting different forms of funding on to those mechanisms rather than creating something afresh.

Kevin Stewart: Mr Mitchell, do you have anything to add?

Paul Mitchell: I have no comment on the structure side of things.

Kevin Stewart: Okay, thank you very much indeed.

Michelle Thomson (Falkirk East) (SNP): Good morning and thank you for joining us.

I have a few questions that follow on from the themes that Kevin Stewart was exploring. We will all be familiar with accountability versus responsibility. All of the funding lines have three components—funding from the UK Government, from the Scottish Government and from the local authority. In that governance structure, who is ultimately accountable? Catherine Young, you are looking up. You can go first.

Catherine Young: The council that is designated as lead authority is the ultimate accountable body.

Michelle Thomson: Is it accountable or is it responsible for delivery? I ask that because, from a delivery perspective—perhaps this goes back to what Neil McInroy was saying earlier—the local authority will rely on the staging gates for sign-off, and they could be different from those for the Scottish Government and the UK Government, and it is responsible for delivery. I suppose that I am making the point that it is quite untidy to have two Governments and one local authority that is responsible for delivering. Having such a governance structure automatically builds in inefficiencies because of all the staging gates.

Cornilius Chikwama: Yes. You highlight something that we have reflected on with the deals but also with other arrangements where you have UK Government money and either Scottish Government or local government money. What is the right accountability framework? It is a challenge for us because we have responsibility for auditing Scottish funds, not UK Government funds, but when the money comes together, how do we look at that?

Michelle Thomson: Precisely.

Cornilius Chikwama: That is a challenge and it probably goes back to what my colleagues said earlier. Should we have deals where the UK Government invests directly in Scotland or should the money come to the Scottish Government, thereby simplifying the accountability arrangement? I do not want to take a view on that question, but the accountability issue is pertinent.

As Catherine Young said, a local authority would lead on the deal, but leads are also responsible for making sure that individual projects within the deal have been delivered. For example, I am sure that the leads on the National Robotarium would have been the University of Edinburgh and Heriot-Watt University as the key partners that were driving the project, which sat within the umbrella of the deal as it was defined.

Michelle Thomson: When I ask that question, I am not trying to lead you. It is not a political point; it is about programme efficiency. Fundamentally, the accountability has to be absolutely clear otherwise it leads inevitably to inefficiencies in spend and it affects the ultimate scrutiny of outcomes.

Cornilius Chikwama: That is right.

Michelle Thomson: I am hearing from you that you agree that the arrangement is fundamentally quite untidy because we have, in effect, two accountable partners and a delivery partner in the form of the local authority. Neil McInroy, it looks as though you want to come in on that point.

Neil McInroy: No. Please, Catherine, you go ahead.

Catherine Young: The joint Scottish Government and the UK Government city region and growth deal delivery board has a role. I highlight that we said that, in 2022, the role of that group meant that there was improvement from the first time we looked at the deals, in 2020.

On the frequency of reporting of performance and financial forecasting, what was presented to us during the discussions with deals was that the rigour in that meant that the process was more challenging. It is complex. The length of time that it takes is an issue. The added rigour means that it takes longer to approve things. The change management process, for example, is by request but it has to be jointly agreed. The role of that delivery board has improved accountability.

Michelle Thomson: The whole change management function that you articulate is understood and people will use that as effectively as possible. However, when it comes to a key decision, it is exactly the same as when you set up a company structure. You always want to have a majority shareholder. You would never have a 50:50 shareholding because there is always the possibility that people will not agree. You need the minimum share to be 51 per cent to 49 per cent. Even though what you describe might make things marginally more effective, ultimately the accountability remains uncertain.

10:45

Neil McInroy: As an aside, I am really enjoying this conversation. It is making me think. The rule of thumb, again, is that there needs to be a golden thread or spinal link between accountability, responsibility, scrutiny and delivery. It is good to have that efficiency and spinal link running through.

The spinal link should be democracy. It is accountability around public money. It is democracy and the level of diffuseness around accountability is in the nature of the beast, as we explored earlier.

England is interesting, because the democracy around the accountability measures there are the combined authorities in part and a mayor, which overcomes the issue of who carries the can. They carry the can in that sense.

I am not advocating in any way for that, particularly in Scotland, although it could be explored, perhaps. However, it relates to my earlier point. That form of funds should land in the local democratic bodies, who then have the volition and the accountability for it. The process is diffuse because funding comes from the Scottish Government and Westminster. There needs to be a greater level of it landing with the local authority, which has the democratic volition and oversight of it. There are many tensions within how accountability, responsibility, scrutiny and delivery exist and are applied. Greater democratisation of those funds locally is key to creating some consistency and more transparency and, of course, it links to Mr Stewart's earlier point earlier about letting the people know what it is all about.

Michelle Thomson: You, and indeed Mr Stewart, made the point about the value of communities. To what extent will local communities perceive these programmes as being done to them rather than done through them?

Neil McInroy: There is a range of projects and there is always an element of that because some of the projects are fairly technical—big infrastructure stuff. I know, however, that some of the project deals are very much community inspired and have taken the community wealth building approach. I raise the Ayrshire growth deal as an example of community-inspired focus on the social milieu and life of people in Ayrshire. It has that granular element to it.

Ultimately, it all links back. There is a sense here that the deals are agreed behind closed doors. I do not mean that in a scurrilous way. We need to democratise the hell out of these big questions of economy, such as how our place will look, where the wealth goes, what the new patterns of wealth will be, where the jobs are and so on. The whole process is not democratised or transparent and open enough. The box should be opened up a lot more and there should be more democratic and community oversight of the activities.

Michelle Thomson: I want to bring in Audit Scotland here. Many years ago, I had another life doing project management and large-scale so-called transformational change programme management. Of course, the laugh was that the only time your plan was ever accurate was at the end of the programme or whatever. That comes with the job.

From Audit Scotland's perspective, going back to the concept of scrutiny where there are diffuse accountabilities, it can become a bit of a circular firing squad. What role do you see for yourselves going forward in this complex multitude of city region deals? As we said, some started years ago, like Glasgow in 2014, while Falkirk, which is in my area, was signed last week.

The committee has chosen to do an inquiry into this but if we wait until the end of the deals, 25 years down the line, the only thing that we can be certain of is that we will have got lots of stuff wrong. Where do you see yourselves fitting in to avoid that circular firing squad? Where do you see a committee such as ours fitting in and, indeed, who else would fit in? We can be confident that a lot of this will be wrong because that is its nature.

Cornilius Chikwama: We actively monitor our audit programme. We have been considering how we do performance audit of economic development in Scotland, and there is a choice. Do we look at the deals on their own or do we look at other regional local economic development interventions?

We have not yet taken a view exactly for the reasons that you highlight. It is quite complex. I can assure you that this is an area that Audit Scotland, the Auditor General and the Accounts Commission are interested in, but it will take time for us to make a decision on exactly how we approach it, given the various dimensions to the interventions that target place-related economic development in Scotland.

Michelle Thomson: Are there any final comments? Paul Mitchell, I am sorry that I have not asked you anything directly. Are there any final comments on the themes that we have explored?

The Convener: Paul Mitchell, do not worry. A whole list of construction questions is coming soon, so do not think you are getting off lightly at all. I know that Willie Coffey, who is joining us online, has a number of questions on governance.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, everybody. I will stick to the really quite interesting discussion that we have been having about scrutiny and accountability. My questions are for Cornilius Chikwama and Catherine Young, whom I recall from my time on the Public Audit committee and their many reports on this matter. Indeed, you might recall that I mentioned this issue at the time, too.

What is the scrutiny and accountability role for members of the Scottish Parliament with regard to the money that the Scottish Government has given to the various growth deals? As I have said previously, I do not recall having any involvement in this whatsoever, other than when Audit Scotland would present an update report on the generality of the growth deal. Is it not a little bit curious that we as MSPs had no formal role in scrutinising that? Is it an opportunity that we have missed?

Cornilius Chikwama: Neil McInroy touched on this in one of his responses. The deals bring together different layers of governance, starting from local government, which draws on a different democratic mandate, to the Scottish Government, which also provides funding for the deals, and then to the UK Government. That means that there are multiple layers of scrutiny and accountability with something that you might have expected to be subjected to a certain level of scrutiny at local government level. In this case, we would look at elected officials in councils playing a role, and within the Audit Scotland family, the Accounts Commission, with its local government focus, provides oversight on what happens in the deals.

The Auditor General did bring the 2020 and 2023 reports to the Public Audit Committee, again recognising the Scottish Government's role in the deals and, therefore, the role that the Scottish Parliament should play. I am sure that other scrutiny is being provided by the UK Parliament, given the UK Government's role. I would say, then, that there are different layers of scrutiny—or democratic scrutiny, if we want to call it that—given the nature of the deals and how they bring different levels of governance together.

Willie Coffey: That is interesting. Democratic oversight, which Neil McInroy has mentioned several times now, is a different thing altogether. Having a reporting line back to a Scottish Government department, for example, is one thing, but having open scrutiny that is conducted by members of the Scottish Parliament is quite another and, in my experience, there has been none of that from the start of the growth deals until now.

You could call this session exactly that, but that is not quite what I am getting at. There has been no regular involvement by MSPs—certainly not the MSPs whom I know and to whom I have spoken about whether they have had any direct role or participation in scrutinising any of the spend on behalf of the Scottish public. It is more of a comment, convener, but I just think that we missed a trick by not being involved and not widening that scrutiny role. I would probably ask the same question of the UK Government, if we were to have a session with it: where is the scrutiny—the democratic scrutiny—of its investment locally in, say, a county such as Ayrshire?

That aspect of the growth deal has been missing from the jigsaw for a while now, and I just wanted to share that with colleagues and get your response to that. I would be interested to hear Neil McInroy's view of that democratic oversight aspect, too.

Neil McInroy: It is—what is it called?—subsidiarity, is it not? There are many places where there should be democratic oversight. As far as the deals are concerned, the question here—and I do not know the answer to it, Mr Coffey—is: to what extent is the democratic oversight at local level by local councillors strong enough? What is the relationship between that democratic oversight and the Scottish Parliament and MSPs? I do not know the answer to that or whether it is effective enough. You are suggesting, Mr Coffey, that there should be more of that sort of thing. I would just say, though, that the extent of local democratic oversight, scrutiny and discussions around the deals might be variable, too.

This links back to an earlier point. I know that, with the deals in England, where you have a combined authority and a mayor, there will be quite strong discussions about the deals, because they will be a key part of the devolution process for those institutions. I do not know the answer, but there is certainly a question about the relative relationship of democratic oversight between the local level and the Scottish Parliament and, in turn, the UK Government.

Willie Coffey: That is fair enough, but let me give you an example. I know that a couple of projects have been—let us say—dropped from the whole Ayrshire growth deal programme, but I only found out about that through the press. If the Scottish Government is funding these projects, is it not appropriate for some aspect of the Scottish Parliament democratic process to be involved? It is one thing to say, “Let’s have democratic oversight that’s as local as we can make it”, but it is another when substantial amounts of money are being put into these projects at Scottish and UK Government levels without any real participation from the members of this Parliament—or perhaps even the other one—in that decision-making process.

Neil McInroy: From the scenario that you paint, it does seem to be that way. You are probably right, but clearly there is also accountability through the cabinet secretaries and ministers, and that particular process. Whether wider oversight by Scottish parliamentarians themselves is needed is a question to be explored, for sure.

Willie Coffey: Thank you for that. Back to you, convener.

The Convener: Thank you very much, Willie. I call Murdo Fraser.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning. A lot of the questions that I was going to ask have been covered by others, but there are two things that I want to follow up on.

For the first question, I want to return to Daniel Johnson’s earlier questions and take a step back from all of this. When I look at the Tay cities deal in my area and some of the projects that have come out of it, I see the massive investment in, for example, the James Hutton Institute outside Dundee, which has been extremely beneficial, and the opening of the new Perth museum, which has been a tremendous asset to the city, with visitor numbers since its opening in April well exceeding original projections. It is a great success. My question, then, which I suppose is for Mr McInroy or Mr Mitchell, is this: if we had not had the city deals, would such projects have proceeded?

11:00

Neil McInroy: They were dependent on funding, so they would have been waiting for opportunities, be they other forms of public or private investment. I hope, though, that the strength of those projects was such that they would have attracted private resource—and, sometimes, other public resources—down the line. It is a question of pace, I presume, and of acceleration, and I think that we can safely say, in a very loose way, that the growth deals have accelerated, amplified and started to catalyse things that might have taken a little bit longer.

However—and this links back to Mr Johnson’s earlier point—the question is: what does it all add up to? How does it play into the bigger transition that the economy needs to make and the bigger challenges we face? Are these things being scaled up in such a way that they are indicative of that inflection point that I talked about earlier, and are they moving us from the economy we are in now to the new economy that we need to put in place? That is, I think, the really big question. You get what I would call projectivitis—the sense that it is just projects, projects, projects—but how do they all add up? Are we creating a catalytic moment through the deals in which we can build a different type of Scottish economy that is more competitive and prosperous? For me, the jury is out on that one.

Paul Mitchell: It is difficult when you try to drill down to individual projects, but taking a step back, I would point out that, across Scotland, we are talking about £6.2 billion of investment across the 12 deals. It is hard to imagine that that scale of investment would have been there without these deals across the country. Therefore, they are very welcome from our perspective—and by that I mean not just the scale of the investment in construction. They provide forward sight—a pipeline—of works over a prolonged period that the construction industry can work with, and which provides a sustainable future.

Murdo Fraser: Thanks.

My second question touches on what Mr McInroy said in answer to my first, but it goes in a slightly different direction. The time period for most of the deals is 10 years; some are 15; and

Glasgow's is 20. Given how fast the economy and society are changing, can we realistically make a judgment now on whether a project will, in 20 years' time, deliver the benefits that we think are appropriate today?

Neil McInroy: It is a good question. In economic development terms, it is all about staging posts and making judgment calls on what stage we are at, what will be triggered next and whether we are on the right trajectory. That trajectory—or economic development—planning is really quite key, and I am sure that Audit Scotland is picking up on it, because it is fundamentally important.

However—and this goes back to my earlier point—that trajectory or staging-post planning is okay in and of itself for a particular project, but we are talking here about deals that are, we hope, creating a bigger transformative change, and I do not think that that sort of staging-post thinking has been done. It is happening more in the business cases and the actual individual growth of the project rather than in relation to that bigger transformation change. It is just too projecty, and it is not about how all of this lands and creates these bigger ripple effects in the economy.

Murdo Fraser: Did you want to add anything, Mr Mitchell?

Paul Mitchell: No, thanks.

Murdo Fraser: Does Audit Scotland have any observations on this?

Cornilius Chikwama: Yes. On the last point—and I am probably putting on my economist hat here—the nature of economic development and transformation is that it requires sustained long-term effort, and a time horizon of 10 up to 20 years means that there is a consistent focus on what we are trying to achieve. It is the right thing to do.

The challenge comes when the context changes. I am sure that we will touch on some of this later, but the fact is that, since some of the deals were introduced, we have had to deal with perhaps one of the biggest shocks to the world economy—the pandemic, which has had an impact on the deals and changed the economic landscape. The UK has gone through what, in modern times, has been a period of quite high levels of inflation, and that, too, has impacted on the deals. The question is: how are the deals adjusting to such changes over time?

Society's needs, too, are changing, and indeed, I go back to Neil McInroy's point about some of the transformations that we need. This is all about how flexible the deals are and how they can adapt to the changing context while still maintaining the long-term view offered by the 10-year horizon—or even the 20-year horizon, in the case of Glasgow.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning.

So far, Neil McInroy has said that money is good—although I am not sure how good—Cornilius Chikwama has said that he is not sure of the impact of growth deals and Paul Mitchell has said that he welcomes the £6.2 billion of investment. I am keen to understand the importance of that £6.2 billion to the construction sector. We are talking about up to 20 years for 12 deals, which can involve anything between £25 million and £50 million a year, whereas the construction sector is worth £9 billion to the Scottish economy. How important are the 12 growth deals to the construction sector? Do they provide some certainty because they create a pipeline of work?

Paul Mitchell: You are right to provide the context—£6.2 billion is obviously a lot of money, but the construction industry turned over £13.7 billion in output in 2023, which was a slight downturn. It is predicted that there will be a small level of growth—0.5 per cent—in 2024 and that average growth over the coming four years will be 2.1 per cent. It is thought that there will be significant growth in 2025 and that growth will then go back down to between 1.5 and 2 per cent over the next few years.

The investment is important for us, but, as has been discussed, if it is spread over 10 to 15 years, it will not be transformational. However, I echo Neil McInroy's comments about all investment in construction services being welcome.

I have not been able to uncover statistics on the exact impact on construction in relation to the workforce, apprenticeships, jobs and careers. I know that such statistics form part of some of the deals that exist, but the fact that there are no aggregated statistics makes it quite hard to provide a national picture. At the moment, the construction sector employs 208,000 people in Scotland, and that figure is predicted to rise to 216,000 by 2028. Over and above our current recruitment, we need to recruit in excess of 5,000 additional people every year until 2028 to meet the targets.

To answer the question, I think that the construction sector values the pipeline and the certainty. The regionalisation is also valued, as it is beneficial not to need to concentrate on a limited number of larger projects. However, the context is that our industry has an output of £13.7 billion a year and we are talking about £6.2 billion of investment over 10 to 15 years.

Gordon MacDonald: I will jump to one of my other questions, given that you highlighted the potential growth and employment opportunities. Given that we have close to full employment—

unemployment is at 3 or 3.5 per cent—and that, as a result of Brexit, a lot of highly skilled workers in the construction sector, particularly those from eastern Europe, have now left and gone back to their homes, how difficult will it be to fill some of the jobs?

Paul Mitchell: There are difficulties in attracting apprentices, particularly craft apprentices, in some rural and island communities in Scotland. For example, Orkney has real difficulties in attracting craft apprentices, whereas on the mainland, particularly in the central belt, craft apprenticeships are still seen by young people as a real cherry. Demand exceeds supply when it comes to craft apprenticeships in Scotland as a whole.

We have been really concerned by the slight downturn in craft apprenticeship numbers in the current financial year. The Construction Industry Training Board has, to date, recruited 1,000 craft apprentices this year, and there are other managing agents, as they are known, such as local colleges, out there. We are slightly behind where we were last year, and we are in an environment in which we should be growing. There are a number of reasons for the slight decline in craft apprenticeship numbers, including stagnant funding from funding agencies such as Skills Development Scotland.

We have touched on inflation, which has been quite significant in recent years. For example, in 2022, the inflation figure for material costs in the construction industry was in excess of 20 per cent, and there has been significant wage inflation, too. However, funding for apprenticeships has remained static, which is squeezing what providers and colleges are able to do. Indeed, some colleges have started to drop some construction courses. For example, Edinburgh College no longer delivers the stonemasonry apprenticeship, and part of the thinking behind that decision was the cost. Colleges in Glasgow have dropped apprenticeships in floor laying and plastering, so those courses have had to be picked up elsewhere. A big part of the reason for that is lack of funding.

I know that some members around this table will be aware of another issue that is causing us real concern. In 2017, a portfolio of evidence was introduced for craft apprenticeships, and it is very difficult for some apprentices, through no fault of their own, to gather all the evidence in sight, which has resulted in significant backlogs. At one point two or three years ago, more than 500 apprentices had successfully navigated their time and completed their skills test but were not able to complete their apprenticeships, because they could not provide certain bits of evidence as a result of their employer never having done certain types of work. Hundreds of apprentices were delayed. I checked the figures recently—250 apprentices are delayed for that reason now, so it is still a real issue. Some employers are beginning to scratch their heads and wonder whether the qualification is fit for purpose and whether it is fair to do that to young people. The effects of that are beginning to bleed through in the reduced numbers.

Gordon MacDonald: How should we resolve the issue of the number of people who cannot complete their apprenticeships?

Paul Mitchell: The Scottish Building Federation has worked with the trade union and colleagues at the CITB and in colleges. We have argued strongly that, if an apprentice does a particular task as part of their college course, they should be able to use the evidence that has already been assessed in the college environment. There is a heap of limitations, thresholds and safety measures in that regard but, as a broad rule of thumb in order to address the pinch points, apprentices should be able to use evidence of the work that they have done as part of their college course to complete certain aspects of their portfolio. Unfortunately, the Scottish Qualifications Authority is not in line with that, despite its having been a clear industry request for a number of years.

Gordon MacDonald: Cornilius Chikwama, you highlighted that you are unsure of the impact of the growth deals. They are local growth deals, so has there been any analysis of the companies that have benefited from them? In other words, are those companies local to the region, are they local to Scotland or the rest of the UK, or are they international? Has any analysis been done of who is benefiting?

Cornilius Chikwama: No, Audit Scotland has not done any work to establish that. You make an important point, which I tried to articulate in response to Mr Stewart, about these being local deals. As we have said, the scale of the funding tends to be very small, so it is likely that the significant impacts will be localised. There might be value in understanding where the money is going. Is it going into the local economy? Who is benefiting? That is quite an important line of inquiry, because it will allow us to understand the nature of the impacts that the deals generate.

11:15

Paul Mitchell: There are no national statistics on that, but I noticed that the Glasgow city deal website says that £416 million has been spent on infrastructure and that £142 million of that has been spent on local businesses. I am not quite sure why roughly a third of the expenditure has been on local businesses. Perhaps that opens up a question about embedding local spend criteria in the projects. There might be specific reasons for the spending on those projects, but that figure is lower than we would have expected.

Gordon MacDonald: It is an important issue, because local companies will use local supply chains. Neil McInroy, do you want to add anything about the importance of that?

Neil McInroy: The wider total factor productivity, which I mentioned, the ripple effect of the deals in the local economy and how they relate to local places and local people are important issues. The community wealth building lens that has been used for the Ayrshire growth deal has been really helpful in that regard, and similar figures have been gathered there.

Gordon MacDonald: I have another question for Paul Mitchell. You touched on inflation. For a lot of construction materials, that is at 20 per cent or more. Forecasts say that construction costs could go up by a further 15 per cent in the next five years.

What impact do you think that will have on the pipeline of projects, in particular those that have not been implemented yet, given that at least 50 per cent of the money that has been put into the deals is fixed, as in the Government contributions? Will we see delayed projects, cancelled projects or projects being reduced in scale? What is the potential impact?

Paul Mitchell: It is a difficult situation. That level of inflation would not have been envisaged when the deals were put being together. You are correct. You could look at value engineering solutions in relation to the proposed infrastructure and buildings. You could also look at trying to refinance the capital investment in some way, but that will be difficult if you are, essentially, working with fixed budgets. Projects might have to be delayed or even cancelled.

I was interested in the earlier conversation about selecting and prioritising which projects get off the ground first. I wonder if in the future we will have to almost do that in reverse and prioritise which of the remaining projects will get off the ground.

Gordon MacDonald: Catherine Young is nodding.

Catherine Young: Yes, we have reflected on that. We did an infrastructure investment briefing in 2023 that highlight the wider issue that prioritisation will have to be done and the transparency around that. Deal bodies have indicated to us that there is a real risk that projects will not start or the intended benefits that were originally set out will not be achieved. I have said that they are working on that; they are alive to the issue and, as was mentioned, they are looking at value engineering. We saw, for example, that Midlothian sought funding from the UK levelling up fund—I think it was round 2—and was not successful. I highlight that deals have indicated that it is a live risk to them.

Gordon MacDonald: If I picked you up correctly, you said that alternative funding streams might be open to this set of growth deals. Can you say a bit more about what they could be?

Catherine Young: We did the 2023 reports just before Christmas 2022—I think that was around round 1 of the levelling up fund. Deals were being encouraged to seek funding if they met the criteria for the fund, and, as Neil McInroy mentioned, they were looking at their own capital budgets and any scope to use that money.

Some deals indicated that they would try to bring in more private sector investment, but that is not easy in the current financial situation. The guidance at the time was to seek alternative funding where possible, to look at the scope of projects and, I suppose as a last resort, once all other avenues had been exhausted, to look at descoping or changing the original project.

Lorna Slater: I will attempt not to go over old ground, because we have explored some of these matters quite thoroughly already. The convener opened with what we can consider to be a successful example—the National Robotarium. I would like to consider a less successful example. I absolutely understand that you will not be able to comment on any specific project, but this one is a good example in that it highlights some of the concerns that we have been discussing, and I get a lot of mail about it. It is the Sheriffhall roundabout, which is in my region.

The first point is about lack of flexibility. The challenge that we have is that the project is stuck. In order to meet their goals on traffic reduction—the 20 per cent reduction in car kilometres—and on emissions, the council and the Scottish Government would probably like to reconsider whether the money should be spent on that roundabout. It is not at all clear that, strategically, the money would not be better spent elsewhere in the region now that those targets are in place.

There seems to be an impasse in that the roundabout is clearly not getting replaced and the building work is not proceeding, but the council and the Scottish Government cannot reallocate the funding elsewhere because they are stuck in this inflexible deal. Whenever you talk to the council, they say, “We would like to reconsider it, but it is part of the region deal and so there’s nothing we can do.” I am sure that the Scottish Government would also like to reconsider how that money may have been allocated because it has been locked in there. We have had several elections and several changes of political priorities, including declarations of climate and nature emergencies since the project was started, and still it is stuck.

How can we make the city and region deals more flexible? It might be something to do with the prioritisation that Ms Young was talking about or the accountability that Mr McInroy was talking about, but I am curious about how you think we can make the deals more flexible.

Cornilius Chikwama: That is the point that I was making about recognising that economic or political context and priorities might change. We want the deals to be flexible. There is probably not much more to add, besides agreeing with you that we need that flexibility. You can maintain a focus on the same outcomes, but if the context is changing you want to course correct to make sure that you are able to hit the outcome that you are aiming for, which requires flexibility.

The example that you gave makes the general point that even if the deals operate over long-term horizons, they still ought to have flexibility to respond to changing contexts. In short, I agree with you on the need for flexibility.

Neil McInroy: That is a fascinating example and case study. I do not know the details of it, but it is about where the inflexibility is and who is accountable for getting rid of it.

It seems to me that in setting up the deals there have to be rules of engagement—I do not know if there are—around the parameters of flexibility and how you can change particular projects and business cases. From what you said, it seems that that needs to be looser. Something in the setting up of the deals needs to make clearer the ability for there to be local accountability, to free up deals to make their own decisions about what happens in the circumstances that they are in. That is presuming that something structural or something in the process is creating the inflexibility, rather than that somebody is just not doing what they should be doing, if you get my drift. Either the inflexibility is factored into the process or something erroneous has happened in the process.

Lorna Slater: That is a good point. I would like Ms Young to come in, too. That is true. Some of this comes down to environmental review of the project. Because it has taken so long, further reviews have been done and now it might conflict with newer priorities, but it is still not able to move forward.

Neil McInroy: I am sorry to cut in, but that gets to the point about democratic accountability, because you want the leadership of democratic bodies to cut through that. The problem is that it is in the morass of bureaucracy. Clarity would come from democratic accountability, with bodies saying, “We will fix this and we will do it now.”

Catherine Young: To add to that point, there is a change management protocol or process in place, but I am not familiar with the detail. I am aware of the Sheriffhall issues, but not at what point the block is. We got evidence when we did our 2022 survey that deals had implemented the change control process. I do not know whether it is to do with the capital funding—for example, if it has been underspent and has gone back to the Government. Maybe there is something to do around clarifying the exact block in the process.

Lorna Slater: The related point is how we get coherence. We have observed a lack of coherence. The Sheriffhall roundabout project, for example, is not in line with either the Scottish Government’s or the local council’s net zero or car kilometre ambitions and yet it is still on the books because it has been on the books for a very long time. Three levels of government are involved that have had elections on different cycles, and there does not seem to be any one level of government that can call it off or say, “This is no longer in line with our priorities.” Three levels of government have slightly different priorities and slightly different timescales, and not one of them has the power to say, “This is no longer our priority” or to change the parameters or to pull out of it.

That is partly because of what Mr McInroy was saying about the process bypassing existing mechanisms. I go as far as to say—and I am allowed to say this with my political hat on—that it goes so far as to bypass our devolution settlement in Scotland. I am cynical in some cases about some of these levelling up funds and so on because I think that they are intended to bypass the devolution settlement and thereby undermine Scottish democracy in that way by making the Scottish Parliament look ineffective or unstrategic.

I guess that we have covered how the system was designed for England, how it does not use existing mechanisms and how three levels of government are involved. How can we get coherence? What would be better? How do we make this more coherent?

Neil McInroy: That is a fundamental, big question. The way that we get coherence is that it has to be filtered through a clear strategy for Scotland’s approach to the economy. It also has to be clearly filtered through the priorities of the local areas that are the recipients of the deals. That requires a deeper conversation about the deals and how they will be used, which could be partly democratised.

There was a lot more sophisticated conversation with the community on the island deals, which seems to me to be effective in creating clarity and breaking out of the dissonance that occurs with some of the deals and the opacity. The conversation goes, “We might be getting a deal. Let us have a conversation about what it will all be about. What are our priorities? Let us devise the deal according to what we, the people, want through the democratic bodies here.”

That is how we get clarity. It is about democratising these funds as much as we possibly can, given the three levels of government, and having sophisticated conversations about what the priorities should be and how those funds should be administered. That is lacking—it is a little bit behind closed doors.

Cornilius Chikwama: The Scottish Government published the national strategy for economic transformation in 2022, which sets out the vision for Scotland’s economy going forward. One of the programmes is around productive regions and businesses. There is a question for me around how the operation of the deals now docks into that national vision for Scotland’s economy that ministers have set. Do we have the right governance arrangements to align what is happening in the deals with that national vision? We may need to explore a general point there around coherence.

The Convener: Thanks very much indeed. If no other members have questions, that brings us to the end of this evidence session. I thank our panel very much for joining us today and giving us an important overview of where we are with city and regional growth deals. We also had some fantastic quotes. Neil McInroy summed things up perfectly when he said there is a faff associated with it but we are where we are. That probably sums up the session today. Thank you so much indeed to our panel for your contributions.

11:29

Meeting continued in private until 12:09.

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