

Scotland's City Region and Growth Deals



ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Scotland
January 2020

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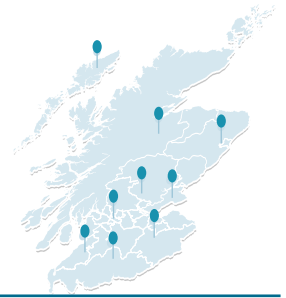
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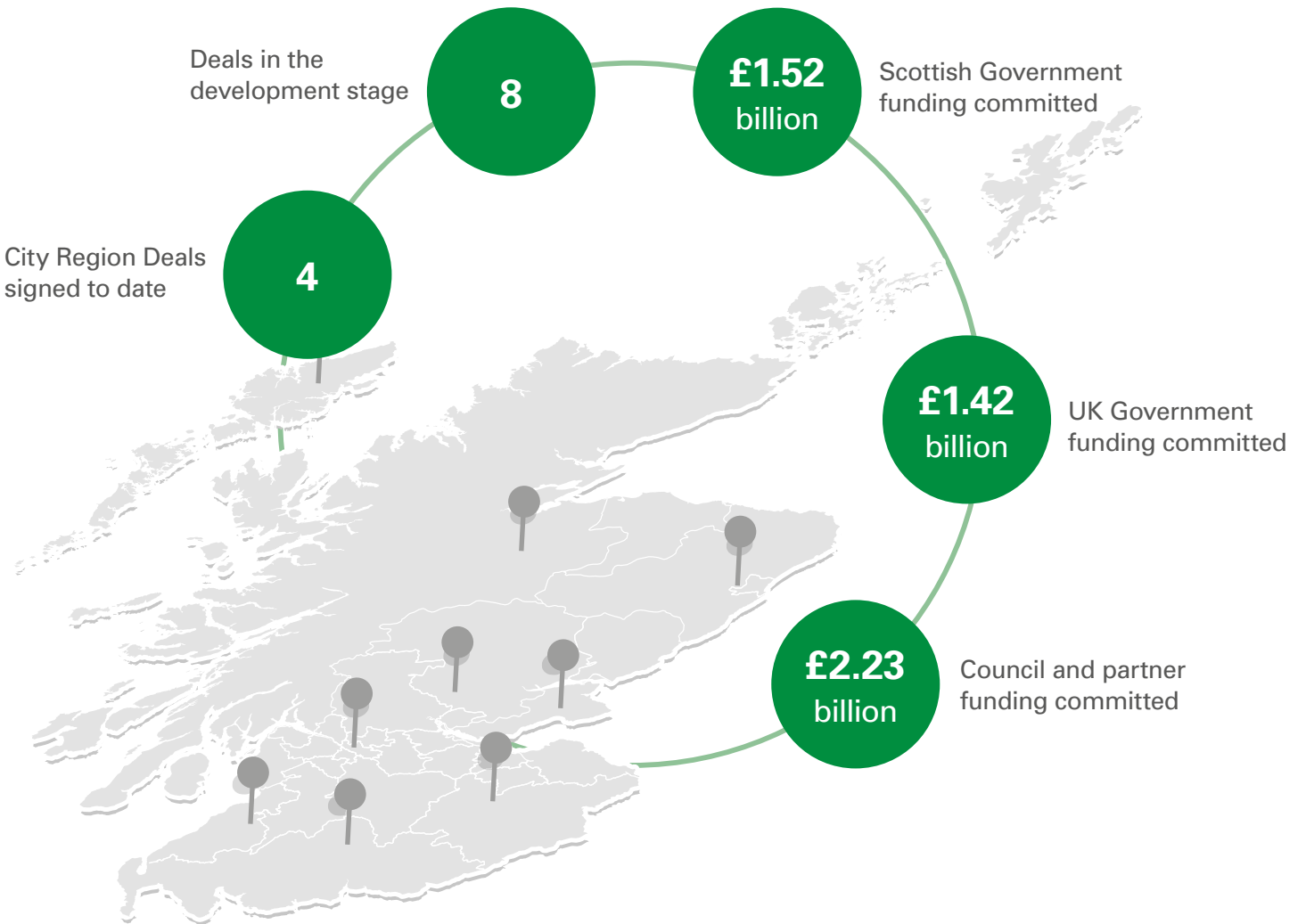
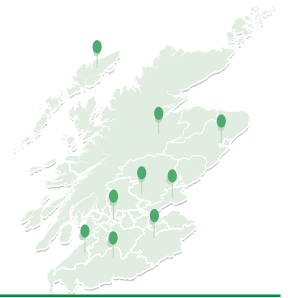
Audit team

The core audit team consisted of: Graeme Greenhill, Sally Thompson, Derek Hoy and Garry Quigley, with support from other colleagues and under the direction of Gordon Smail.

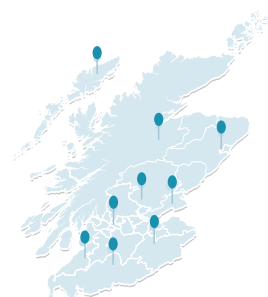
Links

-  PDF download
 -  Web link
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Key facts



Summary



Key messages

- 1** £5.2 billion has been committed so far to supporting economic development in all parts of Scotland through City Region and Growth Deals. This money comes from the UK and Scottish governments, councils and their partner organisations. Four deals have been signed to date and eight are in development.
 - 2** Deals bring additional long-term funding for regional economic development. They have enabled economic development projects that may otherwise not have gone ahead. Deals have also been a catalyst for increased collaboration between councils and their partners.
 - 3** Deals have been developed against an evolving policy backdrop. All individual deals include output measures, such as new jobs created. But, five years after signing the first deal, the Scottish Government has not set out how it will measure their long-term success, how it will know if deals are value for money, or how deals will contribute to the outcomes in the National Performance Framework. This means opportunities for the deals to take account of the national outcomes may have already been missed, although there is still scope to make sure existing and future deals contribute to national outcomes.
 - 4** Each deal is made up of a number of projects, largely comprising infrastructure improvements. It is not clear why some projects are selected and approved for funding and others are not. Local communities have also had very little involvement in the deal process. These factors limit transparency and the ability to hold public bodies to account for their deal spending.
 - 5** Governance and scrutiny arrangements are in place at national and deal level. Accountability and scrutiny arrangements are still evolving and it remains untested how accountability will work in practice. There is also a risk around the capacity of councils and their partners to deliver deal projects against a challenging backdrop for the public sector.
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Recommendations

The Scottish Government should:

- set clear aims and objectives for the overall deals programme, including how it will help to deliver inclusive growth
- explain in medium- and long-term financial plans how it will fund deals from its budget and how this relates to ongoing financial support for local government
- develop arrangements for measuring the impact of the overall deals programme, in particular how it has taken account of outcomes set out in the National Performance Framework and whether it has achieved value for money
- clarify for partners how they should plan for and then measure and report on the impact of individual deals, including their delivery of inclusive growth. This is especially urgent for shorter-term deals that are already in the delivery stage.

Councils should:

- work with partners to agree clear and commonly understood lines of accountability, and how information on the progress of deals is reported to elected members and council partners
- ensure deals are aligned with an agreed regional economic strategy, with input from a wide range of partners, and can demonstrate how they will help deliver national and local priorities for economic development
- regularly review their governance, monitoring and risk management arrangements to ensure they are clear and operating effectively, and consider the ways that internal audit can provide assurance on this
- regularly monitor the risk of partner funding not materialising as agreed and be aware of their own financial implications if that risk is realised
- ensure a wide range of partners and stakeholders, including local businesses, voluntary organisations, communities and community planning partners, are involved in the deal development and agreement process and as the deal progresses
- consider how they will measure the full long-term impact of the deal and whether it has achieved value for money. This should include consideration of arrangements for collecting and analysing data on different groups in their communities to allow the impact of deals on minority and disadvantaged groups to be evaluated
- look at how deals affect their longer-term financial plans, capital programmes and borrowing strategies

- ensure that enough staff, money, expertise and skills are available to develop and deliver deals including sufficient project management capacity and expertise.

The Scottish Government and councils should:

- consider how best to make more information publicly available as to the reasons behind key decisions on funding and project selection for signed deals and those still in development, to promote understanding and support effective scrutiny
 - improve arrangements for sharing knowledge and learning across deals in the interest of improving the deal process
 - regularly review the governance and accountability arrangements for deals to ensure they are clear and operate effectively.
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Background

1. The UK Government introduced City Deals in England in 2011, working with city councils and other councils within city regions. Under these deals, national government agreed to give additional funding and powers to cities and their regions to allow them to play a leading role in promoting the growth of city region economies.

2. In August 2014, the UK Government and the Scottish Government jointly announced the first City Region Deal in Scotland for the Glasgow City Region. Under the deal, the eight councils in the Glasgow City Region agreed to work together to manage an infrastructure investment programme. This featured an initial list of projects, at a total cost of £1 billion over 20 years, to promote the growth of the local economy. Since then, all areas of Scotland have signed, or are working towards signing, either a City Region Deal or, for regions that do not have a city, a Growth Deal. In this report, we refer to them all as 'deals'.

3. All deals are different and are intended to be based on local circumstances and priorities. In Scotland, all signed deals are agreements between the UK Government, the Scottish Government, councils and sometimes other partners, such as local business representatives, and universities. They are long-term programmes, with funding committed for 10-20 years.


About this audit

4. This report provides an early assessment of deals in Scotland. It looks at the introduction of deals and is divided into three parts:

- In [Part 1 \(page 9\)](#) we consider why the Scottish Government adopted the deal approach to economic growth and how it fits with its wider economic policy.
- In [Part 2 \(page 18\)](#) we examine how deals are made and give an early assessment of the management, governance and accountability structures at national and local level.

- In [Part 3 \(page 28\)](#) we look at progress to date, risks and plans to measure the impact of deals.

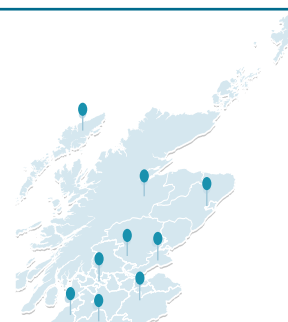
Deals in Scotland run over periods of up to 20 years and are at an early stage, with most projects still being developed. We therefore did not consider whether deals are achieving what they have been set up to deliver, or the progress or impact of the individual projects that make up the deals. Deal partners continue to work to agree new deals. This audit provides the most up-to-date information at the time of publishing. We will continue to monitor the development of deals with a view to further audit work in the future.

5. Appendix 1 (page 37) outlines the methodology we used for this audit and **Appendix 2 (page 38)** lists members of our advisory group. We collected most of the evidence for this audit in early 2019, and the report reflects the nature of deals at that time. Some deals are still being negotiated and new deals are expected to be signed soon. This audit contains recommendations for the Scottish Government and councils. Councils are a main partner in developing deals and have a key role in delivery. We have developed a series of questions that councillors may find helpful when scrutinising their deal ([Appendix 3, page 39](#)). This is also available as a separate [supplement](#) .

6. The UK Government provides significant funding for deals in Scotland. Audit Scotland has no remit to audit the UK Government and, while we describe its role, we have not made any audit judgements on its performance or recommendations for improvement.

Part 1

The introduction of deals in Scotland



Key messages

- 1** The UK and Scottish governments are committed to signing deals for all parts of Scotland. So far, the UK and Scottish governments, councils and partner organisations have committed £3.7 billion to the four signed deals. A further £1.475 billion has also been committed so far for deals in development. Both the UK and Scottish governments' funding is additional funding for regional economic growth.
- 2** The Scottish Government's decision to adopt deals was in line with its existing policy on cities and economic growth. At the time, no clear objectives were set for the deals programme and it was not clear how they were expected to contribute to existing economic development policy. Deals have been agreed against an evolving policy backdrop. The Scottish Government is now clearer on how it wants deals to work and how they fit with its economic policy.
- 3** Councils and their regional partners initiate deals and decide the geographical area covered by their deal. As national policy has developed, so have individual deals. Later deals have been better informed by regional economic strategies and have more partner input than earlier deals.

The UK and Scottish governments are committed to deals for all parts of Scotland

7. Deals are signed agreements between the UK Government, the Scottish Government, councils and sometimes other partners, for example, businesses and universities. Government agencies, such as Scottish Enterprise and Skills Development Scotland, can also support and help deliver deals. Councils and other local partners approach the UK and Scottish governments with proposals to help economic growth in their area. National governments then agree to fund a deal in principle. After a period of negotiation, all those involved commit to funding several projects over a period of 10-20 years. This is set out in a heads of terms agreement. Following approval of more detailed business cases covering individual projects, partners formally sign off the deal.

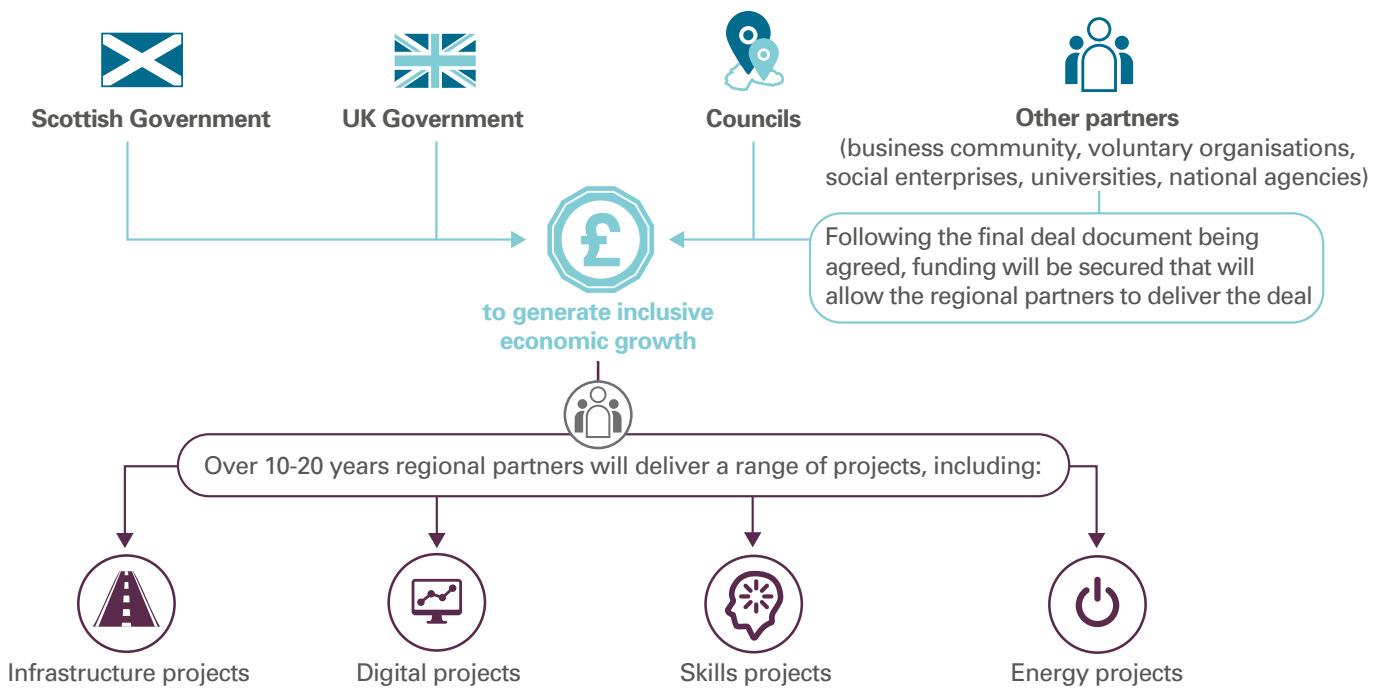
8. The types of projects included in deals include transport infrastructure projects, innovative technology projects and employability and skills projects. Councils and local partners are then responsible for delivering these projects. All deals are different in terms of the partners and types of projects they include, but the approaches to setting up a deal are similar ([Exhibit 1, page 10](#)).

Exhibit 1

What are deals?

Deals involve a range of projects and funding from several partners.

Deals are three-way agreements between the UK Government, the Scottish Government and regional partners. Regional partners, that is councils and sometimes other organisations, develop proposals that aim to secure funding from both governments.



Source: Audit Scotland

9. The UK and Scottish governments have committed to funding deals in all parts of Scotland. To date, four deals have been signed (Glasgow City Region, Aberdeen, Inverness and Highland, and Edinburgh and South East Scotland) involving 17 councils. [Appendix 4 \(page 41\)](#) provides more detail on each of these deals. Other deals are at various stages of development:

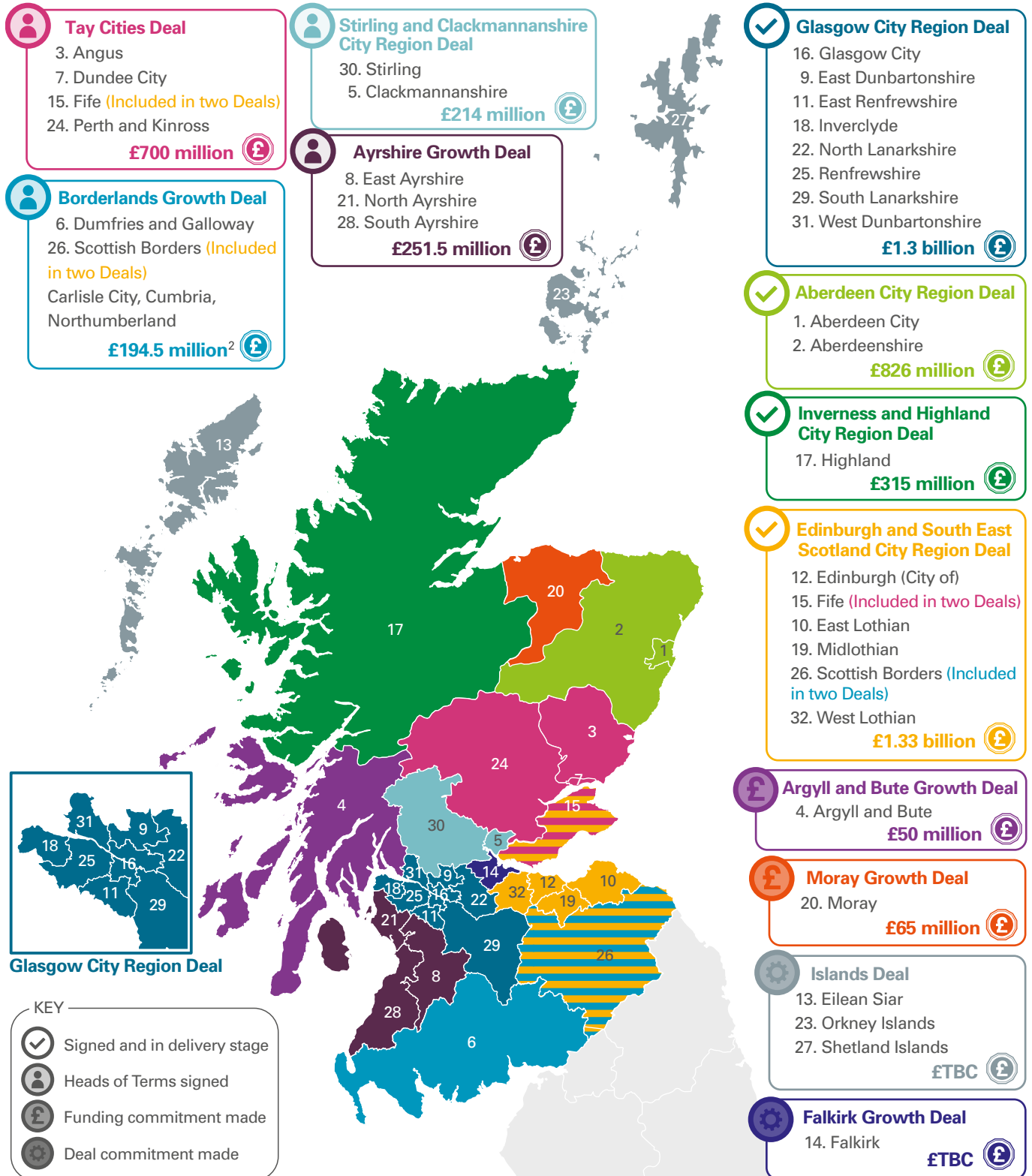
- Heads of terms have been signed for four deals (Stirling and Clackmannanshire, Tay Cities, Ayrshire and Borderlands) involving a further 11 Scottish councils.¹
- The UK and Scottish governments have committed funding for the Moray Growth Deal and the Argyll and Bute Growth Deal, both single council deals.
- The UK and Scottish governments have made a commitment to agree two further deals for Falkirk and the Islands.

Should all these deals go ahead, all Scottish councils will be involved in a deal ([Exhibit 2, page 11](#)).

Exhibit 2

Map showing deal boundaries, the stages the deals are at and the funding for each deal

Deals in Scotland are at different stages of development.



Notes:

1. Most deal funding is capital funding.

2. This includes £44.5 million funding from the five councils (two in Scotland and three in England). As the deal is at an early stage and projects are still being developed a final breakdown of this funding by Scottish and English councils is not yet known.

Source: Audit Scotland

£5.2 billion has been committed to deals to date

10. The UK and Scottish governments have between them committed £2.1 billion over 20 years to the four signed deals. Of that, the UK Government has committed £1 billion and the Scottish Government £1.1 billion. The Scottish Government is committed to at least matching UK Government funding. Councils have committed around £600 million and other regional partners, such as businesses and universities, have committed just over £1 billion. This brings the total funding for the signed deals to £3.7 billion ([Exhibit 3](#)).

Exhibit 3

Total funding for the four signed deals

There is wide variation in councils' and other partners' contributions to deals.

Deal	Total funding committed £m	UK Government £m %	Scottish Government £m %	Councils £m %	Other partners £m %
Glasgow City Region Deal	1,226.7	523.7 43%	520.0 42%	153.9 13%	29.2 2%
Aberdeen City Region Deal	826.2	125.0 15%	125.0 15%	20.0 2%	556.2 67%
Inverness and Highland City Region Deal	315.1	53.1 17%	135.0 43%	119.7 38%	7.3 2%
Edinburgh and South East Scotland City Region Deal	1,330.1	300.0 22.5%	300.0 22.5%	303.2 23%	426.9 32%
Total	3,698.1	1,001.8 27%	1,080.0 29%	596.8 16%	1019.6 28%

Note: We have rounded figures to one decimal place, as a result, percentages do not always add up to 100 due to rounding and the council total is slightly higher than the actual figure of £596,706.

Source: Audit Scotland, 2020 (based on latest annual reports)

11. The UK Government has committed £363 million and the Scottish Government has committed £383 million to the four deals currently at the heads of terms stage. Councils and partners have committed £614 million to these deals. A further £115 million has also been committed by the UK and Scottish governments for the Moray, and Argyll and Bute Growth Deals. This brings the total funding committed to date to £5.2 billion. UK and Scottish government funding for the remaining deals proposed has not yet been finalised.


12. The Scottish Government has also committed to providing additional money for regional economies alongside some of the signed deals:

- £254 million has been committed for the Aberdeen City Region for rail, road, digital infrastructure and housing projects.
- £5 million for Stirling and Clackmannanshire for a business park at Kildean and infrastructure work in Callander.

- £50 million for Tay Cities, with £40 million committed to the Cross Tay Link Road and £10 million committed to an industrial investment programme.

13. This money is not provided as part of the deals in these regions but has generally been announced at the same time as the deals or heads of terms have been signed. This additional funding has been made where the UK Government has not matched the Scottish Government's funding commitment, but the Scottish Government has decided to still provide its full commitment for that region.

Deal documents clearly set out agreed funding arrangements

14. Deal documents clearly set out the agreed funding arrangements over the period of the deals. Funding provided through government grants is generally paid to deals quarterly in arrears. For the four deals signed to date, government funding is ring-fenced, meaning that it can only be spent on deal-related projects. The UK Government's funding for deals is additional to the **block grant**  provided to the Scottish Government. The Scottish Government's funding represents additional money for regional economic development. The funding currently sits within the transport, infrastructure and connectivity portfolio of the Scottish Government's budget and is not part of the local government settlement. Publishing detailed longer-term financial plans, for example as part of the Scottish Government's Medium-Term Financial Strategy, would provide more clarity on where funding for deals comes from and how they will be funded in future years.

15. All funding is subject to deals meeting the Scottish Government's grant conditions and governance and reporting requirements. The Glasgow deal must also pass an independent review, called a gateway review, every five years before the UK and Scottish governments will commit to the next five-year block of funding.

Deals have been agreed against an evolving policy backdrop

16. The UK Government introduced City Deals in its 2011 White Paper, *Unlocking Growth in Cities*, as part of its policy to devolve powers to local regions. The UK Government identified cities as the 'engines of growth' that allow businesses to compete nationally and globally.² The first wave of deals was signed in England in 2012, when deals were agreed for the eight largest cities outside London. A further 20 deals were announced in a second wave in 2014.

17. Councils in the Glasgow City Region initiated the introduction of deals in Scotland. Council leaders in the Glasgow region discussed the possibility of a deal with the UK Government. The UK Government then asked the Scottish Government if it wanted to partner it in such a deal. These discussions took place in a highly charged political environment in the period leading up to the 2014 Scottish independence referendum. In August 2014, the Scottish Government agreed to match the UK Government's funding of £500 million.³ At that time, the Scottish Government had not published any plans to introduce deals in Scotland.

18. The concept of deals was in line with the Scottish Government's 2011 cities strategy, *Agenda for Cities*.⁴ This strategy does not refer specifically to a deal-making approach to economic development, but promotes partnership working between councils, the Scottish Government, national agencies, universities and businesses. It also refers to city regions as the engines of economic growth. Nevertheless, at the time the Glasgow deal was signed, Scottish Government policy did not outline clearly what deals were expected to achieve, how they were expected to help economic development or how they fitted with existing economic development policy.



The block grant is funding issued to the devolved administrations, in this case the Scottish Government, by HM Treasury. Once the block grant has been determined, the devolved administrations have the freedom to make their own spending decisions in areas of devolved responsibilities.


19. After the Glasgow deal was agreed, other parts of Scotland began to investigate the possibility of deals. The Scottish Government continued to work with the UK Government and local areas to agree deals while it also worked towards including deals in its wider economic policy. The Scottish Government's 2015 Economic Strategy lists the national priorities for economic development in Scotland and introduced the aim of achieving inclusive growth. The 2016 *Scotland's Agenda for Cities* refresh, and the 2017 *Enterprise and Skills Review* make the role of deals in contributing to economic development policy clearer. This policy development took place over three years and in that time the Scottish Government committed significant funding to deals ([Exhibit 4, page 15](#)).

National policy around deals has evolved, but the reasons for changes to policy have not always been clearly articulated

20. In 2017, the Cabinet Secretary for the Economy, Jobs and Fair Work made a commitment that the Scottish Government would ensure that every area and every community in Scotland would benefit from a deal. This is a significant shift from both the original UK model and the Scottish Government's initial focus of deals for cities. The Scottish Government says this decision was the fairest and most logical approach to developing deals, although evidence for this was not clearly articulated. In its *Enterprise and Skills Review, Phase 2 Report*, the Scottish Government outlines its commitment to establishing regional economic partnerships in all parts of Scotland to drive inclusive growth. These partnerships are building on deal governance arrangements. In England, the UK Government has also progressed from their original model and has introduced local growth deals and devolution deals. In 2016, the National Audit Office concluded that the UK Government had not outlined objectives for growth deals.⁵

21. In England, City Deals can sit alongside devolution deals, where councils are given more powers in areas such as housing, transport and health. In most cases, this was linked to the election of new mayors for city regions. The transfer of powers and decision-making to a regional level was a key factor in the UK Government's decision to adopt a deal-making approach in England. There has been no similar transfer of powers to local regions in Scotland. The Scottish Government and the Convention of Scottish Local Authorities (COSLA) are jointly working on the Local Governance Review which is focused on devolving more power to the local level.

Later deals are more in line with national policy, better informed by regional economic strategies and have more input from partners

22. Councils and regional partners decide what geographical area a deal will cover. Boundaries of deals are generally in line with the boundaries of the councils, but the approach is not the same in each region. For example, some deals involve single councils, others involve two or more councils, and some councils (Fife and Scottish Borders) are involved in two deals. The Scottish Government's *Agenda for Cities Refresh* states that deals should be based on **functional economic geography** . Neither the UK nor the Scottish Government carried out any analysis of Scotland's economic geography to determine which area should be covered by each deal before the deals were agreed. They have not set out the areas deals should cover, but they have occasionally encouraged some councils to work together.



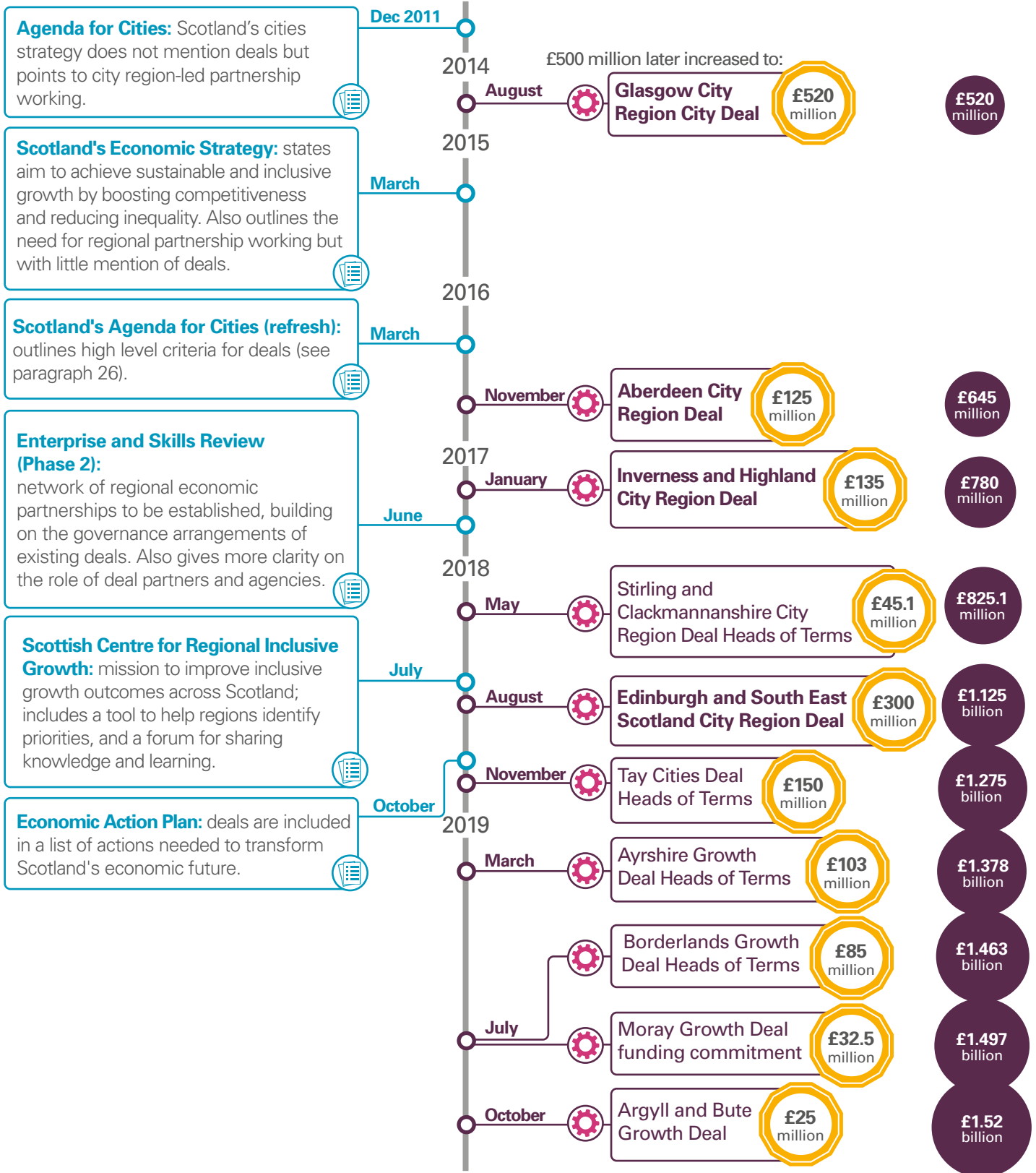
Functional economic geography

A term which attempts to capture the geographical area where local economies operate. This term looks beyond the standard administrative boundaries to assess relevant local economic factors such as commuting journeys, housing market areas, location of significant employers, etc.

Exhibit 4

Timeline of Scottish Government policies on economic growth and money committed to deals

The Scottish Government has committed significant sums of money to deals while still developing relevant policies.



KEY

- Policy development
- Deal announcement
- Scottish Government funding
- Cumulative Scottish Government funding to date

Note: signed deals are in bold

Notes:
 1. Funding commitments for the Islands Deal and Falkirk Growth Deal have not yet been announced.
 2. Funding figures do not include additional funding to regions alongside deals, as highlighted in paragraph 12.

23. In 2019, the Scottish Futures Trust commissioned research into regional economies. It found that labour markets, supply chains and business networks all have their own geography. This, combined with a lack of available data, makes it difficult to identify clear fixed boundaries for a regional economy.⁶

24. As national policy has developed, so have individual deals. The Glasgow deal was signed in 2014, before any of the documents outlining what was expected from deals were published. The Aberdeen deal and the Inverness and Highland deal were signed in late 2016 and early 2017 respectively, after *Scotland's Agenda for Cities* was published and before the *Enterprise and Skills Review* was published. Because these deals were agreed as policy was being developed, they did not fully meet the Scottish Government's own expectations for deals. For example, the Scottish Government introduced inclusive growth as the focus for deals after it had signed the Glasgow deal and once the Aberdeen and Inverness deals were too far advanced to change significantly. Opportunities to maximise the impact of deals on government priorities may have been missed.

25. Later deals are more in line with national policy. They are increasingly influenced by regional economic strategies and the views of a wider range of people and organisations. For example, the Tay Cities Regional Economic Strategy and deal proposal were developed after the *Enterprise and Skills Review* was published. This has helped the deal focus on national, as well as local, priorities and helped ensure input from a wide range of partners. The Tay Cities deal is only at the heads of terms stage, but it shows how the approach to developing deals has evolved over the last five years ([Case study 1, page 17](#)).

Recommendations

There is a need to clarify what the overall programme of city deals is expected to achieve, how individual deals will take account of national and local economic development priorities, and to provide more information on the funding of deals. Accordingly:

The Scottish Government should:

- set clear aims and objectives for the overall deals programme, including how it will help to deliver inclusive growth
- demonstrate, for deals in the development stage, how they are expected to take account of national priorities for economic development
- explain in medium- and long-term financial plans how it will fund deals from its budget and how this relates to ongoing financial support for local government.

Councils should:


- ensure deals are aligned with an agreed regional economic strategy, with input from a wide range of partners, and can demonstrate how they will help deliver national and local priorities for economic development
- when developing deals, seek to learn from others who have already secured deal funding.

Case study 1

The development of the Tay Cities deal



The Tay Cities deal, although only at the heads of terms stage, shows how deals have evolved since 2014:

- A regional economic strategy was developed first and used to inform the deal proposal. The strategy considered the economic issues identified in the Community Plans and **Local Outcomes Improvement Plans (LOIPs)**  for the region.
- The objectives in the Tay Cities Regional Economic Strategy are based on the key priorities in Scotland's Economic Strategy.
- Inclusive growth is at the heart of the deal and there is a clear understanding of what inclusive growth means for the Tay Cities Region.
- It identifies the Tay Cities Region as a functional economic geography, with most people who live in the area also working in the area.
- Agencies such as Scottish Enterprise and Skills Development Scotland played a greater role in developing the deal, as set out in the *Enterprise and Skills Review*.
- More effort was made to engage with stakeholders when identifying projects, including through an open invitation for project ideas.
- A commitment to work with community planning partners to ensure the deal ties in with LOIPs and that local priorities are considered.

Source: Audit Scotland

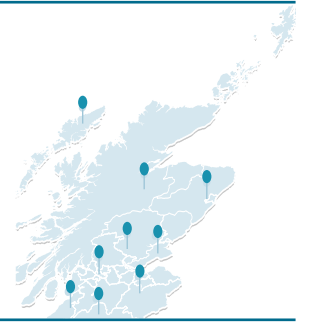


Local Outcomes Improvement Plans (LOIPs)

Local Outcomes Improvement Plans are how Community Planning Partnerships attempt to deliver improved outcomes for local communities. They should be based on the needs of communities and contribute towards local priorities, as well as the National Performance Framework developed by the Scottish Government.

Part 2

Making, managing and monitoring a deal



Key messages

- 1** The reasons behind key decisions about funding and the selection of projects are not publicly available. While complete transparency cannot be expected in complex and commercially sensitive negotiations, the current lack of publicly available information on how funding packages are determined and projects are selected limits scrutiny and accountability.
- 2** Scottish ministers have committed to at least matching the UK Government's funding of deals. This removes some control and flexibility over the Scottish Government's future spending decisions.
- 3** Governance arrangements are in place at national and deal level. Accountability and scrutiny arrangements are still evolving and it remains untested how accountability will work in practice.
- 4** Partner involvement varies across deals. Generally, later deals have more input from private-sector partners. Communities have had very little direct involvement in deals to date. Community planning partners have had limited involvement in developing most signed deals.

Agreeing a deal can be a lengthy and complex process

There is no standard guidance or framework to help local areas develop a deal

26. Scotland's Agenda for Cities 2016 refresh sets out the Scottish Government's high-level criteria for deals, but neither the UK nor the Scottish Government has set out in detail how partners should go about putting a deal together. Neither provides an indication of how much funding will be available, what projects may be accepted or what a proposal should include. The Scottish Government appreciates that the lack of detailed guidance can make the process more difficult for regional partners but feels tight guidance can close off opportunities and constrain possibilities when developing a deal. Although there is no written guidance, both the UK and Scottish governments engage with regional partners throughout the process of developing a deal to set general parameters. This approach is intended to give regional partners flexibility in preparing their proposal.

27. While some local partners welcome this approach, others feel that the absence of a set process and guidance makes it more difficult to develop a deal proposal. There is no formal forum for sharing learning or experiences of

the process, but this does happen on an ad hoc basis. The lack of guidance, opportunities for learning and peer support available when the earlier deals were developed may have resulted in extra work and time being required to set up other deals. The Scottish Government intends to use the Scottish Centre for Regional Inclusive Growth to share learning and good practice.⁷ It also encourages peer learning between regions and has, for example, facilitated meetings between itself and city partners.

Developing and agreeing a deal can involve a lot of time and staff

28. Developing a deal has been a lengthy and complex process for councils and the UK and Scottish governments. They need to allocate enough time to developing deals alongside their existing workloads. Local partners can spend several years working with both governments to develop proposals before funding is committed. It can then take up to two years to sign a deal.

29. The first wave of City Deals in England in 2012 was agreed relatively quickly, with all eight deals being signed off within eight months. The National Audit Office (NAO) highlighted, in its 2015 report *Devolving responsibilities to cities in England: Wave 1 City Deals*, that this short timescale did not leave time to fully involve officials from relevant government departments.⁸ Experience to date suggests that the timetable needs careful planning to include all key stakeholders.

30. Councils may also lack some of the skills and experience needed to develop a deal, such as economic modelling and preparing detailed business cases. External consultants have been brought in to help with at least part of the process for most deals. Developing a deal proposal as a single council means that all this work and the costs of external help must be met by that council.

31. The UK and Scottish governments are committed to deals for all parts of Scotland. Those areas without a deal are keen to agree one as soon as possible and UK and Scottish government officials must carefully manage the demand this creates. Having a clear process and indicative timescales should help partners to manage the negotiations that are a key part of agreeing each deal.

A lack of publicly available information makes it difficult to scrutinise key decisions

It is not clear why some projects are selected and others are not

32. Local partners, usually led by councils, identify projects to be covered by their deal. In most of the deals signed to date, this has not been an open process. Proposal documents are not generally available to the public, with often little information on how the proposal was developed or where the ideas came from. If there is no explanation as to why local ideas are not taken forward, there is a risk that partners and communities see no value in engaging with the process.

33. There has been some improvement in more recent deals. For example, the partners behind the Tay Cities Deal invited ideas from the business community, charities and voluntary organisations, and public agencies that operate across the region. This led to suggestions for 110 projects, which were then scored with help from an economic consultant. Around 60 of these projects were included in the final deal proposal that was put to the two governments. The proposal document was made publicly available along with the Tay Cities Regional Economic Strategy, which provided an explanation of the projects put forward. It did not detail how final decisions were made though. Not all decisions were

based on a rational scoring process. For example, the Angus Fund was included because of political support for achieving geographical balance of projects across the region.

34. When the UK and Scottish governments receive proposals, they first check that they fit with national priorities and consider the expected impact on economic growth. The UK and Scottish governments then work with local areas to further develop proposals and give feedback on funding decisions to regional partners. The results of these discussions are not publicly available. As negotiations may involve commercial considerations this may be reasonable, but it is not clear:

- why some projects are approved for funding and others are not
- how the UK and Scottish governments coordinate deals across Scotland to ensure that projects complement each other rather than compete
- whether the expected economic benefits of a deal are maximised, or whether a different set of projects could provide more economic benefits.

35. Making information on the reasons behind decisions publicly available would allow greater understanding of decision-making by individuals, communities and organisations. It would also enable communities to hold public bodies to account for how public money has been used and what it has achieved.

It is not clear how funding decisions are made

36. Government and partner funding is decided during the negotiations for each deal, but it is unclear how this is done. The UK and Scottish governments do not use a set mechanism to decide on funding levels and neither government has a fixed amount of money set aside to fund deals. Funding is not based on factors such as population or poverty levels. The total funding for a deal is based on that required for the projects that each government decides to include in the deal. Council and other partner funding for deals varies and the reasons for this are also not clear.

37. Scottish ministers have committed to at least matching the funding from the UK Government. There is a risk that this could result in the Scottish Government providing more financial support to a deal than it otherwise would, based on its spending priorities. For example, regional partners might decide to develop a deal which involves several projects that the UK Government is known to be inclined to support, such as innovation projects, in order to gain additional funding from the Scottish Government.

38. Neither government clearly sets out what it will and will not fund, but both provide what they call 'soft guidance' during the negotiation period. Apart from the Glasgow deal, the UK Government has stated that it will only fund projects that are not devolved to the Scottish Parliament. In practice, the UK Government has shown some flexibility on this and has agreed to fund some projects that sit within devolved policy areas.

Arrangements are in place to manage deals at a national and local level

39. Governance arrangements should set out how an organisation, programme or project is managed and directed, and the roles, responsibilities and accountability

channels of all partners involved. Sound governance requires bodies to clearly set out how and when decisions are scrutinised, how risks are managed and who, or what organisation, is responsible if things go wrong.

Some national governance arrangements were not in place when the deals programme began

40. At the national level, the Scottish City Region Deal Delivery Board (SCRDDDB) is a joint UK and Scottish government board. It is the main national governing body for signed deals and is made up of senior civil servants from both governments. It scrutinises performance, budgets and risks, and holds individual deals to account. It reports back to the Scottish and UK governments and can raise any concerns with relevant ministers. The role of the SCRDDDB is still evolving. For example, its role in evaluating the impact of deals is still not clear.

41. The UK and Scottish governments approved the SCRDDDB Governance Operating Model (GOM) in 2019. For the first five years after announcing the first deal, both governments had a general understanding of how the governance arrangements should work but no formal agreement was in place. Although these informal arrangements worked well, the Scottish Government acknowledges that the absence of a written governance approach for the first five years meant that there was a risk of governance structures being faulty or incomplete.

Local governance arrangements are agreed with both governments and set out in deal documents

42. The local partners involved in individual deals decide on the governance structure that best suits them. The Scottish Government and the Scottish Futures Trust provide guidance and support to local partners on their governance structures. These must be agreed before the UK Government and the Scottish Government formally sign a deal. Details of agreed governance arrangements are set out in deal documents.

43. Arrangements vary between individual deals, but are broadly similar ([Exhibit 5, page 22](#)). There are generally four levels of governance in place for each signed deal:

- The senior governing body, usually a councillor-led joint committee, has strategic oversight of the deal. The SCRDDDB holds it to account for delivery of the deal. Ultimately, any formally constituted joint committee, which involves councillors, is also accountable to local people.
- The programme board comprises council chief executives and other senior individuals as an extra layer of scrutiny.
- The programme management office (PMO) is responsible for the day-to-day management of the deal.
- Project boards oversee the delivery of individual projects. These are accountable to the senior governing body. The SCRDDDB also holds the individual project boards to account for delivery of their projects. Transport Scotland projects are governed through Transport Scotland's arrangements rather than by project boards accountable to the senior governing body.

[Appendix 4 \(page 41\)](#) outlines the governance arrangements in each of the signed deals.

Exhibit 5

Governance arrangements for deals

The governance arrangements of all signed deals are broadly similar.



Source: Audit Scotland

44. In addition to these four levels of governance, deals may also have advisory bodies that provide support and advice on aspects of the deal, or from a community of interest. For example, the Edinburgh and South East Scotland deal has a Regional Enterprise Council that gives business, voluntary organisations and social enterprises an opportunity to feed into the deal.

45. For each deal, arrangements are in place for reporting deal-level and project-level risks to the joint committee. At project level, the partner organisation responsible for the project has its own arrangements for managing risks. Deals also have performance-reporting arrangements in place so that relevant committees can review and assess the progress of the deal and its individual projects. At national level, the SCRDDDB also reviews a deal's progress every three months.

Transport Scotland has its own processes for managing projects

46. Transport Scotland manages the funding and delivery of the Longman and Inshes project in Inverness and the Sheriffhall improvement project in the Edinburgh deal. Transport Scotland delivers these projects using its arrangements and systems and submits progress reports to the deals' senior governing bodies. Some PMOs raised concerns that this made it harder to manage their deal, as potential delays or changes to a transport project could affect other projects. Although there have been no delays to Transport Scotland projects so far, it is important that SCRDDDB's monitoring role over the progress of deals includes consideration of how well Transport Scotland is working with other deal partners to deliver projects to time and budget.

Governance and accountability arrangements for deals are largely untested and should be kept under review

47. Although it is early days, current governance arrangements have some positive aspects:

- Those serving on the senior governing bodies for deals are aware of their roles and responsibilities in managing the deal. Following the 2017 local government elections, new members of Glasgow's senior governing body were given training and an induction pack. The pack included: an overview of the deal; detail on the projects in the deal; governance structures; evaluation arrangements; business case development; and communication and marketing. It also covered the region's Economic Strategy and Action Plan.
- There are good and productive relationships between joint committee members across all deals. Maintaining good working relationships among elected members is crucial for good governance.

48. Senior governing bodies and PMOs for all deals plan to keep their governance arrangements under review to ensure that they are effective. Getting independent assurance, for example through internal audit, can add value and generate confidence that processes are working as intended. An internal audit report of the Inverness and Highland City Region Deal published in 2019 recommended improvements to some scrutiny and reporting arrangements. The PMO has taken these on board and amended arrangements in line with the recommendations.

49. The ultimate test of accountability happens when something goes wrong. Given the early stage of the deals programme, arrangements at national and local levels are untested in this regard. Deals are complex collaborations between a range of partners. There is a lack of clarity in some current arrangements and it is not always clear how different bodies would be held to account if things did go wrong. For example:

- The relationship between the senior governing bodies and councils is not clear. In 2018, the Under Secretary of State for Scotland stated that the senior governing bodies are accountable to the individual council partners.⁹ We found limited evidence of formal arrangements for council representatives on the senior governing bodies to report back to their councils on the wider progress of the deal. It is therefore unclear how this works in practice.
- Transport Scotland manages the delivery of some deal transport projects using its own procedures and systems. It is responsible for updating

the senior governing body on the progress of these projects, but it is not clear what influence, if any, the senior governing body would have if Transport Scotland had to prioritise other wider commitments over its deal commitments. The Scottish Government has committed that Transport Scotland projects will be delivered during the lifetime of each deal.

- Private business and universities are full partners in some deals and committed to their successful delivery. But it is not clear what recourse, apart from financial, the senior governing body or the UK or Scottish governments would have if either partner did not deliver what was agreed or decided to walk away from the deal at a later date.

The role of partners involved in deals varies significantly

50. The *Scotland's Agenda for Cities* refresh states that councils should consider wider public-sector, business and industry interests in deal governance arrangements. All deals involve the Scottish and UK governments plus councils. The range of other partners and their level of involvement varies across the signed deals. For example:

- The Glasgow deal has only councillors on its most senior governing body. But for the Aberdeen deal, Opportunity North East (ONE), a private-sector economic leadership group, was heavily involved in developing the deal and is a full member of the senior governing body.
- In Edinburgh and South East Scotland, the region's higher and further education institutions, as a consortium, are a dedicated partner and signatory to the deal. They played a central role in developing the deal and will lead on the Data Driven Innovation projects. Some partners input into specific committees or act in advisory roles. For example, in Glasgow the NHS is represented on the Independent Commission for Economic Growth, which provides advice on how to maximise the effectiveness of funding for deals.
- Some partners are responsible for the day-to-day management of individual projects. For example, as part of the Inverness and Highland deal, Highlands and Islands Enterprise lead on the Northern Innovation Hub project. This project aims to help key industry sectors in the region adopt new innovative technologies to promote the growth of their businesses.

51. The Edinburgh and South East Scotland deal is the only signed deal to formally involve charities and voluntary organisations. The Edinburgh Social Enterprise Network represents the third sector interface on the senior governing body. This deal is the most recent one to be signed and others that are still being negotiated have had more input from charities and voluntary organisations than earlier deals.

52. Funding contributions from other partners also vary across deals ([Exhibit 3, page 12](#)). For example, only two per cent of funding for the Glasgow deal comes from sources other than councils and the UK and Scottish governments, compared to 67 per cent in Aberdeen. Councils should be aware of the potential financial impact should partner funding not materialise as expected, particularly where this makes up a large percentage of overall funding for the deal.

Some deals have had more input from business than others

53. ONE is a main partner in the Aberdeen deal. Business leaders launched ONE in 2015 to address the long-term economic challenges in the North East and began to engage with Aberdeen City Council and Aberdeenshire Council. ONE played a key role in developing the regional economic strategy and the deal. [Case study 2](#) lists some of the benefits that the Aberdeen deal partners believe ONE's involvement has brought to the deal.

Case study 2



Opportunity North East's involvement helped to shape and drive the Aberdeen deal

ONE played a key role in the development of the Aberdeen deal and remains heavily involved in its ongoing delivery. Some examples of how it has helped to shape and drive the deal include:

- the presence of a strong and influential business leader, who can tap into a wide network of contacts
- the ability to cut through political obstacles
- it introduced both councils to new ways of working in partnership to deliver at pace
- it provided expertise in developing business cases in partnership with Scottish Enterprise
- committed development funding, matched by Scottish Enterprise, to leverage resources for the development of the business cases.

Source: Audit Scotland

54. The other three signed deals have business and industry advisory groups. These groups can make recommendations to the senior governing bodies and ensure that their own activities maximise the benefits of the deal. These groups were not involved in deciding which projects to include in the deals.

55. Some councils and their partners currently developing deals would like more business and industry input but are not sure how best to get it. The Federation for Small Businesses would also like to see more opportunities for small and local business to become involved in deals. The Scottish Government should coordinate the sharing of good practice and advise deal partners on how to work with businesses in their area. ONE's chief executive officer gave us some suggestions that might help attract and encourage business involvement in deals:

- Early involvement in the deal helps form strong relationships that are crucial as the deal develops.
- Flexibility is needed from both sides to make a relationship between the public and private sectors work.
- Public-sector partners need to think about how to demonstrate to private-sector partners the benefits of getting involved in deals, particularly given the time to get approval for proposals and business cases.

Direct community involvement in deals is limited and links to community planning partnerships are not clear

56. The Scottish Government states that deals should build a consensus among all local stakeholders, including local people. But it has not stated what it expects in terms of direct community involvement in deals. Communities to date have had very limited direct involvement in the development of deals. Engaging communities on large-scale infrastructure and innovation projects is not straightforward and managing expectations is crucial. Transport Scotland holds public engagement events for its road projects and uses the feedback from these. Deals have generally adopted strategies to improve communication with the public. This is an important contribution to deal transparency and should help the public to scrutinise progress and hold deal partners to account.

57. More could be done to show how deals reflect the aspirations of communities. Although communities have generally not been directly involved in the deal-making process, communities' views should be the basis for community planning partnership (CPP) LOIPs and should be included in the priorities of local development plans. The extent of community planning partners' links to deals is not explicit in most of the signed deals. One exception is the Inverness and Highland deal. This is a single-council deal where the CPP is key and has strong links to the deal. More explicit alignment with local development plans, LOIPs and councils' corporate plans could provide more evidence that deals reflect community priorities.

58. Community Planning Partnerships also provide a means for those working on deals to engage with the NHS, which is one of the main community planning partners. Health bodies have had very little involvement in any of the deals to date. Health inequalities can be a major barrier to achieving inclusive growth, and input from health bodies could be vital to the success of deals. Poor health negatively affects people's economic activity. Without consideration of health there is a risk that measures to grow the economy are not fully realised.

Recommendations

Effective scrutiny of individual deals is hampered by a lack of publicly available information on key decisions concerning their development.

Accordingly:

The Scottish Government and councils should:

- consider how best to make more information publicly available as to the reasons behind key decisions on funding and project selection for signed deals, and for deals still being developed
- work together to improve the process for developing deal proposals and agreeing deals, for example by developing guidance clarifying what information local partners should provide in support of their proposals, how projects are expected to align with national priorities, and how working with other partners should be considered.

Deals take significant time and resources to develop and can be heavily dependent on financial contributions from partners other than councils and the UK and Scottish Governments. Accordingly:

The Scottish Government should:

- identify good practice in the development of deals and ensure this is made available for future deal proposals.

Councils should:

- ensure that the right skills, expertise and resources are made available for the management and delivery of deals
- regularly monitor the risk of partner funding not materialising as agreed and be aware of the financial implications for themselves if that risk is realised.

Deals involve significant public spending and it is imperative that governance arrangements should be effective in monitoring their progress. Accordingly:

The Scottish Government should:

- clarify the role of the SCRDDDB in coordinating and evaluating deals
- consider, along with the UK Government, how best to monitor the effectiveness of the SCRDDDB as the deals programme develops.

Councils should:

- work with partners to agree clear and commonly understood lines of accountability, including which body is ultimately responsible if things go wrong and how information on the progress of deals is reported to them
- work with deal partners to regularly review their governance, monitoring and risk-management arrangements to ensure they are clear and operating effectively
- consider the ways that internal audit can assist in ensuring their governance arrangements are effective.

Deals can benefit from the involvement of a range of partners in their development. Accordingly:

The Scottish Government should:

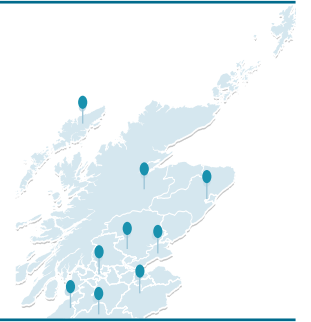
- clarify its expectations around community involvement in the development of deals.

Councils should:

- ensure a wide range of partners and stakeholders, including local businesses, voluntary organisations, communities and community planning partners including the NHS, are effectively engaged and represented in the deal development and agreement process and in the delivery of the deal.
-

Part 3

Progress to date and risks to the success of deals



Key messages

- 1** Deals represent a long-term funding commitment for Scottish economic development and have enabled projects that may otherwise not have gone ahead. Deals have also been a catalyst for increased collaboration between councils and between councils and their partners.
- 2** The impact of deals is measured in different ways and the Scottish Government is still considering how best to measure their overall success. Individual deals include output measures such as new jobs created. But, five years after signing the first deal, the Scottish Government has not set out how deals will contribute to the outcomes in the National Performance Framework, meaning opportunities for the deals to contribute to these outcomes may have already been missed.
- 3** Shortages of staff, money and skills across councils are risks to the successful delivery of deals.

Deals are generally progressing as planned

59. Once signed, deals have a clear delivery plan and timetable. Signed deals are in the early stages but are generally progressing as planned. The Glasgow deal is the most advanced and has had some delays largely because of processes involving changes to land use and planning applications. The deal's independent evaluators reported in February 2019 that 'good progress' was being made overall with the deal. The senior governing body is also content with the progress so far.

The content of a deal may change as it develops

60. Given the relatively long timeframe of deals, the UK Government, the Scottish Government and local partners do not expect every project within a deal to progress as planned. The projects within each deal should be able to adapt to changes in national or local economies so that they remain relevant and maximise their impact. Similarly, when a deal is signed, detailed business cases are not put forward for all projects and so these may change over the course of the deal. For example, plans for the Glasgow Airport Rail Link are being reviewed because of concerns over the impact that the original plans would have on Glasgow Central station ([Case study 3, page 29](#)).

Case study 3

Glasgow Airport Access Project



The Glasgow Airport Access Project aims to improve access to Glasgow Airport. The Glasgow deal's senior governing body approved a strategic business case for the project in June 2015.

Further work was then carried out to look at two options: a tram-train model and a light-rail personal rapid transit system. The senior governing body approved an Outline Business Case (OBC) for the tram-train model as the preferred option in December 2016.

Because of the project's potential significant impact on the existing rail network in the West of Scotland, a joint executive steering group was set up by the Minister of Transport and Islands at that time to consider the project in more detail. This included looking at the impact a tram-train would have on the existing rail network's services and the wider economy. This group is currently chaired by the Cabinet Secretary for Transport, Infrastructure and Connectivity. It consists of the leaders and chief executives of Renfrewshire Council and Glasgow City Council, as the two lead councils, Transport Scotland, Glasgow Airport and Network Rail.

Consultants were brought in to audit the project's OBC and reported in 2017. The audit report identified concerns about whether the project could be carried out and whether it would remain successful in the long-term. The report stated that the project had the potential to impact negatively on other parts of the region's economy, including Renfrewshire, Inverclyde and North Lanarkshire.

These issues were discussed at the joint executive steering group in January 2019, where it was agreed that a recommendation be made to the deal's senior governing body to develop a revised OBC with a focus on Personal Rapid Transport (PRT). Further work is now under way to examine the PRT option within a revised OBC.


Partners in the Glasgow deal are still committed to improving access to Glasgow Airport. The timeline is unchanged, as is the £144 million funding allocated to the project.

Source: Audit Scotland

Deals bring additional benefits

61. Deals are expected to promote inclusive economic growth over 10-20 years. It is too early to assess their impact on the economy, but some early benefits of deals can be seen.

Deals bring a firm commitment to long-term funding

62. Deals represent a long-term funding commitment from both the UK and the Scottish governments. Regional partners welcome this. The total funding commitment from the UK and Scottish governments so far of over £2 billion for signed deals is significant. This equates to an average annual spend of around £125 million ([Exhibit 6, page 30](#)). Annual spend equates to only a relatively small proportion of councils' annual capital spend. The Scottish Government gave over £1 billion of **capital grants**  to councils in 2019/20.



Capital Grants

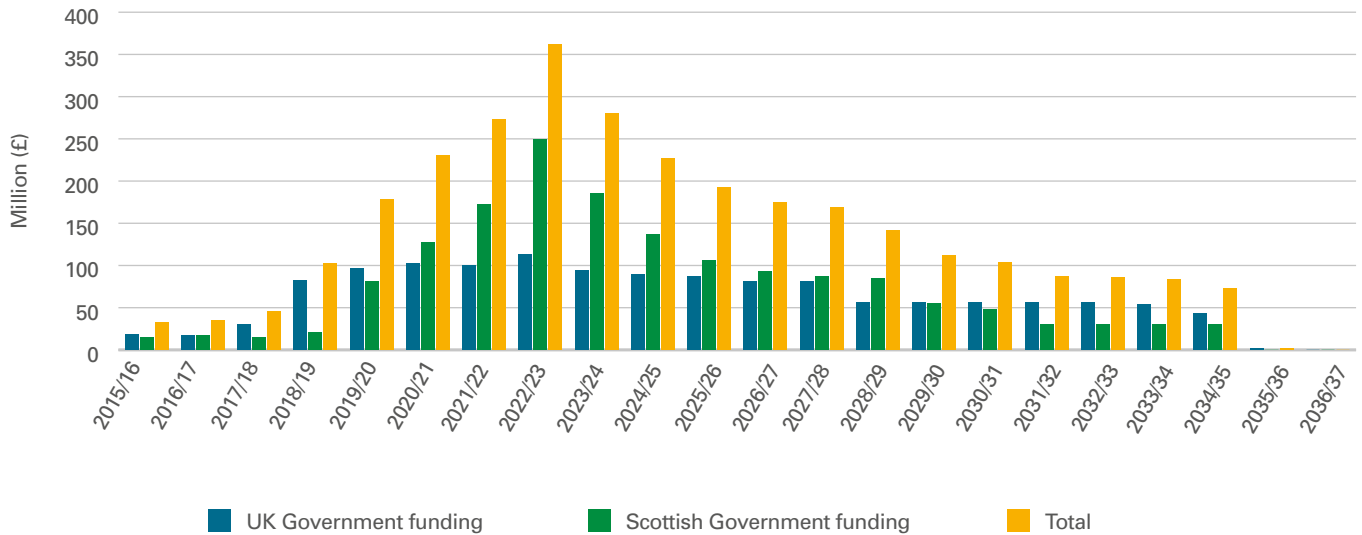
These allow councils to finance infrastructure projects or allow them to buy or make improvements to existing equipment, land or buildings.

On an annual basis, the Scottish Government issues two different types of capital grants (General Capital Grant and Specific Capital Grant) to support the expenditure of councils.

Exhibit 6

Timeline of spend to date and future funding for signed deals

Deals are funded over a long period, but the amount of funding is relatively small each year.



Source: Audit Scotland (based on Scottish Government monitoring and planning figures, August 2019)

63. As long-term commitments, deals require long-term spending plans which reflect the availability of funding. The Scottish Government has a working plan which sets out anticipated spend over the lifetime of each signed deal. This does not reflect future year budget commitments. Rather, the Scottish Government sets annual budgets and publishes a Medium-Term Financial Strategy each year. The Scottish Government’s working plan feeds into this strategy. The financial strategy is not intended to act as a multi-year budget but it should provide indications of future spending commitments.

64. Following the introduction of the Scotland Act 2012, the level of taxes raised, and therefore the Scottish Government’s budget, will vary in line with how Scotland’s economy performs. The Scottish Government needs to consider the impact that changes in its level of funding will have against its commitment to deals over the long-term. This may include scenario planning to consider how deals can be adapted to match the increased or decreased availability of funding, or consideration of how new sources of funding could be obtained. Such analysis should also consider what impact changes in funding and spending would have on the impact of deals.

65. Councils also need to think about the affordability of their financial contribution over the duration of deals as part of their longer-term financial planning and borrowing strategies. Councils’ combined contribution to deals signed so far varies considerably but works out on average around £41 million each year over the life of the deals.¹⁰ While this represents only 0.6 per cent of the current annual revenue spend of councils who are involved in signed deals, it is still important for councils to monitor the impact of spending on deals on their overall spending capacity against a backdrop of increasingly tight council finances.

Deals have enabled economic development projects to go ahead

66. Deals have helped councils and their partners to develop and begin economic development projects. These projects may already have been in councils' local development plans or Transport Scotland's priorities as set out in the Strategic Transport Projects Review 2008 but did not have identified funding. We did not find any project included in a deal that was expected to have still gone ahead at the same time and scale had the deal not been agreed. Deals appear to have led to projects going ahead that would otherwise not have, at least at that time.

67. Deal projects are seen as a package rather than as individual projects. This means that they should tie in with each other to provide greater value than they would on their own. For example, a data centre for Edinburgh's universities was developed through a project under the Edinburgh and South East Scotland deal. The universities could have developed this data centre on their own, but because it was developed as part of the deal it is also linked to transport, housing and skills development projects.

Deals have led to an increase in joint working

68. The main benefit to date, as reported by all stakeholders, has been the increase in joint working between all deal partners, including the UK and Scottish governments, national agencies, councils, universities and business representatives. The idea of Regional Economic Partnerships came from the partnership working created by deals.¹¹

69. There is evidence of an increase in joint working across councils among councillors and at chief executive and officer level and that this is beginning to influence how councils work and make decisions in other areas of council activity. For example, in the Glasgow city region, the chief executives are looking at how they could distribute funding to address child poverty and post-EU funding on a regional basis. This shift to more regional working is at an early stage and has not led to any service reform or transfer of powers or staff. It is important that partnership working continues beyond the development of deals.

The Scottish Government needs to be clearer about what it expects deals to achieve

The Scottish Government is still considering how best to evaluate deals

70. The Scottish Government did not clearly set out what it hoped deals would achieve when it introduced them. It agreed on a series of output measures for individual deals. These measures are generally new jobs created and increased Gross Value Added (GVA).¹² But it did not clearly set out objectives or outcomes for the deals programme. SMART outcomes would have given more clarity on what the Scottish Government expected the deals to achieve and made it easier to measure progress and evaluate success.¹³ Five years after signing the first deal, the Scottish Government has still to set clear objectives or outcomes for the deals programme.

71. The Scottish Government is still considering how to measure the success of deals in the long-term. It expects to report on the impact of the deals programme and on the impact of individual deals. It has not been clear on how it expects those responsible for individual deals to measure their impact. Those responsible for signed deals are monitoring their impact in various ways. Some are looking to attribute changes in the local economy to the deal but others are not.

72. The Scottish Government has not shown how deals are linked to the National Performance Framework (NPF), meaning opportunities for deals to contribute may have been missed. The NPF sets out a vision supported by a series of national outcomes the Scottish Government wants to see. The Scottish Government updated the NPF in 2016 and again in 2018, during the roll-out of the deals programme. The revised NPF is now more aligned with the UN's Sustainable Development Goals and has a stronger focus on inclusive growth and sustainable growth.¹⁴ It includes a revised economic outcome: 'We have a globally competitive, entrepreneurial, inclusive and sustainable economy.' Ten national indicators feed into this outcome.¹⁵

73. These changes have resulted in a more direct link between the expected impact of deals and the NPF. Two of the national indicators (productivity and gross domestic product) link directly to the expected impacts of some of the signed deals. Before the NPF was updated, the expected impact of deals did not link directly to any of the eight national economic indicators.

74. Deals could also contribute to several of the other economic indicators in the NPF, such as access to broadband and income equality, and other wider outcomes such as 'we have thriving and innovative businesses, with quality jobs and fair work for everyone' and 'we live in communities that are inclusive, empowered, resilient and safe'. These are not stated as aims in the deal documents and have not been agreed as output measures for any of the signed deals. Without a clear link to the NPF, there is a risk that opportunities for deals to contribute to the outcomes may have been missed. Given that deals are at an early stage, there is still scope for the Scottish Government and councils to align output and outcome measures to show how deals are contributing to national outcomes.


75. At a deal level, wider benefits that would normally be expected from large capital investment projects, such as increases to land value, have not routinely been captured in deals. Without full economic and other benefits of deals being identified and measured it will be difficult for local and national governments to demonstrate value for money.

Guidance on how to assess the contribution of deals to inclusive growth is being developed

76. The heads of terms for each deal state that regional partners will develop monitoring and evaluation frameworks that will allow the performance of the deal to be assessed. Some of those responsible for deals have raised concerns that they lack the expertise to measure the impact of deals. Regional partners are asking for a clear indication of how their success will be measured. There are concerns about the lack of clarity around what the Scottish Government means by inclusive growth and how they will evaluate it.

77. The Scottish Government is in the process of updating its inclusive growth monitoring framework to clarify how deals can demonstrate their contribution to inclusive growth. Five years after the Scottish Government signed its first deal, and four years after it committed to achieving inclusive growth in Scotland's Economic Strategy, this framework is yet to be finalised.

78. The Glasgow deal is the only signed deal that includes a specific output measure related to inclusive growth – to work with 19,000 unemployed people and support 5,000 to get back to sustained work. But the employability projects put in place to achieve this only account for just over two per cent of overall funding for the deal.

79. The Equalities and Human Rights Commission (EHRC) is working with deals to help them set **equality outcomes**  for each deal. Certain characteristics are protected by the Equality Act and it is against the law to discriminate against someone because of a protected characteristic. The EHRC's focus has been on creating opportunities for three of these protected characteristic groups: women, disabled people and those from ethnic minority communities. As the four signed deals have already agreed their projects there is a risk that some opportunities for them to contribute to equality outcomes may have been missed. Although as these deals develop there is still scope for them to show their impact.

80. It is important that the impact of deals on all groups is considered. One of the challenges encountered with deals so far is a lack of reliable data to measure the impact on disadvantaged groups or on equality outcomes, such as the number of new jobs created for people in these protected groups.

Given the stage of deals, reporting arrangements currently focus more on progress than impact

81. The arrangements for monitoring the progress of deals have become more uniform over time. Each deal now must submit an annual report to the SCRDDDB, and these are published on the individual deal websites. Analysis of annual reports from the first three deals shows a varied approach. Annual reports cover standard items, such as governance, project performance and financial statements but there is some variation. For example, the Glasgow Annual Report 2017/18 has a specific section on the deal's monitoring and evaluation requirements whereas the 2018 Inverness Annual Report has a section on the additional benefits resulting from the deal.

82. Annual reports are followed up in a conversation between the SCRDDDB and the senior representatives of the deal, where progress and concerns are discussed. The SCRDDDB also receive reports and meet with partners involved in deals on a quarterly basis to monitor progress throughout the year. PMOs report that this has helped to improve their relationship with both the UK and the Scottish governments. Given that the deals programme is at an early stage, these discussions have looked more at the progress made towards setting up projects than benefits achieved so far.

Lack of staff and skills is a risk to the success of the deals

Shortages of money, staff and skills in councils put the successful delivery of deals at risk, particularly single-council deals

83. At local level, deals are usually led by councils' economic development departments with support from colleagues from other services, such as legal and finance. The Accounts Commission reported in its 2019 local government overview report that councils have made staff reductions in services other than education and social work in recent years. This trend is expected to continue as council funding is reduced further.¹⁶

84. Developing deals can put extra pressure on teams that are already stretched. This is particularly the case for smaller councils, as there are fewer staff and staff often have wider remits. Deals can also put pressure on staff in other council departments, such as the legal and finance departments, which support the development of the deal. Councils recognise that, if they are to get funding for deals, they must commit staff, money and time. No extra funding is made available through deals to cover the cost of staff and other resources needed to



Equality outcomes

An equality outcome is a high-level, strategic goal that aims to drive an organisation's development towards furthering equality. Outcomes are the changes that result for individuals, communities, organisations or society as a consequence of the action organisations have taken.

deliver the deal projects. Councils and local partners are accountable for making sure staff, time and money are available to deliver the deal.

85. A lack of staff, particularly trained staff, is a risk to the successful delivery of deals. Officers from deals across Scotland raised concerns around the challenges of delivering deals owing to staff reductions. Often, staff working on deals are also working on other projects, and these could suffer if deals are prioritised. The NAO has raised similar concerns about councils' ability to manage and monitor deals in England.

86. Councils have taken different approaches to providing staff resources for deals. Some councils have decided to increase the number of staff and the amount of funding to create deal teams dedicated to managing and monitoring deal-related projects while others are using existing staff. It is important that councils consider the staff numbers needed to successfully deliver deal projects and the impact this may have on existing workloads.

Deals are reliant on a construction industry that is already stretched

87. Most deals involve large-scale infrastructure projects. A skilled construction industry is required to deliver these projects to the necessary standards. Evidence to the Scottish Parliament's Economy, Energy and Fair Work Committee's inquiry, *Under Construction: Building the future of the sector in Scotland*,¹⁷ identified that the industry is facing several challenges that could put the delivery of deals at risk. These include: a need for stronger leadership across the sector; shortage of skills; lack of diversity among the workforce; ineffective public sector procurement processes; and barriers to innovation and uptake of digital technology.

88. The committee made several recommendations to help address these challenges. The committee identified important roles for Skills Development Scotland in improving apprenticeship frameworks and raising awareness of opportunities among groups that are under-represented in the sector. This shows the importance of SDS being involved in deals. Partners working on deals should be aware of these challenges and recommendations, and the potential impact and opportunities for their deal.

Recommendations

Plans for measuring the success of deals need further development.

Accordingly:

The Scottish Government should:

- develop arrangements for measuring the impact of the overall deals programme, in particular how it has taken account of the full range of outcomes set out in the National Performance Framework and whether it has achieved value for money
- clarify for partners how they should measure and report on the impact of individual deals, including their delivery of inclusive growth and impact on the National Performance Framework. This is especially urgent for shorter-term deals that are already in the delivery stage.

Councils should:

- work with partners to develop annual reports for deals, including how best to demonstrate progress and spend to date, challenges and risks encountered, and benefits to date
- consider how they will measure and report on the full long-term impact of the deal and whether it has achieved value for money
- consider arrangements for collecting and analysing data on different groups in their communities, including protected characteristic groups, to allow the impact of deals on all minority and disadvantaged groups to be evaluated.

It is important that the long-term funding commitment associated with deals is properly considered as part of financial planning. Accordingly:

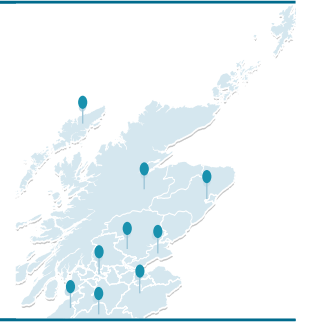
The Scottish Government should:


- show how funding for deals fits into its longer-term financial plans.

Councils should:

- look at how their deals affect their longer-term financial plans, capital programmes and borrowing strategies
 - ensure that they commit enough resources to the successful delivery of deals.
-

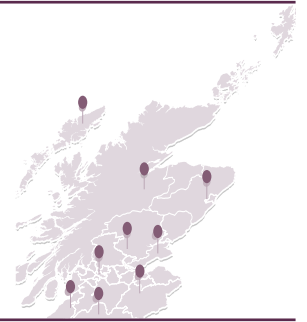
Endnotes



- 1 The Borderlands deal is a cross-border deal that includes three English councils – Carlisle City, Cumbria and Northumberland.
- 2 *Unlocking Growth in Cities*, UK Government White Paper, 2012.
- 3 Funding commitments from both governments have since been increased, to £520 million from the Scottish Government and £524 million from the UK Government.
- 4 *Agenda for Cities*, Scottish Government, 2011.
- 5 *Local Enterprise Partnerships*, National Audit Office, 2016.
- 6 *International research on regional economies: Implications for delivering inclusive growth in Scotland*, Oxford Economics, 2019.
- 7 The Scottish Centre for Regional Inclusive Growth is an online research and analysis service that focuses on regional inclusive growth in Scotland.
- 8 *Devolving responsibilities to cities in England: Wave 1 City Deals*, National Audit Office, 2015.
- 9 *Response to the Local Government and Communities Committee's Report 'City Regions: Deal or No Deal?'*, UK Government, 2018.
- 10 This figure is based on the average contribution each year for the four signed deals across the total lifetime of each deal.
- 11 *Enterprise and skills review: report on Phase 2*, Scottish Government, 2017.
- 12 Gross Value Added is the measure of the value of goods and services produced in an area, industry or sector of an economy.
- 13 SMART outcomes are outcomes that are Specific, Measurable, Achievable, Realistic and Timebound.
- 14 The United Nations' Sustainable Development Goals are 17 international interconnected goals which aim to tackle a range of global challenges as a means of promoting prosperity while protecting the planet.
- 15 *National Performance Framework*, Scottish Government, 2018.
- 16 [Local government in Scotland; Challenges and performance 2019](#) , Accounts Commission, 2019.
- 17 *Under Construction: Building the future of the sector in Scotland*, Scottish Parliament Economy, Energy and Fair Work Committee, 2019.

Appendix 1

Audit methodology



Our objective: to carry out an early assessment of how prepared the Scottish Government and councils are for deals.

Our audit questions:

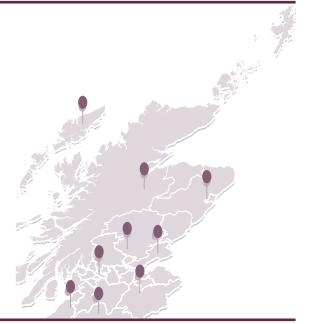
- Is it clear why the Scottish Government and other partners are taking deals forward, who is involved, how much money is committed and what deals are expected to achieve?
- Are arrangements in place to manage and monitor City Region and Growth Deals and to measure their impact at national and local level?
- What progress has been made in relation to City Region and Growth Deals so far and what are the risks to their success?

Our methodology:

- We conducted interviews with a range of stakeholders including: representatives from the Scottish Government; the Office of the Secretary of State for Scotland; individual PMOs of signed City Region Deals; working on deals in development; council officers; elected members; and representatives from the Convention of Scottish Local Authorities (COSLA), enterprise agencies, the Scottish Futures Trust and the EHRC.
- We reviewed policy documents and strategies as well as signed deal documents and heads of terms. We also reviewed individual business cases, monitoring reports, implementation plans and financial agreements in place.
- We performed a case-study analysis of the four signed deals as well as five deals that are in development (Ayrshire, Tay Cities, Moray, Borderlands and Islands).

Appendix 2

Advisory group membership



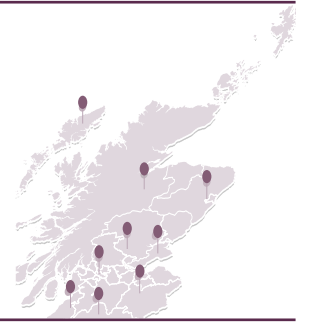
Audit Scotland would like to thank members of the advisory group for their input and advice throughout the audit.

Member	Organisation
Johanna Boyd	Adviser to the Equality and Human Rights Commission
Gillian Fyfe and Callum Lindsay	COSLA
Neil MacLennan	UK Government
Professor Duncan MacLennan	University of Glasgow
Barry McCulloch	Federation of Small Businesses
Professor Alan McGregor	University of Glasgow
Andy Nichol	City of Edinburgh Council
Julie Richards-Wood	Aberdeen City Council
John Robertson	Highland Council
Kevin Rush	Glasgow City Council
Dr Morag Watt	Scottish Government
Dr David Waite	University of Glasgow

Note: Members sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

Appendix 3

Scrutiny checklist for councillors



This scrutiny tool is designed to provide councillors with examples of questions they may wish to ask to help them better understand their council's deal and to scrutinise performance.

How well informed am I?

Questions for councillors to consider

Part 1: The introduction of deals in Scotland

Do you know what impact the council's deal is expected to have on local and national priorities?

Do you feel you learn lessons from other councils and other deals about what works well?

Part 2: Making, managing and monitoring a deal

Do you know the reasons why projects were selected and not selected for your deal?

- Has your council informed local communities?

Do you know how much money your council is contributing to the deal?

- Has your council informed local communities?

How is progress of the overall deal and individual projects reported to the council?

- Does this work well?

Do you think the council has the capacity to deliver the deal?

Do you know who the council's partners are?

What engagement has the council had with partners when establishing and delivering the deal?

What involvement have local communities had in the deal process?

- Is this appropriate?
- Are links with community planning priorities and Local Outcome Improvement Plans clear?

What involvement have local businesses had in the deal process?

- Is this appropriate?

Is there clarity on your role and responsibilities in relation to the deal? Do you need further guidance on how to fulfil your role?

Does your council publish an annual report on the performance of the deal?

- Does this include progress against performance or outcomes?
- Does this include emerging risks?

Part 3: Impact of deals and risks to their successful delivery

Do you see a clear link between the deal and priorities identified by local communities?

Do you know how the council will measure the impact of the deal and deal projects?

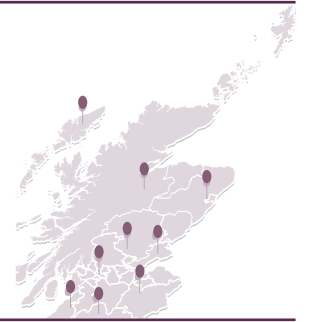
- Will this show the deals contribution to the national outcomes in the National Performance Framework?
- Will you be able to assess value for money?

Has the council considered the impact of its financial commitment to the deal within its longer-term financial plans and borrowing strategy?

- Is this regularly reviewed?

Appendix 4

Overview of signed deals



Glasgow City Region Deal (20-year deal)

Funding



UK Government – £523.7 million
 Scottish Government – £520 million
 Councils – £153.9 million
 Other regional partners – £29.2 million

Total =



Projects



Infrastructure fund programme (£1.13 billion) – a fund to support 21 infrastructure projects across the region. This programme aims to promote the growth of the regional economy by providing an improved transport network.

Skills and employment (£24.6 million) – three dedicated projects aim to reduce unemployment across the region by helping local people access the jobs created by the deal.

Innovation and business growth (£72.14 million) – three specific projects will aim to support the life sciences industry across the region.

Council partners



- Glasgow City Council (accountable body)
- East Dunbartonshire Council
- East Renfrewshire Council
- Inverclyde Council
- North Lanarkshire Council
- Renfrewshire Council
- South Lanarkshire Council
- West Dunbartonshire Council

External partners

- **National agencies**
 Transport Scotland, NHS Scotland, Scottish Enterprise, Department of Work and Pensions, Skills Development Scotland, Scottish Fire and Rescue, Police Scotland
- **Regional bodies**
 Strathclyde Partnership for Transport, Glasgow and Clyde Valley Strategic Development Plan Authority, Clydespan
- **Higher education/further education institutions**
 representative from further education sector, University of Glasgow's private business enterprise BioCity Scotland Ltd

Governance



City Cabinet



Acts as the **Joint Committee** and is the ultimate decision-making body for the deal. The elected leaders of the eight councils serve on the City Cabinet and are ultimately responsible for delivering the deal.

Reporting to ▶

UK and Scottish Governments

Supported by several advisory groups, including a chief executives' group, the Glasgow and Clyde Valley Economic Leadership Board, the Regeneration and Economy Consultative Group, and the independent Commission on Economic Growth (which provides independent advice on monitoring and evaluation).

Aberdeen City Region Deal (10-year deal)

Funding



UK Government – £125 million
 Scottish Government – £125 million
 Councils – £20 million
 Other regional partners – £556.2 million

Total =



(In addition to this, the Scottish Government, private investors and Scottish Enterprise have announced further contributions to Aberdeen City Region Deal.)

Projects



Oil and Gas Technology Centre (£354.1 million) – a new centre that will boost innovation in the sector in the North East. The centre aims to become the global centre for solving challenges related to offshore oil and gas mature basin, subsea and decommissioning technology.

Agri-Food and Nutrition Hub for Innovation (£20.1 million) – an international hub for innovation excellence that will help develop sustainable agriculture and nutrition for commercial product development and innovation.

Bio-Therapeutic Hub for Innovation (£38 million) – a new hub that will seek to make the North East the location of choice for companies engaged in next-generation bio-therapeutics.

Digital connectivity (£32 million) – improving the region’s digital infrastructure to help support growth in the region’s economy.

Harbour expansion (£375 million) – funding will be provided to help expand Aberdeen Harbour, including £25 million for improved transport links.

Strategic transport appraisal (£7 million) – a 20-year transport appraisal to assess the needs of the region.

Council partners



- Aberdeenshire Council (accountable body)
- Aberdeen City Council

External partners

- **National agencies**
Transport Scotland, NHS Scotland, Scottish Enterprise, Department of Work and Pensions
- **Regional bodies**
NESTRANS (Transport Partnership for Aberdeen City and Shire)
- **Higher education/further education institutions**
Robert Gordon University, Aberdeen University
- **Private businesses**
ONE, Oil and Gas Technology Centre, Aberdeen Harbour, BioCity Scotland Ltd

Governance



Joint Committee



Comprises representatives from both councils and ONE. This is the senior governance body for the deal. It approves all business cases and monitors the progress of individual projects.

....Reporting to....

UK and Scottish Governments

Supported by individual project boards and a programme board made up of senior officers.

Inverness and Highland City Region Deal (10-year deal)

Funding



UK Government – £53.1 million
 Scottish Government – £135 million
 Councils – £119.7 million
 Other regional partners – £7.3 million

Total =



Projects



Digital (£30 million) – this aims to support the roll-out of improved broadband and mobile coverage across the Highlands.

Northern Innovation Hub (£16 million) – this will be designed to build on the sector strengths of the city region by providing tailored help for high-growth small and medium-sized businesses.

UHI School of Health and Life Science (£9 million) – a new centre of excellence will be installed at the university that will bring together partners working in the health and life sciences sector. A focus of this project is to promote the growth of the commercial life sciences sector in the region.

Assisted living (£5.224 million) – this will help to develop clusters of innovative assisted-living schemes at key locations across the region.

Science Skills Academy (£3.06 million) – this will provide a network of STEM (Science, Technology, Engineering and Mathematics) learning centres across the region that will provide state-of-the-art teaching spaces for science subjects.

Inverness Castle (£33.46 million) – this aims to make the site a world-class visitor attraction.

Housing (£35 million) – a programme to provide mid-market rental properties and a fund to invest in the enabling infrastructure required to open up key strategic housing sites in advance of investment for housing.

Land remediation (£10 million) – this will aim to create economic opportunities following improvements to the A9/A82 Longman junction.

Transport (£173.36 million) – funding for the development of the A9/A96 Inshes to Smithton link road, Longman Interchange, West Link and work to improve air access to the region.

Council partners



- Highland Council

External partners

- National agency**
Transport Scotland
- Regional bodies**
Highlands and Islands Enterprise, Albyn Housing Society, HITRANS (Highlands and Islands Transport Partnership)
- Higher education/further education institution**
University of Highlands and Islands (UHI)
- Private business**
Scottish Council for Development and Industry (SCDI)

Governance



The governance structure for the deal has been built into the existing governance framework for Highland Council.

Programme Board



Responsible for overseeing the deal. All project leads, including those from external organisations, attend programme board meetings. Individual project boards report to this body on the progress of their projects.

.....Reporting to.....


UK and Scottish Governments

..... Reporting
performance to


Environment, Development and Infrastructure Committee of the council and to the CPP

Edinburgh and South East Scotland City Region Deal (15-year deal)


Funding



UK Government – £300 million
 Scottish Government – £300 million
 Councils – £303.2 million
 Other regional partners – £426.9 million

Total = 

Projects



Research, development and innovation projects:

- **Data Driven Innovation (DDI) Programme (£661 million)** – the DDI project will be delivered through a network of five hubs. These hubs will draw upon the World Class Data Infrastructure project to provide the required underpinning data capability, and computing and data storage infrastructure.
- **Food and Drink Innovation Campus (£52 million)** – a new state-of-the art facility, located next to Queen Margaret University, that will support and develop sustainable new businesses' access to a global market for healthy and functional food.
- **Business Innovation (£78.48 million)** – creation of innovation space in Fife and the Scottish Borders.
- **Integrated Regional Employability and Skills Programme (£25 million)**– this programme hopes to increase employment opportunities for under-represented groups, increase the skill-set of local people and support people to overcome any barriers they face in trying to secure employment.

Transport (£156 million):


- **£120 million** to support improvements to the A720 City Bypass for the grade separation of the Sheriffhall Roundabout, which will be managed and delivered by Transport Scotland.
- **£36 million** to support public transport infrastructure improvements identified by the West Edinburgh Transport Appraisal.

IMPACT Centre (£44.99 million) – supporting the delivery of a new concert hall.

Housing (£313 million)– aims to accelerate the delivery of affordable housing across the region.

Council partners

External partners




- City of Edinburgh Council (accountable body)
- East Lothian Council
- Fife Council
- Midlothian Council
- Scottish Borders Council
- West Lothian Council


- **National agencies**
Transport Scotland, NHS Scotland, Scottish Enterprise, Department of Work and Pensions, Skills Development Scotland, UK Research and Innovation, Scottish Funding Council
- **Higher education/further education institutions**
University of Edinburgh, Borders College, Edinburgh College, Edinburgh Napier University, Fife College, Heriot Watt University, Newbattle Abbey College, Queen Margaret University, West Lothian College, Scotland's Rural College

Governance

Joint Committee



This is the senior body. It includes all the local authority partners as well as representatives from the third sector and the region's higher education/further education sector.

...Reporting to ... 

UK and Scottish Governments

Supported by various committees, including individual project boards, a chief executives' group and the Regional Enterprise Council,¹ which acts as the voice of the business community and third sector.

Note: 1. Members on the Regional Enterprise Council are selected based on their expertise rather than the organisation they represent.

Scotland's City Region and Growth Deals

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ISBN 978 1 913287 13 9 AGS/2020/1