

# Edinburgh and South East Scotland City Region Deal Joint Committee

10 am, Friday 6 March 2020

## Audit Scotland Report on City Region and Growth Deals

### Item number

### Executive Summary

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On 16 January 2020, Audit Scotland published their [report on City Region/Growth Deals in Scotland](#). The report provides an early assessment of City Region and Growth Deals in Scotland, rather than performance of individual Deals. The report was based on interviews with key individuals representing the 12 existing and emerging city region / growth deals during the course of 2018 and early 2019.

Their key recommendation is that the Deals must have robust performance measures to demonstrate impact and value for money. Other findings of note were that it is also not clear why some deal projects were approved for funding over others, while local communities have had very little involvement in deals.

The City Region Deal partners are giving sustained and proper consideration to Audit Scotland's findings and have developed an action plan to address these issues. A table detailing all for the Audit Scotland recommendations and the specific City Region Deal position and response forms Appendix 2 to this report.

### Monica Patterson

Chief Officer, ESESCR Deal

Contact: Andy Nichol, Programme Manager,  
ESESCR Deal

E-mail: [andy.nichol@edinburgh.gov.uk](mailto:andy.nichol@edinburgh.gov.uk) | Tel: 0131  
529 4461



# Report

## Audit Scotland Report on City Region and Growth Deals

### 1. Recommendations

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- 1.1 To note the summary of the findings of the Audit Scotland Report on City Region/Growth Deals, published on 16 January 2020.
- 1.2 To note that City Region Deal Programme Management Office (PMO) has an action plan in place to address the issues identified in the Audit Scotland report.
- 1.3 To note that the Monitoring and Evaluation Framework for the Edinburgh and South East Scotland City Region Deal is under development jointly with Scottish and UK Government and will be presented to the Joint Committee on 5 June 2020.

### 2. Background

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- 2.1 In 2018 and 2019, Audit Scotland undertook an audit on City Region and Growth Deals. The overall aim of the audit was to provide an early assessment of how prepared the Scottish Government and councils are for facilitating and delivering Deals. The audit sought to answer three main questions:
  - Is there clarity around City Region and Growth Deals, including their rationale, what partners are involved, level of investment and what they are expected to deliver?
  - Are appropriate governance and accountability arrangements in place to manage and monitor Deals and to evaluate their impact at a national, regional and local level?
  - What progress has been made in relation to City Region and Growth Deals to date and what are the risks to successful delivery?
- 2.2 The report provides an early assessment of City Region and Growth Deals in Scotland, rather than the performance of individual Deals. At the time of the audit, four Deals in Scotland had been signed (regions encompassing Glasgow, Aberdeen, Highland and Edinburgh), with eight further Deals under development.

### 3. Main report

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- 3.1 The key messages and recommendations from the Audit Scotland report are shown below:

## Key Messages

- £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.
- 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.
- 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.
- 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.
- 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.

## Key Recommendations

3.2 Based on these key messages, recommendations for Government and Councils were made and are copied below:

### **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; and
- 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; and
- 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; and

- regularly review the governance and accountability arrangements for deals to ensure they are clear and operate effectively.

- 3.3 This City Region Deal had only recently been signed at the time Audit Scotland were conducting this audit. Governance arrangements were being established and the Joint Committee had only met twice: in November 2018 to agree procedural arrangements, elect a convener and vice convener and agree Terms of Reference; and in December 2018, where the first business cases were considered. Specific references to the Edinburgh and South East Scotland City Region Deal are therefore limited in the report but are highlighted in Appendix 1. There are no specific recommendations relating to this Deal, but those relating to councils generally are being addressed, as shown in Appendix 2.
- 3.4 The most important, and widely reported recommendation, was for Government to develop arrangements for measuring the impact of the overall deals programme; and to 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.
- 3.5 Regional partners are currently working closely with the Scottish and UK Governments to finalise a monitoring and evaluation framework for the Deal. The framework will set targets and measure outcomes across all the City Region Deal projects and themes - capturing the economic, inclusive and environmental impacts of the Deal. The framework will be considered by the ESESCRD Joint Committee on 5 June 2020.

## **4. Next Steps**

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- 4.1 The Monitoring and Evaluation Framework will be considered for approval by the City Region Deal Joint Committee on 5 June. Following this, it will be shared with the other emerging City Region Deals in Scotland to create a standardised framework for monitoring and evaluation.
- 4.2 In September 2020, the ESESCR Deal will publish its second Annual Report. The second Annual Conversation with Government will also take place around this time.

## **5. Financial impact**

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- 5.1 There are no direct financial impacts to the City Region Deal partners as a result of this report. The Programme Management Office (PMO) will take cognisance of the feedback and will ensure that the necessary changes are made, and adequately resourced.

## **6. Alignment with Sustainable, Inclusive Growth Ambitions**

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- 6.1 Region partners understand the importance of the recommendation from Audit Scotland to “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”.

- 6.2 Audit Scotland's report praised this City Region Deal for being the only Deal underway to have the Third Sector represented at both groups at the top of its governance structure – the Joint Committee and Regional Enterprise Council. Partners are sharing plans and receiving valuable feedback on the Deal's current priorities from the third sector, public and private sector partners through the City Region Deal's Regional Enterprise Council and other workstreams.
- 6.3 A core principle of the Monitoring and Evaluation Framework under development is to measure the impact that the Deal programmes and projects will have on people with protected characteristics. Engagement is ongoing with the Equalities and Human Rights Commission on how to best capture these impacts. The Framework will also account for the environmental impact of projects.
- 6.4 The PMO is also working with Scottish and UK Governments on developing a clear statement of targets by on how the City Region Deal would integrate delivery on net zero carbon aims. This will be incorporated within the Framework, and there will be a specific report on this aspect which will be taken to the City of Edinburgh Council's Policy and Sustainability Committee on 2 June 2020.

## **7. Background reading/external references**

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- 7.1 [Scotland's City Region and Growth Deals](#) (Audit Scotland Report)
- 7.2 [Edinburgh and South East Scotland City Region Deal Annual Report, Annual Conversation and Regional Growth Framework Update](#): City of Edinburgh Council, 24 October 2020.

## **7. Appendices**

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1. Specific references to the ESESCR Deal from [Audit Scotland Report](#)
2. Table of Audit Scotland Recommendations for Councils ESESCR Deal Partners' Response.

## Appendix 1: Specific References to the ESESCR Deal from [Audit Scotland Report](#)

ESESCR Deal reference in report	Page/paragraph number
£5.2 billion has been committed so far to supporting economic development in all parts of Scotland through City Region and Growth Deals.	Page 5, para 1
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	Page 10, para 9
 <p><b>Edinburgh and South East Scotland City Region Deal</b></p> <ul style="list-style-type: none"> <li>12. Edinburgh (City of)</li> <li>15. Fife (Included in two Deals)</li> <li>10. East Lothian</li> <li>19. Midlothian</li> <li>26. Scottish Borders (Included in two Deals)</li> <li>32. West Lothian</li> </ul> <p><b>£1.33 billion</b> £</p>	Page 11, exhibit 2
Edinburgh and South East Scotland City Region Deal – Total funding committed - £1,330.1 UK Government - £300m (22.5%) Scottish Government - £300m (22.5%) Councils - £303.2m (23%) Other partners £426.9m (32%)	Page 12, exhibit 3
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.	Page 14, para 22
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.	Page 22, para 44
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.	Page 24, para 50
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.	Page 24, para 51
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.	Page 31, para 67



## 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

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

### External partners

- **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**

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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 ...

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UK and Scottish Governments

Supported by various committees, including individual project boards, a chief executives’ group and the Regional Enterprise Council,<sup>1</sup> 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.



## Appendix 2: Audit Scotland Recommendations for Councils and ESESCR Deal Partners' Reponses

Audit Scotland Recommendation	ESESCR Deal Partners' Position
<b>Councils should:</b>	
<p>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.</p>	<p>A robust governance system has been established with Joint Committee and Advisory Boards/Groups meeting regularly. Section 4 of the <a href="#">Annual Report</a>, published in September 2019 provides the latest position on Governance.</p> <p>Partners recognise that communication could be improved. A cross-partner Communications Group, with representation from both Governments, meets bi-monthly to oversee the Communications Action Plan for the Deal.</p> <p>All thematic Boards are currently conducting a stakeholder mapping exercise to ensure that communication to key partners, who do not sit on the Boards can be improved.</p>
<p>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;</p>	<p>Partners are developing a Regional Growth Framework and will provide a strategic summary to inform the Scottish Government's Call for Ideas ahead of a fully developed version by summer 2020 to inform the Scottish Government's National Planning Framework 4 and Strategic Transport Projects Review 2.</p> <p>This will also set the strategic direction for regional partners to work together in the future to accelerate inclusive growth outcomes through the City Region Deal programme and take an integrated approach across housing, planning, transport and economic development. The Growth Framework will also enable the region to respond to major changes in the economy and transition to a low carbon economy. More detail on this was <a href="#">reported to Full Council in October 2019</a>.</p> <p>Government noted their encouragement about how well-embedded the place-based agenda is in the region and the integrated economic development being advanced in areas such as housing and transport at the Annual Conversation in September 2019.</p>
<p>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;</p>	<p>Section 3 of <a href="#">the Deal Document</a> , which covers Governance, Accountability and Risk Management states that the governance structure will be reviewed to determine its continuing relevance by the Edinburgh Joint Committee on an annual basis as part of the Annual Report. This was reviewed and discussed in detail as part of the Annual Report, published in September 2019, and the Annual Conversation with both Governments, which also took place in September 2019. This will again take place in summer 2020.</p> <p>The City of Edinburgh Council acts as the Accountable Body for the Deal partners, managing the flow of finances from Governments to partners. An internal audit is currently underway and its findings are due to be reported to City of Edinburgh Council's Governance, Risk and Best Value Committee in May 2020.</p>

<p>regularly monitor the risk of partner funding not materialising as agreed and be aware of their own financial implications if that risk is realised;</p>	<p>A Financial Plan has been approved between partners and Government. This states that funding will be released once business cases and implementation plans have been approved by both Governments and projects start to go live. In exceptional circumstances, a small element of funding may be advanced subject to the agreement of the relevant Government(s) and the Joint Committee (or relevant Board with delegated powers over funding). All funding will be directed through the Scottish Government and, as the Business Case documents are a key element to describing the project, setting out project spend and timing of project delivery, business cases will underpin the payment profile for funds paid across to projects. Financial profiles will be continually reviewed over the life of the project to ensure the most up to date financial picture of the City Region Deal is available.</p> <p>The Programme's finances are reported quarterly to both Governments to an agreed format. These reports are reviewed by the Executive Board and referred to the Edinburgh and South-East Scotland City Region Deal Joint Committee for approval, prior to sharing with both Governments. In addition, the Accountable Body compiles an annual consolidated report on the Deal, which includes but is not limited solely to, the performance against outcomes, financial analysis against profile and key achievements.</p> <p>Roles and responsibilities have been clearly defined within the Accountable Body and between partners. The appropriate approvals process is in place.</p> <p>Changes to financial forecasts are reported between partners and the Accountable Body on a monthly basis. These are reported to both Governments through the quarterly and annual reporting schedules, and Government are made aware of any potential significant changes in advance of formal reporting.</p> <p>For 2019-20 an internal audit is taking place of the key controls established to ensure the Council effectively manages its responsibilities in its role as Accountable Body. The City Regional Deal Finances will form part of the CEC Annual Accounts. This will be audited externally after the financial year end.</p>
<p>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;</p>	<p>The business sector and third sectors are represented on the ESESCR Joint Committee. These two individuals are Chair and Vice Chair of the Regional Enterprise Council (REC), who provide the voice of the business and third sector (including voluntary sector) to guide the implementation of the City Region Deal. The REC is currently focusing on shaping the emerging Regional Growth Framework and Community Benefits strategy in particular.</p>
<p>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</p>	<p>Partners are working with Government to develop a Monitoring and Evaluation framework for the Deal. The framework will set targets and measure outcomes across all the City Region Deal projects and themes - capturing the economic, inclusive and environmental impacts of the Deal. This will capture the impact that the Deal is having on groups with protected characteristics, especially women, disabled people and ethnic minorities.</p>
<p>look at how deals affect their longer-term financial plans, capital programmes and borrowing strategies ensure</p>	<p>Regional councils have Capital Budget Strategies that detail priorities for Council capital investment over the medium to long-term and which set out</p>

that enough staff, money, expertise and skills are available to develop and deliver deals including sufficient project management capacity and expertise;	a plan on how they could be funded. Qualified accountants work in all Councils.
<b>The Scottish Government and councils should:</b>	
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;	The projects within the 15-year Deal have been agreed and are not subject to change, unless the change process flags significant risks to cost, scope or time.
improve arrangements for sharing knowledge and learning across deals in the interest of improving the deal process; and	A cross-Scotland City Region Deal PMO group has been established and meet frequently (roughly bi-monthly). City Region Deal PMO members also contact one another frequently for assistance and for sharing experience and knowledge of the process. The Scottish Government often facilitates these links.
regularly review the governance and accountability arrangements for deals to ensure they are clear and operate effectively.	<p>Section 3 of <a href="#">the Deal Document</a> , which covers Governance, Accountability and Risk Management states that the governance structure will be reviewed to determine its continuing relevance by the Edinburgh Joint Committee on an annual basis as part of the Annual Report. This was reviewed and discussed in detail as part of the Annual Report, published in September 2019, and the Annual Conversation with both Governments, which also took place in September 2019. This will again take place in summer 2020.</p> <p>The City of Edinburgh Council acts as the Accountable Body for the Deal partners, managing the flow of finances from Governments to partners. An internal audit is taking place and its findings when available will be published and reported to the next Committee.</p>