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SCOTTISH AFFAIRS COMMITTEE – INQUIRY INTO CITY REGION GROWTH DEALS

Submission from Comhairle nan Eilean Siar, Shetland Islands Council and Orkney Islands Council.

Introduction

The Islands Growth Deal is one of the newest of the City Region Growth Deals. It was signed on 20th January 2023, in Orkney, where it was agreed that UK and Scottish Government would invest £100 million over 10 years in a suite of agreed projects and programmes. These are set out in the Full Deal Document. The Islands Growth Deal covers Orkney, Shetland and the Outer Hebrides, and has been developed by Comhairle nan Eilean Siar, Orkney Islands Council and Shetland Islands Council, together with public, academic, business, community and third sector partners. The Deal includes sixteen projects and programmes across three themes: leading the way to a low carbon future; supporting growth and future industries; and thriving sustainable communities.

1. What contribution have City Region Deals and Regional Growth Deals made to the development of Scottish Cities and regional economies?

- *The Islands Deal was signed in January 2023, so is early in delivery, meaning we are unable to fully answer this question and impact to date has been limited.*
- *Our expectation is that there will be a positive impact on economic growth in the island groups covered by the Islands Growth Deal. However, while positive, the limitations of this need to be recognised due to the project-specific nature of the funding, and the value of the investment - £100m over a ten-year period (split across 3 island areas).*
- *The headline Key Performance Indicators for the Islands Deal relate to creation of jobs, leverage of further investment, and supporting the islands to achieve net zero. It is anticipated that there will be impacts against these indicators, but that these are likely to be more conservative than originally anticipated due to the extent to which the spending power of the Deal has decreased.*
- *However, there are some transformative impacts we anticipate will arise from some of the larger, individual projects such as the Dales Voe Ultra Deep-Water Quay in Shetland.*
- *It is also important to note that a number of the individual investments in the Growth Deal are in the context of a bigger picture of anticipated growth and investment in the islands both now, and in coming years, in areas such as offshore wind, port development, and tourism.*
- *There are wider infrastructure and structural challenges facing our islands which are critical to economic growth, such as depopulation, housing, transport and digital connectivity, which will not and cannot be addressed through the Deal funding mechanism.*

2. What are the key opportunities and challenges for City Region Deals and Regional Growth Deals in the coming years?

- *Since the £100m quantum was announced in July 2020, the value of the funding has decreased considerably due to inflationary increases in the period. The spending power of the Deal has decreased considerably and the contribution the Deal can make to overall funding packages has come down. Cost escalation is exacerbated in the island context: we are seeing the lowest tender returns for initial capital projects within the Islands Deal coming back at 40% over informed and up to date QS estimates.*
- *The key challenges we anticipate for the Programme can therefore be summed up as:*

    1. *Significantly increased construction costs and / or difficulty in securing contractors.*

2. *Projects being unable to secure match funding in an increasingly competitive environment, and in a context where match funding opportunities are reducing due to diminishing public sector budgets.*
3. *Inadequate resources or capacity within local authorities and other partners to support Full Business Case development, project development and project delivery.*
4. *Lack of revenue funding*
5. *Difficulties in recruiting and attracting people to the islands, including as a result of lack of accommodation.*

- *There have been positive relationships with UK and Scottish Government, but the Deal process itself has been lengthy, time consuming and frustrating for local authorities, whose staff and financial resources have become increasingly limited over the period.*
- *Third party delivery partners sometimes have struggled to allocate the resources required to fully engage in the process and be able to move Business Cases along in a timely fashion. This is particularly the case due to pre-tender project development costs (for example, moving through the RIBA stages) having to be funded at risk, as they are ineligible to be claimed until procurement is complete and FBC is approved. An element of Islands Deal funding allocation to 'pre-project' costs would have been extremely helpful in this respect.*
- *Aside from the direct benefits and opportunities that will arise from the implementation of the Islands Deal in coming years, there are considerable opportunities for added value through joint working across the three island groups as a result of the Islands Deal, and maximising the benefits that can be afforded from national and international interest in the specific projects within the Islands Deal. However, our capacity to identify and pursue these added value opportunities can only be achieved with additional resource. At present the focus of the Deal has become, by necessity, very much operational and delivery orientated rather than being able to strategically identify and pursue these wider opportunities.*

3. How have City Region Deals and Regional Growth Deals progressed since the Committee last examined them in 2021?

- *The Islands Deal has only been in delivery since 2023 but it does appear that there is greater rigour and uniformity that has emerged at Government level than was perhaps applied to earlier Deals. This is helpful but needs to be proportionate to the investment and resource at local level. Despite Government's best efforts at proportionality, the monitoring, reporting and administrative requirements on a £100m investment is the same as those which are receiving triple or quadruple the amount of funding.*
- *There is good joint-working across Growth Deals in Scotland, fostered by a Programme Management Network and various sub-groups, which has been useful in sharing best practice, tools, processes, etc.*

4. What steps have different City Region Deals and Regional Growth Deals taken to implement the recommendations of the 2020 Audit Scotland report?

- *Given the stage of the Islands Deal, we were able to consider the audit recommendations in the design and delivery of the Deal. This includes ensuring clarity on accountability, regular reviews of governance, monitoring and risk management arrangements.*
- *The recommendations highlight communications with partners, Council Members, stakeholders and the general public. There is a communications plan in place and in implementation but there is a balance to be struck given the current stage of some of the projects within the Growth Deal. The*

Annual Performance report for the first year of the Deal will be published shortly and will be publicly available.

- *In terms of measuring impact, a Benefits Realisation Plan is in place accompanied by a Benefits Register, with the intention to update the latter on an annual basis. Key Performance Indicators for the Islands Growth Deal have been identified and will be reported on annually as set out in the Benefits Realisation Plan. Work on supporting Project Level Monitoring & Evaluation will be a focus in the coming year.*
- *The main areas of concern at present relates to the recommendation around the risk of partner funding not materialising. This is on the Islands Deal Programme risk register. A match funding position update is in place and reported to the Islands Deal Programme Board every six months. From 24/25 it is proposed this move to a quarterly update, as there have been a number of match funding challenges in recent months.*
- *The other recommendation we would wish to highlight is the statement that, "Councils should ensure that enough staff, money, expertise and skills are available to develop and deliver deals including sufficient project management capacity and expertise". Although the Islands Growth Deal is at an early stage, we would highlight the challenge faced by local authorities in having to resource the management and delivery of Growth Deals, particularly in a situation where the requirements and expectations related to administering a Growth Deal have increased.*

5. How do the provision and effectiveness of City Region Deals and Regional Growth Deals compare with similar schemes in England and Wales (such as Investment Zones)?

- *We are not in a position to comment on the relative provision and effectiveness, but the approaches would seem to be quite different. Growth Deals are essentially a top-down funding package from Government to local partnerships (while this may not have been the original intention that is what they have become), while Investment Zones devolve power to local level on a wide range of fronts, including financial and planning incentives, to encourage local investment and innovation. Growth Deals are essentially focused on provision of specific pieces of capital infrastructure that are intended to generate economic growth, rather than creating the wider conditions for growth.*

6. How do City Region Deals and Regional Growth Deals align with other 'Levelling-Up' funding available to Scotland?

- *All three Councils have positive experiences of UK Shared Prosperity (UKSPF) funding. The UKSPF model of agreeing an Investment Plan based on local priorities, followed by autonomy to deliver that plan, is viewed very favourably.*
- *The islands have been able to utilise UKSPF funding to support early-stage project development for Islands Deal projects (for example, to allow capital projects to progress through the RIBA stages), and to act as match funding for Growth Deal projects.*
- *There have been no successful Levelling up Fund applications that align to Islands Growth Deal projects.*
- *Funding allocations (such as with SPF and the Growth Deal) are viewed more favourably than competitive processes. However, metrics used in allocation of SPF have been based on urban deprivation factors, which has had a negative impact on the allocation to the islands. A different system is needed for remote and island areas. Allocation should be on a 'needs basis' (social, economic, island specific characteristics) following similar eligibility criteria as EU policy. Consideration should be given of more sophisticated selection criteria beyond GDP per capita, for example: population sparsity, fuel/ transport poverty, distance from markets, "remoteness", "fragility", and inequalities which result from the higher costs of living and doing business on islands.*
- *The benefit of the Islands Deal is that the 10-year approach allows a degree of future certainty and a stable starting point for some priority projects. There continues to be a lack of long-term clarity on replacement to EU Funding streams which would have previously been accessed for key*

infrastructure projects. More long-term certainty on UKG funding would allow the development and delivery of the optimum solutions.

- *Recent indications are that there will be less flexibility in utilising UK Government funding as match for Growth Deal projects. For example, in recent announcements on Levelling up Partnership funding.*

7. To what degree do City Region Deals and Regional Growth Deals address the right priorities for Scotland? Is there sufficient flexibility in the schemes to tailor the offer to regional needs?

- *The development of the Islands Deal involved local level identification of investment priorities and opportunities. This was then further informed through negotiation with UK and Scottish Government and this, added to the quantum available, meant that not all aspects being looked for were able to receive funding through the Deal. The Deal that has emerged is a good reflection of our economic priorities and key growth sectors, but we are clear on the limitations of what can be achieved with the funding available and its agreed scope.*
- *Context has changed enormously since the Deal vision was first set out. We anticipate there will be a requirement for significant changes across the Deal project portfolio due to challenges with cost escalation. However, it is believed that even with significant changes, the overall strategic vision for the Deal across its three key themes, will remain broadly the same.*
- *The Programme Board and Joint Committee have undertaken a review of deliverability across the Islands Deal and this has informed recommendations for change and re-design which are currently being worked through. We are encouraged by initial evidence of willingness of SG / UKG to be open to change in recognition of the positive impact this will have on the Islands Deal overall.*
- *It is important that there is a greater understanding of issues of scale, remoteness, population and peripherality and how this can lead to Deals such as the Islands Deal needing to have a different composition and approach to those in mainland Scotland. The Islands Deal is notable by the number of projects within it and the small scale of some of these, but this reflects the investments needs across the area. What may look like a small project/ investment in terms of direct jobs or GVA created can have a significant transformational impact in a remote or rural area in terms of wider community and social benefit.*

8. What policies should the UK Government adopt to foster the success of City Region Deals and Regional Growth Deals in the coming years?

- *There have been positive relationships with UK and Scottish Government in the delivery of the Islands Deal, and there has been clear evidence of support for the successful delivery of the Deal as a whole and the individual projects with it. However, there is a need for greater autonomy at local level to utilise the Deal funding and make changes in the delivery of the Programme.*
- *Capacity to flex and change over the remainder of the Deal period will help deliver a better overall outcome. We would ask for greater flexibility at local level to make change across the portfolio of projects on the basis that the overall strategic vision and achievement of outcomes would continue to be pursued.*
- *Ensuring that Growth Deal funding can continue to be matched with other UKG funding streams, such as Levelling up Partnership funding, in an increasingly challenged match funding and cost escalation environment.*
- *The funding mechanism for the Growth Deals needs to change to enable local and regional partners being adequately resourced to meet expectations and successfully deliver. We are aware that in other parts of the UK, local authorities are able to utilise a % of the funding awarded towards the costs of managing and delivering a City Region Deal Programme. This facility has not been made available to Deals in Scotland. It is also notable that UKSPF comes with the capacity for Local Authorities to apply a management charge, recognising the resources that are required to effectively deliver national funding streams at a local level.*
- *We would welcome a fresh look at how the funding is released, including the appropriateness of the Treasury Green Book methodology. The Green Book Business Case model is recognised as a*

rigorous and beneficial process for projects to go through, but it has been challenging for the Councils and partner agencies. Treasury Green Book is not necessarily designed for the scale and type of some of the investments within the Islands Deal, so at times it has been a case of trying to make projects artificially fit with that approach, and the requirement has not always been proportionate to the individual investment.

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