

## Written evidence submitted by Ayrshire Growth Deal (CRG0015)

### UK PARLIAMENT (SCOTTISH AFFAIRS COMMITTEE) – CALL FOR VIEWS ON CITY REGION AND GROWTH DEALS, APRIL 2024

The Committee would like to hear your views. We welcome written submissions from anyone with answers to any or all of the questions in the call for evidence:

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

The £251.5 million Regional Growth Deal for Ayrshire has already made a significant contribution to our regional economy, and will continue to do so over the next decade as many of the key projects move into their delivery phase.

The 2023 Benefits Realisation Plan (BRP) shows that the AGD had supported 861 jobs (at March 2023 and facilitated c.£61 million of private sector investment. Latest projections forecast that over the lifetime of the AGD, 7,479 jobs will be supported and this will facilitate c.£356 million of private sector investment.

The BRP will be updated in Spring 2024 and a new Annual Performance Report covering the period from October 2022 – March 2024 will also be published shortly.

Our revenue projects have made particularly strong progress, and this was highlighted at the Ayrshire Joint Economic Committee meeting in June 2023 as follows:

- **Working for Healthy Economy (WfHE)** – this £5m, 5 year project has now been extended by an additional year. The project has exceeded expectations in terms of the number of people accessing the service (1,040 clients, against a target of 960). Promotional activity has helped to further increase the uptake of the service by local businesses and individuals. The project has increased health & wellbeing outcomes for individuals as well as supporting employers to retain their workforce, improving their health and reduce absenteeism from the workplace.
- **Community Wealth Building (CWB)** – this £3m, 3 year project has recently been extended by a year in order to maximise its impact on local enterprises, as demonstrated by the table below. Our three local authorities intend to embed this approach in core service delivery as a further sign of the programme's added value.
- **Ayrshire Skills Investment Fund** – a £3.5m, 3 year project. Following the approval of the Final Business Case in August 2023, funds have been authorised to providers to allow them to support the delivery of training programmes across Ayrshire that meet the skills needs of local businesses.

Capital projects remain at a relatively early stage, with some now moving into delivery and others expected to do so over the next 18 months. The first of these is the Digital Process Manufacturing Centre (DPMC) Pilot at i3 in Irvine which has secured the presence of NMIS and CPI in the local area. The first phase of flexible advanced manufacturing space is on also site at i3 adjacent to the DPMC Pilot site.

Beyond the tangible benefits highlighted above, the existence of the Deal has also helped to embed collaborative working arrangements across the three Councils, other public sector stakeholders and the private sector. An example of this joint working has been the recently

approved Ayrshire Regional Economic Strategy, which was published in June 2023. Promotion of the Growth Deal has also led to an increase in the number of inward investment enquiries as a result of the region's heightened profile across Scotland, the UK and on the international stage.

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

With the launch of the Regional Economic Strategy and associated Delivery Plans in 2023, AGD projects make up a major component part of this activity and will be vital in terms of achieving the strategy's long-term ambitious priorities, which are:

- **Support for Enterprise:** A region where businesses can grow both domestically and globally; entrepreneurship and creativity can flourish.
- **Fair Work:** A region which offers all individuals an effective voice, opportunity, security, fulfilment, and respect in work.
- **Innovation:** A region where enterprises and the public sector adopt innovative solutions to address economic problems.
- **Good Health and Wellbeing:** A region where people of all ages have the access to resources to live a healthy, full, and purposeful life.
- **Stronger Places and Communities:** Local economies can sustain thriving communities and deliver good public and private services to residents and visitors.
- **Enhancing Natural Capital:** Preserving and enhancing Ayrshire's natural capital, meeting Scotland's commitments to net zero and protection of biodiversity.

Tools are being developed to capture the performance of the RES, including a commitment to the development of a Regional Intelligence Hub for Ayrshire. This is expected to be a key resource and a focus for undertaking economic development impact analysis of AGD projects and programmes. However, Scottish Government funding to support a Regional Intelligence Hub has been delayed and alternative models are being considered to meet this gap.

Given our local and regional vision of developing a Wellbeing Economy, a shift by the UK Government towards acknowledging a wider range of economic indicators would be helpful in supporting this approach. This would include giving increased weighting to measures beyond GDP/GVA, including broader socio-economic and environmental indicators that support our vision of ensuring our local economy is inclusive to all our residents and operates within safe environmental limits.

In terms of challenges, the past three years have provided many which have impacted on the development of the majority of the projects and their business cases. These have included external factors such as the continued legacy of Brexit and Covid, the impact of the conflict in Ukraine and the cost of living crisis. These factors have adversely affected the availability of resources and caused cost pressures.

In addition, since the Deal was agreed, additional requirements have been put in place by both Governments in relation to our projects and programmes; for example, City Region & Growth Deals Carbon Guidance was published in August 2021.

Subsidy rules and in particular, the requirement to satisfy that public investment will not distort competition within the marketplace have impacted in terms of rent affordability for potential commercial tenants. Environmental changes, including changes to the way flood

risks and likelihood of occurrence are reported have also impacted upon the development potential of targeted sites for growth and this is also resulting in increased costs.

From a South Ayrshire perspective, the space industry demonstrates the extent of the changes which have impacted upon the global marketplace. Total investment in this industry in 2021 was £11 billion; current projections indicate this will fall to around £2.7 billion in 2023. Similar trends are taking place in other Growth Deal sectors.

Within this wider political and economic landscape projects have also experienced a number of other specific issues that have generated active engagement within the partnership and Government. Specific challenges have included:

- Delays in the development and approval of business cases.
- Continued cost pressures which have impacted upon the original deliverability of projects e.g. increased construction costs.
- Additional aspiration to ensure projects reach net zero which has had an impact upon cost pressures.
- Time required to review projects and engage with all, to ensure value for money is still achievable e.g. through value engineering.
- Impact of aligning dependencies such as land purchases, regulatory requirements, consents and procurement processes to ensure business cases are fit for delivery.
- Promoting and engaging with targeted audiences especially with business community when the commercial environment is unstable.
- Managing consistency in delivery on pan-Ayrshire projects where each partner is at different stages, and having unique and differing issues to tackle.

Partners have noted concerns in relation to the frequent changes to Government leads and the impact that can have on progress. The business case approval process has also proved to be more challenging than anticipated and feedback generally on businesses cases appears uncertain in terms of timelines. For example, the Ayrshire Skills Investment Fund Final Business Case was subject to 17 iterative drafts prior to approval by Government.

In response to these challenges, partners have agreed to review the governance structure to ensure the governance of the Deal it is still fit for purpose and continues to support effective scrutiny and decision making to support the continued development and delivery of the programme.

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

The challenges of the global economy, the war in Ukraine and the legacy of both the Covid pandemic and Brexit have created an environment of uncertainty and revaluation, prompting us to review the viability and deliverability of many of the Growth Deal projects.

Despite these difficulties, considerable progress has been made with the programme as a whole moving from a development phase to one where projects are now being delivered.

The opening of The HALO Kilmarnock in April 2022 demonstrates how the Deal is contributing to the economic and social development of the local area and beyond. For example the PRA Group, a Nasdaq listed financial management company, has selected the HALO as their European HQ and they now occupy two floors of this innovative operation with the third floor marketed to SME's.

The Community Wealth Building Programme has been successful in raising awareness of a CWB approach to enterprises across the region. It has taken a regional approach to economic development and has been showcased as an example of best practice in this regard by the Scottish Government.

The programme is performing well against targets set in the Full Business Case and in some cases, exceeding key outputs assigned. Whilst this has not been without challenges especially in the early stages of delivery due to recruitment issues, real momentum and confidence has been gained, underpinning recommendations within the review for CWB work to continue beyond the 3-year time-frame (supported by Shared Prosperity Funding in year 4) in order to continue strengthening Ayrshire's local economic realisation. Pan-Ayrshire outputs show that over 900 enterprises have been supported by the programme in CWB. Based on an assured start and progression through Year 3 of the programme, it is likely that this headline target will be exceeded by some distance.

Whilst these good news stories are welcome, all three local authorities have reported barriers and highlighted the need to make changes. For example, in East Ayrshire the lack of transport funding to develop the infrastructure constraints at Bellfield Interchange has triggered a review of the site location for the Advanced Manufacturing Investment Corridor to a co-location within the Ayrshire Engineering Park site. This has enabled a number of complex transport challenges to be resolved while managing the construction inflation challenges impacting on all construction projects; however, the Council remains concerned in terms of the lack of progress at Bellfield and is seeking urgent discussions with key stakeholders in an attempt to resolve matters.

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

The 2020 Audit Scotland report has been considered by the Ayrshire Economic Joint Committee (the June 2023 progress report was submitted to the Committee on 7 August 2023). The AGD Project Management Office and East Ayrshire Council Audit (acting on behalf of the AGD Auditors) welcomed the opportunity to share current practices with Audit Scotland. The result of our engagement has helped raise the profile of the Ayrshire Growth Deal and its current practices with the national auditors, and this has been endorsed by the Audit Scotland report.

For example, the report recommended that Internal Audit colleagues help to ensure the effective operation of governance arrangements. In this regard, it was noted that the AGD specified the role of internal audit within its governance documents. The Chief Auditor was involved at initial deal development stage and summary internal audit reports are regularly presented to the Ayrshire Economic Joint Committee.

It should also be noted that a review of governance arrangements, which will include the Growth Deal, is currently taking place at regional level via the Regional Economic Strategy Delivery Plan.

Whilst the report shows that the local authority contribution to the Ayrshire Growth Deal is the lowest in Scotland, as a percentage of total programme budget, local Internal Audit observed that in a context where national funds and programme deliverables are both fixed, but inflation is higher than anticipated. This means unless Deal deliverables can be renegotiated (e.g., by scaling back project goals, prior to Full Business Case

approval), then councils will be liable to make up the shortfall attributable to inflation for not only their own share, but also for the UK/Scottish Government's share.

In the AGD's case, this means the Ayrshire councils must cover the cost of unpredicted inflationary impact not only on each £1 they committed to the Deal; but also potentially cover the cost of such impact on £4 of UK/Scottish Government funding.

### **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 unable to comment on this as we are not familiar with the schemes operating in England and Wales.

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

Additional funding secured for the region via Levelling Up has been welcome (particularly in the current economic climate) and in many cases, it is being used to complement AGD programmes and projects. However, the timescales for the development and submission of applications to the Fund have proved to be challenging alongside the dynamic nature and timing of the guidance and application processes.

The provision of capacity and capability funding under the Levelling Up Fund has been beneficial to both reduce the financial risk of project development and support Business Case development. This has assisted with the submission of successful applications and early stage development and delivery. The timescales around the review and approval of Business Cases have however been similarly challenging affecting overall programmes, alongside a high level of turnover at the Department for Transport in the case of North Ayrshire Council's LUF project (round one).

Ayrshire Councils have had a fairly positive experience of LUF and the UK Shared Prosperity Fund. The application process has been familiar and the working relationships with UK Government officers has been productive. However, the timescales towards approval have been protracted, pressurising the timeframe for delivery. UKSPF spend to date, particularly on business support, has been compromised by extension to the former ERDF programme to provide additional time to delivery contracted outputs that were compromised by the Covid-19 hiatus.

Looking ahead, clarity is urgently needed in relation to funding arrangements for SPF-funded projects beyond 1 April 2025. These projects are an important element of our plans for sustained economic growth and community wealth building against what remains an extremely challenging economic backdrop.

The delay in the release of funds at the outset of this programme continues to have a knock-on impact upon project delivery, although this financial year has seen significant progress being made in a number of key projects.

The risk is that without SPF or an equivalent, there is no funding to support some of the most vulnerable groups in our society, and the long-term economic impacts of this will impact upon AGD outcomes.

Examples of where the impacts would be most keenly felt include training programmes for the economically inactive; recruitment of Modern Apprentices and interns; grants for businesses; support to businesses via the Community Wealth Building programme; and business start-ups.

Any break in funding, even for a period of a few months, would also be hugely problematic; these programmes cannot simply be switched back on again and the 'catch-up'/re-commissioning period would be considerably longer, with the likelihood that many of our clients, particularly in the employability field, would become disengaged from support systems.

**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 Ayrshire Growth Deal is broadly aligned with Scotland's National Strategy for Economic Transformation (NSET) and both share a vision to create a wellbeing economy which is built on the principles of inclusive economic growth.

In ensuring that the Deal continues to address the 'right' priorities for Scotland, having access to data and intelligence is crucial. The Scottish Government is currently exploring the establishment of Intelligence Hubs across all regions in Scotland. These aim to build sustained expertise within regions to carry out novel and creative economic analysis, providing a deeper and broader understanding of specific and nuanced regional strengths and challenges.

In addition and in response to ensuring the 'right' priorities are delivering what is needed in the region, flexibility in the application of the Deal is essential. All of this must be based on robust evidence and clear beneficial targets. This includes allowing local decision makers to have a key role in consultation with both Governments as the principal funders.

Consideration is also being given to the provision of resource to support RES delivery. Actions have therefore been identified to investigate the potential to secure such resource for Ayrshire.

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

We have noted the ever-increasing complexity of the funding landscape in which local authorities and regional partnerships operate. Unlike core funding programmes, these grants are often very specific, short term and competitively accessed, limiting what can ultimately be delivered.

In order to ensure the success of Regional Growth Deals such as our own in Ayrshire, we would welcome the simplification of the system, aiming for a more transparent, simple and accountable approach to funding.

In the short-term, and as noted earlier, we are facing an uncertain future beyond March 2025 in terms of the UK Shared Prosperity Fund and clarity is urgently required in order to secure the future of projects and programmes, many of which are complementary to the AGD.

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