OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 11 December 2024

The Scottish Parliament
Pàrlamaid na h-Alba

Session 6

Wednesday 11 December 2024

CONTENTS

Col.

ECONOMY AND FAIR WORK COMMITTEE
33rd Meeting 2024, Session 6

CONVENER

*Colin Smyth (South Scotland) (Lab)

DEPUTY CONVENER

*Michelle Thomson (Falkirk East) (SNP)

COMMITTEE MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Malcolm Bennie (Falkirk Growth Deal)
Richard Lochhead (Minister for Business)
David McDowall (Ayrshire Growth Deal)
Anne Murray (Islands Growth Deal)
Rick O’Farrell (Borderlands Inclusive Growth Deal)
Euan Page (Scottish Government)
Pieter van de Graaf (Scottish Government)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 11 December 2024

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Colin Smyth): Good morning and welcome the 33rd meeting of the Economy and Fair Work Committee in 2024.

Our first item of business is to take a decision on whether to take, in private agenda items 5 and 7, which are discussions of the evidence that we will hear today and of our work programme. Are members content to take those items in private?

Members *indicated agreement.*

Subordinate Legislation

Public Procurement (Miscellaneous Amendment) (Scotland) Regulations 2024 (SSI 2024/338)

09:30

The Convener: Our next agenda item is consideration of a Scottish statutory instrument. The committee is invited to note the Public Procurement (Miscellaneous Amendment) (Scotland) Regulations 2024. The instrument makes minor procedural amendments to the rules governing contracts, following the United Kingdom's membership of the comprehensive and progressive agreement for trans-Pacific partnership, and its trade agreement with Australia. The instrument also makes similar amendments to the rules governing lower-value domestically regulated contracts and makes technical amendments to procurement regulations in order to comply with section 2 of the Retained EU Law (Revocation and Reform) Act 2023.

Are members happy to note the instrument?

Members *indicated agreement.*

Product Regulation and Metrology Bill

09:31

The Convener: Our next item of business is consideration of a legislative consent memorandum on the Product Regulation and Metrology Bill. I welcome Richard Lochhead, the Minister for Business and, from the Scottish Government, Euan Page, who is the head of UK frameworks, and Pieter van de Graaf, who is head of international trade flows and regulations.

I invite the minister to make a brief opening statement. Although I failed miserably to achieve this last week, I also encourage everyone to keep their questions and answers relatively brief when we open the meeting up to discussion with our witnesses.

The Minister for Business (Richard Lochhead): It is nice to be before the committee for the first time in a while. I thank you for the opportunity to outline the Scottish Government's current position on the Product Regulation and Metrology Bill. Because the metrology aspects of the bill are reserved and are not covered by the LCM, I will, as you would expect, focus on the product regulation element.

The UK Government has said that the creation of broad powers to regulate product characteristics, as proposed by the bill, is necessary to fill the regulatory gap that has been caused by exit from the European Union.

Unfortunately, the approach that has so far been taken in the bill does not respect the devolution settlement or the legislative competence of this Parliament. For example, exceptions to the product safety reservations that are included in the Scotland Act 1998 have not been adequately recognised, which means that some devolved product categories would fall unnecessarily within the scope of the bill.

Similarly, the bill grants regulatory powers to UK ministers in relation to the efficiency, effectiveness and environmental impacts of products, although those matters are largely devolved. The bill does not currently contain any mechanism to prevent UK ministers from using those powers in devolved areas without consent from Scottish ministers or oversight by the Scottish Parliament. That is why we have recommended that the Scottish Parliament should not grant legislative consent to the bill at this time.

The Scottish Government believes that the regulatory requirements for products in the UK should align with those in the EU. British Chambers of Commerce recently called for

"as much alignment as possible",

which would help to facilitate trade with our most important trading partner.

The UK Government has announced plans to align with some specific EU product regulatory changes, which is to be welcomed. Although the environmental power in the bill is limited to alignment with EU law, the other powers can be used either to align or to diverge. UK ministers have stated that they want to keep both options open, although there are nods to alignment elsewhere in the bill. The impact of the bill on wider EU alignment at UK level therefore remains unclear. As a result, its impact on the UK internal market also remains uncertain.

Despite gaps in the policy background, we continue to engage positively and constructively with the UK Government. I am pleased to say to the committee that the UK Government has now agreed with our view that clause 7 covers devolved matters and requires legislative consent. We are hopeful about reaching further agreement on other issues in the bill, which might eventually allow us to change our advice to you on consent.

Thank you again for inviting me along today. I will do my best to answer your questions.

The Convener: Thank you, minister. I will open it up to members' questions, starting with Murdo Fraser.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning, minister and colleagues.

Thank you for setting out your view on the LCM in your opening statement. It is fair to say that the advice to the committee from the Scottish Parliament information centre is that this is an area in which lines between what is devolved and what is reserved are quite blurry, and it is quite difficult to distinguish between what might be a reserved competence and what might be a devolved competence. For example, regulations covering technical standards for products are reserved, but regulations relating to efficiency and effectiveness might not be, and it is perhaps difficult to distinguish between the two.

It would be helpful if you or your officials could give us some practical examples of areas in which a conflict might arise, if you are able to do so. That might better explain your hesitancy about granting consent.

Richard Lochhead: That gets to the crux of the issue. It is an enabling bill, so many such questions will be answered only once the UK Government takes a decision on how to use the enabling powers and brings forward the secondary legislation. We would then have to look at each individual case, and at that point, we would have to take a view on those questions.

In the wider sense, one of our key concerns is the mismatch between what is devolved under the Scotland Act 1998 and what would be excluded under the bill by the UK Government. There are two lists, and they do not match. Clearly, we would like to see what is devolved, according to the 1998 act, being replicated in the exclusions in the UK bill. That would result in a clear match, which is what we are pursuing.

There are a number of devolved issues involved, including food, agriculture, horticultural products, fish products, seeds, animal feedstuffs, fertilisers and pesticides. Under the 1998 act, those areas are devolved, so we would like to see them in the list of exclusions in the UK legislation.

I will bring in colleagues on your wider question about the definition of efficiency and effectiveness, which is not easy to answer because it is a technical bill. Pieter, do you want to add anything?

Pieter van de Graaf (Scottish Government): The matter is complicated because the reservation is quite technical in nature. Although technical standards and requirements in some circumstances are reserved, the powers are not limited to technical issues. Anything that is non-technical would be devolved in the case of efficiency, effectiveness and environmental impact.

The other key point to note is that there is mention in the 1998 act of the implementation period completion day, which basically means the end of the Brexit transition period. Therefore, there is a distinction between existing EU legislation and the technical matters in there, and anything new that is legislated on by the EU in the future. The latter would be devolved in relation to efficiency, effectiveness and environmental impact, whereas existing EU legislation would be reserved. Therefore, there is quite a complex mixture.

Murdo Fraser: Thank you for confirming the complexity of the issue, which is helpful in itself.

Can I ask about one more thing? You referred to EU alignment. With regard to regulation powers in this area, is there anything that the Scottish Government would do differently from the UK Government, or is it too early to make that prediction? I know that the Scottish Government's general approach is to progress with EU alignment where possible, but would the Scottish Government seek to do that even if it meant taking an approach that was different from that of the UK Government?

Richard Lochhead: Your question raises a number of questions. We would have to wait and see how the secondary legislation is used under the enabling bill. We would look at each case on its merits, but the Scottish Government's policy is to align, as far as possible, with EU legislation. We welcome the fact that the new Labour Government is not actively non-aligning, as seemed to be the position of the previous UK Government. There is a change, which we are paying close attention to. We hope to have a constructive relationship with the UK Government regarding secondary legislation, but we will have to wait and see what is proposed.

Colleagues might wish to ask about the wider issue of internal markets, which the committee might have discussed. That would take us into a slightly different, but linked, debate about what would happen if we took a different position and there was then a debate about the United Kingdom Internal Market Act 2020. Does that make sense? We know that there are examples of times when we have taken a different position and the United Kingdom Internal Market Act 2020 has been used to stop that going forward. There might be implications.

Lorna Slater (Lothian) (Green): I am going to assume that the bill was initiated before the general election under the Conservative Government, which—as the minister pointed out—took a different direction of travel.

How might the bill interact with the 2020 internal market act and how might it limit Scotland's ability to take the lead on fully devolved environmental protection and our ability to maintain alignment with the EU?

Richard Lochhead: I will give a quick response, then Euan Page, who is our resident expert on those issues, might want to come in.

In my response to Murdo Fraser, I began alluding to the big picture of whether Scotland should take a different view—in line with what we hope will be confirmed as the devolved aspects of the bill—if that could then be overridden by the 2020 internal market act. For example, if we took a different view on product legislation, and even if Scotland adopted different regulations that were passed by this Parliament and put in place, businesses or manufacturers might be able to align with English regulations and be protected by the 2020 act. That is directly relevant.

Euan might be able to add more.

Euan Page (Scottish Government): I think that we should guard against too much speculation about how that might play out. However, as the minister says, a relevant measure that is made under the bill would be caught by the 2020 internal market act, just as any other measure would.

For example, in a scenario in which the delegated powers in the bill were used to create England-only provision that diverged from regulatory requirements in Scotland, the mutual recognition principles of the bill could raise questions about the legal effect of any laws made. As the minister alluded to, we have seen that happen to legislation that has been passed by this Parliament. However, that takes us into the speculative realm: much will depend on the nature of measures that are taken under delegated powers.

Lorna Slater: I have one more question. Under the devolution settlement, the Scottish Parliament should be able to scrutinise and give consent to legislation that concerns devolved matters. The bill, as it is currently drafted, includes no requirement to obtain consent in all devolved areas.

The Scottish Greens agree with the Scottish Government that the legislation does not respect the devolution settlement, and will not give consent to it in its current drafting. Does the minister know whether the new Labour Government is open to redrafting the bill, or will this be the first incidence of its breaching the Sewel convention?

09:45

Richard Lochhead: We are getting some positive signals from the UK Government. Although the negotiations are on-going, we are not over the line yet, so we have to wait and see. However, I had a constructive meeting with Lord Leong, who is the minister dealing with the legislation on behalf of the UK Government in the House of Lords, through which the bill is going just now. We are waiting to see what happens next, but discussions are on-going. We feel reasonably positive that there will be some movement in Scotland's favour that respects the devolution settlement but, of course, we just have to wait and see.

Lorna Slater: Theoretically, could the bill not be overridden by the United Kingdom Internal Market Act 2020?

Richard Lochhead: That is always a concern. The bill is an enabling bill, so should the delegated powers be used, there could be instances in which, as you have said, no matter what action the Parliament takes under devolved powers, it could be overridden by the 2020 internal market act. Again, that is two steps away from where we are just now; we are just trying to focus on fixing the situation.

The Convener: You are obviously having constructive discussions with the UK Government. Can you say a bit more about the specific asks that you have made? In the eyes of the Scottish Government, what are the solutions?

Richard Lochhead: First, I previously alluded to the fact that there should be a match between the list of what is devolved in the area under the Scotland Act 1998 and the list of what is excluded under the UK bill. In our view, the lists should match, which would respect the devolution settlement and the Scottish Parliament.

Secondly, there is an issue around the extent to which the Secretary of State in the UK Government would use the bill to introduce secondary legislation. Where that would impinge on devolved powers, legislative consent clearly must be sought from the Scottish Parliament.

Thirdly, there is the wider issue of the environmental impact of products, which we will pay attention to as well, because we want consent to be sought where there is an impact on Scotland.

Michelle Thomson (Falkirk East) (SNP): Good morning, minister. You might have already mentioned this, but this is just so that I am clear. You are saying, in relation to the mismatch between the lists, that you are seeking to see in the bill the same list of what is specifically devolved and set out in the 1998 act, but that the UK IMA could override that, regardless. I think that that is the point that you made earlier. In that case, what is the point? How are you seeking to address the matter? We know that a most comprehensive cross-party report was done here in Parliament, which set out a wide range of issues in relation to the UK IMA. Beyond the lists matching, what are you doing to make the point about the UK IMA in the light of the situation and the complexities therein?

Richard Lochhead: Well, we have a new UK Government, with which the First Minister and colleagues are raising issues in relation to the internal market act. We would like to see it being removed from the statute book, and we await the response of the UK Government. We have a new Government and a more constructive relationship exists with it, so far. We want results from that new constructive relationship, so whether the UK Government addresses Scotland's concerns about the IMA will be a good test of that new UK Government. Time will tell: I cannot answer that question just now.

Again, although this is a backdrop issue, it is a very serious one. We must ensure that the devolution settlements are respected in the day-to-day legislation that goes through the UK Parliament. That is what this is about. We cannot predict how the delegated powers will be used. As I said earlier, it is an enabling bill, so should the UK Government introduce legislation, we want to ensure that devolution is protected—otherwise, what will happen will be against Scotland's wishes.

The issues are very important, which is why I want those assurances to be put in the bill at this time, as we want with all legislation. Although it is obviously disappointing that those assurances were not, from the word go, contained in the bill, we are having constructive discussion with the UK Government to ensure that the bill is amended.

On your point about the lists, one of our objectives, as I said previously, is to get a match between the two.

Michelle Thomson: You rightly made the point that it is an enabling bill—a framework bill. You will be aware that there has been quite a lot of discussion in the Parliament about framework bills and what they enable. Efficiency and effectiveness has been discussed, and there has been scrutiny by MSPs of the matter in the chamber and in committees.

Have you given any thought to how you will ameliorate the potential risks, if Scottish ministers have the potential to give consent, but still ensure that the appropriate scrutiny can take place, given that framework bills limit effective scrutiny in the chamber? That is, in general, considered to be an issue by members across the committee.

Richard Lochhead: We would ensure that scrutiny took place at the point when secondary legislation or delegated powers were used under the enabling power, because if that were to impinge on devolved issues, we have a process in the Scottish Parliament to allow it to be scrutinised by committees and others. Stakeholders would be able to have their views heard as well, because the Scottish Government would have to make a decision as to whether to recommend consent on each issue. That is probably the point at which scrutiny and involving stakeholders would happen.

At the moment, the bill is vague—it is a very high-level enabling bill—so it is difficult for any of us, including stakeholders, to give a view. Members can see that the definition of what is covered by the bill is high level and quite broad. We are therefore not yet in a position give clarity on that.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Minister, in the list that you gave of devolved issues involved, you mentioned pesticides as, I think, an example of products that have an environmental impact. Could you clarify whether we face the prospect that the UK could take a different approach to the sale, transport and use of pesticides in Scotland, which would fundamentally oppose the view that the Scottish Government might have on the same matter? Could you say something about the situation that applies to Northern Ireland, which is allowed to align more closely with EU guidelines? Is it possible that three different sets of circumstances could apply to the use, sale and transport of pesticides?

Richard Lochhead: All that I can say at the moment is that the reason why we are determined to try to secure assurances for the Scottish Parliament and respect for devolution, under the bill, is to ensure that we avoid such scenarios. I cannot foresee how the UK Government will use the bill or enabling powers on pesticides or anything else, but we want to safeguard against such scenarios by ensuring that in relation to pesticides, which is one area that is devolved, devolution is respected under the UK bill, so that decisions are for Scottish ministers and not for UK ministers. That is all that I can say about it, at the moment.

On Northern Ireland's relationship with the EU, members will be aware, as it has been repeated many times, that the Scottish Government—given the irony that Scotland voted against Brexit—did not get the same helpful access to the EU market as Northern Ireland has, and there is obviously a separate debate about that.

Euan Page: On a technical point, Mr Coffey, one of the very few areas that is excluded from the automatic effect of the IMA's market access provisions is pesticides.

The Convener: There are no more questions, so I thank the minister and his officials for joining us today.

That brings the evidence session on the LCM to a close. I suspend the meeting to allow a changeover of witnesses.

09:54

Meeting suspended.

09:57

On resuming—

City Region and Regional Growth Deals

The Convener: Our next item of business is the third evidence session in our inquiry into city region and regional growth deals. Last week, the committee heard from some of the more established deals, and today's evidence session will focus on the more recent deals.

I very much welcome our witnesses: Malcolm Bennie, director of place services at the Falkirk growth deal; David McDowall, head of economic growth at the Ayrshire growth deal; Anne Murray, chief officer, economic and community regeneration, at the islands growth deal; and Rick O'Farrell, director of the Borderlands inclusive growth deal.

I failed miserably to do this last week, but, as always, I ask members and witnesses to keep questions and answers as concise as possible, so that we can get through as many questions as possible. I bring in Daniel Johnson to start our questioning.

Daniel Johnson (Edinburgh Southern) (Lab): I also welcome our witnesses. Just to give you fair warning, given that there are a lot of us on the committee and a lot of you on the panel, whoever flinches first is who I will direct my question to, so I will be watching very intently how you react.

In broad terms, we are interested in how city region deals work in the broader policy context, how they have been constructed, how they are overseen and what effect they have. Given that you represent some of the more recent deals, I begin by asking you all to what degree you have benefited from the experience of the previous growth deals, and how that informed the way that your deal was constructed and put together. Anne Murray, you were nodding, so I am afraid I come to you first.

Anne Murray (Islands Growth Deal): Thank you. We have benefited from coming last, so to speak. I think that we are one of the more recent deals; we signed a full deal agreement in January 2023.

10:00

We have certainly benefited a lot from the processes and experiences of other growth deals and from the learning that has been shared among the deals. That has been a really positive experience. It has largely been led by some of the more established growth deals, which have been willing, through the project management office network, to share resources and approaches to benefits realisation or sustainable procurement. The people working on the growth deals have certainly built up a good community.

Daniel Johnson: I am quite interested in that. You mentioned benefits realisation and the PMO, which relate to the organisation of and mechanisms for the growth deals themselves. Is that primarily where the benefits were focused? I am also interested in how projects were identified and put together and how they fit together overall. Were the methodologies and processes for identifying projects shared?

Anne Murray: I was involved only at officer level in Western Isles Council at that point. We had some input from the Scottish Futures Trust about the process and about work that was going on in other areas to identify potential projects or to prioritise. I do not think that we specifically reached out to other areas at that time.

Daniel Johnson: You can judge whether this is an unfair question. Did the previous growth deals make any observations about things to avoid or things that they wished they had known when they were embarking on their deals?

Anne Murray: I am not aware of anything.

Daniel Johnson: I just threw that question out there.

Malcolm Bennie, you are looking at me attentively, so I have a similar question for you. What benefit did you receive from previous growth deals as you framed, constructed and set up your deal?

Malcolm Bennie (Falkirk Growth Deal): An active national PMO group meets regularly and we found that to be an incredibly useful source of experience and reference points in talking about how to navigate the journey.

Our experience was that coming later in the growth deal process also brings challenges. Our view is that the levels of bureaucracy around the deals has increased and that the deals that came earlier in the process got more flexibility and had less rigour applied to them. I do not want to speak for colleagues here, but we found a high level of administration and bureaucracy. Every learning point that has come from every single deal that has ever happened has been built on, so when we came in at the end, we had to navigate our way through all that regulation, if you like. There were benefits and negatives.

Daniel Johnson: Can you elaborate on that and give some examples of the sort of bureaucracy that you had to go through? What was the source? Did it come from the UK Government or the Scottish Government? I understand your point about volume, but did it make sense or was it a frustration?

Malcolm Bennie: I want to present this properly. We as a council are absolutely delighted to work with the UK and Scottish Governments to receive significant funding, so the overall process and position are definitely positive. [*Interruption*.]

Our view would be that there was a level of flexibility in the way that business cases were developed for the earlier plans, that there was more pace and that the movement of money between projects might have been a little more flexible. I think that the development of business cases has become very intense.

It is not for me to assess Government responsibilities for imparting financial packages to councils, but we have had to take on a high level of PMO provision. Councils do not get any seed funding with their growth deal packages to create a PMO team—they have to take that on themselves, and they have to go through quite an intense process of business case development.

We have found the options appraisal element of the business cases in particular to be of less value than it should be. At that point, the strategic case will already have identified the projects that you want to develop, and the development of those projects will have begun. As we approach the point at which we sign off the deal, quite extensive options appraisals have to be done on whether those projects were the right ones to do. In our case, we are going to create a new Falkirk town hall arts centre. That project has been in development for a long time, and we have already bought a site for it, but an options appraisal has to be done to evidence the fact that that was the right thing to do, even though the project has moved beyond that stage. [*Interruption*.]

Daniel Johnson: The person from broadcasting is looking somewhat twitchy. I think that you might have a mobile device near the microphone that is causing a bit of buzz. That is much better—thank you. [*Interruption*.] Oh no—it is still there. Maybe it is me.

You said that the primary focus is on the business case requirements. Is the issue the fact that there is a significant number of requirements, or is it their inflexibility? Are the requirements relatively well articulated, or is it a more informal process of querying? Is the process burdensome but clear, or is it a burden because it is not clear? That is really what I am asking.

Malcolm Bennie: I would say that it is clear. There is an understanding of the nature of the engagement and what is expected. I think that it would be our team's view that, although the Treasury's green book is guidance, it feels at times that you have to deliver your project as though the green book is the rules. I do not think that the green book was written with that intention. It was written to provide a framework for and guidance on how you might approach projects, with different elements of that guidance being applied, depending on the project that you faced. Over time, the way in which everything has to be developed has become quite rigid. That is what our team has found. At times, it feels as though we are putting in intensive resources for a limited return from the point of view of the value of that reassurance or scrutiny.

Daniel Johnson: I ask David McDowall and Rick O'Farrell whether there is anything that they want to add. I will not repeat the whole question.

David McDowall (Ayrshire Growth Deal): I think that the Ayrshire growth deal was the first deal to come forward after the city deals. We really appreciate the fact that we have had more than £103 million from both Governments. The three councils have had to invest £45 million, which is a huge investment.

To add to what my colleague has said, there are a number of areas of risk associated with that £45 million. We do not see any of that money coming back until such time as we have completed a final business case. As you have just heard, that is a rigorous and intense process. We fully appreciate that it is necessary to follow the money and to make sure that we get best value, but the level of intensity can vary with different Scottish or UK Government personnel.

We have recently gone through the process of developing an outline business case for one of our projects—the advanced manufacturing investment corridor in Kilmarnock. It is necessary for an economic analysis to be done for that project.

We do not have that capability, so we share that resource with Glasgow City Council through its regional intelligence hub. We have employed an economist to review that for us. That position was put forward to both Governments, and we got quite a long checklist of things back of iterations that we needed to change.

The summary position from Glasgow was that there is a higher standard now than people asked for, which can come from different people at different times. There may be a number of long-standing Government personnel in growth deals, but there are also new people, and they may have a different reflection on the work that they are looking at. It feels almost as if they have to ask particular questions.

Rick O'Farrell (Borderlands Inclusive Growth Deal): Our experience in Borderlands is slightly different from Malcolm Bennie's, in that we are comfortable with how the green book works and with the appraisals that are carried out. That is particularly important for the smaller projects from marginal applicants, if you like. Our frustration is with the time taken up by the double handling and the fact that we seem, to an extent, not to be trusted as a programme.

We have two accountable officers—a section 151 officer in England under the Local Government Act 1972 and a section 95 officer in Scotland under the Local Government (Scotland) Act 1973. We do our detailed appraisals in the PMO, and then somebody in London second guesses them, which just seems to be another level of bureaucracy. If we are told, “You are an accountable body, and we have agreed the strategic objectives of this programme review”, if the two Governments have agreed how much each Government will put in and if we have agreed the major capital projects up front in the deal, we would expect to have more freedoms and flexibilities, along the lines that Malcolm Bennie said the early deals had. Instead, we end up in this cycle of reiterating through the green book rather than being trusted as accountable bodies.

Having said all that, as part of our deal we are now negotiating and pushing at a very open door, particularly on the English side, on freedoms and flexibilities to make the bureaucracy less burdensome.

Daniel Johnson: That is a useful set of insights. I get a sense of slight frustration, which is very helpful.

I want to ask a brief additional question, although it might lead to an expansive answer. Although all the growth deals can identify many good projects, one concern is about how those projects align, both within growth deals and, more particularly, between growth deals. Is there a danger that although we have policies that might work for a particular area, they might not all join up? Is the whole greater than the sum of the parts? Are there wider strategies at play? Do your deals play nicely with neighbouring deals, or should that be looked at as we move forward?

David McDowall: If we were doing an outline business case for a particular sector delivery model—for example, for a food and drink centre of excellence—we would have to make sure that it was not provided elsewhere locally in the west of Scotland. We would carry out analysis as part of the outline business case and from a wider national perspective. For instance, if we put forward a strategic position that we were looking to do a project that was, in effect, aligned with another project in, say, central Scotland that was considered unsustainable in our area, we would not be able to take it forward. There is that level of scrutiny at the outset.

Daniel Johnson: That is from the external perspective, but do you think that that works? That is about things stopping you doing things. Do you have projects in mind that are mutually reinforcing?

David McDowall: Yes. It is important that, when we look at projects, we make sure that they are unique, can be delivered for the local place and are sustainable. It is important to have that scrutiny and to work across the regions to understand that what we propose is unique to the area and is not replication, and that we are not in competition with some of our neighbours.

10:15

Rick O’Farrell: In the case of the Borderlands deal and, I imagine, the other programmes to an extent, the main drivers of the partnership were the local authorities. I have five local authorities involved—two on your side of the border and three on the English side. The local authority economic regeneration teams—or the growth teams, or whatever badge they have—are the lead partners who drive forward the projects.

In Northumberland, we have three town deals, as well as the Borderlands growth deal. The same people are involved in those, so we get synergy between the projects. I have sat in a room where they have said, “This project is more appropriate to Borderlands, because it meets the overall Borderlands objectives, but for this other one we’ll use a different funding source.” We do that across the five authorities, including Scottish Borders Council and Dumfries and Galloway Council. We talk to one another about, for example, the mountain bike project or the south of Scotland skills programme and consider which projects should be brought forward to avoid duplication.

Where we are perhaps not quite as clever is when it comes to talking between the big deals. Within our geographic patch, I am more than happy that we are doing all the things that I think that you would wish to see. With our neighbours, we are perhaps not quite as good. We might all talk about that after this meeting, through the programme management office network that Malcolm Bennie mentioned.

Daniel Johnson: Unless Anne Murray or Malcolm Benny wants to raise anything, I will leave it there.

The Convener: Thank you, Daniel. I will bring in Gordon MacDonald.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning. In previous weeks, we have talked about inflationary pressures, particularly for the older deals. In recent years, we have had over 20 per cent inflation on materials, and the construction industry forecasts a figure of 15 per cent in the coming five years. I am keen to learn two things. What impact has inflation had on the projects that you had planned? Have you learned any lessons from how the deals have coped with inflationary pressures?

I will go to David McDowall first, since his is the oldest growth deal of the four.

David McDowall: Inflationary pressures have obviously had an impact on our projects. Particularly in the wider region, some of the maritime projects have been impacted by inflation, and they are further hampered by the fact that they involve working on water.

I am leading on the community renewable energy project, which is based in Cumnock. We plan to build a centre of excellence there for a skills academy, and we had the University of Strathclyde involved as a partner. During the pandemic, the university decided to review its position, as universities have done, which brought us to look at the position and at that building. At that time, we just about had planning consent and we were looking to come to the final heads of terms, but we had to review the project, because construction inflation at the time meant that we could not afford to build that building.

With some of our economic infrastructure projects, we have a fixed budget, which is supported by external funding where possible. In one case, we are looking at working with Vodafone on 5G connectivity for a site. Vodafone will invest in the site alongside the council through the growth deal. However, once we get to procure and construct the buildings, we might be building less square footage than was planned under the deal when it was originally conceived and when it was signed in 2020.

We constantly look at the pressures in the market to understand whether it is the right time to do something. We could probably build more just now than we could two years ago, but we constantly keep an eye on the market and make sure that we get the best value from our procurement. We also get added value from external businesses investing in the area and in the construction process.

Gordon MacDonald: Before I open up the question to other witnesses, will you say whether any other lessons in relation to reprofiling, value engineering or extending timescales were learned from the previous city deals?

David McDowall: We have had to extend timescales and review and re-address matters because, as you have heard, there is a big period between delivering an outline business case and delivering a final business case, and the markets are constantly moving. We have had to flex as best we can. We have had to re-engineer the re-engineering, as it were, so we are constantly looking at how to deliver it and, as I say, looking at best procurement practice to deliver on certain projects, whether that is a traditional tender using hubs or having a build specification where the risk is taken by the contractor through design and build. It is about looking at all options to make sure that we maximise the pound and link with other partners to get more value into the development from external partners, whether in food and drink, engineering or aviation.

Gordon MacDonald: Rick, the Borderlands growth deal was signed in March 2021.

Rick O'Farrell: Yes, and inflation has had a huge impact on the programme. On the direct question about whether we have learned from other town deals or city deals, it is a yes and no answer. The people in the five partner organisations who are dealing with the programme are all experienced economic regeneration professionals. They have a long background in bringing forward major capital projects, so their experience might come from a previous town deal, or a particular piece of experience might come from a major capital project that they did 10 years ago.

We do all the things that David McDowall has talked about. We have several capital projects that are facing a major overspend to the point that it would stop the programme—those projects could not proceed. They would total probably about £150 million of the £350 million resource. We put in place a programme to do the value engineering and to look at the options and at procurement again, to try to trim costs before we consider requests for additional costs.

We now have proposals in front of the two Governments, which we gave them two weeks ago following a board meeting, to reset the programme—basically to move money around within the programme. Identifying things that we believe no longer need to happen because Government has funded them through other means—such as the digital programme here in Scotland—has freed up some resource, which we can move into the capital projects for which it has been demonstrated that will need more money. For instance, one project for a new university needs an extra £8 million. We have gone through all the processes that David outlined, we have evidenced it and we have asked Government if we can move the resources around. We can still deliver the same programme with the same outputs, but certain things will be delivered in a different way and from other resources.

Anne Murray: Our deal quantum, which was announced back in July 2020, was £100 million across the three island groups. The value of that has obviously decreased considerably over the period.

Another challenge is the islands uplift that we experience. It is also more challenging to do things with potential suppliers because the base is not so great. Quite worryingly, even with the cost estimates being brought up to date in the island context by experienced quantity surveyors, when projects go out to tender, they are still coming back considerably over those cost estimates, which has proved to be really challenging.

We have been seeking to feed some of that learning back into other projects. Some of the learning from a particular tourism capital project that went out to tender earlier in the year has been shared with other projects, including learning about why there was such a difference in the prices that came back, a lot of which was to do with material costs and so on. We are looking at some of the specific island material factors that are making that difference, and we are encouraging projects to think about where they need to look in relation to the spec of the design, so that they can make the project a bit more deliverable in the end.

Gordon MacDonald: Do you foresee a situation in which you may not be able to carry on with some of your projects, purely because of inflationary costs?

Anne Murray: It is getting to the stage at which we need to look at value for money by comparing the cost of a project with the benefits. That is certainly going to be a consideration.

Like Borderlands, we are embarking on a review process to have a good look at everything and see what can still be achieved with what we have, and we will work closely with the Government on where we might need to make changes to have a better programme.

Rick O’Farrell: I will make one small point. Mr MacDonald, your question focused on inflation. It is important to remember that in long-term programmes—10-year programmes, in my case—projects were thought about perhaps eight years ago, at which point somebody put a finger in the air and said, for example, that it would cost £17 million to build a mountain bike centre. That was based on best practice and some estimates. However, when we get to RIBA stage 4—detailed design—it is inevitably going to cost a lot more. All of the programmes are starting to face that issue. Not only do we need to consider inflation, but we need realistic costings as we get closer to the delivery point. I do not think that we should lose sight of that.

Gordon MacDonald: Malcolm, do you have anything to add on that?

Malcolm Bennie: The answer to your question about whether we have been infected by inflation is undoubtedly yes. I was about to pick up on the exact point that Rick made. The strategic outline case for Falkirk was agreed in 2020, so there have been five years between that point and the deal being signed.

I do not believe that in 2020, when those figures were apportioned, people would have said that they would give quite a lot more money than what it would cost to build at that time. Not only that, but in that 10-year programme, there are projects that will not even begin for another seven years. I am looking at projects that someone will have made an estimate on 12 years previously. The further out we go, the harder it is to think accurately.

On what we have learned from other deals, we have learned that there is a change process for individual projects to go through, and we have observed how those have been navigated. However, it does not really change the dynamics of the problem that we face.

Gordon MacDonald: My other question is about skills, and I will put it to Anne Murray first. We have 208,000 jobs in the construction sector, and the pipeline of work that is coming through the growth deals is a tiny proportion of £13 billion every year. We are at 3.3 per cent unemployment at the moment. How are you finding being able to attract the construction companies with the right skills base in order to build the projects that you want to build?

Anne Murray: One of the key challenges that we are going to face relates to the pipeline of renewable energy developments that are going to be coming through in the islands at the same time that we anticipate that a lot of our growth deal projects will be hitting the ground and going out to tenders. There is the link that SSEN is building across to the Isle of Lewis and all the wind farms that will be coming off the back of that. The growth deal is competing against other things that are going to be happening on the islands, which is a challenge. There is an on-going housing programme that needs to continue and be accelerated, which is another challenge.

On what has gone out to tender so far, we have managed to get local contractors in to deliver the work, so we have had success so far, but we anticipate that it will become more challenging.

David McDowall: We constantly have one-to-ones with local businesses, and the construction sector is no different. Obviously, there is a skills gap, but we have links through Ayrshire College and we have a skills working group that leads on that. At the time that we undertook the deal, we did not have a regional economic strategy. We do now, and we are into our second year. Skills is one of the key aspects of that.

On leading on skills, the college links in with a range of partners, including the councils, economic development services, education, Ayrshire Chamber of Commerce, SDS and the third sector—the list goes on.

10:30

From that work, we are establishing where the skills gaps are and thinking about how we grow our own. There is a huge play here because, with the employment rate and the demography in Ayrshire and the west of Scotland as they are, a lot of people tend to leave the area, so we want to address the skills gaps by providing apprenticeships and using a range of funds—including the Ayrshire skills investment fund and the shared prosperity fund—that link to the no one left behind policy. We want to pull all that together under one aim, which is to work with businesses and local people to ensure that we can get people into work.

As part of the growth deal, we are also linking with schools. On each of our themes, we are working with secondary schools to upskill pupils in areas such as digital, food and drink, and engineering.

In a wider context, we suffer from a skills gap in engineering because, despite having the benefit of Prestwick airport, the multinational businesses that are based there let a lot of people go through early retirement or downsizing during the pandemic. They now have to resize because of the boom in the aviation industry, and there is a serious concern that engineering jobs in aviation will move away from local engineering companies throughout Ayrshire and in the rest of the west of Scotland. We have to strike a balance, which is why Ayrshire College is working at the spearhead to get apprenticeships with businesses in construction, renewables and engineering, so that we can deliver.

Rick O’Farrell: One of our key projects is the south of Scotland skills capital programme, and we have just done a call for bids, to which we have had a very good response. We are trying to align the projects that will be supported with the rest of the programme. There is a large energy element to the programme, because we think that there might be skills shortages in that sector down the line, so we are trying to address that through the programme.

Malcolm Bennie: If the question is whether we are encountering problems in getting projects moving because of a lack of engagement, I can say that that is not something that we are facing.

Gordon MacDonald: Okay. Thank you.

Kevin Stewart (Aberdeen Central) (SNP): If you will excuse the expression, you are a mixed bag. Your deals are quite new, but the Falkirk one covers one local authority, the Ayrshire one covers three local authorities and a wee bit of islands, and there are the three archipelagos: Orkney, Shetland and the Western Isles. Mr O’Farrell, you probably have the worst bag of all in relation to the cross-border aspect that you have to deal with.

Witnesses at previous meetings have said that there is a fair bit of democratic deficit. Nobody could say that what you are doing involves a people-power scenario. I am interested in how governance and scrutiny take place in your areas. Let us start with the easy one and go to Mr Bennie on the Falkirk deal.

Malcolm Bennie: Governance is done through the council. The projects that were put forward for consideration were approved by the council at the outline business case stage. Throughout the process between that stage and the deal being signed off, there have continued to be reports and updates on how the projects have been developing.

If public opinion was such that elected members were of the view that one or more of the projects were no longer suitable or valid, that case could have been prosecuted through council meetings, with changes being made. I think that there was a shared understanding that we were well beyond that point and that those were the projects that had been agreed. That is my view with regard to community engagement and governance. We have a growth deal board with a cross-section of different partners on it, including independent members, and as we have said, there is significant scrutiny from the UK and Scottish Governments.

Kevin Stewart: Grand. Mr McDowall?

David McDowall: We now have a regional framework that is delivering a regional economic partnership, with a range of stakeholders scrutinising the projects as they come through, whether they are revenue or capital.

Kevin Stewart: What is the flavour of the stakeholders?

David McDowall: We have the Federation of Small Businesses, the local chamber of commerce, Scottish Enterprise, the Governments, the three councils and SDS. It is a long list, but it is quite a wide range.

If we go back to first principles, this is about linking with the community. When the growth deal projects were taken forward, there was discussion through the community planning process. That was then linked with businesses, and there was an evolution from there to the business cases. In my experience, it is quite clear that, because revenue projects are in the faces of communities and businesses, they see the benefit of them. Indeed, that is the general feedback that we have been getting, particularly from our community wealth building, the Ayrshire skills investment fund for businesses and the working for a healthy economy project.

As for capital projects, communities hear about the funding through the Ayrshire growth deal, but they do not see the bricks and mortar, and that is a challenge for us. As a result, we are working on getting more involvement at each stage of the process and ensuring that communities are aware of what is happening with the projects and the added benefits that they will deliver.

Kevin Stewart: Okay. We might well come back to some of that. Ms Murray, please.

Anne Murray: As far as governance is concerned, our multi-authority deal is similar to many other deals. We have a joint committee, which has member representation from the three partner councils. Underneath that, we have a programme board, which is made up of the chief executives and senior responsible officers. We also have an advisory forum, which is similar to the structure that David McDowall talked about, and it has representation from the FSB and VisitScotland as well as third sector representation from across the islands.

We have a communications plan, but I would agree that our communication with communities has been somewhat limited now that the deal is up and running. I suppose that we are cautious. We are communicating on projects when they are ready to go. It means that there is communication on specific projects, but we are aware that the deal might need to change, too. In that respect, there is a balance to be struck with regard to the dialogue that we have with communities. I hope that that answers your question.

Kevin Stewart: Mr O’Farrell, please.

Rick O’Farrell: There are different tiers of governance, are there not? Malcolm Bennie reflected on the governance that is applied to the programme by central Governments, and there is that element. Like the other deals, we have a programme board, which is made up of the five local authority leaders, and it makes the majority of the key decisions on the programme. It meets regularly, we take reports to it, and it makes the decisions. We also have an investment forum, which has powers delegated from the five leaders on the board to look at certain smaller projects.

The five leaders, in turn, are responsible to their councils. For instance, last week, the leader of Northumberland County Council, Councillor Sanderson, had to go before its economy scrutiny committee—at least, his officers did, although I think that he did, too—to report on the progress and the decisions made by the Borderlands growth deal board as a whole.

A large part of the programme—£50 million—is devoted to what we call the place programme, which is made up of small projects in 30 of the smaller towns. Those things are governed slightly differently, because we are looking for local partnerships to be established in those towns. Stranraer is a great example, as it is probably our strongest local partnership in the Borderlands—I say that with apologies to any others that might be watching.

The partnerships develop the projects themselves, and there is definitely a bottom-up approach. The local community, where the partnership can energise it to become involved—that is different across communities—determines which projects will be brought forward, so those are genuinely what the people in those areas want. At the end of the day, the projects are approved by the board, but that is where they start from. It is not a top-down approach in which officers such as us decide on the best project for an area.

Kevin Stewart: So there is a bit of people power there, with some money going to small community groups for them to decide.

Rick O’Farrell: It is a lot of money—it is £3 million per area. The issue that we have is that a lot of the community groups do not have the capacity to develop Treasury green book appraisals—to go back to Malcolm Bennie’s earlier point—so we are having to provide resource to help those groups to bring the capacity in, with economic professionals to help them to work up a business plan for their ideas that will meet the Governments’ requirements for putting in funding. However, it is £3 million per community, which is a lot of money.

Kevin Stewart: Some would say that that is a sweetener in comparison with the total amount of cash that is going into the deal.

Rick O’Farrell: I could not possibly comment.

Kevin Stewart: Mr McDowall, you said earlier that folk hadnae really been involved in some of the major capital projects. Do you think that those projects were the people’s priorities?

David McDowall: My understanding of the communities and their discussions is that they want to see where the jobs are. There has been a period of delay from the concept to the delivery, which is linked to the delays in going from strategic to outline to final business case. We are trying to reduce such delays through taking staged and phased approaches.

The capital projects are major developments and, as we go through the planning process, there is significant local consultation with communities on the projects. It is key that, at that stage, we work with local business and the local community to ensure that the supply chain is supported in how we take delivery forward.

Kevin Stewart: Ms Murray, I think that you said—I am paraphrasing; I am sorry if I did not pick you up correctly—that a lot of folk were probably involved at the beginning, but not so much now. Would that be fair to say?

Anne Murray: I was just going to come in to highlight that a number of our projects are led by community organisations, which probably reflects the levels of social enterprise and voluntary and community involvement that we have in the islands. For example, the Callanish stones redevelopment, which is now on site as a £10 million project, is community led, and we have a number of other community-led projects throughout the deal. I would hope that those projects, by their very nature and given the composition of their boards, reflect the desires of the local communities.

Kevin Stewart: Sorry—I was smiling as you mentioned the Callanish stones redevelopment. I hope that there isnae too much change there.

Anne Murray: Not at all. To be clear, it is a redevelopment of the centre.

Kevin Stewart: I am joking. How do you think that you could do better in communicating with the general public about the benefits of these deals?

Who will answer that first? Ms Murray, your mic is on, so let us go to you.

Anne Murray: It is when people see things happening on the ground that they will see the benefits of the deals, so—

Kevin Stewart: That might take a very long time, in some cases.

Anne Murray: We have just had a proportion of the skills programme, which is university led, approved, so we hope that it will be getting things happening and delivered on the islands very soon. Once people see those tangible things happening, they will start to see the benefits.

Kevin Stewart: Are there any quick-fire answers from other folk?

Rick O'Farrell: You are absolutely right—we need to do better on that. I had a gruelling time at our Borderlands growth deal board last week, where I was told that we need to communicate the benefits better, even though things are at a very early stage. We need to do better on the strategy for that.

10:45

David McDowall: We have taken a number of the projects into schools. Once we are in there working with secondary schools, young people can see that there is merit in careers in sectors such as food and drink and engineering. That means that the kids are on board. We have done likewise with the renewables sector—we have 30 wind farms in the area, so we bring those renewables companies into schools to give kids the benefit of their expertise.

Once we have linked that knowledge and expertise with the schools, it is a case of upskilling the knowledge and expertise in the communities. There is a community campaign to provide help and support for that.

Malcolm Bennie: I return to the starting point of your question, Mr Stewart, which was whether these projects are the things that people care most about. That is a difficult question. If we were to go up to residents in Falkirk and ask what they most want to see, they would talk about roads, investment in schools and things like that. The nature of a growth deal project, however, is that it is about added GVA for the area—

Kevin Stewart: That is the kind of thing that naffs people off, and it is not people's priority. The phrase "added GVA" means nothing to the average Joe and Josephine in the street. Surely it is about jobs and the future of the economy.

Malcolm Bennie: I agree with that, but—

Kevin Stewart: So why is it not sold as that? I know that you are in front of a parliamentary committee, but why do you talk about gross value added and not about jobs and prosperity in the future? Those are the people's priorities.

Malcolm Bennie: I am happy to agree with that, but I also think—to go back to a point that one of my colleagues addressed—that people like to see things. Until something is in front of them and they can see it built, they do not tend to feel a lot of engagement with it. Projects need to get spades in the ground, and once that happens, the public will engage with the project that is coming.

Kevin Stewart: I think that one of the problems is that we do not talk in the people's language. That does not necessarily mean the spades-in-the-ground aspect; it is about how we are going to get to that point, and about building those jobs.

Mr McDowell, you can come back in quickly.

David McDowall: I just note that the Ayrshire skills investment fund is a good example of how we have supported business in getting more people upskilled and into work. The key issue is jobs and ensuring that people see that they have an opportunity to increase their expertise and go from a smaller job to a well-paying job.

Kevin Stewart: I have one more question. Ms Murray, you do not need to answer this, because you have already done so. I would like quick yes or no answers from the others. You said that the third sector is involved at various levels in your growth deals. Is the third sector involved in stakeholder groups and scrutiny? Mr O'Farrell can go first.

Rick O'Farrell: Only in the place programme, at the moment.

David McDowall: Yes, but attendance is not great.

Malcolm Bennie: Yes.

Kevin Stewart: Okay—thank you.

The Convener: Michelle Thomson has a supplementary question on governance.

Michelle Thomson: It follows on from a point that my colleague Kevin Stewart made in noting a term that was used. I think that it was a bag full of—

Kevin Stewart: A mixed bag.

Michelle Thomson: That was it—thank you.

My question is for Malcolm Bennie. With regard to the governance of the Falkirk and Grangemouth growth deal, while it is ostensibly more simple because only Falkirk Council is involved, it is also more complex, given that Ineos is at the heart of the area's future, and Ineos's vested interests will therefore come to the fore. From a governance perspective, how are you consciously addressing that?

Malcolm Bennie: Ineos has a representative on the growth deal board, but I have not experienced any conflicts. My view is that all those who are on the board, including the representative from Ineos, are working together to think about what the best future is for the Falkirk and Grangemouth area. The projects that we have in front of us all help to deliver that. I have not found a conflict or a sense that we are being moved to places that we would necessarily feel were something that Ineos wanted, rather than something that the Falkirk growth deal wanted to do.

Michelle Thomson: However, PetroChina, with Ineos being at the heart of that, wants to move away now. The Scottish Government has called for a pause in the company's plans to move to an import-only facility. The company is at the very heart of the growth, and its wish is to close the refinery. That is clearly quite a conflict of interests. In other words, the company is at the very heart of devising the programme that is in its own interests, and I was asking you how you are consciously dealing with that. It sounds to me as if you have not reflected on the idea that there could be, at least, the potential for a conflict of interests, even if one is not currently occurring.

Malcolm Bennie: I do not necessarily agree with that view. Ineos is not directly linked to the delivery of the projects in the Falkirk and Grangemouth growth deal—

Michelle Thomson: If Ineos is on the board, it is clearly influencing it at that level. I would not necessarily expect it to be involved in delivery, but it is a key influencer by merit of its being on the board.

Malcolm Bennie: I would say that the input of Ineos on the board has been a positive. We have several innovation projects that involve cutting-edge technology, which is not necessarily a space in which local authorities would currently operate. Having a highly experienced, successful business leader on the board to advise and give some sort of guidance and scrutiny on those projects has, in my view, been helpful.

I understand the point that you are making, but I have not experienced that risk, or a sense that there is a conflict of interests in respect of the delivery of the projects that we are taking forward through the growth deal.

Murdo Fraser (Mid Scotland and Fife) (Con): I go back to the question of funding, which was touched on earlier in Daniel Johnson's questions. I have two specific questions. To save time, I will ask both of them at the same time.

First, to what extent have you sought to draw in any private sector funding for your deals, and how successful has that been?

Secondly, how have you sought to interact with other sources of public sector funding, such as levelling up funds, shared prosperity funds, the Scottish National Investment Bank or research and innovation funding? Going beyond the narrow scope of the funding in the deals, have you been able to look at other public sector sources?

Mr O'Farrell, you are looking at me, so I will start with you.

Rick O'Farrell: Yes. On the first question, some of our projects are actually led by the private sector. When we were developing the programme, the board and the various partners looked at what we felt was needed in terms of strategic priorities, and the private sector was around the table then. We have an economic forum, but it is currently in abeyance.

The private sector has brought forward its own money to develop projects. For example, a major tourism project in the Alnwick Garden was supported by the Duchess of Northumberland, with her own money. There is a new whisky distillery in Northumberland—that may be heresy to people in Scotland—that is funded largely by the private sector. In addition, there are private sector contributions to some of the major capital projects that will be happening on the Scottish side of the border. In general, the private sector has not, I admit, been shy in coming forward if it sees an opportunity.

On the second question, which was about involving other public sector funds, I refer you to my earlier answer, in which I talked about the fact that the drivers—certainly in the Borderlands programme—are the economic regeneration teams in the local authorities that handle those other funds, such as shared prosperity funding, town deal funding, levelling up funds and so on. When they look at their economic strategies, they say, "Which is the best way to deliver this project? Is it by using Borderlands money, shared prosperity funding or whatever?" That is how we handle it in the Borderlands deal.

Murdo Fraser: Given that you are in the unique position of straddling the border between Scotland and England, is there any difference in the approach to funding in England in comparison with Scotland?

Rick O'Farrell: Are you asking whether there is any difference in the private sector element of the funding?

Murdo Fraser: No—I am thinking about access to the public sector funds. In Scotland, we have things such as the Scottish National Investment Bank, which operates only in Scotland. Is there any difference in the way in which you can access funding on each side of the border?

Rick O'Farrell: I personally have not seen any difference, but that does not mean that no differences have been experienced by the officers on the ground who are responsible for the individual projects.

Anne Murray: With regard to private sector investment, we are at a bit of an early stage to be able to quantify anything, but we have a number of projects for which we anticipate that private sector funding will come in. With the Spaceport 1 project, which is now on site, the public sector is funding the enabling infrastructure, and it is anticipated that a private sector operator will then come in. The public sector is creating the conditions for that private sector investment.

With regard to other funding sources, we are used to pulling together diverse funding packages. We have benefited a lot from shared prosperity funding from the point of view of being able to move projects along through the stages of the Royal Institute of British Architects plan of work. In particular, a lot of our projects are led by third parties, so their challenge is to be able to get projects to the full business case stage. We have been able to support them with our shared prosperity funding to take them through the RIBA stages. That has been really helpful.

In addition, regeneration capital grant funding has been an important source of funding for the islands over the years, and that has come in on a number of projects—well, it has come in on one project. Our expectation was that it would come in on more, but that position has changed.

We have engaged with the Scottish National Investment Bank and have sought to make connections between SNIB and individual projects in an effort to increase understanding of the different funding mechanisms that might be available to them.

David McDowall: With regard to private involvement, we have had one project that has been led by the private sector, which has now been completed—that is the HALO project in Kilmarnock. We had one other project, the Prestwick spaceport, which became unviable. The market has obviously had an impact on both projects, one of which we have lost.

My experience is that the projects are catalysts to get external funding and to work with the private sector and with academia. We have found that we have obtained a significant number of additional opportunities by working with the universities and the business sector to get access to other funds to which we, as a council, would not normally have access. That has been really good.

I can give a good example. As part of the growth deal, we have a £14 million fund. Part of that fund—£11 million—was for a subsea cable, but we had to redirect that, as we were not able to get a viable case to take the project forward. Through a change management process, we have pulled together the £14 million to look at investing that money in growth deal sites for digital infrastructure. Part of that involves working, through the procurement framework, with Vodafone. We have external partners, so for every penny that we put into the project, they will not only match that but will put in additional opportunities and funding to support the wider area. There is obviously a benefit from that.

External funding, through the digital economy fund, has been a catalyst on the digital side. We created the regional economic strategy, which includes the theme of digital connectivity. We took that forward and put in a bid to the UK Government for funding through the digital economy fund, and we were successful, along with Glasgow—I think that we were the only two areas in Scotland that benefited from that funding.

That has been a real catalyst for developing a programme with Vodafone and the Scotland 5G Centre as external partners. We are working with local businesses, including small and medium-sized enterprises, and we are developing programmes to help to support tourism activity. We are also working with aerospace and with the digital process manufacturing centre in Irvine. There is a huge amount of added benefit for which the growth deal acts as a catalyst by allowing us to go for external funding.

We will go forward in that way. By utilising the knowledge and experience of our partners, we will move forward as a whole—as team Ayrshire—to develop opportunities to get other funding into the area.

11:00

Murdo Fraser: You mentioned in passing the Prestwick spaceport, which was dropped, and we understand the reasons for that. What will happen to the funding that was allocated for that? Will it simply drop away? Are you seeking to redeploy it elsewhere? Can you explain that?

David McDowall: The UK Government and the Scottish Government have confirmed that that money, which was locked in by the previous UK Government, is there. There is a change management process for the funds that were allocated that we will look to invest in the aerospace sector at Prestwick airport. Work is on-going on that, and once our colleagues in South Ayrshire have developed the business case and it has been signed off by both Governments, we will take that forward.

One of the detrimental aspects of the process is when the public hear that a project is not going ahead. A whole process goes on behind the scenes, but the public ask, “Where is that money going? Have we lost it? Is it not coming to Ayrshire?” It has been confirmed that another project can evolve out of that.

Malcolm Bennie: Forth Ports is leading our transport, renewables and career exploration hub. We are also developing a Grangemouth sustainable manufacturing campus, and we will seek to partner with a higher education institution and, we hope, an industry to make that a sustainable and successful operation. In the main, it is working with public sector partners, which might seek additional funding from the Government, from different streams, to support their projects.

I am keen to talk about the flat spend profile that comes with growth deals. If we could touch on that at some point, that would be helpful.

Murdo Fraser: You can touch on it now, if you want.

Malcolm Bennie: One of the things that we find challenging about the growth deal is that the money that we receive is flat. In our case, we will receive about £8 million a year. There is a problem with that if you have several projects that are ready to go, but you have only that amount of money. The project that is being led by Forth Ports that I mentioned is ready to go. Forth Ports is keen and it wants to make progress, but we cannot fit that project into the spend profile in the early years. In effect, therefore, Forth Ports is faced with a choice between front loading the spend and hoping that it will get the money back once the full business case has been submitted, and sitting and waiting, which is not good and not what we want for growth in jobs and everything else in Grangemouth.

That is a challenge and, as the whole growth deals process develops, I hope that there can be a greater level of flexibility. I appreciate that we are all facing challenges and that the UK and Scottish Governments have their own capital pressures, but that is definitely a challenge that we face.

Murdo Fraser: That is interesting. Thank you.

The Convener: Mr O’Farrell, did you want to come back in?

Rick O’Farrell: I would like to reflect on Malcolm Bennie’s final point about a flat spend profile. That is definitely not the case with the Borderlands deal. Our profile is what we put to the Government at the outset. We said, “This is what we think we are going to spend over 10 years.” We are having problems with that because, inevitably, we have not spent up to that profile. The Scottish Government is particularly annoyed with us for that, so it has asked us to reprofile, but it is not trying to apply a flat profile.

Our experience in the Borderlands is totally different from Malcolm’s. Both Governments have been flexible about the profile, but they want us to meet the profile that we give them.

The Convener: I am sure that that is an issue in itself. I will bring in the deputy convener.

Michelle Thomson: I have a few questions arising from what we have discussed so far, and I suppose that they follow on from the point about the differential structure in the programmes and the references to a flat profile.

I want to come back to Malcolm Bennie with a question, although it might well be a general question for the rest of the panel, too. How are you able to reflect “Events, dear boy”, if you like? I have already mentioned what happened with the refinery at Grangemouth, which resulted in the Falkirk growth deal receiving extra spend—£10 million from the Scottish Government and £10 million from the UK Government—and being rebranded as the Falkirk and Grangemouth growth deal. To what extent was that a last-minute bolt-on response rather than an active, planned part of the growth deal?

Malcolm Bennie: It is probably not for me to talk about the decisions involved in the UK Government's approach, but what I would say is that the dynamic situation at Grangemouth certainly attracts a profile that it is only right that the UK and Scottish Governments respond to.

Personally—this is similar to my starting point—I do not believe that there is enough flexibility in the growth deals to deal with the events that you are talking about. For example, we had two projects when we started with the growth deal: a carbon dioxide utilisation centre and a bioeconomy accelerator pilot plant. Our view was that the two projects would sit well on a shared campus, because of efficiencies of scale as well as efficiencies arising from the talent being in the same place. However, in order to bring those two projects together as one project on that shared campus, we had to go through a bureaucratic change process. We were changing neither the aspirations of either project nor their spend profile—it was literally a case of putting two projects on one campus. I hope that that gives you a sense that, although that did not feel that difficult to do, the approach was not very fleet of foot.

Therefore, I do not think that we are best placed to deal with those events. As I have said, although we have had discussions about taking an £8 million allocation to £10 million or £11 million in a year, we certainly could not have said, "Can we have £20 million in year 1, £10 million in year 2, and a shallower profile thereafter?" We were told that we had to stay largely within the bounds of a flat profile.

Michelle Thomson: You are highlighting, I suppose, the upside of being able to utilise the shared learning around a PMO—the downside is the change management processes that come with that.

I want to pick up on a point that my colleague Kevin Stewart made when you used the term "added GVA". I am not going to have another go at you; I simply note that, with regard to the announcement by PetroChina, the figures that we have for the impact on jobs is that more than 400 direct jobs will be lost, and the Scottish Government has referred to a wider impact amounting to nearly 3,000 jobs. That surprises me, given that—you can correct me if I am wrong—the £10 million from the Scottish Government for greener Grangemouth was in essence for increasing community wellbeing, instead of specifically seeking to replace jobs. There was reference to the supply chain, and some of the businesses involved were SMEs that provided hamburgers and so on nearby. What are your thoughts on the decision-making processes that led to the focus on community wellbeing rather than jobs, which was the point that Kevin Stewart was making?

Malcolm Bennie: My reflection would be that the greener Grangemouth funding was part of the original package that was announced in 2020, and it is not directly related to events in Grangemouth this year. The two things are not linked. The additional money that emerged this year was the £10 million from the UK Government, which at this time is largely unspecified. That is a matter for the leadership of the UK Government rather than ourselves.

Michelle Thomson: Let me play that back for the record, so that I am clear. The projects that were specifically for Grangemouth were already in train, and the Scottish Government's £10 million is going to them. The remaining £10 million of the £20 million in extra funds arising from the closure of the refinery is in the hands of the UK Government for future energy-related projects, and we do not yet know what those are.

Malcolm Bennie: No, we do not.

Michelle Thomson: I apologise to the rest of the panel. I suspect that that discussion has been a bit Falkirk specific, but I hope that you will forgive me, given my vested interest. Thank you, convener.

The Convener: Don't worry—I am sure that our witnesses are going to get some Borderlands-specific questions from me very soon.

Speaking of specific questions about a local area, I bring in Willie Coffey, who might well have a question or two about Ayrshire.

Willie Coffey: Exactly, convener—thank you very much. The focus is now firmly on Ayrshire. Dave McDowall is my colleague from Ayrshire, but I think that the questions could be answered by any of the colleagues round the table. First, I remind everyone of the broad aims of the Ayrshire growth deal. The funding package includes public funding of £250 million, and it is hoped to lever in £300 million of private sector investment and to create 7,000 jobs. Those were the stated objectives around four years ago. How far down that road would you say that we are?

David McDowall: We produce an annual report, which is publicly available and sets out the ambition. I have it in front of me, so I might refer to it. The key thing is that, in terms of progress, we are probably delayed on the capital project side, as I mentioned, but revenue projects are well advanced and are delivering, and have proved to be successful. Of the £250 million, we have committed £26.4 million, so we are significantly down on overall spend, but that will be ramped up as we go into the last five and a half years of the deal.

As we have heard, the delays are about getting capital projects from inception right through the process. In some cases, the delays are due to things such as land acquisition. When people who have land find out that a growth deal site is going in, they realise that there is a big premium on that land, so we have to go through a lot of negotiation.

To date, we have about £17 million of private sector investment and £16.3 million from the UK and Scottish Governments. On the revenue projects, we have, for instance, supported 4,100 people through the working for a healthy economy project, and we have dealt with and supported nearly 1,200 businesses through the community wealth building programme. That is quite an achievement.

Will we achieve the objectives? As we move through the benefits realisation proposal, we will do an annual analysis to identify the benefits that have actually been realised. I can give you an example from Kilmarnock. Because of the difficulty that we have had with investment through Transport Scotland in the Bellfield interchange, that was originally part of the connectivity projects in the growth deal. We were then advised that the work should be taken through the strategic transport projects review 2—STPR2—regional transport assessment, but that was unsuccessful. We then applied for levelling up funding for a £15 million project for the site to sort out the road safety matters to help to enable the further economic development opportunities in the Kilmarnock area that were in the local development plan. Unfortunately, we were unsuccessful with that. That has been a difficult one, and we will continue to work with Transport Scotland to try to find a solution.

To go back to the point about investment, the project for the site at Bellfield in Kilmarnock was moved over to Moorfield, which has allowed us to enlarge the site. In doing so, we will have additional inward investment, which was not originally envisaged. Businesses will come into the area and will be part of the overall key achievements, which we have not factored in as yet. We will factor that in only when we have premises that are ready to open on the Moorfield site.

11:15

Willie Coffey: Thanks for that. It is a tall order to try to create something like 7,000 jobs, but the target has been stated, so we will all be held to account for it. The benefit that you have described with regard to providing skills and work opportunities for 4,000 people has to be part of that, though, and it would never have happened had it not been for the growth deal investment making it possible. I presume that we will judge that in the round but, overall, it would be part of that.

David McDowall: It is fair to say that we would not otherwise have been able to deliver that level of partnership. I have mentioned team Ayrshire, but collectively, through the PMO, we have been looking at how to work with partners to take projects forward with external companies that would otherwise probably not have visited and worked with us. I have mentioned Vodafone, which we have a good relationship with through Scottish procurement, and which will deliver on the site and provide added benefit. That is the key thing: the process is creating infrastructure that will allow us to develop inward investment.

We talk about sites with economic infrastructure, but I point out that they are sites where, if you put up a building and sell it, you lose money. That is why the private sector does not do it, and it is why we have to do it through the growth deal.

Willie Coffey: How easy has having flexibility and adapting to change been not only for Ayrshire but for the other growth deals? Have you found that quite difficult? Murdo Fraser mentioned the spaceport project, which I presume went through the same rigorous business case processes, but has since been dropped. You have mentioned the subsea cable project, too. How easy or difficult is it for the growth deals to adapt to changing circumstances and perhaps to repurpose not just the funding but some of the concepts and the vision around projects that are no longer viable?

David McDowall: I mentioned the development of Bellfield interchange: I put a stop to that in that location on 31 March last year, then we went through the change management process about a year later. The process is not quick, and we have to jump through a lot of hoops. As you heard earlier, we have to ensure that we can demonstrate that the location is right for delivering the economic benefit. Other deals have, we believe, a much more streamlined approach: with anything like this, there is an opportunity to look at best practice in other deals to see how we can make things much more efficient.

The reality is that we could be spending money now if we were given the green light. Trust was mentioned earlier; we have a level of trust through our section 95 officers for all our other finances, including the shared prosperity fund, the no one left behind funding and a wide range of other types of external funding that comes in through both Governments. It would be helpful if we were given the same level of trust in respect of the growth deal projects.

Willie Coffey: My last question for you is this: how well or otherwise do you think the Ayrshire growth deal interacts with neighbouring growth deals? I am thinking about the Glasgow city region deal and its Clyde metro project, the mass transit issues and so on, as well as the Borderlands growth deal, South of Scotland Enterprise and the regional funding that they get. Have we been able to link in with some of that work in order to deliver a wee bit of additional benefit for Ayrshire?

David McDowall: You have heard about the PMO network, which is up and running and is delivering a lot of real intelligence. Fortunately, we are able to subcontract the economic modelling to the Glasgow city region intelligence hub, and we learn from it.

Another example is the food and drink centre of excellence, where we will have a range of incubator units and businesses being developed, from first-time businesses right through to multinationals. That sort of thing does not presently exist anywhere in the west of Scotland, and we have an opportunity to work with the regions to bring inward investment into the local area.

Willie Coffey: What about the transport infrastructure side of things, and the Clyde metro? Do you see any opportunities for us to improve our offer in Ayrshire to get our citizens who prefer to work in the Glasgow area to get there faster, quicker and smarter—with park and rides and all that stuff? Does that fit in the interface with the Clyde metro?

David McDowall: We consider things such as park and rides through the local development plan process. However, for me, as I mentioned earlier, it is about getting more local jobs and more people to stay in Ayrshire. That is one of the key factors that we have been working to achieve. I mentioned some of the connectivity issues that we have between the M77, the A77 and the A76 at the Bellfield interchange. That is something for which we need not only political support, but officer support from Transport Scotland, and we need the requisite funding to make the economic argument that we can successfully get more people working in the local area.

The Convener: You have all mentioned the fact that the process is pretty lengthy. I recall chairing meetings of what was called the Borderlands initiative in Carlisle City Council chamber when I was a councillor 10 years ago—it was so long ago that Carlisle City Council does not even exist any more. Is the process too slow? Could those projects not simply have been delivered through traditional methods of direct funding to local authorities? Did we need the growth deals, given how lengthy the process is? I suspect that it is not a straightforward question to end with. Does anybody have an opinion on why we need growth deals and why we cannot just use traditional methods of funding?

David, I see that you have your hand up.

David McDowall: I think that the answer is yes, we do need the money. It is in addition to normal funding.

The Convener: Yes, the funding is available, but did we need the growth deal mechanism? What are the advantages of having that mechanism instead of simply saying, “East Ayrshire Council will deliver a project and come back”?

David McDowall: The key thing is that funding would be issued to a council as opposed to a region. There is added benefit in delivering the funding to a region then pulling in resources from all the various partners. The funding’s being for the region is key.

There are ways to streamline that process—I understand that Glasgow City Council has a different process for delivering its growth deal projects, and it is always good to learn from others. As we take forward the regional economic strategy, it is fundamental that it has additional funding that can help to support some of the key sectors in the area, which would allow us to work with them to see the maximum benefit for which we could use that money.

The Convener: You mentioned the regional economic partnership—I will bring in other members to talk to specific points—but what is next for growth deals? Your priority is to deliver projects over the next few years, but what next? Should we have regional partnerships as a new form of regional economic governance? Will the Ayrshire regional economic partnership be the forum in the future, after you have delivered the projects? What do we need to do next when it comes to the economic delivery that we have learned about from the growth deals?

David McDowall: We would use the infrastructure that exists now through the regional economic partnership. The strategy that underpins it is a key document that drives the various funds that we get and how they are maximised. In the simplest terms, I say that the Ayrshire growth deal is a pot of money that comes to the region, and we deliver projects in it. It is no different to the UK shared prosperity fund or some other funds that we have.

The Convener: [*Inaudible*.] Do you think that, after the growth deals have been and gone, regional economic forums should be directly funded to deliver regional projects?

David McDowall: Personally, I think that that is the way that it will go.

The Convener: That is interesting. However, in the Borderlands, you will not be able to have the regional economic forums that we have in Scotland, because the regional economic forum in Dumfries and Galloway and the Borders is in the unique position—I would not say "bad bag", I would say "very good bag"—of having local authorities right across the border. Where do you see the Borderlands going, given that it is that unique partnership that cuts across the border?

Mr O' Farrell, you had your hand up.

Rick O'Farrell: I come back to the original question first, about whether we could have done the work with individual project support only—with five different local authorities applying for five different grants for their own pet projects, so to speak.

If we had taken that approach, we would have lost the synergy that coming together as the Borderlands partnership has produced. Certain projects need to be of a certain scale, and that can be done only by working across partners in the Borderlands partnership.

We have faced similar challenges of, for example, rurality—that is a major Scottish issue anyway—and low working-age populations. Some of the solutions that we have come up with, such as the Hadrian's wall project, span and benefit three authority areas. It is horses for courses. A lot of the projects could have been done on an individual basis. Some needed the growth deal to be brought forward and funded, given the economic climate.

On governance, you are right that we do not have regional economic forums. There is the mayoral North East Combined Authority, for Northumberland and Tyne and Wear, which has a large pot of money. That seems to be the way forward on the English side of the border. On the Cumbrian side of the Pennines, I understand that they are looking at the potential for a mayoral combined authority. I do not know whether that will happen but, if not, they will continue with their existing local enterprise partnership arrangements.

The growth deal will always be a pot that any partnership can bid into or develop a deal to bid against. The Greater Manchester Combined Authority is on something like its fourth deal with the Government, because it has demonstrated the benefit of the deals. In the case of all our deals, it is far too early to say that we want a second deal, because we do not have the track record of contributing to either Government's objectives at the moment.

The Convener: You will be pleased to know that last week's witnesses said that they want a second growth deal, but they are a bit further ahead in the process. Where do you see the future of Borderlands, and do you see it as a mechanism that will continue beyond the growth deal once you have delivered the projects? The partnership brings five local authorities and one million people together, so it has quite a bit of clout. Do you see a future for the Borderlands partnership that goes beyond simply delivering the projects that are in the growth deal?

Rick O'Farrell: I would like to think so. It is a difficult geography and I do not mean only on the map, because it includes two countries and the different governance structures of the five authorities. However, we face common problems, so if there is not a second deal, I hope that the partnership would continue in order to address and develop solutions to some of those problems, because we do not want to be in competition with one another. We want to work with partners across what is, in many ways, an artificial border, although it is also a very real border. I cannot see why the authorities cannot act in partnership on certain issues, so I see the partnership continuing, but that is for the politicians to decide: it is not for me.

The Convener: I have my view on that, but I am not allowed to share that, just now.

Anne Murray, could you have delivered the projects without a growth deal? Did we need a growth deal, and where do you see the partnership that you have created in the Highlands and Islands going in the future?

Anne Murray: The growth deals have definitely had benefits. Yes—as three island authorities, we could have received funding for specific projects, but there has been value added by the three councils working collaboratively through the growth deal. That work had begun previously as part of the "Our islands, our future" campaign. However, we now see many areas where the islands work well together. As has been mentioned, we are taking forward work on common issues and concerns. We are working well together on areas such as the visitor levy and energy costs that are outwith the deal, but which represent the wider partnership.

For projects in the deal, it has been good to be part of the longer-term programme and there have been advantages to being part of the deal. One benefit of the growth deal has been a 10-year funding package, which is very unusual. That has definitely been advantageous. The challenge is to do with the process and the mechanism for us to draw down that funding, which is where being part of the growth deal is proving to be challenging. The concept is good and the governance in terms of coming together round the deal is good, but the bureaucracy and the process are proving to be quite challenging for us.

The Convener: That is a well-made point that was also raised last week. I will give the final word to you, Mr Bennie. You have one local authority, so could the projects not just have been delivered by funding being given to Falkirk Council?

11:30

Malcolm Bennie: That is a really interesting question. My initial thoughts were about whether that approach would necessarily have brought in the partners that we have brought in. For example, Scottish Canals is building Scotland's canal centre in Falkirk and Forth Valley College is developing a training hub. I would say that we probably could have done those things, but we would have needed a framework to encourage the participation of other bodies.

We are also working with other schemes, such as the levelling-up fund, and with the Forth green freeport, and we have not seen the same level of bureaucracy attached to the funding arrangements with those organisations. Therefore, it strikes me that, if the growth deal was treated in the same way, the benefits that colleagues have talked about—the partnership and regional working that we definitely get massive benefits from—would have had less of the drawback of bureaucracy and administration. A period of five years between a strategic outline case and a deal being signed is not the speed that we want to go at.

In our local authorities, I and other colleagues who are here today are semi-responsible for some quite large capital budgets. Within those budgets, there is an element of flexibility in the governance arrangements in local government. However, the same abilities are not afforded to this scheme, so we are not afforded the ability to move a bit of money from one project to another, for example, in order that both projects can reach decent outcomes. Instead, we have to go through the change process, which is not fleet of foot.

The Convener: That brings us to the end of our evidence session. Thank you all so much for your incredibly useful evidence. As you are aware, the committee will produce a report over the next few months, and I am sure that lots of your comments will feature heavily in that.

The committee will now move into private session.

11:32

Meeting continued in private until 12:25.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot

The Scottish Parliament
Pàrlamaid na h-Alba