OFFICIAL REPORT
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DRAFT

Economy and Fair Work Committee

Wednesday 15 January 2025

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ECONOMY AND FAIR WORK COMMITTEE
2nd Meeting 2025, 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:

Anthony Daye (South of Scotland Enterprise)
Zoe Laird (Highlands and Islands Enterprise)
Matt Lockley (Scottish Enterprise)
Alasdair MacDonald (UK Government)
Rt Hon Ian Murray MP (Secretary of State for Scotland)
Derek Shaw (Scottish Enterprise)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 15 January 2025

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Colin Smyth): Good morning, everyone, and welcome to the second meeting in 2025 of the Economy and Fair Work Committee. Our first item of business is to decide whether to take in private item 4 on the new deal for business—there is a paper by the clerk to consider. Are members content to take that item in private?

Members *indicated agreement.*

City Region and Regional Growth Deals

The Convener: Our next item is the fourth evidence session in our inquiry into city region and regional growth deals. We will take evidence from two panels of witnesses. First, we will hear from the Secretary of State for Scotland, and then from the three enterprise agencies.

I am delighted to welcome the Rt Hon Ian Murray, the Secretary of State for Scotland, who is the first member of the new United Kingdom Government to give evidence to this Parliament, and Alasdair MacDonald, deputy director for policy, UK Government. As always, I make an appeal for members and witnesses to keep their questions and answers as concise as possible.

I invite the secretary of state to make a brief opening statement.

Rt Hon Ian Murray MP (Secretary of State for Scotland): Good morning, convener. It is a great pleasure to be here at the Scottish Parliament. Happy new year to you and to all the committee members and clerks. In particular, I am delighted to have an invitation to talk about a topic that is close to all our hearts. I think that members of all parties can agree that the city region and regional growth deals, including the programme in Scotland, are a very positive thing.

First, I would like to remind the committee that the Prime Minister's number 1 priority for the new UK Labour Government is economic growth, and regional growth plays a key part in that. You might have seen "Plan for Change: Milestones for mission-led government", which the Prime Minister launched at the tail end of last year. That is all about a plan for change and growth. Local growth is a key part of that, and regional growth is the key strand that runs through it.

Since coming into government, we have signed the two final growth deals in Scotland. Each Government has allocated £25 million to the Argyll and Bute rural growth deal. Also, the Falkirk growth deal has been enhanced and is now the Falkirk and Grangemouth growth deal. The Governments have allocated £100 million to that, including £20 million of extra funding to deal with the particular issues that are happening at Grangemouth.

Through the UK budget, we have also committed £840 million to dozens of new investment zones, including freeports, local growth projects and, of course, the towns fund, which many members of the committee will be familiar with.

All that is part of an extra £1.4 billion of funding, as confirmed by the Chancellor of the Exchequer in the budget on 30 October 2024. Of course, that budget delivers an extra £4.9 billion to the Scottish Government budget, making it the largest settlement in the history of devolution. That sits alongside a whole host of other investment opportunities and funds, of which the national wealth fund and Great British Energy are the two most prominent.

The deals support that economic growth. They are creating jobs and providing sustainable development across the country. The most important thing from our perspective is that the deals have been grass roots up. They have been coming from local communities through local authorities, and there has been genuine partnership between the Scottish Parliament and Scottish Government and the UK Parliament and UK Government with local authorities and stakeholders. We have seen that with all the deals across the country.

We all have examples in our own constituencies and regions of where that has been a great success. Of course, there have been some difficulties, particularly around the capacity of local authorities to deliver some pretty big infrastructure projects in particular. However, where the growth deals have been part of the process, we have evidence that they have had a positive impact on jobs and growth across the regions.

Something to take away from the deals is that we should build on and expand the collaborative working between the Scottish Government and the UK Government and the local authorities and stakeholders. The clear direction with regard to what they are trying to achieve for local communities has been one of the main successes of the deals. They have created jobs and economic growth. The projects have come from the grass roots and have been done in partnership. Crucially, they are jointly funded, which is a key part of making sure that everyone has a stake in them.

That has meant that governance has been very good. We have seen local authorities come together. I use the two examples of the Edinburgh and south-east Scotland city region deal and the Glasgow city region city deal. The local authorities have come together to promote deals in very different ways, but both deals have worked for the areas that they represent. Indeed, we have recently met Edinburgh and Glasgow to discuss what they want to do next as regards the process of moving on to something else. It is a really positive thing.

We have in place all the deals across the country and those partnership deals have been very successful, as I have said.

This is all happening in a very challenging economic environment. We do not have to hide away from that; everyone knows how difficult that environment has been. We knew—everyone knew—that the new UK Government would inherit a pretty difficult financial situation. The key aspect in relation to the committee’s inquiry is that, to a certain extent in the Scottish context, we also inherited an industrial crisis.

If you look across the board, whether it be Grangemouth oil refinery, North Sea oil and gas, Mitsubishi Electric, Alexander Dennis or Harland & Wolff, the number of industrial problems that have arisen over the past six months or so have been considerable in the Scottish context. I hope that the growth deals can play a part in resolving some of those issues. However, it is clear that we have to deal with an economic crisis, a crisis in public finances and, in the Scottish context, an industrial crisis. That is the backdrop in relation to what happens next.

Finally, on what happens next, the UK Government spending review commences at the end of February and will conclude in April, with a statement to the House of Commons in June. That will set the spending frameworks for the next stages of local growth in the coming years. That sits alongside the £1.4 billion that has already been committed.

There is a very positive story to tell, and I hope that we are able to dig into some of those positive stories this morning.

The Convener: Thank you very much for those comments. I appreciate that the new UK Government has inherited the growth deal approach. Your opening comments suggest that you are happy with that approach. Some of the deals are very mature so, even if you wanted to change them, you could not. Given some of the new initiatives that have been announced, does the UK Government propose to make any changes to the way in which growth deals are being implemented?

Ian Murray: That is a question for the individual growth deals themselves. We have been relatively successful in getting the more mature deals through. Of course, the biggest priority for the deals are the grass-roots projects that have been brought to them. They are not Government projects as such. Joint funding has been put in—how the deals are structured means that they are jointly funded—but, if you look at what has been achieved in some of the deals across the country, you will see that the projects have come from local authorities or, indeed, from stakeholders that are related to local authorities and communities.

Changes to deals have been made at the grass-roots level due to a whole host of things, including people changing their priorities. Inflation—particularly construction inflation—has been a huge problem. Another issue is local authority capacity and stakeholder capacity to deliver. We have been very flexible in supporting deals to make changes if they wish to do so, but it is not really for Government to dictate what the individual parts of the growth deals are. Of course, the Treasury has reassessed parts of regional growth for value for money. As you know, the deals are jointly funded by the UK and Scottish Governments, along with stakeholders and the private sector.

If the projects want flexibility, we have been open to having discussions. Some of the deals have had that flexibility built in for a whole number of reasons, although the main reason is for deliverability, whether that is related to cost or capacity.

The Convener: You mentioned that the Prime Minister's number 1 priority is economic growth. What evidence is there that the growth deals, particularly the more mature ones, have delivered economic growth in their areas?

Ian Murray: Measurements have been taken. I might bring in Alasdair MacDonald to go through some of the finer details of the assessments of growth deals that we see. The deals have resulted in tens of thousands of jobs and local economic development. They have also brought stakeholders together to leverage in private finance. The figures are there for all to see. The contributions of the UK and Scottish Governments have been added to by stakeholders and the private sector to give us more bang for our buck.

Yes, there has been job creation. Yes, there has been economic development. Yes, there has been regeneration. Bringing affordable housing on board spawned from that in some of the deals. The deals that cover the Highlands and Islands in particular have included projects on affordable housing as an addition to their growth deal.

How you measure individual deals will, of course, depend on what is in the deal, but the biggest outcomes are more jobs and economic development. Those are not just short-term jobs, because the deals are all long term. Some are more mature than others, but you would hope that that economic development would run right through the period of the deal and that jobs growth will continue. A lot of the projects, such as the Edinburgh futures institute or the James Hutton Institute, are investments that have been made for the future, so you would hope that that growth would continue after the deals have matured and concluded.

Alasdair MacDonald (UK Government): Good morning. As the secretary of state said, there are different levels of maturity across the deals programme. Glasgow is into its second decade, whereas we are about to commence in Argyll and Bute.

We undertook a review about halfway through the first phase of the Glasgow deal. The review found evidence of growth and job creation. It also found that a bit more time was needed for that to bear fruit. We will see some of the long-term impacts as we go, but we are definitely building in that monitoring and understanding of what works into deals.

All the deals have a benefits realisation plan. I sat in on the annual board meeting for the Edinburgh and south-east Scotland deal just before Christmas, and it has a very sophisticated and exciting analysis of the impact that it has had across a range of areas. Other deals are rightly focused on implementation and getting projects off the ground, but we will see that benefits realisation played out as we go. There is lots to learn from the more mature deals for the ones to come.

There is an impact on jobs and infrastructure. You can literally see bridges being built and the impacts that they are having in joining up communities. There is other infrastructure, including the Edinburgh futures institute. An on-going part of deals is monitoring what impact they are having.

Michelle Thomson (Falkirk East) (SNP): Good morning. Thank you for joining us, secretary of state. It is very much appreciated.

In your opening remarks, you correctly referenced the wider macroeconomic situation, which is, indeed, extremely challenging. I concede that you have inherited a very difficult position, but, arguably, some of the moves so far have made the macroeconomic picture even more complex and difficult, including the tax on jobs through the increase in employer national insurance contributions, and have the potential to lead to stagflation.

The chancellor is looking carefully at where further cuts might need to be made, What guarantees can you give on the UK Government's commitment to multiyear funding? In other words, do you see that changing as a result of the macroeconomic challenges ahead?

Ian Murray: Deputy convener, as a Government, we do not comment on individual market movements, such as the movement of gilt yields that we have seen in the past week or so. However, that just highlights how difficult the situation that we inherited is. I do not think that we have to be too shy about reminding people of that. We inherited the worst economic circumstances of any incoming Government in peacetime since the second world war—

Michelle Thomson: Although the movement in bond yields, of course, was the result of recent movements, I concede that other factors are at play in the wider global economy. However, one element of bond yields is confidence in policy at UK Government level. That is one element of it, among many.

Ian Murray: You represent the governing party at the Scottish Parliament. The bottom line is that, when you are in government, you cannot just wish away the situation that is in front of you. We inherited a pretty bad economic situation, including a £22 billion black hole that we did not know about and a crisis in industry in the Scottish context but partly across the UK, too. When the chancellor gets to the dispatch box to deliver a budget, that is the situation that she has to deal with. She cannot just wish that away. That hole had to be plugged early in order to try to give stability to the economy, and that meant some pretty tough and difficult decisions. We were honest about that with the public at the election, and things have been made much worse by what we found since we came into Government.

The bottom line is that decisions had to be made. Money had to be raised, of course, through taxation. That extra £40 billion has provided spending, including to end austerity, which is what we promised to do. The additional £1.4 billion, the extra money for the deals and the largest financial settlement in Scottish parliamentary devolution history, is part of the spending that comes from the increase in taxation.

When questioning our decisions—and it is important to challenge and scrutinise Government—the challenge back to everyone is to set out what other decisions should be made or what spending should be cut. In the context of your inquiry, that is a difficult matter when you are wanting to invest in local communities and you are dealing with past promises that were made but not funded. That is another thing that we had to find money for. Lots of announcements were made with no funding attached and those difficult decisions had to be made.

We have now found that money to fund our local communities, but we have had to make some pretty hard decisions—in some places, those have been very unpopular—to do that. However, that has given us stability in the economy, and I hope that now we can build for the future. The spending review will be part of that process.

09:15

Michelle Thomson: You did not answer my direct question. My challenge is, how certain, given your articulation of the UK macroeconomy, can any city and region deal be as to the future profiling and flow of funding on a multiyear basis, given that the chancellor has been quite clear in saying that she will leave no stone unturned to look for potential cuts? This is a chance for you to put on record that the money that the UK Government has promised over a period will remain intact. Can you do that today?

Ian Murray: The £1.4 billion announced at the budget will remain intact. That has been programmed—

Michelle Thomson: I am talking about the city and regional deals.

Ian Murray: —at the moment in terms of the money that is being put in. We have given the commitment to the 12 city region deals. We signed the £100 million Falkirk and Grangemouth growth deal after the budget, in Falkirk, in fact. The £25 million for the Argyll and Bute rural growth deal is done and dusted. The signing of that will be, I hope, in early March, when the Scottish and UK Governments can find dates in the diary to come together. We will do that jointly. The money for those 12 deals across Scotland is secured and is committed.

What is pretty clear from the news that broke at 7 o'clock this morning is that inflation has dropped, surprisingly. That is good news, but the economic situation is challenging. We all have to lift the mood and be much more positive about the fact that we are heading in the right direction now that we have settled the foundations, and the spending review will be part of that process.

Michelle Thomson: I want to move on to another topic—that of the role of this Parliament in the scrutiny of city region and regional growth deals. It has not been certain to us as a committee in what respect the Scottish Parliament has previously had a role in ensuring that the city region deals have the positive outcomes that we all want to see. What is your sentiment as to the role of this place in that regard? What is your intention with regard to giving this Parliament its place when it comes to scrutiny?

Ian Murray: I am not quite sure that I fully understand the question. The deals are jointly funded—they are jointly funded, almost to the penny, by the UK and Scottish Governments. They involve a partnership between both Governments, local authorities and other stakeholders and investors. I am sure that the Scottish Parliament's scrutiny of the deals is in the hands of the Scottish Parliament.

Alasdair MacDonald talked about the assessment that has been done, from which we know that most of the deals are on track. Of course, some of them have not been signed yet, and the Falkirk and Grangemouth deal is only just beginning, while the Edinburgh, Glasgow and

Aberdeen deals are very mature and are coming to the end of their projects. Each individual deal is subject to analysis. There is constant contact between the two Governments and the teams working on the deals.

I cannot answer for how the Scottish Parliament wants to scrutinise that. Maybe you could unpack what you meant when you asked how I can provide the Scottish Parliament with more scrutiny of the deals. I am not quite clear what you require.

Michelle Thomson: No—it is fine. You have put your view on the record, and that is helpful. Thank you. I appreciate you attending today.

On governance, you correctly point out that both the Scottish Government and the UK Government have a role to play. From a purely governance perspective, I have always been a little unclear as to how that arrangement works. Generally speaking, in any governance structure, there will be one authority that is ultimately accountable. In this instance, the position is less clear from a governance perspective. Who do you see being the ultimate accountable body when both the Scottish Government and the UK Government are providing funding? How do you see the arrangement working in that regard?

Ian Murray: I will let Alasdair MacDonald give you the details, but as I understand it—Alasdair can correct me if I am wrong—the accountable officer for all the deals is the Scottish Government. The ultimate legal authority, if you like, rests with the accountable officer, and the accountable officer for all the deals is the Scottish Government. As I understand it, the money goes to the Scottish Government and is then distributed to the deal partners.

Michelle Thomson: Okay. In that case—I am not asking for a further response—should funding be withdrawn by the UK Government at a future juncture due to the macroeconomic challenges that we have articulated, the Scottish Government would continue to have ultimate accountability for delivery without having the funding.

Ian Murray: No money is being withdrawn from the deals, because they have been signed and some of them have almost been concluded. That is as big a guarantee as I can possibly give.

With regard to the scrutiny of the accounting aspect of the deals by the Scottish Parliament, the Scottish Government is the legal accountable officer for all the deals. Is that correct, Alasdair?

Alasdair MacDonald: Yes, that is correct. There is an annual process whereby His Majesty's Treasury transfers the drawdown for the deals programme each year to the Scottish Government, as the accountable body. That is then disbursed, as the secretary of state said, to the deal portfolios, of which there will soon be 12. That is a well-established collaborative process.

I emphasise how intertwined the two Governments are on the deals. They are genuinely run in partnership. I co-chair the annual conversations on all 12 deals with my counterpart in the Scottish Government, who reports up to her ministers, as I do to mine. Some deals involve greater UK Government funding, while others involve greater Scottish Government funding.

I would argue that it is a genuinely collaborative and deeply intertwined programme, from which I do not think that it would be in the UK Government's interest to withdraw, and I do not think that that is likely or possible.

Daniel Johnson (Edinburgh Southern) (Lab): I do not know what the parliamentary protocol is here in relation to declaring interests. Maybe we should just promise to have a conversation that goes beyond the wonders of south Edinburgh.

You have already alluded to the very difficult decisions that the UK Government had to take when it took office. I note that two deals were paused while they were reassessed but were subsequently confirmed in the October budget. Could you expand on what you found on taking office as regards the financial preparations for those deals? What steps did you and the wider Government take to assess the deals that were in train and to establish whether they represented good value for money and would deliver on the objective of delivering economic growth?

Ian Murray: I am sure that we can both agree that Edinburgh South is the best place in Scotland. We can sit and have a chat about that if you so wish, but I am sure that the convener would tell us that it was out of order to do so and that other committee members would challenge us.

Daniel Johnson: We can maybe do that in private.

Ian Murray: You ask a fundamental question. We had to reassess every penny of public funding. A lot of announcements had been made about regional growth in a Scottish context. Promises had been given but no money had been attached to them. I will give two examples, one of which relates to the funding that many Scottish towns had been promised—they had been promised £20 million over 10 years to regenerate their town centres, but there was no money attached to that. Local communities felt quite sore that that funding had to be reassessed because of the financial situation that we inherited.

That funding was reassessed and, of course, we have now brought forward the money in the budget. As well as the £1.4 billion increase in funding for Scotland, there is £840 million of new money for freeports, investment zones and regional growth. There is now a big pot of money to enhance what we already have. The Falkirk and Grangemouth growth deal was fast tracked before the budget. Because of the issues at Grangemouth, it was very important to get that through. An additional £20 million was provided—£10 million from each Government, which brought the total for the Falkirk and Grangemouth deal up to £100 million—to deal with some of the particular issues in that area, which are well documented.

The Argyll and Bute deal was the last one to be done. There were significant issues with Argyll and Bute Council having to sign advance contracts for Rothesay hall, which is a major part of its project. It had a big deadline that it had to meet in order to get the costs that it had been promised by the developer for that redevelopment, so we had to try to fast track that through.

Thankfully, all that assessment has now been done. The 12 deals across Scotland have all been signed—the Argyll and Bute one will be signed in March—and they have all started to progress. As Alasdair MacDonald said, the assessment process is not just a one-off process or an annual process; it is a constant process. One of the biggest issues that we have found has been with the capacity of some local authorities to deliver the projects in the deals. That is hardly surprising, given that local authorities have been under pressure with their own budgets and their own capacity for well over a decade. That is now showing through in the ability of some local authorities to deliver what are pretty substantial infrastructure projects that come with significant price tags attached.

Daniel Johnson: Obviously, the city growth deals were developed by the previous UK Government. Does the incoming Administration bring a different perspective to those deals? How does it view them? Can you identify any differences in approach with regard to how the new Administration looks at city region deals and where they might go in the future?

Ian Murray: There are three parts to that. First, the city region deals are not necessarily a UK Government initiative. The 12 deals have been developed from the grass roots up. Local partners have worked in partnership with the Scottish Government and other stakeholders, such as universities and the private sector. That kind of economic growth is very much part of the plan for change. It is all about making sure that there is growth in every part of the country, as the Prime Minister has laid out in the plan for change. Regional economic growth is a key element of making sure that we can drive that process.

There is no real political difference in how we view the process. That is because the deals involve a genuine partnership between the Scottish and UK Governments. That is something that we should build on. After the election, the Prime Minister and the First Minister made it clear that resetting the relationship was a priority for both of them, and I hope that the committee has seen that that is now being taken forward. Certainly, civic Scotland sees that both Governments are now working together in the best interests of Scots, which is extremely important. The second element of the answer is about that partnership approach.

Thirdly, the deals are about economic growth, which is the number 1 priority of the UK Government, and about jobs, which is the number 1 priority of the UK Government in delivering that growth in every part of the country—in all four corners of Scotland and all four corners of the UK. That is what the deals deliver.

What has surprised me most since coming into this post is how enthusiastic the deal committees are—I know this from speaking to them—not only about delivering the current deals, but about what happens next. They are looking at how they can work more closely together, not just within their own regions but across regions. That is an exciting development when it comes to driving growth in Scotland.

Daniel Johnson: I am interested in what you said about the focus on regional growth. I very much take the view that growth is built at that level upwards. You have an interesting vantage point, as you are able to compare across the nations and regions where the various deals have been deployed. In England, the deals were constructed very much with an eye to supporting the creation of combined authorities and metro mayors. In Scotland, we have a very different context.

When we look at the data, some interesting points emerge. For example, since 2007, growth in gross domestic product per capita in Scotland has been about half the growth rate in Manchester. In Scotland, GDP per capita has grown by about 0.5 per cent a year, whereas, in Manchester, it has grown by 1.3 per cent. Likewise, if we look at inward investment, we see that in 2022-23, according to the Office for National Statistics, 5,800 jobs were created in Manchester, whereas only 3,400 were created in Scotland.

Do you agree that we are starting to see quite different economic outcomes emerge across the different regions and nations of the UK? What analysis has been done to look at the contribution that the city region deals have made to that situation and at whether the different structures to which those deals apply has played a role in those differences?

Ian Murray: The comparison with Manchester, which relates to the mayoralty of greater

Manchester, is really important. The deal that I know best, because I have been involved in discussions about where things should go next, is the Edinburgh and south-east Scotland city region deal. There was an initial anxiety that the cities would suck up the money and suck up the infrastructure, because that is what normally happens, but what has happened with the Edinburgh city region deal is that Edinburgh has been the smallest part of where the deal has been delivered. East Lothian Council, for example, is very enthusiastic about not only the current deal but what will happen next.

Part of the process in relation to what happens next is that regions are looking to take on more responsibility and are looking for powers to be devolved so that they can deliver that. The Edinburgh deal team thinks that it could have a much greater impact if it had the ability to deal with skills, training and transport. It wants to have the ability to take a regional approach for the benefit of its own circumstances. It also wants to work with the Glasgow deal team on connectivity. If the Edinburgh and Glasgow city deals, which at the moment operate as two separate units, joined together on an issue such as transport connectivity—they would still operate independently—the Manchester model of connectivity could be of huge benefit to the whole of Scotland.

09:30

When it comes to the development of deals, the deal teams are telling us that they want to have the ability and the powers to do that from the grass roots up. If we can construct deals that are no longer about cash but are about giving people responsibility for delivering on regional powers, I think that we will see much more impactful economic growth, because the process of determining what individual regions and parts of those regions require will be much more grass roots-led. For example, Edinburgh, Glasgow and Aberdeen are three completely different cities that have some joint issues that they could work on across regions as well as interregionally.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, secretary of state. I have two questions: one on flexible funding arrangements, given the changing economic circumstances that we find ourselves in; and one on the science and innovation aspects of the growth deals.

We touched on the first question a wee while ago. Some of the projects in the Ayrshire growth deal have fallen off the table. On behalf of your Government, can you say whether the funding will still be in place should new projects emerge that might take up that slack, or will the funding be withdrawn, given the circumstances that we find ourselves in?

Ian Murray: From my perspective—again, Alasdair MacDonald can correct me if I am wrong—the Ayrshire deal has been the most difficult one to deliver, for a number of reasons. The first is the significant increase to the costs for some of the projects; the second is the capacity of the Ayrshire deal to deliver the projects; and the third is that the deal has probably required the most flexibility compared to the 11 other deals. I am not quite sure that the Ayrshire deal partners themselves know where that flexibility needs to go or that they are clear where they want it to end up, and that has been part of the issue.

However, the Scottish Government and the team in the Scotland Office have worked closely with the Ayrshire council teams to try to find a way through that. There is no threat to that funding at this moment in time. However, with every week that passes, the funding becomes smaller, because of inflation—particularly construction inflation. I think that the Ayrshire deal has been the most challenging one in Scotland.

Alasdair MacDonald: I underline that the £62 million is not lost; it is being repurposed. The two local authorities reached a decision that the space project that they were pursuing was no longer viable. It obviously took a degree of time and investment to reach that conclusion. The decision to repurpose that money was agreed with the ministers across the two Governments. I am working with the two councils on what proposals might come next. I am down in Ayrshire in a couple of weeks, in fact, to meet the chief executives of the local authorities.

There have been some challenges. On another part of the deal, a key partner withdrew, so some other changes are required in relation to that. However, we are working closely with the relevant councils to make those changes the most effective and impactful changes possible. There is more to come on that.

Willie Coffey: It is encouraging that the funding remains, should new projects emerge to take it up. Thank you very much for that.

On the science and innovation elements of the growth deals, as you know, a key part of the Edinburgh city deal is the robotics and artificial intelligence element—the National Robotarium and so on. As you also know, Edinburgh is well established as one of the leading artificial intelligence zones in the UK. Can you say—again, on behalf of your Government—why you chose Oxford rather than Edinburgh to be the first UK AI growth zone?

Ian Murray: You are right about innovation. In fact, the University of Edinburgh has had an artificial intelligence unit since 1964, so it is not new to this. Edinburgh will play a key role in the AI connectivity strategy that was announced this week.

To take you through a short history of the exascale supercomputer issue, which I am sure that you are hinting at in your question, Mr Coffey, the previous Government made that announcement about the Edinburgh supercomputer four times but there was not a penny attached. Not only was there not a penny attached but nobody had even asked for the money. When we came into office, there was a £900 million commitment to the University of Edinburgh for the exascale supercomputer but there was not a penny attached to that commitment. Therefore, some difficult decisions had to be made.

As we go through the spending review, Edinburgh will play a key part in AI development and that is clearly written in the report that was published this week by the Secretary of State for Science, Innovation and Technology. He has given a commitment not only to come to Edinburgh but to work with Edinburgh on the key role that Edinburgh will play in that future AI connectivity strategy. Edinburgh has a bright future ahead of it in terms of that particular element of its own growth.

Willie Coffey: So there was no money at all behind the £800 million commitment for the supercomputer.

Ian Murray: Not only was there no money behind it but nobody in the previous Government had even asked the Treasury for it. A number of commitments had been made; as the new Government, we had to come in and look at those. Others can wish away problems, but when you are in government, you either have to deal with problems or not, and we had to deal with that problem because it was unfair to continue with that University of Edinburgh proposal as it was unfunded and it could not be funded. However, I am hopeful that we will get there as we approach the spending review.

Willie Coffey: As I understand it, the University of Edinburgh has already spent about £30 million preparing for that project. Is there any chance that it might get that money back?

Ian Murray: Additional funding has been committed to make sure that the life of ARCHER2, the current supercomputer at Edinburgh, is extended. I am hopeful that the investment that has been made will not have been wasted.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Following on from Willie Coffey's line of questioning, you have indicated previously that the funding for the city deals is safe and that no money has been withdrawn from the city deals. However, the supercomputer that was going to be built at the University of Edinburgh was part of the Edinburgh city deal, so what happened to that £800 million?

Ian Murray: It was not part of the city deal.

Gordon MacDonald: As you are aware, the Scottish Affairs Committee started an inquiry into the same area, which then had to be cancelled because of the election. A submission to that committee quite clearly refers to the "data-driven innovation programme", which is all about the supercomputer. You are saying that funding is safe, yet you have pulled £800 million.

Ian Murray: No, Mr MacDonald, the exascale investment of £900 million was not part of the Edinburgh region deal. I have the figures for the deals here. I do not have the details for the exact projects, but the biggest investment in relation to the university was the Edinburgh Futures Institute, which was roughly £47.6 million, off the top of my head. Exascale was completely separate; it was not part of the deals.

Gordon MacDonald: If the funding situation that you inherited from the previous Government was so bad, can you tell us where you found the £14 billion for the announcement on AI that was made by Keir Starmer on Monday?

Ian Murray: Most of that is private investment.

Gordon MacDonald: So there is no Government money in that whatsoever?

Ian Murray: There will be Government money in that as part of the spending review, but the vast majority of the inward investment that was announced this week is private investment, most of it from America.

Gordon MacDonald: So it is all private investment, and it is not the £800 million being rolled into AI.

Ian Murray: No, the exascale computer issue has been rolled into the spending review as the UK Government's contribution to the strategy.

In relation to the announcements this week, the vast majority of the £14 billion, if not all of it, as I understand it—I can write to the committee to clarify this—is private investment in AI in the UK, mainly from American investors.

That is something that we should celebrate, Mr MacDonald, because we have a real opportunity, not just in the UK as a whole but in Scotland—in Edinburgh, Glasgow and Dundee—to be the centre of the world for AI. Big investments are coming in because we are well ahead of the game. We have to stay ahead of the game, and that is also the argument that is being made by the

University of Edinburgh in terms of the supercomputing that is required.

The challenges that sit alongside that, of course, include energy. It is very energy intensive, but this is a huge boost to the UK in terms of our future position in AI. I think that we are second in the world already, and that strategy announcement this week has been much welcomed. The investment that is coming is a real thumbs-up for that strategy.

Gordon MacDonald: That is why the supercomputer at the University of Edinburgh was so important. There are only two known exascale computers in the world, both in the US. The Edinburgh one would have been the third. Edinburgh has been the home to high-performance computing for more than 30 years. It would make sense for it to be located here, yet we are hearing, as Willie Coffey indicated, that the first AI growth area will be in Oxfordshire, the home to the Atomic Energy Authority.

Ian Murray: I would read the AI strategy that was announced this week more carefully. Edinburgh is mentioned in the strategy. The Secretary of State for Science, Innovation and Technology has given a commitment to Edinburgh, and Edinburgh will play a key role in that entire UK strategy. We should be excited about that, and the whole strategy indicates the direction of travel in terms of the spending review and what may or may not happen at the University of Edinburgh.

Gordon MacDonald: Do you know the timescale for what will happen in Edinburgh?

Ian Murray: The spending review will be concluded in April and announced in June.

Gordon MacDonald: There will be a list of projects within that £14 billion. Do you know where Edinburgh comes in that list? Is it near the top or at the very bottom?

Ian Murray: The strategy makes it quite clear that there will be a process for the AI zones. Edinburgh is well placed to be one of those zones because of the world-class infrastructure that it already has. That is well known and it is mentioned in the report. Therefore, I would say, "Let's get on with delivering the strategy."

The important thing in relation to that report is to get on with delivering it. The money is coming in. The strategy is there. It has been welcomed by industry and by higher education institutions, so it is time to get on with delivering it. That is the key takeaway from the Secretary of State for Science, Innovation and Technology's announcement this week on that AI infrastructure.

Gordon MacDonald: Of course, the cost of delivering any project is impacted by construction inflation. Since 2020, construction inflation has increased by 20 per cent and it is expected to increase by a further 17 per cent by 2029. All the construction projects are impacted by Brexit, Covid, the conflict in Ukraine and the cost of living increase, yet the UK Government's contribution is fixed. Why should local authorities pick up the inflationary aspect, or are you happy to see projects being descoped because of a lack of funding?

Ian Murray: I do not think that we have seen projects being descoped. There has been a little bit of reprofiling.

Gordon MacDonald: They call it value engineering.

Ian Murray: There has been a bit of reprofiling because money comes in but does not necessarily need to be spent at that particular moment in time. We have been working with partners to make sure that they can manage their way through that. That is why I mentioned the Rothesay hall example earlier—there was a fixed contract that had to be signed by September. The Scottish Government stepped in with its share of the funding in advance of the deal being formally ratified.

There are other things that we could be doing. Construction inflation is something that we are not really in control of, but there are things such as planning, regulations and decisions that can happen more quickly at local level and at the level of both Parliaments so that we can get things moving more quickly. I would encourage partners in growth deals who are having problems with delivery to continue to talk to us and to the Scottish Government about how they can make that position—

Gordon MacDonald: But there will be no additional funding to meet that gap.

Ian Murray: At this stage, no, but I am not aware of any projects that have suffered in terms of a reduction being required because of the factors that you have mentioned. Is that correct, Alasdair?

Alasdair MacDonald: That is correct. It is an issue—we have seen some particular issues in the islands—but we are working closely with the programmes to prioritise things within that and to help them manage some of those costs. It is a challenge and it is a challenge across the board; I certainly would not deny that.

On the supercomputer point, the whole value of the Edinburgh deal is £600 million, with £300 million coming from each Government, so it is totally separate from the Edinburgh deal, although there are some technology aspects to that deal.

I speak regularly to my counterparts at the Department for Science, Innovation and

Technology and they are very much thinking about Scotland in relation to the AI action plan. The supercomputer is one part but there are lots of other aspects such as data centres, which they are keen to potentially locate in Scotland. Such centres need lots of energy, so some of our post-industrial areas are well suited to doing that. DSIT colleagues are actively scoping out where those data centres might be located and the jobs that would come through that. There are lots of different aspects to the plan that can be beneficial to Scotland.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning, secretary of state. I was very taken with the Prime Minister's speech on Monday when he set out the Government's ambitions for AI, which is a great opportunity. Of course, as we have heard, the Edinburgh and south-east Scotland deal includes the very successful data-driven innovation programme.

On the question of the supercomputer, I heard what you had to say about the funding issue. Is it not the case that at the time of the general election, the budget of the Department for Science, Innovation and Technology was substantially underspent?

09:45

Ian Murray: I do not know the individual budget of DSIT, but these decisions are not made lightly. They are not made in order to annoy people or to say that we can make those decisions, so we will do so. These decisions were made because we had to make them, and it has been incredibly disappointing. We had to deal with what we inherited and this is one of the consequences. It was not just the exascale supercomputer issue. There was also the towns fund, for example. Other commitments had been made in terms of deal funding and regional growth funding that had no funding attached so we had to either find that funding or not have the project.

We have been very clear with the University of Edinburgh. In that particular example, the project was not cancelled but it is being reassessed and will go into the spending review process, which has kicked off and will conclude by the summer.

Murdo Fraser: Okay. As you probably know, at the time that the announcement about that project was made in August, it was hammered by people in the industry. Chris van der Kuyl, the businessman and games entrepreneur, said that it was an idiotic decision to cancel that project. What confidence can people have that it will come back and that we will see that development, which is so important to the University of Edinburgh and the wider economy?

Ian Murray: With respect, Mr Fraser, I think that the most idiotic decision was giving promises to the university that were unfunded—

Murdo Fraser: Not if there was an underspend in the budget.

Ian Murray: We had to make these difficult decisions to pause these major infrastructure projects because there was no money to fund them. We said we would be honest to industry and the public about the situation. The situation was worse than we thought it was going to be and, therefore, it had to be dealt with. If a promise is made to an organisation to fund something but no money is attached, unfortunately that money either has to be found or the project has to be paused. The latter is what happened with the exascale supercomputer at the University of Edinburgh.

If you look at what we have done since, we are working closely with Edinburgh. It has been constantly in touch with DSIT on the impact. The Minister of State for Science, Research and Innovation, Lord Vallance, has been here. The Secretary of State for Science, Innovation and Technology has been here. I know that the principal of the university has been constantly in touch with not only our office but DSIT and other partners. This is not the end of the process. In fact, it is the start of what happens next, and we are pretty confident that Edinburgh will play a key role—a central role—in the future of not just AI but big data.

Murdo Fraser: Okay, thanks. I have a broader question about city deal funding. Since the change of Government, has there been any change in the approach to the drawdown of funding or the checks and balances that are put in at a Government level, or is it just the same model that was followed by the previous Administration?

Ian Murray: It is roughly the same model because most of the deals had started already and some were pretty mature. As Alasdair MacDonald has laid out, the money is drawn down into the Scottish Government budget, and the Scottish Government then allocates that money when it is required and it is drawn down on that basis.

There is a programme of drawdown and when it will be required. Some deals have had to reprofile because of some of the pressures that were laid out earlier. On how money is allocated and how it is drawn down, it goes through the Scottish Government, as the accountable officer, into the growth deals. Those deals all have different formats in terms of their own governance arrangements and how they are working together. That money then goes into the projects.

There has been a little bit of reprofiling because of some of the pressures and because of deliverability in terms of capacity, particularly in relation to some of the partners. It is a complex picture but we are very pleased with progress. We only have a few outstanding issues. Highlands and Islands has been difficult because of some of the projects and, of course, there is the Ayrshire one that Mr Coffey mentioned. However, in terms of progress, we are pretty happy with the way that things are going, given the backdrop of some of the pressures.

Alasdair MacDonald: We speak regularly with those from the deals about governance. We want it to be proportionate. We need to ensure value for taxpayers' money from both Governments. Equally, we want the deals to be as focused as possible on delivery and growth. We have spent some time speaking with the deal programmes to look at where we can streamline and simplify our processes and make them as proportionate as possible so that we get the information that we need and so that local authorities—especially small local authorities—can dedicate as much time as they can to delivery. That is an on-going process for us and, again, we do that jointly with the Scottish Government, which shares our views on getting that balance right.

Murdo Fraser: Thanks. I have one more question. Secretary of state, you mentioned the towns fund. In the area that I represent, the city of Perth was due to get some funding for three quite important cultural heritage projects. Has that money gone now, or is there still some prospect of it coming back?

Ian Murray: As I understand it, no projects have been cancelled. Some discussions have been had about the value for money of some individual projects. Again, the issue will be dealt with and addressed in the spending review.

You will be well aware of the Perth projects, but there is also the V&A project in Dundee, for example, which was paused. We have been very clear with partners that the projects have not been cancelled but there is a value-for-money exercise going on at the moment and there might have to be some reprofiling and redesign of projects to fit into some of that new criteria.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning. On that point, I have a technical question. Does the money from the towns fund and the levelling-up funding go directly to the relevant councils, or does it have to go via the Scottish Government?

Ian Murray: In terms of the technicalities, I would ask whether all deals are the same. As I understand it, the money goes to the Scottish Government and then is drawn down by the partners when they require it. Of course, every deal has a different governance set-up, and some have been more successful than others. However, I think that that is the process that would always happen.

Alasdair MacDonald: Some of these funds are managed by other UK Government departments. We can look into that and revert to you if that would be helpful.

Jamie Halcro Johnston: I am interested because we were talking about how the funding flows.

Ian Murray: The Ministry of Housing, Communities and Local Government holds a lot of these funds because it has the administrative responsibility.

Jamie Halcro Johnston: Okay.

On the regional deals, I have a particular example that I used last week when we had the cabinet secretary in. Money for the Corran Narrows crossing and the Corran ferry has been repurposed or reprofiled—I am not sure of the technical term—from the deal to cover infrastructure. The previous UK Government announced that and the Scottish Government has done the same for the new electric ferry. Do you have any concerns about the impact that that might have on the overall objectives of city or regional deals? We recognise that circumstances and situations will change, but what concerns do you have, given that they were brought in with particular objectives and they are being changed?

Ian Murray: I am not sure that I would use the word "concern" in the example that you have given. One of the key components of the deals and their governance is their flexibility. Because the deals have been developed by the grass roots and partners, we have been very flexible in saying that if they have to flex and change, we will look at that. There is a process of properly scrutinising that and going through proper official channels and so on—as Alasdair MacDonald said, this is public money and we have to make sure that it is spent properly. However, because of the regionally focused way in which the deals work, it is important to allow the partners to have that flexibility if they so require. The Ayrshire deal is a prime example of where things have gone wrong. A partner has withdrawn and we have had to be flexible with what happens next. Some of the projects that you have mentioned will have been assessed again. They will not just have changed without any scrutiny and proper governance.

Jamie Halcro Johnston: I suppose that one of the concerns that I had and which has certainly been raised by the local community is that here is a local council-owned ferry that is now being replaced through a deal that is meant to do something else and create something different, rather than the funding coming through the usual spending or the usual negotiations with the

Scottish Government. Is that flexibility so flexible that it is allowing things that should be done through everyday or common spending suddenly being done differently?

Ian Murray: I do not have that direct concern, but I can see why people would raise it as an issue. Not to put too fine a point on it, local authority funding has been gutted and decimated over the past decade, and therefore I can see why there could be some concerns that deal funding is being used to supplement stuff that should be paid for through the normal channels at local authority level. I can see that. However, these projects are critical to economic growth and to the areas that require them, so I do not have any concerns that deal funding has been replacing day-to-day, normal council funding, if you like. Some of the deals have struggled because of local authority capacity, and that capacity has been decimated over the past decade. That is part of the problem.

Jamie Halcro Johnston: I am a Highlands and Islands MSP and ferries are a big part of what I do and what I focus on. On the Fair Isle ferry announcement, there has been a large increase in costs and the council has made a decision to fund some of that increase in costs itself. Were there discussions between the Shetland Islands Council and the Scottish Government on perhaps covering some of that additional cost? The original project was going to be around £30 million; it is now £40 million to £45 million.

Ian Murray: I might ask Alasdair MacDonald to come in on some of the details, but as I understand it, it is all being fully funded in one way or another. It is unfortunate that the costs have gone up by so much, but we understood that the ferry project was important, so I think that the gap has been covered.

Alasdair MacDonald: Both examples are very much led by the local communities. Recognising that challenge on where the money should come from, they have chosen to prioritise some of this infrastructure, given its essential nature, as you rightly say.

Jamie Halcro Johnston: Did they come back to the UK Government looking for support in helping to meet that gap?

Ian Murray: As I recall the discussions, I do not think that they came back asking for more resources. I think that they came back asking for the ability to redesign the phasing and to redesign the deal in order to be able to meet the gap.

Jamie Halcro Johnston: The deadline was also a concern at the time. Has that been reviewed and has there been support and movement on that?

Ian Murray: Yes, I think that that has all been resolved. In fact, it has been resolved to the extent that I think that we have had the request in to go up to the soil cutting ceremony or something in the summer. I am confident that that project is now motoring ahead, if that is not mixing up too many puns.

Jamie Halcro Johnston: That is a good long ferry journey for you.

We have talked about ferries in a local context for the Highlands. There will need to be huge investment in new ferries and ferry infrastructure—in Orkney alone, the estimate was around £800 million. Can the UK Government see itself being brought into discussions about how that will be funded, given its record so far on covering or being involved in some of these projects?

Ian Murray: I think that it would be wrong for the answer to that question to be no. When we progress towards what regional growth looks like in the future beyond these deals, given that they are grass roots and given that they have covered both devolved and reserved areas in terms of infrastructure and investment, if that was what the requirement was—

Jamie Halcro Johnston: You would not rule that out.

Ian Murray: For a future deal, you would never rule that out because the project would have come from the local area. Of course, it would have to go through proper governance processes and assessment of value for money and so on because it is public money, but if a local area was to bring forward projects that it wanted to fund through whatever means, I think that it would be completely wrong for any Government to veto that on the basis of anything other than it not being a viable project.

Lorna Slater (Lothian) (Green): I want to thank you very much for coming this morning, secretary of state. Your predecessor did not accept invitations to give evidence to this Parliament, and we are delighted that you have.

The committee has taken substantial evidence on the benefits of collaborative long-term working between levels of government and industry, which some of these deals have supported. Many of the projects have been grass roots-led and prioritise sustainability and innovation. However, that is not true for all the projects. In the older regional deals, there are some dinosaur road and car-based projects initiated by Transport Scotland, of which the Sheriffhall roundabout—which I know the secretary of state will be familiar with—is the one with which I am most familiar. My question is on the same theme as that pursued by Jamie Halcro Johnston. It appears that Transport Scotland could not get that project prioritised or funded through normal means, so it has turned to the deal. However, it is a bit of a dinosaur. It was proposed before any Government in the UK had declared a climate emergency and before the Scottish Government had set a target to reduce car kilometres by 20 per cent, and there is a grass-roots local campaign against it.

The project is stuck. It is demonstrably not being built, but if you ask any level of government why we cannot reprioritise the funds or change up the project, the answer is always because it is part of the region deal and down to "that Government", with everyone pointing fingers, which means that we cannot change anything. The question is how Governments can, with democratic mandates that change over time, adjust these longer projects to align with current priorities. It just feels like hands are tied.

10:00

Ian Murray: It is a good question, but I would have been much more accepting of criticism if it was the other way around. Your question, Ms Slater, could have been why on earth a regional deal with a governance board that covers local authorities and local stakeholders and partners has come with a project and it has been vetoed for political reasons. The great value of local regional growth is that it comes from the grass roots. I fully accept that lessons have been learnt since some of the older deals, but the two oldest deals have been the most successful so far in terms of economic impact.

Let me go back to what I think Jamie Halcro Johnston was asking about earlier. The Sheriffhall roundabout is an issue—it is a roundabout that I know very well because it is just a poor golf shot from the edge of my constituency. It is and was part of the deal. Is it something that should have been funded by those responsible for funding it regardless? It would then have been in the governance structure of normal government processes through Transport Scotland, rather than coming through a city region deal.

I fully accept, understand and acknowledge your question, but I do not think that it is for either Government to veto projects that come forward in city growth deals because we do not like them when such projects are brought forward under a proper governance structure and are properly assessed in terms of value for money. Most of the deals, if not all of them, will deliver on what they have said they would do within the funding envelopes that they have, which I think is a real positive.

Lorna Slater: Okay. Thank you very much. I challenge some of those points. The project was not brought forward by the grass roots—it was brought forward by Transport Scotland—and it has not been possible to reassess it because of the structure of the deal. However, I appreciate the answer.

On a more positive note, I suppose, I think that the secretary of state will acknowledge that the newer deals seem to be a bit more grass roots and focus more on innovation and sustainability. What next? Will there be a new tranche of city region deals? What should those look like?

Ian Murray: Those discussions have started. On what they should look like, we discussed with the Deputy First Minister and the Edinburgh city region deal just last week in this building what they want to see for the future. Of course, everyone wants pound notes because that is important, but they also want the devolution of the ability to deliver things such as skills and transport infrastructure in a much more co-ordinated way. They want the ability to bring forward projects that are much more attuned to local circumstances. Certainly, in the context of Edinburgh and Glasgow, they want to be able to work together on joint projects to get more bang for their buck, and to have that connectivity across the country. What the future looks like is unclear, but that is a positive, I think, because those involved in the deals and the governance structures are currently discussing what is best for their regions, and they are coming together around what they think would deliver best for their regions.

Every single region will be different. Highlands and Islands will have a much more difficult conversation on the basis that the number 1 priority is, as I understand it from deal partners, affordable housing and housing infrastructure. That is a very different conversation from the conversations that are going on in Edinburgh, Glasgow or Aberdeen, for example.

Kevin Stewart (Aberdeen Central) (SNP): Good morning, secretary of state. I want to look at cohesion with wider policy objectives. You said at the very beginning of this morning's session that economic growth is the number 1 priority for the Prime Minister, and that jobs are a priority, too. To deliver that economic growth and increase the amount of jobs, there has to be business confidence; however, as we have seen from the recent British Chambers of Commerce survey, that confidence has plummeted, because of the increase in employer national insurance contributions, which many folk see as a tax on jobs. How will we—by which I mean, you—regain the confidence of business to ensure that the likes of the private investment that went into the Aberdeen city and Aberdeenshire region deal can be emulated right across the board?

Ian Murray: Thanks for your question. First, the Aberdeen city and shire deal has probably been one of the most successful deals, not just in the additional private investment that it levered in but in what it has been delivering. I think—and this goes back, in a sense, to Ms Slater's questions—that the model up there is something that we should be looking at when it comes to what might happen in the future.

The number 1 priority for business at the election was stability in the economy and the public finances, and we have tried as a Government to deliver that. However, we have had to do so with two hands tied behind our back. When the chancellor got up at the dispatch box on 30 October to deliver the budget, she started with a minus £22 billion gap that had to be filled. Our public services were on their knees. If you look at past incoming Labour Governments—as I am representing a Labour Government, I feel able to talk about this—you will see that, when Labour came in back in 1997, there was a broken infrastructure and broken public services but a reasonable economy. This time, for the first time in an electoral cycle, we have come in to find a broken economy and broken public services.

Therefore, we have had to take on a pretty difficult inheritance, and that has meant difficult decisions. I fully understand the issues that business has raised, but if we did not have stability in the economy, there would be no future for us when it came to growth and getting out of this doom loop that we have been in for the last 15 years or so.

It is important that we work with business and industry. Indeed, we are bringing in lots of inward investment; lots have been done to support small to medium-sized enterprises, for example through permanent rates legislation in England; and the whole skills agenda is at the top of everyone's agenda as something that we want to resolve. All of that is essentially what Government has had to deal with in the past six or seven months, and it has not been easy.

I fully understand and acknowledge the concerns of business. However, I have yet to hear from anyone saying that they want all of this spending and investment a coherent argument with regard to alternative ways of paying for them. That is just the reality of the situation that we are in.

Kevin Stewart: You said that you canna wish away the problem—I get that point. However, where we will have to disagree is that I think that an increase in employer national insurance contributions—that tax on jobs—will not create stability in the economy.

I want to turn to the overall picture of all the things that are going on. We have the city region deals; as has been rightly pointed out today, some of them are older, while some are just getting off the ground. Beyond that, we have the wealth fund, investment zones and green freeports. How do they all tie in together? How does each part complement the others? How do you and other partners make it as simple as possible for business and private investors to navigate quite a cluttered landscape?

Ian Murray: The straightforward answer to your question is that it is all about unlocking potential. All the individual parts and elements that you have mentioned have different remits. For example, Great British Energy's remit is to achieve our mission for clean power by 2030, and it will be making and generating investment. It has been set up in Aberdeen, for obvious reasons, and it is concentrating on that mission of getting to clean power by 2030.

The national wealth fund does not compete with that—it complements it. It does not compete with the market—it complements it. The Scottish National Investment Bank is part of that, but it is very much smaller; the two things do not compete with each other and, in fact, are in dialogue all the time.

I come back to your previous question. I suppose that the biggest single thing that the national wealth fund and Great British Energy have done in their capitalisation is to send out very strong messages to the market that the UK is open for business; that it is a very investable place; that the Government is backing the missions that we have put in place; and that we have the mandate to deliver after the election. That very strong signal has gone out.

The challenges in this landscape come down to deliverability, the three biggest impediments to which at the moment in a lot of the infrastructure are, first, planning; secondly, regulation; and thirdly, skills. Those three things sit alongside the big investment and economic discussions about the big challenges that we now face. There will not be an elected member in this room who has not had discussions with businesses and institutions that want to invest but which are stuck somewhere along the line.

Kevin Stewart: I am going to be a bit parochial and take the discussion back to Aberdeen. Indeed, you have mentioned the city a couple of times yourself, so I will move forward with it.

First of all, Aberdeen was the natural choice for GB Energy. However, the initial suggestion was that there would be 1,000 jobs at the Aberdeen headquarters, and now that figure has fallen to 200 or possibly 300. Of course, that sticks in the craw of some of the folk in Aberdeen who believed the initial figures.

When you highlighted the key aspects and successes of city region deals, you stated that the Aberdeen one was slightly different, because it was truly built from the grass roots. Many of the projects emanated from the former Aberdeen City and shire economic future body; moreover, the deal was built, in the main, on skills, which is one of the main things that we need to get right.

Obviously, the deal is nearing its end of life. What is the UK Government's intention in that respect? Will there be an Aberdeen city and shire region deal mark two? The same goes for Glasgow. If so, will you allow that flexibility—that grass-roots decision making—so that we can come up with the projects that are required to drive growth in my area and others in Scotland?

Ian Murray: You raise a good point about best practice; we should be taking best practice from all across the country and implementing it in whatever happens next. The Aberdeen city and shire deal is a very good example of that.

I suppose that this sits very clearly within the new industrial strategy. I do not think that the UK or Scotland has had a proper industrial strategy for a long time now, and it will champion the stuff that we do well. It will be published incredibly soon, but it has been very much welcomed by stakeholders, industry, business and, in fact, local communities.

I have picked up on—if I am correct—a slightly tepid response to Great British Energy, but there is not an elected member around this table who would not have wanted it in their area. We are talking about £125 million, and it will not just employ direct jobs but create jobs, too—that is what it is there to do. It was a great disappointment to me that we did not have cross-party support for the Great British Energy Bill when it was going through the House of Commons. Indeed, the elected member for Aberdeen South did not back the bill.

Politics needs to come together, too, and start backing and talking up the economy, and changing the mood. We need to come together and say, "These are good things that are happening in Scotland and we should be backing and supporting them." That in itself would help the confidence of the business community, if they knew that both Governments were behind the strategies to improve the economy and were also working together in partnership not just through the resetting of the relationship at Government level, but with local authorities, other stakeholders and industry, too.

This feeds into your question about what happens next. I hope that what happens next in Aberdeen city and shire will, as your example shows, be driven by what Aberdeen city and shire require, and I hope that both Governments respond to that when it comes to not just resources but powers and responsibility. As Mr Halcro Johnston has said, we do not have to look too far to see where that approach works well. It has worked well not only in some of the city deals in Scotland, but in Greater Manchester and Merseyside, too, where it has worked incredibly well in delivering for local people.

Kevin Stewart: What is required in Aberdeen city and shire is just transition. The Scottish Government has put in play the just transition fund, which is providing investment for the future with regard to skills and new businesses and is creating confidence. Would the UK Government consider matching the Scottish Government's just transition fund, because that really is a requirement of Aberdeen city, Aberdeenshire and Moray?

10:15

Ian Murray: I think that it is important for the people involved in the oil and gas industry, particularly in the Aberdeen city and shire region, that we make it pretty clear to them that we will be using oil and gas for decades to come. They are a key component of our energy infrastructure and our energy needs. However, a national mission of Government is to get to clean power by 2030, and that is backed by GB Energy, with £7.9 billion, and by the national wealth fund, with £8.3 billion. They have been capitalised to do that.

The Great British Energy Bill, which will pass through Parliament fairly shortly, has been given £125 million in the budget for set-up costs and to get the first projects up and running. The just transition fund from the Scottish Government is very welcome, but we in the UK Government are doing our bit, too, to get to clean power for a whole number of reasons that include energy security and bringing down bills, but mainly—and in the context of your question—to create future careers and jobs in that particular region and all over the UK.

Kevin Stewart: That is a no, then. You are not going to match the Scottish Government's just transition fund.

Ian Murray: I do not have a calculator in front of me, but I think that I mentioned £17.5 billion-worth of investment that is currently available for projects to get us to clean power by 2030. An immense amount of taxpayers' money is being spent on meeting that mission, and that is the message that I would send out to the workforce.

Kevin Stewart: But it is not specific to the north-east of Scotland and Moray.

Ian Murray: Great British Energy is based in Aberdeen, and most of the contribution to the clean power mission will come from Scotland, The spend will disproportionately be in Scotland, in the same way that a lot of the UK Government's current legislative programme has had a disproportionate effect on Scotland.

Kevin Stewart: My final question is on succession planning, which we have touched upon already.

You have talked about learning lessons from what has happened in the past. What discussions are you having with Scottish Government colleagues, local authority colleagues, enterprise agencies and, probably most important, business and the private sector that have invested in city region deals on what has been achieved, what can be achieved, how we export best practice and how we ensure that we are creating jobs for the future across Scotland?

Ian Murray: There are a number of aspects to that. Since 5 July, I have probably spent more time working with the Deputy First Minister than any other minister of any Government, either my own or the Scottish Government. We are constantly talking about how we deliver this stuff together—obviously, there are devolved and reserved issues to deal with—but the partnership working that you will see in the city deals is important in that respect, too. Resetting the relationship is not just a political task; it is a task for both of us if we are to move forward as partners and deliver what we seek to deliver when we are in these buildings, and as we are mandated to deliver.

Such discussions are going on all the time. We are meeting with the Convention of Scottish Local Authorities and getting the input from local authorities, and we are meeting with those involved in the individual deals. As I have already highlighted, last week we and the Deputy First Minister met those involved in the Edinburgh city region deal to hear their aspirations for the future, and we have also met Susan Aitken of Glasgow City Council, who is the lead for the Glasgow region deal, to hear what they want for the future.

Discussions are going on all the time, but both Governments are sending out the message that economic growth is important; that we want to see it; and that it will be the driver behind whatever we do. After all, it is the only way out of this economic problem that we have. That is what is driving our discussions, but those discussions are happening all the time in various forums. Indeed, I hope that the committee's report will play a significant role in drawing out some of the issues and making some recommendations to both Governments that pull out some of the best practice and show where we can go in the future.

I am very keen on what is being called "double devolution", which a lot of people are talking about a lot. The regions are desperate to get on with doing some of the things that are right at the top of all our agendas such as skills and so on. As Ms Slater has said, some of the discussions that are being had about transport infrastructure are important, too, and we need to give the region deals the tools, the money and the resources to ensure that regional growth is happening right across the country.

Kevin Stewart: Thank you.

The Convener: I want to follow up on that point. You hinted that there is clearly a desire from partners to see what we might call growth deal mark 2, because people want to see investment. However, you also seem to be suggesting that some permanency might develop within the structures that have been established around the growth deals. Is that the case? It has been highlighted to the committee that Scotland has quite a cluttered landscape in this policy area—we have various enterprise agencies, regional economic forums and so on. However, you seem to be suggesting that there might be a desire to see the structures in the growth deals continue beyond those particular deals. Is that the feeling that you are getting from partners?

I do not want to intervene in the narrative around Edinburgh South being the best place to live but, of course, we know that the best place to live is the south of Scotland. However, the growth deal in that area is quite unique because it covers part of the north of England, too. I am interested to know how that desire to see more permanency within the structures would work across the border.

Ian Murray: That is an important question because those discussions are not being instigated by us—they are not our agenda. The discussion last week with the Edinburgh city region partners was instigated by Edinburgh, and the most enthusiastic partners in the room were the smaller councils around the city because they want to see the collaborative working arrangements and the relationships that they have built progressing so that they can take that economic unit and get more bang for their buck, as they are acting as a region rather than just individual local authorities or the city. Those are the discussions that most deals that are coming to that mature part of the process are looking towards.

The discussions are coming from the deal partners themselves. The Edinburgh city region deal partners laid out a strong case for what they want to see in the future, and they will work on that regardless of what happens with regard to the supporting mechanisms. It is quite a cluttered landscape but I do not think that there is a lack of resources. There will be arguments about resources here and there, but there are a lot of resources that will be available in that landscape—Great British Energy, the national wealth fund, the Scottish National Investment Bank, deal and partner funding, private investment, inwards investment and so on; all of that is on the table.

The future looks quite exciting in terms of getting people to work together. The smaller local authorities in those partnerships are very on board in all of that, as they are providing the infrastructure for the cities. The initial concerns that the cities would suck everything up have proved to be unfounded, as the opposite has happened, and the smaller local authorities have benefited from the cities acting as the linchpins for bringing the deals forward.

Your question is an important one, and is probably a question for your committee to answer in its report in terms of best practice and what the future should look like.

I should say that I had a fiver bet that, by a quarter past 10, you would have mentioned the A75.

The Convener: That was going to be my next question, cabinet secretary, but I will refrain from asking it. However, I will definitely pick it up with you after the meeting.

Michelle Thomson: I have a couple of quick questions. Earlier, you mentioned the industrial strategy. The UK's industrial strategy advisory council was formed in late 2024, but I am concerned about the fact that, despite the recognition that Scotland is at the heart of the net zero future, which is a critical growth sector, there is no Scottish representation on that council. Why is that?

Ian Murray: There are Scots on the strategy council, and we have had long discussions with the Secretary of State for Business and Trade on its remit. The industrial strategy itself will have Scotland as a major thread through it. We should not see those bodies as being irrelevant because they do not have direct representation from Scotland, because the stuff that they are dealing with in terms of the industrial strategy has a huge Scottish context to it.

Michelle Thomson: The Scottish Council for Development and Industry—now known as Prosper—was formed in 1931 with a specific focus on industrial strategy. However, it is not represented on the council, which seems utterly bizarre. In other words, will you commit today to looking at ensuring that there is proper Scottish representation on the council to make sure that Scotland is properly at the heart of the net zero future, which is one of the critical growth sectors?

Ian Murray: Alasdair MacDonald has passed a note to me that points out that Anita Frew, who is Scottish, sits on the strategy council.

The setting up of the strategy council and the industrial strategy itself has been a very collaborative exercise. As you know, it is always a challenge to get government to work horizontally rather than vertically, and the industrial strategy is trying to help in that regard by cutting through the barriers. The reason that we have a mission-led Government is because the missions are not about siloed Government departments but about everyone trying to work together to achieve them. That is the challenge of implementing the industrial strategy.

As is the case with the AI strategy that we spoke about earlier or, indeed, Great British Energy, the challenge for Government is not to set up the structures, write the reports and walk away; the challenge is delivery. The key thing that we have to do in all those aspects over the next 12 to 18 months is delivery, delivery, delivery. Governments are good at writing reports and setting up structures, but what they are not very good at is delivery, and that is the number 1 aim of not just the strategy council but of having a proper industrial strategy.

Michelle Thomson: I completely agree, and that is why I think that it is important that the body can deliver through Scotland and not just to Scotland, which is why it is important that it has genuine and adequate Scottish representation. However, I will move on, as I appreciate that your time is precious.

I could not let today's session go by without raising the issue of Grangemouth, which, as you will appreciate, is extremely close to my heart. There has been much debate and discussion around the issue, but, in light of what we see in terms of the net zero future, my primary interest remains how we can protect and retain the skills base with whatever transition is put in place, and not only the skills base but that skills cluster, which also includes the important chemical cluster. Can you give a sense of your latest thinking on what the current situation is, for the record?

Ian Murray: I do not want to go over the history, but the first time I met Alasdair MacDonald was in the Scotland Office at 9 am on the Saturday after the election, to get a briefing on what was happening at Grangemouth, because of the decision on the refinery. It is important to keep emphasising that the Grangemouth site is different from the Grangemouth refinery, because the site is much larger. The refinery is an important part of the site, but it is important to not confuse the two, which I think some partners have done, either inadvertently or deliberately.

The situation at Grangemouth is a tragedy. The refinery closing is no doubt the worst possible news, but in the days and weeks that the new Government had in which to do something about it, we managed to get the Falkirk and Grangemouth growth deal over the line, which is helpful in the medium term. We also managed to get the money in place—again, jointly with the Scottish Government—for project willow, which takes a long-term view. Information on that should be published shortly, and, like everyone here, I am looking forward to seeing that.

There is a commitment from both Governments that project willow is the way forward. It will not be a silver bullet or a panacea, and we should not build up the hopes of the workforce and the local community in that regard. However, it will lay out what the future could look like, and it is up to us to try to deliver on some of that.

If you do not mind, convener, I will just briefly say that we had weeks to address the issue, while the previous UK Government and the current Scottish Government had 32 years combined. We did all that we possibly could and it is a travesty that the refinery has closed. I just wish that we had had more time.

Michelle Thomson: My point was about specific actions that you anticipate taking to protect the skills base during the transition period.

Ian Murray: Alasdair MacDonald can talk about something that happened last week.

Alasdair MacDonald: Last week, we had a useful session at Forth Valley college. We see an important aspect of the role of the Scotland Office as being to bring together various interested parties. There are a lot of different strands to Grangemouth—there is the deal, there is the freeport and there are two Governments at play, as well as the local authority. The skills issue was central to that session. Obviously, it is a devolved issue, but some of the same challenges are faced across different parts of the UK—the secretary of state heard the same issues being raised by the defence sector last week.

We are exploring how we can move forward with a shared-skills agenda, recognising that there are lots of important skills at that site that could be deployed in other places. Indeed, we have been liaising between other businesses and Petroineos and INEOS to consider whether they could take on some of the staff who, sadly, will be made redundant. We are looking at the bigger policy perspective but we are also working in quite a tangible way to make connections to try to help some of those individuals with their careers.

Ian Murray: It is worth putting on the record that the defence industry and the industries around the Grangemouth cluster have been saying that reskilling is important, and the issue is an important part of the Withers review. As I said, Governments are good at writing reports but bad at implementing them, but if we could get the Withers review off the shelf, dusted down and implemented, it will deliver what the industries are crying out for. We are happy to convene events and work with the Scottish Government to do what we can to try to get that implemented as quickly as possible.

The Convener: Thank you. We might come back to you on that point, because I know that the committee is keen to do some work around the implementation of the review and the changes on the skills front.

Now, back to the A75—[*Laughter*.] I am only joking.

That brings us to the end of our first evidence session. I thank the secretary of state and Alasdair MacDonald for joining us today. It was a thorough session that will certainly make a big contribution to this committee’s work on the growth deal.

I will suspend the meeting to allow for a changeover of witnesses.

10:30

Meeting suspended.

10:37

On resuming—

The Convener: We now move to the second evidence session this morning. I am pleased to welcome Anthony Daye, interim director of place and enterprise at South of Scotland Enterprise; Zoe Laird, head of growth deals and digital at Highlands and Islands Enterprise; and Derek Shaw, director of scaling innovation, and Matt Lockley, head of partnerships, at Scottish Enterprise.

As always, I appeal to members and witnesses to keep questions and answers as concise as possible. I will probably break that rule with the first question, which may not be too concise. I am keen to get a take on your involvement with growth deals, because it varies by growth deal and in different parts of Scotland. We will start with Highlands and Islands Enterprise because you have a full house and are involved in all four deals in your area. Is that as a voting member of the board? Can you explain the differences?

Zoe Laird (Highlands and Islands Enterprise): Madainn mhath—good morning. The differences are that I am on the Islands partnership board as a representative of HIE, but in other areas my area manager colleagues are on the boards. That is the case in Moray and in

Argyll. In Highland, there is a slightly different arrangement: the work is much more about the implementation so a group of officers involved in the individual projects sit on the project board. Within HIE, I co-ordinate the activities and look for common lessons and themes.

The Convener: "Voting member" may be the wrong phrase—I do not know how many times things go to a vote—but, as an organisation, you are a voting member on all four boards. Is that the case?

Zoe Laird: Yes, that is correct.

The Convener: You lead on three of the 20 projects across those organisations. In your evidence session, however, Highlands and Islands Enterprise has been quite critical of the funding arrangements that sit with growth deals. You have highlighted the fact that the money goes to local authorities and that that arrangement could mean that opportunities for greater collaboration are potentially missed. Could you explain more about what HIE means by that?

Zoe Laird: Apologies—I did not mean to be critical. I was thinking more pragmatically that a regional approach might be more impactful in some aspects of the growth deal projects—in entrepreneurship and leadership skills, for example. My point was that there are innovation projects where a regional approach could reach further than the individual authority approaches. It was not to suggest that local authorities should not have that funding, because they absolutely should and they do great things with it, but in some aspects of the deals' objectives I think that a regional approach would be stronger.

The Convener: Thank you for that. I turn to Scottish Enterprise, which is involved in eight of the 12 city and region and growth deals. Is that purely because the geography of the other four sits with HIE and SOSE? Is that why you are involved in eight of the 12 deals?

Derek Shaw (Scottish Enterprise): That is correct, yes.

The Convener: I will come to SOSE in a second, but the south of Scotland deal was signed before SOSE existed. Why was Scottish Enterprise not involved in the board, before then passing on to SOSE when it was established?

Derek Shaw: I suspect that we would have been involved in the early stages of that deal and, once SOSE was established, the responsibility for leading on it or other deals would have transferred to it.

The Convener: On your actual involvement, are you a voting member on the eight boards that oversee the growth deals?

Derek Shaw: The governance arrangements for each deal are tailored to the individual requirements of that region. For example, in Tayside and in Ayrshire, we are a voting member of the joint committee, but in others we are not. Each of the deals has various groups, including, for example, programme boards, thematic boards and regional enterprise councils. We participate when appropriate in those other governance boards.

The Convener: I will put the same question in relation to South of Scotland Enterprise. You cover the Borders and Dumfries and Galloway, but you do not sit on the board for that growth deal. I understand that the reason may be historical, because you did not exist when the deal was signed, but has there been no proposal to change the structure to involve SOSE in decisions?

Anthony Daye (South of Scotland Enterprise): I can answer the last part of your question first. No, there has not been any proposal. We could suggest that idea in the future, and it might make a difference. Certainly, it would make a difference to one of the projects that we lead on—the mountain bike project—because it is a big project and we are leading, but it is very much a partnership with Scottish Borders Council. Dumfries and Galloway Council is also involved in it through the funding mechanisms. To have a voting part on the board would be immensely helpful for something of that size. We have definitely been exploring the issue, but we have not concluded anything as yet.

On the first part of the question, the reason why we do not have a voting part is historical. It has not caused any major problems so far, but things could run more smoothly if SOSE was sitting on the growth deal board. Again, our approach has been to work with council partners, particularly on the mountain bike project with Scottish Borders Council and on the dairy nexus on the innovation and skills side with Dumfries and Galloway Council. We have tried to work in that way, and we now also have the regional economic partnership in the south of Scotland, through which we could take part in future deals by informing them, considering place and identifying other key success outcomes that we want to achieve.

Michelle Thomson: Good morning, and thank you very much for joining us. I want to ask some general questions on the funding for the deals. We know that their profile has been different, and we know there have been historical differences and so on. You may be aware that the Secretary of State for Scotland gave evidence earlier, and I asked him, in light of the forthcoming review and the general challenges in the UK economy, whether there could be an impact on city deals, given the chancellor's expressed need to find money anywhere that she can. How strong a sense do you have of the commitment to multiyear funding and, within that, the bringing in of private sector funding? In particular, how confident will the private sector be in funding if UK Government commitments to funding are uncertain?

It is a general question and I am not bothered who goes first. Derek, you smiled.

10:45

Derek Shaw: Thank you for the question, deputy convener. Public sector funding is critical for the projects and programmes to be successful, and having confidence in the availability of that public sector funding into the future and for the duration of the deals is critical to leveraging private sector investment. From the projects and deals that Scottish Enterprise has been involved in and supported, we are encouraged by the support from the private sector but, ultimately, on-going public sector support is critical to leveraging private sector funding.

Michelle Thomson: Thank you. Does anyone else want to comment?

Anthony Daye: I agree. Let me take one of our examples: the mountain bike project. The bike park in particular will have substantial private sector funding, and anything that can give certainty for the long term on the public sector aspect of the funding would be great. That being said, every time that we have asked the question of Government, it has always been positive, making sure it is clear about profiling and where we are at with the projects. We have always had good, robust conversations on where funding is likely to be available, or might not be available, and we are then able to go back to partners and give them some level of certainty.

Zoe Laird: I will add to that. We have been given a lot of confidence that the public sector funding from both the UK Government and the Scottish Government will flow through, but we need to recognise that there will still be challenges in the profiling and availability of funding as the years go forward. As some projects can be delayed for lots of complicated but good reasons, the profiling is a little more challenging for the Governments to manage. I guess that there may therefore be a potential risk that the funding will not come to fruition, but we are not aware that that is intended or coming to pass at the moment. Everybody is working well together to do their best to make the profiling work as well as it can. There is a risk in the future, but not one that we think is a high risk.

Michelle Thomson: Thank you. Derek, you spoke about how vital it is that private sector partners are involved in various deals. I presume that they will do their own risk assessments because the convening power of a commitment to public sector funding is so vital to bringing in the private sector funding. Have you heard any concerns expressed by any of the private sector partners with whom you have dealt in any of the deals?

Derek Shaw: Not specifically in relation to the commitment to funding going forward. Individual projects have faced inflationary pressures over the past couple of years, which in some cases have had an impact on the viability of projects. There has been a need to look at the outcomes and impacts of the projects in the context of increasing costs, and continuing to bring in private sector investment is a critical part of that. A lot of activity in cases of inflationary pressure is centred on things like value engineering and asking how the project can still go ahead with public and private sector investment but on a different scale.

Michelle Thomson: I suspect that colleagues may want to ask about the detail of how the inflationary environment affects the projects, but I will finish off my questions on the funding elements.

I am thinking about deal interactions and profiling. Public sector funding may move from one pot to another pot—we heard descriptions of that earlier. Deal teams might interact with various sources of potential funding: there is levelling up, the shared prosperity fund and the Scottish National Investment Bank, and we are not yet sure how the UK investment bank will interface with them. Are you alive to that issue, and does it pose any risks or, indeed, opportunities?

Zoe Laird: In the HIE region, we have been liaising with, for example, the capital regeneration fund from the Scottish Government, and it has been flexible and supportive where some projects have not met the deadlines and are receiving funding. That will continue, and it is one of the major sources of additional funding from another team within the Scottish Government.

We are probably at too early a stage to say how the investment banks will affect the situation. Some of the offshore wind investments in ports are still at an early business case stage, so it will be a test of time.

Matt Lockley (Scottish Enterprise): For most of the deals that we are working with, all the partners are alive to the funding challenges and take a proactive approach to identifying alternative sources of funding. Where possible, Scottish Enterprise supports them in that, either directly through our own opportunities to fund, co-fund and co-invest in projects or through negotiating and brokering conversations with different funders. We are alive to the issue.

The regional partners are also very much on the front foot. They have a long-term view of where funding might come from, and they are able to position themselves well in deal projects and their longer-term regional economic strategies.

Daniel Johnson: My principal lines of questioning throughout our inquiry have been around how the city region deals fit within the wider policy and governance structures. When I think about what city regions are designed to do, which is about regional growth and regional economic development, that seems a bit like what South of Scotland Enterprise and Highlands and Islands Enterprise are meant to do. Is there a sense of overlap? Is there a sense that your agencies ought to be much more at the centre of how such deals are designed in the first place to build longer-term continuity in investment and innovation?

Anthony Daye: We were born in 2020 and therefore were not involved from the kick-off, but we would welcome being involved in any future deals. We should also be able to bring in the regional economic partnership, which has a 10-year strategy.

However, currently, there is good collaboration between the different partners. We have had interactions with projects in the south-east deal, which involves Scottish Borders Council. We talked about phasing—when phasing needs to be altered or things change, maybe we can come in and help. That approach has been useful. As Matt Lockley said, it is about reacting to situations and making sure that you can find what you need at that point in time, because things will change over time. We will probably come to the point about inflation, which has been one of SOSE's biggest challenges with regard to our mountain biking project.

Daniel Johnson: Highlands and Islands Enterprise, including in its previous guise as the Highlands and Islands Development Board, has been in this line of business for a long time. Indeed, you have a legacy of investing in such projects reaching back over 70 years or more. Do you have a corporate view, looking backwards as well as forwards, about the right structure to sit across such funding? Does it play nicely with your other aims and objectives?

Zoe Laird: Yes, it plays pretty nicely. In the past few years, we have formed the regional economic partnership, which has the same partners that we work with in the growth deals. Before that, we worked with each of the growth deal partners to support and influence the right projects. We are satisfied that the right things are happening, and mainly in the right places, but, as the economic context changes, that can change, which is a little harder to work through in the current structure.

You have asked previously about benefits realisation and evidence of that. We could take a good regional overview of that using some of the evidence behind the business cases that we have built up through the partnerships with the local authorities, but we have not been asked to do that. The partnerships work, but they could potentially become stronger by working through the regional economic partnership.

Daniel Johnson: I have a slightly different set of questions for Scottish Enterprise, which I will come to in a moment.

You raise an interesting point there, Zoe. We have regional economic partnerships, the growth deals, the enterprise agencies and local authorities. We probably have other regional structures that are stranded because of previous tiers of government. Is there a sense that we need to look at the opportunities to consolidate some of those structures? Would that be an advantage? South of the border, we have combined authorities. Is there a sense that we could streamline or merge some of the structures that are playing in the same spaces?

Zoe Laird: It depends on what you see as the role of each of those organisations. In the growth deal, the partnerships work well, but let us not forget that the local authorities and the enterprise agencies have different responsibilities across the board. Some of the other partners—for example, the universities and Skills Development Scotland—are directly involved in those partnerships to a lesser degree, but they are still around and they help a lot in looking across the national and regional needs and trends. Personally, I think that the right organisations are there, but we would benefit from being clear about our respective roles and when and how it is worth while working together.

Daniel Johnson: For clarity, I was not suggesting that local authorities be merged. It was more about the regional economic partnerships.

Scottish Enterprise has a slightly different remit, given that you are less regionally focused than your counterpart enterprise agencies. Given that Scottish Enterprise has a key focus around attracting inward investment and seeking to boost growth, do you have a view on what has worked best across the deals that you are involved in, when it comes to delivering against your wider aims?

We see quite a broad range of approaches. Some city region deals have focused on infrastructure projects. Others have set up institutes such as the National Robotarium, which will be self-sustaining now that it is up and running. Others have discrete initiatives that essentially are designed to last the lifespan of the project. Do you have a corporate view as to what provides the best bang for the buck in terms of generating inward investment and growth in the city regions?

Derek Shaw: Yes, absolutely. Generally, Scottish Enterprise has been involved in the eight deals in various ways, from business case development of the deals—working with partners to support the strategic case for those deals—through to projects within the deals and supporting business cases for that, all the way through to investing in projects where there is strong alignment with Scottish Enterprise's remit around growth, supporting businesses and attracting inward investment.

To give an idea of the scale of the investment, across the various projects that we are involved in from a regional and city growth deal perspective, we have invested in excess of £48 million. That is in projects that we think will drive regional and national economic growth in the areas where there is strong competitive advantage, whether that is on specific sectors, infrastructure or low carbon—[*Interruption*.]—and where that is aligned to our remit and overall objectives.

11:00

Daniel Johnson: Apologies for that interruption from someone's phone. Clearly, one of my colleagues needed a wake-up call. Sorry, that was very cheeky.

I have a similar question to the one that I asked Zoe Laird. Do you feel that the city region deals play nicely with the rest of your lines of activity or could things be done to improve synergies and maximise the benefit that we get from such funding alongside the current activity that Scottish Enterprise undertakes?

Derek Shaw: I will answer and then pass over to Matt Lockley. The positive impact of the deals has come from the collaboration between partners—local authorities, the enterprise agencies and other agencies, including in the private sector. That has worked well. The approach has focused on the regional priorities that will drive growth in a particular region, which then form the basis of the deal and the projects that sit within it.

There is always an opportunity to look at the structures. I mentioned at the beginning of the session the joint committees. Across the eight deals, 30 groups exist to support the deals. That is complex, and there could be an opportunity to look at how some of that is streamlined, while retaining the positive flexibility to adapt governance and processes at regional level.

Daniel Johnson: Can you clarify? Are you suggesting that the enterprise agencies could support in that, perhaps by co-ordinating or providing shared services?

Derek Shaw: In a lot of cases, we sit on the boards and our involvement varies depending on the nature of the board and how we can add value. In some cases, we have provided programme management support. In others, we provide input in terms of strategic thinking on the development of the projects.

Daniel Johnson: That is interesting. Mr Lockley, I am interested in your thoughts.

Matt Lockley: I have a point about alignment of the deals with Scottish Enterprise's overall strategy. As the deals have developed over time, some of that alignment has diverged. We now have a clearer set of missions that we are focused on as an organisation, which means that we no longer actively support or sit alongside some of the deal projects that we were previously involved in.

Also, most of the deals have a wider remit that covers things such as housing, transport, infrastructure and skills, which do not form part of Scottish Enterprise's core business. We are less engaged in the aspects of deal delivery that do not form part of our core activities, such as the housing, transport and skills elements.

Daniel Johnson: Could you illustrate the point that you just made about areas where Scottish Enterprise has moved away because of the adoption of the mission approach? Could you give some examples of that?

Matt Lockley: The Tay cities deal has a programme of activity around tourism and culture, which we historically have been involved with—we had a tourism and culture focus as an organisation. In recent years, with our move to a sharper missions focus, we have not focused on the tourism and culture sector in driving growth. Our engagement on that sector in the programme board in the Tay cities deal is reduced, because we do not have a core activity set around that.

You would expect that, over a 10-year deal life cycle, our organisational priorities will change. Some of the deal priorities are set at the beginning of the 10 years. I suppose that you would expect such movement over a 10-year period.

Willie Coffey: Good morning, everybody. Earlier, you might have heard the secretary of state's answer to my question about how flexible the funding arrangements are if projects fall by the wayside. In Ayrshire, maybe two or three projects have fallen off the table. The secretary of state gave an assurance that the money is still there, and so did the Deputy First Minister last week, but that assurance will not last for ever. In your respective regions, have projects fallen by the wayside? How quickly have you been able to adapt to replace those project concepts with something else, so that you do not ultimately lose the funding that has been earmarked for previous projects?

Zoe Laird: In the Highlands and Islands area, there have been a couple of significant examples of that. In the Inverness and Highland city region deal, there was a digital project that was to be funded to the tune of about £20 million from the deal money. It took a long time—a number of years—to get to the point where it was agreed that the project could not proceed, and there were a whole load of reasons for that. However, once the decision was made, there was a quick move to reallocate funding, and it went to a different type of connectivity project—infrastructure around the Corran ferry, which was desperately needed at the time. After an options review, a number of projects were brought forward and that was picked as the one to proceed, and it is under way. That was fairly quick once the decision was made to go down that route.

Another example is from the Moray growth deal. A project called the Moray aerospace, advanced technology and innovation campus—MAATIC—was a fairly weighty project in terms of funding. A number of months or possibly a year ago, the University of the Highlands and Islands, which was leading on that project, said that it could not continue because it was struggling to get a good business case. However, a good process has been put in place to look at the options for alternative ways to spend that money in the Moray partnership. There have been a number of workshops with industry and so on, and I think that something will come from that.

I have confidence that that flexibility is possible. It is about finding a good project that fits the objectives of the deal. There is no shortage of those, to be fair. It is about developing them to a good business case level and making sure that they are doing the right thing.

Willie Coffey: I ask Matt Lockley or Derek Shaw to say something about the Ayrshire case. Are there projects waiting in the wings that did not get approval in the first phase and that could come forward?

Derek Shaw: A couple of projects have slipped and are not being taken forward as part of the Ayrshire growth deal. That sometimes happens because of factors outwith our control. It is subject to private sector investment into companies, and there are challenges associated with securing such funding, particularly for early-stage companies.

Two quite large projects in that deal are no longer being taken forward. Therefore, Scottish Enterprise, South Ayrshire Council and the other councils are working to identify other growth opportunities that can be taken forward as part of that deal. We are looking specifically at aerospace and how we can support expansion of the business base in Ayrshire and new facilities that companies want. We are considering whether Ayrshire growth deal money can be used for that purpose.

Willie Coffey: Are you confident that you can get those projects worked up so that you do not run the risk of losing funding that might have been allocated previously?

Derek Shaw: The positive thing is that, in many cases, particularly with companies that are looking at expansion, their plans are in place. It is about ensuring that the partners, including us, move quickly and at pace to take forward those opportunities.

Willie Coffey: I am glad to hear that. I will not ask you my second question about supercomputers, which we got into earlier. Instead, I want to touch base with you and get your thoughts on the democratisation element of the growth deals. Some time ago, one of our witnesses talked about how democratic the decision-making process is in the growth deals. The Scottish Government puts in nearly half of the entire funding, or just short of that, but folk like us have no formal representation on any of the growth deals—I certainly did not have that in Ayrshire.

Is that approach right? I think that Derek Shaw said that Scottish Enterprise has voting rights at one of the committees, so maybe he could explain that. Can you say anything about the principle of democratisation? Have the public been taken along with the growth deals and felt part of them? Alternatively, is it a system that we have decided to deliver to people without their real participation? Particularly for us as elected members of the Parliament, there has been no direct say in the design, development or agreement of the projects.

Matt Lockley: That is a good question. The argument would be that, for the majority of the joint committees, the local authority elected members deliver that democratic accountability and, therefore, are an important voice round the table, in that they bring that democratisation and community voice into the deal aspirations and so on.

On the specific point about our voting rights, we are formal joint committee members on a couple of the eight deals that we are involved with but not on others. There is no particular rhyme or reason to that; it is just how some of the deals have developed over time. Some of them are purely political. The Glasgow deal is handled by the Glasgow city region cabinet, which is purely made up of local politicians. That is just how the structures have evolved over time.

On that democratic point, the local elected members would be seen to be bringing the democratic and community voice into discussions about city deals and their ambitions.

Willie Coffey: Is that the same with the other growth deals? Is there no MSP representation in the decision-making process on any of the growth deals?

Anthony Daye: SOSE was not there at the time, but it is as Matt Lockley describes. As I said earlier, we always welcome the ability to input differently and to bring the voice of different partners. That may be worth while discussing for the future.

Willie Coffey: Okay. Is it the same in the Highlands?

Zoe Laird: It is the same. The local authorities, with their democratic accountability, are on the boards.

I am not sure how consultative the process was to choose projects, because I was not around at that point, but it will have come through that democratic thinking.

Looking ahead, certainly in the HIE region, we hope to publish a strategy for the regional economic partnership in the spring, which has the endorsement of all the local authorities, although Highland Council has yet to sign up at committee. We did a bit of consultation on that, and the priorities that are coming through in that strategy are aligned with what the growth deals are doing. That may not be a direct democratic route, but it is a reflection that we are doing the right things.

The Convener: Jamie Halcro Johnston has a supplementary question.

Jamie Halcro Johnston: My question is for Zoe Laird. You talked briefly about the repurposing of money for the Corran ferry. I have been a strong advocate of getting that situation sorted out. In the past, such investment would have been dealt with by councils and the Scottish Government. Do you have concerns that some of the money for the growth deal is being moved away from what was originally intended? What impact does that have on the deal being able to meet its overall objectives, particularly on connectivity? There were concerns about potential overlap between UK and Scottish Government schemes. Has that meant that the original objectives on connectivity have not been met, or are you fairly confident that they will be met but that it might take longer?

Zoe Laird: Connectivity covers digital and transport and, therefore, yes, the objective is being met. Are as many people being reached as was perhaps intended from the original funding allocation? Probably not, but the work that is being done is vital. As you said, had the funding been available for local authorities to do that work under normal circumstances, they would have gone ahead with it. The work on digital connectivity is still progressing, but it was hard to do under the growth deal because of the Government programmes that were in place.

The upshot of that is that the number of people who will benefit from the investment will probably be smaller, but the work is vital, so how could you not do it? It is important to remember that, in the Highlands and Islands, the number of people who will be impacted by projects will be small because of population density, but that is not a reason not to make such investments.

On balance, the right thing is being done, but it is being done in a different way. The fact that other money is coming in from the digital connectivity side is really helpful, and we are looking forward to getting the contracts under way.

Jamie Halcro Johnston: Will there be an impact on the growth deal's original objectives, as laid out by the two Governments and the council?

Zoe Laird: To be honest, I would need to look at the detail of how the objectives were laid out. What is being done is in line with the principle of the deal, which included the need for a lot of transport connectivity. I am afraid that it is hard to say anything more without seeing the detail.

11:15

Kevin Stewart: We have heard a lot about some deals being more successful at bringing in private investment and private projects. Will you outline the part that your organisation played in ensuring that private investment came into play?

Anthony Daye: The number of projects that we are involved in is smaller, but, in relation to the mountain bike park project, which has not quite come to fruition yet, we have played a part along with Forestry and Land Scotland, the council and the private contractor that is looking to operate the bike park and make significant investment in it on the back of funding from the Borderlands deal. We always try to bring in private funding, when possible, and we hope to increase such funding. That is one current example of our work in bringing different partners together with a private sector funder.

Zoe Laird: In some ways, I find that question quite hard to answer. Market failures in the Highlands and Islands region mean that there is not necessarily a huge amount of private sector investment in projects, albeit that there are some exceptions—for example, the Scapa deep water quay project up in Orkney will attract private investment because of the nature and growth of the activities that are going on there. In other cases, the projects are intended to create the market, so the benefits will come in the future. I am thinking of innovation centres, for example—the growth deals invest in the buildings, the skills and so on, with entrepreneurship and innovation growing from that, so there is a lighter role for the private sector.

It is quite hard to answer that question. We are involved in all the projects and, through our sector teams, we make connections with the private sector and bring those to the fore when there are opportunities.

Kevin Stewart: Let us look at the innovation centres. You have said that there is no private investment in those centres but that you hope that they will bring private investment in the future. What part has your organisation, or other organisations that are involved in the growth deal, played in getting the views of private investors or businesses on what they require from the innovation centres?

Zoe Laird: I am afraid that that is not my area of expertise. Our innovation team deals with that. The sector teams and the innovation team always take soundings on what private investors need and want, and we respond to that through our approach to the project. It is part of the fabric of what we do, but I am afraid that I cannot give a direct answer.

Kevin Stewart: Does someone from Scottish Enterprise want to come in on my question about the private sector?

Derek Shaw: I will make three general points. The first relates to our input and involvement in building the business cases for individual projects. Unless you build a strong business case that shows the strategic, economic, commercial and financial case for a project, you will struggle to get public or private sector investment, so we have been proactive in a number of areas relating to business case development.

My second point is about identifying gaps in the funding provision for a particular project and identifying potential investors and partners that could come in from the private sector. Some of the gaps are viability gaps. If the private sector could be interested in a project but there remains a viability gap, how can the public sector—using growth deal money and, on some occasions, Scottish Enterprise investment—reduce that gap in order to unlock private sector investment?

The third element is about using our regional, national and international networks, including our colleagues in Scottish Development International, to identify and engage with potential partners and investors that could be interested in working alongside growth deal partners to invest in projects.

Kevin Stewart: You might have heard me question the secretary of state about all the different things that are going on at this moment in time, including wealth funds, investment zones, green freeports and city region deals. For some, things are a little bit fragmented and, for many, it is hard to navigate through it all. What part do your organisations play in helping private sector partners to navigate through all that, so that we can persuade them to boost their investments and help them through what are often sticky roads in order to get to the place where we all want to go?

Derek Shaw: First and foremost, our organisation should have clear visibility of the various funds that are out there, for the public and private sectors, and be aware of the purpose of the funds and the criteria that were set when they were established. Our role as an organisation, with private sector partners and investors, is to simplify the process so that it does not appear complicated or fragmented. We should be the front door for the various funds that are available, and we should engage with the private sector to ensure that the process is as streamlined as possible. I take the point that there are a lot of funds and that it can be complex to navigate the system for all parties involved.

Zoe Laird: As has been said, we see ourselves as the front door. We recognise the various interests in the region and try to tie up the relationships between the different opportunities as best we can in relation to the different funding objectives and the different investments that we think would benefit the region. We probably spend the bulk of our time facilitating the matching of investors and funds with ease, making things come to pass and filling the viability gap that Derek Shaw mentioned.

Anthony Daye: My answer will be similar to those of my colleagues in the other enterprise agencies. As Zoe Laird alluded to, as well as streamlining and simplifying the process and providing clear signposts to the funding and the criteria for it, proactive work is needed, and South of Scotland Enterprise is actively looking at that. She also talked about market making. How do we almost force the market to come? Lots of funding is available, but we need to ensure that people are aware of the funds, the criteria for them, how a fund matches with their business and how it potentially matches with deal money, too. We are very cognisant of that.

For example, in relation to the dairy nexus in the Borderlands deal, we worked with private businesses to bring them in. That project has finished, but it is a similar case with the mountain bike park. What businesses can we bring in? Can we build on public sector funding and events such as the UCI—Union Cycliste Internationale—world championships to take forward and promote the project? We have taken that approach.

Kevin Stewart: My final question is about succession planning and learning from where we are. Have your organisations been listened to in terms of shaping the future for city region deals mark 2, if that happens? Has your expertise in creating the linkages that you have talked about and matching funding from various sources been listened to? What needs to be done to ensure that we export all the best practice and put that into play for whatever is to come in the future?

Anthony Daye: We are listened to. Since South of Scotland Enterprise was established, we have had team south of Scotland and the regional economic partnership, and we have worked closely with both local authorities, so we will be able to ensure that everything is aligned for future deals. We know what the priorities are—those of the Borderlands deal include place and wellbeing, innovation and skills, infrastructure and so on. We are working as partnerships so that, in the future, we are ready to say what we will do. That work has been quite strong during the time in which South of Scotland Enterprise has existed.

Zoe Laird: As Anthony Daye has said, good partnerships have developed over that period. We understand one another's strengths and what we can bring to things such as a deal arrangement.

In relation to an area where it is perhaps difficult to be heard, it is very hard to measure the impacts of the enabling work that the enterprise agencies do, because the outcomes come later down the line. That is just how life is. It is very hard to measure the ability to pull together different relationships and turn that into an output that will come several years down the line. That is one area in which it is hard to be heard, but, on the whole, we are definitely heard. We are all keen to learn more and do better, whatever the next step is.

Matt Lockley: Enterprise agencies are in a unique position in having coverage across multiple city region deals and regional economic partnerships. We are able to aggregate some of the learning from those deals and partnerships and apply it as we go forward. Through our work on things such as the investment zone programme, we are able to use some of that learning to support regional partners in relation to how the programmes are shaping up, the structures around them and how project proposals are developed. We are in the unique position of being able to take a more strategic overview of what is going on in multiple deals and partnerships and bring that to the table.

The Convener: To follow up Kevin Stewart's line of questioning, I will take us back the issue of the cluttered landscape. We are beginning to hear from our evidence that there is a desire to go beyond growth deals 1 and look at growth deals 2 and the future of the structures that have been developed as part of growth deals. Do you have a view on that?

I have heard a couple of people touch on how engagement is also through regional economic partnerships. Do we need to continue the growth deal structures or should that work sit with regional economic partnerships? I do not know whether you have a view on that, and maybe it is unfair to ask you but, given that in some cases you are involved in the growth deals and that in all cases you sit on regional economic partnerships, do you think that we need both? I see everybody putting their heads down and running for cover. Does anybody want to answer that question?

Zoe Laird: I will give it a go and then Derek Shaw can give a much more coherent answer. The regional economic partnerships have a real strength in being able to have that strategic oversight, as Matt Lockley described. I mentioned in the written evidence some areas where collaboration across all the local authorities in a regional economic partnership would be stronger if it was co-ordinated through the partnership. In other areas with greater local economic needs, things are best delivered by the arrangements that are in place now. I am slightly fudging my answer to your question, but the REPs are strong and could get much stronger in having oversight at the appropriate level for the types of funding available.

The Convener: That is helpful. Does anybody else want to have a bash at that?

Derek Shaw: I agree with Zoe Laird on that point. The regional economic partnerships have an important role to play on a variety of different levels, as do the growth deals.

It is about ensuring that there are clear rules and responsibilities and that the mechanisms and the structures are as effective and as efficient as they can be. We can take positive learnings from the work that we have all been involved in on the deals, but we should ensure that, if there is a mark 2, if you like, those lessons are taken into account to ensure that delivery and governance are as effective as possible, and that the balance that needs to be struck in terms of flexibility and the regional approach is also taken into account.

11:30

The Convener: It is slightly more complex for you, Anthony Daye, because the area includes Cumbria—or Cumberland as it now called—and Northumbria. I do not know whether SOSE has a view.

Anthony Daye: It is quite useful as a learning because you get to see something slightly different cross-border. On your question, I agree with colleagues. It is maybe a little bit early for us, but we definitely feel that the REP has that oversight role to play.

On the last point that was made, it is about the groups being clear on roles and responsibilities. As long as that clarity is there, we can all work together well. That could always be looked at and improved in future deals.

The Convener: Yes. Lorna Slater has a supplementary.

Lorna Slater: I wondered whether now is a good time for me to ask my question because it follows on from yours, convener. Is that all right?

The Convener: That is fine, yes.

Lorna Slater: I also have a question about the future. How do you see any new tranche of city region deals—and I am interested in whether you think that a new tranche of deals is a good idea—fitting into the investment that is needed to green the economy and to transition away from fossil fuels and restore nature? Given the urgency of the climate crisis, should that be a primary aim of any future deals?

Anthony Daye: Let me take that one, given that we have a natural capital investment zone. In SOSE, that approach is important to us and we would like to see it at the forefront of any future deals. That goes back to the previous question about multiple types of funding and bringing those together, but ultimately pushing hard at that door. It is important for the future.

Zoe Laird: I agree. Before coming to speak to you, I was reflecting and focusing on what we call the grand challenges, whether those are looked at through city region deals 2 or some other package of transformational funding. Of course, climate change and reaching net zero are very much such a challenge. Net zero would be an important focus and, strategically, it is one of our top cross-cutting themes within HIE. We would very much support that approach.

Derek Shaw: I agree with colleagues' sentiment on that. Matt Lockley mentioned that Scottish Enterprise has adopted a new missions-based strategy for the organisation that looks at some of the big systemic structural challenges and opportunities that the economy faces. We have three missions, of which one is energy transition. How do we work with partners to support the significant challenges and the significant opportunities from an economic growth and development perspective around things such offshore wind, hydrogen, renewables and clean heat? All those positive impacts will be essential for climate change challenges and the net zero opportunity.

Gordon MacDonald: Good morning. We have touched on inflation and some of the pressures already, but the Government's funding is fixed and it is over 10 or 20 years. How should that funding pressure be handled by the various deals? We have 12 deals on the table. Two are fairly recent, but 10 have a bit of history. How are they dealing with the inflationary pressure at the moment? Derek, do you want to go first?

Derek Shaw: It depends on the nature of the project. Some of the projects are infrastructure or capital projects, and those inflationary pressures have a consequence for construction costs, for example. In those projects, it is about looking at value engineering and reducing the construction costs to try to achieve the same outputs and outcomes. It is also about looking at how we can support those costs collectively.

In some cases, Scottish Enterprise has invested in projects at a higher level than anticipated because of inflationary costs. A good example is our Tay cities innovation fund, as part of the Tay cities growth deal. The initial ask of Scottish Enterprise was £1 million of investment, and then the costs of that project increased. We worked with the University of Dundee in particular and, last year ,we agreed to invest £8 million to get that deal and to construct and fit out the new facility for spin-out companies from the university. That was quite an innovative approach. It is an important project in terms of that hub, but the longer-term follow-on from that in potentially creating a life sciences innovation district in Dundee is also important and we are eager to work with partners in the university on that as a longer-term ambition. Our funding took the form of a grant mechanism whereby the university takes equity stakes in its spin-out companies. If it gets a commercial return on that, we share the proceeds, so there is a financial return for the public sector as a consequence. That is about looking at value engineering and where different partners within the public sector can potentially increase their investment, but it also goes back to the point about identifying potential private sector partners that could come in and support those projects.

Gordon MacDonald: Before I ask others to contribute, value engineering is about looking at alternative building methods, different materials and so on. Is there any impact on the potential outcomes that are expected from that project?

Derek Shaw: A balance always needs to be struck between getting to a successful conclusion in terms of reducing costs but not to the extent of creating a material shift in the expected outcomes or the quality of the buildings supporting the project. In some cases, that could be a bridge too far, and we would need to look at a project afresh.

Gordon MacDonald: Zoe Laird, I wanted to ask you the same question about inflationary pressures. I have a UK Government document from last summer that highlights that the 10 city deals had 286 projects, but only 115 of them were at the delivery or implementation stage, ignoring Argyll and Falkirk. Is there a danger that many projects will be pushed back because of inflationary pressures?

Zoe Laird: To be honest, yes. We are in a process with some of the deals where, as we get to a full business case, the inflation rate impact comes into play—it has been extraordinary over the last year or two years. We have done the things that Derek Shaw has described. We have talked about value engineering, which, to be honest, can be expensive because you have to go back through the design process before procurement. We have tried to build inflation into the cost model, so that we can project the cost of the project going forward.

HIE is adding in finance for the stronger cases that we are involved in, but there will be a need for some projects to come out of the deal process. That does not mean that they will not happen. It means that they will be funded differently but potentially over a longer timescale because, ultimately, there is only so much money. Sometimes, we cannot take down the cost.

I am dealing with a case at the moment that I would rather not name because it is live. We have done the value engineering, but we want to retain some of the objectives of the original deal, so it will cost more, basically. Lorna Slater may be pleased to know that we are trying to protect the overall objectives in order to decarbonise the building that we are working in because we see that as important. That means that we will need to contribute more to the project, but we think that that is worthwhile so we are working through that at the moment.

Anthony Daye: Our position is similar to that of colleagues. With construction, SOSE was established during a period where it was inevitable that we have had to take on more costs than what was in the original outline deals. We are going through things such as value engineering but, as Zoe Laird alluded to, that can often be counterproductive.

I go back to one of the points that Derek Shaw made about getting a balance. Depending on the project, you do not want to veer away from the overall outcomes of the project, but you may have to make choices about the nice to have elements. For some projects, you would not do that. Again, for me, the net zero aspect is very much front and foremost, but there are other things. For example, in one of our projects, it would be lovely to do the landscaping, which would finish things off, but getting the project done and finished is much more important. It comes down to simple things at times.

Value engineering is ideal when it comes to construction, but it is lengthy and can be counterproductive in terms of costs. As some members of the committee might know, my background is in finance, so inflationary pressures and cost increases definitely tend to keep me awake at night. How do we solve those issues? Colleagues have talked about some solutions. For example, SOSE had to come in because things just cost more in today’s world in comparison with six or seven years ago. Alternatively, could we bring other people or other businesses to the party to take a stake and put some funding in? We are trying to find solutions without impacting the outcomes and we have not reached that point yet in SOSE but, as Zoe Laird said, there comes a point where you would not do something if it would not be reasonable value for money.

Gordon MacDonald: I will change the subject slightly. City deals are supposed to be regional economic growth deals. Can you say anything about how much uptake there has been in local supply chains in the work on projects? Local companies use local tradespeople and local services, and they have their own supply chains of materials and so on, and it is important that we try to retain as much profitability from these projects within the local area. How much of the project in the SOSE area has been retained within the local supply chains?

Anthony Daye: It depends on the size and the scale of the project. The key thing in that, as you say, is going through the projects to work with local suppliers and other mechanisms such as procurement people to help to make firms ready. Some suppliers might not be quite ready, but if we can give them enough of a heads up about what work will be available, the type of work and the scale of it, we can maybe make them ready to take that on.

We also need to be cognisant of labour chains within areas and make sure they are ready. From a SOSE perspective, we have managed that by working with the local suppliers, not from a deal perspective but in a similar way to the recent announcement on Centre Parcs, for example. We will need to do that and we have been doing it since the start. We deal primarily with small to medium-sized enterprises. What industries and businesses can we help to be ready to take advantage of some of the bigger things coming in? The Borderlands deal is going to work with the mountain bike innovation centre, the bike park, Destination Tweed and the dairy nexus. Preparing those supply chains is part of what we do.

Zoe Laird: A good example, which is on our web pages, is the life sciences innovation centre in the Inverness campus. The contractor was Robertson Group and HIE led on the procurement in that case. With our procurement policies and practices the way that they are, we were able to encourage the local supply chain development and community benefits. That company took on apprentices as part of that and has grown locally. That is a real success story.

The heart of it lies in who leads the procurement and their approach to that. It is not possible for us to do all of that but, as I say, doing that is possible.

There are caveats around sending clear market signals about the timing and the ability of companies to get involved, and around encouraging the use of existing frameworks that support small and medium-sized enterprises to buy into these things. For example, we know that the construction sector has limitations, which are usually to do with the number of available staff, including skilled staff. In areas where HIE has the resource to support things such apprentices or graduates, we put that wraparound support around a project that we are involved in. All that depends on having the revenue to be able to support those programmes.

Gordon MacDonald: Do we know Scottish Enterprise's level of spend on local supply chains?

11:45

Matt Lockley: We do not have that figure to hand, but we can probably come back to you with some more information on the aggregate level across the deals. I will see whether we can find those figures.

On the overall point about the local supply chain, it is important to state that Scottish Enterprise is not the contracting authority for any of those activities at all. It is important to note that most of the projects will be of a scale that means that they will be contracted through Public Contracts Scotland, with all the transparency that goes with that. When public sector partners procure such projects, community wealth building will be built into those tender processes, so there will be those outcomes around the local supply chain and keeping money in the local economy.

In addition, there have been some real success stories around getting young people into apprenticeships on construction projects. We could probably point to a whole variety of projects that have had successful and positive outcomes for young people in progress in the construction sector, for example.

The Convener: Jamie Halcro Johnston, do you want to come in?

Jamie Halcro Johnston: I will come in—I was pondering whether to. I will ask a question that follows on from what Gordon MacDonald asked. Again, it should probably go to Zoe Laird in the first instance, and it goes back to the questions that I asked about repurposing.

Small and medium-sized businesses in particular look for security and consistency. If you repurpose money out of, say, IT infrastructure, that might affect organisations that have built up their workforces to meet that need. Funds might be diverted to a much-needed new ferry, but there might be no or limited involvement from local companies in building that ferry or doing some of the other infrastructure work. How is that considered when repurposing or reprofiling is done? Are you aware of any impact?

Zoe Laird: I am not aware of any impact specifically. Each case depends on the details of the procurement, the authority that is doing the procuring and the authority's procurement policy. We have mentioned that there has been quite a big uptake in building community wealth building into our procurement policies across the board, and I would expect those things to be taken into account.

With regard to your specific example, the supply chain for digital infrastructure is not great. There is not quite enough supply, but the contracts the Scottish Government and UK Government contracts that are in place will more than soak that up, and they will be developing. They are more likely to lean towards the bigger companies because of the complexity and the scale of the projects. I do not know any details about how the Scottish and UK Governments procure locally. In the case of the ferry, the council would have done that, but the majority of the deal money went into road infrastructure in the vicinity. I would expect the companies involved in that to be quite local, to be honest, and for there to be local suppliers.

The detail of the procuring authority's procurement policy is important. The issue does not come out much in the business case because of the procurement regulations, which is where you can make the difference.

The Convener: I have another question. Did we need growth deals? Could the projects have been delivered using the structures that you are all involved in daily? Local authorities have economic development teams. Could we have delivered the projects without the need for growth deals and maybe done so quicker? I did not have any grey hairs when we first started discussing the Borderlands growth deal, but they are starting to develop quite quickly and we still do not have a lot of projects off the ground. I appreciate these things take time, but did we need growth deals? Could we have delivered what is being delivered without them?

That is another easy question. You can all put your head down again. [*Laughter*.]

Derek Shaw: Maybe I will go first. Growth deals were needed for the additional quantum of funding that was brought in by the Scottish Government and the UK Government and then local authorities partnering in those deals and investing alongside them. The funding is absolutely needed. Existing structures and organisations, including the enterprise agencies, are focused on economic development at national, regional and local levels. We have an opportunity to look at that going forward, but the funding has been critical to unlocking transformational impacts and projects at a regional level.

The Convener: Has the role of Scottish Enterprise in growth deals changed? Matt Lockley, you seemed to suggest that Scottish Enterprise did not necessarily support particular economic growth priorities of local authorities, as you have a separate remit from them. Has your involvement in growth deals changed that at all? Are you more involved in projects that the agency would not necessarily have been involved in previously?

Matt Lockley: We are involved and embedded in regional economic strategies, which contain the whole raft of regional priorities for the economy, and in the development and delivery of those strategies. We play to our strengths when we are more directly involved and more active in delivery and bringing our resources and finance into those projects. We are involved in the generality of regional economic strategies and, therefore, growth deals, but we need to allocate our resources to the areas that are aligned with our core strategy and our own objectives. It is fair to say that, across the piece, from our engagement with all different levels of the governance of the growth deals, we are well sighted and well able to contribute. I hope that local authority partners and the business sector and the community sector recognise the value contribution that we make.

The Convener: I will ask the same question of SOSE and HIE. Could we have delivered what is being delivered without growth deals?

Anthony Daye: We are probably in an earlier position, but it is working. As my colleague in SE said, we welcome the extra funding. Given the smaller settlements for us and HIE, we are always looking for where we can get different funding. The strength of the REP and the local authorities is in working together.

I probably agree with you. I probably used to have hair before Borderlands, and I have only been here for five years. It can be challenging at times, but we are seeing that opportunities come with the challenge. Yes, there is definitely opportunity for us.

Zoe Laird: The deals have been important because they bring the money and they bring the focus of shared objectives, which might not exist otherwise.

The Convener: Did they not exist through the economic partnerships?

Zoe Laird: They do now. Our economic partnership is newer than some of the deals, so that is a new focus. At the moment, in the economic partnership, the strategy and the priorities are agreed, but the funding is not necessarily in place to do everything on the list.

The deals give a good focus through their shared priorities, and the REP could do that. Having the weight of the Government behind them gives more confidence to private sector investors and gives a momentum that may not be apparent from the outside but that drives forward projects that might otherwise be difficult to prioritise. Encouraging collaboration is important.

The Convener: That is great. Thank you very much for that.

Looking around, I see that there are no other questions, so that brings us to the end of the morning's evidence session. I thank our witnesses for joining us today and for contributing their comments, which I know will play a key role in our final report.

11:53

Meeting continued in private until 12:32.

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EH99 1SP

Email: official.report@parliament.scot
Telephone: 0131 348 5447

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