Agenda Item No. 5

South Ayrshire Council

Report by Director of Strategic Change and Communities to Audit and Governance Panel of 6 September 2023

Subject: **Audit Scotland: Scotland's City Region and Growth Deals**

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1. Purpose

1.1 The purpose of this report is to provide an update on the progress of the audit recommendations for Scotland's City Region and Growth Deals, as reported in the national Audit Scotland June 2023 publication 'Scotland's City Region and Growth Deals - Progress of the 2020 audit report recommendations' and consider South Ayrshire Council's response to these audit recommendations.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 considers the Audit Scotland report 'Scotland's City Region and Growth Deals: Progress of the 2020 audit report recommendations' (attached as Appendix 1);

2.1.2 notes the 'Learning for future challenges' on page 18 of the report and as referenced at 3.6; and

2.1.3 considers the actions taken by South Ayrshire Council to respond to challenges presented in delivering the Ayrshire Growth Deal (AGD) as highlighted in Section 4.

3. Background

3.1 In 2016/17 SAC agreed to set aside £600,000 from general reserves to fund the set up of the Ayrshire Growth Deal. In the first few years this was used to contribute to the development of the Deal. The balance remaining in the reserve at the start of 2020/21 was £399,196. The central Portfolio Management Office (PMO), overseen by East Ayrshire Council, was established at the end of 2019/20 and since 2020/21 this reserve has been used as a source of funds to contribute to the resourcing of the PMO.

3.2 In June 2023, the Accounts Commission and the Auditor General published a report prepared by Audit Scotland, titled *Scotland's City Region and Growth Deals - Progress of the 2020 audit report recommendations* (Appendix 1). The report looks at progress against 11 recommendations made in a previous report published in January 2020, which provided an early assessment of the Deals.

3.3 The Ayrshire Growth Deal was signed on 19 November 2020 and secured £251.5 million worth of funding to help realise Ayrshire's potential as a world-class business region. South Ayrshire Council is a partner authority, along with North Ayrshire and East Ayrshire Councils. South Ayrshire Council is the Lead Authority for the Space and Aerospace programme comprising: Spaceport; Commercial Build; Aerospace and Space Technology Centre (ASTAC); Roads infrastructure and pan-Ayrshire Digital projects.

3.4 The previous 2020 Audit Scotland report explored four key themes of: governance and accountability; partnership working; financial management and; measuring success. It noted that accountability and scrutiny arrangements were still evolving, and it was not always clear how the success of the deals would be measured. It also highlighted risks around the capacity of councils and their partners to deliver deal projects against a challenging backdrop for the public sector and included 25 recommendations for the Scottish Government and Scottish councils, summarised as Exhibit 1.

3.5 The updated 2023 report summarises progress against the actions and recommendations:

- *Overall, there has been good progress against key 2020 audit recommendations. Scotland's City Region and Growth Deals are bespoke packages of funding, which means the governance and partnership arrangements vary across the deals.*
- *Deals are at different stages of delivery, but governance, scrutiny, and risk management arrangements have been strengthened locally and nationally. The Scottish Government and deal partners are closely monitoring the risks to project delivery arising from increasing costs.*
- *Partners are working well together and there is progress with ensuring deals are aligned with wider opportunities to support economic growth for the region.*
- *Deals have made progress with plans to assess the longer-term impact of this investment on communities, but they are at different stages and recognise there is still more they can do in this area.*

3.6 A snapshot of common risks that present current challenges to deals is presented on page 13 of the report and includes: inflation and cost pressures; lack of resource including for partners' staffing to adequately manage deals and funding for PMO (Portfolio Management Office) functions; delays from issues such as Covid-19 and Brexit; deal targets not met and the long-term sustainability of projects.

3.7 Page 18 of the report provides 'Learning for future challenges' which have been considered by Council officers with management and leadership responsibilities for South Ayrshire Council Growth Deal projects.

4. Proposals

4.1 The Audit report highlights that developing deals can put extra pressure on teams that are already stretched, and recognises the capacity challenges for Councils in meeting programme management and delivery requirements.

4.2 As part of a SAC senior management re-structure in autumn 2022, responsibility for delivery of the AGD programme transferred from the Council's Economy & Regeneration Service to Special Property Projects. This was to reflect the requirement to move AGD projects from business case development into capital delivery and followed approval of the Full Business Case (FBC) for the AGD Commercial Build project.

4.3 The Assistant Director – Strategic Change assumed responsibility as Senior Responsible Officer (SRO) for the AGD and Project Lead roles were revised to align with project delivery requirements. A new post of Special Property Projects Co-ordinator – Ayrshire Growth Deal, funded by the AGD capital budget, was created to provide programme management and delivery support.

4.4 A temporary 2 year Support Officer post, appointed in October 2021, was created to handle the ongoing administrative and reporting requirements for AGD projects highlighted as a risk for partners in the Audit report.

4.5 The Assistant Director – Communities has responsibility for the Council's Economy and Regeneration Service, providing leadership and intel on funding opportunities across the Council, including those which can further support delivery of AGD projects.

4.6 The Assistant Director – Communities is a member of the Regional Economic Strategy steering group, representing South Ayrshire Council and supporting development of the regional strategy and actions to promote regional prosperity.

4.7 The AGD Steering Group, formalised upon Council approval of the SAC AGD Governance arrangements in May 2021 and chaired by the Chief Executive, is the Chief Officer group providing overall strategic direction and accountability for the AGD projects. The Steering Group is represented by Directors and Heads of Service, bringing supporting services together to deliver the Deal and ensure the benefits of the AGD can be realised across our services and communities.

4.8 Internal Risk and Change Management operating arrangements for AGD projects were developed and implemented in 2021 and are reviewed continually by officers to ensure they are relevant and fit for purpose, and continue to align with regional governance arrangements.

4.9 AGD projects were reviewed early 2023 as a result of the requirement for each Authority to submit annually updated Implementation Plans to the PMO and governments. All SAC AGD projects have been impacted by inflation and cost pressures and delays due to COVID, as referenced in the Audit report. New Plans with updated milestones and deliverables were approved by the Ayrshire Economic Joint Committee in May 2023.

4.10 Updates on the AGD programme and projects are brought forward to Cabinet every 6 months or earlier if required. Regular milestone and financial monitoring and reporting is undertaken by the Ayrshire Economic Joint Committee and Partnership Board. The AGD is a key deliverable within the Special Property Projects Service Plan with performance scrutiny via the Council's Service Partnerships and Performance Panel.

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5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 At the end of 2022/23 the AGD committed reserve had a balance of £0.195m remaining which means that, assuming the future PMO contribution level remains at similar levels as to previous years, there is sufficient funding to meet circa two further full year costs plus a part year three. Further reserves or funding will require to be identified in the medium term to allow the continuation of SAC's contribution towards the PMO.

6.2 The Audit report at Appendix 1 highlights the impact of inflation and cost pressures across Regional and City Deals.

6.3 Further spend on development work undertaken by SAC on the Ayrshire Growth Deal projects is at risk until approval of the respective FBC's. As at the date of the report Full Business Cases for the following projects remain to be approved: Spaceport; Roads; Digital; ASTAC.

7. Human Resources Implications

7.1 The Audit report highlights resourcing issues for partners' staffing to adequately manage deals and resource issues for central PMO functions.

8. Risk

8.1 ***Risk Implications of Adopting the Recommendations***

8.1.1 None.

8.2 ***Risk Implications of Rejecting the Recommendations***

8.2.1 Rejecting the recommendations would result in reputational damage and criticism from Audit Scotland, the Accounts Commission and the Scottish Government and an inability to deliver the requirements of the AGD.

9. Equalities

9.1 The proposals in this report have been assessed through the Equality Impact Assessment Scoping process. There are no significant potential positive or negative equality impacts of agreeing the recommendations and therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached as Appendix 2.

10. Sustainable Development Implications

10.1 ***Considering Strategic Environmental Assessment (SEA)*** **-** The proposals in this report do not represent a qualifying plan, programme, policy or strategy for consideration for SEA. There exists therefore no obligation to contact the Scottish Government Gateway and no further action is necessary. An SEA has not been undertaken.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

12.1 The matters referred to in this report contribute to Priority 2 of the Council Plan: Live/ Work/ Learn - Work and Economy – Everyone benefits from a local economy that provides opportunities for people and helps our businesses to flourish.

13. Results of Consultation

13.1 There has been no public consultation on the contents of this report.

13.2 Consultation has taken place with Councillor Bob Pollock, Portfolio Holder for Economic Development and the contents of this report reflect any feedback provided.

Background Papers	**Audit Scotland report - Scotland's City Region and Growth Deals – January 2020** **Report to Leadership Panel of 25 May 2021 - Ayrshire Growth Deal (AGD) - Portfolio Governance**
Person to Contact	**Louise Reid, Assistant Director – Strategic Change** **County Buildings, Wellington Square, Ayr, KA7 1DR** **Phone 01292 612032** **E-mail louise.reid@south-ayrshire.gov.uk**

Date: 28 August 2023

Appendix 1

Scotland's City Region and Growth Deals

Progress of the 2020 audit report recommendations

ACCOUNTS COMMISSION

AUDITOR GENERAL

Prepared by Audit Scotland
June 2023

Background

Measuring the impact of our work

In January 2020, the Accounts Commission and the Auditor General published a report on City Region and Growth Deals. This provided an early assessment of the deals and found that they had been developed with limited transparency. Accountability and scrutiny arrangements were still evolving, and it was not always clear how success of the deals would be measured. It also highlighted risks around the capacity of councils and their partners to deliver deal projects against a challenging backdrop for the public sector. The report made 25 recommendations for the Scottish Government and Scottish councils.

City Region and Growth Deals are packages of funding agreed between the Scottish Government, the UK Government and local partners. They are designed to bring about long-term improvements to regional economies, attracting additional investment, creating new jobs and accelerating inclusive economic growth.

Source: SHRED

Audit Scotland has been developing its approach to monitoring, evaluating and reporting on the impact of our work. As part of this pilot work, we have looked at progress against 11 of the recommendations made about City Region and Growth Deals. This is not a full follow-up audit to assess individual deals. As proportionality is one of the principles for this pilot work on assessing our impact, we grouped the 2020 recommendations (Exhibit 1, page 4) by themes to identify those we felt would add the greatest value on which to report.

Previous work on measuring impact has shown us that it can be challenging to separate our contribution to specific outcomes from the contribution of other stakeholders. Nonetheless, this pilot work has provided a good opportunity to help improve our understanding of the difference our audit work makes. Alongside reporting progress with recommendations, we set out some key developments in the regional economic landscape since our last report.

Our methodology

In this briefing we refer to City Region Deals and Growth Deals as deals. All councils in Scotland are part of a deal (Exhibit 2, page 5). We reviewed published information on deals, surveyed management teams for the 12 deals and met with a sample of four. We also met with key stakeholders from the Scottish Government and reviewed relevant information provided to us on progress against 2020 recommendations.

Summary of progress

Overall, there has been good progress against key 2020 audit recommendations. Scotland's City Region and Growth Deals are bespoke packages of funding, which means the governance and partnership arrangements vary across the deals.

Deals are at different stages of delivery, but governance, scrutiny, and risk management arrangements have been strengthened locally and nationally. The Scottish Government and deal partners are closely monitoring the risks to project delivery arising from increasing costs.

Partners are working well together and there is progress with ensuring deals are aligned with wider opportunities to support economic growth for the region.

Deals have made progress with plans to assess the longer-term impact of this investment on communities, but they are at different stages and recognise there is still more they can do in this area.

Deal developments since 2020 report

Deals aim to play an important role in stimulating employment, productivity, and economic growth in Scotland. They represent a long-term funding commitment for Scottish economic development, and this has enabled projects to progress that may otherwise not have gone ahead. There are now 12 deals in place across Scotland. Exhibit 2 shows the councils involved in each of the deals and a map of deal boundaries. Deals in Scotland are at different stages of development (Exhibit 3, page 6). Each deal starts with heads of terms which provides outline details on projects. This gets developed into a final signed deal agreement and moves into delivery stage. Falkirk Growth Deal and Argyll and Bute Rural Growth Deal are at heads of term stage and yet to be signed. Funding for the deals is shown in Exhibit 4 (page 14).

Exhibit 1.
Key recommendations from the 2020 report
Recommendations are prioritised and grouped into themes.

Governance and accountability

Councils[1] should regularly review their governance, monitoring and risk management arrangements to ensure they are clear and operating effectively, and consider the ways that internal audit can provide assurance on this.

The Scottish Government and councils should consider how best to make more information publicly available as to the reasons behind key decisions on funding and project selection for signed deals and those still in development, to promote understanding and support effective scrutiny.

Councils should ensure deals are aligned with an agreed regional economic strategy, with input from a wide range of partners, and can demonstrate how they will help deliver national and local priorities for economic development.

Partnership working

The Scottish Government and councils should improve arrangements for sharing knowledge and learning across deals in the interest of improving the deal process.

Councils should ensure a wide range of partners and stakeholders, including local businesses, voluntary organisations, communities and community planning partners, are involved in the deal development and agreement process and as the deal progresses.

Financial management

Councils should regularly monitor the risk of partner funding not materialising as agreed and be aware of their own financial implications if that risk is realised.

Councils should look at how deals affect their longer-term financial plans, capital programmes and borrowing strategies.

The Scottish Government should explain in medium- and long-term financial plans how it will fund deals from its budget and how this relates to ongoing financial support for local government.

Measuring success

The Scottish Government should develop arrangements for measuring the impact of the overall deals programme, in particular how it has taken account of outcomes set out in the National Performance Framework and whether it has achieved value for money.

The Scottish Government should clarify for partners how they should plan for and then measure and report on the impact of individual deals, including their delivery of inclusive growth. This is especially urgent for shorter-term deals that are already in the delivery stage.

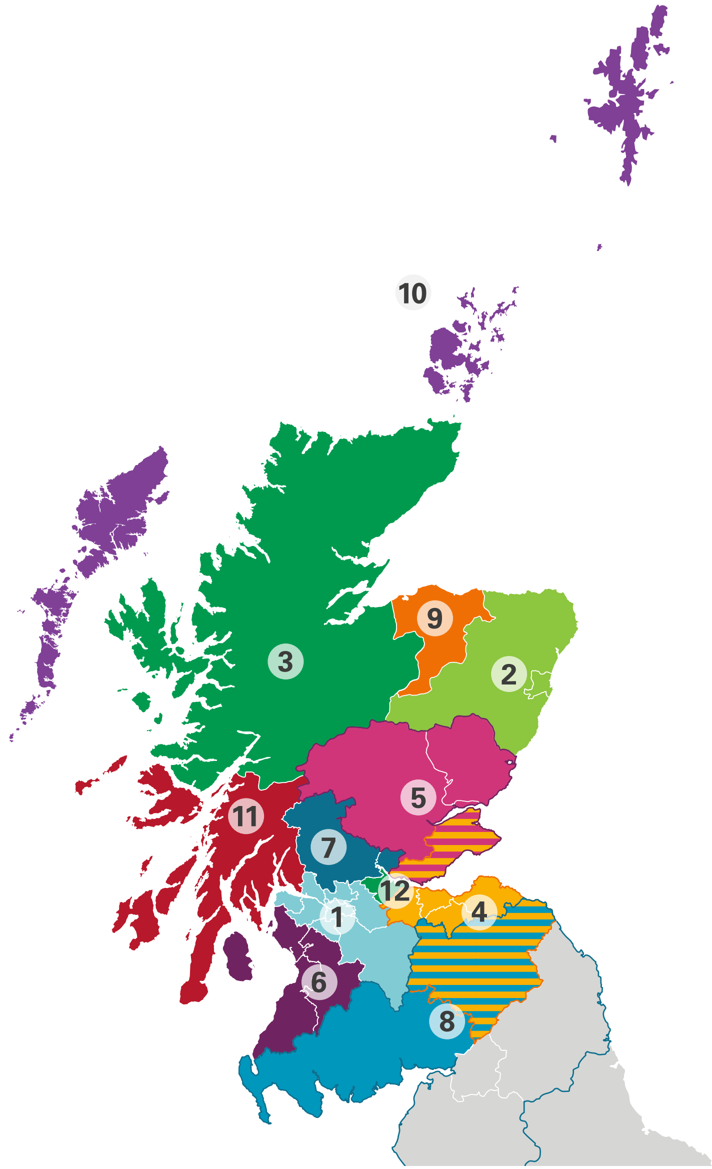
Councils should consider how they will measure the full long-term impact of the deal and whether it has achieved value for money. This should include consideration of arrangements for collecting and analysing data on different groups in their communities to allow the impact of deals on minority and disadvantaged groups to be evaluated.

Note: 1. Although recommendations were originally addressed to councils, we report progress with deals more generally.

Source: Audit Scotland

Exhibit 2.
Map showing deal boundaries and the councils involved in each deal

Deal	Councils
1 Glasgow City Region Deal	Glasgow City, East Dunbartonshire, East Renfrewshire, Inverclyde, North Lanarkshire, Renfrewshire, South Lanarkshire, West Dunbartonshire
2 Aberdeen City Region Deal	Aberdeen City, Aberdeenshire
3 Inverness and Highland City Region Deal	Highland
4 Edinburgh and South East Scotland City Region Deal	City of Edinburgh, Fife, East Lothian, Midlothian, Scottish Borders, West Lothian
5 Tay Cities Region Deal	Angus, Dundee City, Fife, Perth and Kinross
6 Ayrshire Growth Deal	East Ayrshire, North Ayrshire, South Ayrshire
7 Stirling and Clackmannanshire City Region Deal	Stirling, Clackmannanshire
8 Borderlands Inclusive Growth Deal	Dumfries and Galloway, Scottish Borders, Carlisle City, Cumbria, Northumberland
9 Moray Growth Deal	Moray
10 Islands Growth Deal	Na h-Eileanan Siar, Orkney Islands, Shetland Islands
11 Argyll and Bute Rural Growth Deal	Argyll and Bute
12 Falkirk Growth Deal	Falkirk



Note: Borderlands Inclusive Growth Deal includes five councils (two in Scotland and three in England).

Source: Audit Scotland

Exhibit 3.

Timeline and stages of the deals

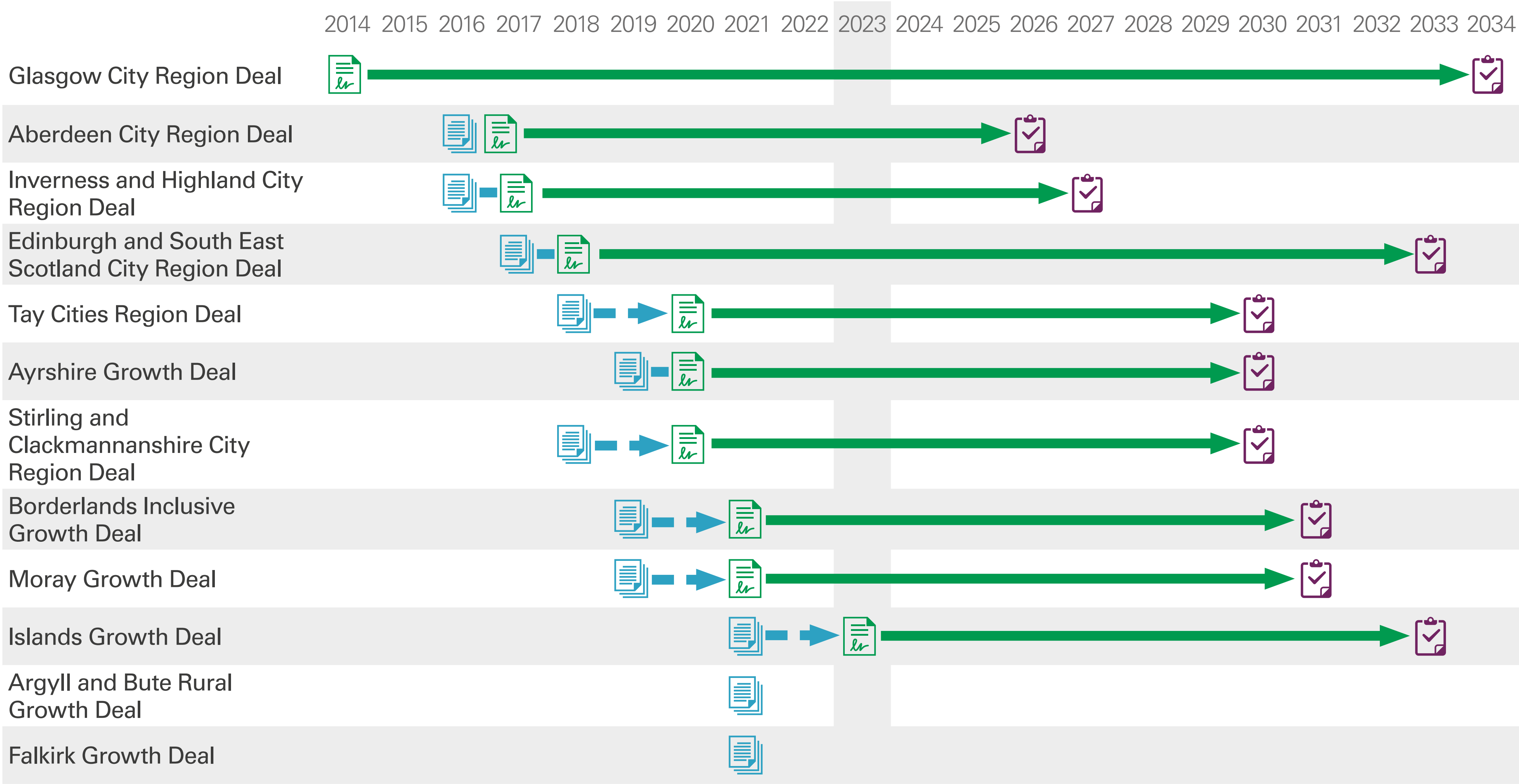
Deals generally run for ten years or longer.

Key

Heads of terms agreed

Deal is signed

Deal ends



Source: Audit Scotland

Governance and partnerships

1. Deals bring together UK Government, the Scottish Government, councils and sometimes other partners, such as local businesses, and universities to deliver a range of infrastructure, skills and digital projects that support growth in cities and regions. With such a wide range of partners, everyone involved needs to be clear about their roles and responsibilities. Internal audit can help deals ensure governance arrangements are operating effectively.

Deal partners are regularly reviewing the deal's governance arrangements

2. Governance arrangements vary between individual deals as the partners decide on the most suitable local governance structure. We reported in 2020 that there was lack of clarity in some arrangements and it was not always clear how different bodies would be held to account if things went wrong.

3. Our impact work found good progress with clarifying lines of accountability, escalation processes and risk management arrangements. Key documentation, such as the final deal document and governance frameworks, set out the accountable and decision-making body for the deal.

4. Regularly reviewing governance is a chance for deals to reflect on arrangements and to ensure structures are still fit for purpose. We found that deals are regularly keeping arrangements under review. The format of a review and what it covers varies, but examples we found include:

- Terms of Reference for the Aberdeen City Region Deal Programme Board are reviewed annually and updated to include new membership or other changes.
- The Ayrshire Growth Deal has specified the role of internal audit within its governance documents. The Chief Auditor was involved at initial deal development stage. Summary internal audit reports are regularly presented to the Ayrshire Economic Joint Committee.
- Edinburgh and South East Scotland City Region Deal's overall programme risk register is reviewed and updated on a quarterly basis. It is discussed at the City Region Directors' Group every quarter and then taken to the Executive Board for consideration. The top three risks are included in the programme risk register and published every quarter as part of the Joint Committee papers.

Deals ensure a wide range of partners are involved but information is not always easy to find

5. Deals have made good progress in raising public awareness and ensuring information is accessible to stakeholders and communities; for example, user-friendly websites that set out governance arrangements, the different projects they are working on, the benefits they expect and progress with these. However, this is not consistent across all deals and in some cases decisions and information on project selection are hard to find in council committee papers. We cover what has been put in place for evaluating the progress and success of deals on page 15.

There have been improvements to the national governance of the deals programme

6. The role of the national governing body for signed deals was still evolving when we last reported. The remit of the Scottish City Region Deal Delivery Board (SCRDDB), which is a joint Scottish Government and UK Government board, is now clearly set out and governance is regularly reviewed to ensure it is operating effectively.

7. The Scottish Government monitors the progress of the overall deals programme, with dashboards tracking the approval of business cases, funding allocation and alignment with policy areas. Deals in delivery are required to provide quarterly finance and performance returns and monthly finance forecasts.

8. Since 2020, the frequency of meetings between individual deals and the Scottish Government has increased, and both parties recognise the benefit of this engagement.

There are clearer links between deals and economic development priorities

9. We reported in 2020 that deals in the development stage should set out how they take account of national and local priorities for economic development.

10. The process of developing the initial strategic outline case for a deal has encouraged partners to focus on a list of priority projects that will benefit their area and also align with national policies. These projects are agreed with the UK and Scottish governments, allowing for heads of terms to be signed. Projects are continually assessed by both governments using HM Treasury's Green Book guidance. Governments approve outline business cases and endorse full business cases.[1] The relevant deal joint committee then approves the full business case.

11. Most deals share business cases with relevant policy leads at the Scottish Government and UK Government as an opportunity to ensure plans and projects align with latest policy context.

Examples of ways deals are ensuring a wide range of partners and stakeholders are involved throughout the process:

- wide-ranging stakeholder mapping exercise prior to the approval of business cases for the deal projects to ensure buy-in from businesses, Higher and Further Education sector and the third sector
- public consultation to get views on the deal proposal, delivered through citizen panel, council website, community planning and youth services
- setting out expectations on stakeholders' involvement in business case appraisal
- stakeholders taking the lead in delivering projects, or leading individual project boards.

[1] As one of first deals in the UK, governance arrangements for the Glasgow City Region Deal differ. Glasgow City Region Cabinet approve business cases.

There is an increasing focus on regional economic partnerships

12. Deals have been a key driver for regional collaboration between councils and their partners. Regional Economic Partnerships (REPs) are building on the structures and learning from deal arrangements.

Regional Economic Partnerships are collaborations between local government, the private sector, education and skills providers, enterprise and skills agencies and the third sector to deliver economic prosperity across Scotland's regions.
Source: Scottish Government

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13. For these partnerships to work effectively, they need to have a strategy that sets out the vision for their region and the outcomes they expect to achieve.

14. Exhibit 2 shows that the boundaries of the 12 deals vary, for example some deals include more than one council. As set out in the Scottish Government's recently published paper, Regional Economic Policy Review – regional perspective, there are differences between deals' geographical areas and REP geographical areas. There are currently 12 deals but only eight REPs, although these are at different stages of development.

15. In 2020, we recommended that deals should be aligned with a regional economic strategy. The landscape continues to evolve but currently the following five regional economic strategies are in place. These strategies recognise the importance of connecting deal programmes to wider regional goals and policy.

- North East Regional Economic Strategy 2015–2035
- Edinburgh and South East Scotland Regional Prosperity Framework 2021–2041
- Glasgow City Region Economic Strategy 2021–2030
- Tay Cities Region Economic Strategy 2019–2039
- South of Scotland Regional Economic Strategy 2021–2031.

Examples of regional partners building on governance structures that were developed for deals:

- The Edinburgh and South East City Region Deal established an Elected Member Oversight Committee in 2021 to provide oversight of the Regional Prosperity Framework and Regional Spatial Strategy. This also includes representation from the constituent councils, HE/FE sector, business sector and third sector.
- The Chief Executives of Glasgow City Region Deal are reviewing governance structures as a result of new regional funding streams such as the UK shared prosperity fund. A report setting out proposed changes is expected in 2023.
- Tay Cities Deal Joint Committee has a wider role to lead regional collaboration more broadly, including strategic oversight of regional spatial planning.

Arrangements for sharing learning have improved

16. In 2020, we recommended that the Scottish Government and councils should improve arrangements for sharing knowledge and learning across deals. There has been good progress against this recommendation. Examples include:

- The Scottish Government recently launched the Scottish Hub for Regional Economic Development to share knowledge across areas such as the wellbeing economy, inclusive growth, community wealth building, REPs and carbon management.
- The Scottish Government issued carbon accounting and management guidance to support a coordinated approach across deals. The guidance helps partners work towards net zero, account for the carbon impact of projects and work through carbon offsetting measures.
- The programme management office (PMO) network has grown in strength. It now includes representation from Wales and Northern Ireland. There are now subgroups to share learning in areas such as benefits realisation and decarbonisation. It plans to explore sharing guidance and standardising documents on a shared platform.

Financial management

£6.2 billion has been committed to deals

17. The Scottish and UK governments have committed £3.1 billion to the 12 Scottish deals. Around £1.6 billion comes from the Scottish Government and £1.5 billion from the UK Government. Partner contributions, which includes councils and other regional partners such as universities and the private sector, is around £3.0 billion. This brings the total funding to £6.2 billion[2] (Exhibit 4, page 14). Funding contributions by councils and regional partners vary, for example, 18 per cent of funding for the Ayrshire deal comes from the councils and regional partners compared with 73 per cent in the Aberdeen deal. Council and regional partner contributions are not always guaranteed and could be subject to change.

The Scottish Government is monitoring the risk to deal affordability

18. The Finance and Economy portfolio provides the Scottish Government's funding contribution to the deals. This is distinct from local government funding. We highlighted in 2020 that publishing detailed longer-term financial plans, for example as part of the Scottish Government's Medium-Term Financial Strategy, would provide more clarity on where funding for deals comes from and how they will be funded in future years. The Scottish Government continues to publish an annual budget and Medium-Term Financial Strategy. While the MTFS does not include details on funding for deals, the Scottish Government has a working plan which sets out its anticipated long-term funding commitment to deals. Due to the accumulating pressures created by underspending across the deals programme, the affordability of future year funding requirements within the deal term is high risk on the SCRDDB's risk register. The Scottish Government has identified several actions to help manage this risk.

With already stretched finances, some deal projects may not deliver what they had originally planned

19. Since publication of our report in early 2020, Scotland's economy has faced significant challenges. The Covid-19 global pandemic, UK's withdrawal from the EU Single Market and Customs Union and the war in Ukraine have significantly impacted trade flows and resulted in increased trade costs as well as problems with labour supply. With no further funding beyond what was originally committed by the UK and Scottish Government, deals are responsible for managing any increased costs. As highlighted in the Accounts Commission's recent financial bulletin, Scotland's councils face mounting financial challenges. Our 2020 recommendation that councils consider the impact of deal funding on longer-term financial plans and the financial implications of other regional partners' funding not materialising, remains as important as ever.

[2] Total does not add up due to rounding of figures.

20. We found evidence of councils' capital plans including budget provision for their contributions to the deal. Deals are monitoring the impact of financial pressures. They have indicated these could result in delays, not achieving the original intended deal outcomes, or cancelled projects. From our survey responses, there is evidence deals understand these issues, and are working collaboratively to manage risks, eg value engineering or reducing the scope of projects.

Value engineering a project means looking at aspects such as materials, equipment and processes to see if there's a more cost effective solution that will achieve the same objective. All changes to deals must be considered as part of deals' change management process.

21. The PMO network has been discussing the impact of inflation and held a workshop with the Scottish Government to consider the impact on deal projects. SCRDDB is also closely monitoring this risk and engaging regularly with deals. Deals have indicated they have been encouraged by the Scottish Government to find alternative funding streams to help with gaps, eg the Levelling Up Fund. We cover these funds on page 17. While there is evidence of deals finding different sources of funding to address gaps, there are risks if applications are unsuccessful.

The Scottish National Investment Bank (SNIB) has committed £30 million of funding for the expansion of Aberdeen Harbour – the largest marine infrastructure project in the UK is strongly aligned with the Bank's net zero and place missions.

22. Deals identified the following challenges with managing finances:

- The Scottish Government allocates funding to deals based on a plan of what each deal will require across the ten (or more) years of the deal. If a deal is underspending against this plan, for example due to a project delay, it needs to request to carry money forward. It may be several years before an underspend can be reallocated which creates uncertainty for deals.
- Some deals have projects that now stretch on for longer than the timeframe of the deal due to delays to the start. This results in uncertainty for that project, for example tendering for that work becomes challenging because there isn't guaranteed funding after the term of the deal ends.

Snapshot of common risks that present challenges to deals

Inflation

Costs have increased sharply recently. If this level of inflation remains, some projects may become unviable or run out of funding.

Lack of resource

This comes in two forms. The first is pressure in partners' staffing to adequately manage deals. The second is a lack of funding for deal functions such as PMO.

Delays

From issues such as Covid-19 and Brexit, business case development taking longer than expected, and individual project challenges pushing project end dates after deal end.

Deal targets not met

Exacerbated by inflationary pressures recently. Deals may not have enough funding to hit agreed targets, value engineering and cost saving efforts may risk targets, and governments may not agree to a level of descoping required to hit targets.

Long-term sustainability of projects

Certain deal projects will continue to require support after deal funding ends. Deals are managing that risk by working towards the project being self-funding or securing alternative funding.

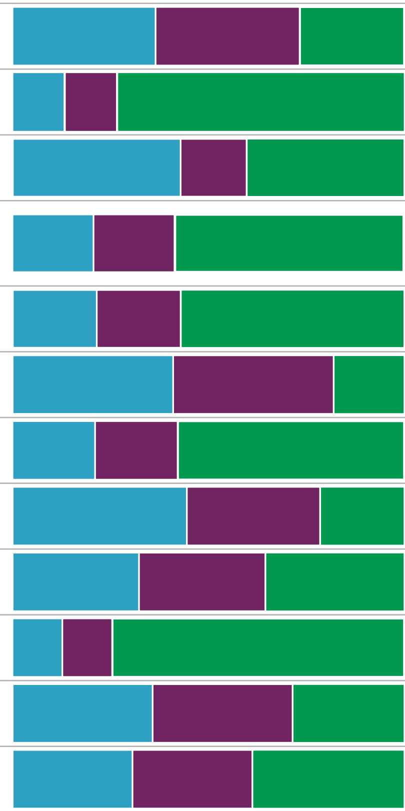
Source: Audit Scotland survey analysis

Exhibit 4.

Total funding committed to the 12 deals is £6.2 billion

There is wide variation in council and regional partners' contributions to deals.

	Scottish Government	UK Government	Council and regional partners	Total funding
Glasgow City Region Deal	£520,000,000	£523,670,000	£380,570,000	**£1.4 billion**
Aberdeen City Region Deal	£125,000,000	£125,000,000	£686,118,000	**£936 million**
Inverness and Highland City Region Deal	£135,000,000	£53,100,000	£127,000,000	**£315 million**
Edinburgh and South East Scotland City Region Deal	£300,000,000	£300,000,000	£850,241,000	**£1.4 billion**
Tay Cities Region Deal	£150,000,000	£150,000,000	£400,000,000	**£700 million**
Ayrshire Growth Deal	£103,000,000	£103,000,000	£45,500,000	**£252 million**
Stirling and Clackmannanshire City Region Deal	£45,100,000	£45,100,000	£123,800,000	**£214 million**
Borderlands Inclusive Growth Deal	£85,000,000	£65,000,000	£41,208,000	**£191 million**
Moray Growth Deal	£32,500,000	£32,500,000	£35,800,000	**£101 million**
Islands Growth Deal	£50,000,000	£50,000,000	£293,000,000	**£393 million**
Argyll and Bute Rural Growth Deal	£25,000,000	£25,000,000	£20,000,000	**£70 million**
Falkirk Growth Deal	£40,000,000	£40,000,000	£50,800,000	**£131 million**



Note: The Scottish Government has also committed to provide additional money alongside four of the signed deals, Aberdeen City Region Deal, Tay Cities Region Deal, Stirling and Clackmannanshire City Region Deal and Falkirk Growth Deal. This totals £319 million. This additional funding has been made where the UK Government has not matched the Scottish Government's funding commitment, but the Scottish Government has decided to still provide its full commitment for that region.

Source: Scottish Government and city deals

Measuring success of deals

Deals are developing plans for evaluating the impact of projects but recognise there is still more to do

23. Deals are longer-term investments aimed at driving local and regional economic growth that should benefit people beyond the term of the deal. It is essential to have metrics in place to measure the various projects, and regularly report performance against relevant deal milestones. We reported in 2020 that plans for measuring the success of deals needed further development. We also highlighted the importance for the Scottish Government to develop arrangements for measuring the impact of the overall deals programme and in particular how it has taken account of outcomes set out in the National Performance Framework.

24. Our recent work found there has been some good progress. Partners now establish at the outset how they will measure and report on the progress of their deals as part of governance and accountability arrangements. Deals must also report against inclusive growth and carbon measures. As well as their own regular internal performance reporting on progress, deals must produce an annual report showing progress against deal objectives.

Contracts and Community Benefits in Glasgow City Region Deal (GCRD) Annual Performance Report

GCRD reports on community benefit opportunities from awarding of the City Deal contracts, for example by end of March 2022, 272 jobs and apprenticeships and 786 skills and training opportunities had been secured, as well as information on priority groups.

25. Benefits may be seen at different times during the deal delivery but deciding what success will look like and having a plan to capture and report this information is essential.

26. Following a successful pilot project with the Edinburgh and South East Scotland City Region Deal in 2020, the Scottish Government issued guidance to deals on developing and implementing a benefits realisation plan. For newer deals, government investment is subject to this plan being in place.

27. From our survey, all deals now have a benefits realisation plan (BRP) and there is evidence that they have made progress with collecting and analysing data on different groups in their communities to help evaluate the impact on minority and disadvantaged groups. The BRPs are at different stages of development, for example the Inverness and Highlands City Region Deal which was signed in 2017 is at draft stage.

28. As each deal is tailored to its region, the BRPs are not standardised; deal partners decide the indicators by which they will measure successful delivery of their deals. This makes it challenging to see a national picture of deals' contribution to outcomes in the National Performance Framework. The Scottish Government plans to use common metrics, for example jobs created, from individual BRPs when assessing the overall impact of the deals programme.

Regional landscape and growth funding

There have been changes to the way the public sector invests in regional economic development

29. There has been a great deal of change since we published our report in 2020, including recovery from a global pandemic and significant world issues that has led to challenging economic circumstances. There have also been many changes to Scotland's economic development landscape, for example South of Scotland Enterprise launched in April 2020 and Scottish National Investment Bank in November 2020. In March 2022, the Scottish Government published Scotland's National Strategy for Economic Transformation (NSET). This sets out its vision to deliver a wellbeing economy and its commitment to regional collaboration with a 'step change in Scotland's productivity performance to address deep-seated regional inequalities in economic activity'. The NSET describes the role of REPs in delivering its vision of a wellbeing economy.

30. With the UK's withdrawal from the European Union, the UK Government has committed to replacing European Structural Funds (ESF) with the UK Shared Prosperity Funding (UKSPF). The ESF are part of the EU's Cohesion policy to support sustainable economic development and reduce regional inequalities in member states. These funds were administered on a devolved basis – the Scottish Government took the lead in setting the funding priorities for these funds within Scotland, as part of a UK partnership agreement jointly signed by the UK Government and the EU. Arrangements have now changed with UKSPF. Decisions about the UKSPF and broader levelling up funding are made by UK Government.

31. The UK Government has also outlined its plans to 'level up' the UK's regional economies, by committing investment through a series of funds, for example through the Levelling Up Fund. While these new funding pots bring opportunities for economic development, the landscape has become more complex. Audit and accountability arrangements for these new funds are evolving.

32. This part of our briefing sets out some of these key funds (Exhibit 5, page 17) and reflects on useful learning from our deal progress work to help public bodies manage this challenging landscape. We do not make any assessment of the UK's process or decision-making for allocating these funds.

Exhibit 5.
UK-wide funding and amount awarded to Scotland to date

Key UK-wide funds connected with levelling up	Funding committed between these years	UK Total commitment £ (million)	Scotland Total award £ (million)
Community Renewal Fund	2021/22	220	18
Levelling Up Fund	2021/22 to 2024/25	4,800	349
UK Shared Prosperity Fund	2022/23 to 2024/25	2,600	212
Community Ownership Fund	2021/22 to 2024/25	150	3

Note: Projects using those funds can of course run for longer than years indicated.

Source: Levelling Up, Housing and Communities Committee, UK Parliament and UK Government

Councils bid competitively for the Levelling Up Fund to fund local infrastructure projects

33. The aim of the Levelling Up Fund (LUP) is to invest in 'local infrastructure that has a visible impact on people and their communities and will support economic recovery'. The UK Government uses an index ranking to determine the geographical areas that are most in need of levelling up. Councils bid competitively to the UK Government for funding and these bids are then assessed against UK Government criteria. In the first round of funding allocations, 16 Scottish councils bid to fund 25 projects – eight councils were awarded £172 million for eight projects. In the second round, which closed in August 2022, ten Scottish councils were awarded £177 million to fund ten projects. Both rounds have focused on the investment themes of town centre and high street regeneration, transport projects, and cultural investment.

UK Shared Prosperity Fund

Scotland's allocation of the UK Shared Prosperity Fund, which replaces European structural funds, is £212 million over three years, from 2022/23 to 2024/25. The overall aim of the UKSPF is to build pride in place and increase life chances across the UK.

34. The UKSPF takes a different approach to the Levelling Up Fund. It is allocated to councils based on a formula that takes account of factors such as its productivity, skills in the area, and household income. The prospectus set out the three investment priorities: communities and place, businesses, and people and skills. To access funds, councils were required to engage with a range of local and regional stakeholders to submit plans by August 2022 about how they will invest the money to create jobs, support local businesses, invest in their communities and improve pride in place. The plans were approved in December 2022.

35. The UK Government supports delivery of the fund through Regional Economic Partnerships where this is the preference of local areas. While our impact work did not look at the detail of investment plans, we are aware that councils took different approaches to developing these. Most submitted plans on an individual basis. Glasgow City Region Cabinet submitted a regional investment plan.

36. As a precursor and to help areas prepare for the UKSPF, the UK Government made £220 million available across the UK, during 2021/22, through a one-year UK Community Renewal Fund. This was also a competitive fund. Councils were invited to submit bids by June 2021 and any funding awarded had to be spent within 2021/22 financial year. There was a delay in announcing successful bids, so the UK Government changed the delivery timeline to the end of June 2022. £18 million was awarded to councils in Scotland to fund projects.

37. The Community Ownership Fund of £150 million over four years, aims to ensure that communities across the UK can support and continue benefiting from the local facilities and community assets whose future might be in doubt. This is also a competitive bid process. Councils in Scotland have been awarded £3 million to date.

Learning for future challenges

We highlighted in 2020 that developing deals can put extra pressure on teams that are already stretched. Often staff managing the deal have wider remits of economic development in the council. While they recognise the benefit of a devolved local and regional approach to economic development, with an increasingly complex landscape, navigating multiple schemes that require different application processes and timescales brings challenges for councils with already stretched resources and uncertainty around longer-term funding for certain projects.

Deals are sharing experiences of resourcing programme management teams. Deals have learned that creating some capacity within the team is important to be able to respond to Scottish Government and UK policy changes.

Deals are working together to share learning about the experience of submitting bids for alternative economic development funding streams.

The process for applying for funding streams should be clear and, where possible, have standardised principles and criteria. As much notice as possible should be given to help councils to manage resources and submit bids for funding more efficiently.

When partners work together on a regional strategy that sets out an agreed and prioritised long list of projects aimed at promoting regional prosperity, it makes it easier to identify where projects fit against future funding criteria.

Scotland's City Region and Growth Deals

Progress of the 2020 audit report recommendations

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

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AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

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Appendix 2

South Ayrshire Council
Equality Impact Assessment
Scoping Template

Equality Impact Assessment is a legal requirement under the Public Sector Duty to promote equality of the Equality Act 2010. Separate guidance has been developed on Equality Impact Assessment's which will guide you through the process and is available to view here: https://www.south-ayrshire.gov.uk/equalities/impact-assessment.aspx

Further guidance is available here: https://www.equalityhumanrights.com/en/publication-download/assessing-impact-and-public-sector-equality-duty-guide-public-authorities/

The Fairer Scotland Duty ('the Duty'), Part 1 of the Equality Act 2010, came into force in Scotland from 1 April 2018. It places a legal responsibility on Councils to actively consider ('pay due regard to') how we can reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. FSD Guidance for Public Bodies in respect of the Duty, was published by the Scottish Government in March 2018 and revised in October 2021. See information here: https://www.gov.scot/publications/fairer-scotland-duty-guidance-public-bodies/

1. Policy details

Policy Title	Audit Scotland: Scotland's City Region and Growth Deals
Lead Officer (Name/Position/Email)	Louise Reid – louise.reid@south-ayrshire.gov.uk

2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts

Community or Groups of People	Negative Impacts	Positive impacts
Age – men and women, girls & boys	No	No
Disability	No	No
Gender Reassignment (Trans/Transgender Identity)	No	No
Marriage or Civil Partnership	No	No
Pregnancy and Maternity	No	No
Race – people from different racial groups, (BME) ethnic minorities and Gypsy/Travellers	No	No
Religion or Belief (including lack of belief)	No	No
Sex – (issues specific to women & men or girls & boys)	No	No
Sexual Orientation – person's sexual orientation i.e. LGBT+, lesbian, gay, bi-sexual, heterosexual/straight	No	No
Thematic Groups: Health, Human Rights & Children's Rights	No	No

3. What likely impact will this policy have on people experiencing different kinds of social disadvantage i.e. The Fairer Scotland Duty (This section to be completed for any Strategic Decisions). Consideration must be given particularly to children and families.

Socio-Economic Disadvantage	Negative Impacts	Positive impacts
Low Income/Income Poverty – cannot afford to maintain regular payments such as bills, food, clothing	No	No
Low and/or no wealth – enough money to meet Basic living costs and pay bills but have no savings to deal with any unexpected spends and no provision for the future	No	No
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure/hobbies	No	No
Area Deprivation – where you live (rural areas), where you work (accessibility of transport)	No	No
Socio-economic Background – social class i.e. parent's education, employment and income	No	No

4. Do you have evidence or reason to believe that the policy will support the Council to:

General Duty and other Equality Themes **Consider the 'Three Key Needs' of the Equality Duty**	**Level of Negative and/or Positive Impact** **(High, Medium or Low)**
Eliminate unlawful discrimination, harassment and victimisation	Low impact
Advance equality of opportunity between people who share a protected characteristic and those who do not	Low impact
Foster good relations between people who share a protected characteristic and those who do not. (Does it tackle prejudice and promote a better understanding of equality issues?)	Low impact
Increase participation of particular communities or groups in public life	Low impact
Improve the health and wellbeing of particular communities or groups	Low impact
Promote the human rights of particular communities or groups	Low impact
Tackle deprivation faced by particular communities or groups	Low impact

5. Summary Assessment

Is a full Equality Impact Assessment required? (A full Equality Impact Assessment must be carried out if impacts identified as **Medium and/or High**)	**NO**
Rationale for decision: The proposal does not have significant positive or negative impact with regards to equality therefore an EQI is not required	
Signed : Louise Reid, Assistant Director – Strategic Change **Date:** 5 July 2023	