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James Dornan MSP

Convener

Local Government and Communities Committee

The Scottish Parliament

Edinburgh

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19th March 2019

Dear James,

AYRSHIRE GROWTH DEAL – HEADS OF TERMS AGREEMENT

I am writing to confirm that I have agreed a Growth Deal for Ayrshire with the UK Government and with the Regional Partners. A formal Heads of Terms has been signed and we are now progressing to develop the full deal. The Scottish Government has committed investment of £103 million over the next ten years to deliver inclusive growth across the region. I have attached a PDF copy of the Heads of Terms.

I am copying this letter to the Convener of the Economy, Jobs and Fair Work Committee, given its portfolio interest in Growth Deals, and I have also placed a copy of this letter in SPICe.

I hope this information is helpful

MICHAEL MATHESON



Ayrshire Growth Deal

Heads of Terms Agreement



Scottish Government
Riaghaltas na h-Alba
gov.scot



UK
Government



East Ayrshire Council
Comhairle Siorrachd Àir an Ear



North Ayrshire Council
Comhairle Siorrachd Àir a Tuath



Comhairle Siorrachd Àir a Deas

Our signing of this document confirms our joint commitment to achieve full implementation of the Ayrshire Growth Deal.

.....
Mr Michael Matheson MSP
Cabinet Secretary for Transport,
Infrastructure and Connectivity
Scottish Government

.....
Rt Hon David Mundell MP
Secretary of State for Scotland
UK Government

.....
Cllr Douglas Reid

.....
Cllr Joe Cullinane

Leader of East Ayrshire Council

Leader of North Ayrshire Council

.....
Cllr Douglas Campbell
Leader of South Ayrshire Council

EXECUTIVE SUMMARY

1. Ayrshire comprises the three local authority areas of East Ayrshire, North Ayrshire and South Ayrshire. The Ayrshire economy is integral to the strength of Scotland's overall economy. Ayrshire has many advantages; its people, its businesses and its rich natural assets. It is home to approximately 370,000 inhabitants and is the birthplace of a significant number of leaders, artists, innovators and entrepreneurs, including Robert the Bruce, Robert Burns, John Dunlop and Sir Alexander Fleming. The region has the opportunity through this Growth Deal to become central to growing sectors including aerospace, space and life sciences, as well as building on its existing strengths in food and drink, tourism, manufacturing and engineering.
2. All of the partners who have worked hard to agree this Deal share a vision for Ayrshire to be vibrant, outward looking, confident, attractive to investors and visitors, and for it to make a major contribution to Scotland and the wider UK's growth.
3. This Deal will help drive inclusive economic growth across the region. The economy of Ayrshire has under-performed over a substantial period of time, leading to Ayrshire having one of the highest unemployment rates in Scotland and the UK, particularly among younger people. This Deal will enable the creation of new high quality jobs and opportunities across Ayrshire, which will help secure the future prosperity of its many communities.
4. Led by the three councils the partners have developed their vision, assisted by the Inclusive Growth Diagnostic tool developed by the Scottish Government, to identify the interventions most likely to grow the local and regional economy. Through the key new investments outlined in this document, this Deal will help deliver on that vision and secure transformational inclusive growth for the region.
5. This Heads of Terms document commits the Scottish Government and UK Government to work collaboratively with the local authorities and other Ayrshire regional partners to deliver a Deal that will help transform the Ayrshire economy. The Scottish Government will invest up to **£103 million** over 10 years, and the UK Government will invest up to **£103 million** over 15 years, subject to approval of final business cases for each project outlined in this document.
6. Regional partners will match this investment with up to £45.5 million. This will result in a Deal worth £251.5 million.
7. Ayrshire partners believe that these interventions will unlock private investment of around £300 million and deliver around 7,000 new jobs across a wide range of sectors.

THE COMMITMENTS

Aerospace and Space Programme

8. The Deal will position Ayrshire as one of the UK's leading centres of Aerospace and Space activity through an ambitious and transformational Aerospace and Space Programme. This will be supported by both the Scottish and UK Governments, with total funding for the programme of £80 million. £32 million will be invested by the UK Government and £30 million by the Scottish Government, with a further £18 million from South Ayrshire Council.
9. The Aerospace and Space sector employs over 4,000 people in Ayrshire, more than 50% of the sector's total workforce in Scotland. With Growth Deal investment it has the opportunity to double this number over ten years. It is home to a cluster of global companies including BAE Systems, GE Aviation, Spirit, UTC and Woodward. Both Governments and local partners recognise the current importance and development potential of this sector to the region, Scotland and the UK.
10. The Programme consists of five distinct interconnected elements:
 - Investment secured through the Deal will deliver **Spaceport** infrastructure to support the ambition of establishing a horizontal launch facility at Glasgow Prestwick Airport.
 - An **Aerospace and Space Innovation Centre (ASIC)** will be created to drive new technologies and skills in order to position Ayrshire and Scotland as a hub of aerospace and space technology. The ASIC will be a purpose built 10,000ft² multi-occupancy building providing a central hub for the growing aerospace cluster, as well as key facilities and services to encourage growth, supporting aerospace and space businesses in Scotland and the UK. The facilities will focus on business development, skills development and training needs of the Aerospace and Space sector in partnership with local and national higher and further education establishments, including University of Glasgow, University of Strathclyde, University of the West of Scotland and Ayrshire College. The ASIC will work alongside existing research and innovation at Prestwick and across Scotland to provide the focus, coordination and support required to improve advanced manufacturing techniques and productivity, and sustain and grow the sector's businesses.
 - Developing **Prestwick's Commercial Space** will create substantial and additional high quality industrial/commercial accommodation. The project will also see the creation of a training hangar, followed by a further hangar within the Prestwick Aerospace and Space Campus. In addition the project will allow for site preparation to provide serviced plots for the future development of up to 350,000ft² of industrial manufacturing space. The Development of Commercial Space project has been formulated to address market failure in the provision of commercial premises at Prestwick, a problem reflected across Scotland. The project is vital in order to capture the economic growth opportunity from the Space and Aerospace sectors.

- Funding for **Prestwick Transport Infrastructure** will help enable the creation of high specification industrial and office spaces to meet the needs of the growing aerospace sector, advanced manufacturing units, spaceport and launch operator infrastructure. Discussions with Transport Scotland and Ayrshire Roads Alliance will continue to assess the potential impact on the transport network in and around the site resulting from growth in the business base and visitors to the Prestwick campus. Transport assessment studies are being commissioned by the Ayrshire Growth Deal partners and initial findings will be required to inform the Final Deal Document. Outstanding risks around costs and timescales for delivery of any significant on and off-site enabling works will need to be considered as part of these discussions.
- A **Visitor/STEM Engagement Hub** at site will be a stand-alone centre that would have a focus on STEM in relation to aviation, aerospace and space.

Economic Infrastructure Programme

11. As indicated previously, both Governments will support the transformational regeneration project, **HALO Kilmarnock**, with each contributing £3.5 million of investment. East Ayrshire Council will contribute £2 million, alongside Diageo's donation of land and project development funding of £2 million towards re-establishing the 23 acre former Johnnie Walker whisky bottling site as a key centre of employment in Kilmarnock, and Ayrshire. The HALO project will look to create a Hub which will stimulate entrepreneurship and support collaboration between new and existing businesses to drive the Ayrshire economy.
12. **The Ayrshire Engineering Park** will provide expansion and development of Moorfield industrial Park in Kilmarnock, creating up to 15,000m² of serviced and high quality business space, with a range of units to support the advanced manufacturing and light engineering sectors in Ayrshire. This project will be supported with £12 million of investment from the Scottish Government and £4 million from East Ayrshire Council.
13. Both Governments will offer investment to support the delivery of the **Ayrshire Manufacturing Investment Corridor (AMIC)**, with Scottish Government investment of up to £13.5 million and UK Government investment of £10 million. This will establish a new national asset at Kilmarnock which will build on Ayrshire's proud history of manufacturing.
14. This project will establish a Centre of Excellence with on-site support and start up units to support the creation of new businesses and growth of existing businesses in the Advanced Manufacturing sector. It will also address market failure with investment in commercial space and will deliver on the need for high quality premises to support business growth and internationalisation opportunities.
15. The innovation centre will be the hub facility within the AMIC area and will establish Ayrshire as the go-to region for smart manufacturing and digital skills. The innovation centre will be delivered in partnership with Strathclyde University and will focus on Food & Drink innovation as this is a key sector for

the local and regional economy. With Ayrshire supporting a substantial amount of the Scottish milk market the centre will have an initial focus on dairy innovation as a niche sub-sector, with substantial opportunity for development in both product development innovation and production process innovation.

16. Both Governments, and North Ayrshire Council, will support new developments at **the i3 Irvine Enterprise Area Advanced Manufacturing Space** in Irvine, which will create a regionally significant and nationally recognised centre of excellence in Digital Automation, building on current Life Science Clustering at the site, and facilitate start up, spin out, and growth of Life Science businesses and other advanced manufacturing opportunities. This will see investment of up to £11 million from the Scottish Government, £5 million from the UK Government, and £5 million from North Ayrshire Council.
17. A Digital Automation Innovation and Testing Centre facility will be developed at i3 to incorporate relevant testing / R&D equipment and specialist staff. This facility will be developed in partnership with Strathclyde University and industry and will seek to link to nationally recognised innovation centres and complement other AGD projects.
18. The project also includes construction of up to 150,700 ft² (14,000m²) of flexible business space capable of meeting the requirements of Chemical and Life Sciences manufacturing, Digital Automation and other advanced manufacturing opportunities.

Tourism Programme

19. The Scottish Government will provide investment of up to £9 million for the development and regeneration of **The Great Harbour**, at Irvine Harbourside and Ardeer, alongside an additional £4 million from North Ayrshire Council, to create a unique coastal destination comprising a number of key assets to attract new visitors to the area and create jobs.
20. This investment will build on the investment made through Irvine bay URC in both Irvine and its surrounding area, and have direct and indirect benefits for the local community in enhancing place quality, supporting small business growth, sustaining jobs and economic activity, and securing transformational change, whilst supporting area-wide regeneration across Irvine in accordance with the Irvine Vision and masterplan for the Great Harbour.
21. This investment will deliver regeneration activity alongside new assets to support tourism and wider economic development in the area. This will include £6 million for the Maritime Mile, which will fund public realm improvements, waterfront pontoons and wharf redevelopment works, helping to create an animated and aspirational waterfront along which visitors can not only enjoy the natural vistas but also a wide range of berthing, water sports, artisan food and drink offerings, and arts and craft opportunities.
22. Partners in the Great Harbour project include North Ayrshire Council, NPL Ltd and the Scottish Maritime Museum.

23. The Scottish Government will invest up to £9.5 million in **Marine Tourism**, delivering critical infrastructure to enable investment to secure the development of the Marine Tourism industry in North Ayrshire. This investment will focus on securing infrastructure that supports key components such as sailing and boating, marine leisure, and recreation.

Energy, Circular Economy and Environment Programme

24. The **National Energy Research Demonstrator Project (NERD)** will aim to overcome through research and design a range of technical challenges that currently prevents the harnessing of local but intermittent energy generation, and its storage and subsequent transmission onto the grid during periods of high demand. It will be supported with investment of £17 million from the UK Government, alongside £7.5 million of investment from East Ayrshire Council.

25. This project will provide solutions to energy supply and storage challenges in non-urban locations, with Cumnock providing a unique location to investigate a wide mix of solutions due to its unique geography, landscape and the way the land has been exploited in the past for mining. The NERD will design, develop and construct a local electricity distribution network within the Cumnock area whilst utilising existing grid infrastructure, so that the area becomes effectively energy “self-sufficient” with the integration of a range of energy generating systems and the development of new, locally sited energy storage facilities that fully link with and support the national and regional electricity grid network.

26. Partners in the project include East Ayrshire Council, Strathclyde University, British Geological Survey, University of Glasgow and Scottish Power Energy Networks.

27. The UK Government will offer up to £18 million for the **Centre for Research into Low Carbon Energy and Circular Economy (CECE)** at the Hunterston Strategic West Scotland Industrial Hub.

28. Hunterston has strong private sector investment interest and the capability to bring national / international levels of investment to Scotland and Ayrshire. The CECE will:

- Support the development of new technologies.
- Develop and integrate international and UK research and development activity on site.
- Develop skills and training facilities including parallel research programmes with Strathclyde University.
- Support links with wider Ayrshire skills, productivity and innovation programmes.
- Build a leading international centre for advanced technology, SMART systems and energy management.

29. Partners in the project include Strathclyde University, Peel Ports and the Field Studies Council.

30. The UK Government will offer investment of up to £6.5 million for a new **International Marine Science and Environmental Centre (ISME)** based at Ardrossan, alongside £5 million invested by North Ayrshire Council. This centre will aim to drive innovation in marine science with practical expertise and the latest technologies to ensure the Firth of Clyde is recognised as an exemplar in marine sustainability. It will look to bring together commercial partners with best practice research and innovation in order to provide solutions to challenges facing the world's seas and societies including climate change, energy and long term food sustainability.
31. A key element of ISME will be providing start-up companies within the maritime sector with access to opportunities, support from industry specialists, experts and mentors, in order to develop collaborations.
32. Partners in the project include North Ayrshire Council, Strathclyde University, Field Studies Council, and the Clyde Marine Planning Partnership.

Digital

33. The UK Government will offer investment of up to £11 million for a **subsea fibre optic cable** to have its landing point in Irvine.
34. The Scottish Government will offer investment of up to £3 million for **key digital infrastructure**, regional digital hubs and 4G infill, which will ensure the economic benefits of the AGD impacts all citizens of Ayrshire and help to create inclusive growth across the region.
35. This will ensure that Ayrshire has the digital infrastructure, skills and ambition which is critical to future growth and participation in the economy. This investment will put in place a key piece of the connectivity infrastructure to help attract global businesses, enable the potential creation of a datacentre cluster of national significance and make Ayrshire a world-class digitally connected region that is attractive to investors across many elements of the digital economy.

Skills and Inclusion

36. Inclusive growth lies at the heart of Growth Deals. This Deal will tackle inequality through growing local talent, creating new connections with the world and providing new opportunities and routes into employment for people across the region.
37. The Scottish Government will provide up to £8.5 million for a new **Regional Skills and Inclusion Programme** which will ensure that businesses and communities throughout the entire region are given the opportunity to engage with and benefit from the opportunities arising from the investments delivered through this Deal.

38. Key to this will be an all-Ayrshire model of delivery which offers community engagement, pre-employability support, recruitment, in-work interventions and employability services; with links to employers to tailor investments to demand, and priority given to those struggling to maintain secure and meaningful work.

Community Wealth Building

39. The Scottish Government will provide up to £3 million for a regional **Community Wealth Building Fund**. Community Wealth Building is an approach to delivering local inclusive growth which focuses on the role of key regional “anchor” institutions such as local authorities, health boards, tertiary education bodies and other large employers in supporting and developing the local economy in which they are located (through their role as purchasers, employers, owners of assets, and enablers of wider economic activity).

40. This investment will be provided through a fund made available regionally, with activity co-designed between the Scottish Government and the new Ayrshire Regional Economic Partnership, with additional input from engaged private sector anchor institutions in the region. This programme will deliver inclusive growth and galvanise the regional economy through initiatives which could include:

- Development of local skills pipelines to “anchor” employers.
- Development of a local SME supplier base with “anchor” employers.
- Increased local procurement spend.
- Increased support for local entrepreneurship.
- Community Asset Transfers.
- Levering of private sector funding to support community business and entrepreneurship.

Transport

41. Transport Scotland is progressing work on the National Transport Strategy (NTS) review and the second Strategic Transport Projects Review (STPR2). This work will set the vision, policies and projects for Scotland's Strategic Transport network for the coming 20 years. As part of this work Transport Scotland is establishing regional Transport Working Groups, and will take forward discussions with the Ayrshire partners on appropriate working arrangements. Transport Scotland and the recently appointed STPR consultant team will work with the regional group to develop the evidence base around problems and opportunities, define transport planning objectives and undertake regional transport appraisal work. This work will inform the review of emerging NTS policies and the work on STPR2 and ensure that appropriate consideration is given to Ayrshire's transport infrastructure and the Growth Deal projects when setting the regional and national policy and intervention priorities.

GOVERNANCE AND ASSURANCE

42. Strong and effective leadership and governance is paramount to both successful implementation and in providing assurance to governments, local authorities and wider regional partners. To date, the Deal has been developed through joint working by the region's local authorities and the partners have consulted and engaged extensively to develop proposals and a governance approach that will deliver transformative inclusive economic growth.
43. Local partners will demonstrate the value for money case for each project and programme before funding is made available. As such, all commitments in this document are subject to the approval of final business cases from the relevant Government, or from both Governments in the case of jointly funded projects.
44. Partners will establish and refine a model of governance through a Regional Economic Partnership that will meet the expectations set out in the Regional Partnerships workstream of phase 2 of Scotland's Enterprise and Skills Review. As part of the Scottish Government's award of significant new investment in the regional economy, Ministers expect that the new regional governance arrangements will include effective engagement with Scottish Enterprise, Skills Development Scotland, the tertiary education and third sectors, as well as meaningful input from senior business and industry leaders.
45. Local partners will work with both the Scottish and UK Governments to develop a final Deal document, a detailed implementation plan, a financial plan that takes account of affordability over the lifespan of the Deal, together with monitoring and evaluation frameworks and associated business cases for all projects and/or programmes receiving funding from the UK Government and/or the Scottish Government.
46. The Scottish Government is developing an Inclusive Growth Monitoring Framework which will incorporate indicators to measure progress towards the five high level inclusive growth outcomes (Productivity, Participation, Population, People, and Place) and will expect the Growth Deal evaluation and monitoring reports to align with this.
47. Local partners will work with both the Scottish and UK Governments to agree a communications strategy and an operating protocol. Both documents will set out how communications about the Deal and its associated activities are taken forward in a way that meet the needs of the regional partners as well as the Scottish and UK Governments.

ENDS