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**Report To: Environment & Regeneration Committee**

**Date: 14<sup>th</sup> January  
2016**

**Report By: Corporate Director Environment,  
Regeneration & Resources**

**Report No:  
ENV/03/16/AF**

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**Subject: Review of the Future of Delivery of Regeneration  
Services in Inverclyde**

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## **1.0 PURPOSE**

- 1.1 This paper seeks to advise the Committee of the outcome of the Review of the Future of Delivery of Regeneration Services in Inverclyde, which was carried out late last year by New Skills Consulting Ltd. The report also seeks approval for a range of associated proposals including the ongoing retention of Riverside Inverclyde (ri), Inverclyde's Urban Regeneration Company (URC), up to March 2019.

## **2.0 SUMMARY**

- 2.1 Details of progress against the first year of the Inverclyde Economic Development & Regeneration Single Operating Plan April 2014 to March 2017 were reported to Members in April 2015. The report indicated that there had been positive achievements in relation to outputs and outcome targets, and the pooling of resources and expertise between Riverside Inverclyde and Inverclyde Council had secured a strong foundation for the full delivery of the Single Operating Plan by 31<sup>st</sup> March 2017. Members agreed at the meeting that a review of the future of delivery of Regeneration Services in Inverclyde be carried out by New Skills Consulting Ltd.
- 2.2 The Review, appended to this report, has concluded that overall current arrangements are working well. The Single Operating Plan was widely welcomed with improved focus, clear priorities, and effective use of finite sources. There was good project successes and economic impacts, commensurate with funds invested and significant improvements at ri in relation to leadership and management, focus and delivery, governance, transparency, and reporting. The ri Board was business focused with positive perceptions of ri among external partners and businesses. The Council's Regeneration Team was delivering good impacts in line with resources available.
- 2.3 The key messages from the Review were gradual improvement in local economy, however, Inverclyde needs continued regeneration investment and activity. There needs to be a focus on business and investment attraction, and job creation. In addition there is a need for new Regeneration Strategy post March 2017.
- 2.4 A number of future delivery options were explored in the Review, which included:
1. Maintain current arrangements, with Single Strategy / Operating Plan delivered jointly by ri and the Council
  2. Bring physical regeneration and business support services together into a single unit,

as part of ri

3. Streamline all regeneration services within the Council, and close ri
4. Retain ri as a 'shell company' with all services delivered by the Council
5. Transfer property portfolio to the private sector, and close ri

2.5 In summary, following consultations with 25 individuals across 7 organisations and a workshop session offered to all Members on 10<sup>th</sup> December 2015, the Consultants have recommended that Option 1 is accepted as the preferred option with a further review in 2018/19 which could lead to progressing to Option 2 in the longer term, subject to performance and funding availability. In addition, the Consultants recommend that the following action is taken:

- Early co-location of the Council's Regeneration and ri's Teams
- A focus on business and investment attraction, and job creation, while still developing regeneration proposals to address social and economic inequalities in areas of need
- Need for new Regeneration Strategy post March 2017 with an updated Single Operating Plan up to March 2019
- Appointment of Business Development and Mobile Investment expertise within ri.

### **3.0 RECOMMENDATIONS**

3.1 It is recommended that the Committee:

- notes the detail of the Review of the Future of Delivery of Regeneration Services in Inverclyde, which has been carried out by New Skills Consulting Ltd;
- approves the adoption of Option 1 as the way forward and that a further review will be undertaken in 2018/19 as to the future retention of ri;
- delegates authority to the Corporate Director Environment, Regeneration and Resources to develop a new Regeneration Strategy post March 2017 and a revised Single Operating Plan up to March 2019, seek approval from ri and Scottish Enterprise and thereafter report back to Committee;
- delegates authority to the Corporate Director Environment, Regeneration and Resources to engage with ri to progress the appointment of a new Head of Business Investment and Operations by the Summer of 2016; and,
- allocates any residual unallocated Regeneration funding to ri for developing regeneration projects as part of the Single Operating Plan up to March 2019.

**Aubrey Fawcett**

**Corporate Director, Environment, Regeneration and Resources**

## **4.0 BACKGROUND**

- 4.1 The introduction of the Inverclyde Economic Development & Regeneration Single Operating Plan April 2014 to March 2017 (the 'Single Operating Plan'), after being fully endorsed by Inverclyde Council, Riverside Inverclyde, Scottish Enterprise and the Scottish Government, marked a landmark new approach to regeneration in Inverclyde. By pooling the resources of Inverclyde's two key regeneration agencies (Inverclyde Council's Economic Development & Regeneration team and Riverside Inverclyde), a resultant more integrated partnership approach towards shared priorities and objectives could maximise the economic potential of the area, utilising the effectiveness and impact of our combined activities and investments, and also maximise efficiency and value for money.
- 4.2 The Single Operating Plan identified the key project areas for investment and support, focussing our joint efforts and investments up to March 2017 in two groups:
- Group 1 - projects and activities that Riverside Inverclyde and Inverclyde Council could progress via committed or available funds; and
  - Group 2 – strategic priorities that would be led by the private sector or other partners, with little or no direct financial input from Riverside Inverclyde or Inverclyde Council.
- 4.3 Following the review of the first year of the Single Operating Plan in April 2015, Members agreed that a review of the future of delivery of Regeneration Services in Inverclyde be carried out by New Skills Consulting Ltd.

## **5.0 PROCESS AND FINDINGS OF REVIEW**

- 5.1 The Consultants, New Skills Consulting Ltd, were commissioned in early 2015 to undertake a review of current delivery of regeneration services within Inverclyde and to advise if any changes be made in the future. The study activity involved:
- Desk-research - economic performance, policy and funding (national, regional, local)
  - Consultations - 25 individuals, 7 organisations
  - Single Operating Plan performance review
  - Desk-research and interviews with other local authorities with URCs
  - Workshop with Members on 10<sup>th</sup> December 2015.
- 5.2 In light of all the research undertaken New Skills concluded that:
- Current arrangements working well
  - Single Operating Plan - widely welcomed, improved focus, clear priorities, effective use of finite sources
  - Some good project successes and economic impacts, commensurate with funds invested
  - Significant improvements at ri - leadership and management, focus and delivery, governance, transparency, reporting
  - Business focus of ri Board, speed of action, and independence
  - ri property portfolio generating a surplus, however, ri is currently considering the impact of the recent decision in the Scottish Government's Settlement to Local Authorities to make changes to Empty Property Relief Scheme. At present vacant industrial units get 100% relief in perpetuity. From April 2016 this will reduce to 3 months with only 10% relief thereafter. For Commercial properties this is changing from 50% for 6 months then 10% to 50% for 3 months then 10%
  - Positive perceptions of ri among external partners and businesses
  - Regeneration Team delivering good impacts in line with resources available
  - Improved joint working between ri and the Council

- 5.3 The key messages from the Review are:
- Gradual improvement in local economy
  - Inverclyde needs continued regeneration investment / activity
  - Regeneration services functioning well, and real improvements made
  - ri a valuable regeneration resource, and need not be a cost to Council
  - Council's Regeneration Team performing well
  - Focus on business and investment attraction, and job creation
  - Need for new Strategy post March 2017
  - Future funding and policy context likely to be challenging, services may need to change in response, and some uncertainties
  - Continued focus on controlling costs / maximising VfM
- 5.4 As part of the research New Skills undertook research into how other local authorities with URCs have approached the retention or otherwise of these companies. In this regard and mindful of the need to retain confidentiality the following information and lessons learned were identified:
- Five other URCs considered
  - Consulted in confidence, common themes and key issues
  - 3 to continue operating, 2 to close
  - Some have evolved and changed role, reflecting local context
  - Main drivers of change
    - Council funding needed to cover operating costs
    - Parallel services / duplication
  - Keeping and evolving an URC is possible and is happening elsewhere
  - Closing an URC is also feasible, although time consuming, with costs attached
- 5.5 In relation to the closing down of URCs the following matters needed to be borne in mind:
- Asset sales
  - Local authority ownership of assets / share purchase
  - Significant capital investment requirement
  - Requirements of funders and OSCR - Clawback, local re-investment
  - Staffing
  - Transition Business Plan
  - Positive regeneration legacy and private sector relationships
  - Costs - staff obligations, technical advice (tax, legal), capital funding
  - Transfer of functions to Council / retaining skills and expertise
  - Communication with staff and stakeholders
- 5.6 The Consultants explored a range of future delivery options as outlined below in Section 6.

## 6.0 OPTION APPRAISAL

- 6.1 A total of five options which could assist in delivering regeneration services in the future within Inverclyde were considered and are detailed in the Review document, appended to this report. An outline of each together with the main relative advantages and disadvantages are provided below:

### 1. Maintain current arrangements, with Single Strategy / Operating Plan delivered jointly by ri and the Council

#### Outline

- Retain current configuration of services
- Extend Single Operating Plan and joint delivery approach to March 2019
- Implement improvements
- Allow time for funding and policy changes to take shape, review again in 2018/19
- Appoint Head of Business investment & Operations reporting to ri's CEO
- Co-locate Council /ri Staff
- Develop longer term economic development and regeneration strategy.

### **Advantages / benefits**

- Allow more time to build on progress made to date with SOP approach
- Further enhance service effectiveness and impact through key changes
- Allow time to see how policy and funding landscape evolves
- Opportunity for further savings through greater sharing of management / finance / admin
- ri team funded 100% through property surplus

### **Disadvantages / costs**

- Continued uncertainty over future of regeneration services
- Risk loss of key staff if ri continues as a time-limited organisation
- No single line management of regeneration services

## **2. Bring physical regeneration and business support services together into a single unit, as part of ri**

### **Outline**

- Create a single physical regeneration and business investment team, within ri
- Transfer Council functions to ri: business support, tourism, property management
- New, full-time CEO for ri
- Extended lifespan for ri, with remit to deliver 10 year Strategy
- Initially to March 2019, then review

### **Advantages / benefits**

- More direct link between physical regen and business investment & attraction
- Single line management of business-facing services
- Retain speed of action, business focus, and independence

### **Disadvantages / costs**

- Council would lose a degree of control / need for Council and ri to retain common ground
- Risk loss of key staff if ri continues as a time-limited organisation
- May need to secure agreement from OSCR for proposed broadening of ri's role

## **3. Streamline all regeneration services within the Council, and close ri**

### **Outline**

- Bring physical regeneration and property management into Council's Regen Team
- Close ri, companies wound up, disband Boards
- Council would buy 100% riph shares and operate property portfolio
- Funds from asset purchase re-invested in local regeneration

### **Advantages / benefits**

- Single focal point for regen services, and single line management
- Potential efficiency savings from streamlining management, finance, admin
- Saving on ri Chief Exec post
- Opportunity to pool finite and reducing Council funding resources.

### **Disadvantages / costs**

- Risk loss of focus on physical regeneration, speed of action, and business focus
- Potential loss of ring-fenced income stream generated by property portfolio
- Council may need to raise capital to purchase assets
- Not guaranteed to improve service management compared to current arrangements
- Costs of closing URC

## **4. Retain ri as a 'shell company' with all services delivered by the Council**

### **Outline**

- Physical regeneration and property staff transfer to the Council's Regen Team
- Property portfolio retained in ownership of riph, but managed by Council
- ri would own assets but employ no staff
- Company overseen by a Board

#### **Advantages / benefits**

- Retain riph property surplus for re-investment in projects
- Reduce ri's operating costs, maximising surplus
- A single focal point and line management for all regeneration services in the Council
- Saving on ri Chief Exec post

#### **Disadvantages / costs**

- Risk of loss of focus on physical regeneration, and speed of action
- May not secure approval for change from OSCR
- Not guaranteed to improve service management compared to current arrangements
- Council's Regen Team would incur extra costs in employing physical regeneration and property management staff

### **5. Transfer property portfolio to the private sector, and close ri**

#### **Outline**

- riph's property portfolio sold to private sector buyers
- Proceeds re-invested in local regeneration projects
- Ongoing development and management of business property in Inverclyde lies primarily with private sector
- Council would continue to deliver physical regeneration projects were possible

#### **Advantages / benefits**

- Savings for Council, as no longer a funding contribution to ri
- One-off capital gain for investment in regeneration projects

#### **Disadvantages / costs**

- Question mark over feasibility - may prove difficult to find private sector buyers
- Private buyers likely to pursue most attractive assets, leaving least valuable as liabilities for riph and/or the Council
- Loss of control over key business properties, important in attracting and retaining jobs
- Private landlords less willing to offer favourable terms to attract businesses

6.2 Detailed assessment of these options is contained with Section 3.2 of the Review.

## **7.0 CONCLUSION**

7.1 In summary, following consultations with 25 individuals across 7 organisations and a workshop session offered to all Members on 10<sup>th</sup> December 2015, the Consultants have recommended that Option 1 is accepted as the preferred option with a further review in 2018/19 which could lead to progressing to Option 2 in the longer term, subject to performance and funding availability. In addition, the Consultants recommend that the following action is taken:

- Early co-location of the Council's Regeneration and ri's Teams. This is planned to be undertaken by Summer of 2016, subject to availability of accommodation.
- Focus on business and investment attraction, and job creation.
- Need for new Regeneration Strategy post March 2017 with an updated Single Operating Plan up to March 2019.
- Appointment of new Head of Business Investment and Operations by the Summer of 2016 with specific business development and mobile investment expertise. The successful candidate would take on operational responsibility for ri and report into the Corporate Director Environment, Regeneration and Resources who would retain the role of ri's CEO.
- Strengthen the ri Board with one or two individuals with proven commercial expertise and network of business contacts beyond the Inverclyde area.

7.2 It is recommended that the Consultants preferred option is progressed. In addition, Members will be aware that consideration is being given to reducing the unallocated Regeneration funding by £77,000, which currently amounts to £375,000 as part of the budget setting

process. Notwithstanding this Members are asked that following the conclusion of the budget process in February that any residue unallocated funding be allocated to ri for developing further regeneration projects as part of the new Single Operating Plan up to March 2019.

## 8.0 IMPLICATIONS

### 8.1 Financial: One-off costs

Cost Centre	Budget Heading	Budget Year	Proposed Spend this Report	Virement From	Other Comments
n/a					

### 8.2 Financial: Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (if applicable)	Other Comments
Economic Regeneration	Riverside Inverclyde	2017/18	£375,000		Subject to decisions around the 2016/18 Budget

## 9.0 CONSULTATION

9.1 Legal Services have been consulted on this report.

9.2 Finance Services have been consulted on this report.

## 10.0 EQUALITIES

10.1 Has an Equality Impact Assessment been carried out?

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YES (see attached appendix)

NO - This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

## 11.0 REPOPULATION

11.1 Regeneration activities/projects will contribute to the regeneration of Inverclyde and making Inverclyde a more attractive place to live and work in.

## 12.0 BACKGROUND PAPERS

12.1 New Skills Consulting Ltd Study into Future Delivery of Regeneration Services in Inverclyde, January 2016.

# **Study into Future Delivery of Regeneration Services in Inverclyde**

**FINAL REPORT**

**January 2016**



Contact	Aubrey Fawcett
Title	Study into Future Delivery of Regeneration Services in Inverclyde
Version	Final
Date	January 2016
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# 1 About the Study

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## 1.1 Background

Inverclyde Council, in conjunction with Scottish Enterprise and Riverside Inverclyde (ri), is currently exploring options for the future delivery of regeneration services in Inverclyde.

Regeneration and economic development policy and funding in Scotland (in common with the rest of the UK) has been undergoing a constant process of evolution for the past several years, driven by ongoing reductions in public funding and the changing roles of local and regional government, and devolved national administrations, in delivering regeneration.

In Scotland, these changes are reflected in differing responses at the local level to regeneration opportunities and challenges, with local partners seeking new and more efficient delivery models that better reflect the reduced availability of public sector regeneration funds. In some areas, the Urban Regeneration Companies (URCs) established around 10 years ago continue to operate and play a leading role locally. In contrast, some other areas are adopting new solutions to their regeneration needs and are winding-up local URCs, with local authorities taking on a greater role.

During 2013, a review was undertaken exploring the performance and impact of ri in the first six years of its operation, alongside an assessment of the Council's Regeneration Services<sup>1</sup>. The review recommended a series of improvements to the operation of ri, alongside the adoption of a Single Economic Development and Regeneration Operating Plan for Inverclyde, to be delivered jointly by the Council and ri. The Operating Plan has a lifespan of three years, and is due to end in March 2017.

The key organisations with a stake in regeneration in Inverclyde (including Inverclyde Council, Scottish Enterprise, and Scottish Government) are committed to continuing their support (and funding) for ri up to the end of the current Operating Plan in March 2017<sup>2</sup>, with Scottish Government core funding ceasing in March 2016. However, in light of further changes in national and regional regeneration funding and policy expected in future years, the current budget setting process within Inverclyde Council, and the gradual closure of some of the other URC's in Scotland, it is now an opportune time to consider how best to deliver regeneration services in Inverclyde beyond March 2017, including the roles to be played to ri, the Council's Regeneration Team, and others.

In June 2015, Inverclyde Council commissioned New Skills Consulting to undertake a study to consider options for the potential future delivery of regeneration services in Inverclyde, and to make recommendations about the most appropriate way forward from March 2017 onwards.

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<sup>1</sup> Review of Riverside Inverclyde and Delivery of Regeneration Services in Inverclyde (June 2013)

<sup>2</sup> Inverclyde Council funding is committed to March 2017 and Scottish Government core funding will end in March 2016. Scottish Enterprise continues in its role as a Member of the ri company, although its core funding contribution has ended.

## 1.2 Aims and objectives of the Study

The overall aim of the Study is to propose clear, evidence-based recommendations about the future delivery of regeneration services within Inverclyde beyond the end of the current Operating Plan in March 2017. Any proposed changes to the role of regeneration services should be based on a clear, evidence-based rationale, reflecting evolving regeneration needs and opportunities in the local area, the challenges and possibilities arising from changes in regeneration funding and policy in Scotland, the local Council funding context, and lessons learned from other areas that are reviewing the role of URC's and regeneration services in their localities. The specific objectives are to:

- a) **Strategic context** - Review the medium and long-term regeneration and economic development funding and policy context in Scotland and Inverclyde, reflecting the future approach and priorities of Scottish Government, Scottish Enterprise, Inverclyde Council and other key agencies. Identify key strategic factors likely to impact on regeneration in Inverclyde over the next 5 years. Understand and critically assess the ongoing need for, and role of URCs, in the future policy and funding climate.
- b) **Local context** - Review and identify key regeneration and economic development needs, opportunities and priorities in Inverclyde in the medium and long-term. Identify key local factors likely to impact on regeneration in Inverclyde over the next 5 years and beyond. Understand and critically assess the ongoing need for, and role of, an URC in Inverclyde.
- c) **Effectiveness of current delivery arrangements** - Assess the effectiveness of current services in the delivery of local regeneration priorities and the Single Operating Plan. Identify what has worked well, and where improvements could be made. Assess how and in what ways ri is adding value to core Council Regeneration Services, and whether there are better or more efficient ways to undertake these roles.
- d) **Lessons learned from other local areas and URCs** - Explore and understand the approaches taken by other local areas with URCs, including those that have retained and reformed URCs, and those that have chosen to close their URCs.
- e) **Understand practicalities and barriers to any change** - Explore and understand the practical challenges involved in re-structuring or closing an URC, including legal, financial and HR issues.
- f) **Options analysis** - Based on the study evidence and lessons learned from other areas, develop a range of options for the future delivery of regeneration services, and appraise each option against assessment criteria reflecting the future regeneration context of Inverclyde. This could include maintaining the status quo, retaining ri but with a revised role and structure (which may include transferring economic development and allied professional staff from the Council), or winding down the organisation.
- g) **Findings and recommendations** - Synthesise the study evidence, identifying the key findings and implications for the future. Present a clear, evidence-based recommendation describing how local regeneration services should be delivered beyond March 2017 (including the Council's Regeneration Team and ri), and the practical steps needed to move towards the recommended future arrangements.

### 1.3 Method and approach

This report is intended to highlight the key messages and findings arising from the Study. It is based on the following activities.

- A desk-review of key national, regional and local economic development and regeneration policy documents and labour market statistical information, to provide an overview of local economic conditions.
- In-depth interviews (face-to-face and telephone) with 25 people representing 7 organisations with an interest in regeneration services in Inverclyde. This includes senior officers and staff from the Council and ri, members of the ri Boards, external partners such as Scottish Government and Scottish Enterprise, and members of the local and regional business community. A list of those consulted is provided in Appendix 1.
- Analysis of data on the performance and impact of the Single Operating Plan during its first year (April 2014 to March 2015).
- Analysis of a range of financial information, exploring the financial performance and future budgets of ri and the Council's regeneration services.
- Desk-research into the current status and future plans of other URC's in Scotland, as well as consultations with local authority representatives in areas with URCs.

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## 2 Findings from the Study

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### 2.1 Strategic and operating context and implications

#### 2.1.1 Local economic context

- Since the previous review of regeneration services in Inverclyde in 2013, there has been a gradual improvement in the local economy, with a notable fall in unemployment, despite significant on flow of clients from the Work Programme. However, there are still a significant number of jobless residents locally, and wages and skills levels remain below national averages. Economic statistics for Inverclyde highlight the following key issues:
  - Unemployment in Inverclyde has fallen, from 12.2% in June 2012 to 7.4% in June 2015 (compared to a fall from 8.1% to 5.7% across Scotland during the same period)<sup>3</sup>. While still higher than the national average, unemployment has fallen at a faster rate in Inverclyde.
  - The JSA claimant count has also fallen in Inverclyde, from 5.3% in October 2012 to 3.0% in October 2015, compared to national rates which have fallen from 3.9% to 2.0% over the same period<sup>4</sup>.
  - Average earnings (gross weekly pay for full-time workers) have increased from £454.80 in 2012 to £509.40 in 2014 in Inverclyde<sup>5</sup> (a 12% increase), compared to a change from £508.30 in 2012 to £520.80 in 2014 across Scotland (a 3% increase).
  - While the proportion of people with no qualifications in Inverclyde has fallen (from 13.4% in 2012 to 12.6% in 2014), it remains higher than the national average for Scotland (9%)<sup>6</sup>.
  - The number of enterprises in Inverclyde has increased from 1,460 in 2012 to 1,605 in 2015, an increase of 10%<sup>7</sup>.
- There is still a need to invest in the regeneration of employment sites, town centres, local communities, housing, and the public realm within Inverclyde. However, market conditions are such that delivering regeneration continues to be challenging.
- As with many parts of Scotland, market failure and a low level of private sector investment impacts on the economic development and regeneration of Inverclyde. However, some private sector schemes have gone ahead in recent years and continue to take place (e.g. the retail development near Gallagher's roundabout; Oak Mall; the Hungry Horse development on Greenock Waterfront).
- The property market remains tentative and attracting private sector tenants for new industrial and commercial developments can be difficult. However, Inverclyde has had some good successes in this area in the past couple of years and ri's property portfolio is maintaining good occupancy levels overall.

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<sup>3</sup> ONS Annual Population Survey

<sup>4</sup> ONS Jobseeker's Allowance with rates and proportions

<sup>5</sup> ONS Annual survey of hours and earnings - workplace analysis

<sup>6</sup> ONS Annual Population Survey

<sup>7</sup> ONS: Inter-Departmental Business Register

- Challenging public sector finances mean that the level of public funding available for regeneration investment in Inverclyde, in common with the rest of Scotland, is reducing. Core investment in Inverclyde's regeneration by Scottish Enterprise and Scottish Government has ended or will do so by March 2016.
- ri and the Council's Regeneration Team continue to do important work and have achieved some significant successes in project delivery. The economic impacts of this work (in terms of attracting jobs and investment) have in the main achieved or exceeded the targets set out in the Single Operating Plan. There is a need for Inverclyde to continue to deliver economic impacts, although it is acknowledged by all those consulted during the Study that local economic conditions make this difficult.
- In previous years, a key barrier to growth in Inverclyde was a lack of good quality business accommodation (industrial and commercial). Through the work of ri and the Council, this is now being addressed, and the property offer to businesses is now more attractive, where ri has been active.
- Some consultees believe a change of emphasis is now needed, with less onus on developing new property and more focus on attracting businesses and investors to take-up the space that is now available. However, it is also important that ri and the Regeneration Team continues to develop future regeneration proposals through ongoing community engagement to address economic and social inequalities within our most deprived communities.
- There is a common view that Inverclyde requires a focussed economic development and regeneration strategy for the area, setting out a clear future vision and priorities for the period from April 2017 onwards (i.e. beyond the end of the Single Operating Plan period). This should include articulating the key assets and strengths of the local economy, and Inverclyde's ambitions for the future. Although physical regeneration will remain important, there is a need for the future strategy to focus more on attracting and creating jobs
- It is important that Inverclyde optimises its external economic linkages and opportunities, looking outward to the Glasgow City Region and wider national economy. Inverclyde should continue to build on progress made to date in strengthening its role in the wider Glasgow City Region (and the benefits to be derived from being part of the wider City Region business supply chain and labour market). This could help in attracting new investment, businesses and jobs to the area. The current City Deal projects are a good example of this type of approach, and some consultees believe there is a need for Inverclyde to work increasingly in this way in the future.

## 2.1.2 Policy and financial context

Since the previous review in 2013, while the general direction of regeneration policy and funding has been broadly unchanged, there have been some important developments which will impact on regeneration in Inverclyde in the future.

### Scottish Government

- Scotland's latest Economic Strategy<sup>8</sup> reaffirms the Scottish Government's commitment to creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. It sets out an overarching framework for achieving the two mutually supportive goals of **increasing competitiveness** and **tackling inequality** in Scotland. It forms the strategic plan for existing and all future Scottish Government policy, and prioritises boosting investment and innovation, supporting inclusive growth, and maintaining a focus on increasing internationalisation. The four priorities of the Strategy are: **Investing** (in people, infrastructure and assets); fostering a culture of **Innovation**; promoting **Inclusive** growth; and taking advantage of **International** opportunities. Compared with previous strategies, there is now a much more explicit focus on **inclusive economic growth**, extending economic opportunities to people and communities that are currently not benefitting.
- A wide range of Programmes are in place across the country to support the delivery of the four priorities (e.g. investment in education; innovation programmes; inward investment attraction and exporting; employability and skills services). The main Scottish Government ring-fenced funding for economic regeneration is the **Regeneration Capital Grant Fund (RCGF)**, which is aimed at stimulating economic growth and addressing inequalities within areas of greatest need.
- There is nothing to indicate at this time that the Scottish Government will be in a position to increase ring fenced funds to support regeneration activities in future, and the expectation is that the RCGF will remain the primary source of funding. It is not clear at this time whether the more explicit focus on inclusive growth will be supported with additional ring-fenced funds, for example, regeneration programmes focused on areas of high deprivation.
- The **Scottish Government** issued a **new budget settlement in December 2015**, following the Autumn Statement by the UK Government. It will take time to clarify the implications of the new budget settlement for the future of regeneration funding, including national regeneration budgets as well as the overall local government settlement. However, in common with the wider UK, the results of the Scottish Budget settlement are expected to be challenging.
- The current Scottish Government **Regeneration Strategy** was published in 2011. In February 2014, the Scottish Parliament Local Government and Regeneration Committee published the conclusions of a Review of the Delivery of Regeneration in Scotland which examined how national and local government and the wider public sector can work together more effectively to involve, regenerate and strengthen communities. The committee found that years of regeneration policies have delivered few long-lasting outcomes for the most deprived communities, and highlighted the difficulty in giving those living and working in communities a real say in their future. The Review, however, provided a broad endorsement of the direction of the Strategy and whole heartedly agreed with the focus on outcomes.

### Scottish Enterprise

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<sup>8</sup> Scotland's Economic Strategy March 2015



- Scottish Enterprise has recently refreshed its business plan<sup>9</sup>, aligning it with the purpose and priorities of Scotland's Economic Strategy, focusing on the 4 i's of Investment, Innovation, Inclusive Growth, and International opportunities. As a result, Scottish Enterprise's plan now has an explicit focus on inclusive growth, which was not previously the case. Scottish Enterprise's work will continue to have a clear emphasis on stimulating private sector growth and investment, in order to create jobs and GVA. It will continue to invest its funds in national economic development programmes, and in projects in local areas of strategic national importance. While Scottish Enterprise has no specific ring-fenced funds to support economic regeneration in local areas, it continues to consider investment in local projects on a case-by-case basis, where projects address Scottish Enterprise priorities and will deliver jobs and GVA, and subject to the availability of funds.

## City Deal

- The most significant new development in economic policy in the past couple of years is the City Deal Programme. A partnership of local authorities in the West of Scotland, led by Glasgow City Council, have secured an infrastructure investment programme of circa £1.13bn (£0.5bn from Scottish Government, £0.5bn from UK Government, and £0.13bn from local authorities in the area), for a 20 to 30 year investment plan. Led by a Programme Management Organisation at Glasgow City Council (and supported by Scottish Government's Cities Department), the City Deal programme will invest in a series of major infrastructure projects to boost economic growth, with projects prioritised on their ability to generate GVA. City Deal projects are co-investments between the private and public sectors, are led and delivered by private sector partners, and must lever in significant private sector investment<sup>10</sup>.
- Inverclyde has secured approval for City Deal funding for three projects in the area, namely: road improvements & site infrastructure at Inverkip to facilitate the opening up of the former Inverkip Power Station; development of dedicated Cruise Liner facilities at Ocean Terminal in Greenock; and development of the Inchgreen riverside site for renewable energy investment.
- From 2017/18, Inverclyde Council will invest £400,000 pa in these projects, in order to lever in significant City Deal finance and private sector investment for projects in Inverclyde. This funding will be freed up by reducing the Council's annual contribution to ri, by the same amount.

## Inverclyde Council

- In common with all other local authorities across the UK, Inverclyde Council is facing significant budget pressures in the coming years. As a result, it is working hard to identify savings across all areas of activity, with the aim of maximising value for money and maintaining statutory and frontline services as far as possible.
- In the current Inverclyde Economic Development & Regeneration Single Operating Plan (2014 to 2017), the Council is committed to provide core revenue funding of £1.3m pa to ri. When additional Council funds made available to ri for investment in capital projects<sup>11</sup> are taken into account, by 2016/17 the Council will have invested almost £31m in and through ri, this exceeds the original £24m commitment it made to support ri's Business Plan when the organisation was created in 2006.

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<sup>9</sup> Building Scotland's International Competitiveness, Scottish Enterprise 2015-2018 Business Plan

<sup>10</sup> The City Deal also includes smaller-scale programmes to support innovation and employability activities.

<sup>11</sup> This includes Council funding for various capital projects including: Gourock Town Centre, Port Glasgow Town Centre, and Broomhill regeneration.

- The current budget to fund the Council's Regeneration Team is £4.30m pa for 2015/16 (including £0.56m earmarked reserves, which is a one-off and won't be available in future years).
- A budget review process is currently underway which will set the Council's corporate budget from 2017/18 onwards. As part of this exercise, savings are being sought from across the Council, including the regeneration directorate. Further details of the savings identified to date are included in the 'financial analysis' section of this report.
- From 2017/18, subject to the Budget Process the Council's funding for physical regeneration may be reduced. This budget is currently allocated to ri to deliver physical regeneration projects on behalf of the Council.
- Reductions in the funding available to support regeneration provide an opportunity, and a need, to re-examine how regeneration services in Inverclyde are to be delivered in the future.

### 2.1.3 Implications for regeneration services locally

- The overall picture that emerges is that the future economic, policy and funding context in which regeneration activities in Inverclyde will be delivered will be challenging.
- The need for economic development and regeneration in the area is as great as ever, but the availability of investment and funding (both private and public) will be less than in previous years, and there is little in Scottish or UK Government policy or finances to suggest that this will change significantly in the foreseeable future.
- Inverclyde Council will be the primary source of funding, but its regeneration budgets will be smaller in the future as a result of wider savings in local government.
- There will be opportunities to secure additional investment by bidding to a range of grant funds (e.g. Regeneration Capital Grant Fund, Coastal Communities Fund, European Funding), and Inverclyde has had some success with these funds in recent years. However, the funds are highly competitive and the amounts of funding likely to be attracted to Inverclyde may be relatively limited. Certainly, the amount of regeneration funds available will be much diminished compared to the period several years ago when Inverclyde (through ri) was receiving multi-million pound grant allocations each year from Scottish Government, Scottish Enterprise and Inverclyde Council.
- The City Deal will lever in additional investment for projects in Inverclyde. To secure support the projects must be ambitious and of strategic importance to the wider City Region. Because projects must be co-financed by the Council, a significant proportion of the Council's reduced regeneration funding will need to be invested in City Deal-supported projects, leaving less funding for other local projects. The result is that Inverclyde will need to deliver fewer, bigger regeneration projects in the future.
- The regeneration services and structures that existed during the years when funding was much greater may be more difficult to sustain in this new, much changed, financial context.

## 2.2 Effectiveness and impact of regeneration services currently

### 2.2.1 Introduction

The Study has sought to explore the extent to which progress has been made in the delivery of regeneration activities in Inverclyde during the past couple of years, following the previous review conducted during 2013, and the changes to ri and the Council's regeneration services that followed. This has included exploring the effectiveness and impact to date of the Inverclyde Economic Development & Regeneration Single Operating Plan (2014 to 2017), which is being delivered jointly by ri and the Council's Regeneration Team.

### 2.2.2 Effectiveness of ri

The vast majority of consultees are positive about the changes that have taken place at ri during the past couple of years, in response to the recommendations from the review. The key messages are:

- ri is now much **more focused and effective**, concentrating its financial resources (people and funding) on delivering a clearly defined set of projects. The organisation has accepted, and is working within its means, and getting on with delivery. As a result, it is delivering projects effectively and with purpose.
- ri now has a **sharper business focus**, with the private sector board members bringing new ideas and perspectives, and constructive challenge to the way in which ri operates.
- The **quality of work is good**. For example, external partners are impressed with the quality of project proposals, funding bids and Board reports produced by ri currently.
- The **governance of ri is transparent and effective**. The Board members receive good quality reports and project proposals which give confidence about the robustness of the projects the Board is asked to consider. There is regular reporting on progress with key projects, issues arising, and key achievements. Meetings are well organised and managed and there is a good level of discussion and debate, with Board members making a genuine contribution to decision making.
- The **management and leadership of ri is more effective**. Team members are clearer about their roles and priorities, there are clear lines of reporting and accountability, and staff feel valued for the work they do. While recent changes in ri's organisational culture are considered to be positive in the main, some consultees believe there may have been a loss of some creativity as less funding is available.
- The improved management and effectiveness of ri has **improved the confidence and trust** that external partners have in the organisation. It has improved transparency, given the Council greater comfort in the decisions that are being taken, and the how Council funds are being invested.
- As ri is now led by a senior Council officer, and the Council is the main funder, some consultees believe it has lost some of its previous independence and is now largely **under the control of the Council**. This is not necessarily a problem, as the benefits of the Council's close involvement outweigh any downside.
- Most consultees have **positive perceptions of the ri staff team** and its effectiveness. Whatever decisions are taken about the future shape of regeneration services, it will be important that ri staff are retained, in particular those with physical regeneration and property management skills, which are considered by many consultees to be most needed.

- Those consulted from the **business community have positive perceptions of ri**. They believe the degree of independence from the Council is positive and contributes to projects being delivered more quickly.
- There is generally a **good level of support for ri and its work**. However, this is **balanced with a sense of realism about the likely difficulties in sustaining the organisation** in light of reductions in Council budgets and in regeneration funding more generally.
- ri offers the added advantage, as a charity, of being able to **bid for funds that local authorities are excluded from**, such as Scottish Government's Town Centre Communities Capital Fund. This creates opportunities to attract additional funding, which may not be possible without ri.
- External partners take the position that **it is for the Council and other local partners in Inverclyde to make decisions on the future role of ri and regeneration services** more broadly. They will work with whatever regeneration structures local partners choose to adopt.

### 2.2.3 Effectiveness of the Single Operating Plan and joint working

- Most consultees believe that the introduction of the Single Operating Plan (along with improved management and governance) has been a positive development, resulting in a **more focused and effective approach to regeneration** in Inverclyde. Priorities are clearer and more transparent, as are the respective roles and responsibilities of ri and the Council's regeneration team.
- The Single Operating Plan has also resulted in **improved joint working between ri and the Council**. Relationships between the Council and ri are positive and constructive, with all parties working together towards shared goals. There are opportunities to build on the positive relationships developed and to further enhance joint working between the two organisations in the future.
- **On property management, staff from ri and the Council's Regeneration Team are working together closely** in the management of the respective property portfolios, including a joint member of staff working across both teams. Some believe that the ri and Council properties are now effectively being managed as a single, joint portfolio.
- **On physical regeneration, there is good partnership working** between ri and Council departments, such as planning, engineering, and highways.
- **Co-location of ri staff and the Council's Regeneration Team has been considered but has not yet been put in place**. Implementing co-location has the potential to strengthen joint working between ri and the Regeneration Team.

### 2.2.4 Impact of current regeneration activities

- The changes at ri in particular have improved the effectiveness of regeneration activities in the round within Inverclyde. Meanwhile, the Council's Regeneration Team has continued to perform well. As a result, many consultees feel there has been **improvement in the extent to which services are meeting local needs and responding to opportunities**.
- Many consultees believe that the Single Operating Plan has resulted in **some good successes in terms of the projects and services delivered**,
- An internal review of the Inverclyde Economic Development & Regeneration Single Operating Plan (2014 to 2017) was undertaken as at March 2015. This reported on **key activities and achievements delivered by ri and the Council's Regeneration Team during the first year of the**

**Single Operating Plan**, and the outputs and outcomes that have resulted. The key highlights are presented below.

- It is clear from the report that **good progress has been made during the year 2014/15** including: delivering key physical regeneration projects (e.g. Custom House, Kelburn Business Park, Scarlow House, and the Cartside site); progressing key town centre regeneration initiatives (in Port Glasgow, Greenock and Gourock); delivering business support and sector development services; providing a range of employability and training activities; developing and delivering tourism initiatives; and undertaking marketing and investment attraction activities.
- The table below highlights the key outputs and outcomes that have resulted from the delivery of these activities. It shows the total outputs / outcomes delivered through the Single Operating Plan combined, with those attributed to ri and the Council's Regeneration Team shown separately. A selection of the most important measures is presented here, rather than reviewing all of the target measures in the Single Operating Plan.

Table 1: Performance against output and outcome targets (2014/15)

	Total achieved (April 2014 to March 2015)	Target (April 2014 to March 2015)	% of target achieved	ri contribution	Council Regen Team contribution
<b>Outputs</b>					
No businesses supported (includes multiple assists)	580	524	111%	12	568
New / refurbished commercial space (sq m)	403	698	58%	403	n/a
New / refurbished industrial space (sq m)	1,620	1,620	100%	1,620	n/a
No of individuals supported with employability	1,805	1,829	99%	n/a	1,805
<b>Outcomes</b>					
No jobs supported (created and safeguarded) *	443.8	324.5	137%	114.8	329
No of new business start ups	151	150	100%	n/a	151
No of residents progressing into employment	968	804	120%	n/a	968

\*This figure is based on assessment of survey forms.

- **Positive progress was made against most of the targets during 2014/15.** In particular, 443.8 jobs were created or safeguarded (137% of target), 580 businesses supported (111% of target), 1,620 sq m of industrial space created / refurbished (100%), and 151 new businesses started (100%). In addition, a total of 968 residents were supported to progress into employment (120% of the target). The only target that was missed was office space created / refurbished (58% of the target achieved). The reason for this was the delay in completion of Custom House Phase 3, which was completed in July 2015.

- **ri delivered** all of the outputs for commercial and industrial space, in line with its responsibility for physical regeneration and property activities. It also delivered **115 jobs created / safeguarded, 26% of the overall Operating Plan target.**
- Looking back at the previous review in 2013, in the 7 year period 2006/07 to 2012/13, ri created a total of 191 jobs and safeguarded a further 308, a total of 499 jobs, at an average of 71 per year. The **creation / safeguarding of 115 jobs in 2014/15 is greater, therefore, than the performance in previous years.**
- Between 2006/07 and 2012/13, ri created and refurbished a total of 15,013 sq m of office and industrial space combined, at an average of 2,145 sq m per year. The 2014/15 achievement of 2,023 sq m is at a comparable level.
- **It is important to highlight that ri has delivered these results in 2014/15 with much reduced resources compared with previous years.**
- The **Council's Regeneration Team has performed well against its targets**, including number of businesses supported (111% of target), number of new business start-ups (100%), and number of residents progressing into employment (120%).
- The **Regeneration Team has also supported the creation / safeguarding of 329 jobs, 74% of the overall Operating Plan target.**
- Some consultees believe that, in the past several years, there has been a **focus on physical regeneration, and there is now a need to focus more on investment attraction and business growth, which are essential in attracting and creating jobs.** It would be desirable to have additional staff in place with the experience and business understanding needed to deliver a greater focus on investment and business attraction, growth and job creation.

#### 2.2.5 Benefits of current arrangements and key issues to be addressed in the future

- In common with the previous review, most consultees remain of the view that a key benefit of retaining ri as an arms-length organisation is that it can deliver projects, and make decisions, **more quickly** than the Council, as a result of its streamlined governance arrangements.
- The **Councils' Regeneration Team delivers a good level of activity, outputs and outcomes** in return for the funding available to it.
- The **Interim Chief Executive role at ri is felt by most consultees to have worked very well.** It has helped place ri on a firmer footing, made the organisation more effective and efficient, improved confidence in ri with the Council and other key partners, and made progress in improving joint working with the Council. It has worked very well as an interim measure and is the right solution for the time being. **However, there is a need to consider a more permanent management solution for ri**, as part of the management arrangements within the various options considered by this Study.
- Some consultees believe that **the management of regeneration services in the round would be more effective if there was a single, combined line of management for ri and the Council's Regeneration Team.**
- Broadly speaking, there are **two schools of thought on the future structure and leadership of ri.** Some believe that ri should continue to operate as an **independent organisation with a strengthened remit and resources.** Another group believe **that ri is not sustainable in its current form** (and in the current and future financial climate) and that its **functions should be transferred into the Council's regeneration services.**

## 2.3 Financial analysis

### 2.3.1 Council funding for ri and Regeneration Services

#### Funding for ri

- **The Council is committed to contribute core funding to ri of £1.3m in 2015/16 and £1.175m in 2016/17. By 2016/17, the initial proposed 10 year life of ri will have been completed and the Council will have exceeded its original commitment to invest a total of £24m in ri.**
- As a result of the Council's ongoing budget planning exercise, **it has been necessary to make savings from the funding allocated to ri**, as follows:
  - In 2016/17, a saving of £0.125m will reduce the Council's funding to ri to £1.175m.
  - From 2017/18 this will reduce further to £0.375m pa (£0.4m pa will be re-allocated to Depot AMP to fund loans charges, and a further £0.4m pa will be re-allocated for co-investment in Inverclyde's City Deal projects, helping to lever in significant City Deal and private sector investment).
  - A further saving of £77,000 from 2017/18 is also under consideration currently, to be decided upon as part of the Council's February 2016 budget process.
  - Future core funding for ri may be available from the Council's physical regeneration budget from 2017/18 onwards.
- In addition to the core funding for ri, the Council is investing further funds in a number of projects that will be delivered by ri. The funds for projects identified in the Single Operating Plan up to 2016/17 are already committed. **A further £1.5 million of Council funding has been approved for projects to be delivered by ri:**
  - £1m for the Baker Street road realignment, which is part of the Broomhill area regeneration plan.
  - £0.5m for match funding to support the bid to the Regeneration Capital Grant Fund for Port Glasgow lower town quarter.

#### Funding for the Council's Regeneration Team

- The Council also provides core funding for its Regeneration Team. Again, the current level of funding is committed up to 2016/17, as per the Single Operating Plan. The main budget lines are:
  - The Council contributes **£0.652m pa towards the operating costs of the Regeneration Team** (staff and overhead costs in 2016/17).
  - The Regeneration Team has a **'core economic development budget' of £0.438m pa**. This is invested in business support, marketing and investment attraction, and a vocational training fund.
  - The Inverclyde **Regeneration Fund, totalling £2.284m in 2015/16 and 2016/17** is managed by the Regeneration Team and used to contract out the delivery of employability services.
- **The Council currently invests additional funds in specific projects delivered by the Regeneration Team.** In the current Single Operating Plan, this includes earmarked reserves of £0.611m in 2015/16 and £0.348m in 2016/17.

#### Combined Council funding for ri and the Regeneration Team

- From **2017/18 onwards, there will be a reduction in core Council funding for regeneration activities.** The combined core funding for ri and the Council’s Regeneration Team is £4.49m in 2016/17, falling to £3.69m in 2017/18, a reduction of 18%.

### 2.3.2 Review of ri finances

#### riph surplus income

- Riverside Inverclyde Properties Holdings (riph ltd) is a subsidiary company of Riverside Inverclyde (the charitable company). Over the past several years, it has invested public funding in the development and acquisition of a property portfolio that now includes some of the most important commercial and industrial properties in Inverclyde. The portfolio is managed by the ri team who are responsible for lettings to tenants, collection of rents, and buildings management and maintenance, among other tasks. **The portfolio generates a good level of income from tenants and since 2014/15 has generated a surplus / profit, after the costs of operating the portfolio and the running costs of the ri team are deducted.**
- Analysis of financial data provided by the ri team shows the actual and forecast surplus generated by the property portfolio. **In 2014/15, the surplus property income (before deducting ri’s operating costs) was £792,985.** The surplus is projected to rise to £1,098,250 by 2016/17, as additional rental income begins to flow from new and recent developments, principally Ben Lomond View, but also Kelburn Business Park and the Custom House.

Table 2: riph property portfolio - financial performance (2014/15 to 2016/17)

	2014/15	2015/16	2016/17
Total income	<b>1,118,485</b>	<b>1,333,785</b>	<b>1,459,000</b>
- Rental	936,485	1,142,285	1,253,500
- Services charges	182,000	191,500	205,500
Total property expenditure	<b>325,500</b>	<b>359,500</b>	<b>360,750</b>
Net property income	<b>792,985</b>	<b>974,285</b>	<b>1,098,250</b>

- ri has been working towards a position whereby the surplus income generated by the property portfolio is sufficient to cover the organisation’s running costs, as well as ideally generating further surplus funds to invest in regeneration projects. ri’s operating costs are discussed in greater detail later in the report. However the headlines are that, **in 2014/15, after deducting ri’s total consolidated operating costs, the property portfolio generated surplus income totalling £165,736.** This funding was available for re-investment in regeneration projects. In 2015/16 the surplus is forecast to rise to £414,525 (the increase is largely a result of additional rental income from Ben Lomond View), and in 2016/17 to £530,251. The analysis shows that the **riph property portfolio surplus has now reached a point at which it can cover ri’s operating costs in full, as well as generating additional funds for re-investment in regeneration.** This has



been achieved because, in the past two to three years, income from the property portfolio has been growing, at the same time as ri has been making efficiency savings in its operating costs.

- **The surplus generated by the property portfolio should be considered as an additional, valuable resource to be re-invested in regeneration projects**, including the further development of the portfolio or the funding of other services. This could be used to partly offset reductions in Council funding, as well as supplementing any other external grants (e.g. RGCF) secured by Inverclyde. If the surplus can be maintained at the 2015/16 level of £400,000 plus (and perhaps grow in future years) then this is a worthwhile sum available to reinvest in regeneration projects and services each year.
- **ri has undertaken a risk analysis exercise to explore the sustainability of its annual operating surplus.** The annual surplus could potentially be reduced if the income earned from rents and service charges was to fall significantly, for example as a result of long-term tenants vacating the premises and space remaining vacant for an extended period. This could also result in additional costs for riph in the form of void area business rates charges.
- The risk to maintaining rental income levels has been limited in previous years because most of ri's lettable spaces have been small office and industrial units occupied by small businesses on flexible terms. When units have become vacant, they have quickly been re-occupied with new tenants. With the addition of the Ben Lomond View and Clyde View office developments, much larger spaces are now let to single end users on more fixed lease terms. These large tenants account for a significant share of riph's total property income, so if they were to vacate their premises, this could reduce total income significantly. While the space can always be re-occupied by new tenants, it can take longer to find businesses to take large spaces, and so there may be a risk that they could lie vacant for an extended period, incurring costs and not generating rent. To help plan for such eventualities, ri's risk analysis has explored a number of options and scenarios. The scenarios focus on riph's larger properties and the potential impact of losing key tenants. In the worst case scenario, key tenants would vacate buildings at the earliest opportunity, when leases come to an end or reach a review period. In the best case scenario, it is assumed that the offices become vacant but are re-occupied after 6 months.

Table 3: riph risk analysis and potential financial scenarios (2016/17)

	Worst case scenario (2016/17)	Best case scenario (2016/17)
Loss of income (£)	278,233	220,181
Current forecast riph surplus (after operating costs) (£)	530,251	530,251
Revised forecast riph surplus (after operating costs): resulting from loss of tenants (£)	252,018	310,070

- **In the worst case scenario**, if key tenants vacate all three buildings and spaces remain unoccupied, there would be a loss of income totalling £278,233 in 2016/17. This would **reduce the riph property surplus (after operating costs) from £530,251 to £252,018.**
- **In the best case scenario**, there would be a loss of income totalling £220,181 in 2016/17. This would **reduce the riph property surplus (after operating costs) from £530,251 to £310,070.**

- In 2017/18, in the worst scenario lost income would total £506,872 and in the best case £142,311. While the riph property surplus has not yet been forecast for 2017/18 and beyond, it is likely to be at least the £530,251 forecast for 2016/17, and probably higher as new tenants begin to occupy recent developments (e.g. Kelburn Business Park). So in 2017/18, even after deducting potential lost income, the property portfolio would still be generating a surplus.
- It is not until 2018/19 that the loss of income in the worst case scenario reaches a point (£690,308) where it might exceed the property surplus and riph could move into a loss making situation. However, by that time, it is possible that the property surplus may have expanded further and would still exceed any lost income.
- **Although further work is required to forecast the property surplus from 2017/18 onwards, the analysis suggests that any potential loss of income should be manageable and that, provided the property portfolio continues to be well run, the surplus should be sustainable into the future.**
- Within current budget forecasts, there is a small allowance each year to fund general property maintenance. However, there is no provision for more fundamental large-scale maintenance, improvement, or refurbishment projects of the type needed to maintain the quality of the stock in the long-term. To date, this has not been a major issue for riph, as all of its properties have been fully refurbished within the past few years, or are new build. Large-scale refurbishment projects have been treated as separate capital projects outside of the normal operating budget, and have been funded with grants from the Council, Scottish Government and Scottish Enterprise. As this grant funding is unlikely to be available in the future, and the risk of large-scale maintenance being needed will increase each year as the portfolio ages, it may be prudent to make a much bigger allowance in the operating budget to fund maintenance projects. As the surplus is forecast to be in excess of £500,000 in 2016/17, there should be scope to allocate a significant amount of funding to maintenance, if it is required. ri should explore the opportunity to develop a longer-term management budget (from surpluses), to fund mid-life upgrades.
- ri is currently considering the impact of the recent decision in the Scottish Government's Settlement to Local Authorities to make changes to the Empty Property Relief Scheme. At present, vacant industrial units benefit from 100% rates relief in perpetuity. However, from April 2016, the period of 100% rates relief will reduce to 3 months, with only 10% rates relief thereafter. The rules on rates relief for vacant commercial properties are also changing. The current system allows for 50% rates relief for 6 months, falling to 10% thereafter. Under the new rules, this will reduce to 50% rates relief for 3 months, then 10% thereafter.

## Value of riph assets

- **The Study has considered the asset value of the riph property portfolio. The purpose of this is to help understand what might happen if a decision was taken to close ri and to dispose of the property assets.** Some of the other URCS in Scotland that are in the process of being wound-up are selling on their property assets, in most cases to the relevant local authority, and to other buyers in a smaller number of cases. With this in mind, it is important to understand the likely cost of buying the portfolio, which are likely to be the most highly valued assets, which may realistically attract buyers, and those for which the Council may be the only viable purchaser.
- Riverside Inverclyde appointed independent advisers to value the property portfolio in 2015. As a result, riph has an up-to-date assessment of the open market value of its portfolio. It is not appropriate to include the valuation figure in this report, as making this information available could prejudice any future sale and undermine ri's ability to achieve the best possible price from bidders. However, the information is held by ri and could be made available to the Council should a decision be taken to close ri and for the Council to purchase some or all of the assets at open market value.
- Given the established weakness of Inverclyde's property market, it is not at all clear that there would be buyers in the private sector willing to purchase the properties. However, a full market testing exercise would be needed, which may result in buyers being identified. **In the event that alternative buyers cannot be found, it is likely that the Council would become the 'purchaser of last resort'. In the worst case scenario, this would mean the Council needing to find a significant amount of capital to fund the purchases.** Given current budget pressures this may be challenging, although the Council may be able to consider prudential borrowing to support asset purchases.

### 2.3.3 A review of operating costs

#### Operating costs of ri

The Study has considered the current operating costs of ri, and how they have changed in recent years, to help understand the cost effectiveness of the organisation. In the annual accounts, ri's operating costs are presented separately for riph (the property company) and for ri (the main ri staff team and its activities). The table below shows the consolidated operating costs for ri and riph combined in the current financial year 2015/16.

In the Single Operating Plan, the total operating costs were originally estimated as £644,672. However, ri has since implemented a number of savings which have resulted in annual operating costs reducing by approximately £85,000, to a revised total of £559,761. All savings have resulted from reductions in staff costs, the main change being; operating with a part-time Chief Executive rather than appointing a new, full-time post holder; and not filling the post of one of the Regeneration Officers who has left the organisation. There are 9 staff working in the ri team, or approximately 6.0 full-time equivalents.

Table 4: ri operating costs

NSC	2015/16 (Operating Plan Budget)	2015/16 (Latest Revised Budget)	Change
<b>Staff</b>	<b>367,510</b>	<b>282,599</b>	<b>-84,911</b>
- ri	292,901	199,590	-93,311
- riph	74,609	83,009	8,400
<b>Overheads</b>	<b>242,352</b>	<b>242,352</b>	<b>0</b>
- ri	115,992	115,992	0
- riph	126,360	126,360	0
<b>Other (premises)</b>	<b>34,810</b>	<b>34,810</b>	<b>0</b>
- ri	14,804	14,804	0
- riph	20,006	20,006	0
<b>Total</b>	<b>644,672</b>	<b>559,761</b>	<b>-84,911</b>
- ri	423,697	330,386	-93,311
- riph	220,975	229,375	8,400

ri has gradually reduced its overhead costs during the past few years, from £792,528 in 2011/12, to £592,053 by 2013/14, to £559,761 by 2015/16 (or £508,341 when property insurance costs and bad debt provision are excluded).

### Operating costs of the Council's Regeneration Team

The total operating costs (staffing and overheads) for the Regeneration Team in 2015/16 will be £760,020. The team has a total of 15.5 full-time equivalent staff.

#### 2.3.4 Other financial issues

If a decision is taken to close ri, work will need to be done to calculate any financial liabilities associated with winding down the company. This could include pension liabilities to the local government pension funds, and any costs associated with staff who are entitled to redundancy payments. These costs would need to be met in the first instance from the surplus and assets of ri. In the unlikely event that the assets are insufficient to cover these costs, the Council may need to make a financial contribution to the orderly winding up of the company. At this stage, the study has not sought to quantify these costs until such time as there is a clear steer on whether or not ri will be closed.

In addition, there may be issues regarding claw back of funding previously allocated, which would require further discussion with Scottish Enterprise and Scottish Government.

### 2.3.5 Analysis and key messages

- From 2017/18 onwards, there will be a reduction in core Council funding for regeneration activities. The combined core funding for ri and the Council's Regeneration Team is £4.49m in 2016/17, falling to £3.69m in 2017/18, a reduction of 18%.
- riph has gradually progressed to a position whereby the surplus income generated by the property portfolio is more than sufficient to meet the annual operating costs of ri. In 2014/15, the property portfolio generated a profit of £165,736 (after operating costs). In 2015/16 the surplus is forecast to rise to £414,525, and to 2016/17 to £530,251. This means that ri could potentially operate without core funding from the Council, and could also invest surplus funds to be reinvested in other regeneration projects and services. If well managed, the property portfolio should be a financially sustainable business into the future, with the potential to generate additional funds to support regeneration locally. For this reason, there does not appear to be a case to dismantle the property portfolio in the way that has been necessary for some other URCs in Scotland.
- There may be an option to sell the portfolio, using the proceeds to re-invest in other regeneration projects (this would be a strict condition associated with Scottish Government and Scottish Enterprise grant clawback rules). This would mean finding buyers for the properties, one of which would probably need to be the Council given the weak state of the property market. The issue is whether the Council would wish to make available the necessary funding required to buy the full portfolio, through prudential borrowing. This approach would generate a one-off multi-million pound windfall for ri which it would need to spend on local regeneration projects, before winding up. Should the sale of riph's property assets be considered, it will be important for ri to seek legal and tax advice before a final decision is taken, to ensure that the sale complies with ri's legal obligations and is undertaken in the most tax efficient manner. The approach to the disposal of assets would also need to be consistent with the charitable objects of ri.
- As a result, there is a choice between selling riph's assets for a one-off windfall, or retaining the portfolio which could generate a surplus of at least £0.5m pa to be re-invested in regeneration projects, potentially for years to come.
- ri has made significant savings in its operating costs during the past few years. However, despite this ri's operating costs (measured as average cost per FTE employee) are higher than those of the Council's Regeneration Team. Given the very tight public finances and ongoing cuts to local government funding, there is a need for ri to continue to drive down its operating costs. There may be scope to save costs by reviewing staff salaries to bring them more in line with Council norms. There may also be potential to achieve savings by combining some of ri's and the Council's management, finances and administrative activities. Further reducing ri's operating costs could generate additional surplus funds to be re-invested in regeneration projects.

## 2.4 Lessons from Councils and URCS in other areas

### 2.4.1 Introduction

The Study has explored briefly the recent experiences of five other areas in Scotland with URCS, examining how the URCS themselves and the local authorities in their areas are responding to the challenges of tightening public sector budgets, a slow economic recovery, continuing weaknesses in some local property markets, and other opportunities and challenges presenting themselves. Information from URCS and Councils has been provided on a confidential basis. For this reason, this section of the report discusses the key issues encountered and lessons learned in general terms, without providing information on specific organisations or areas.

### 2.4.2 Current status of other URCS

- Looking at various URCS across Scotland, there is a mixed picture, with around half of the URCS planning to continue operating in the future, while the other half are in the process of winding down.
- In one case, where the URCS is continuing, the local authority in the area has been able and willing to continue to provide a level of core funding towards operating costs and project delivery. In two other cases, the URCS have slimmed down significantly and plan to continue operating without the need for continued local government funding.
- All the URCS that are continuing have in common the fact that they have evolved their role and remit to address changing needs and circumstances in their local areas. One began with a significant focus on property development but is now shifting its emphasis more towards inward investment. Another focused on local housing regeneration but has now completed most of its projects. This organisation is now changing focus and will evolve into a much smaller organisation delivering employability services in local areas.

### 2.4.3 Key drivers of change

- Where a decision has been taken to close URCS, the main driver has been tightening public sector finances. In order to continue operating, the URCS would have required continued core funding from the local authority to meet ongoing operating costs and overheads. The Councils concerned have felt unable to give this commitment in the context of savings requirements from corporate budgets.
- Potential duplication of services and streamlining has also been an important consideration. Again in the context of reduced funding, Councils have found it difficult to justify supporting two separate regeneration organisations in parallel. They have chosen to close the local URCS and merge their functions into the local authority's regeneration services. In the process, they have sought to achieve efficiency savings in staff, management and overhead costs.
- Changing local circumstances have also driven the case for change. One of the URCS spent the earlier years successfully delivering a number of physical regeneration projects. When key commercial property and town centre regeneration projects were complete, it changed emphasis, focusing more on the marketing and development of an Enterprise Area. The Council took the view that it was difficult to justify continued investment in the URCS based on its narrower remit, and that these tasks could be undertaken within the Council.
- In some cases, there was limited political will in the Council/s to continue with URCS's.

- The decisions to close the URCs appear to have been led by the Councils, in their role as main funders. While the decision to close has been considered carefully, there does not appear to have been a significant consultations exercise in these other areas about the future of the URCs.

#### 2.4.4 Approaches to closing URCs

- The experience of other local authorities and URCs indicates that winding down an URC is possible and achievable, although it can be a time consuming, complex and costly process, which must be planned and executed with care.
- Different local areas have used alternative approaches to winding down their URCS, reflecting local circumstances e.g. retention of property holding company, purchase of assets by Council and/or others, resultant receipt after meeting costs of winding down to be re-invested into local regeneration projects.

#### 2.4.5 Key issues, barriers and solutions in closing URCs and restructuring regeneration services

The study has identified a number of key common issues encountered by organisations in other areas involved in winding down URCs and restructuring regeneration services.

- **Purpose and presentation of changes** - Where URCs have been closed, this has been presented locally as part of a wider reorganisation of regeneration services. The aim, as far as possible, has been to retain and build upon the positive achievements and assets of the URCs, while recognising the difficulties in maintaining two parallel regeneration organisations (both requiring significant Council funding) in the face of reductions in public sector budgets. The reorganisations have sought to bring all regeneration services together within the Council to create a more streamlined, cost efficient service, with some URC functions and staff transferring into the local authority, and URC assets and resources being managed for the ongoing regeneration benefit of the area.
- **A planned and well managed transition** - The work involved in managing the URC closure and the transfer of assets and responsibilities has been led by the Council (who have been the main decision makers), although senior staff have been retained at the URCs in the interim to undertake some of the transition tasks, in parallel with continuing to deliver projects as part of a 'business as usual' approach. One URC has established a two-year Transition Business Plan and Board to guide the managed wind down of the URC and transition to the Council, with specific proposals for key assets and service areas. The Business Plan includes a focused programme of activity (backed up with detailed budgets) to ensure the completion of key URC projects and investments by the end of the transition phase. The managed wind down is intended to avoid uncertainty and provide transparency and clarity for staff, funders and investors about future regeneration delivery in the area, ensuring confidence among businesses, investors and residents, and safeguarding the reputation of the Council and URC.
- **Asset sales and transfers** - The experience of other URCs shows it is possible to complete the sale and transfer of publicly funded URC assets to third parties. However, this is probably the most complex, time consuming and costly part of the process. The study has highlighted two main alternative approaches.
  - The first is for 100% of the URC assets to be retained within the URC's property company. A third party (normally the Council) buys 100% of the shares in the property company, making it the sole owner. The Council pays funds to the URC in return for the shares and assets of the company. The funds are used by the URC to clear any liabilities (e.g. pensions, redundancy,

VAT) and any residual value is invested in other local regeneration projects. Once all liabilities are cleared and all residual assets are re-invested, the URC Company is wound up. The property company continues to operate under the sole ownership of the Council, however, the Company objectives required to be amended to include a regeneration element.

- The second approach involves only a selection of the URC's assets being retained in the property company. Other, more valuable assets, are sold on the market including to private and public buyers, at market rates. The proceeds from assets sales are held by the URC. Any residual assets that cannot be sold on the market are retained by the property company, which is bought by the local authority or transferred to another local regeneration company. Again, any funds from property sales held by the URC are used to clear any liabilities (e.g. pensions, redundancy, VAT) and any residual is invested in other local regeneration projects. Once all liabilities are cleared and all residual assets are re-invested, the URC Company is wound up.
- **Use of funds from assets sales and clawback** - Grant clawback agreements with public funders dictate that any assets created using public funds must be retained in perpetuity for regeneration purposes. If they are sold, the proceeds must be reinvested in regeneration locally. Because funds generated from the sale of URC assets cannot be used to create new URC assets, the resources must be used for other purposes which support the regeneration of the local area. In other areas, examples of the intended use of funds include: funds for promotion and inward investment attraction; investment in public realm; and the funding of new developments, where the development is procured by the Council but 'grant funded' from residual URC assets. One area has created a Business Plan identifying the specific 'legacy' projects upon which the funds from asset sales will be spent. This will be the legacy of the URC. This approach has been acceptable to Scottish Enterprise and Scottish Government, the two main grant funders of URC's. It is worth highlighting that the clawback conditions associated with European grant funding can be much more difficult to resolve. If riph has any assets funded with European funding, it should act quickly to explore and resolve any potential clawback issues.
- **Resources for asset purchases** - In other areas, the local authorities have been able to identify capital funds sufficient to purchase assets from the URC. Were Inverclyde Council to purchase the assets of riph, it would need to be sure that the required level of capital was available or could be raised.
- **Joint ventures and LLPs** - Both other URCs that closed were involved in joint venture (JV) companies with private sector partners.
  - In one case, the valuation of the JV Company was very low. The Council bought out the URC's 50% share in the company and now owns half of the business, the remainder being owned by the private partner. The company is largely dormant at present, but the Council and private partner will work together to develop the assets of the company in the future, when market conditions allow.
  - The other URC has 50% ownership stakes in two separate JV companies associated with different development sites. As part of the transition arrangements, it is intended that the Council may step into the role fulfilled currently by the URC. A number of options are being considered including: the Council buying the URCs 50% share only; the Council buying the 50% share of the private partners, as well as the 50% share of the URC, leaving it as the 100% owner; withdrawing from the URC all together.
  - These matters are ongoing at the time of preparing this report.



- **Managing staffing changes in the URC** - The staff within the URC teams had a range of employment rights based on their varied terms of conditions.
  - A small number (mainly senior managers) were permanent, direct employees of the URC. They were made redundant, with the payments met from the residual assets of the URC following the sales of the property company to the Council.
  - Other staff (generally less senior) were on fixed term contracts. They were allowed to leave as and when their contracts expired. They were not entitled to redundancy payments or TUPE transfer.
  - A small number of staff were judged to be entitled to TUPE transfer as they were involved in activities that were being transferred to the Council. These staff transferred to the Council, which was obliged to cover the employment costs on an ongoing basis.
  - Some were secondees from the Council, and they returned to their substantive posts.
  - Some chose to resign on learning that the URC would be closing and secured alternative employment.
  - Any costs associated with staff changes arising from the winding down of the URC (e.g. redundancy payments, pensions liabilities), are met from the assets of the URC.
  
- **Putting in place replacement structures and resources in the Council** - During the wind down of an URC, most effort understandably is focused on the URC itself (e.g. asset disposal, reinvestment of asset, managing staff transition). However, it is essential that the Council invests time and effort early in the process to put in place plans for service delivery after the closure of the URC. Some of the URCs have progressed a long way down the line of winding down the URC before the Council has begun to consider the structures, staff and resources they will need to put in place to deliver on the projects and services that will be transferred across from the URC. If this is not done sufficiently early, there is a danger that the Council may not be ready to take on and deliver the URC's work effectively. This is particularly the case where the Council needs to bring in new staff with physical regeneration and business investment skills.

#### 2.4.6 Key lessons URCs and Councils in other areas

- **Closure of an URC is feasible, but costly and time consuming if done well** - The experience of other areas shows that the financial, legal, and staffing barriers associated with winding down an URC can be overcome in practice, and URC services can be transferred to the Council. However, it is a complex and time consuming process, requiring detailed engagement with many stakeholders including: funders; developers, landowners and private sector partners; OSCR, URC staff; Council Staff and Members, and others. It can also be a costly process, potentially incurring tens of thousands pounds of costs with professional advisers (legal, tax, HR etc), although these costs can be minimised through early dialogue with funders by OSCR and by getting plans agreed early. The process can also be costly in terms of requiring the Council perhaps to raise millions of pounds of capital to purchase URC assets. In terms of timescales, one Council is taking 2.25 years to wind down the URC, from the initial decision in December 2014 to closure in March 2017. Even then, it is recognised that some transition tasks may continue after this date.
  
- **Early engagement and planning is important** - Early engagement with grant funders, and with OSCR is important. The earlier in the process the Council and the URC can secure their understanding of, and support for, proposed transition arrangements, the more time and cost will be saved later in the process.
  
- **A carefully planned process** – URC's that have not put in place a clear forward plan for the transition process have found it difficult and costly, with unexpected pitfalls and costs along the

way. Putting in place a 'Transition Business Plan' is recommended. It provides an opportunity to articulate how the transition will happen in practice, the key phases and tasks, the plans for continuing the 'business as usual' management of key projects and assets, the legal and financial mechanics of the transition, and how the process will be financed and managed. This helps to create clarity and confidence among businesses, investors, residents and staff.

- **Communication and transparency** - In some other areas, there are examples where future plans for the URC have not been communicated clearly and regularly, in particular by the Council. This has created unnecessary uncertainty and anxiety, especially for staff, but also for partners, business and investors. It is essential that future plans for the URC are communicated clearly and regularly through the process with all those affected. This is also important in ensuring that URC teams continue to function effectively during the wind down.
- **Advice on technical matters** - The experience of other URCs will provide Inverclyde with a good guide as to the key issues to be encountered in winding down an URC, and the likely appropriate approaches to key issues such as: the legalities of the future use of URC assets; the financial and legal technicalities of the sale of URC assets; any tax liabilities (including VAT) / considerations arising; and the management of HR issues. This Study report provides a guide on the key issues likely to arise and how to approach them, but it is recommended that the Council engages appropriate professional legal, finance, tax and property advice to ensure all matters are managed in a fully compliant way, in the context of Inverclyde. For example, one URC has experienced some difficulties with VAT transactions associated with the disposal of assets. It will be important that the Council and Inverclyde Council take appropriate specialist VAT advice to avoid any similar problems.
- **Importance of a positive regeneration legacy message and ongoing commitment** - In planning the transition, it is important that confidence in the area's ongoing commitment to regeneration is retained among businesses, investors and residents. To achieve this, a Transition Business Plan should be developed, conveying two key messages. Firstly, that clear plans are in place to continue with the development and delivery of the URCs key projects, which are not sit with the Council; and secondly, that the URC has delivered a strong legacy, with a range of positive projects and economic impacts, and that its residual funds will be used to deliver a range of other named regeneration projects, also led by the Council. This can be linked to other positive messages about the future of local regeneration, perhaps a shift in future to investment attraction and jobs created, building on the physical regeneration delivered by the URC.
- **Maintaining positive relationships with the private sector** - In common with Inverclyde, URCs in other areas appear to be particularly valued by private businesses, who see URCs as having the ability to deliver regeneration projects more quickly than Councils would have done, and having an independence from local government politics, which is welcomed. In developing future regeneration team structures and skills, and communicating this to businesses, it will be important for the Council to explain how it will be proactive, focused and 'fleet of foot' in delivering regeneration, so as to retain the confidence of businesses and investors.
- **Effectiveness of Council's in taking over URC responsibilities** - In most cases, some URC staff are still in post delivering activities. In others, the services have only been transferred into the Council for a few months. It is too early to assess at this time the effectiveness of Council's in taking on the responsibilities and activities of the URCs.

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## 3 Options analysis - future approaches to regeneration delivery

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### 3.1 Introduction

An important aspect of the Study is an options appraisal, exploring alternative approaches to the future delivery of regeneration activities in Inverclyde. This takes account of: the current and future operating context (policy and funding); regeneration needs and opportunities in Inverclyde; the effectiveness of current regeneration services including delivery of the Single Operating Plan; lessons learned from the experiences of URCs and Councils in other parts of Scotland; and efficiency and value for money considerations.

The evidence from the Study indicates there are three broad potential approaches to the future shape of regeneration services.

- **ri should be retained and strengthened** - The majority of consultees believe that ri is an important regeneration asset for Inverclyde, and that it should be retained in some capacity as an independent organisation, whilst acting as a delivery agent for the Council and other partners. They believe there is a clear need and role for ri in the development and management of Inverclyde's business property portfolio, which is a key asset in attracting (and retaining) businesses and jobs to the area. In the past couple of years, ri has made a lot of progress and is functioning well. It has (or is in the process of delivering) some important physical regeneration projects which are improving the attractiveness of Inverclyde's business and social infrastructure, laying the foundations for future investment and job creation. In addition, ri now has an attractive property portfolio which includes some of the most important business premises and development sites in Inverclyde. The portfolio is now profitable, generating enough income to meet ri's running costs, as well as further funds to be re-invested in regeneration projects. By retaining ri, the current focus on physical regeneration will be retained, alongside the business-focused board, speed of action, and independence from the Council that is valued by many.
- **Maintain the current arrangements** - Another group of consultees believes that the current model of joint working between ri and the Council, through the delivery of the Single Operating Plan, is largely effective and should be retained. Both ri and the Council's Regeneration Team are considered to be delivering well generally and there is no compelling case to dismantle the current arrangements just over a year after they came into effect. ri is also proving to be a very useful resource for progressing the delivery of priority physical regeneration projects. The speed of action and independence from the Council is welcomed by many, and seen as a key asset of ri. This group believes there is some uncertainty about the future direction and scale of regeneration policy and funding (e.g. uncertainty over Scottish Government finances; too early to say how important City Deal will be as a regeneration tool) and that it would be premature to dismantle current structures until future opportunities and challenges become clearer.
- **Regeneration services in Inverclyde should be streamlined** - A third group of consultees believes that, in light of expected future funding cuts, it is difficult to justify the Council providing funding for two separate regeneration services (ri and the Council's Regeneration Team), with finite funds split between two organisations with similar objectives. While it is widely agreed that improvements have been made at ri and the organisation is now more effective, some are of the view that the added value it offers over and above Council services is not sufficient in itself to justify continuing with ri as a separate organisation. Some consultees are also concerned that an

organisation focused solely on physical regeneration may not be sustainable in the future, as there may be significantly less funding and fewer regeneration projects, therefore less need for a dedicated team. If ri was closed, and some functions transferred to the Council, there may be potential for efficiency savings in management, finance and admin. The main focus would be on transferring physical regeneration and property management staff to the Council. This would also create a single line of management for all regeneration services, which may be more effective than current arrangements.

Three consistent themes run throughout the Study, which should be addressed in whichever option is chosen for the future shape of regeneration services.

The first is the need to **increase Inverclyde's ability to generate jobs and attract businesses and investment**. Whichever option is chosen, there is a need to include at the heart of future regeneration services an increased emphasis on job creation and business and investment attraction.

The second issue is **value for money and efficiency**. Whether ri and the Council's Regeneration Services are brought together into a single team, or remain as separate units, in the difficult funding climate there is a need to identify further efficiency savings, which could include changes in staffing, as well as the streamlining of management, finance and administrative activities.

Finally, the need to develop a **longer-term economic development and regeneration strategy for Inverclyde**, post-March 2017.

### 3.2 Options analysis

In this report, five main options have been identified for the future delivery of regeneration services in Inverclyde. The options cover all of the three broad potential approaches discussed above. The options considered are:

- Option 1 - Maintain current arrangements, with a Single Strategy / Operating Plan delivered jointly by ri and the Council.
- Option 2 - Bring physical regeneration and business support services together into a single unit, as part of ri.
- Option 3 - Streamline all regeneration services within the Council, and close ri.
- Option 4 - Retain ri as a 'shell company' with all services delivered by the Council.
- Option 5 - Transfer property portfolio to the private sector, and close ri.

An analysis of each option is presented below. The recommended option is highlighted in section 4.2 of the report.

## Option 1 - Maintain current arrangements, with a Single Strategy / Operating Plan delivered jointly by ri and the Council

<b>Description</b>	<ul style="list-style-type: none"> <li>• Retain the current configuration of services, with ri focusing on physical regeneration and property management, and the Council focusing on business support, employability, and property management.</li> <li>• Extend the Single Operating Plan approach beyond the current end date of March 2017 up to March 2019, with a focus on the next round of future projects / priorities.</li> <li>• Put in place a number of key developments, to further enhance service effectiveness and impact.             <ul style="list-style-type: none"> <li>• Recruit one new member of staff with a proven track record in business and investment attraction and marketing, with the aim of boosting the economic impact of regeneration services. To be achieved through the appointment of a new Head of Business Investment and Operations.</li> <li>• The new Head of Business Investment and Operations to undertake the day-to-day, operational lead / management of ri, reporting to the CEO.</li> <li>• Co-locate the ri team and the Council's Regeneration Team as soon as possible, to facilitate closer joint working.</li> <li>• A longer-term Economic Development and Regeneration Strategy for Inverclyde should be developed as soon as possible, providing the strategic framework within which the Single Operating Plan would be delivered.</li> </ul> </li> <li>• Review structures again in 2018/19, in light of the policy and funding landscape at that time, and take a view then on the future shape of regeneration services.</li> </ul>
<b>Advantages and benefits</b>	<ul style="list-style-type: none"> <li>• Allow more time to build on the progress made to date in delivering the Single Operating Plan, and the positive support secured from partners and businesses.</li> <li>• Allow more time to see how the policy and funding landscape evolves, allowing for a more informed decision about the longer-term future of regeneration services.</li> <li>• Provide an opportunity to keep driving further efficiency savings within ri and the Council's Regeneration Team (e.g. greater sharing of management, finance and administrative resources), and to drive further service improvements through co-location and the recruitment of a new member of staff with a proven track record in business and investment attraction and marketing,</li> <li>• This arrangement could continue with the ri team funded through the surplus generated by the riph property portfolio, with any Council funding invested 100% in projects. Surplus riph income (after operating costs) could also be re-invested in projects.</li> </ul>
<b>Disadvantages and costs</b>	<ul style="list-style-type: none"> <li>• The approach of separate delivery by the Council and ri may become more difficult to sustain and justify year-on-year, as Council funding for both running costs and projects may continue to reduce each year.</li> <li>• Continued uncertainty over the future of regeneration services.</li> <li>• Risk that key staff may seek alternative employment in the absence of a clear, longer-term commitment to ri.</li> <li>• Risk perceptions of a short-termist approach among partners and staff.</li> </ul>
<b>Conclusion</b>	<p>This approach has shown itself to be a significant improvement compared to the delivery of regeneration services in previous years. If the suggested further developments to services are put in place, this should help to further enhance the effectiveness and impact of joint service delivery between ri and the Council's Regeneration Team.</p>

## Option 2 - Bring physical regeneration and business support services together into a single unit, as part of ri.

<b>Description</b>	<ul style="list-style-type: none"> <li>• This option would involve retaining ri and transferring into it some functions currently delivered by the Council’s Regen Team (i.e. business support, tourism, property management).</li> <li>• Physical regeneration and property development would be complemented with a greater focus on business and investment attraction, and job creation.</li> <li>• Establish an extended lifespan for ri, with an expanded remit to deliver a new 10 year Economic Development and Regeneration Strategy for Inverclyde.</li> <li>• The new structures would initially be put in place for a fixed period up to March 2019, to give ri an opportunity to demonstrate it can become financially self-sustaining.</li> <li>• All physical regeneration and business support staff within ri and the Council would be brought together into a single team, under the single line management of ri, and co-located in the same office.</li> <li>• ri would employ a Chief Executive and the current interim arrangements would be terminated.</li> <li>• The new arrangements would be monitored through quarterly meetings between ri’s CEO and the Council’s Accountable Officer (Corporate Director of Environment, Regeneration and Resources).</li> <li>• The geographic remit of ri would be expanded to cover the whole of Inverclyde, allowing it to take on development projects in all parts of the local area.</li> <li>• Use the riph property surplus to fund as much of the organisation’s running costs as possible, reducing the reliance on Council funding over the next few years.</li> <li>• Over time, the aim would be to consolidate all business property owned by ri and the Council into a single portfolio managed by riph. The portfolio would be managed for the benefit of Inverclyde, and as a tool to retain/attract businesses and jobs.</li> <li>• Any risks associated with this option could be managed through an incremental approach and a review undertaken after 2-3 years to assess the effectiveness and impact of the approach.</li> </ul>
<b>Advantages and benefits</b>	<ul style="list-style-type: none"> <li>• Consolidation of regeneration services within a single team and line management, with closer links between physical regeneration, property development, and business investment and marketing. The aim would be to achieve greater investment attraction, business growth, and job creation locally.</li> <li>• Retain speed of action, independence from Council decision making, and business focus (provided by the ri Board), and bring other areas of regeneration with this regime.</li> <li>• Opportunities to better service business needs in an holistic manner.</li> <li>• Build further on positive momentum generated by Single Operating Plan approach.</li> </ul>
<b>Disadvantages and costs</b>	<ul style="list-style-type: none"> <li>• The Council would lose a degree of control over regeneration services. It would be important that the ri management and Board retain common ground with the Council.</li> <li>• Risk that key staff may seek alternative employment in the absence of a clear, longer-term commitment to ri.</li> <li>• May need to secure agreement from OSCR for the proposed broadening of ri’s role.</li> </ul>
<b>Conclusion</b>	<p>This option would retain the ‘speed of action’, independence from Council decision making, and private sector focus (which are considered to be very important advantages of ri), extending these benefits across more aspects of regeneration services. It could also improve the linkages between various aspects of regeneration services (physical regen, property, investment attraction, business support), creating an opportunity to improve business and investment attraction, and job creation. However, it would result in the Council losing a degree of control over regeneration services.</p>

### Option 3 - Streamline all regeneration services within the Council, and close ri.

<b>Description</b>	<ul style="list-style-type: none"> <li>• This option would involve closing ri and bringing the physical regeneration and property management functions with the Council’s Regeneration Team.</li> <li>• All services would be managed by the Head of Regeneration and Planning.</li> <li>• The Council would buy 100% of the shares in riph and would operate ri’s previous property portfolio alongside the Council’s existing portfolio.</li> <li>• The funds raised by riph from selling the assets would be ring-fenced for investment in other local regeneration projects.</li> <li>• As part of this new service, there would be a much sharper focus on business and investment attraction, and job creation.</li> <li>• The ri and riph companies would be wound up, and the Boards discontinued.</li> <li>• Two approaches could be taken to this option i) a functional re-organisation in which some ri service areas and staff move over to the Council, and others leave the organisation ii) a more radical ‘root and branch’ review of all Regeneration Team and ri services and posts, assessing what should be prioritised for support within the Council’s much reduced future budgets for regeneration. This second approach could see a significantly changed service offering and organisational structure emerge.</li> </ul>
<b>Advantages and benefits</b>	<ul style="list-style-type: none"> <li>• A single, clear focal point for all regeneration services, and a single clear line management structure.</li> <li>• Potential efficiency savings from streamlining management, finance and administration.</li> <li>• Saving on ri Chief Executive post.</li> <li>• Opportunity to pool finite and reducing Council regeneration funding into a single pot, to be re-prioritised across regeneration services.</li> </ul>
<b>Disadvantages and costs</b>	<ul style="list-style-type: none"> <li>• Risk of loss of focus on physical regeneration currently offered by ri.</li> <li>• Risk of loss of ‘speed of action’ on physical regeneration projects.</li> <li>• Loss of business focus provided by private sector board.</li> <li>• Risk of negative perceptions among business community about commitment to regeneration (although other areas that have closed URCs have managed this).</li> <li>• It is not certain that services managed within the Council will be as effective as ri.</li> <li>• If all regeneration services are brought into the Council, they may be at greater risk from potential funding cuts in future.</li> <li>• As funding cuts take effect in the coming years, the Council’s management capacity may be much diminished and its ability to manage regeneration services may be reduced.</li> <li>• Loss of future surplus income stream generated by riph property portfolio, which is an important asset for Inverclyde.</li> <li>• Council would need to raise a significant capital sum to buy some / all of riph’s assets.</li> <li>• Additional costs to Council of employing physical regeneration and property officers within the Regeneration Team, and potentially finance and admin staff.</li> <li>• The process of winding up an URC can be costly (estimated at up to £100k in professional fees) and time consuming.</li> </ul>
<b>Conclusion</b>	<p>The option has been ruled out as the disadvantages outweigh the potential benefits. The ‘speed of action’, independence from Council decision making, and private sector focus (provided by the Board) are considered to be very important advantages of retaining ri, which strengthen the credibility and effectiveness of local services. Meanwhile, the financial pressures facing the Council mean it may be more advantageous to keep some regeneration services at ‘arms-length’ rather than bringing them back into the Council, where they may be more vulnerable to budget cuts.</p>

## Option 4 - Retain ri as a 'shell company' with all services delivered by the Council

<b>Description</b>	<ul style="list-style-type: none"> <li>• Physical regeneration staff would transfer to the Council's Regeneration Team.</li> <li>• The property portfolio would be retained in the ownership of riph, but it would be managed on behalf of ri by the Council (with ri's property staff transferring to the Council's Regeneration Team).</li> <li>• ri would effectively become a 'shell company', owning assets and property through riph, but all operations, management, finances and admin would be undertaken by the Council's Regeneration Team.</li> <li>• The Board could be made up of senior Council officers only, or could retain input from local business people, and perhaps Council members.</li> </ul>
<b>Advantages and benefits</b>	<ul style="list-style-type: none"> <li>• Retain the riph property surplus for re-investment in other regeneration projects.</li> <li>• Reduce ri's operating costs to zero, maximising the amount of surplus available for re-investment in projects.</li> <li>• A single, clear focal point for all regeneration services, and single clear line management structure, within the Council.</li> <li>• Saving on ri Chief Executive post.</li> </ul>
<b>Disadvantages and costs</b>	<ul style="list-style-type: none"> <li>• Risk of loss of focus on physical regeneration currently offered by ri.</li> <li>• Risk of loss of 'speed of action' on physical regeneration projects.</li> <li>• Loss of business focus provided by private sector board.</li> <li>• Risk of negative perceptions among business community about commitment to regeneration (although other areas that have closed URCs appear to have been able to manage this).</li> <li>• It is not certain that services managed within the Council will be as effective as if operated by ri</li> <li>• The Council's Regeneration Team would incur additional costs in employing physical regeneration staff and property staff transferred across from ri.</li> <li>• If ri was a 'shell' company operated by the Council, it may be difficult to convince OSCR that ri is truly operating as an independent, charitable company.</li> </ul>
<b>Conclusion</b>	<p>The option has been ruled out as the disadvantages outweigh the potential benefits. The 'speed of action', independence from Council decision making, and private sector focus (provided by the Board) are considered to be very important advantages of retaining ri, which strengthen the credibility and effectiveness of local services. If ri was simply a 'shell company' and all activity was delivered by the Council's Regeneration Team, these advantages would be lost. Meanwhile, the financial pressures facing the Council mean it may be more advantageous to keep some regeneration services at 'arms-length' rather than bringing them back into the Council, where they may be more vulnerable to budget cuts.</p>



## Option 5 - Transfer property portfolio to the private sector, and close ri

<b>Description</b>	<ul style="list-style-type: none"><li>• riph's property portfolio would be sold to private sector buyers, and the ongoing management and development of business property in the area would lie primarily with the private sector.</li><li>• ri would close, and the proceeds from property sales would be re-invested in local regeneration projects.</li><li>• Inverclyde would continue to deliver physical regeneration schemes, working wherever possible with private sector partners. Current physical regeneration staff would transfer from ri to the Council's Regeneration Team, who would be responsible for physical regeneration.</li><li>• Business support, employability and other economic development functions would remain within the Council's Regeneration Team.</li><li>• Inverclyde Council would continue to manage its own existing property portfolio.</li></ul>
<b>Advantages and benefits</b>	<ul style="list-style-type: none"><li>• There would be savings for the Council as there would no longer be a funding contribution to ri.</li><li>• It would create a one-off capital gain which could be invested in local regeneration projects.</li><li>• This option would create an opportunity for the private sector to play a greater direct role in the economic growth of Inverclyde, provided that private sector buyers were interested in the opportunity.</li></ul>
<b>Disadvantages and costs</b>	<ul style="list-style-type: none"><li>• It may prove difficult to find a single private sector buyer willing and able to buy the entire property portfolio as a going concern. There may only be buyers for the most valuable assets, leaving the least attractive, costly assets as an ongoing liability for ri and / or the Council.</li><li>• ri and the Council would lose control of some of the area's key business premises, which are an important tool in retaining existing jobs, and attracting new jobs to Inverclyde.</li><li>• Private sector landlords may be less willing than ri to offer attractive terms to retain / attract businesses and jobs to Inverclyde, potentially undermining local economic development.</li><li>• Due to prevailing low rents, private landlords may be reluctant to invest in the maintenance of properties, resulting in a lowering of the quality of the local business property stock.</li></ul>
<b>Conclusion</b>	<p>This option has been ruled on the basis that the 'speed of action', independence from Council decision making, and private sector focus in the delivery of physical regeneration and property development (which are considered to be very important advantages of retaining ri) would be lost. Just as important, there is a significant question mark over whether this option would be feasible in practice. Given the established weaknesses in the local property market, there is no guarantee that private sectors buyers for the riph property portfolio could be identified.</p>

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## 4 Conclusions and recommendations

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### 4.1 Conclusions

#### **Inverclyde needs continued regeneration investment and activity**

The delivery of regeneration services in Inverclyde (particularly the effectiveness of ri) has improved during the past couple of years. However, the underlying need for regeneration in the area remains as strong as ever. The economy is recovering gradually (both nationally and locally), resulting in improvements in Inverclyde, including a falling unemployment rate and slowing rising incomes. However overall employment, business density, wealth (GVA) and skills continue to lag behind national averages. Although there have been many positive developments in recent years, the physical infrastructure and appearance of many parts of the area require improvement. In common with many other areas of Scotland, the long-term, structural challenges in Inverclyde's business and property markets persist, although there have been real improvements compared to conditions during the height of the recession from 2008 to 2011. Overall, it is clear that the level of local regeneration need is significant, and Inverclyde needs effective regeneration services and investment as much now as it ever did.

#### **Regeneration services are functioning well, real improvements have been made, and it will be important to build on the progress made recently**

The Study indicates that regeneration services in Inverclyde (including the Council's Regeneration Team and ri) are functioning well. The introduction of the Single Operating Plan is seen as a welcome development which has created a greater focus on key regeneration priorities and projects, improved the way in which finite regeneration funds are invested, and clarified the roles and responsibilities of ri and the Council. Some real improvements have been made at ri in particular, including improved leadership & management, governance, service quality and effectiveness. These changes are recognised and valued by external partners, Board members, the local business community, and staff. As a result, regeneration services in the round are considered to be stronger now than was the case a couple of years ago. In particular, the efficiency and value for money delivered by ri has improved since the introduction of the Single Operating Plan. In 2014/15, ri delivered a similar level of activity (e.g. amount of business space created) and economic impact (e.g. number of jobs attracted, created and safeguarded) as in previous years, but with a much lower level of funding. As a result, the cost per output and outcome delivered by ri is lower now than in previous years, when funding was more plentiful. This is a direct result of the improvements made to the management and operation of the organisation, which are clearly beginning to bear fruit. It is essential that this momentum is built upon by maintaining and accelerating the changes to ri and regeneration services more broadly.

#### **Scope for further improvement through closer joint working**

The recent improvements in regeneration services are very positive for Inverclyde, and very good progress is being made. However, there is always scope for improvement. In particular, service effectiveness could be enhanced further by strengthening joint working between ri and the Council's Regeneration Team, creating closer linkages between business property projects and marketing on the one hand, and business support on the other. There is a need to better 'join up' the role of ri in retaining and attracting businesses and jobs, with the role of the Council in supporting local people to secure jobs. To facilitate this, co-location of the ri team and the Council's Regeneration Team, which is an important feature of the Single Operating Plan, should be implemented as a priority.

## **There is a need for greater focus on business and investment attraction and job creation, to deliver economic impacts**

Current regeneration services are delivering some good economic impacts which are commensurate with the value of investment (both public and private) available in Inverclyde, although greater impacts could always be delivered if more funds were available. Many consultees believe that the focus in recent years has mainly been on physical regeneration and that there is now a need to focus more on investment attraction and business growth, creating extra jobs and increasing the level of economic impact. Looking at current service delivery, and the skills and strengths of management and staff, there is a lot of focus on physical regeneration, development of small and micro businesses, and employability. Some feel there could be a stronger focus on effective inward investment marketing, and in attracting and supporting the growth of larger and medium sized businesses. To deliver this, it will be important to further strengthen the inward investment and marketing and marketing skills within ri. This focus on business and investment attraction and job creation would also include Inverclyde building on and accelerating the positive work undertaken to date with partners outside of the area, including the Glasgow City Region investment programme. It should be emphasised it is important that ri and the Regeneration Team continues to develop future regeneration proposals through ongoing community engagement to address economic and social inequalities within our most deprived communities.

## **The need for a new economic development and regeneration strategy post March 2017**

The Single Operating Plan has provided a clearer sense of direction for regeneration services and a means of prioritising finite investment. However, the current Plan is due to end in March 2017. To help create a clear future vision and direction, it will be important to develop a new, long-term Economic Development and Regeneration Strategy to carry on where the current Operating Plan leaves off. A new 10 year Strategy should be developed in the near future to provide continuity and to help Inverclyde articulate a clear economic identity, purpose and set of priorities in the minds of investors, businesses, economic development agencies, and Government. This should include long-term plans for the development of key sites, infrastructure and property, alongside a focus on investment attraction and job creation. Ideally, Inverclyde should align with the timescales of other relevant strategies, including the Glasgow City Region and the Scottish Government Economic Strategy, demonstrating clearly the linkages between Inverclyde's local priorities, and wider regional and national goals and opportunities. The 10 year Strategy would provide the overarching framework and vision, with a rolling 3 year Single Operating Plan continuing to provide the shorter-term focus on the delivery of key projects and services, and associated budgets and outcomes. This approach should provide a clear focal point and reinforce efforts to attract new investment and businesses, and ultimately create more jobs.

## **A clear, long-term strategy for business property development and management in Inverclyde**

Inverclyde's business property portfolio is an important asset, and a key tool in attracting (and retaining) businesses and jobs to the area. It gives ri and the Council some degree of control in attracting businesses and jobs, which would not be the case if all the properties were in private ownership. The majority of the key public-sector owned commercial and industrial properties are now part of riph's property portfolio, although the Council retains some assets including industrial areas and retail units. Given the importance of the properties to Inverclyde's economy, a review of the joint property portfolio should be undertaken to determine the most appropriate ownership and management arrangements in the longer term.

## The future funding and policy context for regeneration is likely to be challenging, and regeneration services will need to change in response

The single biggest factor likely to impact on the future shape of regeneration services is the challenging funding and policy context. Compared to a few years ago, when Scottish Government, Scottish Enterprise and Inverclyde Council were able to provide multi-million pound regeneration grants to Inverclyde each year (through ri), the scale of funding in future years is likely to be much lower. Between 2006/07 and 2012/13, approximately £9-10m was invested each year in ri alone, alongside additional funds invested by the Council in its own regeneration services and projects. The current situation is that core funding from Scottish Enterprise has ended and 2015/16 will be the final year of Scottish Government core funding. There is growing pressure on local government budgets, with Inverclyde Council (in common with others) potentially facing significant cuts in the period 2017 to 2020. As a result, the Council's ability to invest in regeneration in future years is likely to be reduced, with the initial impacts possibly felt from next financial year (2016/17) onwards. For example, in 2015/16, the Council will provide £1.3m core revenue funding to ri, but this is expected to reduce to £0.375m from 2017/18. At the same time, the Council's Regeneration Team budgets are also likely to be reduced. While the financial picture is challenging, there are opportunities. Inverclyde has had some success in securing funding for specific regeneration projects from the Scottish Government's Regeneration Capital Grant Fund (RCGF). And the Glasgow City Deal is providing funding for three of Inverclyde's key regeneration projects, although the Council must provide £0.4m match funding pa to lever in the City Deal funds. There will also be opportunities to bid for resources from the new European Structural and Investment Funds, launched during 2015. While these discretionary grant funds are welcome and important, funding is highly competitive and not guaranteed, and these alternative sources are unlikely to generate the very high levels of funding received in previous years. There is little in Scottish or UK Government policy to suggest a fundamental change in this position. The net result of all these factors is that the scale of resources for regeneration is likely to be much lower in future years than it has been recently, and this trend is expected to continue into the future. This suggests that Inverclyde will need to make its finite resources work even harder, delivering more for less. It is likely to mean fewer resources to deliver regeneration projects, and less money to cover operating costs, meaning that further efficiency savings in regeneration services may be needed in future years. **The challenging financial context suggests a re-assessment may be needed of how regeneration services are delivered and funded, with an increasingly streamlined, cost effective solution required in the future.**

## ri is now a valuable regeneration resource, with a range of advantages and some disadvantages

The Study has sought to explore the value of ri as a regeneration resource for Inverclyde, including if and how it adds value to the Council's core Regeneration Team. The key issues identified are:

- ri is currently the **main resource for the delivery of important physical regeneration projects in Inverclyde**. Although ri's physical regeneration specialists are small in number, they are considered to be delivering a significant volume of work and projects. The Council's Regeneration Team does not currently employ physical regeneration specialists.
- Many consultees believe that, because ri operates at arms-length from the Council, it is able to progress and deliver projects more quickly and flexibly. ri is considered to provide **a valuable vehicle for the quick and efficient delivery of physical regeneration projects**.
- ri has built up **a valuable and important property portfolio, which could provide an important regeneration resource in the future**. ri's property portfolio is now a real financial asset in the sense that it is generating an operating surplus each year. In 2014/15, the total surplus was

£792,895, of which £627,249 was spent on ri's operating costs, resulting in a net surplus of £165,249. The net surplus is forecast to be more than £400,000 (after operating costs) in 2015/16. As well as providing important locations to attract businesses to Inverclyde, the property portfolio is also generating enough income to cover ri's operating costs plus a surplus to re-invest in other regeneration projects.

- **ri is currently financially sustainable**, because its operating costs can be covered by surplus income from the property portfolio. **It does not necessarily need to be a cost to the Council in the future.**
- **ri appears to enjoy a good level of support among the local business community.** Although the number of consultees was small, all members of the business community contributing to this Study believe that ri is a valuable resource for Inverclyde and is doing a good job, in particular delivering some important physical regeneration and property projects which have improved the offer to businesses locally.
- ri has made good progress in reducing its overhead costs during the past couple of years. However, **ri's operating costs per head of staff remain higher than those of the Council's Regeneration Team.** In the challenging financial climate, there is a need to continue to improve value for money by delivering efficiencies in operating costs.
- Some consultees believe it is **difficult to justify on value for money grounds operating two regeneration organisations in Inverclyde** (ri and the Council's Regeneration Team), at a time when regeneration budgets are being cut. These consultees believe it would be more efficient and effective for all services to be delivered by the Council's Regeneration Team.
- Some consultees question the value of retaining an Urban Regeneration Company (URC) when it is no longer the vehicle for significant guaranteed funding from Scottish Government and Scottish Enterprise. Without this additional funding, some are not convinced that ri provides enough added value over and above the Council's Regeneration Team to justify the costs incurred in running a separate organisation.

### Most consultees believe a clear decision is needed soon about the future direction of regeneration services

Most consultees believe it is important to make a clear decision in the near future, one way or the other, about the future role of ri in particular. They believe it is now time to 'stick or twist'; either commit fully to ri for several years into the future, consolidating its role and resources; or close the organisation and transfer its functions to the Council's Regeneration Team. If a firm decision is not taken soon there may be a danger that key staff may be lost (especially at ri) if their future employment situation remains unclear.

### Inverclyde can learn valuable lessons from other areas of Scotland that have reformed their URCS and regeneration services

The Study has sought to explore how other areas of Scotland with Urban Regeneration Companies (URCs) are responding to changing funding pressures and their local regeneration context. The Study has found that a range of approaches are being adopted, with some URCs continuing beyond their initial planned 10 year lifespan, while others are being closed and some of the functions absorbed by the local authority. The key messages and lessons from the other areas with URCs are as follows. Fuller details are provided earlier in this report.

- As their initial lifespans complete, and core funding ends, the future role of all URCs in Scotland has been, or is being reviewed.

- Those URCs that will continue to operate in the future tend to have evolved, finding a new vision and role in response to local needs and opportunities, and adopting new organisational structures and lower cost operating models. They have become financially sustainable and no longer require funding from the local authority (there is one exception to this). For example, one URC was focused very much on physical regeneration but, having completed its main projects has evolved into an inward investment organisation. Another completed the development a series of major housing developments, and has since evolved into a small employability provider.
- Where URCs are closing, there have been two main drivers. Firstly, at the time that Scottish Government and Scottish Enterprise core funding ended, the URCs still required funding from the local authority to cover operating costs (i.e. they were making an operating loss); in the current financial climate, the local authorities did not feel able to commit to provide continued core funding. Secondly, there was a degree of overlap between the role of the URC and the activities of the Council's Regeneration function, and the Council's felt unable to support two parallel local regeneration bodies on the grounds of both value for money and service effectiveness.
- Experience shows that it is feasible in practice to close an URC, and to secure agreement for this from grant funders and from statutory authorities. However, the process can be time consuming (at least 18 months) and incurs costs including: staff time to manage the wind down; paying for specialist legal and financial advice; and redundancy and pension payments to URC staff. Most of these costs can be met from the assets of the URC.
- There could also be a significant additional capital cost if the Council decides to buy out the URC's assets, which is necessary to allow for the closure of the URC. If alternative buyers for URC assets cannot be found, and the Council is unable or unwilling to find the necessary capital funds, then it may not be possible to close the URC, as the assets will remain held in the charitable company.
- Further details are provided earlier in the report about the key issues that need to be addressed in closing an URC (e.g. asset transfer, company legals, TUPE and redundancy, VAT) and the practical solutions that have been used by other local authorities and URCs.
- Scottish Government and Scottish Enterprise have agreed (or are in the process of considering) the closure of other URCs. The main requirement has been to put measures in place to ensure that URC assets are used or re-invested for the benefit of regeneration in the local area, which ensures that no claw back of public grant is required. The Scottish Charity Regulator Office (OSCR) has also agreed to the closure of some URCs, again on the basis that assets are used for local regeneration benefits, in line with the objects of the URC charitable company.
- Based on the small number of examples available, it is possible to conclude that closing an URC can result in medium-term financial savings for the Council. Where URCs have closed, there have been some significant savings in operating costs, particularly when senior staff have left the organisation, as well as savings in general overheads (premises, insurance etc). However, this has been in areas where the URC's property portfolio was not generating a profit. In one case, the role of the URC in managing a property portfolio has been absorbed by the Council and is being delivered by fewer staff in aggregate, resulting in a saving.
- There are other feasible approaches to reforming URCs, without closing them altogether. For example, one local authority has bought out the assets of the URC's property company and is now operating it as a profit making concern. The URC does not have its own staff team, and the property company is operated by staff in the Council's regeneration team.
- Local authorities that have / are closing their URCs emphasise the importance of maintaining a positive regeneration legacy from their URC. This means having in place a clear plan for the future development of key URC assets and projects, and ensuring positive public relations messages about the achievements of the URC and future plans for its projects. This includes articulating how

services delivered by the Council will be focused, proactive and 'fleet of foot' which is important in retaining the confidence of businesses and investors. In any URC closure, it is essential to maintain positive momentum and avoid any negative perceptions about the area's commitment to regeneration.

- The Council's that have closed URCs are in the early days of absorbing functions previously carried out by the URC. They emphasise the importance of ensuring the right structures, staff, skills and capacity are in place to absorb the URC's workload. This includes putting early plans in place to retain the skills of key staff within the URC who may be transferred to the Council to undertake essential tasks. One local authority has brought in a very senior external consultant to drive forward key physical regeneration projects, rather than adding core posts to the Council's Regeneration Team.

### Implications for the future of regeneration services

The Study highlights a range of potential options for the future approach to regeneration services beyond the end of the current Single Operating Plan in March 2017. They range from a renewed commitment to a re-invigorated ri, to closure of ri with services transferred to the Council, through to the transfer of all ri and Council regeneration functions and staff into an arms-length regeneration agency for Inverclyde. All options have their merits and drawbacks, however, the most appropriate future shape for regeneration services should be determined by:

- What services, skills and resources Inverclyde needs to achieve its regeneration goals.
- What structures and services are affordable within the funding available, and will be most effective at leveraging in additional external resources.
- What structures and services will be capable of delivering maximum possible economic impact, at the same time as delivering value for money for the public pound.

The key implications of the Study findings are:

- **Most consultees are supportive of ri and its role, and would like to see the organisation continue.** They are firmly of the view that ri is able to be flexible and to deliver physical regeneration projects more quickly than the Council, due to ri's flexibilities and streamlined decision making. They also see the surplus income generated by the property portfolio as an important source of additional regeneration funding which should be retained for the future. In addition, because ri was able to cover 100% of its running costs in the most recent financial year, through the property portfolio surplus, **it need not necessarily be a cost to the Council in future** (after allowing for an appropriate transition period). Some consultees would like to see ri given scope to develop a new vision and take on a longer lifespan, with a new Chief Executive.
- While it would be possible to retain ri, **it would be equally feasible to close the organisation.** The main potential benefits of closure would be the opportunity to bring all regeneration services under single line management within the Council's Regeneration Team (with physical regeneration and property management transferring across). There may also be some financial savings from the streamlining of management, finance, administration and business support. However, closure could potentially come at a high one-off cost to the Council if it had to find several million pounds of capital funding to purchase ri's assets as part of a closure process. While perfectly feasible, the process of closing an URC is complex and time consuming, and would incur costs for the Council in officer time managing the closure process. Closure would also use up some of the URCs resources in legal and financial advice, and potential redundancy payments to staff.

- **There does not appear to be a clear financial imperative or pressure on the Council to close ri.** Unlike some other local authorities with URCs who have been under pressure to fund core operating costs (as their URC's were operating at a loss), there is no requirement currently for Inverclyde Council to fund ri's operating costs, as they can be met in full from the property portfolio surplus.
- **There are arguments for and against retaining ri, or alternatively bringing all services within the Council's Regeneration Team and closing ri.** Bringing all services under a single line management within the Council could potentially improve service co-ordination and deliver some efficiency savings, although it could also incur a significant capital cost for the Council. Conversely, keeping ri would retain the flexibility to deliver physical regeneration projects more quickly, and would retain the property portfolio surplus.



## 4.2 Recommendations

The changes introduced during the past couple of years have resulted in real improvements to regeneration services in Inverclyde. Changes to the management and governance of ri, combined with the introduction of the Single Operating Plan, have resulted in a much more focused, efficient and cost effective approach to regeneration. A number of factors have contributed to this progress, including:

- The sharper business focus provided by the renewed ri Board, supporting ri's ability to deliver physical regeneration projects quickly and efficiently.
- A more focused approach to service management.
- The improved targeting of finite investment and funding on priority projects and services, based on clear objectives identified in the Single Operating Plan.
- The continued good work of the Council's Regeneration Team in helping local people to find jobs, and in supporting local businesses.

These factors combined are beginning to offer more effective regeneration services, delivering a similar level of outputs and economic impacts as in previous years, but with a reduced level of funding.

The Study demonstrates that the changes made to date are beginning to bear fruit and that positive momentum is being developed in the regeneration of Inverclyde, as a result of close joint working between the Council and ri. In light of the progress made to date, it is important now that the partners in Inverclyde continue to push on with the changes, ensuring services continue to develop and improve, allowing them to deliver longer-term gains. The next round of developments should include:

- A stronger focus on business and investment attraction and marketing, ensuring that the investment in improving the local business property stock results in the attraction and growth of businesses, and the creation of new jobs, for the benefit of local people. This may mean bringing a new member of staff into regeneration services with experience and a proven track record in business and investment attraction and marketing.
- The development of a longer-term, 10 year Economic Development and Regeneration Strategy for Inverclyde, providing a clear vision of future economic objectives and projects to be prioritised for investment. Alongside this, continuation of the successful Single Operating Plan approach, with 3 year rolling Plans setting out short-term project delivery priorities, funding arrangements, and outcome targets, within the context of the long-term strategy.
- Continued investment by the Council in regeneration services, in the near term as a minimum. With the momentum built up in the past couple of years, and the improvements in efficiency and value for money, now is not the time for the Council to reduce its investment in regeneration. ri has begun to generate a surplus from the property portfolio, but it needs more time to demonstrate that this surplus can be sustained, year-on-year. Continued investment in ri and the Council's regeneration services will enable this progress to be built upon, resulting in a stronger local economy and more jobs for local people. Reducing investment now would put at risk the progress made so far. As a minimum, it will be important for the Council to continue to provide funding for a physical regeneration team at ri because, if this work was not delivered by ri, it would need to be taken on by the Council.

- An acknowledgement that the significant budget cuts facing the Council in the medium-term (2017 to 2020) mean that its ability to invest in regeneration services in a few years from now may be reduced significantly. Therefore, in the next 2 to 3 years, steps must be taken to improve the ability of regeneration services to sustain themselves in future, including ring-fencing the surplus income generated by the riph property portfolio, and using it to support the delivery of a broader range of regeneration services.

As the Study has progressed, it has become clear that the majority of consultees are supportive of ri and its work, and believe there is real value in retaining the organisation in the future, working jointly with the Council's Regeneration Team and others to continue the economic development and regeneration of Inverclyde. As a result, only those options that involve retaining ri in the future are considered to be appropriate. Therefore, the options under consideration are:

- **Option 1** - Maintain current arrangements, with a Single Strategy / Operating Plan delivered jointly by ri and the Council.
- **Option 2** - Bring physical regeneration and business support services together into a single unit, as part of ri.

Both options offer the potential to continue and build upon recent successes in the delivery of regeneration services. Option 1 perhaps entails less change and risk, as there would be no transfer of staff and services from the Council's Regeneration Team to ri. In the view of the Study team, option 2 offers the potential for greater benefits, as all business investment / support staff would be under a single line management within ri as a business-led organisation. This would also facilitate more direct links between physical regeneration, property development / management, and business investment and support. However, option 2 could potentially involve greater risks, including the possibility of difficulties in the transfer of staff from the Council to ri.

At a workshop on 10<sup>th</sup> December 2015, the consensus among Council Members appeared to be a preference for option 1 (maintain the current arrangements), with the possibility of moving towards option 2 over time left open (create a single unit for physical regeneration and business support within ri), subject to the performance and impact of continued joint working between ri and the Council's Regeneration Team.

Taking into account the views of all those consulted during the Study, and the benefits and risks associated with options 1 and 2, the following approach is recommended.

### **Option 1 - Maintain current arrangements, with a Single Strategy / Operating Plan delivered jointly by ri and the Council**

The recommended approach involves retaining and building upon the current joint delivery of a Single Operating Plan by ri and the Council's Regeneration Team, while implementing a number of key changes aimed at further enhancing the effectiveness and impact of services.

This would involve extending the Single Operating Plan approach beyond the current end date of March 2017 up to March 2019, with a focus on the next round of future projects and priorities. The current configuration of services would be retained, with ri focusing on physical regeneration and property management, and the Council's Regeneration Team focusing on business support, employability, and property management.

However, the current arrangements would be improved and refreshed by implementing the following key changes. All of these changes should be prioritised and implemented quickly to ensure improvements are realised as soon as possible.

- There should be a sharper focus within service delivery on business and investment attraction and marketing, aimed at achieving a greater level of job creation and attraction through regeneration services. This aim should be supported by recruiting a new post within ri of Head of Business Investment and Operations. The role would focus on promoting Inverclyde to businesses, investors and agencies outside of the immediate local area, making connections and developing networks that will result in additional investment, businesses and jobs being attracted to the area. While the role includes helping to attract businesses to ri's commercial and industrial property portfolio, the remit is much broader than that. The focus is on attracting a wide range of businesses and investors to all parts of Inverclyde, working with other property landlords, land owners, and developers with a presence or interest in the area. The successful candidate should have proven commercial expertise, a well-developed network of business and investor contacts, and a track record in attracting businesses and investment.
- As part of their duties, the new Head of Business Investment and Operations would be responsible for the day-to-day operational management of ri and its staff team. The Council's Corporate Director Environment, Regeneration and Resources should retain the role as ri's CEO and figure head but this would be a much less intensive basis, allowing the Corporate Director to return full-time to his main responsibilities with the Council. The CEO would become involved only in matters of strategic importance, or where the Head of Business Investment and Operations requires input and support. This arrangement would safeguard the continued effective leadership of ri, but on a more sustainable basis than currently.
- Alongside the appointment of the new Head of Business Investment and Operations, ri should aim to further develop and broaden the membership of its Boards. The focus should be on attracting one or two additional Board members, again with proven commercial expertise, and a well-developed network of business and investor contacts (ideally outside of Inverclyde). The aim would be to further strengthen the focus of regeneration services on business and investment attraction.
- The ri team and the Council's Regeneration Team should be co-located in the same office, to facilitate closer joint working. This should be put in place without delay.
- ri's geographic remit should be extended explicitly to include physical regeneration, property and business investment projects in all areas of Inverclyde.
- A longer-term (10 year) Economic Development and Regeneration Strategy for Inverclyde should be developed as soon as possible, providing the strategic framework within which the Single Operating Plan will be delivered.
- The Single Operating Plan should be updated and extended, initially up to March 2019.

Over the course of time, this approach could lead to a gradual move towards option 2, where a decision may be taken in the light of performance and experience that a single unit for physical regeneration and business support should be created within ri. The recommended approach will allow the Council, ri and partners more time to assess the relative risks and benefits of transferring business support staff and services to ri.

It is also recommended, therefore, that a further review of regeneration services should be undertaken in 2018/19, which could result in the implementation of option 2, subject to the

performance and economic impact of regeneration services in the interim, and the availability of funding.

The rationale for this approach is that the joint delivery of the Single Operating Plan has shown itself to be a significant improvement on the approach to delivering regeneration services in previous years, which has a good level of support among key partner organisations and the business community. ri and the Council should, therefore, be allowed more time to build on the progress made to date. Continuing the current arrangements will also allow time to see how the policy and funding landscape evolves in the next two to three years, allowing for a more informed decision about the longer-term future of regeneration services. However, while the Single Operating Plan joint delivery has shown itself to be more effective than previous arrangements, there is still scope for improvements to be made, hence the recommended changes to service delivery, staffing and management. Overall, this approach retains the benefits of delivering some regeneration services through ri, while avoiding the risks and potential additional costs associated with the other options considered by the Study.

Finally, it may be prudent to consult OSCR on some of the proposed changes to ri (e.g. potentially expanding ri's geographic remit to cover projects in all parts of Inverclyde). The changes proposed to ri are considered to be minor developments of its existing role, and do not constitute fundamental change. Nevertheless, it may be worthwhile seeking the views of OSCR in advance of implementing the proposed changes.

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## Appendix A - Acknowledgements

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New Skills Consulting would like to thank the following for their input to the Study.

Name	Organisation
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Cllr Jim Clocherty	Inverclyde Council and Riverside Inverclyde
Paula Chadderton	Scottish Government
Aubrey Fawcett	Inverclyde Council
Stuart Jamieson	Inverclyde Council
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Neil Lochiel	Riverside Inverclyde
Billy Love	Scottish Government
Shaun Lundy	Inverclyde Council
Alan Lyall	Inverclyde Federation of Small Businesses
Fiona Maguire	Riverside Inverclyde
David Martin	Riverside Inverclyde
Jim McAloon	West Dunbartonshire Council
Cllr Stephen McCabe	Inverclyde Council and Riverside Inverclyde
Gerry McCarthy	Chair / Board Member - Riverside Inverclyde
Gavin McDonagh	Inverclyde Chamber of Commerce
Anne McGregor	Board Member - Riverside Inverclyde
Allan McQuade	Scottish Enterprise
John Mundell	Inverclyde Council
Will Nisbet	Inverclyde Council
Alan Puckrin	Inverclyde Council
Cllr Luciano Rebecchi	Inverclyde Council
Fay Rogers	Inverclyde Alliance and Board Member of Riverside Inverclyde
Charles Shaw	Board Member - Riverside Inverclyde
Cllr Math Campbell-Sturgess	Inverclyde Council