



REPORT TO: ECONOMIC DEVELOPMENT & INFRASTRUCTURE SERVICES COMMITTEE ON 14 AUGUST 2018

SUBJECT: INDUSTRIAL PORTFOLIO ANNUAL REPORT 2017/18

BY: CORPORATE DIRECTOR (ECONOMIC DEVELOPMENT, PLANNING & INFRASTRUCTURE)

1. REASON FOR REPORT

- 1.1 This report sets out the annual performance of the Council's Industrial Portfolio in 2017/18.
- 1.2 This report is submitted to Committee in terms of Section III (F) (3) of the Council's Scheme of Administration relating to industrial and commercial development.

2. RECOMMENDATION

2.1 It is recommended that the Committee:-

- (i) **considers and notes the Annual Report for 2017/18; and**
- (ii) **welcomes the good performance of the Council's Industrial Portfolio.**

3. BACKGROUND

- 3.1 Annual reports have been presented to the Environmental Services Committee and this Committee since 2002; the last report was presented to this Committee on 5 September 2017 (paragraph 12 of the Minute refers). The Annual Report on The Moray Council's Industrial Portfolio for 2017/18 is attached to this report as **APPENDIX I**, together with supporting **APPENDICES II – IX**. The main issues are summarised below.

4. PERFORMANCE

Rental income

- 4.1 The rental income generated by the industrial portfolio increased by £3,000 in 2017/18 to £1.756M. As stated in last year's annual report although rents are continuing to increase at rent review and new lettings the portfolio's rental income was likely to remain similar in 2017/18 to that achieved in 2016/17, as unlike in recent years no new units came on stream in 2017/18. In addition a number of larger units were vacated in late 2016 which were slow to re-let (larger units typically take longer to let than smaller units). However by the

end of 2017/18 all bar one of those larger units had been re-let and it is anticipated that the portfolio's rental income will increase in 2018/19 and add to the portfolio's £737,000 increase in annual income over the last 9 years.

Occupancy

- 4.2 At 31 March 2017 the occupancy rate in terms of buildings occupied was 92.7% compared to the target of 80%. There will always be some turnover of tenants and the current occupancy rate is considered to be very close to maximum occupancy.

Rate of return

- 4.3 The rate of return in 2017/18 was 7.10%, exceeding the target rate of return of 5.75%.

Development

- 4.4 In 2017/18 roads and services were constructed at March Road East, Buckie to provide serviced sites ready for development, as well as a new business unit – all within budget.
- 4.5 A refurbishment/upgrading programme is ongoing in relation to existing properties, to ensure they remain responsive to future business needs.

5. CHALLENGES

- 5.1 The industrial portfolio is meeting its objectives of:-

- (i) minimising the number of vacant properties as far as is consistent with current market conditions; and
- (ii) maximising overall rental income and thereby minimising the cost of the service.

- 5.2 There are however concerns about the portfolio's ability to fulfil the objective of maintaining an adequate supply of affordable premises in appropriate locations within Moray, in particular a shortage of industrial development land and units in locations throughout Moray.

- 5.3 The following actions are aimed at addressing these concerns:-

- (i) the development of a major extension of March Road Industrial Estate in Buckie;
- (ii) sites surplus to the flood scheme in Elgin have been made available and are under offer to local businesses/subject to firm interest;
- (iii) negotiations to purchase land in Forres to provide serviced sites and business units are at an advanced stage and are expected to complete shortly;
- (iv) investigating feasibility of acquiring specific sites in Speyside with a view to providing serviced sites and business units;
- (v) potential further opportunities to acquire and develop land and buildings will be considered as part of the Council's asset management rationalisation programme;

- (vi) existing properties will be repaired and refurbished as required;
 - (vii) proposals for funding future development of the Industrial Portfolio will be brought forward through the Council's asset management, capital planning and economic development capital fund processes; and
 - (viii) there has been significant recent private sector interest in developing small business units for lease on sites which the Council has serviced and officers are working with private developers to facilitate the provision of new business units.
- 5.4 A lack of capital or revenue investment in the future could result in the industrial portfolio being unable to provide suitable units and sites to meet business needs, thereby stifling economic growth in the area.
- 5.5 The level of rent/insurance arrears was 4.66% in 2017/18 and the Estates Team continues to work corporately with Finance and Legal Services to reduce these arrears. As part of this work a system of charges to recover the Council's costs of pursuing outstanding rent has recently been introduced. This is primarily designed to persuade habitual late payers to pay timeously, improve the Council's cash flow and cut staff resources required to pursue debts. It is not expected to generate significant additional revenue to the Council.
- 5.6 A significant deterioration in the local economy could reduce demand for industrial units and new sites. This would increase voids, reduce rental income and lower the rate of return on the portfolio. Although demand slowed slightly in late 2016/2017 (particularly for larger units) it has bounced back and it is anticipated that there will continue to be demand for small industrial premises in Moray for the foreseeable future.
- 5.7 Officers will continue to monitor potential opportunities in properties vacated by businesses relocating to Elgin Business Park.

6. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The management and development of the Industrial Portfolio supports the priority of the Corporate Plan of promoting economic development and growth. It also accords with the aim of the Moray Economic Strategy of facilitating economic growth and diversification of the local economy.

(b) Policy and Legal

The policy objectives of the Industrial Portfolio are set out in **APPENDIX I** (Section 2).

(c) Financial Implications

The financial implications are outlined in **APPENDIX I** (Section 4).

Revenue expenditure in 2016/17 was within budget, whilst capital expenditure was within the capital allocation, with £128,000 carried forward into 2018/19.

Rental income increased slightly.

Looking forward, revenue expenditure on repairs and maintenance is forecast to be within the current budget of £70,185 in 2018/19. The capital provision of £1.482M is anticipated to be adequate for the 2018/19 development programme and proposals for future years' capital developments will be taken forward through the Council's financial planning process.

(d) Risk Implications

The main risks are detailed above in Section 5 of this report and in **APPENDIX I**.

(e) Staffing Implications

The Estates Team manage the Industrial Portfolio on behalf of the Council. Workload within the team is at capacity and timescales are having to be extended on priority tasks. Any further expansion of the industrial portfolio will require additional staffing resource within the Estates Section.

Legal Services staff continue to be involved in formalising lease agreements and pursuing rent arrears where necessary.

(f) Property

The property implications are outlined in **APPENDIX I**.

(g) Equalities/Socio Economic Impact

There are no equalities or socio economic issues arising from this report.

(h) Consultations

The Head of Housing and Property Services, Paul Connor, Principal Accountant, the Design Manager, the Legal Services Manager (Property and Contracts), the Head of Development Services, Rowena MacDougall, Planning Officer, the Equal Opportunities Officer and Lissa Rowan, Committee Services Officer have been consulted and their comments incorporated in this report as appropriate.

The Planning & Economic Development Manager supports continued provision of serviced sites and small industrial/business units, as well as the acquisition, refurbishment/reconfiguration of industrial property vacated by the private sector where it would facilitate early reuse and enhance supply.

Discussions continue to take place regularly with Highlands and Islands Enterprise (HIE) and private sector developers to ensure a co-ordinated and complimentary approach to property provision. HIE concentrates on the provision of larger, higher specification/amenity properties, whereas the Council focuses on smaller more general industrial properties.

It is thought there is a gap between these two markets for higher specification small units. These types of units would carry greater risk of voids for longer periods. However officers intend to investigate such provision and bring forward proposals for consideration through the Council's capital planning process.

7. CONCLUSIONS

- 7.1 The Industrial Portfolio has exceeded the targets for rental income and rate of return.**
- 7.2 The Industrial Portfolio has exceeded the target for occupancy levels and the underlying trend is for high occupancy levels to continue.**
- 7.3 To ensure the portfolio continues to fulfil its objective of maintaining an adequate supply of affordable premises for businesses in appropriate locations throughout Moray, there has been significant expenditure to provide additional buildings and sites, as well as a programme of works to improve the condition of the Council's existing industrial buildings. These developments have been delivered within budget and provided essential property and infrastructure to support economic development in Moray.**
- 7.4 The provision of further serviced sites is currently considered as the priority requirement for future industrial portfolio development and a number of projects are currently being investigated, subject to sufficient funding.**
- 7.5 The provision of further business units is also considered a priority and officers are working with private sector developers to facilitate the necessary provision.**

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Background Papers: None

Ref: GEN/Annual Industrial Portfolio Report 17-18