



REPORT TO: ECONOMIC GROWTH, HOUSING AND ENVIRONMENTAL SUSTAINABILITY COMMITTEE ON 6 OCTOBER 2020

SUBJECT: INFORMATION REPORT: INDUSTRIAL PORTFOLIO ANNUAL REPORT 2019/20

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

- 1.1 This report sets out the annual performance of the Council's Industrial Portfolio in 2019/20.
- 1.2 This report is submitted to the Economic Growth, Housing and Environmental Sustainability Committee following a decision of Moray Council on 17 June 2020 to agree a simplified committee structure as a result of the COVID-19 pandemic. In the case of this committee the combining of the delegated responsibilities of Economic Development and Infrastructure, Community Services (Housing and Property) and Finance (budget, capital and revenue monitoring) (para 9 of the minute refers).

2. BACKGROUND

- 2.1 Annual reports have been presented to the Environmental Services Committee and the Economic Development and Infrastructure Services (ED&IS) Committee since 2002; the last report was presented to the ED&IS Committee on 10 September 2019 (paragraph 8 of the Minute refers). The Annual Report on Moray Council's Industrial Portfolio for 2019/20 is attached to this report as **APPENDIX I**, together with supporting **APPENDICES II – IX**. The main issues are summarised below.
- 2.2 The special meeting of the Moray Council on 12 December 2018 considered a report by the Corporate Director (Economic Development, Planning and Infrastructure) on a proposed Property Asset Management Appraisal (paragraph 5 of the minute refers) and amongst a range of measures agreed to consider and decide whether it wants to retain all or part of the industrial portfolio and if retained, introduce an annual review of individual units to consider their retention or possible sale.

- 2.3 The ED&IS Committee at its meeting on 16 April 2019 (paragraph 14 of the Minute refers) considered a report by the Corporate Director (Economic Development, Planning and Infrastructure) and agreed that:-
- (i) the Council retains the Industrial Portfolio; and
 - (ii) the Estates Manager carries out an annual review of the portfolio and its individual properties to consider their retention or possible sale and reports the findings to the ED&IS Committee as part of the annual industrial portfolio performance report.
- 2.4 The Policy and Resources Committee at its meeting on 29 October 2019 (para 13 of the Minute refers) agreed a report on the Council's Property Asset Management Appraisal which stated that the current policy allows consideration of the sale of individual units if there is a commercial reason to do so and concluded that there should be no change of approach.

3. PERFORMANCE

Rental Income

- 4.1 The rental income generated by the industrial portfolio increased by £24,000 in 2019/20 to £1.954M. This was better than forecast in last year's annual report and the portfolio's annual income has now increased by £877,000 over the last 10 years.
- 4.2 The net rental income after deduction of property running costs, staff, administrative and capital financing costs increased by £237,000 in 2019/20 to £1,134,000. This was due principally to a reduction in historic borrowing costs.

Occupancy

- 4.3 At 31 March 2019 the occupancy rate in terms of buildings occupied was 95.48% compared to the target of 80%.

Development

- 4.4 In 2019/20 a number of refurbishment/upgrades of existing units and sites were carried out at various locations throughout Moray to ensure they remain responsive to future business needs.

Annual Review

- 4.5 A review of the portfolio has been carried out concluding that all the portfolio's constituent properties should be retained with the exception of the following properties:-
- Former Sawmill, Waterford, Forres – a lease of this property to a local engineering business is to include an option to purchase at market value. Approved in principle by the ED&IS Committee at its meeting on 10 September 2019 (para 8 of Minute refers) and main terms approved by the Policy and Resources Committee at its meeting on 3 September 2019 (para 20 of Minute refers).

- Garage, Edgar Road, Elgin – Council’s ground lease interest being sold to tenant. Approved in principle by the ED&IS Committee at its meeting on 10 September 2019 (para 8 of Minute refers) and main terms approved by the Policy and Resources Committee at its meeting on 29 October 2019 (para 18 of Minute refers).
- Site at March Road West, Buckie – Approved in principle by the ED&IS Committee at its meeting on 10 September 2019 (para 8 of Minute refers). Main provisional terms of sale have been agreed and will be reported separately to a future meeting of this committee.
- Former Abattoir, 9 Linkwood Place, Elgin – on market for lease or sale as approved in principle by the ED&IS Committee at its meeting on 10 September 2019 (para 8 of Minute refers).
- 11 March Road East, Buckie – provisional agreement for a purchase option to be included in the lease is reported separately to this committee.
- 3 Mosstodloch Industrial Estate – terms being negotiated with existing tenant to sell building and agree a long ground lease, to facilitate redevelopment by the tenant. Main terms will be reported separately to a future meeting of this committee.

4. CHALLENGES

- 5.1 In 2019/20 the industrial portfolio continued to meet 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 As detailed in **APPENDIX I** (Section 4) the leases of the two properties with the highest rents terminated. One has been re-let but the size and specialist nature of the former abattoir at Linkwood Place, Elgin has made it difficult to attract occupier interest.
- 5.3 There are concerns about a shortage of industrial development land and units in various locations.
- 5.4 The lockdown and restrictions on trading associated with the coronavirus introduced in March 2020 negatively impacted on a large number of the industrial portfolio’s tenants and officers have been working hard with tenants to try and mitigate the impacts. Although at this stage it is hard to gauge the effects with accuracy the evidence to date indicates that demand and rents have not been significantly affected and there has been minimal impact on voids.
- 5.5 The following actions are aimed at addressing supply issues:-

- (i) a major extension of March Road Industrial Estate in Buckie has been completed providing a supply of industrial development land in East Moray;
- (ii) there has been significant recent private sector interest in developing small business units for lease and officers are working with private developers to facilitate the provision of new business units;
- (iii) monitor the availability of sites in Speyside with a view to providing serviced sites and business units as demand and finances dictate;
- (iv) monitor ongoing demand for sites/units in Forres and finance available to purchase land to provide 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, subject to the availability of funding;
- (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) relocate Council services occupying industrial portfolio property as opportunities arise.

5.6 The Council's current budget pressures are limiting opportunities to further develop the portfolio. Although the provision of further serviced sites (particularly in Forres and Speyside) is currently considered as a priority requirement, work on this is on hold pending a review of the Council's finances for 2021/22 and the capital plan. 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. However, as part of the Council's response to economic recovery from the pandemic expansion of the portfolio is one of a number of potential areas for investment.

5.7 The level of rent/insurance arrears was 7.06% in 2019/20 and the Estates team is working corporately with Legal Services and Finance to minimise arrears, with a range of measures deployed to safeguard the Council's interests if discussions with tenants fail to reach satisfactory outcomes. Debt has increased in 2020/21 as a result of coronavirus trading restrictions but officers are confident that this has peaked and now that the vast majority of tenants are operational again expect debt will fall as officers work with tenants to agree phased repayments of monies owed.

5.8 Officers will monitor the impact of proposed significant developments of private sector units on demand and rentals for Council properties.

- 5.9 Officers will continue to monitor potential opportunities in properties vacated by businesses relocating to Elgin Business Park.

Non Commercial Occupation of Properties

- 5.10 The Policy and Resources (P&R) Committee on 3 September 2019 (para 13 of Minute refers) agreed that existing rental support to community bodies leasing Council properties should cease with effect from the relevant rent review/lease renewal date. Requests for a continuation of rental support from eligible community bodies affected should be considered through the Community Asset Transfer process as a policy exception.
- 5.11 As approved by the P&R Committee on 7 June 2016 (para 15 of Minute refers) TSI Moray has leased Units 2, 3 and 5 at Chanonry Business Centre as a store for aid to Syrian refugees since 1 July 2016 at a nominal rent on a month to month basis. This was with a view to Moray Supports Refugees (MSR) establishing a body capable of leasing the units in its own right.
- 5.12 TSI has indicated that it no longer wishes to continue with the lease and following discussions in the Emergency Cabinet (acting as a Sounding Board) notice was issued to end the current lease of these properties from 31 March 2021 - with a view to providing MSR sufficient time to apply for a tenancy of the properties in its own right under the Council's Community Asset Transfer (CAT) scheme. MSR has, however, very recently advised that it intends to vacate the properties by the end of 2020.
- 5.13 Requests by charities and community groups to occupy Council properties at less than market value should be considered via the Community Asset Transfer process. One of the objectives of the industrial portfolio is to maintain an adequate supply of affordable premises for lease in appropriate locations within Moray - enabling businesses to secure premises without incurring substantial capital investment thus releasing monies to fund economic growth in Moray. This would be a material consideration in assessing a Community Asset Transfer application.
- 5.14 A number of the Council's properties are occupied by Council services as detailed in **APPENDIX IX**. This does not support the objectives of the portfolio to maintain an adequate supply of affordable premises in appropriate locations within Moray and maximise overall rental income. The Property Asset Management Appraisal process will deal with rationalisation of the historical position, but for the future it is considered that in order to ensure a more strategic asset management approach any such proposals would require authorisation from the Central Management Team.

5. 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 LOIP priority of "a growing, diverse and sustainable economy" as well as 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).

Gross rental income increased by £24,000 and net rental income by £237,000 in 2019/20.

Revenue expenditure in 2019/20 was within budget, whilst capital expenditure was within the capital allocation, with £24,000 carried forward into 2020/21.

Looking forward, revenue expenditure on repairs and maintenance is forecast to be within the current budget of £70,185 in 2020/21.

£253,000 is allocated in the 2020/21 capital plan for refurbishments to the portfolio. Condition surveys are planned to be carried out in 2020/21 which will assist prioritise future refurbishment works and spend.

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**.

Indications to date are that the impact of coronavirus related trading restrictions on the Council's tenants and local property market has not been significant, although officers will continue to monitor the situation closely. Any re-introduction of trading restrictions would be expected to adversely affect tenants and the performance of the industrial portfolio.

New national and international trading arrangements after the transitional Brexit period ends remains a risk.

(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.

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 Acting Head of Housing and Property Services, Paul Connor, Principal Accountant, the Legal Services Manager, the Head of Economic Growth and Development, Darren Westmacott, Planning Officer, the Equal Opportunities Officer and Lissa Rowan, Committee Services Officer have been consulted and their comments incorporated in this report as appropriate.

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. HIE has advised that it plans to construct two such units at the Enterprise Park, Forres on a speculative basis. It is thought these types of units would carry greater risk of voids for longer periods. However, officers will monitor the development at the Enterprise Park. If appropriate and budgets are available officers would intend to investigate such provision and bring forward proposals for consideration through the Council's capital planning process where there is a justification in economic and/or financial terms for doing so.

7. CONCLUSIONS

7.1 The Industrial Portfolio exceeded targets for rental income and occupancy in 2019/20.

7.2 The provision of further business units and sites is considered a priority. Officers will continue to work to facilitate private developers seeking to provide new business units in Moray and monitor requirements for future investment/development in new units by the Council. In the meantime, due to financial pressures, the provision of further serviced development sites is on hold.

7.3 To ensure the portfolio continues to meet business needs a programme of works is in place to improve the condition of the Council's existing industrial buildings. The projects have been delivered within budget and ensure the Council's portfolio continues to meet business needs and support economic development in Moray.

Author of Report: Stuart Beveridge, Estates Manager

Background Papers: None

Ref: GEN/Annual Industrial Portfolio Report 19-20