



APPENDIX I

INDUSTRIAL PORTFOLIO ANNUAL REPORT 2019-20



PORTFOLIO
RT 2013

1. Introduction

Over the past 5 decades Local Authorities, Government Agencies and other public organisations have provided and managed industrial land and buildings in Moray as part of a strategy to retain job opportunities and attract inward investment.

The public sector became involved because of the inability of the private sector to provide serviced industrial land and buildings to lease. This market failure arose as a result of the low returns on capital investment and the relatively high risks involved in the provision of industrial land and buildings to let, especially those for smaller businesses. Private developments are usually specialist buildings for owner occupation and there has traditionally been very little private speculative industrial development in Moray. However, there have been several small scale speculative private developments in recent years and a significant upturn in such interest in the last 2 years - facilitated by the Council providing serviced sites and Highlands and Islands Enterprise financial support for the new Elgin Business Park.

By providing industrial buildings for lease the Council gives new and existing businesses an opportunity to secure premises at reasonable cost in comparison to buying or building their own premises. This encourages economic growth in Moray by enabling businesses to secure premises without incurring substantial capital investment thus releasing capital to fund growth.

The Moray Local Development Plan incorporates Scottish Government Planning Policy guidelines on industrial land and sets targets for the allocation and provision of marketable land in the main towns (see Section 5 of this Report).

The Moray Local Outcomes Improvement Plan and the Council's Corporate Plan identify promoting sustainable economic growth as a priority. The Council is assisting people and businesses in locating or growing in Moray by ensuring there is an adequate supply of business units and sites in suitable locations.

The Moray Economic Strategy 2019 -2029 sets out the vision and a high-level series of actions required to deliver a successful and vibrant economy in Moray. One of the key measures is an increase in immediately available employment land.

2. The Objectives of the Industrial Portfolio

The policy objectives of the industrial portfolio are as follows:-

- a) To maintain an adequate supply of affordable premises in appropriate locations within Moray;
- b) To minimise the number of vacant properties as far as is consistent with current market conditions; and
- c) To maximise overall rental income and thereby minimise the cost of the service.

3. The Industrial Portfolio

The Moray Council's industrial portfolio comprises a range of industrial land and buildings throughout Moray including all of the principal settlements. At 31 March 2020, the Council's industrial portfolio comprised 177 industrial buildings with a total floor area of 34,471m²; 127 development and ground leases with a total site area of 19.82 hectares and a stock of serviced and unserviced land for future development totalling 19.61 hectares. An analysis of the distribution of industrial buildings, industrial sites and development land in Moray is detailed in **APPENDIX II**.

The asset value of the portfolio at 31 March 2020 has been estimated at £21M.

4. Performance of the Industrial Portfolio

a) Rental Income

In recent years the rental income generated from the portfolio has increased steadily. The total gross rental income for the past 5 years is set out below:-

2015/2016	£1,607,000
2016/2017	£1,753,000
2017/2018	£1,756,000
2018/2019	£1,930,000
2019/2020	£1,954,000

APPENDIX III illustrates the gross rental income generated by the industrial portfolio over the period 2009-2020.

Estates and Finance staff have been working to improve integration between the Council's corporate property database and its financial management system. This exercise resulted in £26,200 of one off additional rent being invoiced in February/March 2020. Of this, £14,375 relates to previous financial years. Phased repayment agreements have been agreed with the 14 tenants involved and procedures are being put in place to ensure that any anomalies between the systems are identified at an early stage in future. Stripping out the one off £14,375 would give a revised rental income total of £1,939,625.

As advised in the last annual industrial portfolio report, there were a number of pressures on rental income in 2019/20. Principally the leases of the two units with the highest rents (former abattoir 9 Linkwood Place, Elgin & the former Sawmill, Waterford, Forres) terminated. Although 9 Linkwood Place remains vacant a letting of the former Sawmill has been secured. Unit W at Isla Bank was destroyed by fire and no longer produces rental income. However as part of the recovery works the Records Store was relocated from neighbouring Unit P to the Buckie Drifter. The fire damage to Unit P has been rectified and the property has been enhanced, with formerly void space brought into productive use. The additional rent will offset the loss of rent from Unit W.

The lack of new industrial developments by the Council means new income streams in 2019/20 were limited to a small number of sites.

The use of 3 properties at Chanonry Business Centre as a store for aid to Syrian refugees has reduced the portfolio's net income by around £11,500 per annum. Steps were being taken to bring this rental discount within the Council's Community Asset Transfer policy, but the charity has recently advised it will be relinquishing occupation of the properties.

13 of the Council's properties are occupied by Council services as detailed in **APPENDIX IX**. The current rental income from these properties totals £146,705 per annum. This occupation is being reviewed in terms of the Council's Property Asset Management Appraisal process.

It is very difficult to compare the rental of the industrial portfolio objectively over a number of years as its composition changes due to the sale of properties, addition of new properties and the refurbishment and repair of existing properties. However, **APPENDIX IV** demonstrates how increases in rental achieved at rent review for industrial premises (3 yearly rent reviews) and for industrial sites (5 yearly rent reviews) has continued to outstrip the Retail Prices Index over the corresponding periods.

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.

Debt

The level of rent and insurance (over 28 days old) outstanding at financial year end (2019/20) was £137,904. The % debt on this basis for the last five years is:-

2019/20 - 7.06%
2018/19 - 6.99%
2017/18 - 4.66%
2016/17 - 4.55%
2015/16 - 4.9%

2019/20 saw increased actions by the Council to recover outstanding monies. Although the % debt increased marginally it has been skewed by the one off late invoicing of around £28,000 of rent referred to above. Stripping that out would give a net debt on a comparable basis with previous years of 5.7%.

Estates staff continue to closely monitor the situation and are working constructively with tenants to minimise arrears and assist businesses tackle the issues causing arrears.

When efforts to work with tenants are exhausted a range of measures are available to recover possession of the property and monies due. Officers in Legal and Estates liaise on a regular basis to agree and monitor appropriate actions.

Options to recover monies include court actions, summary diligence, arrestment of bank accounts and/or wages, poinding of property and sequestration.

Leases are brought to an end by mutual agreement, serving of formal Notice to Quit or irritancy action. If keys are not timeously returned actions to recover vacant possession of properties include changing locks, which can also involve removing any goods/equipment to a secure store elsewhere – from there the goods can either be collected by a tenant, sold or disposed of by the Council (after reasonable period as appropriate). This allows properties to be re-let and generate rental income quickly, it minimises debts (as otherwise tenants would continue to be charged rent) and encourages tenants to engage with the Council. The risks to the Council from such measures are assessed by Estates and Legal officers, but usually the risks of successful challenge by a tenant are small compared to the advantages conferred to the Council.

A system of charges to recover the Council's costs of pursuing outstanding rent was introduced in June 2018. This was primarily designed to persuade habitual late payers to pay timeously, improve the Council's cash flow and cut staff resources required to pursue debts, rather than generate significant additional revenue to the Council. Approximately £1,915 of late payment charges had been issued to 31/1/20 across 46 tenants. Analysis indicates that around one third of tenants served with such charges cleared their debts soon after and it is apparent that the policy has had particular success in persuading small businesses to make payments on time.

Many of the industrial portfolio's tenants struggled to pay rent during the lockdown period and debt has increased in 2020/21. However officers believe this has peaked and now that the vast majority of tenants are operational again debt is expected to fall as officers work with tenants to agree phased repayments of monies owed.

Net Rental Income

This is reported after deduction of property running, staff and administrative costs, as well as capital financing costs.

The industrial portfolio has been funded in a variety of ways over a number of years. This has included capital grants from Government and the European Union, as well as by borrowing. The borrowings are at different stages of repayment with historic loans having been paid off.

Loan charges are pooled at a high level across numerous projects and it can be difficult to extrapolate accurately amounts attributable to the industrial portfolio. Some loans have been paid off, but the amount remaining in the loans pool which could be attributed to the industrial portfolio is estimated at approximately £5.3M. It is further estimated that loans charges in 2019/20

included around £208,000 which could be attributed to borrowing to fund the industrial portfolio.

On this basis the net rental income in 2019/20 increased by £237,000 to £1,340,000. This increase is mainly due to a fall in borrowing costs as historic loans are repaid. **APPENDIX III** illustrates the net rental income generated by the industrial portfolio over the period 2015-2020.

b) Occupancy Levels

Occupancy levels of industrial land and buildings in Moray remained high in 2019/20 with 8 buildings vacant at 31 March 2020, giving a floor area occupancy level of 93.54% compared to a target of 80%. The occupancy levels of Council industrial buildings in recent years are set out below:-

Year	% of floorspace occupied	% of buildings occupied
2015/16	98.66%	97%
2016/17	96.1%	95.4%
2017/18	94.4%	92.7%
2018/19	83.57%*	93.18%
2019/20	93.54%	95.48%

* The floor area occupancy figures for 2018/19 were skewed as a result of the former sawmill at Waterford Circle in Forres (which is by far the largest in the portfolio) becoming vacant. It has now been let.

With the present high levels of occupancy, there are very few vacant properties available to meet the demand of new and incoming businesses throughout Moray.

APPENDICES V, VI and VII give an analysis of vacant/occupied floor space by settlement and size, as at 31 March 2020.

APPENDIX VIII identifies all the buildings that were vacant as at 31 March 2020, their current status and the length of time they have been unoccupied.

c) Capital Receipts

The sale of industrial land and buildings has generated capital receipts to the Council over the past 5 years as follows:-

2015/16 -	£21,500
2016/17 -	£0
2017/18 -	£70,500
2018/19 -	£0
2019/20 -	£417,000*

* Sale of land at Rathven Industrial Estate

d) Expenditure

In recent years the Council has invested in general upgrading works to the Industrial Portfolio. During 2019/20 the Council invested £66,675 of revenue and £178,500 of capital in the Industrial Portfolio and in supporting industrial development in Moray through the following projects:-

1. Fencing and ground works at March Road, Buckie
2. Asbestos roof replacement at 6 March Lane, Buckie
3. Electrical upgrades 8 Chanonry Road South, Elgin
4. Gates to new yard at Chanonry Spur, Elgin
5. Site investigations at Waterford Circle, Forres
6. New pumps for sewerage system at Isla Bank, Keith
7. Drainage works at Westerton Road Business Centre, Keith
8. Upgrade of Unit F Isla Bank, Keith
9. Upgrade of Unit P Isla Bank, Keith
10. Upgrade of Gatehouse offices, Isla Bank, Keith
11. Roof repairs, Unit D, Isla Bank, Keith
12. Miscellaneous repairs, maintenance and minor improvements at various locations

e) Empty Property Costs

For many years vacant industrial properties received 100% empty property rates relief. However, the regulations changed with effect from 1 April 2016, so that vacant industrial property now receives 100% rates relief for 6 months, but thereafter is liable for 90% of the full rates. In addition, from 1 April 2017, empty industrial properties are no longer exempt from water service charges. The Council has very few vacant industrial properties and most that are vacated are quickly re-let. Therefore, to date, the changes have had only a small financial impact and it is envisaged this will continue to be the case for the portfolio in the short term. However officers will closely monitor the situation and the potential additional costs of meeting the objective of the portfolio of providing a supply of affordable properties.

5. Industrial Land Supply in Moray - Public and Private Sector

Development rates over the past 5 years have shown a steady take up of land and sufficient industrial land was allocated in the Moray Local Development Plan 2015 to satisfy the medium to long term economic growth in most of the main settlements. However, a number of sites have not been developed because of constraints and/or landowners' unwillingness to sell sites for prices reflecting industrial use/values and as previously forecast there is now an acute shortage of serviced land ready for development in a number of locations throughout Moray.

Scottish Planning Policy (SPP) requires that the supply of marketable employment sites be regularly reviewed. The aim is to ensure there is sufficient supply of land to meet current and anticipated market requirements. SPP requires Planning Authorities to ensure that there is a range and choice of marketable sites and locations for businesses allocated in the local development plan. The levels of effective/marketable employment land and take up of land

are National Headline Indicators returned annually in the Planning Performance Framework to the Scottish Government.

Reviews of Employment Land designations and policy (to address supply issues) were carried out as part of the review of the Local Development Plan and employment land supply has been increased by new designations in the Moray Local Development Plan 2020.

An Employment Land Audit is currently being carried out with a view to it being reported to the Planning & Regulatory Services Committee in November 2020 before a public consultation is held.

The Moray Economic Strategy 2019 -2029 identifies as a key measure the level of immediately available employment land across Moray to meet business needs.

The provision of new industrial development sites is not generally viable in purely financial terms, particularly when there is little existing infrastructure in the vicinity, hence the private sector has been reluctant to get involved, except with substantial public sector support. The Council's predecessors acquired substantial areas of land with potential for commercial development in the 1970s and 1980s which were developed as demand dictated and funds were made available. Given the current severe shortage of serviced industrial development land in Moray officers have worked to identify opportunities to secure a supply of land for the short, medium and long term.

The assessments of the market for industrial property in Section 6 below give details of local situations, whilst Sections 8 and 9 give details of proposals to address matters.

6. Local Reports

Buckie

2 units were vacant at 31 March 2020. One has been let and the other is under offer and expected to be let soon. The former bus depot at 11 March Road is being let to a company to facilitate the provision of self-storage facilities. In order to allow the company to proceed with its proposals quickly a lease was agreed with a view to officers subsequently seeking committee approval for a tenant's purchase option – which is the subject of a separate report.

The Council invested in security fencing at March Road to create and improve serviced development sites and yard space.

The first phase of the new Rathven Industrial Estate provides 8.2 hectares of serviced sites and a new business unit (3 Newtonhill Spur) extending to 319m². The new unit is let to a local food processing firm, whilst 1.37 hectares was sold to a local manufacturing firm and 2.75 hectares is under offer to a local food processing company. There are options for further development of unserviced lands in future phases and this now provides a short, medium and long long-term supply of development land in East Moray, with potential to accommodate a large inward investment development of a commercial/industrial nature.

A 0.39 hectares development site at March Road West is constrained both by proximity to housing and by required landscaping areas, which reduce the developable area to approximately 0.32 hectares. The site has been vacant for a number of years, however it is now under offer for sale to a local business.

Although not held on the industrial portfolio the sale of the remaining Council owned part of the Buckie Harbour Shipyard to MacDuff Shipyards was completed.

Elgin

Demand for industrial buildings in Elgin has remained strong over the past year, as at 31 March 2020 only 2 of the Council's units were vacant.

A Council owned site at Chanonry has been leased to a local developer who is constructing 18 units, comprising 576m² of general industrial and 1,578m² of storage space, for lease on a speculative basis. Works were delayed due to the coronavirus, but have recommenced. In addition another local developer has constructed 4 new business units for speculative let at Chanonry, again on a site leased from the Council.

Main terms have been agreed for the sale of the Council's ground lease interest in the National Tyres facility at Edgar Road and the sale is expected to conclude during 2020/21.

Although the Council invested significantly in recent years in upfilling and servicing land at Chanonry as a result of developer interest (including a new regional depot for Scottish and Southern Electricity and a new HQ/depot for a local developer) only 1.25 hectares at Chanonry (former Go Kart site) remains of serviced development land. A deal to lease it to a building supplies company did not conclude, but officers are now pursuing commercial interests from a number of parties.

Privately sites at Linkwood East have been developed and occupied by Kentucky Fried Chicken, Grampian Furnishers and Costa Coffee. It is understood that another site has been sold to a car dealer and a further site is under offer.

The Moray Local Development Plan 2020 designates a Business Parks at Barmuckity and a local developer with support from Highlands and Islands Enterprise constructed infrastructure at this location (branded as Elgin Business Park) creating 12.8 hectares (31.7 acres) of immediately available serviced development land suitable for a variety of uses including general industrial/commercial as well as retail, leisure and hotel uses nearer the A96. Four plots are understood to have been sold or leased. The developer also advised that work had started on the construction of 14 small business units just before the coronavirus lockdown in March halted construction. Although the Council has no immediate proposals to invest at Barmuckity officers will monitor the development of the Park and consider any opportunities that may arise there, as well as properties vacated in the town by businesses relocating to Barmuckity.

A smaller site in Council ownership (Elgin Common Good) opposite the Eight Acres Hotel was previously zoned as a Business Park, but has been designated in the Moray Local Development Plan 2020 as a Mixed Use area suitable for business, hotel and/or residential development. Studies previously indicated that the very high servicing/infrastructure costs would make development of the site uneconomic. However, the widening of potential uses in terms of the new Local Development Plan allied to possibly reduced new junction requirements with the A96 (compared to previously envisaged) could potentially improve the financial viability of the site. Proposals for the dualing of the A96 include a branch from the new road to the current A96 in the vicinity of this site, although final confirmation of this is awaited.

The Moray Local Development Plan designates approximately 12 hectares of privately owned land to the north of the town for business uses of an office/research and light industrial nature. The site is being marketed. However, officers are not aware of any current proposals to develop the area.

Operations at the abattoir at 9 Linkwood Place ceased in April 2018 and the lease expired on 27 September 2019. The former tenant subsequently placed the company into voluntary liquidation. The facility has been marketed for lease or sale and although interest has been limited due to the property's size and specialist fit out. However officers are currently pursuing firm interest in the property from a party proposing to use it as a meat processing facility.

Officers have continued to work on improving pedestrian access (particularly for school children) through Pinefield Industrial Estate, Elgin. The provision of an active travel route between Pinefield residential area and East End Primary School forms part of the Elgin Transport Strategy and will be implemented where feasible when funding is available. Within the Pinefield Industrial Estate there are land constraints which mean that land purchase would be required for significant sections of any such route. As a general principle going forward, the provision of walking and cycling facilities within industrial estates for employees and other members of the public to access or pass through the area would be considered at the initial design phases in line with planning policy.

Forres

Demand for industrial buildings in Forres has remained strong over the past year, as at 31 March 2020 only 2 of the Council's units were vacant and officers are pursuing active tenant interest in both.

The former sawmill at Waterford has been let on a short term basis to a local manufacturing company, whilst a longer lease is finalised (including a tenant's option to purchase) and all development sites at Waterford Circle and Greshop Industrial Estates are now leased.

The new road bridge constructed over the railway to the west of the former sawmill by Network Rail has improved access to the existing businesses at Waterford.

Highlands and Islands Enterprise (HIE) has invested heavily in the Enterprise Park at Forres, part of which has Enterprise Zone status. Around 13 hectares of land is available for development and HIE has prepared a masterplan for the

area which includes provision for light industrial uses, subject to suitable screening/landscaping. Officers prepared designs/costs and had provisionally agreed main terms for the purchase from HIE of 4 hectares of land for the development of serviced sites and units for lease to small businesses. However the project was put on hold due to the Council's acute financial pressures. There are monies allocated on an indicative basis in future years in the capital plan for this project and officers will continue to monitor the need and viability of future development. In the meantime HIE has advised that it is preparing a new masterplan for the park and has alternative proposals for parts of the area previously sought by the Council.

HIE has recently applied for planning consent for the development of small flexible business units at the Enterprise Park.

An area to the south of the Enterprise Park, Forres (Easter Newforres) which is believed to be privately owned has been designated in the Moray Local Development Plan 2020 for industrial development.

Keith

There is continuing strong demand for industrial premises in Keith and only 2 units were vacant at 31 March 2020, one of which is under offer.

Isla Bank Mills Estate historically lagged other industrial estates in terms of occupancy levels. However, following completion of various minor works to mitigate flood risk, as well as upgrading of individual units and common areas, demand is strong. The estate has been near to full occupancy for the last 5 years and is seeing significant rental growth.

Unit W which was let to a laundry company was completely destroyed by a fire in November 2018 and an insurance settlement was agreed with the Council's insurers. Officers worked closely with the laundry company to facilitate a lease of alternative Council premises in Keith.

The roofs and adjoining walls of the adjacent properties (Units R and P) were also damaged and have been repaired. The Council's records store was relocated from Unit P and as part of the remedial works the Council has taken the opportunity to upgrade the property – installing vehicle access doors, replacing the wooden floor with a modern concrete floor and bringing a previous void space (not well suited to separate occupation) into productive use, as well as various other minor improvements. A lease has been provisionally agreed with a private business which already leases property at Isla Bank Mills from the Council to facilitate expansion of its business.

The Council completed the construction of a new road and services to provide serviced development land at Westerton Road South in 2015 and all four sites are currently let.

The unserviced land at Isla Bank extending to 1.84 hectares is subject to flooding and is likely undevelopable without major investment in terms of servicing and flood protection, which is considered unviable.

Land to the east of Westerton Road has been identified in the Moray Local Development Plan 2020 for use as an industrial estate.

Lossiemouth

Demand for standard industrial buildings in Lossiemouth, has remained strong over the past year, with all of the Council's units occupied as at 31 March 2020.

A local business is nearing formal completion of a large workshop unit at Coularbank Industrial Estate on a site leased from the Council, which will allow him to release 1 or 2 of his smaller units, also built on Council land, for lease to small businesses. Another business is nearing formal completion of two small workshop units for its own use on a site leased from the Council.

A kitchen company has relocated to Elgin. The showroom premises vacated at Coularbank remain subject to a long ground lease from the Council, but the tenant is understood to be seek a new occupier.

As part of the project to consolidate waste facilities the current Council operation at Unit 7 Coularbank is to relocate to Moycroft in Elgin. Completion of the expanded Moycroft facility has been delayed by the coronavirus, which has resultantly delayed the relocation from Unit 7 Coularbank. Unit 7 is a much larger than normal units and may be difficult to re-let. Officers are monitoring the situation and investigating options to maximise the likelihood of re-letting.

The supply of serviced industrial development land is now exhausted and although there has been a reduction in enquiries for industrial land in recent years, this is believed to reflect the lack of sites ready for development more than a slowing of the market. A site (in private ownership) to the south of the town is designated in the Moray Local Development Plan 2020 for industrial, business park, retail and housing uses. It is unlikely to be developed for industrial or business park use unless it is serviced as a result of adjacent residential development.

The provision of additional development land in Elgin would assist meet demand for sites in the Lossiemouth area.

Other Settlements

All the Council's industrial units in Burghead, Dufftown, Rothes, Mosstodloch and Lhanbryde were occupied as at 31 March 2020.

Following the development of a new complex needs facility 1.69 hectares of unserviced development land remains adjacent to Lhanbryde Industrial Estate. It is suitable for wider uses including residential due to its Local Development Plan designation as an Opportunity Site and is under offer of sale to a Housing Association. The provision of additional development land in Elgin will assist meet demand for sites in the Lhanbryde area.

A large local business has acquired land to the north of Rothes and has developed part for its own purposes. The company indicated that it would in principle be amenable to another local selling adjacent land to the Council to facilitate small scale commercial/industrial development. Officers were investigating this and another site owned by the same company to the south of

Rothies, but the work is on hold pending a full review of the capital plan in 2021/22. Meantime a developer is contemplating the provision of small industrial units on a site to the south of Aberlour.

Land to the north of Rothies has been identified in the Moray Local Development Plan 2020 for business and residential use, whilst additional land has identified for long term industrial use to the west of Mosstodloch in the same document.

In Mosstodloch a large manufacturing company is investigating proposals for major expansion of its operations which may potentially include a number of properties at the Council's industrial estate and works to alleviate surface water flood risks in the vicinity.

3 Mosstodloch Industrial Estate comprises a single storey building and yard, leased to a company which produces fuel from waste. The building is in poor condition and terms are being negotiated with the existing tenant to sell the building and agree a long ground lease, to facilitate redevelopment of the property by the tenant.

7. Future Trends for the Council's Industrial Portfolio

- a) Occupation levels in the industrial portfolio remained at a very high level through 2019/20 with demand for premises in most settlements in Moray outstripping supply. Although for decades there has been very little private sector provision of industrial property to let in Moray, 22 units for speculative let are currently under construction and around 14 more are being planned by private developers, primarily in Elgin. The majority are facilitated by public sector investment in infrastructure to provide serviced sites. Officers will monitor their progress and take account of this activity in assessing future property needs and their impact on occupation and rentals of Council properties.

Restrictions introduced due to the coronavirus have caused many of the Council's tenants trading and financial hardship and officers are working closely with tenants to try and mitigate difficulties as far as possible. Although at this stage it is hard to gauge the effects with accuracy, evidence to date indicates that demand and rents have not been significantly affected and there has been minimal impact on voids. Officers continue to monitor the situation closely.

- b) Individual property rents have continued to increase steadily in recent years and officers will monitor the impact of the emerging significant increased supply of private sector units on rentals.

Until the last 2 years the overall rental income generated by the industrial portfolio had been boosted by the development of new business units and the letting of new development sites.

The lease of the abattoir at 9 Linkwood Place which produced a rent of £63,600 per annum (the highest in the portfolio) terminated on 27 September 2019. The property has been market for lease or sale, but despite adopting a pragmatic pricing approach, due to its size, specialist fit

out and lack of demand from the food processing sector market interest has been very limited. Whilst continuing to market the property officers are giving consideration to repurposing the property for private use, or use by the Council.

The Council's Waste Management Service is due to relocate from Unit 7 Coularbank Industrial Estate, Lossiemouth, to new facilities at Moycroft later in 2020. This property has a current rent of £24,400 per annum. Officers will start marketing in advance of the move, but again given its size there is a risk of a significant void period.

Voids at these two large properties would obviously impact on the portfolio's overall rental income.

- c) 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.

These units could potentially be re-let to private businesses – stimulating economic development and generating rental income to the Council.

Occupation of industrial units by Council services has occurred in a piecemeal fashion over many years. The Property Asset Management Appraisal process will deal with rationalisation of the historical position, but for the future it is considered that a more strategic asset management approach would be for any such proposals to require authorisation from the Council's Central Management Team.

- d) There is a shortage of serviced land ready for development in Moray, although the purchase and servicing by the Council of land in Buckie provides a long term supply in East Moray.

Meanwhile proposals to secure additional industrial land in Forres and exploring opportunities to expand industrial land provision in Speyside were put on hold due to the pressure on Council budgets. There is a critical shortage of serviced development land in Elgin; however the development of a Business Park at Barmuckity has greatly improved the situation.

New Industrial land designations have been made as part of the review of the Local Development Plan.

- e) A significant amount of the portfolio was provided during the 1960s and 1970s and condition surveys are used to identify backlog maintenance/repair. Although tenants are obliged to carry out some of the outstanding repairs/maintenance where their leases include an obligation to maintain and repair their properties, some of the outstanding works, particularly those of an inherent nature, due to the age of the property require to be addressed by the Council - an ongoing refurbishment programme is in place to ensure the portfolio continues to meet the needs of businesses.

Refurbishment works ensure the properties continue to meet business needs and safeguard future rental income. Officers will continue to work with tenants on the most appropriate ways to deliver improvements to properties, including agreeing where appropriate for tenants to do works in return for commensurate temporary reductions in rental or capital payments.

- f) Whilst the revenue repairs budget is sufficient at present to meet ongoing repairs and maintenance needs, as the portfolio expands and the newer units age, there will likely be a future requirement to increase the revenue repairs budget.
- g) Over the last 5 years a prioritised programme has seen the roadways at industrial estates in Buckie, Dufftown, Elgin, Forres, Keith, Lossiemouth and Mosstodloch upgraded to ensure businesses on estates can continue to access their properties and to avoid claims against the Council for damage to vehicles. An upgrade of the estate road at Isla Bank, Keith is planned for 2020/21 whilst works to finish the Dufftown estate road are scheduled for 2021/22 once an adjacent Council social housing development is completed. Resurfacing works are expected to be required within 5 years at Waterford Way Forres, West Road Forres and the car parks at Tyock Industrial Estate.

In the medium to long term it is expected that more substantial investment will be required to maintain the integrity of the estate roads.

- h) Currently Energy Performance Certificates (EPCs) are required for properties for lease above 50m² which meet certain criteria (mainly the presence of heating systems in buildings). However the Energy Act 2011 enables regulations to be passed which would prohibit the letting of properties with poor EPC ratings (currently thought likely to be set at ratings above E). In England and Wales the new regime came into effect in 2018, however it is less clear at present as to when the Scottish Government will introduce the regulations. Officers are monitoring the development of these regulations, which would potentially impact on approximately 35 units and are investigating cost effective means of complying.

In 2018 the Scottish Government consulted on draft proposals to make non-domestic properties more energy efficient. However further consultations with a view to new regulations being implemented in 2021 have been delayed due to the coronavirus. Officers will monitor developments closely.

- i) Mosstodloch Industrial Estate has suffered flooding on several occasions during periods of exceptional rainfall, despite significant investment by the Council in upgrading the surface water drainage system. The Council, working collaboratively with Highlands and Islands Enterprise and a major adjacent business in the vicinity commissioned specialist consultants to carry out a flood risk assessment, including potential costed solutions. The consultant advised that the potential solutions identified would require major expenditure and would possibly disrupt the adjacent business. That

business has been investigating options to expand its operations in Mosstodloch and encompass flood solutions within its proposals. Officers continue to liaise with the company.

- j) In ensuring the portfolio remains responsive to needs, the Council will continue to consider acquiring/adding property which assists the objectives of the industrial portfolio. Consideration of funding to facilitate such acquisitions will be part of the capital plan review in 2021/22.
- k) The Council will consider the sale of properties in limited circumstances in accordance with its existing policy - where retaining a property is no longer in the Council's best interests and/or a property no longer supports the objectives of the industrial portfolio.
- l) The Council continues to work closely 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.
- m) A number of industrial portfolio developments were funded with assistance from the European Union and despite Brexit, conditions attached to previous European funded projects will continue to apply until the European Commission has signed off the audit period for each project. The UK Shared Prosperity Fund will act as a replacement for European Funding, but at this stage it is unclear if there will be future funding support opportunities relevant to the industrial portfolio.
- n) TSI Moray has leased 3 properties 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 establishing a body capable of leasing the units in its own right.

The Policy and Resources Committee on 3 September 2019 agreed that existing rental support to community bodies leasing Council properties should cease with effect from the relevant rent review date.

Following discussion in the Emergency Cabinet (sitting as a Sounding Board) notice was issued to end the current lease of these properties from 31 March 2021 - with a view to providing Moray Supports Refugees sufficient time to apply for a tenancy of the properties in its own right under the Council's Community Asset Transfer scheme. However Moray Supports Refugees has recently advised that it intends to vacate the properties by the end of the year.

- o) Requests by charities and community groups to occupy Council properties at less than market value should be considered via the Community Asset Transfer process.
- p) At present the national and international trading arrangements following the transitional Brexit period are unknown, but officers will continue to keep abreast of developments and the likely impacts on the industrial

portfolio.

8. Development Projects

Updates on current projects previously approved by the Economic Development and Infrastructure Services Committee are provided below.

1. Continue to make provision for refurbishment and maintenance works to the Industrial Portfolio.

£40,000 has been allocated in the 2020/21 capital plan to carry out condition surveys of the portfolio and carry out refurbishment works. The condition surveys were delayed by the coronavirus, but have recently began and once completed will be used to develop a prioritised programme of refurbishment work.

Further works identified will be considered in future years subject to the availability of funding.

The Industrial Estates Revenue Budget contains an element of £70,185 for repairs, maintenance, minor development and improvement works in the revenue plan for 2020/21 and a programme of minor works is being progressed. This includes replacing foul water pumps, yard resurfacing, repairs/maintenance of building fabric and improving energy performance of heated buildings. Modernised, wind and watertight buildings are easier to let, minimise voids and command higher rents.

2. Consideration should be given to the provision/acquisition and servicing of land for further industrial development in Forres.

As stated in the Council Employment Land Audit there is a shortage of general industrial land in Forres.

Officers had discussions with land owners in Forres to identify opportunities to acquire land, however they have either sought land values well above industrial use value or been otherwise reluctant to facilitate development at this time. Subsequently the proposed route of the new dualled section of the A96 was announced, which cuts through and would sterilise a lot of potential development land in the Waterford area.

Highlands and Islands Enterprise (HIE) has approximately 13 hectares of serviced land available at the Forres Enterprise Park suitable for businesses with higher design and amenity requirements than traditional industrial uses. Officers agreed provisional terms for the acquisition of 4 hectares of land from HIE for more general light industrial uses. Costed designs were prepared, including a higher standard and specification of unit than normally provided in order to be compatible with the general design standards at the Enterprise Park and also to widen the variety of accommodation available to businesses. However the project was put on hold due to the Council's financial pressures. There are monies allocated in future years in the indicative 10 year capital plan for this project and officers will continue to monitor the need and viability of future development.

In the meantime HIE has advised that it is preparing a new masterplan for the park and has alternative proposals for parts of the area previously sought by the Council. HIE has recently applied for planning consent for the development of small flexible business units at the Enterprise Park.

The Moray Local Development Plan 2020 designates an area (understood to be privately owned) to the south of the Enterprise Park, Forres (Easter Newforres) for industrial development.

3. Provision of serviced industrial development land in Elgin

Accommodation works have been carried out to provide serviced industrial development sites, utilising the Council's sites which became available after completion of the Elgin Flood Scheme. One has been let on a long term basis to a car repair/MOT business, whilst another is being incorporated into the expanded Moycroft waste recycling facility. The other at Chanonry Industrial Estate is subject to interest from a number of commercial parties.

Options for the provision of a long term supply of industrial development land in Elgin are limited at present, although the development of a business park at Barmuckity has greatly improved the situation.

4. Provision of serviced industrial development land in other locations

Land to the north of Rothes has been acquired and developed by a large manufacturing business. Officers held discussions with the company about utilising any land it does not require at that location, as well as at a site to the south of Rothes owned by the same firm. In addition officers have liaised with a local development company which has plans to provide industrial property on land it owns land to the south of Aberlour. This work has however been postponed pending review of the Council's capital plan in 2021/22.

9. Annual Review

Officers keep the performance of the portfolio and its constituent parts under constant/ongoing review to ensure it continues to fulfil the objectives of the Portfolio (as detailed in section 2 above) and give consideration to proposals to maintain its ability to meet those objectives.

The main criteria are income generation compared to costs/risks (such as repairs, void periods and empty property rates) and potential to release development value.

The merits of retaining individual properties have been reviewed as part of the preparation of this report.

The sale of a 1.37 hectare site at Rathven Industrial Estate to a major local manufacturing company concluded in late May 2019 and officers are currently marketing or are in discussions with prospective purchasers in respect of the

following six properties for which sales are considered to be potentially in the Council's best interests for a variety of the criteria stated above:-

- Site at March Road West, Buckie
- 11 March Road East, Buckie
- Former Abattoir, 9 Linkwood Place, Elgin
- Garage, Edgar Road, Elgin
- Former Sawmill, Waterford, Forres
- 3 Mosstodloch Industrial Estate

Information on these is provided in Section 6 of this report above and as detailed proposals are fully developed they will be brought forward to committee as appropriate for approval.

10. 2020/21 Projects

Officers will continue to assess the need for refurbishment of the Council's existing stock of properties to ensure the portfolio continues to meet business needs. Monies have been allocated in the current capital programme to carry out condition surveys and for the refurbishment of the portfolio. The condition surveys were delayed due to the coronavirus, but have recently begun and will assist identify priority refurbishment issues. Meantime officers have identified the following projects:-

- a) Replace asbestos flat roof, March Lane, Buckie
- b) Improve drainage of yard at Chanonry, Elgin
- c) Site works at Chanonry, Elgin
- d) Improve drainage of yard at Waterford, Forres
- e) Contaminated Land investigations at Waterford, Forres
- f) Complete upgrade of Unit P Isla Bank, Keith
- g) Provide new roller door at Unit F Isla Bank, Keith
- h) Drainage works at Isla Bank, Keith.

Detailed proposals on the industrial development programme for future years will be taken forward through the Council's budget setting process.

11. Future Projects

There is a need for the provision of more serviced industrial land and small business units in various locations in Moray, although the full impact of the coronavirus on such need short, medium and long term needs remains unclear at present.

Officers will continue to work with private developers who are planning to provide business units. This will influence assessments of whether there is a future need for the Council to develop more units, including whether there is a need to provide units of a size/specification which is not being provided by the market.

Many of the industrial development projects in Moray are financially viable because they utilise previous public sector investment in infrastructure at the Council's industrial estates and it is unlikely that there will be any significant new provision of serviced development land, to address current shortages, without

further major public sector investment, as the returns are not sufficient for the private sector compared to the costs and risks. Proposals for the Council to provide more serviced development sites will be considered as the capital plan is reviewed.