



REPORT TO: ECONOMIC DEVELOPMENT & INFRASTRUCTURE SERVICES COMMITTEE ON 10 SEPTEMBER 2019

SUBJECT: INDUSTRIAL PORTFOLIO ANNUAL REPORT 2018/19

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 2018/19.
- 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 2018/19; 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 14 August 2018 (paragraph 11 of the Minute refers). The Annual Report on Moray Council's Industrial Portfolio for 2018/19 is attached to this report as **APPENDIX I**, together with supporting **APPENDICES II – IX**. The main issues are summarised below.
- 3.2 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.

3.3 This 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 Economic Development and Infrastructure Services Committee as part of the annual industrial portfolio performance report.

3.4 It is intended that the decision of this Committee on 16 April 2019 will be reported to the Policy and Resources Committee and/or Council as part of a report on progress of the Council's Property Asset Management Appraisal.

4. PERFORMANCE

Rental income

4.1 The rental income generated by the industrial portfolio increased by £174,000 in 2018/19 to £1.93M. This continues growth which has seen the portfolio's annual income increase by £883,000 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 £250,000 in 2018/19 to £1,103,000. This was due principally to an increase in gross rents and reduction in historic borrowing costs.

Occupancy

4.3 At 31 March 2018 the occupancy rate in terms of buildings occupied was 93% compared to the target of 80%.

Development

4.4 In 2018/19 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 which will be considered for sale subject to suitable terms of sale being agreed:-

Former Abattoir, 9 Linkwood Place, Elgin
Former Sawmill, Waterford, Forres
Site at March Road West, Buckie
Garage, Edgar Road, Elgin

- 4.6 Once detailed proposals are fully developed they will be brought forward to committee as appropriate for approval.
- 4.7 In addition officers are negotiating a cash settlement with the Council's insurer for the loss of Unit W Isla Bank Mills Industrial Estate, Keith in a fire in November 2018.

5. CHALLENGES

- 5.1 The industrial portfolio is continuing 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 are due to terminate in 2018/19. Although officers are working to secure new occupiers of these properties, significant void periods are expected for both and the portfolio's rental income is likely to decrease in 2019/20. It is unclear if sale or leases of these properties is most likely, which will impact on future rental income streams. It is difficult to predict accurately, but at this stage the rental income for 2019/20 is forecast at £1.86M.
- 5.3 There are 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.
- 5.4 The following actions are aimed at addressing these concerns:-
- (i) a major extension of March Road Industrial Estate in Buckie has been completed;
 - (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) 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;
 - (iv) monitor the availability of sites in Speyside with a view to providing serviced sites and business units as demand and finances dictate;
 - (v) monitor ongoing demand for sites/units in Forres and finance available to purchase land to provide serviced sites and business units;
 - (vi) potential further opportunities to acquire and develop land and buildings will be considered as part of the Council's asset management rationalisation programme;

- (vii) existing properties will be repaired and refurbished as required; and
 - (viii) 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.
- 5.5 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 currently on hold until the Council is on a firmer financial footing and capital spending restraints can be lifted. 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.
- 5.6 The level of rent/insurance arrears was 6.99% in 2018/19 and the Estates team is working corporately with Legal Services and Finance to reduce these arrears. Estates and Legal Services put in place new arrangements in March/April 2019 to monitor and pursue outstanding debt where discussions with tenants have been unsuccessful and a system of charges to recover the Council's costs of pursuing outstanding rent has also been implemented.
- 5.7 A significant deterioration in the local economy could reduce demand for industrial units and new sites, which would increase voids and reduce rental income. However it is anticipated that there will continue to be demand for small industrial premises in Moray for the foreseeable future. Officers will monitor the impact of proposed significant developments of private sector units on demand and rentals for Council properties.
- 5.8 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 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 £174,000 and net rental income by £250,000 in 2018/19.

Revenue expenditure in 2018/19 was within budget, whilst capital expenditure was within the capital allocation, with £24,000 carried forward into 2019/20.

Looking forward, revenue expenditure on repairs and maintenance is forecast to be within the current budget of £70,185 in 2019/20.

Although there is an allocation of £3.079M in the 2019/20 capital plan for the acquisition and servicing of land, as well as the construction of new business units in Forres, the project has been postponed due to the Council's financial pressures.

£247,000 is allocated in the 2019/20 capital plan for refurbishments to the portfolio. Condition surveys of the portfolio were expected to have been completed to assist Estates officers devise a programme of prioritised works. However, the surveys have been delayed due to staffing difficulties. Consequently the refurbishment programme for 2019/20 is on a lesser scale than anticipated and a budget underspend is expected in 2019/20. Officers will likely seek carry forwards of the remaining monies into 2020/21 by which time condition surveys are anticipated to be in place to inform officers of future priority works.

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.

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 Design Manager, the Legal Services Manager, 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.

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 if budgets are available officers 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 has exceeded the target for rental income.**
- 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 The provision of further business units is considered a priority and officers will continue to work to facilitate private developers seeking to provide new business units in Moray. Officers will monitor requirements for future investment/development in new units by the Council.**
- 7.4 The provision of further serviced development sites is on hold.**
- 7.5 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 support economic development in Moray.**

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Background Papers: None

Ref: GEN/Annual Industrial Portfolio Report 18-19