



APPENDIX I

INDUSTRIAL PORTFOLIO

ANNUAL REPORT 2018-19



1. Introduction

Over the past 5 decades Local Authorities, Central 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 12 months - facilitated by the Council providing serviced sites.

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 2019, the Council's industrial portfolio comprised 176 industrial buildings with a total floor area of 34,361m²; 128 development and ground leases with a total site area of 20.09 hectares (49.6 acres) and a stock of serviced and unserviced land for future development totalling 22.07 hectares (54.5 acres). 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 2019 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:-

2014/2015	£1,422,000
2015/2016	£1,607,000
2016/2017	£1,753,000
2017/2018	£1,756,000
2018/2019	£1,930,000

APPENDIX III illustrates the gross rental income generated by the industrial portfolio over the period 2008-2018.

As forecast in last year's annual report rental income increased significantly in 2018/19. However, as also highlighted in the last annual industrial portfolio report, there will be a number of pressures on rental income in 2019/20. Principally the leases of the two units with the highest rents (9 Linkwood Place, Elgin & the former Sawmill, Waterford, Forres) are due to terminate and although Estates are in discussions with interested parties significant void periods are expected for both. A temporary lease of the former Sawmill to a contractor which would have generated £14,500 rent (as well as rates savings of £12,500) was jeopardised by the presence of travellers on the site. Unit W at Isla Bank was destroyed by fire and no longer produces rental income. In addition the lack of new industrial developments by the Council means new income streams in 2019/20 will be limited to a small number of sites. Although rents are continuing to increase at rent review and new lettings the portfolio's rental income is likely to decrease slightly in 2019/20.

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 £15,000 per annum. This arrangement is to be included in an annual report on reviewing concessionary rents due to be considered by the Policy and Resources Committee on 3 September 2019.

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** shows the increases in rental achieved at rent review for industrial premises (3 yearly rent reviews) and for industrial sites (5 yearly rent reviews), compared to the Retail Prices Index over the corresponding periods.

The level of rent at review is assessed in accordance with the provisions of the rent review clause of each lease, which invariably refers to the level of market rental at the rent review date.

The level of rent and insurance (over 28 days old) outstanding at financial year end (2018/19) was £135,437. The % debt on this basis for the last five years is:-

2018/19 - 6.99%
2017/18 - 4.66%
2016/17 - 4.55%
2015/16 - 4.9%
2014/15 - 4.2%

The % debt increased in 2018/19 due to an increased number of tenants encountering financial difficulties. Estates staff are monitoring the situation and are working constructively with tenants to minimise arrears and assist businesses tackle the issues causing arrears. Nonetheless in March/April 2019 Estates and Legal Services put in place new arrangements to monitor and pursue outstanding debt where discussions with tenants have been unsuccessful. This has borne a number of initial successes and officers are confident that the level of debt will reduce in 2019/20 as debt recovery actions intensify.

A system of charges to recover the Council's costs of pursuing outstanding rent was introduced in June 2018. 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, rather than generate significant additional revenue to the Council. Analysis indicates that around one third of tenants served with such charges have cleared their debts soon after.

Net Rental Income

This has been reported previously after deduction of property running costs, plus staff and administrative costs. However, it is now reported after also deducting capital financing.

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 £8.9M. It is further estimated that loans charges in 2018/19 included around £413,000 which could be attributed to borrowing to fund the industrial portfolio.

On this basis the net rental income in 2018/19 was £1,103,000 **APPENDIX III** illustrates the net rental income generated by the industrial portfolio over the period 2014-2019.

b) Occupancy Levels

Occupancy levels of industrial land and buildings in Moray continue to remain high with 12 buildings vacant at 31 March 2019, giving a floor area occupancy level of 93.18% 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
2014/15	84.8%*	93.9%
2015/16	98.66%	97%
2016/17	96.1%	95.4%
2017/18	94.4%	92.7%
2018/19	83.57%	93.18%

* The floor area occupancy figures for 2014/15 and 2018/19 are skewed as a result of the former sawmill at Waterford Circle in Forres (which is by far the largest in the portfolio) becoming vacant. There is, however, strong interest in the property and officers are hopeful that a new letting will be secured later in 2019/20.

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 2019.

APPENDIX VIII identifies all the buildings that were vacant as at 31 March 2018, 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:-

2014/15 -	£112,000
2015/16 -	£21,500
2016/17 -	£0
2017/18 -	£70,500
2018/19 -	£0

d) Expenditure

In recent years the Council has invested in general upgrading works to the Industrial Portfolio. During 2018/19 the Council invested £65,000 of revenue and £200,000 of capital in the Industrial Portfolio and in supporting industrial development in Moray through the following projects:-

1. Completion of snagging items at March Road (Rathven Industrial Estate) Buckie
2. Progressing designs for potential development in Forres
3. Refurbishment of Unit Y Isla Bank, Keith including new roof, floor, doors and fencing
4. Estate road upgrades at Dufftown, Newmill Road, Keith and Isla Bank, Keith
5. Site preparation at former go kart track site, Chanonry, Elgin
6. Refurbishment of former Balloch Road Depot, Keith
7. Upgrading of Unit A Isla Bank Mills, Keith
8. Flat roof replacements at 7, 9, 10 & 12 West Road, Forres
9. New doors, fences and gates at various properties in Buckie, Elgin and Keith
10. 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.

The latest Moray Employment Land Audit, which was considered by the Planning and Regulatory Services Committee on 21 May 2019, highlights that whilst there is a reasonable area available (private and public) there continues to be a lack of choice of sites across all settlements, and in some towns only one or two sites are considered to be effective. 47% (72.54 ha) of the established supply has some form of constraint that is likely to prevent the land being developed in the next five years. The immediately available supply has increased by around 21 hectares compared to 2018 and now represents 49% (39.15 ha) of the land supply available for development in the next 5 years. Whilst sufficient land and buildings require to be available to facilitate wider economic development and to support the vision of the Moray Economic Strategy, including diversifying the economy, as highlighted by previous audits there is a particular shortage of industrial land in Forres and Speyside. The Proposed Local Development Plan looks to address supply issues through the identification of new sites.

A review of Employment Land designations and policy were carried out as part of the review of the Local Development Plan and the settled view of the Council is set out in the Proposed Local Development Plan. The Proposed Plan will be subject to examination prior to adoption in 2020.

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

3 units were vacant at 31 March 2019. One is now let, with another under offer and expected to be occupied soon.

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 has been let to a local food processing firm, whilst 1.37 hectares has recently been 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, but officers are in negotiations with a local firm seeking to purchase the site to facilitate business expansion.

Elgin

Demand for industrial buildings in Elgin has remained strong over the past year, as at 31 March 2019 only 1 of the Council's units was vacant, which is now under offer.

A lease has now been concluded with a local developer seeking to develop 18 units, comprising 576m² of general industrial and 1,578m² of storage space, for lease on a speculative basis on a Council owned site at Chanonry. Works have commenced and completion is expected by the end of the year. In addition another local developer is nearing completion of the construction of 4 new business units for speculative let at Chanonry, again on a site leased from the Council.

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) all 1.44 hectares of its remaining serviced development land is under offer, which includes 1.25 hectares at Chanonry which is under offer to a building supplies company.

Privately sites at Linkwood East have been developed and occupied by Grampian Furnishers and Costa Coffee. It is understood that negotiations are at an advanced stage for the sale of the remaining site of approximately 0.66 hectares.

The provision of a Business Park for Elgin is a key feature of the Moray Economic Strategy and the Moray Local Plan 2015 makes designations for Business Parks, the largest being at Barmuckity. A local developer with support from Highlands and Islands Enterprise has constructed infrastructure at Barmuckity (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. Officers are aware of significant initial developer/occupier interest.

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 is also zoned as a Business Park. Studies previously indicated that the very high servicing/infrastructure costs would make development of the site uneconomic. However, the use classification in terms of the new Proposed Local Development Plan has been widened to include business, hotel and/or residential. There may also be reduced new junction requirements with the A96 than previously envisaged – these factors could potentially improve the financial viability of the site.

The Moray Local Development Plan 2015 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, although the lease is not due to expire until 27 September 2019. With the agreement of the tenant the facility has been marketed for lease or sale and officers are in discussions with a number of interested parties (including a meat processing company). However, viewings and negotiations were until very recently being hampered by outstanding dilapidation works required to be carried out by the tenant. Officers are continuing to work with the tenant and interested parties to try and bring the property back into productive use, although at this stage it is hard to gauge timescales. Substantial dilapidations have been identified at the property and the tenant has advised that it is seeking to negotiate a financial settlement in lieu of carrying out the works. Officers will proceed with the tenant on this basis and consider how much of a settlement sum would subsequently be required to be spent on the property to facilitate its reuse.

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

There has been more turnover of tenants than usual recently and at 31 March 2019 5 units were vacant. Whilst there has been considerable interest in the

large former sawmill, demand for smaller industrial units in Forres is not as strong as in recent years.

All development sites at Waterford Circle and Greshop Industrial Estates are now let, with the exception of the former sawmill at Waterford whose lease to Network Rail expired at the end of March 2019. The Council is in discussions with a number of local companies interested in securing leases of the property.

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.

The owner of land directly to the north of the Council's former sawmill, in conjunction with a local developer, investigated proposals to develop 19 new small commercial units on its land. Access is constrained and although officers explored options (with the land owner) for access through the Council's former sawmill the developer interest in new units on this site has dissipated.

The lease to Network Rail of the former sawmill at Waterford expired in March 2019. Officers are in discussions with a number of companies interested in leasing all or part of the property. A report on these interests is due to be considered by the Policy and Resources Committee in September 2019.

Although large areas of land to the north of the town have been designated for industrial development/use in terms of the new Proposed Local Development Plan the proposed route for the A96 dualling cuts across that area and would limit the amount of land potentially available for industrial development.

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. Although there are monies in the capital plan the project has been put on hold due to the Council's acute financial pressures.

Land to the south of the Enterprise Park has been identified in the Proposed Local Development Plan for use as an industrial estate in the long term.

Keith

There is continuing strong demand for smaller industrial premises in Keith. 3 units were vacant at 31 March 2019, which are all now let.

Minor refurbishment works to the former Council's depots at Balloch Road were completed in autumn 2017 and approximately half was let to a distribution company. The remainder has now been let to an electrical component manufacturer.

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 4 years and significant rental growth has been seen for the first time in many years. The Council funded major upgrading of Unit Y including new roof, floor, fencing, gates and surfacing of the yard which facilitated a let of that property and adjacent Unit Z to a whisky barrel company. The company is employing 12 staff at the properties with intentions to expand to 15.

Unit W which was let to a laundry company was completely destroyed by a fire in November 2018. The roofs and adjoining walls of the adjacent properties were also damaged and are currently being repaired. The adjacent brewery has had some disruption but has managed to continue to operate at reduced capacity, whilst the Council's records store has been relocated while repair works are carried out. Officers are liaising with the loss adjuster regarding an insurance claim, including accepting a cash settlement for the loss of Unit W.

Officers have been investigating options to bring void areas beside Unit P (which was occupied by the Council as a records store prior to decanting to the Buckie Drifter following the fire in adjacent Unit W) into productive use and agreement has been reached for an adjoining tenant to lease an area for storage. The remaining larger void area could be cost effectively adapted for use with Unit P, but is not well suited to separate occupation. In order to facilitate enhance the property's suitability for business use, as well as increase rental income, new vehicle doors are being incorporated as part of the fire damage repair works. A private business which already leases property at Isla Bank Mills from the Council is keen to secure a lease of Unit P to facilitate expansion of its business and officers are minded to proceed on this basis, whilst retaining the Council's records store in the Buckie Drifter.

As a result of the high levels of occupancy at Isla Bank there is pressure on existing vehicle parking provision. An additional 7 spaces were provided in 2018/19 and officers are investigating the feasibility of further new parking provision.

The Council completed the construction of a new road and services to provide serviced development land at Westerton Road South in 2015. Two sites totalling 0.38 hectares (0.94 acres) are currently let on a short term basis and the other two are under offer and due to be occupied soon. The sites continue to be marketed with a view to securing developer interest/long term tenants.

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 new Proposed Local Development Plan for use as an industrial estate in the long term.

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 2019.

A local business is nearing completion of a large workshop unit at Coularbank Industrial Estate on a site leased from the Council, which will allow him to release 3 or 4 of his smaller units, also built on Council land, for lease to small businesses. Another business is nearing completion of two small workshop units for its own use on a site leased from the Council.

As part of proposals to consolidate waste facilities the current Council operation at Unit 7 Coularbank would relocate to Moycroft in Elgin in early 2020. Unit 7 is a much larger than normal units and may be difficult to re-let. Officers will monitor the situation and investigate 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 for industrial, business park and retail uses. It is unlikely to be developed for industrial or business park use unless it is serviced as a result of adjacent retail development.

The provision of additional development land in Elgin would assist meeting 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 2019 and demand remains strong, particularly in Lhanbryde and Rothes.

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

Recent discussions with businesses in Speyside have indicated demand for serviced sites and units.

A large local business has acquired land to the north of Rothes and has developed part for its own purposes. The company has indicated that it would in principle be amenable to 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 Rothes, but the work has been put on hold pending improvement in the Council's finances. Meantime another local developer is contemplating the provision of small industrial units on a site to the south of Aberlour.

Land to the north of Rothes has been identified in the new Proposed Local Development Plan for industrial 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.

7. **Future Trends for the Council's Industrial Portfolio**

- a) Occupation levels in the industrial portfolio remain at a very high level 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 18 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.
- b) Rental levels have increased steadily in recent years although there has been a levelling of the rate of rental growth. Officers will monitor the impact of the proposed significant increased supply of private sector units on rentals, but at this stage they are expected to continue to outstrip inflation. The rental income generated by the industrial portfolio has been boosted in previous years by the development of new business units and the letting of new development sites.

The abattoir at 9 Linkwood Place has a rent of £63,600 per annum, which is the highest in the portfolio and the lease is due to terminate on 27 September 2019. Given the property's size and specialist fit out, re-letting is likely to be difficult and a void period is anticipated. Officers expect that the rent will need to be reduced and/or works carried out to strip out the specialist fittings and fixtures in order to attract a tenant for an alternative use of the property. Consideration is also being given to the potential sale of the property.

In addition the lease of the former Sawmill at Waterford Circle, Forres to Network Rail which has a rent of £59,000 per annum, the second highest in the portfolio expired on 29 March 2019. Officers are in discussions with a number of local businesses interested in expanding their operations and are hopeful that a new tenant(s) can be secured. However, given the property's size and "basic" specification, this will take some time and there will be a significant void period in 2019/20.

The Council's Waste Management Service is due to relocate from Unit 7 Coularbank Industrial Estate, Lossiemouth, to new facilities at Moycroft in early 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.

Given the likelihood of voids at these three large properties reduced rental income is anticipated in 2019/20.

- c) A number of the Council's properties are occupied by Council services as detailed in **APPENDIX IX**. A number of these are within the scope of a review of depots and storage currently being carried out by the Head of Housing and Property in terms of the Council's Property Assessment Management Appraisal. Where opportunities arise officers will seek to relocate Council services to free the properties for letting to private enterprises.
- 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.
- e) Meanwhile proposals to secure additional industrial land in Forres and exploring opportunities to expand industrial land provision in Speyside have been put on hold due to the severe pressure on Council budgets. There is a critical shortage of serviced development land in Elgin; however the development of a Business Park at Barmuckity will greatly improve the situation.

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

- f) 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.
- g) 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.
- h) 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. 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.

- i) 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.

The Scottish Government recently consulted on draft proposals to make non-domestic properties more energy efficient and is planning further consultation in 2019 ahead of new regulations in 2021. Officers will monitor developments closely.

- j) 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 is now investigating options to expand its operations in Mosstodloch and encompass flood solutions within its proposals. Officers are liaising closely with the company.
- k) 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. Although this would obviously be subject to the availability of funding.
- l) 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.
- m) New Rateable Values of non-domestic properties came into effect on 1 April 2017 and officers made all tenants aware of their right to appeal. The Council's Rating Consultant examined the new Rateable Values of certain let properties where it was felt there was a particular risk of the Council being exposed to significant empty property rates liability. The Consultant advised that the Assessor's figures were reasonable.
- n) 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.
- o) From 1 April 2019 the Council changed insurance provider for its leased properties including the industrial portfolio. Unlike the previous policy the new policy does not provide cover for loss of rent and includes more onerous conditions on the management of vacant properties. It is understood this was part of a general strategy to reduce costs by accepting more risk.

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.

The Industrial Estates Revenue Budget contains an element of £70,185 for repairs, maintenance, minor development and improvement works in the revenue plan for 2019/20 and a programme of minor works is being progressed. This includes upgrading outdated electrical and water services, 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. Although 20.5 hectares on the north-eastern edge of town is identified in the Moray Local Development Plan 2015 there is little likelihood of it being developed in the foreseeable future and the new Proposed Local Development Plan removes this designation in favour of sites in the Waterford area.

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 would cut through and 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. Although there are monies allocated for this project in the capital plan Estates/Design Services have been instructed to postpone work due to the Council's acute financial pressures.

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 - both have been marketed and are now under offer.

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 will greatly improve 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 as a result of the Council's financial pressures.

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, 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 in discussions with prospective purchasers in respect of the following four properties for which sales are considered to be potentially in the Council's best interests for a variety of the criteria stated above:-

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

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

10. 2019/20 Projects

Monies have been allocated in the current capital programme for refurbishment of the portfolio. Although updated condition surveys are awaited officers have meantime identified the following projects:-

- a) Improve drainage of yard of Units Y & Z Isla Bank, Keith.
- b) Provide new roller door at Unit F Isla Bank, Keith
- c) Drainage works at Isla Bank, Keith.
- d) Fencing at March Road East, Buckie.
- e) Site works at Chanonry, Elgin

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.

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 are currently on hold due to financial pressures.

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 and condition surveys of the portfolio would assist inform this process.

The Council will continue to explore opportunities with private/public sector partners and proposals for future development of the industrial portfolio will be brought forward through the Council's asset management and capital planning processes.