



REPORT TO: ECONOMIC DEVELOPMENT & INFRASTRUCTURE SERVICES COMMITTEE ON 28 JUNE 2016

SUBJECT: INDUSTRIAL PORTFOLIO ANNUAL REPORT 2015/16

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

1. REASON FOR REPORT

- 1.1 This report requests Committee to consider the terms of the 2015/16 Annual Report on the Council's Industrial Portfolio.
- 1.2 This report is submitted to Committee in terms of Sections III E (4) and (5) 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 terms of the 2015/16 Annual Report;**
- (ii) welcomes the good performance of the Council's Industrial Portfolio; and**
- (iii) notes the rent review process as detailed in APPENDIX IX.**

3. BACKGROUND

- 3.1 Annual reports on the performance of the Council's Industrial Portfolio have been presented to the Environmental Services Committee since 2002. The last annual report for 2014/15 was presented to this Committee on 25 August 2015 (paragraph 19 of the Minute refers).
- 3.2 The Annual Report for 2015/16 is attached to this report as **APPENDIX I**, together with supporting **APPENDICES II – IX**. The main issues are summarised in sections 4 and 5 of this report.

4. PERFORMANCE

Rental income

- 4.1 The rental income generated by the industrial portfolio increased by £185,000 in 2015/16 to £1.607M. This continues the growth which has seen the portfolio's annual income increase by £725,000 over the last 10 years.

Occupancy

- 4.2 At 31 March 2016 the occupancy rate in terms of buildings occupied was 97%, compared to the target of 80%. There will always be some turnover of tenants and the current occupancy rate is considered to be maximum occupancy.

Rate of return

- 4.3 Although the rate of return decreased from 7.93% in 2014/15 to 6.82%, this was, as predicted in last year's annual report, mainly due to an increase in the portfolio's asset value of almost £4m attributable to its five yearly re-valuation. The rate of return is expected to increase in 2016/17.

Development

- 4.4 In 2015/16 the development of 5 new business units in Forres were substantially completed within budget, as were two new units in Burghead. Six of the seven new units were let soon after construction. This gives a total of 30 new units (in various locations) having been completed within budget and all but one successfully leased to small businesses since 2010.
- 4.5 A major upgrade of the estate road at Waterford Circle Industrial Estate, Forres has recently been completed. In addition, a refurbishment/upgrading programme is ongoing in relation to existing properties, to ensure they remain responsive to future business needs.

5. CHALLENGES

- 5.1 The industrial portfolio is meeting its objectives of:-
- (i) minimising the number of vacant properties as far as is consistent with current market conditions; and
 - (ii) maximising overall rental income and thereby minimising the cost of the service.
- 5.2 There are however, concerns about the portfolio's ability to fulfil the objective of maintaining an adequate supply of affordable premises in appropriate locations within Moray, in particular a shortage of industrial development land and units in locations throughout Moray.

- 5.3 In order to address these concerns, the following actions will be taken:-
- (i) opportunities to develop surplus sites will be considered as part of the Council's asset management rationalisation programme;
 - (ii) existing properties will be repaired and refurbished as required; and
 - (iii) 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.
- 5.4 A lack of capital or revenue investment in the future could result in the industrial portfolio being unable to provide suitable units and sites to meet business needs, thereby stifling economic growth in the area.
- 5.5 The level of rent/buildings insurance arrears was 4.9% in 2015/16 and the Estates Team continues to work corporately with Finance and Legal Services to reduce these arrears. As part of this work procedures for pursuing debt are currently being streamlined.
- 5.6 A significant deterioration in the local economy could reduce demand for industrial units and new sites. This would increase voids, reduce rental income and lower the rate of return on the portfolio. Although there are signs of a slight slowing of demand (perhaps due in part to the recent downturn in the oil industry) it is anticipated that there will continue to be demand for small industrial premises in Moray for the foreseeable future, whilst demand by self build tenants remains affected by a lack of funding opportunities.

6. RENT REVIEWS

- 6.1 Officers receive queries from members periodically about rent reviews of properties in their wards. As such the policy/procedure for rent reviews is set out on **APPENDIX IX**.

7. SUMMARY OF IMPLICATIONS

(a) Moray 2026: A Plan for the Future and Moray Corporate Plan 2015 - 2017

The management and development of the Industrial Portfolio supports the main priority of the Moray 2026 Plan of sustainable economic development. It also accords with the aims of the Moray Economic Strategy to diversify and strengthen the local economy.

(b) Policy and Legal

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

(c) Financial Implications

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

Revenue expenditure in 2015/16 was within budget, whilst capital expenditure was within the capital allocation with a modest amount carried forward into 2016/17.

Rental income exceeded budget.

Looking forward, revenue expenditure on repairs and maintenance is forecast to be within the current budget of £70,185 in 2016/17. The capital provision of £394,000 is anticipated to be adequate for the 2016/17 development programme and is the subject of a separate report to this Committee. 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 currently manageable, but as the portfolio expands, there may come a point where this changes. The Head of Service in conjunction with service managers is continuing to keep this position under periodic review. Legal Services staff are involved in formalising lease agreements and pursuing rent arrears where necessary.

(f) Property

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

(g) Equalities

There are no equalities issues arising from this report.

(h) Consultations

The Head of Housing and Property Services, Lorraine Paisey, Principal Accountant, the Design Manager, the Legal Services Manager (Property and Contracts), the Head of Development Services, the Equal Opportunities Officer and Darren Westmacott, Committee Services Officer have been consulted and their comments incorporated in this report as appropriate.

The Planning & Economic Development Manager welcomes capital and revenue expenditure that will support jobs and growth.

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

The lack of serviced industrial development land throughout Moray has been highlighted by the Moray Economic Strategy Development Group.

8. CONCLUSIONS

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

Author of Report: Stuart Beveridge, Estates Manager

Background Papers: None

Ref: GEN/Annual Industrial Portfolio Report 15-16