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**REPORT TO: ECONOMIC DEVELOPMENT & INFRASTRUCTURE SERVICES COMMITTEE ON 5 SEPTEMBER 2017**

**SUBJECT: INDUSTRIAL PORTFOLIO ANNUAL REPORT 2016/17**

**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 2016/17.
- 1.2 This report is submitted to Committee in terms of Section 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 2016/17; 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 28 June 2016 (paragraph 13 of the Minute refers). The Annual Report on The Moray Council's Industrial Portfolio for 2016/17 is attached to this report as **APPENDIX I**, together with supporting **APPENDICES II – VIII**. The main issues are summarised below.

**4. PERFORMANCE**

Rental income

- 4.1 The rental income generated by the industrial portfolio increased by £146,000 in 2016/17 to £1.753M. This continues growth which has seen the portfolio's annual income increase by £734,000 over the last 10 years.

#### Occupancy

- 4.2 At 31 March 2017 the occupancy rate in terms of buildings occupied was 95%, compared to the target of 80%. There will always be some turnover of tenants and the current occupancy rate is considered to be very close to maximum occupancy.

#### Rate of return

- 4.3 The rate of return increased from 6.82% in 2015/16 to 7.28% in 2016/17, exceeding the target rate of return of 5.75%.

#### Development

- 4.4 In 2016/17 18.3ha (45 acres) of land was purchased at March Road East, Buckie and the construction of the first phase of infrastructure (to provide serviced sites ready for development) as well as a bespoke garage premises is due to begin in August/September 2017.
- 4.5 A major upgrade of the estate road at Waterford Circle Industrial Estate, Forres was completed, as well as upgrades of estate roads at Coularbank, Lossiemouth, Newmill Road and Westerton Road South, Keith. 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 are being taken:-
- (i) the development of a major extension of March Road Industrial Estate in Buckie;
  - (ii) sites surplus to the flood scheme in Elgin have been made available and are under offer to local businesses;
  - (iii) further opportunities to acquire and develop land and buildings will be considered as part of the Council's asset management rationalisation programme;

- (iv) existing properties will be repaired and refurbished as required;
  - (v) proposals for funding future development of the Industrial Portfolio will be brought forward through the Council's asset management, capital planning and economic development capital fund processes; and
  - (vi) there has been significant recent private sector interest in developing small business units for lease on sites which the Council has serviced and officers are working with private developers to facilitate the provision of new business units.
- 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/insurance arrears was 4.55% in 2016/17 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 have been 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, particularly for larger units (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.
- 5.7 Officers will continue to monitor potential opportunities in properties vacated by businesses relocating to Elgin Business Park.

## **6. 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 top priority of the Moray 2026 Plan of a growing, diverse and sustainable economy. It also accords with the aim of the Moray Economic Strategy of facilitating economic growth and diversification of the local economy.

The Council's Corporate Plan specifically states it will ensure the creation and maintenance of sufficient industrial land and business units across Moray to meet increasing demand.

### **(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 2016/17 was within budget, whilst capital expenditure was within the capital allocation, with a modest amount carried forward into 2017/18.

Rental income exceeded budget.

Looking forward, revenue expenditure on repairs and maintenance is forecast to be within the current budget of £70,185 in 2017/18. The capital provision of £2.121M is anticipated to be adequate for the 2017/18 development programme and 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 now nearing capacity and barely manageable. Further expansion continues and by the end of this financial year, the staffing resource required within the Estates Section will need to be considered. A review of Design/Property/Estates is due to be completed in this financial year. The impact on future resources will be considered within this review.

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**

There are no equalities issues arising from this report.

**(h) Consultations**

The Head of Housing and Property Services, Deborah Brands, Principal Accountant, the Design Manager, Paul Nevin (Senior Solicitor), the Head of Development Services, the Equal Opportunities Officer and Lissa Rowan, Committee Services Officer have been consulted and their comments incorporated in this report as appropriate.

The Planning & Economic Development Manager would be keen to support more capital investment and enlargement of the portfolio.

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.

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

## **7. CONCLUSIONS**

- 7.1 The Industrial Portfolio has exceeded the targets for rental income and rate of return.**
- 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 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 existing industrial buildings. These developments have been delivered within budget and provided essential property and infrastructure to support economic development in Moray.**
- 7.4 The provision of further serviced sites is currently considered the priority requirement for future industrial portfolio development and a number of projects are currently being investigated, subject to sufficient funding.**
- 7.5 The provision of further business units is also considered a priority and officers are working with private sector developers to facilitate the necessary provision.**

Author of Report: Stuart Beveridge, Estates Manager

Background Papers: None