

PERTH AND KINROSS COUNCIL**Strategic Policy and Resources Committee****20 April 2016****Commercial Property Investment Programme -
Progress Update and Revised Programme****Report by Depute Chief Executive, Environment
(Sustainability, Strategic & Entrepreneurial Development)**

The purpose of this report is to update the Committee on progress in delivering the Commercial Property Investment Programme (CPIP). It also seeks agreement to revise the programme through adjustments and re-profiling for the delivery of site infrastructure along with the development of business space, using capital receipts from the disposal of commercial properties.

1. BACKGROUND / MAIN ISSUES

- 1.1 At its meeting on 18 September 2013, this Committee approved priorities for the delivery of employment land infrastructure and the development of business space utilising funding allocated in the 2013/14 and 2014/15 budgets (Report No. 13/448 refers).
- 1.2 The report set out a medium term (10 years) aspiration for commercial property investment to support economic growth, underpinning the City Plan for Perth and its objective of encouraging new investment in the area. The CPIP (2013-2023) achieves this by providing a supply of land and premises to address market failure, and accommodate economic growth with particular emphasis on supporting key sectors. It has been prepared on the basis of sites identified in the Local Development Plan; discussions with the development industry; and property market analysis.
- 1.3 The programme is funded through a combination of the allocated additional funding of £3.544m, and capital receipts of £3.008m from the disposal of key sites. The approved programme set out a number of priorities for development and an update on progress is provided below:
 - Priority 1 - Site Servicing at Kinross West and Perth Food & Drink Park:
 - The new access road and main site servicing works at Kinross West were completed in July 2014, with landscaping work completed in November 2014. Delays in securing agreement from Scottish Water pushed completion of the project into 2015/16. Active marketing of individual plots has commenced with two of the plots now under offer.

- Site servicing at Perth Food & Drink Park was completed in August 2014 and junction improvements at Dunkeld Road were completed in April 2015. Negotiations with Scottish Water to acquire an additional 10 acres for long-term expansion were completed in January 2016. A landscaping contract has been recently awarded. Active marketing of individual plots has commenced with two plots under offer.
- Priority 2 - Perth Food & Drink Park Small Business Units:
- A consultancy design and build contract has been tendered and construction is estimated to start in Spring 2016.
- Priority 3 - Business Units – Aberuthven, Crieff and Pitlochry:
- Aberuthven - The remaining undeveloped plot at the Business Park was considered to have potential for the development of business units. However, site marketing identified a purchaser and the plot was sold to a local business, allowing construction of a new showroom/business unit.
- Crieff – Plans have been prepared for a development of 5 new industrial units totalling 420 sqm at Crioich Business Centre. The existing suite of 8 units (built in 2000) is fully let and can now be sold on, with the capital receipt used to part fund the new development.
- Pitlochry – The Council was approached by a local consortium interested in developing a major tourist attraction on the site. The group is developing their proposals with a view to determining the economic viability of the project no later than Summer 2016. In the meantime, and as planned, proposals will be taken forward for a development of a row of small business units for completion in 2017/18, should the tourism project not proceed.
- Priority 4 – Innovative funding solutions:
- Some projects have been taken forward out with the CPIP, such as the Premier Inn and Mill Quarter (Thimblorow) developments, with the Council benefitting from the uplift in value of the completed projects. Joint venture partnerships would also be considered by the Council. However, as yet, no formal joint venture arrangements have needed to be put in place to secure investment.

- 1.4 Since 2013, 9.15 ha of serviced employment land has been provided by the Council to support business growth and attract inward investment, thereby contributing to Corporate and Community Plan key indicator targets. However, it is recognised that the pace of delivery has been slower than expected. This is explained by a weak demand by businesses for commercial and industrial land. This is due to continued economic uncertainty; difficulties experienced by the private sector in accessing capital to finance growth; and, in some cases identified physical constraints, such as drainage connections, at some sites. In the medium term, however, Perth & Kinross's economic competitiveness will be influenced by a good supply of serviced land and premises in a range of locations.

- 1.5 Taking all of the above into account, officers believe it is appropriate to take stock of the Commercial Property Investment Programme at this time. This report proposes a multifaceted approach for the future delivery of land and premises to support economic growth.

2. PROPOSAL

- 2.1 A multifaceted approach has been identified for the future delivery of industrial and commercial land and premises through the CPIP assessed against winding down the programme.

Winding down the Programme

- 2.2 The existing programme could be wound down. The current property assets would be assigned into the Commercial rent portfolio alongside the other premises owned by the Council with undeveloped sites being marketed for sale in their existing condition. The remaining uncommitted funding would be re-allocated to the Council's Reserves.
- 2.3 This approach is unlikely to help achieve the strategic objectives and outcomes in the Corporate Plan and Single Outcome Agreement which aim to develop a thriving and expanding economy across Perth and Kinross. It would also not help the Perth City Plan. The first 2 years of the programme has provided evidence that without Council intervention, there has been very limited private sector investment in serviced industrial and commercial sites. In addition, market failure has not yet been addressed due to the gap between cost of delivering land and buildings and their end value. This situation, if anything, is likely to worsen if business rates relief is removed on new-build property that is not immediately let. Therefore, taking into account the Council's strategic objectives and continuing market failure, this approach is not recommended.
- 2.4 Taking into account the Council's economic development ambitions and the limited private sector appetite for speculative development, it is proposed to take forward the Programme through a multifaceted approach as follows:
- (i) Continue with and accelerate the existing Programme and
 - (ii) Expand existing Programme and explore new delivery partnerships

Continue with, and accelerate, the existing Programme

- 2.5 The existing Programme could continue with minor adjustments to take account of projects being added or taken out of the programme. Equally, the Programme could be accelerated by projects being delivered quicker. All projects identified in the currently approved CPIP would be retained with the exception of the proposed project at Alyth (previously £50K). Ground investigations into the site identified significant problems and it has not been possible to agree terms with the owner to acquire the site. This approach would be self-financing by including new disposals, re-profiling, and/or accelerating the existing programme.

- 2.6 New disposals added into the Programme (2013-2023) would provide approximately £1.428m of additional capital receipts as follows:
- (a) Acorn Business Park, Arran Road, Perth – a suite of 19 small business units totalling around 3,195sqm and currently generating an annual income of circa £51k. The units are reaching the end of their economic life and, if retained, they will require significant reinvestment. These units are currently being marketed as an investment opportunity with estimated receipts of £587k.
 - (b) Crioich Business Park Phase 1, Crieff – a suite of 8 small business units totalling around 600sqm generating circa £27k per annum. These units can be marketed as an investment opportunity with an estimated receipt of £256k.
 - (c) Inveralmond Industrial Estate (Spectraglass) - land was disposed by way of a long ground lease to accommodate expansion of the company's premises. The ground lease will shortly convert to ownership with an estimated receipt of £185k. This will result in a reduction in rental income of circa £10k per annum.
 - (d) The first phase of small business units at Perth Food & Drink Park could be sold as an investment immediately they are all let with an estimated receipt of £400k. Timing of this disposal is estimated to be 2019/20, but this would be subject to market conditions at the time.
- 2.7 Disposal of the above properties would result in a reduction of £88K in revenue income which would require to be accommodated in future revenue budget projections. Newly constructed premises on land being disposed would, of course, generate additional business rates income.
- 2.8 Re-profiling and acceleration of the existing programme would secure additional outcomes over the next 2 years to March 2018 as follows:
- (a) New business units at Fonab, Pitlochry would be constructed in 2017/18 to address the lack of private sector investment for that type of development in rural locations.
 - (b) The Eco-innovation Hub at Perth Food & Drink Park would be brought forward to 2017/18. An opportunity to develop a mini solar farm, as an eco-innovation, has already been identified to supply businesses with cheaper and green electricity as well as providing a potential small revenue stream. An allocation of £95k has been included for 2015/16. Due to the time limited nature of the opportunity linked to the incentive regime and to meet the commissioning target date of 31 March 2016, the Depute Chief Executive (Sustainability, Strategic & Entrepreneurial Development), agreed to progress the project in line with the Council's financial regulations.
 - (c) An additional allocation of £50k for Broxden Business Park has been included for an investment in existing site infrastructure including the road and foul drainage pumping station. This is to secure formal adoption of the roads and pumping station, limiting potential future maintenance liabilities.

- (d) An additional allocation of £250k for a new creative & digital industries business incubator at a commercial property. This project will support the development of an innovative, inspirational, professional and flexible business space in the centre of Perth and support the Council's City of Culture bid.

2.9 A revised Programme is attached in Appendix 1.

Expand the existing Programme and explore new delivery partnerships.

- 2.10 Under this approach, the scope and ambition of existing Programme would be expanded. This would be achieved by adding new projects on land or in buildings owned by the Council; and/or in working with the private sector, and other local authorities through the Scottish Cities Alliance.
- 2.11 The Strategic Policy & Resources Committee approved the CPIP on 18 September 2013 (Report 13/448 refers), the Local Development Plan (LDP) was adopted in February 2014. The LDP identifies a range of sites for employment use. However, it is clear that some allocated sites are not being brought forward as swiftly as originally expected. Therefore they are not yet addressing the localised market failure in the delivery of key employment land. This is due to a number of reasons including technical and economic viability constraints, along with a general reluctance of housebuilders in particular to invest in employment land servicing without a guaranteed short-term return on investment. Consequently, it may be appropriate to use the CPIP to intervene to help bring forward some of these privately owned key employment sites. Options for state aid compliant public sector intervention in privately owned land are limited. It would therefore be necessary for the Council to acquire land and develop it itself, or enter into a development partnership, such a joint venture. This would, however, require additional funding.
- 2.12 Such models are already being explored through the Scottish Cities Alliance and will be pursued in parallel to or within the CPIP.

3. CONCLUSION AND RECOMMENDATIONS

- 3.1 Following consideration of the way forward, the recommended multifaceted approach is to continue with and accelerate the existing CPIP as re-profiled in Appendix 1 and to enter into innovative funding agreements on a case by case basis using the current work carried out through the Scottish Cities Alliance. This multifaceted approach will ensure that identified anticipated benefits are realised and will support the current increasing pace of delivery for the identified sites.

- 3.2 To increase the pace of delivery and build on the progress to date, it is necessary to have dedicated staff resource with the relevant skills and experience. This is particularly important to manage contractors and make sure that projects are completed on time and on budget. It is therefore proposed that the existing fixed term Development Surveyor post (to 29 April 2016) be extended by 2 years. This would require an annual allocation of circa £45k to be funded from the Programme. Without this post it is difficult to see how the current accelerated delivery pace can be maintained.
- 3.3 Based on the past two years' experience, it is vital to ensure the CPIP remains on target and delivers anticipated benefits. Any variances (slippage, acceleration, reduction or increase) will continue to be reported for this Committee's consideration through capital monitoring reports. In addition, an annual review report will be submitted to the Enterprise & Infrastructure Committee, and this Committee, for consideration.
- 3.4 Progress on delivering the approved CPIP programme has resulted in 9.15 ha of serviced land being provided to support business growth and attract new development.
- 3.5 It is therefore recommended that the Strategic Policy and Resources Committee agrees to:
- (i) Support the proposed multifaceted approach - Continue with and accelerate the delivery of the programme and enter into innovative funding agreements as detailed in the report;
 - (ii) The disposal of commercial properties as outlined in the report, subject to further reports being brought to future meetings of the Property Sub-Committee on detailed terms and conditions for each sale;
 - (iii) Extend by 2 years the existing fixed term post to support the delivery of the CPIP requiring a recurring £45k per annum to be funded from the Programme;
and
 - (iv) Request the Director (Environment) to submit any variances for consideration to this Committee through capital monitoring reports and prepares an annual review for the consideration of the Enterprise and Infrastructure Committee and this Committee.
- 3.6 In addition, it is recommended that the Committee:
- (v) Note the decision by the Depute Chief Executive (Sustainability, Strategic & Entrepreneurial Development), to agree to progress the mini solar farm project at Perth Food and Drink Park with an allocation of £95K in line with Council's financial regulations.
 - (vi) Note that the disposal of commercial rent generating properties and an allocation of funds to meet recurring costs will impact on future rental income, requiring adjustment to revenue budgets for future years.

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	Yes
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	Yes
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan / Single Outcome Agreement

- 1.1 The Community Plan/Single Outcome Agreement 2013 – 2023 lays out five outcomes focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:
- (i) Giving every child the best start in life
 - (ii) Developing educated, responsible and informed citizens
 - (iii) Promoting a prosperous, inclusive and sustainable economy
 - (iv) Supporting people to lead independent, healthy and active lives
 - (v) Creating a safe and sustainable place for future generations
- 1.2 This report relates to objective (iii) by maximising and enhancing socio economic and economic development opportunities to the benefit of businesses and local communities, encouraging new business creation and growth of existing businesses and opportunities and maximising community benefit through the provision of land and premises and employment opportunities.

Corporate Plan

- 1.3 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

- 1.4 This report relates to objective (iii) by maximising and enhancing socio economic and economic development opportunities to the benefit of businesses and local communities, encouraging new business creation and growth of existing businesses and opportunities and maximising community benefit through the provision of land and premises and employment opportunities.

2. Resource Implications

Financial

- 2.1 Capital - The additional receipts from the sale of properties not currently contained in the CPIP programme is estimated to be in the region of £0.841m.
- 2.2 Revenue - The sale of properties not currently contained within the CPIP programme will result in the loss of approximately £88k of rental income. Maintenance, marketing and upkeep of serviced land and buildings will create additional costs which are estimated at £20k. This will be contained within the current Environment Service's revenue budget.

Workforce

- 2.3 It is proposed to extend by 2 years the existing 1 FTE fixed term 'Development Surveyor' post supporting the delivery of the Programme, as it is considered necessary to maintain the pace of delivery and build on the progress to date. The costs are £45k per annum.

Asset Management (land, property, IT)

- 2.4 The Asset Management issues arising from the proposed land and property disposal are detailed in the report.

3. Assessments

Equality Impact Assessment

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.4 The information contained within this report has been considered under the Act. Pre-screening has identified that the PPS will have no or minimal environmental effects, it is therefore exempt.

Sustainability

- 3.5 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.6 The information contained within this report has been considered under the Act. The proposals within the CPIP programme will enhance socio economic and economic development opportunities to the benefit of businesses and local communities.

Legal and Governance

- 3.7 The Head of Legal and Governance Services and the Head of Finance have been consulted on these proposals and there are no legal implications other than those set out above in terms of the land disposals.

Risk

- 3.8 There are two key risks associated with the proposed programme.
- (i) Risks associated with the Design and Procurement of site servicing infrastructure and buildings. This risk will be managed by The Environment Service Senior Management Team. A Development Surveyor is dedicated to progress the CPIP and will take an active role in mitigating that risk and reporting regularly to the Head of Planning and Development.
 - (ii) Risks associated with lack of demand for land and business space. This risk will be mitigated through marketing of land and business space by the Estates and Investment teams, external agents and opportunities emerging from the Scottish Cities Alliance marketing activities together with proactive management of enquiries from specific sectors through the Business Development Team.

4. Consultation

Internal

- 4.1 The Head of Finance, the Corporate Human Resources Manager and the Head of Legal and Governance Services have been consulted in the preparation of this report.

5. Communication

- 5.1 The sites will be promoted as a development opportunity to investors and developers through Invest in Perth and opportunities explored to highlight key stages in the development of the site through local and national media.

2. BACKGROUND PAPERS

- 2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

- 3.1 Appendix 1 – Revised Commercial Property Investment Programme.

Budget & projected cashflow for new 10 year programme 2015-25

	Actual				Projection										
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
Receipts/ Reserves Brought Forward ()	(2,680)	(2,905)	(2,132)	(1,832)	(1,832)	(2,395)	(1,045)	(65)	(11)	(126)	(210)	(527)	(527)	(835)	
Additional Funding Allocated in February 2013 Budget	0	0	(944)	(2,149)	(451)	0	0	0	0	0	0	0	0	0	
Total Available Funding Brought Forward ()	(2,680)	(2,905)	(3,076)	(3,981)	(2,283)	(2,395)	(1,045)	(65)	(11)	(126)	(210)	(527)	(527)	(835)	
Project	Description														CHANGE
Pitlochry, Fonab Business Park	Site servicing & SMUs	18	1	2		210	416								
Perth Food & Drink Business Park (PFD8P) - North Muirton															
Site Servicing	Site servicing	55	66												
Phase I Site Servicing	Site servicing			1,221	1,535	23									
Phase II Site Servicing	Site servicing														
Dunkeld Rd Junction Improvements	improvements			0	219	50									
Food Units	SMUs				61	1,700									
Hub & Eco Innovation Initiative					95	170	1,400								
SW land					308										
Perth, Broxden Business Park		20	2												
Kinross West	Site servicing			78	540	226	42								
Kinross Western Edge - Relief Road		267	1,105	2	1	7									
Kinross Western Edge - Contribution from Environment Services		(267)	(233)												
Crieff - Small Business Units	Site servicing & SMUs			4	0			350	350						
Aberuthven - Small Business Units (Removed)	Site servicing & SMUs														
Eastern Perthshire															
Broxden							50								
Creative Industries business Incubator							250								
Charles Street			60												
CPI Development & Implementation			81	71	45	45	45	45	45						
Total Expenditure on projects in Year		75	958	1,447	2,149	984	2,217	1,861	695	395	0	0	0	0	0
Funds Brought-Forward () and expenditure		(2,605)	(1,947)	(1,629)	(1,832)	(1,299)	(178)	816	630	384	(126)	(210)	(527)	(527)	(835)
Projected Receipts - Disposals Receipts & Grant Funding															
Aberuthven - Maidenplain Place (Plot2) [0.993 acres]		5			(99)										
Blaigowrie - Welton Road, Industrial Estate		(258)													
Auld Bond Road, Site @ Inverlmond South															
Broxden Business Park															
Plot 3 (Food Use)	Plot 3 (1.673 acres)				(609)										
Plot 4	Plot 4 (1.446 acres)						(150)			0					
Plot 5 & 6a	Plot 5 (2.642 acres)				(340)										
Plot 7	Plot 7 (0.598 acres)						(54)								
Perth Food & Drink Business Park - Development Plots (N Muirton)															
Site 1	1.00 acres					(10)	(80)		0						
Site 2	1.26 acres					(10)	(100)								
Site 3	1.02 acres						(90)								
Site 4	1.09 acres						(100)								
Site 5 (Small Business Units and Hub)	2.03 acres														
Site 6	1.12 acres							(84)							
Site 7	1.42 acres								(117)						
Site 8	3 acres								(200)						
Site 9	1.29 acres							(110)							
Site 10	1.64 acres					(90)									
Site 11	0.83 acres						(77)								
Strategic Land (SW)	10.12 acres												(308)		
Kinross West - Development Plots															
Site 1	0.91 acres					(109)									
Site 2	0.66 acres				(48)	(21)									
Site 3	1.28 acres					(130)									
Site 4	1.08 acres						(100)								
Site 5	2.98 acres						(240)								
Acorn Business Units (Arran Road Perth)						(587)									
Crioch Business Units (Phase 1) Crieff							(256)								
Spectraglass - Inverlmond Industrial Estate							(185)								
Food & Drink Park Small Business units Perth								(400)							
Blaigowrie - Plot 2 Skirmie Park				(27)											
Blaigowrie - Plot 6 Skirmie Park															
Burrelton - Yard at Whitelea			(54)												
Charles Street (Kinnoull Junior Club)		(51)	(4)												
Blaigowrie - Units 4-5 Erich Business Centre		4	(127)												
Blaigowrie - Units 1,2,3 Erich Business Centre				(176)											
Total Receipts from sales in Year		(300)	(185)	(203)	0	(1,096)	(867)	(881)	(641)	(510)	(84)	(317)	0	(308)	0
Total Available Funding Carried Forward () or Deficit		(2,905)	(2,132)	(1,832)	(1,832)	(2,395)	(1,045)	(65)	(11)	(126)	(210)	(527)	(527)	(835)	(835)

Notes

1. The above receipts are net of all allowable sale related costs including internal and external fees, advertising and title issue costs.

2. The gross receipts have taken account of reduced market conditions and monies available after developer contributions have been met by developers/buyers.

