

PERTH AND KINROSS COUNCIL

Strategic Policy and Resources Committee

27 November 2019

COMMERCIAL PROPERTY INVESTMENT PROGRAMME

Report by Depute Chief Executive (Chief Operating Officer) (Report No. 19/344)

PURPOSE OF REPORT

The purpose of this report is to provide an update on the Commercial Property Investment Programme. It also seeks approval to the criteria for identifying priorities for Council intervention to deliver development for economic growth within the current ring fenced programme.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Commercial Property Investment Programme (CPIP) was established in 2013/14 as part of the Council's commitment to develop property and land assets to support business growth. The CPIP is a programme of property development, site acquisition, and servicing which runs until 2025 as a ring-fenced balanced development and investment programme.
- 1.2 The development and sales of the land and property in the programme underpins economic growth by creating significant construction investment and securing jobs in the commercial and business floorspace delivered by developers and businesses locating in Perth & Kinross. The development sites are identified business and employment sites in the current Local Development Plan and LDP2.
- 1.3 The CPIP is delivered by the Estates & Commercial Investment Team and is managed through the Capital Programme monitoring reporting to the Strategic, Policy and Resources Committee. The strategic oversight for the programme is provided by the Employment Land & Commercial Property Development Board (ELCPDB) which comprises representatives from Planning, Economic Development, Property, Capital Programme office, Legal and Finance.
- 1.4 The Board recently reviewed the current programme which was approved in November 2017 (Report No. 17/390 refers). This detailed individual projects on allocated sites and properties in Perth City and across the wider rural areas. The review highlighted a number of areas where issues outwith the control of the Council were impacting on the delivery of sufficient serviced employment land and property to meet anticipated future business needs.
- 1.5 In general terms, the cost of servicing and delivering business and employment land in Perth & Kinross is greater than the end market value. As such, there is an inherent market failure. The CPIP programme was established to address this and has achieved a balanced position where

expenditure is balanced by receipts without incurring loan charges, taking a long term view on site acquisition and investment. It has also successfully secured higher value commercial uses, at key high demand locations, for example the Porsche dealership and Broxden Farm. However, more rural locations are challenging and, as such, the development risks and returns need to be spread across the wider programme.

- 1.6 The recent review by the Board identified the need for a greater degree of operational flexibility in the CPIP. In order to do this, the Board developed criteria for future CPIP activity, taking cognisance of private sector developer appetite to secure investment in accordance with Council financial regulations. This approach will allow the Board to agree priorities and manage expenditure of the programme to deliver the CPIP aligned with strategic priorities. It will be reported quarterly through the regular monitoring reports to this Committee. The proposed criteria which the Board will use for assessment and to direct intervention is set out below. Taken individually, the proposed criteria are already used. However, it is proposed to aggregate them to facilitate the strategic prioritisation of sites.
- 1.7 Although the current programme demonstrates good use of resources within the Council's control, other external issues such as land ownership, potential utilities/infrastructure constraints and current market demand create viability challenges. The future development and investment programme has always been predicated on the successful sale of serviced sites with receipts from disposals reinvested. At the point where the cost of new development exceeds the projected receipts, the Council will need to consider whether to capitalise the programme, terminate it and/or consider a new investment model such as joint ventures with the private sector.
- 1.8 The current budget allocations on property development, site acquisition and site servicing are set out in Appendix 2. These reflect resources and expenditure on sites and properties in Council ownership. The Council works with key public and private sector partners in the delivery of identified projects. This approach may also lever additional funding into the programme and continues the current approach of working with private sector partners as appropriate opportunities emerge.

2 PROPOSAL

- 2.1 Both residential and employment uses are essential for sustainable development. The provision of employment and business land and speculative property outside the three largest Scottish cities is generally regarded by the property development industry as more challenging and riskier than developing for residential use, as there is a less quantifiable return on investment. Site servicing constraints and location can make the viability of employment and business land particularly marginal in rural locations where market take-up can be slow.

- 2.2 In these instances, partnership working with landowners and developers can help deliver effective employment sites. In many cases, financial intervention may be required to unlock the development.

Council land at North Muirton Industrial Estate

- 2.3 The Council employment land at North Muirton extends to approximately 26 acres, of which 16 acres is currently serviced with utilities and roads infrastructure. It is divided between food & drink and general business uses on an equal basis. Of the 16 serviced acres, currently over half (8.5 acres) is either developed or under offer to businesses.
- 2.4 Given the business demand and uptake of development to date, it is proposed to undertake further site-servicing infrastructure to expand the remaining 10 acres in Council ownership. This requires a new access road with an estimated cost of £400,000. The intention is to retain the area currently distinctly marketed as the Food & Drink Park within the wider industrial area to provide long-term strategic support for this important industry.

Future industrial/manufacturing premises

- 2.5 The CPIP programme currently provides for developing a future new modern industrial facility for businesses. The development of the facility will be subject to a detailed business plan and approval from the Board.
- 2.6 The Council is participating in a partnership project with the Construction Scotland Innovation Centre, Scottish Enterprise and Zero Waste Scotland to use a design framework (PORTAL) to deliver a new building as a demonstrator project, leveraging money from the Innovate UK Construction Innovation fund. The bid is being submitted in November 2019 and the outcome should be known for a project start in April 2020. If we are successful in our bid, this would bring additional resources to the CPIP programme in 2020/21 to build a demonstrator for small to medium sized businesses with increased construction efficiency, whole life costs and lower carbon impact.
- 2.7 There are currently 3 potential locations under consideration for the development of the new demonstrator building:
- (i) site 6 at the Perth Food & Drink Park
 - (ii) site 4 at Kinross West
 - (iii) site 2 at Brioch Place, Crieff
- 2.8 The CPIP currently has limited resources to build a new building which, if committed, leaves only a relatively small cash reserve for site servicing and potential acquisition (£1m) over the period of the current programme. However, if money is secured from the UK Construction Innovation fund, this would free up more resources to make a greater impact in serviced site provision.

Site servicing

- 2.9 Servicing and acquisition costs are highly challenging to determine as issues such as specific requirements and topography need detailed analysis on each site. Planning consents for large scale housing developments also require the provision of serviced employment land. However, the planning system cannot require a developer to sell serviced plots at a loss, hence the role of the public sector to step in.

Prioritisation Criteria

- 2.10 In order to prioritise sites for possible CPIP interventions, the following criteria are proposed:
- sites should be identified as 'marketable' in the employment land audit i.e. Minor Constrained Land: These sites have constraints (ownership, accessibility, water or drainage issues), but the extent of the constraints is judged to be marketable within 2-5 years. Also sites identified as 'immediately available', but not marketed by owners/developers.
 - market failure i.e. private sector will not deliver without public intervention
 - potential demand (location, class type)
 - deliver strategic priorities e.g. sectors

Each site will be scored against each criteria and scores will be aggregated to establish a prioritised list to be agreed by the Board. Appendix 1 provides details of the scorecard.

The Committee is asked to agree the proposed prioritisation criteria and approach.

3 CONCLUSION AND RECOMMENDATIONS

- 3.1 It is recommended that the Strategic Policy and Resources Committee:
- (i) notes progress on the completed work to date
 - (ii) approves the current funding re-allocations as set out in Appendix 2 on property development, site acquisition, site servicing and
 - (iii) agrees the prioritisation criteria for future development proposals for the Commercial Property Investment Programme

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic implications

- 1.1 This report supports the delivery of the Community Plan, Single Outcome Agreement and Corporate Plan objectives.

2. Resource implications

Financial

- 2.1 The financial implications of the revised programme can be accommodated in the current ring-fenced balanced programme. The professional staff resources required over the timeline of the programme will be continue to be set against capital expenditure in line with current practice.

Workforce

- 2.2 The current CPIP provides for one Development Surveyor timecharged against the profiled capital programme aligned with capital expenditure.

Risk

- 2.3 There is no significant change in the risks associated with the revised programme and the revised priorities will be managed and reported through the capital monitoring process.

Consultation

- 2.4 The governance and oversight provided by the ELCPDB will ensure cross service consultation with Planning, Housing, Economic Development, Finance and Legal services and robust financial monitoring across the programme.

Asset Management (land, property, IT)

- 2.5 There are no immediate implications in respect of asset management arising from the recommendations of 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.

(i) Assessed as not relevant for the purposes of EqIA

Strategic Environmental Assessment

- 3.2 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.3 The contents of this report have been considered under the Act and no further action is required as it does not qualify as a PPS and is therefore exempt.

Sustainability

- 3.4 Under the provisions of the Local Government 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.
- 3.5 The proposals and recommendation in this report will support sustainable development in the potential sale and re-use / redevelopment of the properties and reallocation of the capital resources.

Legal and Governance

- 3.6 The Head of Legal and Governance has been consulted and is in agreement with the contents of this report.

Risk

- 3.7 The risks associated with the CPIP are managed within the ELCPD Board Governance

4. Consultation

Internal

- 4.1 The Head of Legal and Governance, the Head of Property Services and the Head of Finance have been consulted and are in agreement with the contents of this report.

2. BACKGROUND PAPERS

None.

3. APPENDICES

Appendix 1 - Criteria scorecard,
Appendix 2 – Summary of revised capital expenditure programme