

## PERTH AND KINROSS COUNCIL

## Strategic Policy and Resources Committee

29 November 2017

**COMMERCIAL PROPERTY INVESTMENT PROGRAMME -  
PROGRESS UPDATE AND REVISED PROGRAMME****Report by Depute Chief Executive, Chief Operating Officer****PURPOSE OF REPORT**

The purpose of this report is to update the Committee on the Commercial Property Investment Programme (CPIP) and seek agreement to the revised programme and proposed review of the approach to ensure effective delivery of corporate property development and investment activities.

**1. BACKGROUND / MAIN ISSUES**

- 1.1 Utilising funding allocated in the 2013/14 and 2014/15 budgets, the Commercial Property Investment Programme (CPIP) was initiated as part of a proactive and commercially focused approach to the Council's property and land assets, supporting business growth and providing construction jobs in the local supply chain. The agreed self-financing programme, which runs until 2025, achieves this objective by maintaining a balanced investment, development and property disposals programme. The programme has been successful and since 2011/12, the programme has delivered 9 hectares of employment and business land, realised capital receipts to the Council of circa £1m with a further £2.19 m projected in 2017/18. The programme has enabled £2.6m of construction investment in 2016/17 and 2017/18 with a further £3.32m over the next years of the programme. The currently anticipated future construction investment of up to £10m will create 72 jobs and a further 420 jobs when all anticipated business floor space is developed.
- 1.2 The CPIP supports economic growth, working with the property market with particular emphasis on key sectors and addressing market failure where it continues to persist underpinning the City Plan for Perth and the Community Plan/Single Outcome Agreement and the objective of encouraging new investment and business growth in the Perth and Kinross area. The development programme is prepared in line with the Local Development Plan (LDP), through engagement with the development industry and regular property market analysis. 'In terms of business land development in support of economic development on average site acquisition and servicing costs exceed sale receipts and so there is not a direct positive financial return on the investment. The strategy adopted is to support a longer term economic impact by facilitating company growth. Land sale receipts at Kinross West and Perth Food and Drink Park are upwards of £100k per acre based on net developable areas sold after all the roads infrastructure, drainage and site servicing costs have been borne by the Council.'

- 1.3 Strategic oversight and governance of the delivery programme is provided by a programme Board with progress and significant proposed changes reported annually to this Committee. The programme is delivered by the Estates & Commercial Investment Team within Economic Development where there are dedicated resources and skills in experienced Estates and Commercial Development Surveyors to successfully drive the programme.

## **2. PROPOSALS**

### **Revised Programme Proposal**

- 2.1 The Committee is asked to consider the revised programme as detailed in Appendix 1.
- 2.2 The revised programme will deliver enabling property infrastructure to support economic growth and wider social benefits at a cost of £5.41m with projected receipts back to the programme over the period of £5.901m. These anticipated receipts together with existing resources of £1.3m will realise a projected positive net balance of £1.816m in 2024/25 for future property development opportunities.
- 2.3 Working closely with businesses and private sector partners, a number of new projects have been identified and are under development. The revised programme includes proposals to sell existing well let small business units in established markets and develop new business premises to retain until good levels of occupation are achieved. The Programme will continue to be self-financing by including new disposals and re-profiling projects in line with market demand.
- 2.4 Further details on progress and proposed changes to individual projects in the programme are provided below and Appendix 1 provides the related financial details:

### **Perth Food & Drink Park**

- 2.5 Following completion of the junction improvements from Dunkeld Road, the site servicing for the park is complete. Two of the serviced development plots have been sold to McLaughlan Transport Perth Ltd for expansion of the company's core business in refrigerated logistics serving the food and drink industry. A Planning Advance Notice (PAN) is being progressed for the strategic land of 10 acres to make it more attractive to investors. 12 acres (50% of the available 24 acres for the site) will now be marketed as general use to meet existing demand. This will still leave 12 acres for Food and Drink use which is still substantial compared to other Food and Drink Parks across the UK.
- 2.6 The small business units are due for completion imminently with three of the units under offer to occupiers with a fourth expression of interest. The continued Invest in Perth investment promotion campaign will seek to secure occupiers for the remaining units and development plots.

- 2.7 At present the proposal is to retain and manage the business units and provide support to the tenants. The core objective of the business space created is to support a start-up pipeline of food and drink companies some of whom could in due course expand and grow further on the park.
- 2.8 The Eco-Innovation hub building originally proposed on the park was an initiative linked to the River Tay Heat Pump to house the technology infrastructure required for the wider district heating project. The Heat pump project has been reviewed following scrutiny of the business case and it is now anticipated that the proposed innovation hub is likely to be developed as part of a 'Future Factory' initiative in partnership with Zero Waste Scotland, the Construction Skills Innovation Centre and Scottish Enterprise. The project which is in the early stages of development is to deliver future industrial and manufacturing space to meet high environmental standards and Scottish Government energy efficiency targets serving the food and drink and energy sectors. Under the revised programme £1.4m capital expenditure has been allocated for this project.

### **Kinross West**

- 2.9 On completion of the access road and site servicing at Kinross West, this development delivered 5 fully serviced plots of which one has been sold for owner occupier business premises and it is now developed. Missives have been concluded on the other two plots for future development by the perspective purchasers. Currently there are two remaining plots which could accommodate up to a further 1.65ha of business space with a good level of current interest.

### **Aberuthven, Maidenplain Place**

- 2.10 There was one remaining Council owned plot at the Business Park which had potential to accommodate small business units. However, through marketing a purchaser came forward and the plot was sold to a local business, allowing construction of a new showroom for Perthshire Caravans.

### **Crieff, Crioich Business Park**

- 2.11 At Crioich in Crieff the existing building comprises 2 blocks of 4 small units built in 2000 and fully let. The immediately adjacent site could accommodate a parade of new small industrial units. However recent discussions with Planning and property developers confirmed a good level of private sector activity in providing business space in Crieff. Accordingly the proposal is now to market the property for sale which could be attractive to a local property developer or business seeking an investment opportunity and/or a site for owner occupier development.

## **Pitlochry, Fonab Business Park**

- 2.12 The Council owned serviced development land at Fonab Business Park adjacent to the A9 will be significantly impacted upon by the dualling works in accordance with the current Transport Scotland proposals. It may only be possible to build one small business unit (or none depending on the final layout and feasibility) on this particular site and alternatives may have to be sought to serve this area. The funding previously ear-marked for this small build (£660k) has been re-distributed within the programme together with other identified resources (from Crioch, Aberuthven, Aberfeldy and Blairgowrie) to support the development of a new strategic rural business premises programme which will aim to identify and deliver development projects working with landowners and businesses across Rural Perth and Kinross.

## **New Rural Business Premises Programme**

- 2.13 The revised programme proposes to invest £1.4m capital expenditure 2018/19 onwards in rural business space intervention to seek to ensure there is a sufficient supply of suitable business premises in rural Perth and Kinross. The proposed approach is to proactively work with developers and landowners, including engagement with rural Estates to identify where challenges and opportunities exist to support development of the business property supply.
- 2.14 The Council interventions using CPIP has to focus on market failure and interventions will be developed on a case by case basis with details on identified projects and business cases to be considered by the programme Board as projects are identified and progressed in partnership with private sector businesses and landowners.
- 2.15 In order to use capital funding from the CPIP programme the Council must take an interest in the property which could be in a number of forms including acquisition, lease or joint venture agreement. Depending on the appropriate mechanism used the landowners/companies may seek to buy out/pay back the Council interest. Within the current revised programme the capital expenditure of £1.4m invested in property via joint ventures could realise some revenue income in terms of rental received and/or potential pay back. The proposed development approach making use of the available capital funds of £1.4m is viewed as a long term commitment to support company growth of which circa £1m will be tied up over the long term.

## **Business Expansion Sites Sales Receipts**

- 2.16 Working closely with businesses has identified a number of opportunities to support company growth by the sale of sites for business expansion as highlighted in Appendix 1. The approach has been to support business growth and expansion with mutually beneficial land disposals as appropriate and particularly in support of high growth companies. Future disposals in the programme include, Spectraglass and Strathmore Motors in Perth with others

under consideration. The capital receipts are allocated to CPIP to fund the future development programme.

### **Increasing Employment Land Investment Opportunities**

#### **Increasing Overall Employment Land Supply**

- 2.17 The first stage to increase employment land investment opportunities is to increase the overall supply. The current LDP was adopted in February 2014 and there are several improvement initiatives ongoing in preparation for the next LDP in anticipation of the outcomes and recommendations of the current National Planning Review and to ensure the new LDP facilitates the future growth and spatial development needs of the area. The role of the LDP in the allocation of effective employment sites is a key consideration particularly where allocated sites are not being brought forward as swiftly as originally expected due to infrastructure requirements or viability. A strategic corporate group comprising Economic Development, Planning, Property Services, Finance and Legal has recently been established with the remit to review the overall supply and demand of business land and premises and optimise opportunities.

#### **Working with the Private Sector to Increase Immediately Available Employment Land**

- 2.18 The second stage to increase employment land investment opportunities is to work more closely with the private sector. Property development can be constrained for various reasons including technical and economic viability constraints, access to capital finance along with a general reluctance of housebuilders in particular to invest in employment land servicing without a guaranteed short-term return on investment.
- 2.19 It may be appropriate to use the CPIP to intervene to help bring forward some of these privately owned key allocated 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 could however, require additional funding being identified to fund the programme potentially through borrowing.
- 2.20 On 26 April 2016 (Report No. 16/182 refers), the Committee endorsed the approach to seek and develop innovative funding and joint venture arrangements for individual project delivery as appropriate. However, there is a need to identify and develop specific mechanisms to progress that approach. The above proposed rural premises programme would be an opportunity to inform and support this process.

## **Releasing Council's Operational Property and Land Assets or Acquiring New Sites**

- 2.21 The third stage to increase employment land investment opportunities is to release Council's property and land assets from the operational portfolio to the commercial portfolio or acquire new assets. The land and property included in the programme portfolio are identified from surplus assets or acquisitions specifically to provide economic development in consultation with Planning and Development and Corporate Finance linking directly to the Council's Property Investment Strategy which is considered every year by the Council as part of the overall Council's Investment Strategy.
- 2.22 The recent progressive journey towards a corporate landlord approach and significant rationalisation of the Council's property portfolio means that there are limited immediately identifiable opportunities. A Corporate Property Asset Management Review has been agreed as part of the Council's Transformation Programme to develop a portfolio strategy to ensure future investment areas are prioritised, providing fit for purpose accommodation. Linking to that review, there is an opportunity to refresh the programme and take a wider more Corporate strategic view of how Council land and property assets are used and the mechanisms and approaches which could identify and develop future property led economic development opportunities to create best value. This could potentially include assets within the city centre to support enhanced retail & leisure offerings to meet emerging customer needs and projected resident growth demands.
- 2.23 To progress the three different stages and under the strategic direction of the Depute Chief Executive (Chief Operating Officer), it is proposed that the strategic corporate group mentioned above (paragraph 2.16) develop proposals identifying mechanisms and approaches which could be used to:
- increase overall employment land supply,
  - work with the private sector to increase immediately available employment land,
  - release Council land and property assets to develop future property led economic development opportunities.
- 2.24 It would be the intention to include these proposals for consideration in the Council's Property Investment Strategy, which is considered every year by the Council as part of the overall Council's Investment Strategy.

## **3. CONCLUSION AND RECOMMENDATIONS**

- 3.1 The CPIP programme of activity in serviced employment land and property development continues to support business growth and attract inward investment and contribute to Corporate and Community Plan key indicator targets but the overall Corporate property development approach would benefit from review.

- 3.2 A multifaceted approach is best to continue the delivery of the programme including innovative funding arrangements. The CPIP remains on target with variances (slippage, acceleration, reduction or increase) reported to the programme Board and to this Committee for approval in line with the established capital monitoring process.
- 3.3 As Council land and property ownership is running out the development of a good supply of serviced land and premises which complements the Invest in Perth strategy targeting high-value inward investment and cluster approach of supporting existing high value engineering companies requires a review of the overall corporate approach.
- 3.4 It is therefore recommended that the Strategic Policy and Resources Committee agree to:
- (i) The delivery of the revised programme as detailed in this report (see Appendix 1) and
  - (ii) remit to the Depute Chief Executive (Chief Operating Officer) to develop proposals identifying mechanisms and approaches which could be used to:
    - increase overall employment land supply,
    - work with the private sector to increase immediately available employment land,
    - release Council land and property assets to develop future property led economic development opportunities

and to include such proposals in the Council's Property Investment Strategy which is considered every year by the Council as part of the overall Council's Investment Strategy.

#### Author(s)

| Name         | Designation                          | Contact Details  |
|--------------|--------------------------------------|--|
| Tom Flanagan | Interim Head of Economic Development | 01738 477496   |
| Serge Merone | Investment Manager                   | 01738 475536<br><a href="mailto:smerone@pkc.gov.uk">smerone@pkc.gov.uk</a> |

#### Approved

| Name          | Designation                                      | Date             |
|---------------|--|------------------|
| Jim Valentine | Depute Chief Executive (Chief Operating Officer) | 16 November 2017 |

If you or someone you know would like a copy of this document in another language or format, (on occasion, only a summary of the document will be provided in translation), this can be arranged by contacting the Customer Service Centre on 01738 475000.

You can also send us a text message on 07824 498145.

All Council Services can offer a telephone translation facility.

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 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.



- 1.3 The CPIP is a key element of the Economic Development activity outlined in the current Local Outcome Improvement Plan and contributes directly to the Key Performance Indicator (KPI) to maintain a minimum supply of 20ha of immediately available employment land for business growth.

## **2. Resource Implications**

### Financial

- 2.1 Capital – The revised programme as detailed in Appendix 1 will deliver enabling property infrastructure to support economic growth and wider social benefits at a cost of £5.41m with projected receipts back to the programme over the period of £5.901m. These anticipated receipts together with existing resources of £1.3m will realise a projected positive net balance of £10.816m in 2024/25 for future property development opportunities.
- 2.2 Revenue – The CPIP is currently substantially a Capital funded programme with revenue implications ie; loss of rental income from disposals, borrowing costs, staff and professional fees absorbed by the programme or managed within TES budgets. Going forward the proposed review of service delivery in this area of property development and investment will highlight potential future revenue implications which will be fully evaluated for further consideration through the revenue budget process.

### Workforce

- 2.3 There are no immediate workforce impacts as there are currently Development Surveyors and Estates Surveyors supporting delivery of the Programme.

### 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 has 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 as Project Manager on projects within the CPIP. The Programme Board take an active role in managing the programme.
  - (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 Commercial 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 Enterprise Team.

#### **4. Consultation**

##### Internal

- 4.1 The Head of Finance 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 sites and business growth projects secured 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 – Commercial Property Investment Programme.