

PERTH AND KINROSS COUNCIL**Strategic Policy and Resources Committee****18 September 2013****COMMERCIAL PROPERTY INVESTMENT PROGRAMME****Report by the Executive Director (Environment)****PURPOSE OF REPORT**

The purpose of this report is to secure Council approval for the identified priorities in the Commercial Property Investment Programme for the delivery of site infrastructure and development of business space utilising the additional £3.544m capital funding allocated in the 2013/14 and 2014/15 budgets.

The report sets out the medium term aspiration over 10 years for Commercial property investment to support economic growth to 2022/23 underpinning the City Plan for Perth and its objective of encouraging new investment in the area. The report outlines an ambitious programme of investment in key projects, with future anticipated receipts of £3.008m to be realised on the disposal of key sites. Additional capital funding may also be secured over the period of the programme from external sources including European Regional Development Fund (ERDF) or Scottish Government Regeneration Capital Grant Fund.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Scottish Government's principal objective, and one of the Council's core objectives, is to support sustainable economic growth through social, economic and physical regeneration. The Council's Corporate Plan sets out a strategic objective of "promoting a prosperous, inclusive and sustainable economy" identifying local outcomes of a "thriving expanding economy" and "employment opportunities for all". This is further articulated in the Perth City Plan in relation to the development of the knowledge economy.
- 1.2 The Council has developed a new brand for the city as well as a dedicated portal – Invest in Perth – to promote investment opportunities in the City to national and international developers and investors. New business management processes to track demand for development and manage relationships with potential investors more effectively have also been established along with new planning processes to prioritise applications for key business developments.
- 1.3 Across Scotland, with the exception of Aberdeen and parts of Edinburgh and Glasgow, there is a general market failure in the provision of industrial land and premises, in that the cost of site servicing and premises construction is not reflected in the end value.

- 1.4 Outside the 4 large cities there is also a general reluctance by the private sector to speculatively invest in office-type accommodation. Therefore in large parts of the country the public sector has historically been the sole investor, or in partnership through special purpose vehicles such as Joint Ventures.
- 1.5 The Commercial Property Investment Programme (CPIP) is the principal mechanism in Perth and Kinross to provide serviced business land and premises in key locations. The provision of additional land and premises along with promotion of sites and premises and investment opportunities through the Invest In Perth initiative will help attract companies to locate and/or expand in Perth and Kinross.
- 1.6 The CPIP is one of several mechanisms through which the Council holds and manages commercial property. In total 252 commercial investment properties are currently held and this portfolio, developed over time, includes shops, offices, small workshop units and leased ground. Aside from those in the CPIP these commercial assets are held in the General Fund, the Perth Common Good Fund and the Housing Revenue Account. A summary of the property in the current portfolio by type and account is contained in Appendix 2. The CPIP was historically self-funded with receipts from the disposal of serviced business land being reinvested to fund the future programme of development.
- 1.7 In recognition of the Council's economic growth ambitions, additional capital funding of £3.544m was allocated to the 2013/14 and 2014/15 budgets to deliver sites and provide units for business growth and expansion. The revised priorities for this investment are set out in Appendix 1.
- 1.8 Prioritisation of the expenditure of the newly allocated £3.544m reflects the current aspiration and ambition set out in the Perth City Plan. The aim is to build upon existing strengths in key sectors such as renewables and clean technologies, tourism and hospitality, food and drink with a recognition that Perth itself can and should play a greater role in creating new job opportunities, complementing smaller scale opportunities across the Perth & Kinross area. The CPIP will deliver land and property across Perth and Kinross, however, the most significant single investment will be in Perth.
- 1.9 The new strategic Perth Food and Drink Park project at North Muirton is a significant part of the aspiration to create the conditions for the growth of our regionally important food and drink sector. This specific project will initially deliver 6.47 hectares (16 acres) of development land, and ultimately 5 incubator and 2 food demonstrator units totalling 1400 sq m of floorspace. Initial inward investment marketing has already generated interest in at least one of the serviced sites.
- 1.10 The additional CPIP capital budget resource alone (£3.544m) will be sufficient to deliver the aspiration of the new Perth Food and Drink Park within a 10 year timescale provided the income generated from capital receipt of

land sales can be achieved. This anticipated income over 10 years is £3.008m, however, land sales are currently stagnant and values about 30% lower than their 2007 level. Therefore, to provide an additional potential source of funding, applications will also be made for external funding from Scottish Government and European grants.

- 1.11 Funding is being sought for £1.85M towards the development of incubator units at Perth Food and Drink Park from the Scottish Government's Regeneration Capital Grant Scheme given linkages to the primary aims of the fund to provide new or improved infrastructure to improve the economic, social and physical environment of communities. The bid has secured an initial Stage 1 approval and the outcomes of the Stage 2 bid process will be known in December 2013. The success of the bid is likely to relate to evidence in respect of local community support and participation in the development. Consultation with the community and key education and business support stakeholders is being undertaken to evidence this.
- 1.12 The development of incubator units at Perth Food and Drink Park also closely aligns with the proposed Sustainable Urban Development funding stream of European (ERDF) funds which it is anticipated will be disbursed via the Scottish Cities Alliance (SCA). It is anticipated SCA will consider bids in autumn 2013 and the intervention level is likely to be 40% of capital expenditure.
- 1.13 Taking a prudent view of external funding, a projected grant income receipt of £720k has been budgeted for in 2014/15 based on the lower level of assistance via ERDF funding which if secured would facilitate the acceleration of the rural business units within the programme as the speed of economic recovery could be slow impacting on the disposal receipts
- 1.14 A review of the Council's current commercial portfolio identified non-strategic commercial assets which could also release further capital into the CPIP subject to appropriate budgetary management. Any potential future disposals would be the subject of a separate approval and the proposals would take account of the loss of revenue to the General fund.

2. PROPOSALS

- 2.1 The CPIP prioritises the development and implementation of projects that contribute to the sustainable economic growth of Perth and Kinross. It achieves this by providing a supply of land and premises to accommodate economic growth with particular emphasis on supporting key sectors.
- 2.2 The revised CPIP has been developed from identified opportunities in the Proposed Local Development Plan. It has also been prepared following discussion with the development industry and property market analysis to identify deliverable market opportunities which address the needs of business and industry, overcome property market failure, and support regeneration outcomes.

- 2.3 The updated programme is significantly different from the original outline business case and now reflects the current position in terms of projected sales and on-going negotiations with land owners and potential joint venture partners to deliver sites not currently in Council ownership. The detailed development programme will be monitored and reported through the established The Environment Service (TES) capital monitoring process.

Priority 1 – site servicing at Kinross West and Perth Food & Drink Park

- 2.4 The immediate priority for investment is the completion of the Kinross West business site and undertaking development of the Perth Food and Drink Park at North Muirton.
- 2.5 There is currently strong interest in over 70% of the development land available at Kinross, and at North Muirton negotiations demand analysis is being undertaken with the Tayside Food Forum and Scotland Food & Drink to establish potential tenants.
- 2.6 It is estimated that these proposed developments in Kinross and Perth will deliver circa 9 hectares of land contributing to the Corporate Plan target to provide 12 hectares of serviced land in 2013/14 and potentially creating 36 jobs during the construction phase. The industrial and business space ultimately built out of these sites could total up to 27,870 sq.m. (300,000 sq ft) of space and accommodate up to 450 jobs.

Priority 2 – Perth Food and Drink Park – premises for business growth

- 2.7 The proposal to create a new Food and Drink Park at North Muirton seeks to build upon the high growth in the Food and Drink Sector both nationally and locally and in particular to build upon Perth's widely recognised strengths in the sector. Historically these strengths have stemmed from the primary sectors of horticulture and agriculture in the area but increasingly Perth is being recognised for its food and drink preparation and processing.
- 2.8 Within Perth and Kinross, the annual turnover of the food and drink sector is estimated at £280 million. The area boasts a number of innovative and expanding Small Medium Enterprises and artisan producers and the internationally renowned James Hutton Institute also has a major research presence in the Carse of Gowrie. It is estimated that there are approximately 130 companies in the local value-added/processing sector. Perth's strong agricultural heritage means that primary production still dominates the sector locally. Total employment is estimated at 1900 representing 3.2% of total employment in the area, including crop and animal production, fishing and aquaculture, food and beverage manufacturing.
- 2.9 Perth and Kinross Council has an ambition to develop the food and drink sector through collaborative work with existing producers, manufacturers and research agencies to support growth in the sector.

- 2.10 It is envisaged that growth can be stimulated through the enhanced use of existing facilities, the development of a pipeline of premises and sites to provide opportunities for entry into the market, business growth and inward investment to provide capacity for enhanced manufacturing, product development, research and innovation and distribution and logistics to support growth of both the local and national economy. All of this will be encouraged to develop in a sustainable way ensuring that waste is minimised and the use of renewable energy maximised.
- 2.11 Provision has been made within the CPIP to develop 5 incubator food standard units of 160sqm and 2 demonstrator units of 300sqm providing a total developed floor area of 1400sqm. On completion it is envisaged that the project could support up to 7 businesses in the food and drink sector creating and/or safeguarding up to 15 FTE jobs.

Priority 3 – managed business space units – Aberuthven, Crieff & Pitlochry

- 2.12 Outwith Perth a number of sites have been identified to provide Small Business Units (SBUs) in existing regional and local service centres to support indigenous economic growth. In recognition of the latent demand for business space in key locations serving the wider rural area it is proposed that additional SBUs are developed at Aberuthven, Crieff and Pitlochry.
- 2.13 At Aberuthven Business Park by Auchterarder the remaining development site in Council ownership could accommodate circa 510 sqm (5,500 sq ft). At Broich Rd, Crieff an additional 420 sqm (4,500 sq ft) of space could be developed adjacent to the existing SBUs. To further enhance the recent investment in site signage and landscaping at Foss Road, Pitlochry a second development of circa 232 sqm (2,5000 sq ft) could be developed on the Business Park adjacent to the A9.
- 2.14 It is estimated that these developments together could potentially create 15 - 20 jobs during the construction phase and accommodate 20 - 25 jobs when the units are fully let.

Priority 4 – Progressing negotiations with potential Joint Venture partners

- 2.15 Negotiations will continue with the wider development market and land owners to establish where blockages to development and the forward provision of land and business space exists. A number of sites originally included in the CPIP programme have been assessed in terms of current viability and are not immediate deliverable priorities but future opportunity sites. Further detail is provided in Appendix 4.
- 2.16 Subject to successful negotiations with landowners, it is proposed to acquire an opportunity site in Alyth to ensure an adequate business land supply.

3. BEST VALUE AND DISPOSAL OF LAND REGULATIONS

3.1 The Council is required to fulfil its statutory duties under Best Value as set out in Section 1 of the local Government in Scotland Act 2003. Relevant aspects of this duty include:

- Making best use of public resources, including land and property.
- Being open and transparent in transaction.
- Ensuring sound financial controls are in place to minimise the risk of fraud and error.
- Assessing the full financial consequences of decisions at an appropriate level before major financial decisions are taken or commitments entered into.
- Demonstrating responsiveness to the needs of communities, citizens, customers and other stakeholders, where relevant.

3.2 The CPIP is included within the Council's Composite Capital Programme and budget movements will be managed by TES and reported to Strategic Policy & Resources Committee throughout the year. Management of the delivery of the detailed programme will be under the direction of the existing Strategic Business Land, Property and Infrastructure Board chaired by the Head of Planning and Regeneration to ensure the Council's obligations on Best Value are achieved.

3.3 The Council is also required to comply with the requirements of the Disposal of Land by Local Authorities (Scotland) Regulations 2010.

3.4 These duties and regulations will apply to all land and property to be sold and developed within the CPIP and sales will be in accordance with the Council's Policy for the Disposal of Land and Buildings and will comply with the Council's statutory duties in relation to the disposal of property.

4. CONCLUSION AND RECOMMENDATION(S)

4.1 The Council's ambitious programme to boost the available supply of serviced business land and premises through the CPIP will be delivered over the years to 2022/23 on a rolling programme with additional funding secured through land sales and applications for external funding.

4.2 It is recommended that the immediately available capital resources secured through the budget process be utilised as set out as the priority activity in the attached programme in Appendix 1.

Author(s)

Name	Designation	Contact Details
Kate Leer	Estates and Commercial Investment Team Leader	Ext 75953
John McCrone	Regeneration Manager	Ext 75385

Approved

Name	Designation	Date
Jim Valentine	Executive Director (Environment)	30 August 2013

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

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

1.1 The CPIP will support the Council's corporate objectives of promoting a prosperous, inclusive and sustainable economy 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.
- Maximising community benefit through the provision of land and premises and employment opportunities.

2. Resource Implications

2.1 The programme will utilise all the identified net additional capital resources allocated of £3.544m and the outstanding receipts of £2.132m from the current programme.

2.2 The full programme is subject to generating the anticipated income from the future sale of development sites within the programme totalling £3.008m. Resources are being actively directed to proactively market and pursue interests from businesses, developers and potential occupiers in this regard. Perth's participation in the Scottish Cities Alliance and focused Invest in Perth campaign will ensure that disposals are optimised.

2.3 The proposed detailed investment in Kinross West and Perth Food and Drink Park are subject to Enterprise & Infrastructure approval in September 2013.

- 2.4 There are no workforce implications as the cost of staff resources needed to undertake the development have been included in the additional capital funding made available.

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 This section should reflect that the proposals have been considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:
- (i) 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. Pre-screening has identified that the PPS will have no or minimal environmental effects, it is therefore exempt .

Sustainability

- 3.4 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. 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

- 3.5 The Head of Legal Services 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

- 3.6 There are two key risks associated with the proposed programme.
- (i) Risks associated with the Design and Procurement of site servicing infrastructure and buildings

3.7 The risks associated with the design and procurement of the site infrastructure will be managed by the The Environment Service Senior Management Team. The Interim Head of Property, and Head of Planning and Regeneration will provide a brief scoping out the required works on the basis of market evidence in relation to demand and business needs with design and contract management delivered through the direction of the Interim Head of Property.

(ii) Risks associated with lack of demand for land and business space.

3.8 The risk associated with the lack of demand will be mitigated through marketing of land and business space by the Estates and Commercial Investment Team, external agents and opportunities emerging from the Scottish Cities Alliance marketing activities together with proactive management of business enquiries through the Business Growth Team.

4 Consultation

Internal

4.1 The Director of Finance and the Head of Legal Services were consulted, in the development of the proposals and the preparation of the report.

4.2 External

None.

5. Communication

5.1 The site 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

The following documents have been relied on in the preparation of this report:

- Council Composite Capital Budget - January 2013

3. APPENDICES

- Appendix 1: CPIP
- Appendix 2: Commercial investment property portfolio
- Appendix 3: Option Appraisal
- Appendix 4: Update on projects in original CPIP OBC

COMMERCIAL INVESTMENT PROPERTY PORTFOLIO

The Commercial Investment Portfolio of property assets currently comprises:-

35 Shops
 25 Offices
 55 Industrial Units (including 49 Small Workshop Units)
 88 Ground leases
 49 Miscellaneous Commercial

Currently the commercial portfolio generates a gross rental income of approximately £1,759,077.

Annual Rental Income by Property Type:

Property Type		Income £
Ground Leases		1,008,741
Industrial Units		278,855
Offices		223,751
Shops		177,325
Misc		70,405
	Total	1,759,077

Annual Rental Income by Account :

Account		Income £
Property Account income (General fund)		1,340,450
Common Good Account income		192,312
Housing Revenue Account Income (HRA)		206,690
Car Parks/Bridges Accounts		19,625
	Total	1,759,077

OPTION APPRAISAL

Options

- a) Do nothing
- b) Investment in sites and premises on Council sites
- c) Investment in site servicing in partnership with the private sector

Appraisal of Options

- a) Do nothing/Maintain Status Quo

Doing nothing is not considered an option. The provision of a forward supply of serviced business and industrial land and premises in key locations to attract and secure investment and support economic growth and create additional employment, is considered a key Council priority. The private sector will not deliver the required serviced land and business space without pump priming by the Council due to the current economic climate and in particular availability of development finance and a weak return on investment. This market failure requires public sector intervention if it is to be addressed.

- b) Investment in sites and premises on Council sites

The Council has a range of sites in Perth and key rural settlements, which have yet to be fully serviced and where there is the opportunity to provide business and industrial premises to respond effectively to demand for property generated through enhanced inward investment marketing and support for growing businesses. The advance provision of business units in key locations is supported by market evidence from property agents Graham and Sibbald based on current management of the Councils multi occupancy small business units and their indepth knowledge of the provision in local markets. The Council is well placed to provide site infrastructure and premises on sites within its control in the short term.

- c) Investment in site servicing in partnership with the private sector.

There are several key sites identified in the proposed Development Plan in private ownership which could potentially be brought forward in joint venture arrangements with the Council. As noted the current economic climate, availability of development finance and developer reticence has created a challenging climate for securing investment in the short term. Until there is enhanced local provision and evidence of demand and take up this is likely to remain the case due to continuing perceived risk. These site options will continue to be actively pursued and negotiations progressed within the CPIP programme in order to secure potential future development of sites by joint venture (or other appropriate mechanism) in line with evidence of future

business demand and take-up generated through inward investment marketing and sector and business support.

Preferred Option

Option b) above is the preferred recommended option This programme of investment which is set out in Appendix 1 Phase 1 utilises the identified additional capital resources allocated of £3.544m and the outstanding receipts from the current programme of £2.132m and utilising anticipated external funding of £720k from the Sustainable Urban Development Funding from the Scottish Cities Alliance.

The full programme of investment is contingent on disposal of sites and realising £3.008m in net receipts and income on the disposal of land and assets in future years. It is very challenging to predict future uptake demand and sales of development sites but it is recognised that the economy is set to slowly improve in years beyond 2014/15.

UPDATE ON PROJECTS IN ORIGINAL OUTLINE BUSINESS CASE

Eastern Perthshire:

In the short term there is provision of new high quality new industrial units in Blairgowrie at Welton Road which can meet the demands of businesses in the wider area.

The LDP opportunity site identified in Alyth is in private ownership and in order to secure future development it is proposed it is acquired by PKC for direct intervention to overcome the poor ground conditions, contamination and re-direction of the sewer to ensure a future business land supply.

Oudenarde settlement - Brickhall business site:

The site is in private ownership and an initial review of the site indicates that it would be not economically viable with servicing costs likely to be more than double what the site would be worth or would realise in sales receipts. Initial cost estimates indicate that the total cost of servicing an initial Phase 1 - 20 acre development at Brickhall would be in the region of £5m comprising: £250k land costs; £2.25m utility costs and £2.5m roadworks (including access roundabout). This equates to site servicing costs of around £250k per acre. On completion, land value is estimated to be in the region of £100k to £120k per acre or around £2m in total. It may be appropriate to progress a development masterplan for the business site with the agreement of the owner / developer. This would help refine the estimated costs and overall viability by for example helping to define the net developable area allowing for roads, landscaping and sustainable urban drainage systems.

The existing status of local utility infrastructure is complex and despite discussions with local developer GS Brown this remains relatively unclear. These complexities make any proposals to bring forward development at Brickhall risky. It would be necessary to undertake additional investigations into the local utility infrastructure to better understand the implications of, and potential for, sharing the costs of site servicing with the neighbouring landowner/ developer GS Brown (having regard to their mixed-use "Oudenarde site").

Welton Rd Blairgowrie Phase 2

This is a longer term project subject to demand for business land.

Aberfeldy site servicing

This is a longer term project subject to demand for business land.

Broxden 2

The Broxden 2 project has been approved as a Major Planning application for Planning in Principle and includes a master plan which identifies 11 acres of business land (two phases of 6 acres and 5 acres) and four phases of housing in excess of 20 acres. The site is in private ownership and although the business land could be brought forward this is unlikely to happen speculatively in the absence of an identified occupier while the development plots at the existing Broxden Business Park remain available.

Inveralmond extension

The extension of Inveralmond is a longer term project as part of the Perth Western expansion that is subject to the A9/A85 infrastructure upgrade.