



LEICESTERSHIRE
COUNTY COUNCIL

REPORT TO CABINET – 28TH AUGUST 2001

INDUSTRIAL PROPERTIES BEST VALUE REVIEW

REPORT OF THE DIRECTOR OF PROPERTY

PART A

Purpose of Report

1. To consider the results of the Best Value Review of Industrial Properties (Appendix 1).

Recommendations

2. Cabinet is recommended to approve the recommendations on Strategic Options, Management Options, Portfolio Options and Finance Options (p. 21-25 of the report) and the Action Plan (p. 27).

Reason for Recommendation

3. To confirm satisfaction with the Review and agree future approach and actions.

Timetable for Decisions

4.

5 th September	Scrutiny Commission
11 th September	Cabinet Decision Making
19 th September	County Council (if necessary)

Policy Framework and Previous Decisions

5.
 - (a) This review forms part of the Authority's agreed Best Value Review Programme.
 - (b) The Member Reference Group has considered the report and agreed its recommendations.

Resources Implications

6. The County Treasurer has been consulted on the resources implications of the report.

Circulation under Sensitive Issues Procedure

7. None.

Officer to Contact

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PART B

Background

9. This information is contained in Appendices A and B of the report.

Proposals/Options

10. These are contained on pages 21-27 of the report.

Consultations

11. The consultation carried out, as part of the Review, is shown in Section 4 of the report.

Equal Opportunities Implications

12. None.

Conclusions

13. The main conclusions of the review are shown on page 21 of the report. The Recommendations are consistent with these conclusions.

Background Papers

14. None.

Appendices

1 Report

INDUSTRIAL PROPERTIES REVIEW

FINAL REPORT

August 2001

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BACKGROUND

During the year 2000, the County Council re-defined its economic development priorities, measures and programme themes. These are documented in;

- The Best Value Performance Plan (2000/01)
- The report of the Economic Development Review Panel, as approved by the Improving Economic Well-Being Scrutiny Committee (24 August 2000)
- The Economic Development Programme for 2000/01, as approved by Cabinet (June 2000)

The aims and objectives of the Industrial Property Trading Account (IPTA) were established by Committee in December 1990. It is appropriate that its performance and future are re-assessed at this time. The terms of reference for the review are attached, at Appendix A.

The key information on the above, and other relevant detail, is provided in the attached position statement, at Appendix B.

A respected property management and consultancy company, Chesterton plc, was appointed to provide external challenge for the review, particularly in respect of the assessment of the performance of both the portfolio and its management against the private sector, and in respect of option appraisal.

A full copy of their final report (approximately 180 pages) is available to Members, on request. The conclusions section of the report is shown at Appendix C, but has been incorporated, where appropriate, in the body of this report.

PORTFOLIO PERFORMANCE

Objectives

The main current objectives of the IPTA are to;

- Provide industrial units for new and expanding businesses throughout the county, but particularly in areas of industrial decline.
- To be prepared to let to businesses of unproven financial status.
- To let on flexible lease terms with early surrender provisions.
- To secure an appropriate return on assets and generate revenue surpluses to support the development of the estate.

In respect of these objectives, the investigations have demonstrated that;

- The IPTA provides small starter units (232 no.) across the county, with the majority in the North West, identified as an area of industrial decline.

<u>District</u>	<u>No. Units</u>
Blaby	13
Charnwood	46
Harborough	14
Hinckley & Bosworth	23
Melton	-
North West Leics	135
Oadby & Wigston	1
	—
	232

The average size of units is 154m². An estimated 2000 people are employed in these premises.

- The small size of units, flexible lease terms and willingness to accept tenants of unproven financial status, meets a demand in areas which are not met by the private sector.

- The rate of return on the assets is one of the appropriate indicators for a portfolio held for economic development purposes and cash surpluses continue to be generated. Surpluses (and any disposal receipts) have generally been re-invested in the development of the portfolio, leveraging in substantial grant aid. Grants of £1.3m have been secured in the past five years. Some of the surplus has, in recent years, been appropriated to the Council's general revenue resources. Also, part of any receipts from the sale of development land have been used to pay off a notional debt (currently standing at £2.5m to the Council, reflecting past investment in the estate from corporate resources).

The uncommitted IPTA surplus at the end of 1999/00 was £496,000.

Recent trading account surpluses (along with appropriations to general revenue) are shown below.

Year	IPTA Surplus (£000)	To General Revenue £000)
1996/97	229	50
1997/98	215	175
1998/99	318	0
1999/00	207	75
2000/01	340(estimate)	0

In calculating these surpluses, allowance was made for financing costs (repayment of loans and interest), but account was not taken of the opportunity cost of the capital assets used by the service. The Best Value Accounting Code of Practice came into effect on 1 April 2000 and applies to the reported cost of services in published financial statements and best value reviews. It requires that financing charges, like repayment of loans and interest, should not be charged to services, while instead all services should be charged the opportunity cost of the capital assets employed (estimated at 6% of the value of the assets). The aim of this is to encourage services to make efficient use of their capital assets (and to dispose of assets that are not needed). The IPTA for 2000/01 and later years will be stated in accordance with the Code. The effect will be to reduce considerably the reported surplus on the trading account (**though the Authority's cash inflows and outflows will not be affected by this accounting change**).

For illustration, re-stating the 1999/00 trading account in this way would show a reduction of the surplus in 1999/00 of 40%, as shown below.

	£000
Trading account surplus 1999/00	207
Add back deducted financing costs	406
Revenue surplus before any capital charges	613
Less full capital charges	<u>488</u>
Surplus after capital charges	125

It is important to note that the surplus calculated by this new accounting convention, does not prescribe, or limit, the funds available for reinvestment in the portfolio. The alternatives for calculating these sums are set out in the 'Financing Options' section.

Conclusion

The portfolio is fulfilling its main objectives. This is verified by Chesterton.

Portfolio Performance Details

1. Chesterton has concluded that, by comparison with the private sector;
 - Rents charged are at market levels.
 - Average vacancy levels are satisfactory (6% over past 12 months).
 - Tenant debt levels are low. Average overdue debt this year is;
 - 30 days - 1.4%
 - 90 days - 0.8%
 - Income yield is competitive for a portfolio of this type.

2. The value of the Council's fixed assets in the portfolio at 1 April 2000 is estimated at £8.1m. The return on capital is around 7.5%. Receipts from disposal of these assets would be slightly offset by disposal expenses.

The portfolio includes two sites of land to be sold for development, currently valued at a total of £531,000 (after repayment of grant). If this non-operational property and its management costs were to be excluded from the return on capital calculation, the return would rise to 8%.

In addition to the Council's fixed assets in the portfolio, there are 7 properties that the Council uses under operating leases. Generally these properties generate a surplus when fully occupied, but over the long term would be expected to generate a loss (due to voids and dilapidation expenses). If the Council were to dispose of its leasehold interest in these properties the net result could be an expense rather than a receipt.

Some of the assets in the portfolio are jointly owned by the Council and other bodies. The Council's share of these assets forms part of the Council's fixed assets in the portfolio. The shares of these assets which belong to other bodies are used by the Council under operating leases.

Appendix D lists all the properties and identifies which belong to the Council, which are owned jointly and which are entirely used under operating leases.

MANAGEMENT PERFORMANCE

The estate is currently managed by the Department of Property's Valuation Section. This includes one full-time surveyor and the part-time input of six other staff (total 2.37 FTE).

The main tasks are the granting and taking of leases, licences, easements, wayleaves, acquiring and disposing of land, developing new units, seeking grant monies and partnership arrangements, and the repair, maintenance and daily running of the portfolio.

Chesterton was asked to assess the performance of existing management, against the private sector. They reached the following conclusions;

- (a) The service is reasonably efficient. (This is supported by the results of the tenants' survey – see page 9).
- (b) Leicestershire County Council's costs of portfolio management (11.7% of gross rental income) are below the private sector average (12.05%) for a similar portfolio.

(These costs include basic management fee, rent renewals, lease renewals, legal, marketing and service charge administration).

- (c) The management of maintenance work is satisfactory. The procurement method used is the most cost-effective and appropriate.
- (d) There are some concerns over the adequacy of IT systems, in terms of integration, link to performance reportage and management of credit control.
- (e) Income collection arrangements compare favourably with the private sector; probably because of close relationships with tenants.
- (f) Marketing arrangements are appropriate to the type of property and rental levels achievable, but may need to become more 'pro-active', if conditions of recession arise.
- (g) Lease terms used are of a normal commercial standard, but length is more flexible.

PUBLIC SECTOR BENCHMARKING

For reasons of time and cost-efficiency, the review team decided to 'plug in' to a benchmarking exercise on Industrial Properties held by Local Authorities, being carried out under the auspices of ACES (the Association of Chief Estates Surveyors).

A group of ten Authorities participated, comprising 4 Counties, 1 Unitary and 5 Boroughs/Districts. Preliminary results have been analysed and discussed by the group.

As is invariably the case, there were problems in respect of comparability of data, particularly on management costs. Further, not all of the Authorities have the integrated records and computerised information to complete some of the benchmarking returns required. However, the initial conclusions are as follows;

- The Benchmarking group of ACES members has varying portfolios of industrial units.
- The size of the industrial units held by the various authorities are broadly similar. There are few units of 5,000 square feet (465 sq m) and above.
- The County Council's portfolio is generally of a post-1980 age and comprises more modern units than some of the other Authorities.
- The length of lease granted by the County Council is typically for three years and this short lease is used by other Authorities for letting industrial units. Some Authorities operate Managed Workspaces (larger industrial units' broken down' into smaller work areas) and these tend to be let on short-term agreements up to one year.
- Most of the industrial units are let with rent reviews after three years.
- Vacancy (void) levels were generally comparable between the Authorities and are mostly low.
- It proved difficult to compare the costs of property management including the finance and legal costs. There are different ways that these are calculated, but overall the County Council's costs appear comparable.

STAKEHOLDER CONSULTATION

Scope of Consultation

The following groups have been consulted;

- Tenants of the Industrial Estate.
- Employees involved in the management of the Estate.
- Trade Unions (first phase).
- District Councils.
- Other bodies; Business Link, Leicestershire Development Agency, East Midlands Development Agency, Leicestershire TEC, Chamber of Commerce.

The results can be summarised as follows;

Tenants

A survey of 140 tenants was carried out in 1999. 78 responded (56%). The results can be summarised as follows;

- Short/flexible lease terms are very important.
- 80% of tenants considered the LCC's units satisfactory to good in terms of value-for-money.
- 63% of tenants expected their business to grow over the next 12 months. 12% expected contraction.
- 71% of tenants would rather rent than buy.
- 88% of tenants stated that the Department of Property was 'satisfactory to good' on handling dealings promptly. The result was the same on dealings handled effectively.
- 78% of tenants rated the Department of Property 'satisfactory to good' on efficiency of repairs service.
- Over 90% of tenants rated the Department of Property staff as both courteous and business-like.
- 98% of tenants felt that financial enquiries were dealt with efficiently.
- 72% of tenants did not feel that the provision of small industrial units should be left to the private sector.

A follow-up survey was carried out in 2000, but the response was poor, with only 10 replies. Whilst levels of satisfaction were broadly comparable to the earlier survey, this is not considered statistically sufficient to draw any conclusions.

Employees

The staff who work on the IPTA, two of whom have been directly involved in this review, have formulated their own views of the way forward.

Some of the key proposals are summarised below;

- Retain the present estate, with the exception of three head leases expiring over the next few years; (these head leases relate to a total of 13 units in Hinckley, Blaby and Wigston). This will sustain the generation of surpluses.
- Progressive shift of emphasis from the production to service sector.
- Progress the current proposals for Loughborough Technology Centre Phase II (for which a bid to Emda, for £0.75m of Government funding, is currently being considered).
- Investigate possible investment in office/craft facilities at three identified County Farms sites.
- Investigate the potential of joint schemes with District Councils at Shepshed and Hinckley.
- A variety of developments on the existing estates at Ashby, Coalville and Measham.

Trade Unions

The first two stages of the agreed consultation procedure for Best Value Reviews have been completed with the Trade Union.

Further consultation will be required if options affecting staff, such as externalising or terminating a service, are being seriously considered.

This would be done, if appropriate, prior to the final report.

District Councils

Five of the Districts responded. The views of the respondents are summarised below;

Charnwood Borough Council

- The County Council has a key role to play in the provision, especially of smaller units, which the private sector does not

address. The workspace management of larger, unused premises is important.

- The Council requests priority in view of comparatively high levels of unemployment in the District.
- The Council favours jointly funded developments with the County Council and private sector, making best use of Government funding.
- The Council can provide local market information, specifically in relation to need.
- The current Aims and Objectives of the IPTA remain appropriate, but District-by-District provision should be reviewed.
- A good working relationship has been established, with the County's Property Department.

Melton Borough Council

Melton's views are that there is a need for small starter units in Melton and that any proposals the County Council had would be most welcome.

Hinckley & Bosworth Borough Council

Hinckley felt that the Borough benefited from the County Council's portfolio in the district, as they were complementing Hinckley's smaller units, providing a 'next step' for growing businesses.

They also felt that tenants benefit from the support given by Local Authority landlords.

They have asked that further development be considered, particularly as joint developments between Borough and County.

Blaby District Council

Blaby believe the IPTA portfolio provides an important resource for the development of the County's economy, especially for new and growing businesses.

They see the balance between financial risk/return and the aims of economic development, as being critical.

Harborough District Council

The approach (i.e. of the Best Value Review) appears to be robust and appropriate.

Business Link

This organisation's views were that;

- The IPTA portfolio is a very important facility for people considering starting a small business.
- Such premises enable young companies to look more professional to customers.
- Demand is proven in terms of referrals and occupancy levels.
- More small (50m²) office units for services businesses should be considered.

Leicestershire Development Agency

The Agency believes the County Council has an important role, as a provider, in areas and circumstances where the market does not provide well. These include;

- Smaller units for start-ups (considered less attractive by the commercial sector).
- Opportunities for business of unproven covenant.
- More flexible lease terms than the commercial sector would accept. These are very helpful to growing businesses.
- Areas of high unemployment or industrial decline. The LDA feel attracting inward investment is easier if there are some good quality existing units in an area.

East Midlands Development Agency

EMDA stressed;

- Assessment of future areas of need, in the context of Regional Economic Strategy.
- The need to consider the impact of the County's portfolio on the private sector's willingness to invest.
- 'Priority Sites' (joint venture between English Partnership and the Royal Bank of Scotland) can provide group funding support for certain developments, in areas of need.

THE LEICESTERSHIRE ECONOMY

Background

Manufacturing has declined over recent years to its present level of 29% of GDP. This trend is expected to continue over the next ten years.

Productivity levels for manufacturing industry in the County stand at 88% of the national average, and are the lowest in the region.

Economic Growth

Over the past decade, Leicestershire's average annual growth rate of 2.9% p.a. has been above the regional level (2.5%) and national level (2%), as the county's service sector has grown rapidly.

Population

Forecast growth for the Leicestershire Districts, over the next ten years, is as follows;

	2001	2011	%
Blaby	88300	92300	4.5%
Charnwood	159200	164600	3.4%
Harborough	77100	83700	8.6%
Hinckley & Bosworth	99500	103500	4.0%
Melton	47200	48800	3.4%
North West Leics	85600	87800	2.6%
Oadby & Wigston	53900	51500	-4.5%
	612801	634211	

Source: Structure Plan LCC

Unemployment (October 2000 figures)

Unemployment in Leicestershire is 2.0% (5,730 people) compared to the regional average of 3.2% and the U.K. average of 3.5%. Wage levels of those in work remain below the U.K. average, a legacy of the low-pay textile industry.

Unemployment varies, by district, as follows;

Blaby	1.6%
Charnwood	2.6%
Harborough	1.2%
Hinckley & Bosworth	2.0%
Melton	1.4%
North West Leics	2.2%
Oadby & Wigston	2.2%

Within some of the Districts there are wards, where unemployment is well above the average. The wards above 5% are:-

Loughborough, Hastings	9.7%	<u>N</u> (182)	
Loughborough, Lemyngton	7.2%	(135)	
Loughborough, Woodthorpe	8.6%	(141)	
N.W. Leics, Greenhill	6.3%	(139)	

This compares with a total number of notified vacancies of around 8,600, and unfilled vacancies of 5,900. (Totals for Leicestershire, Leicester & Rutland).

For comparison, the figure for Leicester City is 6.1% and for Rutland 0.7%.

Unfilled vacancies are particularly high in the distribution, hotels/restaurants and financial services sector (total 61% of all unfilled vacancies), indicating some unfilled growth potential. In terms of occupation, clerical/secretarial and personnel/protective services are the main occupations affected.

Business Start-Ups

Business formation rates have dropped since their peak in the 1980s but have shown an upward trend since 1995. However, Leicestershire's rates appear to be lagging behind regional and national rates.

According to a DTI survey, start-up business survival rates in Leicestershire are the second lowest in the region.

Summary

Business Strategies Ltd (1999) report forecasted that GDP growth will slow in Leicestershire, and that the future of the County's economy is dependent on an "accelerated support programme" for small businesses.

There will be some limitations placed on this, in the short-term, by relatively low levels of unemployment and unfulfilled demand for labour in the County.

SUPPLY AND DEMAND FOR UNITS

Before options can be considered in detail, some assessment of supply and demand for units needs to be made. The information to date on this is preliminary, at this stage;

Demand

1. IPTA Portfolio;

- High occupancy rates/low voids, demonstrate current demand.
- 72 enquiries received over the last quarter of 2000. Two thirds were for units of less than 200m². The majority were for industrial units.
- Demand profile shows where the enquiries were for;

Blaby	17%*
Charnwood	4%
Harborough	0
Hinckley & Bosworth	1%
Melton	1%
North West Leics	64%
Oadby & Wigston	0
Any	5%
(Land & Offices	8%)

(Non-specific office accommodation was only requested in North West Leics)

*The IPTA were advertising vacant units in Blaby, during this period.

- And where the enquiries were from;

Blaby	8%
Charnwood	10%
Harborough	0
Hinckley & Bosworth	7%
Melton	0
North West Leics	32%
Oadby & Wigston	0
City	8%
(Unknown	10%)

(25% of enquiries came from outside the County; around half of these from the East Midlands)

2. East Midlands Development Agency;

EMDA received 85 enquiries over the past eight months, directed into Nottinghamshire and Leicestershire (44). These are primarily from overseas companies (84%), and would mostly appear to be for larger units, with business park location preferred. North West Leicestershire attracted over

50% of the referrals, as 'most suitable'. Melton, Harborough and Charnwood were least referred.

3. Leicestershire Development Agency (LDA);

The LDA received 540 enquiries for premises between August 1999 and August 2000. Around a third were for industrial premises, 12% for land and half for office accommodation (though some of these may have been 'in combination' with factory units).

70% of these enquiries were from within the UK (of which two thirds were from the East Midlands).

41% of industrial enquiries and 84% of office requirements were for small premises.

The origin of the enquiries from within the County were highest from the City (27%) and Blaby (18%), with the lowest demand from Melton (3%), Harborough (7%) and Oadby and Wigston (7%).

4. Districts;

Only two of the seven Authorities have an enquiry monitoring system; Blaby and Charnwood.

Blaby recorded 65 enquiries, in the past twelve months, mainly for premises under 250m². Half for industrial and 20% for offices.

Charnwood received approximately 200 enquiries per year, but this is falling as commercial operators become aware of the lack of land and premises.

Harborough estimate that they receive 120 enquiries per year, the majority generated from within the borough.

Hinckley and Bosworth receive around 200 enquiries per year, 75% from within the borough. Almost all are industrial. Managed workspace is in demand, with existing provision well occupied.

Melton receives around 120 enquiries per year, with the demand being for starter and small units.

Oadby and Wigston estimate that they receive around 20 enquiries per year.

North West Leicestershire have a 'Property Pilot System' and pass a significant number of enquiries to the County Council.

5. Consultees;

The stakeholders consulted, generally feel that more smaller units are needed. Specific demands are noted for;

- Units in rural areas.

- Greater emphasis on small offices.
- New units in Hinckley, Charnwood and Melton Districts.
- Willingness to lease to new businesses of unproven covenant.
- Short/flexible lease terms.

6. Business Strategies Ltd

Their study (1999) identifies an unfulfilled demand for good quality office premises and the need for more business incubators, and also identifies a shortage of industrial land.

7. Chestertons

There are areas of unsatisfied demand outside the North West of the County which have been identified, particularly in Charnwood, Melton, Harborough and Hinckley & Bosworth. There are lower levels of demand for smaller units in Oadby & Wigston and Blaby.

Generally, there is a demand for more flexible units which could lend themselves to uses other than light industrial, such as office and storage.

There is some demand for niche starter units in rural areas.

Supply

The picture on availability of small units comes from two main sources;

1. Chestertons;

- (a) There are a number of areas where the private sector offers similar units to those operated by the County Council (though these are mainly for sale). However, there are significant areas where the private sector does not provide. Examples are workshops/workplace/compounds in Coalville, small units in Measham and Shepshed, and the Tech Centre in Loughborough.
- (b) In the areas where the private sector offers units, the lease terms are less flexible, and preference will be given to firms of proven covenant/security.
- (c) Four key regional developers, Davies, Sturgiss/Shattock/Sowden, Wilson Bowden and Simons were consulted. All of them are concentrating on larger units, as smaller units are less commercially viable for them because of scale diseconomies and the financial strength of tenants. Their perception is that this is a role for the public sector.
- (d) There is a shortfall of private sector supply in Harborough.

2. Leicestershire Industrial Property Bulletin;

Sample analyses for 2000, showed private sector availability of small units (under 230m²), by district, as follows;

	<u>Apr</u>	<u>Dec</u>
Blaby	16	14
Charnwood	14	16
Harborough	11	5

Hinckley & Bosworth	30	10
Melton	6	8
North West Leics	4	3
Oadby & Wigston	8	9

These numbers are relatively small in relation to total stocks.

Land Availability;

There is an anticipated shortfall in the availability of land for industrial/commercial use in certain parts of the County, particularly Charnwood. This will place limitations on the future supply of units, unless the Borough Council addresses this issue in the Local Plan.

Harborough report that land, allocated for employment in the Local Plan, is in private sector hands, but is not being developed, despite the lack of starter units in the district. The IPTA manager has been in discussion with these developers to take head leases to facilitate development, but none were willing to commit to this.

GOEM;

The most recent figures (1994) for the total stock of warehouse and workshop space in Leicestershire are;

	<u>No.</u>	<u>000m²</u>
Blaby	360	330
Charnwood	1100	523
Harborough	460	504
Hinckley & Bosworth	730	287
Melton	370	151
North West Leics	720	373
Oadby & Wigston	230	104

IPTA;

The IPTA portfolio of units has a turnover of occupants of around 22% per annum, and therefore provides a continuing supply of premises for small businesses.

THE COUNTY'S ECONOMIC POLICIES AND STRATEGIES

Background

The framework for the options analysis is provided by relevant statutory powers/duties, the Best Value Performance Plan, the report of the Economic Development Review Panel and the Structure Plan. The key issues relating to these are as follows;

Statutory Powers/Duties; Local Government Act

- The promotion/improvement of economic wellbeing of the County.
- The promotion/improvement of social wellbeing of the County.
- The promotion/improvement of the environmental wellbeing of the County.

Best Value Performance Plan

- To improve the economic performance of Leicestershire and the East Midlands.
- To promote conditions in which businesses can operate competitively and prosper, and which will attract new businesses to the County.
- To work co-operatively with the LDA and District Councils, to identify and respond to local economic needs.
- To support small businesses by co-operating with others to provide start-up accommodation.

Economic Development Review Panel Report

To be the leading partner in the constant search for improvement in Leicestershire's economic performance. The targeted measures, agreed to implement the report, include;

- Helping to promote a sustainable environment, through economic growth and regeneration.
- Helping to regenerate urban and rural communities suffering from deprivation and disadvantage.
- Promoting Leicestershire as a location for business investment.

- Improving premises, sites and infrastructure, both alone and with others, to support investment.

Structure Plan;

The main relevant provisions are;

- Concentration of development in urban areas. Rural developments to be small scale.
- 160 ha. allocated for strategic employment sites.

Blaby	25 ha.
Charnwood	50 ha.
Harborough	25 ha.
Hinckley & Bosworth	45 ha.
Oadby & Wigston	15 ha.

- A hierarchy of science and technology parks to be provided, including small incubator facilities close to research institutions, and small units for existing high tech small enterprises.
- Support for rural economy through new development or re-use of existing buildings.

Economic Development Strategy

This document is currently being considered by Members. It proposes;

- A 10 year framework for directing intervention by key agencies
- A 5% per annum increase in business start-ups, creating 1,700 new enterprises
- A Seedcorn Fund to support technology-based business start-ups
- The provision of small incubator units to meet start-up needs
- Further start-ups and spin-off business from the three Universities

Chestertons View;

- That the strategy of providing small-size units with flexible leasing arrangements to new businesses, or those of low covenant strength, has been a success in generating new businesses.
- That the majority of the portfolio is addressing the policy objectives, and offering best value, in terms of servicing the demand for industrial properties, on flexible terms that could not be offered by the private sector.

OPTIONS FOR THE FUTURE

Main Conclusions

From the preceding sections, clear conclusions can be drawn;

1. The Authority has a new duty and a policy to promote economic wellbeing.
2. The IPTA's work is successful in supporting these aims, particularly in the supply of small units, to start-up and growing firms of unproven covenant, on flexible lease terms.
3. It is one of the Authority's targeted economic development measures to "improve premises, site and infrastructures, both alone and with others". Market intervention, including the provision of units, is required by the proposed Economic Strategy.
4. The future economic growth of the County will be heavily dependent on the establishment and growth of small businesses.
5. There is a significant potential demand for lease premises in the County. The private sector market place does not meet all the needs for premises for new businesses starting, either by area or type of tenancy offered. Furthermore, it is normally unwilling to take the risk on new businesses.
6. There is clear support, from all the groups consulted, for the Authority to be active in the market place for premises for small businesses, where possible, in partnership with other bodies.
7. The performance of the portfolio and its management compares reasonably well with the private sector and other Local Authorities. This is supported by the survey of tenants.

This provides the framework for the option appraisal. This framework is unlikely to change significantly unless there are major national or countywide economic changes.

Strategic Options

1. To be a provider of units (as at present), in partnership with other public/private sector organisations, leveraging in grant support, where appropriate, in parts of the County where there is demand but lack of private sector provision.
2. To be a supporter/incentiviser/facilitator of small business start-ups/growth, via grants/subsidies/guarantees, within the context of the private sector market place.
3. A combination of 1 and 2.
4. To take no action at all in the market place.

***OPTION 1 IS RECOMMENDED**

1. The Main Conclusions 1-7 above appear to rule out Option 4.
2. The County Council has had a number of financial assistance schemes for industry in the past, but these were judged to have had very limited impact. This appears to rule out Options 2 & 3.
3. Chestertons feel that, whilst there is a possibility for option 2 activities, in conjunction with provision, this is unlikely to stimulate the private sector to provide small starter units in those areas in which they are currently unwilling to supply.

Note;

The types and exact size of units to be developed (manufacturing units, offices, managed workspace, craft units, storage/depots, etc. will be whatever is appropriate to the areas selected).

Management Options

If the strategic option selected involves the provision of units (options 1 or 3), there will be a requirement for portfolio management. The basic options are;

		Pros	Cons
1.	In House	<ul style="list-style-type: none">• No requirement to 'educate'/oversee new agents.• No cost benefit in outsourcing.• More focus on development aims & support for tenants.• Currently working effectively.• More encouragement/support for tenants to move on.	<ul style="list-style-type: none">• Less innovation?• Less likely to maximise financial performance.
2.	Out Source	<ul style="list-style-type: none">• More innovation?• More scope to relate costs to performance?	<ul style="list-style-type: none">• Costs of data transfer, 'education'/support, overseeing performance.• Less support for tenants.• Possible redundancies of staff.• Less likely to encourage/enable tenants to move on.

OPTION 1 IS RECOMMENDED

The performance and costs of the in-house service are comparable with the private sector, and the in-house service is likely to be more focussed on the economic development and tenant support objectives. There seems to be little reason to incur the costs and burden of tendering.

Note;

Chesterton have concluded that there is little cost benefit in outsourcing the service, unless the sale of a significant part of the portfolio makes the in-house service 'non-viable', due to diseconomies of scale.

Portfolio Options

		Pros	Cons
1.	Rapid Growth	<ul style="list-style-type: none"> • Greater impact on local economy. • Scale efficiencies for management. 	<ul style="list-style-type: none"> • Depends on scarce capital programme resources. • May be diminishing social and economic returns on investment.
2.	Status Quo (including 'organic growth')	<ul style="list-style-type: none"> • 'Visible presence' for LCC. • Cash flows to finance further support/investment. • Continuing supply of units for new businesses through tenant turnover and new investment. • Successful track record in meeting Economic Objectives. 	<ul style="list-style-type: none"> • Capital 'tied up'. • Cash flows fall in recession. • Dilapidations liabilities.
3.	Partial Sale	<ul style="list-style-type: none"> • Releases capital for investment. • Reduces admin costs. 	<ul style="list-style-type: none"> • Reducing income stream. • Difficult/unsaleable properties retained. • Some businesses may fail with private landlords taking more 'commercial' approach on lease terms. • Loss of units for lease, if purchaser sells freeholds.
4.	Sale of Whole (possibly to organisation with similar aims)	<ul style="list-style-type: none"> • Releases capital. • Eliminates admin costs. 	<ul style="list-style-type: none"> • No future income stream. • Some businesses may fail with private landlords taking more 'commercial' approach on lease terms. • Loss of units for lease, if purchaser sells freeholds. • Some estates may require payment to buyer, for disposal.
5.	'Partnering' (The sale of revenues for a period, in return for a capital sum) - subject to capital controls	<ul style="list-style-type: none"> • Capital receipt (but low). • LCC retain ownership. • Reduced management for LCC. 	<ul style="list-style-type: none"> • Loss of income. • Assets unsuitable for this purpose. • Businesses may fail in private sector. • Loss of LCC expertise.

OPTION 2 IS RECOMMENDED

However, good sales opportunities should be considered, where re-investment is needed.

This recommendation is consistent with the strategic option recommended and main conclusions 2 and 7 above.

Note;

Chesterton do not recommend a particular option, though they advise against 4 and 5. they feel there is little scope to improve the performance of the present portfolio.

AM/jrnc/IndusProps16.07.01/rpts

Financing Options

The question of how much of the Council's resources should be invested in the industrial properties trading account and how much should be invested elsewhere is a question for Members to answer. In recent years the size of the surplus on the trading account has been used as a guide, with the bulk of the surplus (plus disposal receipts) being retained by the service to finance investment in the estate. However, as noted earlier in this report, once the trading account is brought into compliance with the Best Value Accounting Code of Practice (from 2000/01), this will considerably reduce the size of the surplus (though it will not affect cash flows to or from the Authority). So if, in future years, the surplus on the trading account continues to be used as a guide to the amount to be invested in the estate, this would result in a significant cut-back in investment as compared with recent years.

Notwithstanding the new accounting conventions, Members do retain discretion over the method of calculation of the surplus available for reinvestment in the estate. There appear to be three main options. These are shown below, with some explanation of their main financial implications.

Option	Financial Implication
1. Reduce available finance to capital receipts (less notional debt on development land) plus surplus, after full capital charges. (The new accounting convention).	1. The service would not represent an opportunity cost to the Council. 2. Significant cut-back in future investment in the estate (to about £125,000 p.a. based on 1999/00 figures); but cash generated would be available corporately for spending on other Council priorities.
2. Status quo: maintain available finance at capital receipts (less notional debt on development land) plus revenue surplus before capital charges, less loan interest and repayments.	1. Despite generating cash, the service would be a cost to the Council, because the opportunity cost of the capital would be borne corporately. 2. Available finance would be maintained at historical level (about £207,000 p.a. based on 1999/00 figures). 3. Would have a neutral impact on cash flows (all surplus cash generated – after interest and loan repayment – would be used by the service) and be consistent with our revenue budget accounting.

<p>3. Everything over a target surplus after capital charges to be retained for reinvestment in the service. Apart from this, the surplus before capital charges, and any capital receipts, to be transferred to corporate capital resources, leaving industrial properties to bid for available funds against other services.</p>	<p>1. It would retain an incentive to maximise the surplus on the trading account.</p> <p>2. Apart from this incentive, funds for capital investment would be allocated to the service in the same way that funds are allocated for other capital works, on the basis of corporate criteria.</p> <p>3. There would be greater uncertainty over future capital funding levels for the estate.</p> <p>4. The service would be a cost to the Council only if the level of capital funding allocated was greater than the trading account surplus after capital charges plus disposal receipts.</p>
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Recommendations

- 1 That, in future, the Annual IPTA Report to members will present accounts in accordance with the new Best Value Accounting Code of Practice. This will allow the IPTA's operating margin (excluding interest charges) to be compared with the notional 6% return on asset value.
- 2
 - (a) The annual report will also show the surplus as per option 2 above, because this method is most closely aligned with the real cash/revenue position of the Authority.
 - (b) In deciding the use of IPTA surpluses members will give first consideration to the short and medium term options/plans for the Industrial Estate. These will, however, also be considered in the context of the overall priorities and resources available for the Council's capital programme.

ACTION PLAN

The following actions are proposed.

<u>No.</u>	<u>Action</u>	<u>Date</u>
1.	The portfolio will continue to be managed in a way which enhances corporate economic policies and objectives.	<i>Ongoing</i>
2.	<p>In terms of future investments, the main considerations will be to provide units where;</p> <ul style="list-style-type: none"> ◆ We are likely to have the greatest impact on economic wellbeing. ◆ Industrial decline/unemployment is greatest. ◆ Supply is weak, relative to demand. (Research, by Property/P&T, will need to be ongoing to inform). ◆ Co-operation and support from the District Council is good. ◆ Location of high-tech firms close to research centres is appropriate. ◆ Opportunities are available to lever in external funding, from public sources or through private sector involvement. 	<i>Ongoing</i>
3.	A systematic, estate-by-estate review will be done for the portfolio, and actions recommended for each one. (This may include giving up those sites with negative equity, when their head leases expire).	<i>6 months</i>
4.	Identify projects for investments which will bring benefit to rural areas, in line with the Rural Strategy for regeneration.	<i>12 months</i>
5.	All proposals for disposal or investment will be the subject of reports to Cabinet.	<i>Ongoing</i>
6.	<p>Short-term investment options will be the subject of future reports to Cabinet. These will include;</p> <ul style="list-style-type: none"> ◆ Earl Shilton – 2 units to complete the estate. ◆ Sutton-in-the-Elms Farm – conversion of farm buildings for office/light industrial use. 	<i>6 months</i>
7.	<p>Additional performance indicators and targets to those currently in operation, to be developed to cover;</p> <ul style="list-style-type: none"> ◆ Maintenance response time. 	<i>6 months</i>

	<ul style="list-style-type: none"> ◆ Costs of managing the service. ◆ Loss of rent for void periods. ◆ Planned maintenance spend. ◆ Asset performance (to include the new DLTR performance indicators). <p>These are consistent with Chestertons recommendations, and would be covered in the Annual IPTA Report.</p>	
8.	<p>Improvements to be sought in IT, to support the management of the portfolio. These would include the systems necessary to measure performance against the performance indicators, and a review of the Skyline (commercial property management) system. (These proposals would be subject to IT resource availability. The Skyline review is part of the Department's 5 year IT plan). The move to more integrated systems, recommended by Chestertons, is also part of the Department's 5 year IT plan.</p>	<i>6 months</i>

Recommendation

That the Action Plan be approved.

APPENDIX A

INDUSTRIAL PROPERTIES REVIEW

TERMS OF REFERENCE

A TOPIC

To review the strategy and performance of the Industrial Estate and make recommendations for its future direction and management.

Scope of Study;

The Industrial Property Estate
The in house management function

B BUDGET PROVISION

Industrial Properties Trading Account
Expected surplus 2000/01 - £175,000
Made up of: Income - £1,565,500
Expenditure - £1,390,500

C COMPARATIVE STATISTICS OR DATA

None statutorily required in Best Value Performance Plan.
Local indicators reported each year in the Annual Report.
DETR are currently consulting on Performance Indicators for Asset Management Plans.
Benchmarking exercise with ACES underway.

D KEY ISSUES

Key Issues	Challenge	Compare	Consult	Compete
1. Is there still a need for the County Council to provide an Industrial Properties Estate? <ul style="list-style-type: none">• What are the benefits for users, the wider community, the County Council?• What is achieved by the County Council involvement which could not be achieved by leaving provision to the market place?	✓ ✓ ✓			

Key Issues	Challenge	Compare	Consult	Compete
2. What contribution does the service make to the achievement of the County Council's economic development policies and other corporate objectives? Could this contribution be made more effectively in other ways?	✓			
3. If there is still a need for County Council involvement in making industrial properties available, what should the strategy and objectives be?	✓			
• What are the implications of Structure Plan and regional strategies?	✓			
• What are the strengths and weaknesses in the local economy and forecasts of likely demand in type and volume of provision in the next 5(10) years?	✓			
• To what extent does current provision meet these objectives?	✓			
• Is current provision focussed on the right type and/or size unit, area of the County, type of tenant?	✓			
• Are there opportunities for rationalising existing provision and/or reinvesting in other provision to meet these objectives?	✓			
• Are services provided by other local authorities which might be appropriate in Leicestershire?	✓	✓		
• How will any County Council provision fit in with other local authorities and providers in Leicestershire?	✓		✓	
4. How does the performance of our Industrial Properties Account compare with other local authorities and other providers? What are the reasons for any differences?	✓	✓		
• Does the trading account cover all the costs associated with the service?	✓	✓		

Key Issues	Challenge	Compare	Consult	Compete
<ul style="list-style-type: none"> • How do our management costs compare with other local authorities and providers? • What is the value of the assets and the return on capital employed compared to others? • What is our approach to leases/rents compared to others? • What Performance Indicators and targets are used to assess the effectiveness and quality of the service? How does our performance compare against them? • Are these indicators and targets still appropriate? Should others be developed as measures of the success of the service? What are the implications of Government proposals on asset management planning for indicators and targets? <p>5. What do current tenants think of the service? What are the views of employees and other stakeholders?</p> <p>6. Would externalisation of the whole estate achieve better value for money and/or better meet the service objectives?</p> <p>7. Would externalisation of the Estate management achieve better value for money and/or better meet service objectives?</p> <p>8. What options are available for financing the development of the estate?</p> <p>9. What could potential alternative providers offer?</p> <p>10. Are there opportunities for partnership with other providers?</p>	<p>✓</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>	<p>✓</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>

E TIMETABLE

1. Suggested start date – May 2000.
2. Suggested finish date – March 2001.
3. Key timetabling factors – first draft report December 2000, to allow consideration as part of budget process.

F EXTERNAL INVOLVEMENT

Consultants to be appointed to advise upon the management service provided in-house, to advise on improvements, cost-effectiveness and to provide private sector information on the economic performance of comparable industrial portfolios.

Comparison public/private sector (benchmarking)

Consultation with Tenants, District Councils, EMDA, Chamber of Commerce, Planning & Transportation, Employees and Unions.

G REVIEW METHODOLOGY

The review will be carried out in accordance with the County Council's guidance on the conduct of reviews and guidance on communication and consultation with employees and trade unions on best value and competition.

The officer group will include Director of Property and relevant staff plus 1-2 Members of staff from Planning and Transportation and input of external consultant.

APPENDIX B

INDUSTRIAL PROPERTIES – BEST VALUE REVIEW

POSITION AUDIT – JUNE 2000

1. Relevant Statutory Powers and Duties

The Provision of industrial units is discretionary at the present time rather than statutory.

The Local Government Bill, which was introduced to the House of Lords on 25th November 1999, includes the ability for Local Authorities to promote economic well being. The Bill was passed to the House of Commons on 13th March and received its Second Reading on 11th April. Committee stage began on 2nd May.

Promotion of well-being.

- (1) Every local authority is to have power to do anything which they consider is likely to achieve any one or more of the following objects-
 - (a) the promotion or improvement of the economic well-being of their area;
 - (b) the promotion or improvement of the social well-being of their area, and
 - (c) the promotion, or improvement of the environmental well being of their area.
- (2) The power under subsection (1) may be exercised in relation to, or for the benefit of:-
 - (a) the whole or any part of a local authority's area, or
 - (b) all or any persons resident or present in a local authority's area.
- (3) In determining whether or how to exercise the power under subsection (1), a local authority must have regard to the effect, which the proposed exercise of the power would have on the achievement of sustainable development in the United Kingdom.
- (4) The power under subsection (1) includes power for a local authority to-
 - (a) incur expenditure;
 - (b) give financial assistance to any person;
 - (c) enter into arrangements or agreements with any person;
 - (d) co-operate with, or facilitate or co-ordinate the activities of, any person;
 - (e) exercise on behalf of any person any functions of that person; and
 - (f) provide staff, goods, services or accommodation to any person.

- (5) The power under subsection (1) includes power for a local authority to do anything in relation to, or for the benefit of, any person or area situated outside their area if they consider that it is likely to achieve any one or more of the objects in that subsection.

2. Current Policy Framework

The provision of the industrial units falls within 'the improving economic well-being' aim of the County Council, i.e. the County's goal is to support and contribute to continuing improvement in Leicestershire's economic performance and it is believed this is best achieved through co-operation with other organisations. (County Council's Best Value Performance Plan 2000/01)

The County Council's key priorities are to:-

- (a) Improve the economic performance of Leicestershire and the East Midlands.
- (b) Enable individuals, local communities and businesses to contribute to their own economic well being
- (c) Promote conditions in which Leicestershire's businesses can operate competitively and prosper and which will attract new business to the County.
- (d) Enhance employability of people in Leicestershire
- (e) Improve access to jobs and services.

In addition, the County Council recognises that real progress can only be maintained if it establishes partnerships with other agencies and organisations. The Leicester Shire Development Agency has an important role to play as do the District and Borough Councils. The County Council will work positively with them and with the business community to identify and address needs.

The County Council plans to work increasingly in co-operation and partnership with other organisations in using its limited resources effectively. It proposes to do this by:-

- (a) Working more closely with business organisations and the business community
- (b) Lobbying the East Midlands Development Agency on local economic needs and opportunities and working closely with the Agency in pursuing these interests.
- (c) Collaborating with Borough and District Councils in Leicestershire and with community and voluntary organisations in identifying and responding to local economic needs.

The County Council will support small business development by co-operating with others to provide start up accommodation and support where this is needed.

Included within the County's development of transport policy and the transport infrastructure will be the provision of effective access to employment areas and industrial sites.

During 2000/01 the County Council intends to specifically:-

Work with enterprise partners through the Leicestershire Economic Strategy, in facilitating business groups who will identify sector initiatives for example in food and drink, high technology and textiles and clothing.

Build upon the work of the Community profiles and develop an approach to regeneration and economic well being, which enables the needs and opportunities of the rural areas, market towns, fringe settlements around Leicester, as well as the former Coalfield areas, to be more easily compared and responses prioritised.

Explore with Borough and District Councils and local communities, specific opportunities to promote economic well being in the market towns and communities around Leicester.

The County Council has approved the Report of the Economic Development Review Panel. The Mission Statement adopted by the County Council to describe its role in economic development is as follows:-

"To be a leading partner in a constant search for improvement in Leicestershire's economic performance, recognising that improvement is most positively achieved in co-operation with all relevant agencies and organisations and further recognising the inextricable link between economic performance and social well being".

The targeted measures to implement the Report are as follows:-

- (a) promoting with others Leicestershire as a location for business investment and tourism;
- (b) working with other agencies in providing business support, strengthening and diversifying local business and encouraging innovation;
- (c) improving premises, sites and infrastructure both alone and with others to support investment;
- (d) helping to promote a sustainable environment through economic growth and regeneration;
- (e) identifying and developing education and workforce skills with others to improve employment potential;
- (f) helping to regenerate urban and rural communities suffering from deprivation and disadvantage;

- (g) regularly updating economic information and intelligence to maintain an understanding of current local economic needs;
- (h) Co-ordinating the use of Information Technology in relation to the functions listed as a-g above.

The Cabinet on 6th June, 2000 approved its Economic Development Programme for 2000/01, the main themes of which are set out below: -

- (a) Improving economic performance.
- (b) Creating a climate of Business Investment.
- (c) Enhancing Employability.
- (d) Enabling Communities to contribute to their Economic Wellbeing.

3. Current Aims and Objectives

The current aims and objectives of the Industrial Trading Account are as follows (as adopted by the ED & E Committee on 12th December, 1990):-

- (a) To provide modern and refurbished units of a high standard throughout the County, particularly in those areas experiencing economic decline.
- (b) To let premises to new and expanding businesses of unproven covenant.
- (c) To let premises on medium term flexible leases with early surrender provisions.
- (d) To contribute to the fitting out costs of County Council lessees.
- (e) To provide serviced industrial land for development on a variety of tenures.
- (f) To actively and efficiently manage the County Council's industrial land and buildings.
- (g) To pursue an active policy on bad debts, i.e. to use all means at the County Council's disposal to obtain rental monies owed.
- (h) To achieve the maximum rental consistent with the prevailing market climate.
- (i) To pursue an active policy of development and rationalisation of the Estate.
- (j) To secure an appropriate of return on assets and generate a revenue surplus in order to fund minor works in the development of the Estate.

4. Key Stakeholders

Tenants and employees, other Authorities and partners, LCC employees, Leicestershire Tec, Business Link, EMDA, Leicester Shire Development Agency and the Chamber of Commerce.

Individuals and Groups for whom the Service provides benefits

The provision of industrial, workspace units and offices by the Industrial Properties Trading Account (IPTA) makes accommodation available for trading organisations ranging from sole traders to large Companies and their employees, and also for new and small businesses.

5. Description of the Service's Organisation and Key Processes

The IPTA comprises 232 units throughout the County as follows: -

	<u>Units</u>	<u>Square metres</u>
Blaby	13	3480
Charnwood	46	3801
Harborough	14	2207
Hinckley & Bosworth		23
7393		
Melton	0	0
North West Leicestershire		135
20566		
Oadby & Wigston	1	449
Total	—	232 units, compounds and

depots.

Plus a share in the rents received at the Ark at Burder Street, Loughborough (Managed Workspace and Offices).

The total floor space of the units is 37,896 square metres. This gives an average unit floor area of 154 square metres.

There are an estimated 1,850 full time and 280 part time employees working within premises held by the Trading Account.

The Estate is managed in-house by the Valuation Section. This involves the input of 1 full time Surveyor and part of the time of 4 other Surveyors. Repair work is organised by 2 Technical Staff who also deal with the maintenance of all other properties held within the Resources Accounts. This equates to 2 full time posts in total.

The management of the Portfolio comprises the granting and taking of Leases, Licences, easements, wayleaves, acquiring and disposing of interests in land, developing new units etc, seeking grant monies and partnership arrangements and the repair and maintenance of the portfolio.

The majority of the tenants are effectively on full repairing and insuring leases ie the County Council are responsible for external decoration but are able to recharge the Lessees as part of the Service Charge.

6. Partnerships

Partnerships have been entered into with English Partnerships (A Government Body established to stimulate regeneration, and now part of GOEM) at Huntingdon Court and Stephenson Court Phases II, The Rural Development Commission at Huntingdon Court Phase I and Stephenson Court Phase I, and Charnwood Borough Council in respect of the Ark Burder Street, Loughborough.

7. Service Budget

The figures for 1999/2000 are still being finalised but in 1998/1999 the Trading Account received a rental income of £1.413m and made a rental surplus after deduction of debt charges, head rents and other outgoings etc. of £317,858. Details of the final accounts for 1998/1999 are set out below: -

Industrial Properties Trading Account 1998/1999

<u>Income</u>	£
Rents	1,413,359 Cr
Service Charges	62,597 Cr
Management, Surveyors' & Legal Fees	111,647 Cr
Contribution to Insurance Premium	42,678 Cr
	<hr/>
TOTAL INCOME	1,630,281 Cr
	<hr/>
<u>Expenditure</u>	
Head Rents	617,003
Repairs and Maintenance	146,758
Advertising	2,773
Services	34,110
Management & Surveyors' Costs	127,301
Grant Repayments & Fees	13,013
Insurance	42,184
Central Support Costs	64,830
Debt Charges	263,089
Other Expenditure	1,362
	<hr/>
TOTAL EXPENDITURE	1,312,423
	<hr/>
SURPLUS FOR 1998/99	317,858 Cr
Balance Brought Forward	24,477 Cr
From 1997/98	
Withdrawal from Reserves	75,000
Net Balance Carried Forward to 1999/00	267,335 Cr
	<hr/>

8. Recent Performance compared with Targets

The Trading Account is monitored by Performance Indicators, which were agreed by Economic Development and Planning Sub-Committee on 23rd October, 1997, as follows. (The information relating to the last three years is provided beneath each Indicator): -

- (a) To update the capital value of the Estate.

1997/1998	£6,162,000
1998/1999	£6,675,000
1999/2000	An independent valuation as at 1st April 2000 is being commissioned

- (b) To increase rental income to the portfolio, year on year subject to adjustments within the portfolio.

1997/1998	£1,302,000
1998/1999	£1,413,359
1999/2000	The Accounts have not yet been finalised.

- (c) To seek to gradually increase rental surplus after deducting debt charges, head rents and other necessary outgoings and before the funding of capital projects and works of improvement.

1997/98	£214,838
1998/99	£317,858
1999/2000	The Accounts have not yet been finalised.

- (e) To keep voids below 10% of the floor area and bad debts below 10% of the income received. It is proposed for 1999/00 to reduce the void and bad debt target to 5% for the financial year and that this is to be reviewed annually in the light of market conditions.

<u>Voids</u>		<u>Bad Debts</u>
1997/98	4.0%	Less than 1%
1998/99	4.2%	Less than 1%
1999/2000	6.3%	Less than 1%

There is currently no information available from other Local Authorities, but the County Council is part of a ACES Industrial Properties Benchmarking Survey which is setting targets and performance indicators against which the County Council's management of the Trading Account etc., can be benchmarked. This would form part of the investigatory phase of the Review. The performance of the Account has been consistent in recent years with the rental income and surplus increasing. Expenditure on repairs and maintenance has also been consistent, i.e. £136,641 in 1997/98 and £146,758 in 1998/99. The estimate for 1999/2000 is £210,000, which reflects increased investment in the portfolio by renewing the roof at the Technology Centre and work on clearing a site following its occupation by Travellers.

9. ICT

The staff managing the Portfolio are able to make use of the following: -

PC grids/Map Info – A corporate Geographical Information system.

FIS - Corporate Financial system.

Skyline - Corporate property management system for commercial properties

LAMP - Project management/job costing accounting system.

The Industrial Property Bulletin - which advertises details of vacant properties within the Portfolio. The bulletin is distributed by post, from a mailing list and from general enquiries for industrial premises and also from enquiries to the County Council's Website.

10. Competitiveness of the Service

The cost for running the Account last year 1998/99 was in the region of £140,000 for both Valuation staff and Construction and Maintenance staff.

The scope of the present service needs to be carefully defined and compared within the private sector initially through the private sector Consultant and subsequently through tendering, if appropriate.

11. Sustainability Assessment

No Sustainability Analysis has been carried out but the Trading Account adheres to the Department's Environmental Purchasing policy. The review of the existing portfolio will concentrate on economic well-being. Other aspects of Sustainability assessment will be brought to bear in the event of future development of the Estate.

12. Description and Analysis of the Supply Market for the Service

The County Council is only one of a number of suppliers of industrial premises within the market. Others include the private sector, English Partnerships, and other local authorities.

The latest figures for the stock of industrial floorspace in Leicestershire as provided by the Government Office for the East Midlands as of December 1994 are as follows:-

	Factories and Mills		Warehouses and Workshops	
	<u>Number</u>	<u>Area</u>	<u>Number</u>	<u>Area</u>
LEICESTERSHIRE	3,330	4,521	6,060	3,275
Blaby	190	310	360	330
Charnwood	300	648	1,100	523
Harborough	170	241	460	504
Hinckley & Bosworth	330	633	730	287
Leicester	1,930	1,903	1,880	936
Melton	40	154	370	151
North West Leicestershire	120	278	720	373
Oadby & Wigston	200	284	230	104
Rutland	50	71	200	67

The Leicestershire Industrial Property Bulletin in April/May 2000, District by District, provides evidence of the availability of leasehold small units a) up to 2500 sq. ft/231 m² b) 2500 sq. ft /231 m² to 5000 sq. ft/464 m².

April/May 2000
Units to Let

Bulletin Entries
for Private Landlords

Square Feet

**Up to 2500
sq ft/231m²**

**2500sq ft/231m²
to 5000/464m²**

DISTRICT

<u>BLABY</u>	16	5
CHARNWOOD	14	8
HARBOROUGH	11	3
HINCKLEY & BOSWORTH	30	12
<u>MELTON</u>	6	2
NORTH WEST	4	3
OADBY & WIGSTON	8	3
 NUMBER OF UNITS TO LET	 89	 36

These entries include multiple entries for units in the same development.

13. **Results of Consultation Exercises**

A survey was carried out of the Industrial Trading Account's tenants in May 1999 and a substantial majority of the tenants were very satisfied with the service received from the staff in the Department of Property and County Treasurer's Department in relation to courteous, efficient and prompt service. 81% of the tenants thought that the portfolio was a wise investment.

- The location and size of the units was the most important factor identified, in choosing a unit. The portfolio predominantly provides small light industrial units.
- 69% of respondents identified flexible lease terms as being important to their business. Flexible terms such as the ability to surrender early are a feature of many lease agreements in the portfolio.
- Tenants were asked to suggest improvements to their estates or buildings and a number of responses were received.
- Tenants were broadly satisfied with the 'Value for money' of their premises.
- Of 69 responses, a total of 719 full-time and 110 part-time workers were employed.
- 61 businesses declared an annual gross turnover of £56,204,674, an average of £921,388.
- The business in the survey had been trading for an average of almost 14 years.
- 63% of respondents expected their business to expand in the next twelve months. Only 13% expected to contract in size.
- 29% of respondents would prefer to buy their premises rather than rent.

- A substantial majority of tenants were very satisfied with the service received from staff of the Department of Property and County Treasurer's Department in relation to courteous, efficient and prompt service.
- 23% of tenants saw the property advertised through the County Council's Property Bulletin, although the most commonly effective method of advertisement was by signboard (31%).
- The tenants were asked if they thought that the County Council has invested money wisely in providing industrial units. 81% thought that the portfolio was a wise investment.
- Only 6% of respondents thought that the provision of industrial units should be left solely to the private sector.
A substantial majority of tenants indicated that the County Council had assisted with the development of their business to a large extent.

14. Trends and Changes in the Service and Environment

The demand for industrial premises in Leicestershire, in particular for small units is dependant upon conditions existing in the National and Regional economy, although the property development and demand cycle tends to lag the economy as a whole by 2-3 years.

In providing units for new and emerging businesses there are a number of factors to take into account:

- a) Recent trends in outsourcing and downsizing of large companies have favoured the growth of small and medium sized enterprises. The vast majority of Leicestershire Businesses employ less than 20 people.
- b) Business formation rates have dropped since their peak in the 1980's, falling rapidly in the early 1990's, but showing an upward trend since 1995, but Leicestershire's Business formation rates appear to be lagging behind regional and national formation rates.
- c) According to a DTI survey, start-up business survival rates in Leicestershire are the second lowest in the East Midlands. Estimates of self-employment show only modest growth over recent years with the majority of self-employed being engaged in other sectors than manufacturing.
- d) The highest levels of industrial construction have occurred in North West Leicestershire following the demise of the mining industry and the move towards other forms of economic activity, followed by Harborough District with the growth of the Magna Park Distribution Centre.
- e) The principal demand for small units arises from manufacturing, which has shown considerable decline over recent years, in particular for the clothing and textile trades. In 1997 manufacturing still accounted for 29% of Leicestershire GDP, but overall, manufacturing is expected to decline over the next ten years.

At the current time the IPTA meets all known Capital and Revenue expenditure from within its own resources.

15. Result of any Inspection Reports/Consultant's Reports, Local and National Audit/Inspection Studies

An independent Valuation of the Industrial Properties Trading Account is carried out every three years by external consultants. DeskTop valuations are carried out in the intervening period by the Director of Property. A report by the County Council's internal audit section found that the "management and operation of the IPTA systems is good, staff involved are knowledgeable about the operations of the procedures and undertake their duties to a satisfactory standard".

16. Key issues facing the Service including likely future and capital revenue requirements etc.

Future Requirements will be entirely dependent on the outcome of this review.

The treatment of the Trading Account Surplus which currently stands in the region of £370,000 (pending the outcome of the 1999/2000 Accounts), will also be dependent on the outcome of this review. All other key issues are identified in the terms of Reference for Review.