

REPORT TO CABINET

31 July 2008

REPORT OF DIRECTOR OF
NEIGHBOURHOOD SERVICES AND
ASSISTANT CHIEF EXECUTIVE

Planning and Development & Learning and Employment Portfolios

Sedgefield Borough Employment Land Review

1 Summary

- 1.1 The Government published the best practice guide "Employment Land Reviews" in December 2004. This document encourages Local Authorities to undertake such reviews to support the evidence base of their Local Development Frameworks and Economic Development Strategies.
- 1.2 The primary purpose of such a Review is to provide Local Authorities with an effective tool with which to assess the demand for and supply of employment land. Sites allocated in development plans need to reflect the changing requirements of businesses and local economies. In essence, the Review helps authorities assess the suitability of sites for employment development, safeguard strategic sites in face of competition from higher values uses, such as housing, and identifies those sites that are no longer suitable for employment development.
- 1.3 On 30 April 2007, Corporate Management Team agreed that the project should be commissioned through an open tender process and requested that other Councils should be contacted to see if they were also planning to undertake such a commission and enable Gershon efficiencies. As a result of this, the Borough Council formed a partnership with Derwentside and Chester-le-Street District Councils to jointly commission an Employment Land Review.
- 1.4 In October 2007, we commissioned Nathaniel Lichfield & Partners and Storeys:SSP. The Employment Land Review is now complete. The findings will form part of the evidence base for the preparation of the new Unitary Council's Local Development Framework and the determination of planning applications by both the Borough Council and in due course, the Unitary Council.

2 Recommendation

- 2.1 It is recommended that Cabinet acknowledge the key findings and recommendations and agrees to the publication of the Employment Land Review.

3 Employment Land Review

- 3.1 The Employment Land Review will inform the provision of employment land in the Borough in the future. The main aims of the study are to:
- Consider the future employment land and premises requirements of the Study Area;
 - Review the Study area's current supply of employment land in both quantitative and qualitative terms; and to,
 - Identify any surpluses or deficiencies in the provision of employment land.
- 3.2 This report has been undertaken in accordance with the methodology outlined within the Communities and Local Government's 'Guidance Note on Employment Land Reviews' (December 2004). As stipulated by the government guidance, the employment land assessed by this Employment Land Review focuses primarily on B Use Classes i.e. B1 (office), B2 (industry) and B8 (warehousing/distribution). Needs for other employment generating uses such as retail, health and tourism are excluded from the detailed analysis.

Policy Framework

- 3.3 The Policy Framework for the Employment Land Review is set by a wide variety of policy documents. These include the Regional Economic Strategy, Regional Spatial Strategy, County Durham Economic Strategy and Sedgefield's Economic Development Strategy.
- 3.4 Key to this Employment Land Review is that the Regional Spatial Strategy identifies that Sedgefield's Local Development Framework should make appropriate provision of 150 hectares of employment land. 25 hectares of this land is allocated specifically to NetPark and 70 hectares to Heighington Lane West. It is acknowledged that these figures are a maximum figure and are not based on an assessment of need. The overall figure is subject to revision through the findings of a local Employment Land Review and that the provision should be sufficient for 25 years, based upon an assessment of supply and take-up of employment land.
- 3.5 There is also a realisation that the commercial property market is not constrained by Local Authority boundaries and it is important that the Review is mindful of the employment land position elsewhere in County Durham, particularly Durham City and Wear Valley. The Review identifies that both authorities are understood to have a significant overprovision against the RSS requirement for a 25-year supply.

Socio-Economic Context

- 3.6 In order to determine the likely need for employment land in the Study Area over the period to 2021, it is important to understand the economic context of the three Local Authorities. This section of the report therefore considers recent trends and the current performance of Sedgefield with respect to a number of socio-economic indicators. These can be summarised as:

- The population of Sedgefield is forecast to increase by 1.12% over the period 2006 to 2021 but it is anticipated that the working age population will reduce by approximately 4,220. This could potentially result in a tightening of the local labour market, reducing the number of people available for work and thereby making it harder for locally-based businesses to recruit staff and expand their operations;
- Migration activity of Sedgefield is focused upon interaction with neighbouring authorities within County Durham and the north of Tees Valley;
- There is a net outflow of commuting for Sedgefield with an interrelationship with the Local Authorities of County Durham and the Tees Valley;
- The number of employees in Sedgefield has fallen by 22% between 1996 and 2006. This decline is largely attributed to manufacturing. However, there has been some growth in certain sectors. The most dramatic growth was observed in 'services' and 'distribution, warehousing and hotels.' Smaller levels of growth was observed in 'finance and business services' and 'public administration/ other services.'
- The most recent ONS Job Density data available is 2006. Sedgefield has a job density of 0.59, indicating that there are 0.59 jobs for every one resident of working age within the Borough. This is below the regional average and addressing this gap should be a key policy objective for the authority;
- ONS Claimant Count data highlights that levels of unemployment are lower than the regional average (2.3% SBC, 2.90% Region);
- These factors could make recruitment increasingly difficult and potentially constrain economic growth. It will therefore be important to reduce the current outflow of commuters from the Study Area in order to provide additional slack within the supply of labour;
- Educational attainment at NVQ level 2 and 4 is below the regional average and this will need to be addressed to facilitate a move to a higher value economy. Therefore, initiatives will need to be put into place to upskill the resident population or to attract skilled migrants to the area to help drive economic growth;
- The VAT Registration performance of Sedgefield exceeds the regional average. Stimulating business start-ups and the development of small businesses is likely to be an important factor in supporting the economic growth of the Study Area. To facilitate this, it will be important to ensure that there is a supply of managed workspace facilities and move-on accommodation that meets the needs of modern businesses;
- The relative economic performance of Durham County is below that of both the North East and the UK, and has declined over the period. In 1995 Durham County's GVA per capita was 75% of the national average; this had fallen to just 64% by 2004. However, the economy is growing over time, although it is losing ground to the national and regional averages because of a slower rate of growth;

Methodology

- 3.7 It is important that the Review is underpinned by a robust and transparent methodology, to ensure that the resultant future land requirements are sound and defensible. In recognition of this, the Review draws on methods and data sources that take account of both quantitative and qualitative factors. For quantitative analysis, the Review takes account of long-term take up rates and economic

forecasting (CEBR). For qualitative analysis, the Review has undertaken a series of site appraisals.

The Market for Employment Premises

- 3.8 Data from the Valuation Office Agency (VOA) provides a comprehensive and up-to-date list of employment premises throughout the Study Area. This has been analysed by use type, location and size, to provide an overview of the existing stock of premises.
- 3.9 In Sedgfield, 40% of the stock is at Newton Aycliffe, 20% is at Spennymoor, and 16% is at Shildon. The remainder of the District comprises smaller settlements, which between them accommodate the remaining 24% of the stock. Less than 10% of the stock is situated to the east of the A1 (M).
- 3.10 A summary of the Borough employment land portfolio is provided below. The most significant issue is that the majority of the vacant units are those greater than 10,000 sq ft. The decline of manufacturing has left a residue of large factory complexes that have been subdivided, but even the units so created are of significant size and represent a significant element of this oversupply.

	SIZE (sq ft)								Total
	<1000	1000 - 2500	2500 - 5000	5000 - 10000	10000 - 20000	20000 - 40000	40000 - 75000	>75000	
Units	132	202	131	132	104	66	28	28	823
Vacant Units	9	10	16	9	13	14	5	3	79
Vacancy Rate (%)	7	5	12	7	13	21	18	11	10

The Market for Office Premises

- 3.11 Currently, the market for Office premises is concentrated in Newton Aycliffe. The recent developments of Evans' Business incubation Centre and Gladman's Parsons Court at Heart of the Park have expanded the quantity of Office accommodation. This growth reflects the demand for business incubation initiatives aimed at encouraging an enterprise culture.
- 3.12 However, private sector development of offices is viable only in certain locations. High quality landscaped environments in reasonable proximity to major centres of population – but more critically within easy reach of the A1 (M) - can support viable speculative development; and if costs can be reduced through the re-use of existing buildings, profitability can be enhanced. Business park accommodation is viable where infrastructure has been provided to the edge of the site, but again proximity to the A1 (M) is a critical factor.
- 3.13 The study has found that recent schemes have created an overhang of new space, which could deter further development in the short term. These new schemes were commenced before the onset of the credit crunch, and whilst developers such as Gladman are not heavily reliant on credit, overall the nascent speculative office development market within the County's central corridor can be expected to stall until economic and property market conditions improve.

3.14 With grant funding being prioritised and specifically targeted into strategic development projects and investment in the core areas of the City Regions, it is now widely recognised that the necessary financial resources to subsidise general employment development in peripheral areas is unlikely to be available from the public purse. It follows that the regeneration of some brownfield land for economic development purposes will be entirely dependent upon the availability of cross-subsidies.

Assessment of Supply and Demand for Sites

3.15 For Sedgefield Borough, the study found that there were currently 64 available sites, with a gross site area of 202 hectares and a net site area of 175 hectares. The study also found that the long-term historical build out rate was 4.77 hectares. It is therefore deduced that the Borough has an implied employment land supply of 37 years. The 37-year supply far excess the 25-year supply advocated by the Regional Spatial Strategy, and there is an over-supply of employment land in the Borough.

3.16 As this supply only includes currently available sites, the over-supply is expected to worsen when operational employment land becomes available due to closure of existing factories e.g. Black & Decker (Green Lane), Thorn Lighting (Merrington Lane) and Electrolux (Merrington Lane). An additional 58 hectares of employment land is likely to become available in the foreseeable future. This has not been accounted for in the table below.

Sub-Area	Available (Hectares)	Take-up (Hectares p.a.)	Implied Supply (Years)
Newton Aycliffe	84.70	2.58	33
Sildon	30.14	0.44	69
Spennymoor	16.41	0.71	23
Ferryhill, Chilton & Cornforth	23.30	0.69	34
Sedgefield, Fishburn & Trimdon	20.73	0.32	65
SEDGEFIELD TOTAL	175.28	4.77	37

3.17 The scale of demand for employment land is affected by various factors including the viability of development, business confidence, economic trends and fiscal policy.

3.18 This Employment Land Review is being prepared at a point in the economic cycle where after a sustained period of economic growth the outlook is much less certain. Property investment yields are increasing, capital values are declining, and development funding is both more expensive and more difficult to come by. At the same time demand is weakening as businesses become more cautious and marketing periods are extended. All these factors impact on the viability of development, and will significantly reduce the level of private sector speculative development for the foreseeable future.

3.19 The speculative development of employment premises will be further hit by the changes to Empty Property Rates Relief that took effect on 1st April 2008. Under the new rules full business rates will be payable on industrial properties 6 months after they become vacant, whereas previously they were entitled to 100% relief; and rates will be payable on office properties 3 months after becoming vacant, whereas previously they were entitled to 50% relief. For developers of employment premises the costs of development will increase, and the viability worsen. The impact will be

compounded by the weaker property market and longer marketing periods. The effect on the market for employment land in the Study Area will be that it is more difficult for the private sector to develop outside Durham's central corridor and in the current poor market conditions it will also be difficult to viably develop within this corridor. In the longer term, as the property market improves developers will cautiously return to the market but, other things being equal, the level of development can be expected to be lower.

- 3.20 Landlord's conscious of empty property rates liability will be keen to reduce vacancies. Tools at their disposal include inducements to tenants or reductions in asking rents. The latter will directly impact on the overall value of the investment portfolio so is likely to be a last resort. Where industrial properties are nearing the end of their useful economic life, the change in the rates relief is expected to result in a more proactive approach to their redevelopment.

Stakeholder consultation

- 3.21 Stakeholder engagement and consultation formed an integral part of the Employment Land Review throughout the project. Face to face meetings and telephone discussions were organised with 12 key stakeholders, whilst a stakeholder workshop was conducted with attendance from a variety of stakeholders including public sector bodies, potential investors and businesses. A Business Survey was also sent out to 600 local businesses to elicit property and land requirements.

- 3.22 Key findings from the stakeholder consultations are as follows:

- **Changing economic structure:** traditional manufacturing, which has played a key role in the economy of County Durham historically, is in decline. However, high value, niche manufacturing presents an opportunity for future growth in Sedgefield. Knowledge-based industries and high quality office jobs should also be developed to diversify the Study Area's economy;
- **Indigenous growth:** is anticipated to be a key driver of future economic growth, in part because a number of remote employers have left County Durham in recent years. It is therefore important to ensure that the requisite premises and support infrastructure are in place to enable local firms to start-up and develop;
- **Funding priorities:** ONE intend to concentrate their support through public sector funding on a smaller number of larger, strategic sites to maximise the impact of future intervention. Much of this will be focused within the City Regions. However, it is anticipated that NetPark, Aycliffe Industrial Estate, and Salter's Lane will continue to be eligible for funding support from the RDA; and,
- **Spatial priorities:** the key areas for future development within County are Durham are the A1 and A19 corridors.

Drivers for Future Growth

- 3.23 One of the key industrial sectors within Sedgefield is manufacturing. It is acknowledged that traditional manufacturing is an industry in decline nationally, with the lower cost economies of Eastern Europe representing a particular emerging threat. This trend of decline has been observed in the Study Area in recent years. Despite this, manufacturing is still a major employer, particularly in Sedgefield where it accounts for 29.9% of total employment.

- 3.24 The stakeholder consultation indicated that a number of manufacturing companies in the Area have streamlined their operations in response to competition by outsourcing low cost activities to lower cost economies in recognition that it is difficult for UK-based businesses to compete in this market. This has enabled companies to focus their efforts on value-adding process and producing niche products. A shift towards higher value manufacturing is therefore anticipated.
- 3.25 The implementation of the drive-time directive is likely to further increase demand for logistics capacity in the form of warehousing and distribution facilities in the North East. The drive-time directive has introduced legislation to limit the length of time individual lorry drivers can work for to 8 hours a day. As a consequence, many companies with one national distribution centre are now considering operating from a series of regional centres and there are opportunities for Sedgefield and Chester-le-Street to benefit from this, particularly at sites with good access to the A1 (M).
- 3.26 NetPark is identified as one of the key economic drivers of the Tees Valley City Region and has a crucial role to play in the development of higher value, knowledge based businesses in the North East. Incubator Phase 1 provides incubation space and tailored business support. The facility has attracted spin-out businesses from many of the region's universities, as well as inward investment from outside the North East or in some cases the UK. These inward investors have been attracted by the NetPark 'brand' and the clustering opportunities offered by the development. A number of occupants are market leaders in emerging technologies.
- 3.27 The development of the Plastic Electronics Technology Centre (PETeC) at NetPark is also due for completion by the end of 2008. This will be a national centre of excellence for the development of plastic electronic technologies and one of just four centres of excellence worldwide, helping to maintain the UK's status as one of the internationally pre-eminent innovators in the field. The industry is projected to be worth \$250billion by 2025 and clearly NetPark provides Sedgefield and the wider sub-region and region with an opportunity to capture a significant share of this market.
- 3.28 NetPark Net has also recently been established and will assist with knowledge transfer amongst the local business community. This is a 'virtual science park' providing online access to business advice and best practice case studies. Membership is available to any business but promoted primarily within County Durham and membership fees are paid on a sliding scale. NetPark Net provides shared software, networks and databases for the use of members and facilitates workshops and other events to disseminate best practice, whilst one-to-one business mentoring is also available to members.
- 3.29 The Durham New Growth Point Bid proposal has been submitted and sets out plans to focus development on six regeneration towns in the County, including three in Sedgefield: Newton Aycliffe, Shildon and Spennymoor. If the Bid is successful, this will result in significant investment in new housing, employment sites, public transport and public realm improvements. The benefits from securing and implementing Growth Point status would make Sedgefield a more attractive investment location.

Challenges and Risks

- 3.30 Sedgefield appears to have a substantial amount of employment land; however, there are issues relating to the availability of much of this land for development. In

addition, the stock of premises includes some large, old industrial sites and buildings often in remote locations. Therefore, whilst in quantitative terms Sedgefield appears to be well catered for, a significant proportion of this cannot be viably developed to meet the requirements of modern businesses. The rationalisation of the stock of employment land could help to improve the quality of available sites; some poorer quality sites could be released for alternative uses to generate capital receipts that could then be reinvested to pump-prime the retained sites to remove constraints to development.

- 3.31 The stakeholder consultations have indicated that the future economic prosperity of the area could be constrained in part by skills shortages. It is understood that businesses generally find it difficult to recruit for both high and low skilled positions; however, these difficulties are particularly acute with respect to the following:
- Technical skills;
 - Craft skills; and
 - Middle managers.

Analysis of Future Need for Employment Space

- 3.32 To ensure the alignment of this study with the regional policy framework, the CEBR scenarios were used as the basis to develop a range of growth scenarios for the Study Area. An additional growth scenario, incorporating the growth aspirations of the County Durham Economic Strategy, was also used to inform the study. This **High** scenario was underpinned by an economic growth rate of 4.3% per annum.
- 3.33 The four scenarios, which provided sectoral employment growth at regional level, were subsequently adjusted to provide job growth forecasts at the Local Authority level by Experian Business Strategies. The adjustments were made using Experian's sub-regional economic model. This takes account of the existing economic structure of each Local Authority and the historical relationship between the regional performance of an industry and the performance observed at the Local Authority level. This projection translates into the following requirements:

	B1 Financial and Business Services		B2 Manufacturing and Industrial		B8 Wholesale and Distribution		Total B Class Space	
	2005-21	25 yr	2005-21	25 yr	2005-21	25 yr	2005-21	25 yr
Bronze	3.1	4.6	7.0	10.9	36.2	56.5	46.3	72.0
B/S2	5.2	7.8	13.2	20.6	40.0	62.5	58.4	90.9
Silver	5.5	8.2	20.7	32.3	40.1	62.6	66.2	103.1
High	5.8	8.8	34.4	53.7	40.3	63.0	80.5	125.5

Matching Supply and Demand

- 3.34 The study identifies key issues for the Borough so that supply matches demand. These can be summarised as:
- Sedgefield is located in close proximity to the Tees Valley conurbation and benefits from excellent accessibility links, making it an attractive business location;
 - Distribution and logistics is therefore considered to represent a significant growth opportunity for Sedgefield, with the proximity to the A1 (M) a key asset in this respect;

- Within the emerging Regional Spatial Strategy, Heighington Lane West is identified as a Key Employment Location for distribution and logistics. Greater logistics activity is likely to increase take-up rates in the Borough due to the land hungry nature of the sector;
- NetPark is also identified as a Key Employment Location in the emerging Regional Spatial Strategy and is acknowledged as a major future driver of the regional economy, attracting university spin-offs and relocations from elsewhere. It is expected that NetPark will also stimulate higher levels of future take-up in the Borough as the development establishes critical mass;
- Aycliffe Industrial Estate is an employment area of regional significance and the second largest industrial estate in the North East. The site is important to the Borough's employment land offer and the perception of Sedgfield as an employment location;
- Almost 90% of historic take-up has been for industrial and distribution units; and
- Projecting forward historic take-up rates over a 25-year period would result in a requirement of 119.3ha.

3.35 Taking factors, such as past take up rates, Regional Spatial Strategy policy and the presence of two strategic key employment sites (NetPark and Heighington Lane West) into account, the study recommends that **the higher end of the 72 - 126 hectare range** would be a suitable target to inform Sedgfield's emerging Local Development Framework. Given the very high level of present supply (particularly of large manufacturing units), de-allocations of poorer, remoter sites should be encouraged to avoid the negative effects on value caused by local market oversupply. Future provision should be weighted towards warehousing and logistics use, and to a lesser extent, general industrial. Recent development activity demonstrates that speculative provision of offices is now viable on serviced sites that are easily accessible. Capacity for growth in this sector should be acknowledged. It is also recommended that further de-allocations be considered in the longer term. At present, Shildon and Spennymoor represent the most appropriate areas of search when considering additional de-allocations.

Action Plan

- 3.36 The final section of the report develops an Action Plan for the Borough. The key actions can be summarised as following:
- **Site Deliverability:** notwithstanding ownership and planning policy constraints, the financial viability of a site plays a crucial role in determining whether it comes forward for development. Redevelopment costs (particularly site remediation), anticipated demand and rental levels are all fundamental components of a scheme's viability and if these are considered to be unfavourable at a particular site then landowners are unlikely to put the land forward for redevelopment. Public sector intervention may be required in the form of subsidy, grant or gap funding to make a site stack-up financially.
 - **Home Working and Live-Work Schemes:** the area has a number of strengths in this regard, namely the environmental quality of the area; its close proximity to the City Regions and the excellent links to the wider highway and rail networks. Within this context, it may be appropriate to develop a policy response through the Local Development Framework to encourage further homeworking and live/work schemes in the area. This could provide an opportunity to attract entrepreneurs to the three Local Authorities and thereby support higher levels of economic growth.

- **The Provision of Managed Workspace:** The consultation process has highlighted the need to provide managed workspace and incubator developments to support indigenous businesses. This will be particularly important if homeworking or live/work schemes are actively pursued. This is because a move to a managed workspace scheme often represents a likely natural progression for successful homebased businesses as they expand. Without adequate provision of such premises, the Study Area may be prevented from realising its full potential. Home-based businesses that have been nurtured using public sector resources could be forced to move out of the Study Area to find suitable premises if they are to realise their growth aspirations.
- **Provision of Freehold Sites:** demand for freehold sites is driven by both owner-occupiers and developers. Some of these requirements will be for immediate development, whilst others will be for land-banking. Consequently, the provision of such sites may not necessarily immediately lead to development and associated economic growth. It is suggested that this demand is likely to ensue from occupiers of plots up to one hectare, generally situated on established industrial estates with road and service infrastructure up to the plot boundary.
- **Integration with Local Development Frameworks:** the Local Development Framework will need to identify new sites to be allocated for employment development, as well as to identify and protect other important existing employment sites from alternative forms of development. In cases where it is proposed that existing employment sites are not retained for employment uses if they come forward for development, it will be necessary to provide new allocations for those sites. It is further suggested that in those instances where this study has made recommendations regarding the modernisation of existing employment sites, special provision should be made in the Local Development Framework to that effect.

4 Resource Implications

- 4.1 The cost of producing the Employment Land Review has been met from the Local Development Framework budget and the Economic Development Projects budget.

5 Consultations

- 5.1 The preparation of the Employment Land Review was subject to a high level of consultation with relevant groups. Stakeholder consultation is discussed in Section 3 of the Report. The document will be published on the website.

6 Other Material Considerations

Links to Corporate Objectives / Values

The production of the document will help meet Corporate Aim 25, which is to provide a high quality, efficient and customer focussed Planning Service that supports sustainable improvement of the built and natural environment of the Borough.

6.1 Legal Implications

There are no legal implications.

6.2 Risk Management

There are no risk management issues.

6.3 Health and Safety Implications

No additional implications have been identified.

6.4 Sustainability

There is no requirement to undertake Sustainability Appraisal.

6.5 Equality and Diversity

The Employment Land Review will be made available in alternative languages, Braille or in audio format where requested, and will be placed on the website in pdf format.

6.6 Social Inclusion

No additional implications have been identified.

6.7 Procurement

The Employment Land Review was subject to open tender. The Council appointed Nathaniel Lichfield & Partners and Storeys:ssp to undertake the work in partnership with Chester-le-Street and Derwentside Councils.

7 **Overview and Scrutiny Implications**

7.1 None

8 **List of Appendices**

8.1 Employment Land Review for Chester-le-Street District Council, Derwentside District Council and Sedgefield Borough Council

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Ward(s)

All

Background Papers

Employment Land Reviews: Guidance Note, DCLG (former ODPM)

Key Decision Validation

A decision made by Cabinet in the course of developing proposals to Council to amend the policy framework

Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>