Leicester and Leicestershire Strategic Distribution Sector Study

Executive Summary

A technical report prepared for the Leicester & Leicestershire Housing Planning & Infrastructure Group by:

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EXECUTIVE SUMMARY

1. *MDS Transmodal and Savills* were commissioned in December 2013 by *the Leicester and Leicestershire Housing Planning and Infrastructure Group (HPIG)* to undertake a study examining the strategic distribution sector in the county. HPIG represents the county's local planning authorities, Leicestershire County Council and the *Leicester and Leicestershire Local Enterprise Partnership (LLEP)* on spatial planning matters. The main objectives of the study were to enable a better understanding of the sector and objectively determine future need, together with managing change and supporting sustainable economic growth.

2. The study was undertaken in three phases, as follows:

- Part A: Review and Research;
- Part B: Planning for Change and Growth; and
- Part C: Developing a Strategy for the Distribution Sector in Leicestershire[1].

3. An interim report covering *Part A* of the study presented the 'baseline' position with regards to the distribution sector in Leicestershire. It provided an overview of the strategic distribution sector, both nationally and in Leicestershire, established the existing supply of large scale warehousing in the county, described the key locational characteristics enjoyed by commercially attractive logistics sites, provided an overview of employment in the Leicestershire strategic distribution sector and contribution to Gross Value Added (GVA) alongside the current policy context. It concluded that Leicestershire has established a distinct competitive advantage in the strategic logistics sector, generating significant employment and contribution to regional GVA.

4. A second interim report covering *Part B* of the study addressed planning for change and growth, and provided an overview of the key challenges and threats facing the strategic distribution sector. It concluded that the key to addressing the challenges, and hence maintaining the established competitive advantage, is the continued development of new commercially attractive strategic sites across Leicestershire, a significant proportion of which will need to be directly rail-served. Forecasts of future land requirements for strategic distribution in Leicestershire were undertaken and subsequently compared with the quality and quantity of existing sites with B8 consents or in the planning pipeline. The need for additional land to come forward up to 2036 was subsequently identified. Estimates of future job creation and contribution to GVA related to the land use forecasts were also undertaken.

[1] The main study area, the county of Leicestershire, is the same as that covered by the LLEP. In local Government terms, the study area comprises the City of Leicester unitary authority along with those parts of the county administered by Leicestershire County Council and the seven district councils. For ease and consistency, 'Leicestershire' is the term used throughout to refer to the LLEP area and these local authorities on a collective basis. Where relevant, areas adjacent to the main study area are also considered.

5. A formal written final report of the study, which accompanies this Executive Summary, develops a recommended strategy designed to maintain and enhance the county's established competitive advantage and enable growth for the strategic distribution sector in Leicestershire. It will ultimately inform future LLEP plans/strategies and the development of local plans across the county of Leicestershire. As a result, the recommendations concentrate on those 'policy levers' which the Leicestershire authorities/LLEP are able to control. Consequently, the main focus of the recommended strategy is the identification and allocation of the additional land required at commercially attractive sites up to 2036, albeit that other 'softer' measures and issues are addressed

6. It is important to note that this Executive Summary, the formal written final study report and the Part A and Part B interim reports are technical reports which will inform the future development of planning policy and economic strategy. The views expressed in them are those of the consultants and should not be interpreted as policy.

7. Four over-arching conclusions can be drawn from the study, namely:

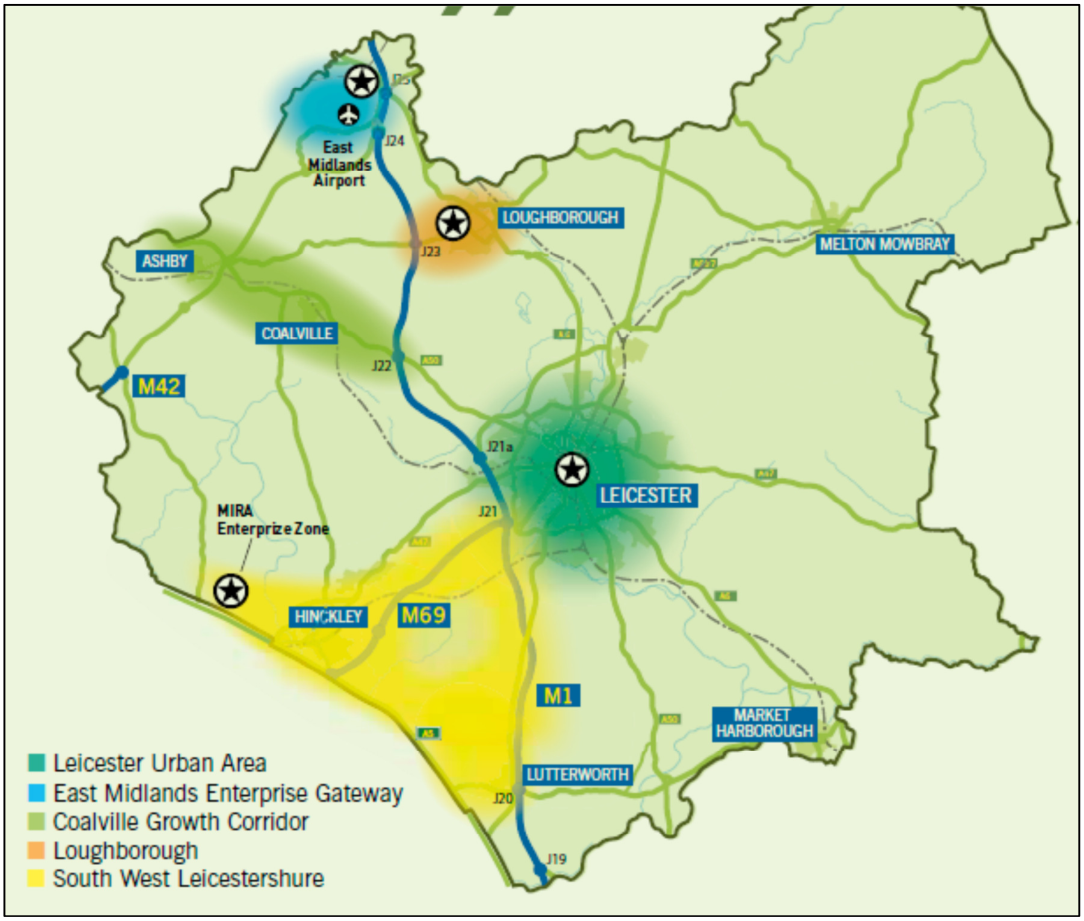
- A need to identify and allocate new land at commercially attractive strategic sites, the purpose of which is to maintain and enhance the established competitive advantage, enabling the sector to growth in a sustainable manner;
- To deliver the identified need, there will be a requirement to continue long-term strategic and collaborative planning across the county of Leicestershire, and potentially with authorities in neighbouring areas. This study should therefore not be viewed as a 'one-off process', and *HPIG* or a similar grouping will need to take the strategy forward on a long-term basis (and review the strategy periodically);
- While the strategy outlined is a long-term plan (up to 2036), the preparatory work will need to begin immediately. Infrastructure delivery is by its nature long-term, albeit that the underlying evidence base and the preparation of local plan policies needs to commence now so that the right sites in the most competitive locations can come forward for development as and when they are required by the market; and
- The strategy requires the implementation of a number of highway and railway enhancement schemes. Consequently, there will be a requirement for the planning authorities and LLEP to liaise with (and lobby) the Highways Agency and Network Rail to ensure that the enhancement schemes are ultimately delivered.

8. These over-arching conclusions should be borne in mind when considering the strategy and recommendations presented in the final report.

9. It is also important that this document (and the study as a whole) is considered alongside the LLEP's Strategic Economic Plan 2014-2020 (SEP). The 'ambition' of the SEP is to create an additional 45,000 jobs, lever £2.5 billion of private investment and increase GVA by £4 billion

to 2020. In particular, the SEP is promoting five growth areas in Leicestershire, as illustrated on the map below (reproduced from the SEP).

Map ES1: The LLEP Growth Areas



10. Noting that there is a lack of suitable employment land for key sectors (including logistics), one of the key priorities of the SEP is the delivery of infrastructure investment, which can then be used to unlock key development sites and employment land in the identified growth areas. The *East Midlands Gateway Strategic Rail Freight Interchange* is also identified as one of the four 'transformational priorities' in the SEP. The LLEP's SEP is available to download from the following link: www.llep.org.uk/SEP.

11. A summary of the findings from each of the three reports is presented below.

Part A: The Baseline Position

12. The southern part of the East Midlands region (including Leicestershire) became the preferred location for most large scale National Distribution Centres (NDCs). This was for three main reasons, namely:

- It was broadly central to the major domestic production sites, the deep-sea and Channel ports (for imported cargo) and Regional Distribution Centres (RDCs) in other regions (the next stage in the supply chain).
- The release of large competitive sites by local authorities for B8 use during the 1980s which were close to junctions on the M1/M6. This, combined with the above reason, meant that most inbound or outbound cargo movements could be undertaken within 4.5 hours drive time, this being half a HGV driver's daily driving limit. Consequently, a HGV could round-trip within a driver's shift (enabling a HGV to undertake at least two round-trips over a 24 hour period); and
- Historically, relatively low road haulage costs (in turn driven by low fuel costs) and competitive labour rates.

13. The combination of these factors meant the southern part of the East Midlands region became the competitive 'location of choice' in both supply chain cost and performance terms when sourcing and distributing on a national basis. The area has become known as the '*golden triangle*'[2], and has to date consequently established a distinct competitive advantage in the strategic logistics sector.

14. This position was evidenced by the analysis undertaken in Section 4 (warehouse floor space) and Section 6 (Employment) of the Part A report. A significant quantum of large scale warehouse floor space has been developed in the golden triangle. In Leicestershire, there currently exists *2.25 million square metres* of floor space across *89 large scale warehouse units*[3]. Around 72% of East Midlands floor space capacity is located in Leicestershire or Northamptonshire. The East Midlands region records around 8% of the population of England and Wales, however it accommodates 20% of total English and Welsh warehouse capacity. This means that the identified warehouse capacity in Leicestershire is predominantly serving a national market.

15. The LLEP Economic Growth Plan 2012-2020 gives a figure of 51,300 jobs in the LLEP area in distribution and logistics, accounting for 12% of local employment. It also identifies the high

[2] There is no one standard recognised definition of the 'golden triangle'. It may be referred to as the area bounded by the M1, M6 and M69, albeit that others consider it to be a larger area broadly enclosed by Milton Keynes, Birmingham and north Leicestershire (along the M1 and M6 corridors). This study has taken the broader definition.

[3] As defined in the Part A report, units greater than 9,000sqm (approx 1000,000 sq ft)

levels of employment in North West Leicestershire and the Harborough District at Magna Park. In terms of the strategic distribution sector's contribution to the sub-regional economy, data was presented showing that that GVA attributable to wholesale/retail, transport/storage and food activities was £3,794 million or around 21% of the LLEP area total.

16. While airfreight is an important part of the logistics sector, there are a number of distinct differences between it and the conventional 'overland' distribution market which means that it should be considered separately. These were explained in Section 8 of the Part A report. Analysis showed that Stansted and *East Midlands* airports dominate the express service sector, accounting for 70% of freight conveyed on dedicated freight aircraft.

17. East Midlands Airport published its Sustainable Development Plan (Land Use) in Spring 2014. This document updated the Airport's Master Plan first published in 2006. A review of the airport's cargo forecasts was carried out for the Sustainable Development Plan. The Sustainable Development Plan (Land Use) concludes that sufficient land is currently available within the airport boundary (i.e. providing direct 'air-side' access to the aircraft parking apron) to accommodate the growth forecasts. Given this conclusion, this final report does not consider the airfreight sector further.

Part B: The Key Challenges

18. Market conditions can and do change over time, and as market conditions change a previously held competitive advantage can diminish unless action is taken to address the changes. Two important emerging challenges to the golden triangle's competitive advantage in national distribution (and by extension the Leicestershire sub-region) were identified in Part B, namely:

- The emergence of competing inland locations/sites to the north and east of the 'golden triangle', in particular former colliery and heavy industrial sites in the north Midlands, South Yorkshire and the East of England,; and
- The development of B8 land within port estates (so called port centric logistics) which is intended to serve a national market. Opportunities exist for port centric NDCs at London Gateway, the Humber, Teesport and the Mersey Ports

19. Both of these emerging challenges involves the development of NDCs in regions/locations which to date have not generally accommodated such facilities.

20. Analysis was undertaken in Part B assessing total supply chain operating costs which would be incurred by a NDC occupier located in the golden triangle and at the competing

locations/sites identified above. The outputs of the analysis demonstrated that, given a choice of sites, a major distribution centre operator would be expected to locate at a rail-served site in the golden triangle as it continues to offer the most competitive location, particularly when handling a mixture of deep-sea, EU and domestic sourced cargo.

21. Consequently, the key to addressing the above identified challenges to the golden triangle (and by implication Leicestershire), and hence maintaining the established competitive advantage, is the development of new commercially attractive strategic sites in Leicestershire and the East Midlands which will be directly rail-served.

22. Conversely, the inability to bring forward a range of commercially attractive sites in Leicestershire (and the wider golden triangle) would most likely result in an overall reduction in the region's total warehouse floor space capacity. As described in Part B, the vast majority of new-build floor space is actually replacing existing obsolete capacity. Consequently, this replacement capacity along with any growth build element would migrate to other regions given a lack of sites in the golden triangle. This clearly has GVA and employment implications.

Part B: Planning for Growth

23. Given the need to maintain and enhance Leicestershire's competitive position through the continued development of new commercially attractive strategic sites, the Part B report undertook a forecast of future demand for new-build large scale warehousing in the East Midlands region and Leicestershire sub-region up to 2036. The table below compares the forecast demand expected at rail-served sites to 2036 with land supply at existing rail-served sites with B8 consents and those currently being considered by the planning system.

Table ES1: Land Required at Rail-served Sites, Potential Site Supply and Shortfall to 2036

	ha			
Year	2021	2026	2031	2036
Leicestershire				
Supply - Land planned for rail-served sites	159	159	159	159
Forecast demand - high	111	150	209	274
Shortfall - high	48	9	-50	-115
East Midlands				
Supply - Land planned for rail-served sites	717	717	717	717
Forecast demand - high	423	580	808	1,057
Shortfall - high	294	137	-91	-340

24. The preferred high replacement scenario therefore suggests that, once existing consents and potential sites are accounted for, around *115ha of new land at rail-served sites* will need to be brought forward by 2036. This suggests *one further Strategic Rail Freight Interchange (SRFI)* will need to be brought forward within Leicestershire up to 2036 (and towards the end of the planning period considered), given that the SRFIs currently planned for the region are in the 100-150ha size range.

25. Similarly, the table below compares the expected forecast demand at road-only sites to 2036 with land supply at existing sites with B8 consents.

Table ES2: Land Required at Non Rail-served Sites, Potential Land Supply and Shortfall to 2036

	ha			
Year	2021	2026	2031	2036
Leicestershire				
Total Supply - Available at current sites	45	45	45	45
Forecast Demand - high	80	109	152	198
Shortfall - high	-35	-64	-107	-153
East Midlands				
Total Supply - Available at current sites	528	528	528	528
Forecast Demand - high	306	420	585	765
Shortfall - high	222	108	-57	-237

26. The preferred high replacement scenario suggests around *153ha of new land at non rail-served sites* will need to be brought forward within Leicestershire up to 2036. To put this figure into context, the *Bardon Hill* development near Coalville has a gross land area of around 160ha i.e. plot footprints plus service roads etc..

27. While a lower replacement build element was also undertaken as part of the forecasts (low replacement scenario), it is our view that the 'high' replacement scenario should be considered as the preferred option going forward for planning purposes.

28. The total additional employment likely to be generated in the Leicestershire sub-region and East Midlands region resulting from the forecast growth in warehouse floor space capacity was subsequently estimated. Also, the contribution to Gross Value Added resulting from the generated employment was estimated. By delivering in full the new-build forecasts (by means of allocating sufficient land through local plans) it is estimated that just over *7,100 new jobs* will be created in Leicestershire. The contribution to Gross Value Added in

Leicestershire resulting from the generated employment is estimated to be additional £297million (at 2014 prices).

29. Similar analysis estimates that between *3,500 and 7,500 full-time equivalent jobs would be lost* from Leicestershire due to the inability to bring forward the new sites in-line with the land use forecasts. For Leicestershire, this would subsequently result in *a reduction in GVA of between £274 million and £548 million* (at 2014 prices).

Developing a Strategy

30. Local Plans and site allocations will need to conform with the broader objectives of national planning policy and other relevant public policy. There is a presumption in favour of sustainable development, and local planning authorities should plan proactively to meet the development needs of business. Local plans should proactively drive and support sustainable economic development.

31. Delivering new commercially attractive strategic sites on this scale cannot be undertaken by local planning authorities working alone. The NPPF now places a *duty to cooperate* on planning authorities when covering issues that cross administrative boundaries, particularly those which relate to the strategic priorities. Given the above, delivering the identified need will require continual long-term strategic and collaborative planning across the county of Leicestershire, and potentially with authorities in neighbouring areas outside the county.

32. Given the forecast shortfall in land, working with neighbouring authorities local plans will need to allocate new appropriate sites to meet the demand which has been forecast (meeting objectively assessed needs). These will need to be well connected to the strategic highway network; should this require the provision of major new or significantly improved highway infrastructure, it is important to recognise the often long delivery lead in times. A significant proportion of the new sites will need to be directly rail-served (for both competitiveness and sustainability reasons) by suitable railway lines (W9 loading gauge etc..). While the use of previously developed sites should be encouraged in the first instance, it is likely that greenfield and greenbelt[4] sites might need to be allocated, given very special circumstances, to meet these needs. Recent major planning decisions in this sector (DIRFT III and Radlett SRFIs) have clearly indicated that there is a clear need for the development of directly rail-served facilities, that sustainability and emissions benefits subsequently arise, and that substantial weight should be attached to both of these factors.

33. The NPPF states that Local Plans should encourage the effective re-use of land that has been previously developed. Local Plans should therefore encourage the refurbishment of buildings at existing commercially attractive sites or the recycling of plots at such sites (which meet

[4] There are technically no Green Belt designations in Leicestershire, only Green Wedges locally designated

the same criteria as used for identifying new sites – see below) ahead of the development of new sites for strategic distribution. On that basis, identifying and quantifying the amount of recycled land potentially available at appropriate existing sites should be undertaken before new sites are allocated in Local Plans. However, Local Plans will also need to acknowledge that not all sites and plots will be suitable for redevelopment for strategic distribution, and that new sites will still need to come forward.

34. In order to ensure that there is a sufficient pipeline of strategic distribution sites, new land should be identified and allocated in the following sequential order, namely:

- The extension of existing strategic distribution sites, both rail-served and road-only connected. For existing rail-served sites, this should only be permitted where there is spare capacity available at the existing rail freight terminal or capacity can be enhanced as part of any extension. Likewise, site extensions should only be permitted where there is adequate road capacity serving the site and at adjacent motorway/dual carriageway junctions or capacity can be enhanced as part of any extension;
- In circumstances where rail-served sites cannot be extended, local plans should consider satellite sites (which shall be located close to the existing strategic distribution sites) which meet the site selection criteria and could utilise the existing rail freight infrastructure at the core site. A prerequisite for satellite sites to be considered should be spare rail capacity being available at the core site rail terminal or capacity that can be enhanced as part of any satellite development;
- Identifying suitable new strategic distribution sites on previously developed land which meet the site selection criteria; and
- Identifying suitable new strategic distribution sites on greenfield land which meet the site selection criteria.

35. When considering the extension of existing sites and the development of satellite sites, it should be a prerequisite that all existing suitable plots have been taken up.

36. In order to maintain and enhance the competitive position currently enjoyed by the region/sub-region, it is vitally important that the market in future is offered a geographical spread of commercially attractive sites available to satisfy individual operator locational requirements.

37. To bring forward the quantum of land identified as being required, there will be a need to continue long-term strategic and collaborative planning across the county of Leicestershire, and potentially with authorities in neighbouring areas. This study should therefore not be viewed as a 'one-off process', and *HPIG* or a similar grouping will need to take the strategy forward on a long-term collaborative basis. On that basis, a *strategic distribution sites*

selection task group should be established to identify and discuss opportunities and determine the most suitable sites to bring forward in local plans.

38. The main remit of the task group shall be as follows:

- To identify and quantify the amount of land at existing commercially attractive sites that could potentially be recycled up to 2036 for new-build warehousing;
- To identify new sites for development (pro-active approach);
- To issue 'calls for sites' to prospective commercial developers[5];
- To foster a collaborative approach to planning for the strategic logistics sector across Leicestershire and beyond;
- To monitor progress in site allocation and take-up over time; and
- To develop a common position with respect to those large schemes which will be considered via the Development Consent Order process e.g. SRFIs.

39. Infrastructure delivery is by its nature long-term. It is therefore important that the *strategic distribution sites task group* be formed and begin its work as soon as practically possible. The underlying evidence base to inform its decisions and the preparation of local plan policies will need to commence now so that the right sites in the most competitive locations can come forward for development as and when they are required by the market.

40. The amount of land which could potentially be recycled up to 2036 at existing commercially attractive sites in the East Midlands/Leicestershire should be factored into the demand/supply equation before a 'search' or 'call' for new sites is commenced. However, it was also noted in Part B that there is currently no reliable data or information readily at hand to allow these figures to be verified or otherwise in a robust manner (i.e. could withstand 'testing' at examination or inquiry). It is therefore recommended that the first major task of the sites steering group should be to commission a study to fully examine this issue. It would need to be undertaken by a specialist commercial property consultancy, with both research and agent departments. Such a study will most likely include a significant amount of primary research, including the surveying of landlords, developers and occupiers at existing sites across the county.

41. The process of identifying new sites for development (the pro-active approach) should be guided by and based around the following site selection criteria:

- At least 50ha of developable land;
- Good highway connectivity – demonstrating that the motorway/dual carriageway junctions serving the prospective sites and the approach routes have sufficient network capacity;

[5] Identifying new sites and a 'call for sites' should be undertaken simultaneously (a twin-track approach).

- Showing that a prospective site can be connected to the railway network and that it is served by a railway line offering a generous loading gauge (minimum W9), available freight capacity and connects to key origins/destinations directly without the requirement to use long circuitous routes;
- Are the prospective sites sufficiently large and flexible in configuration to accommodate an intermodal terminal and internal reception sidings;
- Similarly, are they sufficiently large and flexible in configuration to accommodate the size of distribution centre warehouse units now required by the market;
- Demonstrating that they are accessible to labour, including the ability to be served by sustainable transport, and located close to areas of employment need; and
- Located away from incompatible land-uses.

42. It is also noted that ecological surveys alongside other studies e.g. flood risk, will also be required to eliminate the possibility that prospective sites are unsuitable from this perspective.

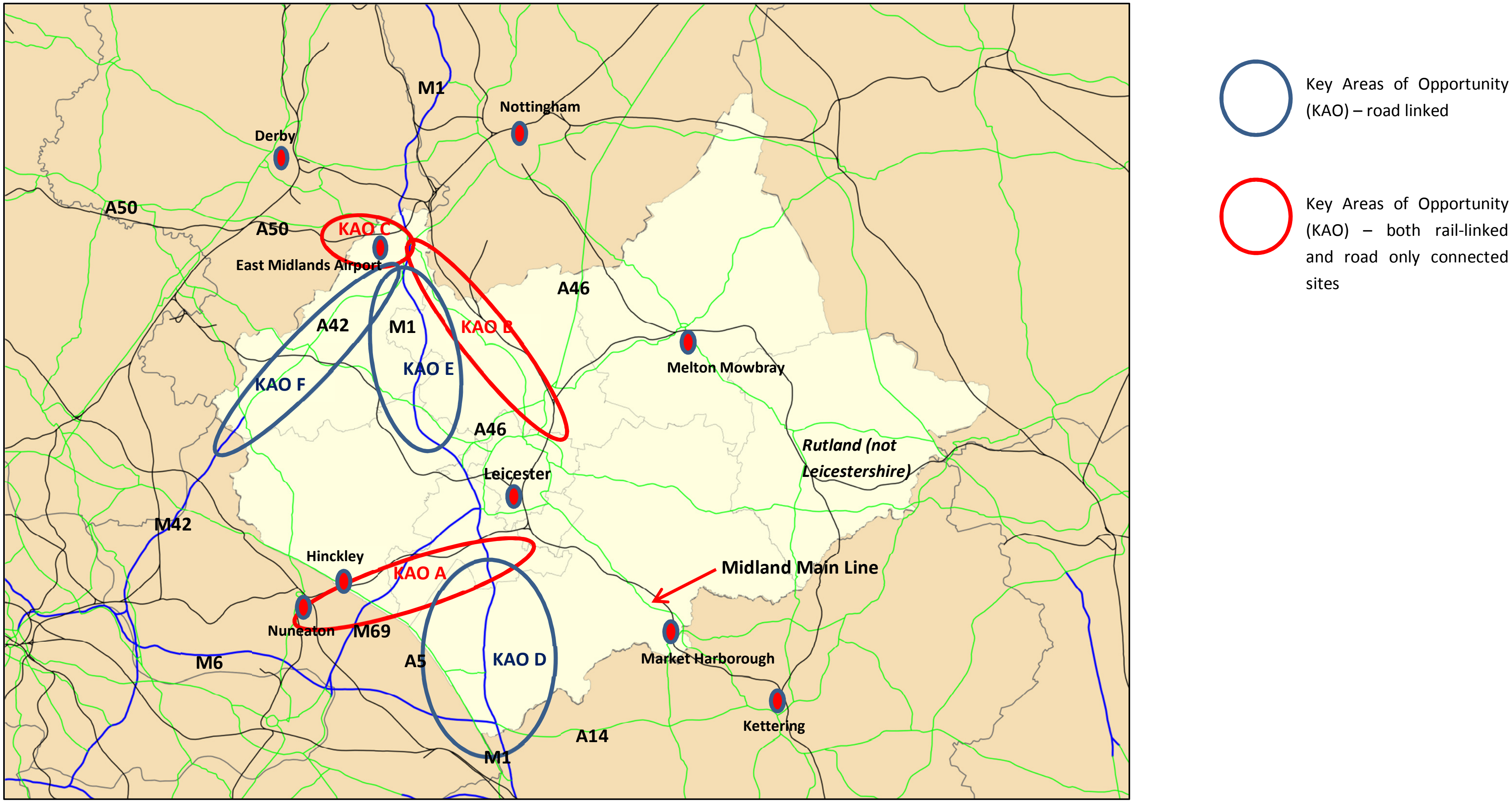
43. While it will not be the responsibility of the steering group or planning authority to ultimately develop any commercially attractive site identified, the group or respective local authority (i.e. district in which the site is located) is likely to have an on-going role in planning and assisting the delivery of the completed development. The approach adopted by *Halton Borough Council* with respect to the initial development of the *Merseyside Multi Modal Gateway (3MG)* would appear to be the appropriate model.

44. Alongside and at the same time as the pro-active approach, the steering group should also issue a 'call for sites' to the commercial property sector. Developers and land owners would be asked to suggest potentially suitable sites located within the key areas of opportunity. As part of the process, the developers would be required to demonstrate suitability against all of the site identification criteria noted above (i.e. submissions would need to include primary research demonstrating suitability against the criteria). This will need to be a stipulated requirement outlined in the initial 'call for sites'.

45. The report identified 'key areas of opportunity' and these are illustrated on the map below. Those enclosed in red are key areas of opportunity for both rail and road only connected sites, while those enclosed in blue are key areas of opportunity for road only connected sites. It is broadly within these identified key areas of opportunity where individual sites commercially attractive to the logistics market might be located. These are therefore the key areas where a strategy for growth should be allocating new sites to meet the identified land shortfall, through a pro-active search for sites alongside a 'calls for sites' process with the commercial property sector (see above).

Map ES2: Key Areas of Opportunity

(NB: Boundaries of key areas are not definitive and are shown for indicative purposes only)



46. There are other areas where public sector 'interventions' could help maintain its established competitive advantage and grow the sector. One such area is in the field of skills and training, and in particular supporting and part funding skills training in areas where there are recognised skills shortages. This should incorporate both manual functions through to higher grade management roles.

47. As part of this wider strategy, therefore, it is recommended that the LLEP, in co-operation with the Leicestershire planning authorities and other stakeholders, should commission further research into the employment, skills and training needs of the sector. This research should be undertaken as a key component of the logistics sector growth action plan. This should include how links can be developed between the logistics industry and the further/higher education sector in Leicestershire.

48. In addition to its participation in the sites selection task group and co-ordinating the recommended research into skills/training, there should be a key continuing role for the LLEP covering the promotion and marketing of strategic logistics opportunities Leicestershire to potential occupiers and operators, the commercial investor market and other potential investors. In this respect, the '*Logistics Hub UK*' initiative of the Doncaster and Sheffield city region is a good 'case study' of how the LLEP should proceed. *Logistics Hub UK* is a web-based initiative bringing together developers, landowners, occupiers, local authorities and the LEPs to promote the Doncaster and Sheffield city region as 'The location' for logistics. It can be found at the following link: http://www.logisticshubuk.com/.

49. The Government announced the creation of a single £12 billion 'Local Growth Fund' to support investment by the LEPs in skills/training, housing and transport infrastructure. Approximately £2 billion was made available for distribution to LEPs in the fund's first year of operation (2015-2016). The LLEP submitted its 'Growth Deal' bid in March 2014 and after a period of negotiation, the Government announced in July that nearly £28.3 million would be made available in 2015/6. Around £80 million is likely to be made available over the subsequent five years. While the 2015/16 money has been allocated to projects, future LLEP Growth Deal Funding could be used to 'unlock' the barriers to development identified in this study, thereby leveraging in private sector funding and delivering development in the Key Areas of Opportunity.

50. Four over-arching conclusions can be drawn from the study, namely

- A need to identify and allocate new land at commercially attractive strategic sites, the purpose of which is to maintain and enhance the established competitive advantage, enabling the sector to growth in a sustainable manner;
- To deliver the identified need, there will be a requirement to continue long-term strategic and collaborative planning across the county of Leicestershire, and potentially with

authorities in neighbouring areas. This study should therefore not be viewed as a 'one-off process', and *HPIG* or a similar grouping will need to take the strategy forward on a long-term basis (and review the strategy periodically);

- While the strategy outlined is a long-term plan (up to 2036), the preparatory work will need to begin immediately. Infrastructure delivery is by its nature long-term, albeit that the underlying evidence base and the preparation of local plan policies needs to commence now so that the right sites in the most competitive locations can come forward for development as and when they are required by the market; and
- The strategy requires the implementation of a number of highway and railway enhancement schemes. Consequently, there will be a requirement for the planning authorities and LLEP to liaise with (and lobby) the Highways Agency and Network Rail to ensure that the enhancement schemes are ultimately delivered.

51. This is an Executive Summary and is not intended to be a replacement for the main study reports. The final report plus the interim reports (Part A and Part B) should be read alongside this document, which summarises briefly the key conclusions. The reader should consult these documents for the detail on a particular issue/conclusion.