

LOCAL PLAN COMMITTEE – 27 JANUARY 2021

Title of Report	LOCAL PLAN REVIEW: ECONOMIC EVIDENCE	
Presented by	Ian Nelson Planning Policy Team Manager	
Background Papers	National Planning Policy Framework Planning Practice Guidance Need for Employment Land Start Up Workspace Demand Report	Public Report: Yes
Financial Implications	The cost of the substantive Local Plan Review is met through existing budgets.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	None from the specific content of this report. In due course the planning policy implications of the economic evidence set out will be incorporated in a consultation document for the Substantive Local Plan Review. The Local Plan Review process as a whole must accord with the legal requirements set out in legislation and guidance.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	No staffing implications associated with the specific content of this report. Links with the Council's Priorities are set out at the end of the report.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	This report presents the key findings from two economic studies which will form part of the evidence base for the Substantive Local Plan Review and advises on next steps.	
Recommendations	<p>1) THAT THE LOCAL PLAN COMMITTEE NOTES THE FINDINGS OF THE ECONOMIC EVIDENCE FOR THE SUBSTANTIVE LOCAL PLAN REVIEW WITH RESPECT TO FUTURE EMPLOYMENT LAND REQUIREMENTS AND START UP WORKSPACE.</p> <p>2) THAT THE LOCAL PLAN COMMITTEE NOTES THAT FURTHER WORK WILL BE DONE TO ASSESS THE IMPLICATIONS OF THESE FINDINGS FOR THE SUBSTANTIVE LOCAL PLAN REVIEW AND THAT THESE WILL BE REPORTED TO A FUTURE MEETING OF THIS COMMITTEE.</p>	

- 1.1 A key matter for the Local Plan Review to address is the additional need for employment land in the district to cover the new plan period. The National Planning Policy Framework (NPPF) directs that planning policies should “meet anticipated needs over the plan period” (paragraph 81) and also “be flexible enough to accommodate needs not anticipated in the plan”.
- 1.2 The starting point for this process is having an up to date understanding of current and future business requirements and likely changes in the market. When considering employment land such work is focused on the need for offices (i.e. the former B1 use), industrial (B2 use) and warehousing (B8) space. According to the National Planning Practice Guidance (NPPG), such an assessment should not look solely at the amount of new land and floorspace needed, termed ‘quantitative needs’, but also at qualitative considerations which could, for example, relate to identified gaps in the district’s portfolio of business premises or to specific segments of need which are not currently being met by the market.
- 1.3 Currently the most up to date evidence we have is in two separate studies. The Housing and Economic Development Needs Assessment (HEDNA) was published in January 2017 and is concerned with the need for additional offices and industrial space and non-strategic distribution (defined as units of up to 9,000sqm). Strategic warehousing requirements are assessed through the Leicester and Leicestershire Strategic Distribution Study update which dates from 2016. Both studies were produced jointly with the other Leicester and Leicestershire authorities.
- 1.4 Whilst the HEDNA findings are still relevant for measuring the progress of the adopted Local Plan and for planning application decisions, it will not be a reliable basis for the Local Plan Review in the longer term. This is because a) it will not be sufficiently up to date by the time the Local Plan Review is examined; and b) the HEDNA covers the period to 2031/36 and would not cover the full period of the Local Plan Review to 2039.
- 1.5 Further, the HEDNA findings have not been wholly borne out by events. The HEDNA anticipated that a relatively large amount of new office space would be needed whereas a significant market demand for new offices has not transpired ‘on the ground’. In contrast, the demand for industrial and non-strategic warehousing distribution has been stronger than forecast and the supply achieved through completions and extant planning permissions has already surpassed the HEDNA minimum requirement to 2031. There is an apparent mismatch between the HEDNA and the market realities evident since its preparation.
- 1.6 In this context, the consultancy firm Stantec has been appointed to prepare an up to date assessment for the district. The ‘North West Leicestershire: The Need for Employment Land (December 2020)’ study is concerned with offices, industrial uses and non-strategic distribution. The future need for strategic scale distribution is being assessed separately through a county-wide study which is currently in preparation and which will be reported to the Committee separately.
- 1.7 There is also a further stream of work being co-ordinated by the Leicester and Leicestershire authorities to produce a replacement HEDNA. This work is at the commissioning stage and will not report until mid-2021. In view of this timescale, and the need to maintain momentum with our own Local Plan Review, it was considered important to press ahead with our own district-level economic assessment at this point.

2. THE NEED FOR EMPLOYMENT LAND

- 2.1 In common with other economic assessments of this type, the starting point for the Stantec study is an economic forecast which predicts growth in jobs and Gross Value Added (a measure of the value of goods and services) for different employment sectors over future years. The growth is then converted into future floorspace/land requirements using

standardised conversion factors. To provide added rigour, the consultants compared forecasts produced by two different, reputable economic forecasting companies and also sense-checked the findings against comparative data e.g. previous completions and market performance.

- 2.2 The table below shows the study’s findings for the amount of additional employment land/floorspace needed for the 22-year period of the Local Plan Review (2017-39). The study presents the need for industrial and non-strategic warehousing as a combined figure.

	Need (2017-39)	
	Floorspace	Land
Offices (Max)	57,000sqm	9Ha
Industrial/Non-strategic warehousing (Min)	187,000sqm	47Ha

- 2.3 The figures are presented as overall land area needed (in Ha) and as floorspace figures (in sqm). It is useful to have both measures as, for offices in particular, town centre sites are likely to be developed at a higher density (i.e. more sqm of floorspace per Ha of land) than a business park-style site. Monitoring against both measures gives a more refined understanding of how and whether need is being met.

- 2.4 The offices requirement is presented as a maximum figure. This is because there are a number of factors which could curtail office demand in the future, namely;
- a) the office market is beset by poor development viability and limited access to development finance such that speculative office development is not currently feasible. This situation is not unique to NWL and is replicated across the country with the exception of the largest city and business centres;
 - b) the Covid pandemic is clearly having a current impact on the amount of office space being used as many more people work from home. The consultants anticipate that businesses will continue to use offices but with the possibility that some will re-organise to require less office space in the future. As yet, it is too early to predict the duration and scale of any such impacts; and
 - c) the consultants detect a market preference in favour of city centre sites and away from out of town business parks which is where much of NWL’s office stock is located (e.g. Pegasus Business Park adjoining East Midlands Airport).

- 2.5 The industrial forecast is presented as a minimum figure as there are some indications that demand has been suppressed in the past, including as a result of competition from the strategic distribution market which can command higher land values and therefore can outbid other types of uses when sites are being purchased.

- 2.6 In addition, the study identifies a qualitative gap in the stock of industrial premises in North West Leicestershire. It finds that the district lacks modern, flexible high-specification space which can be future-proofed for changing technologies and which is set in an attractive, landscaped environment rather than a more traditional industrial estate. The study reports that these types of premises are attractive to higher value industrial occupiers. This reinforces the quantitative evidence and points to a need to consider the type and form of development which potential sites could accommodate as well as the overall amount. It is about ensuring an adequate supply of land that can meet needs in the widest sense.

- 2.7 For interest, we have converted the HEDNA land figures to annual figures and compared these with the equivalent figures in the Stantec study, albeit that the two assessments cover different time periods.

	Need for land/annum	
	STANTEC	HEDNA
Offices	0.4Ha	2.2Ha
Industrial/Non-strategic warehousing	2.1ha	1.0Ha

- 2.8 The Stantec findings appear more aligned with our experience of development demand over recent years. As explained above, the local market for industrial uses has appeared to be quite strong whilst the office market has appeared much more curtailed. The need for additional office space, whilst still a positive requirement, is considerably scaled back whereas the need for industrial/small scale warehousing is more than double that found in the HEDNA. The total annual requirement in the Stantec study (2.5ha) is, however, less than that from the HEDNA (3.2ha).

3. THE NEED/SUPPLY POSITION

- 3.1 The Stantec study covers the period 2017-39 so we need to factor in the development that has happened/been permitted in the intervening period (1 April 2017 to 31 March 2020) to establish the balance of land/floorspace to be found through the Local Plan Review process. The table below shows both the gains and losses over this period and includes the adopted Local Plan allocation at Money Hill to conclude on the amount of land/floorspace that may need to be identified in the Local Plan Review.

Assessment of employment land provision as at 31 March 2020 compared to identified need.

		Offices		Industrial/non-strategic warehousing	
		Sqm	Ha	Sqm	Ha
A	Requirement (2017-2039)	57,000	9.0	187,000	47.0
B	Completions 2017-2020	10,088	4.86	10,024	2.33
C	Losses 2017-2020	312	0.08	25,117	6.92
D	Net completions [B-C]	9,776	4.78	-15,093	-4.59
E	Permissions at 31 st March 2020	19,627	8.08	99,696	29.68
F	Permitted losses at 31 st March 2020	2,292	0.51	83	0.32
G	Net permissions [E-F]	17,335	7.57	99,613	29.36
H	Allocation (Money Hill)	31,980	5.33	42,640	10.66
	Residual requirement/surplus [A-(D+G+H)]	-2,091	-8.68	59,840	11.57

- 3.2 On the face of it, sites with planning permission together with the allocation at Money Hill would be sufficient to meet the balance of new office development needed to the end of the plan period. There would be a need to identify approximately 9.5ha of additional land for industrial/small scale distribution.
- 3.3 The situation may be rather more complex however. Firstly, a number of sites included in the supply have outline permission for a mix of uses (offices, industrial and warehousing). The split between the uses has been assumed in the figures above but it may transpire differently at the reserved matters stage. Similarly the split between uses at Money Hill is based on an assumption at this stage. Therefore, the apparent negative requirement for office space may actually end up as a positive requirement.
- 3.4 Secondly, as already noted the report identifies a qualitative deficiency.
- 3.5 Thirdly, there are some further factors, discussed below, which may point to taking a more flexible approach to the identification of land through the Local Plan Review.
- 3.6 **National Policy:** the NPPF says that Local Plan policies for the economy should build in a degree of flexibility in anticipation of changes in needs, working practices and economic conditions over the plan period which were not foreseen when the plan was prepared (paragraph 81).

- 3.7 **Inherent uncertainties of economic forecasting:** the Stantec study is based on an economic forecasting model but it is not possible for all local, national or global events to be anticipated, as the Covid pandemic has shown, and any forecast produced now is only as good as the information which is available now. Indeed, the long-term implications of the pandemic for the economy are hugely uncertain and cannot be reliably reflected in a forecast being prepared in 2020.
- 3.8 Despite not being a perfect prediction of the future, the Stantec study nonetheless represents a best assessment at this point in time and a reasoned assessment of future needs. Its limitations are the same as for any study aiming to predict what the economy will look like in two decades time.
- 3.9 **Changes to Permitted Development Rights and the Use Class Order:** the Government introduced changes to the Use Classes Order which took effect on 1st September 2020. Uses which were formerly categorised as B1 uses, namely offices, research and development and light industry (being industrial uses which can be carried out in a residential area) are now included in a new Use Class E alongside shops and leisure uses amongst others. This means that premises can change use within this new expanded use class without the need for a planning application or prior notification process. Removing the hurdle of a planning application could trigger an increase in the number of offices and light industrial buildings being put to alternative uses.
- 3.10 As the new Use Class E now encompasses uses which were previously in separate use classes (retail, offices and light industrial), the Local Plan Review may need to be more precise about the particular uses a site is being allocated for.
- 3.11 The Government is also consulting on further changes to Permitted Development Rights to enable the conversion of commercial buildings within the new Use Class E to housing. Currently light industrial units of up to 500sqm can be converted to housing through the Permitted Development Rights route but, if the consultation proposals are confirmed, that size limit would be removed.
- 3.12 The consequences of these confirmed and potential changes are difficult to predict at this stage and are only likely to be fully revealed over time. Of relevance is that there has been little local take up of the existing Permitted Development Rights which enable the conversion of offices to housing with just one significant proposal coming forward for 15 residential units at 117 London Road, Coalville (although this has yet to be implemented). Also there is likely to be some practical limitations to the conversion of any larger light industrial buildings to residential use which could limit the uptake of this new freedom if it is confirmed.
- 3.13 **Unmet need from Leicester:** Leicester City Council has declared it has an unmet employment land need of 23Ha. As with housing, the issue of unmet employment land need will be the subject of further discussion and negotiation between the Leicester and Leicestershire authorities, and will be documented in a forthcoming Statement of Common Ground to help establish any implications for this authority's Local Plan Review.
- 3.14 **New County-wide evidence:** There is the prospect that the HEDNA replacement will result in an alternative set of requirements for North West Leicestershire. The implications of significant conflicts, if any, will need to be considered at a later stage of the Local Plan Review.
- 3.15 These factors could point to, for example, building in additional flexibility into the figures through an additional buffer or safety margin but this requires more work and will be the subject of further reports to this committee at a future date.

4. START UP SPACE

- 4.1 In a separate but complementary workstream, the firm SQW has been commissioned to assess the demand for start-up workspace in the district. This is a specific market segment of demand. In addition to informing the Local Plan Review, the SQW study is relevant to the Council's Economic Growth Plan (2019-21) and specifically to its objective to ensure there is sufficient workspace and support for new enterprises and for business start-ups.
- 4.2 SQW found evidence of occupiers struggling to find small scale industrial units suitable for start-up firms. This is linked to viability issues; the development of small industrial space is constrained by low rental values and high building and fit-out costs, despite there being evidence of strong latent demand. Small businesses are also typically looking for shorter leases with more flexible terms and these are less attractive for many landlords. In common with the Stantec report, SQW found that the values achieved by strategic scale distribution does, to a degree, distort the local market for other uses. The study also found that the existing small industrial units in the district are well occupied with little turnover or new stock, with the notable exception of the Apollo Court development at Vulcan Way, Coalville promoted by the county council and the Leicester and Leicestershire Enterprise Partnership. The overall effect is that the market is not making provision as the risks involved are too high. Indeed, this is a segment of the market that has until quite recently been one where the public sector played an important role. However, the lack of finance has curtailed such provision.
- 4.3 The position for office start-up space is not so clear cut. SQW report, similar to the Stantec study, that the uncertainty associated with Covid-19 means that the future demand for office-based start-up space is much less apparent.
- 4.4 An effect of this overall situation is that businesses may stay for too long in unsuitable accommodation which will impact on their productivity. An overall shortage of smaller scale space may mean that growing businesses do not vacate their start-up premises, blocking their availability for other new, fledgling businesses to move into, or it could mean they move out of the district to find suitable premises.
- 4.5 SQW find that the evidence supports a case to promote the development of small workshop schemes with units up to 100 sqm, some of which should be available on flexible lease terms and with access to business support services. There is also a justification for 'grow on' light industrial space of 150-500 sqm.

5. NEXT STEPS

- 5.1 Further work will be progressed to understand the implications of the findings from these two studies for the economic policies in the Local Plan Review. A key theme in the NPPF is the need for flexibility and there may be a case for the plan to address this through its criteria-based policies and the types and/or amount of land which is allocated for employment purposes. The findings from the new Leicester and Leicestershire Strategic Distribution Study, once finalised, will also need to be addressed.
- 5.2 With respect to start up space, options to consider could include; a) allocating specific sites for start-up premises; b) specifying a proportion of start-up premises as part of the overall mix of employment floorspace on larger sites; and/or c) promoting the provision of start-up space through some form of enabling policy.
- 5.3 In the first two circumstances, viability will be an important factor as it is clear that the market is not willingly delivering the type of floorspace that local start-up businesses need. Separately, the council may want to consider whether it wishes to take a more interventionist approach and act in a partnership with a landowner/developer to deliver a scheme of units itself.

- 5.4 The outcomes from this additional work will be reported to a future meeting of the Local Plans Committee.

Policies and other considerations, as appropriate	
Council Priorities:	The economic policies in the Substantive Local Plan Review will be particularly relevant for the following Council Priority; - Support for businesses and helping people into local jobs
Policy Considerations:	Adopted Local Plan National Planning Policy Framework
Safeguarding:	None specific
Equalities/Diversity:	The Local Plan Review as an entity will be subject to an Equalities Impact Assessment.
Customer Impact:	None specific
Economic and Social Impact:	The decision, of itself, will have no specific impact. The Substantive Local Plan Review as a whole will deliver positive economic and social impacts and these will be recorded through the Sustainability Appraisal. .
Environment and Climate Change:	The decision, of itself, will have no specific impact. The Substantive Local Plan Review as a whole will deliver positive environmental and climate change benefits and these will be recorded through the Sustainability Appraisal.
Consultation/Community Engagement:	In due course the planning policy implications of the economic evidence set out will be incorporated in a consultation document for the Substantive Local Plan Review. The consultation arrangements will be governed by requirements in the Statement of Community Involvement.
Risks:	A risk assessment for the Local Plan Review has been prepared and is kept up to date. As far as possible control measures have been put in place to minimise risks, including regular Project Board meetings where risk is reviewed.
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