

Powys County Council

Powys Employment Needs Assessment

Technical Report 3

Demand Analysis – Future Change

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Demand Analysis – Future Change

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1 INTRODUCTION

1.1 Purpose

This is the third in a series of Technical Reports underpinning the Powys Economic Needs Assessment. This builds on both Technical Report 1, which set out an assessment of the current and historic socio economic conditions in Powys, and Technical Report 2, which sets out a review of the current employment property and sites supply and market context in Powys. This third Technical Report now looks forward, to make an assessment of future potential employment property and land requirements in Powys over the 15 year LDP period 2011-26.

1.2 Overarching Principles

The assessment of future requirements contained within this report is not designed to be a detailed prediction of exactly what will happen in the future in Powys. Any exercise which includes an element of forecasting includes substantial risk and uncertainty. Therefore, the results of this exercise are not intended to be the basis of a 'predict and provide' policy response. Rather, the approach is designed to bring together available evidence in order that there is a clear basis on which to consider policy options, in conjunction with other complementary, or potentially competing evidence. In particular, the method has been designed in line with best practice guidance to help inform the development of the Powys Local Development Plan (LDP), specifically to inform policies around the provision of employment land. The results should be regularly reviewed in the light of new evidence and the passing of time as part of the on-going planning policy development and review process.

1.3 Geographic Designations

For the purposes of this study Powys refers to the county of Powys excluding the area designated as part of the Brecon Beacons National Park (BBNP). Where possible, data has been adjusted to discount the influences of the BBNP.

In line with the analysis within other Technical Reports, four sub-areas within Powys are referred to. These are:

- Machynlleth
- Severn Valley and North
- Central
- Ystradgynlais

Appendix 1 contains the statistical definitions used for these areas within quantitative analysis. However, in general terms these areas should be thought of as broad sub-areas for the purposes of description and understanding of some spatial implications, rather than fixed zones with clear boundaries.

2 METHODOLOGY

2.1 Overview

The method employed to assess future requirements has been developed to be in line with *Employment Land Reviews: Guidance Note, Office of the Deputy Prime Minister, December 2004*. Whilst this is a guidance document relating specifically to England, the core principles of the methodology create a helpful framework for assessments of this kind.

The underlying principle is to acknowledge the range of available evidence and the inherent uncertainty. In so doing, various factors can be brought together to give a balanced view of future requirements. As a result, whilst there are elements of this approach which are quantitative and could be viewed as mechanistic, these must be balanced and adjusted in line with other available qualitative evidence to ensure the approach and the interpretation of the results are appropriate to the characteristics of the area of focus.

The key components of method employed are:

- A consideration of the likely pattern of economic growth in the area based on economic and employment forecasts giving an indication of labour demand and sectoral patterns of growth, set in the context of wider sub-regional and national growth trends;
- A consideration of the potential change in labour supply as a result of changes in the demographics of the area and likely changes in patterns of economic activity;
- A consideration of key economic policy ambitions, drivers and confirmed actions which may have an impact upon the future scale and pattern of economic change in the area;
- A consideration of the socio-economic characteristics of the area and the implications of this for future patterns of land and property use;
- A consideration of the commercial property market dynamics and characteristics of the area and the influence the development, occupier and investment markets will exert on future employment property and land use; and
- A consideration of historic patterns of employment property development and land use as a potential indicator of continued trends.

2.2 Quantitative Assessment

Within the balanced approach outlined above is a quantitative component which brings together available evidence within a quantitative model designed to capture the key drivers of future requirements. This is summarised in the flow diagram.

Figure 1: Methodology Diagram



The first part of the process considers the potential for additional requirements for employment land and property as a result of expansion in the economy. This is based on sectoral employment projections, which are then converted into projected employment change by Use

Class using a conversion matrix presented at Appendix 2 to this report and then into property and land requirements using employment and development density assumptions.

The second stage then considers wider market factors. Particularly the need to recognise the churn in the economy. For example, whilst the manufacturing sector as a whole has experienced well documented decline in its employment base, there has been a continued demand for new premises within which to operate. This demand can be driven by existing companies needing more/less space, a different location or a different type of premises. It can also be driven by new companies in the market, which may not find the right type of property available in the right location within the market. As a result, whilst overall a sector may be in decline (although this still applies to growing sectors too), there are changes beneath the surface which will continue to drive demand. This can be a particular issue where existing stocks are ageing or where vacant sites are no longer in the locations that are suitable to modern occupiers.

The third element of the model builds in an allowance for choice and flexibility. This element needs to take account of offering location choice as well as choice in terms of the type of property and setting. There is also a need to offer sufficient flexibility to deal with peaks in demand and ensuring capacity beyond the life of the LDP period.

Within the detailed assumptions employed as part of this model, the local evidence has been used to ensure the approach is appropriate to Powys. In particular, this includes the large geographic scale of the study area, the rural nature of the economy and the assessment of the existing stock and the need for upgrading.

2.3 Validation

The results of the quantitative assessment are tested against historic patterns of activity and other available evidence of a more qualitative nature to aid interpretation of the results and set the results in a wider context.

3 ECONOMIC FUTURES

A key element of considering future employment land and property requirements is an understanding of the likely pattern of economic and employment change in Powys. Forecasts for Powys were commissioned from Oxford Economics¹ to provide a baseline. A summary of the key issues emerging from this baseline is presented below. Where relevant, the LDP period of 2011-26 is compared to the preceding 15 year period 1996-2011 to give a sense of scale, as well as benchmarking against the neighbouring rural counties of Ceredigion and Gwynedd and the Welsh and UK averages.

All data referred to in this chapter is drawn from the Oxford Economics economic model. These may not directly relate to official published statistics, particularly as a result of the integration of agriculture within employment measures which are typically not well dealt with in the main official datasets.

3.1 Headline Projections

The LDP period, starting in 2011 begins at a time of sluggish global recovery from a severe recession. In the UK as a whole, the economic backdrop is one of relatively low growth expectations in the short-medium term relative to much of the 10-15 years preceding the recession. In particular, public sector spending restraint is anticipated to lead to short term employment falls, and relatively modest growth in some elements of the public sector (education and health) in the medium to long term, particularly in comparison to significant public sector employment growth through the first decade of the 21st Century.

Figure 2 illustrates the projected change in employment in Powys alongside performance over the last 15 years. A decline of around 1% in total employment in Powys is projected 2011-26. In absolute terms, this equates to a fall of around 900 jobs from the 2011 base year. This compares with a 1% rise over the preceding 15 year period. When looking at the benchmark areas across the LDP period, Gwynedd is projected to experience a 1% employment decline, Ceredigion a 3% decline, Wales 0% growth and the UK 8% growth. In all instances the levels of growth are lower than the preceding 15 year period, particularly driven by weak public sector employment growth and a slow recovery from the recent recession.

However, as a result of projected falls² in the working age population within the Oxford Economics model over the LDP period, unemployment is projected to decline over the LDP period even though total employment is anticipated to decline. The rate of unemployment decline in Powys is projected to be much greater than either Gwynedd, Ceredigion or the Wales or UK averages. By 2026, the resident employment rate in Powys is projected to be higher than all the benchmark areas. In Powys, resident employment rates are projected to rise to around 73% in 2026, whereas for all the benchmark areas they are projected to remain at or around the 2011 baseline.

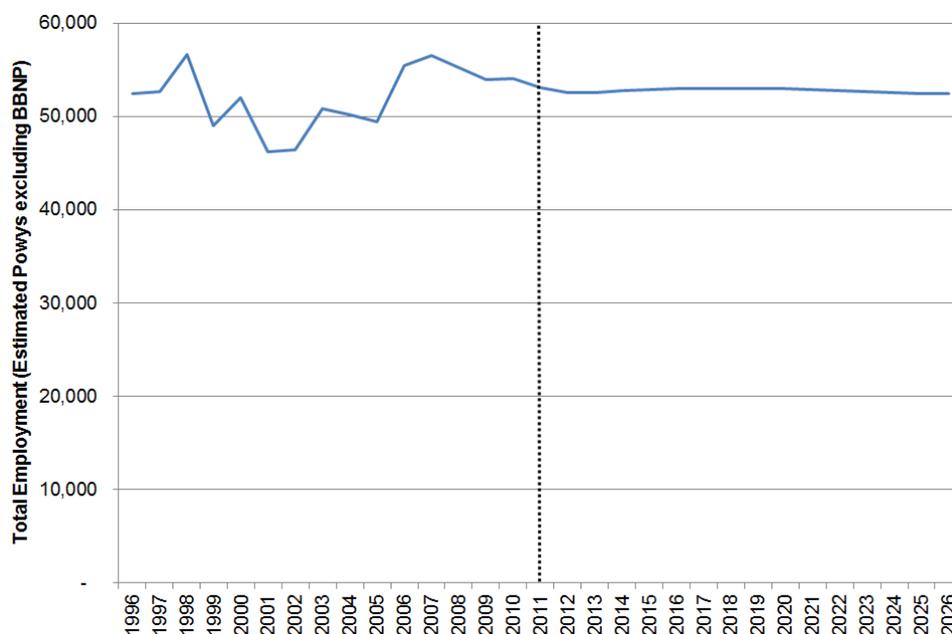
Nevertheless, this headline data needs to be interpreted in the light of the evidence on current trends and characteristics set out in Technical Report 1. In particular, the fact that headline employment and economic activity rate trends mask a range of issues beneath the surface in

¹ Forecasts were aligned to the Autumn 2011 update of the Oxford Economics UK Forecasting model.

² Further analysis presented at 5.2.3 of this report indicates that whilst official Welsh Government published population projections also show a fall in the population of 16-64 year olds in the population but that due to current planned changes in the state pension age the working age population may increase. The potential implications of this alternative analysis are set out at 5.2.3.

terms of the nature and value of employment opportunities including the high proportion of part time employment, relatively low wage rates and a high incidence of self employment, also with lower returns than benchmark areas. Whilst the commissioned forecasts do not set out projections for these more detailed indicators, the background economic context does not suggest any substantial shift in these characteristics is likely.

Figure 2: Total Employment in Powys 1996-2026³ (Source: Oxford Economics)



3.2 Sectoral Projections

When looking at sectoral employment data the picture is much more varied than the relatively flat projections for total employment change. This highlights the on-going structural shifts in the economy and even within the sectors presented, there will be significant churn of jobs and businesses over the LDP period.

Figure 3 presents the data for 14 sectors in Powys. This shows the continued transition towards service based employment. When considering the change between 2011 and 2026 the largest absolute growth is within the business services⁴ sector, with almost 1,000 additional jobs projected. Other sectors with substantial projected growth include construction (800 jobs), other services (900 jobs), and distribution and retail (600 jobs).

The two sectors with the largest projected employment declines are agriculture and manufacturing. In both instances, the output of these sectors is projected to grow over the LDP period. The agriculture sector is projected to lose around 2,000 jobs over the LDP period, equivalent to 22% of the employment base at 2011. This compares with a loss of around 3,300 jobs over the period 1996-2011. The manufacturing sector is projected to decline by around 1,400 jobs (also equivalent to 22% of the 2011 baseline). In the preceding 15 year period the

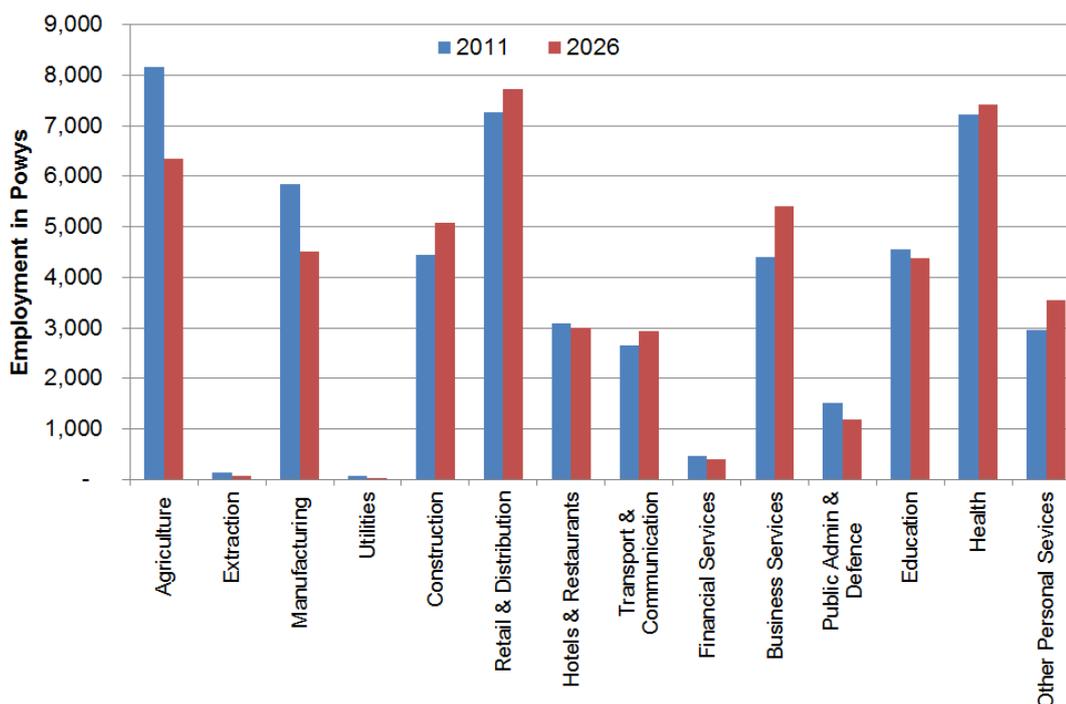
³ The pattern of employment change 1996-2011 is slightly different to that shown in Technical Report 1 as the Oxford Economics modelling of data takes better account of agricultural employment.

⁴ The business services sector contains a broad range of activities including property services, IT, research and development, professional services, cleaning and security.

manufacturing sector in Powys lost around 3,400 jobs. Therefore, the absolute scale of decline in both of these sectors is lower than in the period 1996-2011.

The public administration and defence sector is projected to decline in employment terms by around 500 persons over the LDP period. This is broadly in line with the pattern of the preceding 15 years. When considering the broader public sector in terms of education and health there are some quite stark differences to performance in the preceding 15 year period. The education sector expanded rapidly over the period 1996-2011 (by around 2,500 jobs) and over the LDP period is projected to lose around 200 jobs. The health sector is projected to grow modestly (250 jobs) but much more slowly than the 1,000 job gain over the period 1996-2011.

Figure 3: Sectoral Employment in Powys 2011 and 2026 (Source: Oxford Economics)



3.3 Use Class Projections

Sectoral employment projections have been translated into projections of employment change by Use Class, using the sector – Use Class matrix presented at Appendix 2 to this report. This shows a growth in employment within office type uses, primarily fuelled by the growth in business services employment. Employment within industrial and warehousing property (B1b/c, B2 and B8) is projected to decline, largely as a result of the ongoing expectation of losses in manufacturing employment.

Compared to the preceding 15 years, office based employment growth is somewhat lower, but the scale of decline in industrial related employment is also lower. There is a big projected swing in employment outside the B Use Class, particularly reflecting the expected change in the performance of the retail, education and health sectors over the LDP period.

Figure 4: Employment Change by Use Class

Use Class	Estimated 1996-2011	Projected Employment Change 2011-26
Office (B1a)	+1,400	+800
Industrial (B1b/c, B2, B8)	-3,300	-1,400
Outside the B Use Class	+1,900	-100

4 Estimating Future Employment Land Requirements

This chapter sets out the results of the quantitative assessment, undertaken in line with the method outlined in chapter 2 of this report. These results are then tested against other evidence on past take up and other qualitative evidence.

4.1 Net Additional Requirements

Figure 4 in the previous chapter set out employment changes by Use Class. This showed a growth in employment within the office Use Class of around 800 jobs over the LDP period, along with a decline of around 1,400 jobs in the industrial Use Classes.

Guidance on office occupation suggests a requirement for around 14.5 sq m per worker⁵. This would suggest a net additional requirement of around 11,100 sq m in Powys over the LDP period. Based on a development density of 25%-35%⁶ this would create a land requirement of 3.2 – 4.5 hectares.

For the purposes of the quantitative assessment this is carried forward, however, when interpreting the results it should be considered that there is some evidence⁷ to suggest office space is being used with increasing efficiency. As a result, there may be scope for a proportion of this expansion in office based employment to be absorbed within the existing occupied stock as well as for the existing office supply to be more efficiently utilised.

The decline in employment in the industrial sector is not projected to drive any expansion in the requirement for space. The issue is whether there is a release of space to the market. As noted in chapter 2, whilst there has been employment decline in the industrial sector for some time, there continues to be demand for new premises. Issues around the need to upgrade the supply of employment premises are dealt with in the next section of this chapter. However, when reflecting on the employment reduction in the industrial Use Class the following issues should be considered:

- Whilst a business may shed some of its staff, it may not close in its entirety and it may not release any of its property holdings to the market. Due to the lumpy nature of the commercial property market, through both lease structures and freehold ownership there is not necessarily a direct relationship between employees and floorspace. There are indications of increasing space per worker measures in the industrial sector over recent years, which likely reflect the trend towards reduced employment and increasing capital

⁵ Gross External Area. Based on 12 sq m NIA and an allowance of 15% to GIA and 5% to GEA.

⁶ Employment Land Reviews: Guidance Note, December 2004, Office of the Deputy Prime Minister provides some guidance on plot ratios. Business Park development is typically between 25% and 40%. For the purposes of this study the upper range is slightly discounted to reflect the rural setting of Powys where land costs and landscaping issues tend to lead to lower density development. Town centre office development would typically lead to much higher achieved densities.

⁷ Employment Densities Guide, 2nd Edition, 2010 Drivers Jonas Deloitte for OffPAT and HCA suggests an average floorspace per worker of 12 sq m (NIA) for general office uses. This compares to a figure of around 16.5 sq m (NIA) in the 1st edition release in 2001.

intensity. As a result, one should not necessarily expect a direct release of floorspace in this instance.

- Where a business does close, there may well be a release of either property or indeed an entire site. In some instances these will be available for re-occupation and redevelopment. In other cases, this may not happen within the plan period. There may be constraints upon the re-use of premises or land (such as ownership or contamination), or the site/property may be located unfavourably or be inappropriate for modern business occupiers. As a result, its continued use within the stock of employment land/property could be uncertain.

As a result of both of these issues it is not easy to assess the potential release of land and property as a result of the scaling back of the industrial labour force. However, it does suggest there may be some windfall releases which could contribute to further supply. Potentially, windfalls of around 5 hectares could be seen, based on the projected declines, if it is assumed that 50% of space was released and of this, 50% is made available for re-use within the LDP period. However, this is an outline estimate and should not be relied upon for detailed policy making.

4.2 Churn and Replacement

Our methodology for understanding the level of replacement demand is to assume that a proportion of the total existing stock of offices, industrial units and warehouses are replaced each year. This is particularly important for the manufacturing sector where ongoing development of industrial premises has been observed, despite a decline in employment in the sector. Based on what can be observed in the data, and what is known of the property market, it is assumed that a total of 1% -1.5% of commercial stock may need to be replaced each year. This is equivalent to the entire stock of employment property being replaced over a 66 to 100 year period. Further details relating to this assumption are contained in Appendix 2 to this report. In Powys, the supply review suggests there are issues with the quality of some stock, and stakeholders consulted as part of this study have indicated there will be a need to upgrade some of the stock over the course of the LDP period as it becomes unfit for purpose. However, given the market context in Powys, with a weak development market as a result of shortfalls in the value of developed buildings when compared against construction costs, the lower end of the range for this assumption has been adopted.

The stock based assumption set out above indicates a total level of replacement activity one might expect to observe in the property market. However, it does not consider whether this replacement activity takes place on existing employment sites (replacing or refurbishing one building with another on the same plot of land) or whether currently unoccupied land needs to be made available. The evidence and market observation would lead us to assume there will be elements of both. Some existing sites will clearly be available for re-use within the analysis period, however, others are likely to face constraints (e.g. remediation, infrastructure, ownership) and others may not be attractive to the market for redevelopment or reoccupation if they are no longer fit for employment use. For the purposes of this analysis we assume that 50%⁸ of replacement activity requires appropriate supply to be available. This therefore equates to a need to accommodate 0.5% of stock each year, or 7.5% over the course of the 15 year

⁸ The 50% assumption is based on the application of logic rather than clear evidence. There is no data at a local or regional level on which to base an assumption regarding the likely pattern of refurbishment/on-site replacement or the need for new land. As set out above, the logic would suggest there will be a mixture of both, but that mix is uncertain and will be determined by the commercial property market conditions and site specific characteristics throughout the LDP period. Previous experience by the consultants included a detailed testing of these assumptions by Local Authority officers who agreed that the assumptions were reasonable and justified.

LDP period. This is translated into land requirements in line with assumptions presented at Appendix 2.

Figure 4: Churn and Replacement

Use Class	Stock at 2008 (sq m)	7.5% of Stock (sq m)	Land Requirement (ha)
Office (B1a)	69,000	5,200	1.5 – 2.1
Industrial (B1b/c, B2, B8)	893,000	67,000	19.1 – 26.8
Total	762,000	72,200	20.6 – 28.9

Source: Department Communities & Local government

4.3 Choice and Flexibility

Two core components are added to take account of choice and flexibility. Firstly, a percentage uplift of the combined requirement for net additional and churn/replacement is applied to ensure an allowance for range and choice is incorporated. This needs to reflect the very large geographic area covered by Powys and the fact that there is much less substitution of location likely than in a fairly tightly defined local authority area. In addition, there needs to be provision of range and choice to ensure developers and occupiers can find the right property for them in terms of setting, size and location. This uplift also builds in some additional flexibility to allow the normal frictional movement in the market. To recognise the very large scale of Powys an uplift of 25% has been applied.

Secondly, a flexibility allowance is made to ensure sufficient provision is made to avoid a shortage of provision towards the end of the LDP period and immediately following its end. In addition, this flexibility allowance provides insurance should higher levels of demand become apparent within the LDP period. In this regard, a five year buffer (based on average annual requirements) is identified for this flexibility.

4.4 Combined Results

Figure 6 draws together the results of the various components within the quantitative assessment to provide an indication of potential future requirements for Powys. This analysis suggests a core requirement for around 30 – 40 hectares over the LDP period. With the additional flexibility buffer, this increases to 40 – 56 hectares.

Figure 6: Results of Quantitative Assessment (all figures in hectares)

	Net Additional	Replacement	Choice	Core Requirement	Flex	Total
Office (B1a)	3.2 – 4.5	1.5 – 2.1	1.2 – 1.7	5.9 – 8.3	2.0 – 2.8	7.9 – 11.1
Industrial (B1b/c, B2, B8)	-	19.1 – 26.8	4.8 – 6.7	23.9 – 33.5	8.0 – 11.2	31.9 – 44.7
Total	3.2 – 4.5	20.6 – 28.9	6.0 – 8.4	29.8 – 41.8	10.0 – 14.0	39.8 – 55.8
<i>Average Annual</i>				<i>2.0 – 2.8</i>		

4.5 Indicative Spatial Distribution

The figures set out in the quantitative assessment relate to the whole of Powys, excluding the Brecon Beacons National Park. Figure 7 provides an indicative split of this requirement across

the four sub areas of Powys. This is based on current shares⁹ of employment across the office and industrial sectors. This split is quantitatively driven, assuming the four sub-areas remain broadly in balance and experience similar growth patterns. No adjustment has been made for either policy aspiration or the characteristics of the current employment property stock. Both these issues should be considered in shaping policy responses. There may also be a need to adjust figures to recognise the need for minimum levels of provision to ensure range and choice within sub-areas. However, the table sets out a position from which to begin.

As identified in Technical Report 1, the change in employment by broad Use Class was not even across the four sub-areas, with some growth in the share of B Use Class related employment in the Severn Valley and North zone, the reverse trend was true in both the Central and Ystradgynlais zones, with the Machynlleth zone maintaining its share.

Figure 7: Indicative Sub-Area Requirements

		Current Employment Share	Core Requirement	Total Including Flexibility Allowance
Machynlleth	Office	5%	0.3 – 0.4	0.4 – 0.6
	Industrial	2%	0.5 – 0.7	0.6 – 0.9
	Total		0.8 – 1.1	1 – 1.5
Severn Valley & North	Office	54%	3.2 – 4.5	4.3 – 6.0
	Industrial	70%	16.7 – 23.5	22.3 – 31.3
	Total		19.9 – 28.0	26.6 – 37.3
Central	Office	33%	1.9 – 2.7	2.6 – 3.7
	Industrial	22%	5.3 – 7.4	7.0 – 9.8
	Total		7.2 – 10.1	9.6 – 13.5
Ystradgynlais	Office	8%	0.5 – 0.7	0.6 – 0.9
	Industrial	6%	1.4 – 2.0	1.9 – 2.7
	Total		1.9 – 2.7	2.5 – 3.6

⁹ Based on 2008 Annual Business Inquiry data translated through the SIC-Use Class Matrix at Appendix 2

5 Testing the Results

The quantitative assessment is a model driven estimate of future requirements. As set out at section 1.2 of this report, the outputs of this approach are not intended to be a prediction to which policy responses should be wedded, rather they are a guide to inform policy responses and need to be interpreted in conjunction with other available evidence.

As a start to this process, the results of the model need to be considered in the light of other evidence in order that policy responses can be shaped. This chapter begins to interpret the results in the context of a number of other, more qualitative factors.

5.1 Historic Take Up and Market Context

The results need to be understood in the light of evidence gathered as part of the market assessment and supply analysis (set out in Technical Report 2) which provides an indication of both historic take up of employment land in Powys, and qualitative evidence on the operations of the commercial property market in Powys.

In respect of historic take up, whilst there are no detailed monitoring records for the county, the assessment of changes in supply indicates take up of around 1 hectare per annum over the period 1996-2011. Over the 15 year period this would imply a requirement of closer to 15 hectares. This is somewhat lower than the estimated requirement set out within figure 6 above. However, the assessment of future requirements as part of this study is intended to take a positive view of economic development and to provide an allowance for choice to ensure the market is able to respond to need and does not constrain growth.

This 1996-2011 period was generally one of more buoyant economic growth. One of the primary reasons for low levels of development is strongly adverse development economics in Powys (and many other parts of mid Wales). The final value of commercial employment property, once developed is typically lower than the input costs (land and construction) of the development. As a result there is very little commercial employment property development taking place, and where it does take place it is almost exclusively with the support of public funding to bridge the cost-value gap. With this in mind, the current reductions in the capacity of the public sector to gap fund developments, there are clearly substantial downside risks in respect of the ability of the market to deliver the scale of development as estimated within the quantitative assessment. In fact, there may be challenges in achieving development aligned to historic rates.

These challenging market conditions do not necessarily mean that the level of requirement set out within the preceding analysis is too high. Anecdotal evidence suggests that new developments which have come forward in Powys have generally been occupied in relatively short periods of time suggesting there is demand in the market. It is also the opinion of consulted stakeholders that there is a need to upgrade existing employment stocks. However the market dynamics indicate that there are real delivery issues in Powys which need to be recognised and these may need to be reflected within policy responses. Without this there is a risk that low rates of development continue and economic growth is restricted by failing to provide sites and premises of appropriate quality to meet business needs.

5.2 Testing the Baseline Economic Projections

The projections used within the quantitative analysis provide a baseline scenario of potential economic growth. It is wise to test whether this is a sound basis for the quantitative analysis or whether alternative scenarios should be considered.

5.2.1 Historic Economic Context

An initial test of the baseline is to consider how it sits within the historic socio economic context of the area and the general understanding of the future expectations. In this instance relatively little change in the total level of employment is broadly consistent with the preceding 15 year period¹⁰. Whilst there were some substantial fluctuations within the period, and one would not expect the path of total employment to manifest itself in quite such a sedate pattern as is illustrated in Figure 2, there is no reason to suspect a substantially different pattern for total employment. The evidence gathered from consultees as part of this study suggests a recognition that the current drivers of corporate location decision making do not make Powys a high priority location for investors and the majority of growth is likely to come from indigenous businesses. Indeed, this is reflected in the most recent economic development and regeneration policy documentation relating to Powys. In addition, the constraints upon public expenditure are seen as a further risk to growth aspiration given the general reliance on public funding to underpin the majority of employment property development in the county in recent times.

Whilst one could possibly argue that the economic outlook could become more bleak, this is not an alternative that is tested in the quantitative model, as planning for weaker performance has the potential to restrict growth that could be forthcoming and does not align with wider economic policy aims.

5.2.2 Policy Ambition

The Programme for Government 2011-2016 set out by the Welsh Government (WG) seeks to further integrate economic, education, skills, procurement and planning policies to deliver greater benefits to the Welsh economy; encouraging greater levels of private sector investment and employment; increasing the links between academia and businesses; and positioning Wales as a low carbon, green economy. The Programme is a recent announcement and it is premature to determine the precise impact it will have on the Powys economy, however, the key action of direct relevance include supporting high performing 'anchor' companies in those parts of the economy that can create employment and wealth, introduce Enterprise Zones to strengthen competitiveness and a 10 year National Infrastructure Plan.

The WG focus has stated its support for industry-led investment in the key sectors, these include: Creative Industries; Information, Communication and Technology (ICT); Energy and Environment; Advanced materials and manufacturing; Life Sciences; Financial and Professional services; Food and Farming; Construction; and Tourism. The Sectorial Projects have shown that for Powys some of these sectors are predicted to be in decline, notably manufacturing, agriculture and element of the tourism industry and it is conceivable that policy responses have the potential to slow or reverse this decline. In other sectors such as construction and business and professional services, the forecast growth shown for Powys could be secured and even accelerated by WG interventions.

Further policy ambitions are set out in the Powys Regeneration Strategy it states the "economy must be driven by: diversity, flexibility and renewable assets." In this sense, the strategy emphasises that the County Council will be required to 'nurture' what exists, rather than artificially grafting on new sectors. The principle aspects of the Powys economy that may be targeted for support are highlighted as: renewable energy generation and green technology;

¹⁰ For the purposes of this discussion the historic data from the Oxford Economics model is used to ensure a comparable data set. The data for the period 1996-2011 shows some significant swings, most notably as a result of substantial fluctuations in agricultural employment through the period coupled with rapid decline in manufacturing employment in the early period and rapid growth in service employment in the latter part of the period.

agriculture; tourism; and manufacturing. This is broadly consistent with WG view on where the sectorial emphasis should fall and notwithstanding the ability to compete for and secure government funding and resources for Powys, this reinforces the viewpoint that policy responses have the potential to vary the forecast employment trends identified by the study.

The availability of strategic and area based regeneration and economic programmes that strengthens Powys eligibility for economic support is however less encouraging compared with adjoining areas, and suggest a more limited opportunity to address the sectorial opportunities highlighted. As for EU Structural Funds (ERDF and ESF) Powys presently qualifies for Regional Competitiveness and Employment programme, which is aimed at supporting the economy, however the amount of funding available in the “Competitiveness” programme is much smaller and able to make much less impact than the funding available under the “Convergence” programme. Proposals, recently unveiled by the European Commission (October 2011) indicates that Powys is likely to remain outside of the ‘less developed regions’ eligible for the highest level of EC support for 2014-2020, and may also fall out of the newly proposed ‘transitional regions’. As a ‘more developed region’ the opportunity for Powys to back up the policy aspirations with structural funding initially appears more limited.

In September 2011, the WG announced its locations for Enterprise Zones, these are to designated areas where specific incentives are offered to attract new businesses and industry to the area. Currently there are five preferred locations for Enterprise Zones in Wales each based near to centres of large populations and with a specific target sector. Whilst Powys has not been targeted with this new economic development tool, WG have stated they will not lose sight of the very real economic challenges faced by other areas of Wales and remain open to discussions about other potential opportunities. With the outlook for structural funding looking relatively poor, securing Enterprise Zone status within Powys appears to be more significant, perhaps this could be on a broader area basis, reflecting the dispersed rural nature of the County, and themed to reflect aspirations for rural scale manufacturing, tourism and green enterprise.

At a sub County level it is understood that Assisted Area 2007-2013 status exists in Ystradgynlais, and prospects exist for its renewal, and whilst it provides a mechanism to gap fund new property development, the level of intervention is understood to be insufficient to be attractive to spearhead significant private sector development. The WG funded Western Valleys strategic regeneration area (SRA) that includes Ystradgynlais, provides additional support to deliver policy aspirations, but only in the far south of the County. WG also operate a similar property development grant in the Severn Valley but differentials between development cost and land values have to some extent constrained the impact on employment land and development.

5.2.3 Labour Market Capacity

The official population projections¹¹ Powys (including the BBNP) indicate the population of 16-64 year olds is projected to fall over the LDP period by around 4,400. However, on the basis of current government announcements, the state pension age for women is projected to rise from 60 at the start of the period to 67 by 2026, for men the rise is projected to be from 65 in 2011 to 67 by 2026. Taking full account of this shift in state pension ages leads to an increase in the working age population in Powys of almost 5,800. The vast majority (more than 99%) of this growth relates to the change in retirement age of the female population. How this change will impact upon economic activity rates amongst this group is yet to be seen, and no detailed

¹¹ 2008 based local authority (principal) population projections for Wales 2008-2033

evidence on changing economic activity rates has been published by the ONS since 2006, before much of the detail on state pension ages was released.

For the purposes of informing this analysis an indicative model has been developed applying current age related economic activity rates for the following age groups: 16-24, 25-49, 50 – state pension age, and above stage pension age. Average economic activity rates by gender from the last ten years taken from the Annual Population Survey have been used within the model. Whilst the rates have been held constant, the population within the 50-state pension age group is extended to reflect the changes in retirement age. This therefore provides some indication in the rise in economically active population. This calculation indicates a rise of around 2,800 persons. Of this, a proportion will reside within the BBNP¹², a further proportion would be expected to be unemployed at any given time¹³, in addition, the Annual Population Survey suggests around 10% net out commuting for work. After applying these factors, the growth in the 'potentially employed population' is estimated at around 2,000 persons over the LDP period, if current labour market conditions are extended. This creates something of a challenge given that total employment in the area is projected to fall by around 900 jobs over the period.

The implication of this for employment land provision, is whether a higher level of employment growth should be considered to maintain the potential for a healthy labour market balance. On the basis of the available evidence it was determined that modelling such a higher growth scenario was not required, but the potential implications of the labour market capacity modelling should be considered in shaping policy. The reasons for this determination are as follows:

- Any model of higher employment growth would be speculative, without a clear basis for which sectors to promote. If a general uplift to growth rates was applied the results would be a slightly higher growth rate in projected office requirements, a slower rate of decline in industrial related activity and a likely growth in non B Use Class related employment. The implications for employment property and land requirements would therefore be very modest and restricted to the office sector.
- The market context and historic take up data suggest the results of the quantitative assessment will already be challenging to deliver given the cost-value gap present in the commercial employment development market in Powys. As a result, any increase in the assessed requirement would be unlikely to be delivered.
- There is already a flexibility buffer built into the assessment to take account of any demand over and above the core assessment. This will provide sufficient room for manoeuvre in the short term, and any higher levels of growth can be considered if and when they become apparent through the normal processes for policy and plan review.

¹² Estimated at around 17% based on draft Population and Housing Topic Paper, Powys County Council

¹³ Estimated at around 3% based on averages in a healthy economic period.

6 CONCLUSION

This report set out to provide a context for shaping policy in respect of employment land and property in Powys across the LDP period, 2011-26. This builds upon two accompanying technical reports which consider the historic and current economic context and the current employment property market and land supply. This report looks forward to make an assessment of the potential employment property and land requirements that should be provided for within the LDP. This has taken account of the projected economic outlook as well as wider evidence on historic patterns of take up and the development market context.

The baseline economic projections suggest in overall terms a fairly limited change in the total level of employment in Powys across the LDP period, although there will continue to be change in the sectoral structure of the county's employment base, with a continued shift away from agriculture and manufacturing towards services. However, both the declines in agriculture and manufacturing and the growth in service sector employment will be more muted than in the preceding 15 year period 1996-2011.

When considering the changes in employment by Use Class, the projections suggest some growth in office related employment, declines in industrial related employment and a slight decline in employment outside the B Use Class. As a result, the requirement for additional employment property to accommodate expansion in the economy is relatively modest, with an estimate of around 3 - 5 hectares.

The primary driver of future employment land and property requirements is anticipated to be the need to replace and upgrade the existing supply of premises in order to tackle issues of dilapidation and the need to deliver the required type and quality of premises for modern business occupiers. The estimate of requirements within this category was 21 - 29 hectares.

A further allowance of 6 – 8 hectares was made to ensure choice and range across types, settings and locations of provision.

The total estimate for future requirements across the LDP period was therefore 30 – 42 hectares. A suggested flexibility allowance equivalent to 5 years supply was also identified to ensure a ready supply of land at the end of the LDP period and to cater for any peaks or unexpected demands. With this added the total estimated requirement increased to 40 – 56 hectares.

This level of requirements (core requirement equivalent to 2 – 2.8 hectares per annum) is above historic levels of take up which are estimated at closer to 1 hectare per annum (although no detailed monitoring records are available). Low levels of historic take up, coupled with a weaker economic outlook across the LDP period compared to the preceding 15 year period suggest the results of the quantitative assessment will be very challenging to deliver, particularly with adverse development economics in Powys and a constrained public sector that has historically gap funded the majority of commercial employment property development.

APPENDIX 1: GEOGRAPHICAL DESIGNATIONS

Four geographic sub areas are used within this document. As identified at section 1.3, the interpretation of these should be as broad zones with fairly fuzzy boundaries. However, for the purposes of informing the quantitative analysis a statistical definition was required. Set out below are the definitions adopted for the four zones, based on 2003 Wards.

Machynlleth Zone

00NNQZ : Glantwymyn

00NNRJ : Llanbrynmair

00NNSG : Machynlleth

Severn Valley and North Zone

00NNQH : Banwy

00NNQK : Berriew

00NNQL : Blaen Hafren

00NNQQ : Caersws

00NNQR : Churchstoke

00NNQW : Dolforwyn

00NNQY : Forden

00NNRB : Guilsfield

00NNRE : Kerry

00NNRK : Llandinam

00NNRP : Llandrinio

00NNRQ : Llandysilio

00NNRS : Llanfair Caereinion

00NNRT : Llanfihangel

00NNRU : Llanfyllin

00NNSA : Llanidloes

00NNSB : Llanrhaeadr-ym-Mochnant

00NNSC : Llanrhaeadr-ym-Mochnant/Llansilin

00NNSD : Llansantffraid

00NNSJ : Meifod

00NNSK : Montgomery

00NNSM : Newtown Central

00NNSN : Newtown East

00NNSP : Newtown Llanllwchaiarn North

00NNSQ : Newtown Llanllwchaiarn West

00NNSR : Newtown South

00NNSX : Rhiwcynon

00NNTE : Trewern

00NNTF : Welshpool Castle

00NNTG : Welshpool Gungrog

00NNTH : Welshpool Llanerchuddol

Central Zone

00NNQJ : Beguildy

00NNQM : Bronllys

00NNQN : Builth

00NNQU : Dissert and Trecoed

00NNQX : Felin-fach

00NNRA : Glasbury

00NNRF : Knighton

00NNRG : Llanafanfawr

00NNRH : Llanbadarn Fawr

00NNRL : Llandrindod East/Llandrindod West
00NNRM : Llandrindod North
00NNRN : Llandrindod South
00NNRR : Llanelwedd
00NNRY : Llangunllo
00NNSE : Llanwrtyd Wells
00NNSF : Llanyre
00NNSL : Nantmel
00NNST : Old Radnor
00NNSU : Presteigne
00NNSW : Rhayader
00NNTK : Yscir

Ystradgynlais Zone

00NNQG : Aber-craf
00NNQT : Cwm-twrch
00NNTJ : Ynyscedwyn
00NNTL : Ystradgynlais

APPENDIX 2: METHODOLOGICAL ASSUMPTIONS

Standard Industrial Classification (SIC) to Use Class Matrix

The proportion of employment in each category in this matrix is based upon the share of reported employment as recorded by the Annual Business Inquiry (ABI)/ Business Register and Employment Survey (BRES) in different activities. This approach was applied to each of the sub-sectors in turn and with analysis going down to 4 digit SIC codes where required.

We have included B1b/c activities (i.e. light industry) with B2 uses as this better relates to the Valuation Office data on commercial floorspace categories which are used elsewhere in this analysis

Sector	B1a	B2 (inc B1b/c)	B8	Non B
Agriculture	0%	10%	10%	80%
Extraction	0%	0%	0%	100%
Manufacturing	0%	90%	10%	0%
Utilities	5%	5%	15%	75%
Construction	5%	5%	10%	80%
Retail & Distribution	0%	0%	20%	80%
Hotels & Restaurants	0%	0%	0%	100%
Transport & Comms	5%	10%	20%	65%
Financial Services	60%	0%	0%	40%
Business Services	80%	0%	0%	20%
Public Admin & Defence	50%	0%	0%	50%
Education	10%	0%	0%	90%
Health	20%	0%	0%	80%
Other Personal Services	20%	0%	0%	80%

Floorspace per Worker

The table below sets out further details on assumptions in respect of average floorspace per worker.

Use Class	Assumption
Office (B1a)	The guidance provides estimates for a range of office functions ranging from 8 – 12 sq m per employee (Net Internal Area). The higher end of this range relates to 'general office' uses including HQ, Administration and 'Client Facing office types. On this basis, the 12 sq m per employee assumption has been adopted, with a 20% uplift to provide Gross External Area (GEA). The utilised assumption is therefore 14.5 sq m per employee .
Other Business Space (B1b/c, B2)	B2 General is estimated at 36 sq m per employee (GIA) and B1(c) light industry at 47 sq m per employee (NIA). Allowances are made to align to GEA (+15% NIA to GIA, +5% GIA to GEA) with a final assumption of 47 sq m per employee .
Warehouse (B8)	Latest available estimates suggest 70 sq m per employee (GEA) for general warehousing and 80 sq m per employee (GEA) for large scale warehousing. There is the potential for a mix of both in Powys and the mid point has been adopted for this analysis, 75 sq m per employee .

Allowing for Replacement

An allowance for replacement has been included within the methodology to encapsulate the wider changes in the economy not picked up in the employment projections. Within sectors there is constant churn of businesses and employees. Working practices change, new technologies are adopted and the sites and premises used by firms need to adapt to these new ways of working. As a result, there will be a need for some existing employment stocks to be replaced. There will also be instances where existing buildings are so dilapidated that they require complete reconstruction.

Developing a methodology to estimate the scale of replacement activity is not straightforward. As a result, the experience of the team at Hardisty Jones Associates, working with clients over a number of years, particularly Hampshire County Council and the Partnership for Urban South Hampshire, to develop a methodology which is robust in terms of its underpinning logic and the evidence used to derive assumptions.

Typically within the property sector, development appraisals on new buildings consider a 25-30 year time horizon. As a result, one may expect that after this period, a building would be ripe for replacement. However, data on the age of commercial employment buildings indicates a very different picture. Data from 2004 for Powys indicates that a large proportion of the current stocks were built pre 1940. This implies that the useful lifespan of some stocks is considerable.

If buildings were replaced every 30 years, one would expect around 3% of all commercial employment property stocks to be replaced each year. Due to the existence of a substantial stock of property aged pre 1970 (51%) this assumption is too strong. As a result, for this analysis an assumption that 1% - 1.5% of existing stock is replaced each year. This effectively equates to a replacement of the entire commercial employment stock every 66-100 years (clearly there will be some property which is not replaced and other buildings which could be replaced more than quickly).

	% built Pre 1940	% built 1940 - 1970	Total Pre 1970
Office	39%	15%	54%
Industrial	16%	35%	51%
Total	18%	33%	51%

* figures do not sum to 100% due to small proportions of stock that cannot be allocated to a particular age category.