

**AGENDA ITEM**

**REPORT TO CABINET**

**23 JANUARY 2020**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

**CABINET DECISION**

**Lead Cabinet Member – Councillor Robert Cook  
Regeneration and Housing – Lead Cabinet Member – Councillor Nigel Cooke**

**INDIGENOUS GROWTH FUND UPDATE**

**SUMMARY**

The report provides Cabinet with an update on the Tees Valley Indigenous Growth Fund. The report also seeks Cabinet approval for the acquisition of a key piece of employment land using the Indigenous Growth Fund allocation that the Tees Valley Combined Authority has allocated to the Council.

The report also considers the wider context of developments at Eaglescliffe Railway Station that will link this employment land to the rail network and the potential economic and social value increases as a result of this.

**REASONS FOR RECOMMENDATION(S)/DECISION(S)**

To provide Members with an overview of the Tees Valley Indigenous Growth Fund and the acquisition of employment land.

**RECOMMENDATIONS**

1. That the report be noted;
2. That Cabinet approve the acquisition of the remaining undeveloped employment land at Durham Lane Industrial Park at Market Value and note that the allocation of resources from the Indigenous Growth Fund will be considered as part of the Council's Medium Term Financial Plan by full Council.
3. That Cabinet delegate authority to the Director of Finance & Business Services in consultation with the Leader of the Council to agree the final terms of the acquisition.

## DETAIL

### **Indigenous Growth Fund**

1. The Tees Valley Combined Authority (TVCA) Investment Plan allocated £50m to the Indigenous Growth Fund (IGF), a programme developed to support the Strategic Economic Plan objective to develop 'Place' through area regeneration in support of economic growth.
2. The fund will provide capital support to the five Local Authorities for a range of interventions including:
  - remediation/regeneration of vacant and derelict land and property;
  - public realm initiatives aimed at creating vibrant town centres;
  - strategic housing initiatives aimed at creating vibrant town centres;
  - investment specialist culture and tourism accommodation
  - investment in the provision of specialist (sector specific) business accommodation and fit-out.
  - Operating costs for discrete programmes designed to support associated capital expenditure.
3. A Programme Business Case has now been approved by TVCA Cabinet and the five Local Authorities are developing proposals for individual projects. For Stockton, our aim is to support people and encourage business growth as well as public and private investment that further strengthens the performance of Stockton-on-Tees as a thriving and productive Borough. The Borough is at the heart of the Tees Valley economy contributing around a third of the entire economic output for the area and continues to grow. This is fuelled by the Borough's key employment locations such as Wynyard Business Park, Durham Lane and Teesside Industrial Estates and Belasis Business Park as well as the major industrial areas of North Tees and Seal Sands each home to major international business specialising in petro-chemicals, energy, biotechnologies and advanced manufacturing. Alongside these specialist business incubation facilities such as Fusion Hive on North Shore serve the emerging digital and creative sector.
4. The Borough's Town and District Centres provide a unique and distinctive mix of retail, business and leisure. In particular, the award-winning Stockton Town Centre continues to be re-purposed, reducing the over-reliance on retail, encouraging and supporting local ventures and diversifying the use of the centre with the introduction of non-retail business, leisure and quality residential offers. This will be further enhanced by creating improved access to the adjacent River Tees. The river provides a unique opportunity to utilise the 10 miles of tidal controlled river frontage to create a thriving river-based economy. The Borough is ideally placed to take advantage of such an opportunity being at the forefront of the Tees Valley's Visitor Economy with attractions such as the International White-water Course, the UK's biggest high ropes course and Preston Park Museum & grounds.
5. The Indigenous Growth Fund will be used to sustain, support and enhance these critical economic assets, allowing the Borough to continue to be a major contributor to the region's economy. Specific interventions are currently being formulated and developed, the most advanced of which is the acquisition of employment land at Durham Lane Industrial Park.

### **Supply and Demand for land for Industrial and Employment Uses in the Tees Valley**

6. A recent Commercial Property study commissioned by TVCA identified that:
  - The total potential supply for commercial property in the Tees Valley is some 361,000 sq m, around three times the forecast demand for the SEP period. Even if we consider the Amazon development in Darlington as an exceptional occurrence, over and above

the demand forecast, there is much more than enough supply to match the demand forecast.

- But, 58% of that supply is made up of proposals in the pipeline, and a further 41% of a single very large scheme, the Amazon warehouse in Darlington.
- The space delivered to date is only 2,954 sq m, 1 % of the total supply.
- In annual terms, to meet the SEP-based demand would require delivery of 11,994 sq m p.a.
- The actual delivery since 2016 has been just 985 sq m p.a.

7. The study goes on to highlight that in the industrial sector, a large quantum of development opportunities are being promoted, which if delivered would easily providing more than enough capacity to meet the forecast demand. However, actual delivery of accommodation has not been coming forward. Other than Amazon, virtually all of the supply committed in planning permissions and under construction consists of proposals where the quantum and timing of delivery are uncertain. To deliver development in line with the forecast demand, or even with the business-as-usual forecasts, would need a large uplift in the pace of development.

### **Supply and Demand for land for Industrial and Employment Uses in Stockton**

8. Stockton has prime status as an employment location in the Tees Valley and contains the most total industrial floorspace of all five Boroughs; with larger than average units when compared to other areas in Tees Valley, Stockton only has a 1.8% vacancy of its total industrial stock. This is a function of the Borough's relative economic strengths in the Process, Chemicals and Energy, Advanced Manufacturing, and Logistics sectors which tend to be large space users.
9. Take up of industrial accommodation in Stockton-on-Tees consists almost entirely of small and medium sized units and in general has slowed in the Borough and the wider Tees Valley since 2014. This is likely due to a lack of supply of good quality units rather than lack of demand. For the five years to 2018 Stockton has had an annual average take-up of industrial employment land of 363,026, which is the largest of any Local Authority area in Tees Valley. Over a slightly longer period to November 2019 Stockton benefited from 35% of the total industrial take-up for the whole Tees Valley.
10. The provision of new industrial property by the market in the Borough will rely on willing developer/investors, and therefore upon sufficient rental values and yields to provide guaranteed and/or commercially acceptable return on investment. In recent decades, achievable end values for industrial property in the Tees Valley and wider North East region have been too marginal and therefore too risky to support speculative development. Across the country rents for industrial property have been increasing in recent years as demand continues to remain robust and supply has diminished. This has been re-affirmed by discussions with local agents. Rents are suppressed and the development of industrial property in the region has been widely acknowledged as a marginal investment market, particularly in recent years. Only three schemes have been completed in the Tees Valley since 2016 totalling 2,954sqm. Any speculative development is likely to require gap funding, but most gap funding places restrictions on end use which can further hamper overall commercial viability and delivery. There have been no speculative developments of industrial premises across the Tees Valley since 2009.
11. As a result, the majority of the limited industrial development activity takes place on a pre-let basis, whereby the investor has a guaranteed rental revenue against which to raise finance before the building is constructed. This market dynamic places considerable restrictions on the ability of the Borough to provide modern, fit-for-purpose premises in suitable locations to attract inward investment or to support the growth and diversification of activities of indigenous businesses. The Council wishes to take a proactive approach to addressing the relationship between industrial property and economic growth. This could include direct

intervention on a particular site or sites with greatest growth and catalytic potential. Similarly, local authorities can use their own land and property assets to help facilitate development to address identified market failures. A review of the Council's land holdings, however, has identified no currently appropriate sites or premises.

12. The overall availability of industrial employment premises does not tell the whole story of the capacity to support business growth in key sectors. Businesses also require modern, fit-for-purpose accommodation with the ability to install and utilise up-to-date equipment and technology. Despite the apparent balance of supply and demand, without continued investment in commercial industrial property this situation could change quite rapidly, as a result of continued loss of stock to other uses and the increasing dilapidation and obsolescence of current properties. This could potentially lead to businesses looking beyond Stockton for new premises.

### **Land at Durham Lane Industrial Park**

13. Durham Lane, to the south of the Elton interchange (A66T), is home to several international, Industry leading businesses and employs over 1,000 people. It is one of only two places in Stockton-on-Tees with more than 1 plot of employment land over 5ha. It has the second largest availability of allocated employment land in the Borough (behind Wynyard Business Park) and both Wynyard Business Park and Durham Lane are the only places in the Borough with a plot over 15 hectare.
14. The estate also contains significant tracts of vacant land allocated for employment use. The southern element of the industrial estate is largely developed for a range of industrial and business units. Located within the core area of the industrial estate are key strategic business including Carroll & Meynell, Icon Plastics, RSM Solutions and Tata Beverages.
15. Located in the northern element of industrial estate are Nifco and Marshalls. Between these business premises to the north of south of the industrial estate is a significant area of land available for further development which is within the single ownership of The Hansteen Group.

### **Acquisition of land from The Hansteen Group**

16. The Council has been in discussions with The Hansteen Group for some time regarding their plans for their assets at Durham Land and Belasis Business Park. The Council became aware that The Hansteen Group were actively reviewing their asset and land holding portfolios. An opportunity has arisen for the Council to acquire the undeveloped land which accords with the Council's desire to support and protect the provision of quality employment land across the borough.

### **Eaglescliffe Train Station**

17. Eaglescliffe station provides the stopping point for Northern Rail Trans-Pennine services to York, Leeds and Manchester, and the Grand Central service to London. The station is well used, having experienced significant growth in patronage over recent years.
18. Eaglescliffe station has no clear or official walkway to the industrial estate and a train track would have to be crossed to reach the estate. Recognising the strategic importance of the industrial estate and opportunities to support continued economic growth the Council is currently working with TVCA and Network Rail on proposals to create a car park of approximately 120 spaces, extension of the existing access road to the car park and provision of a pedestrian footbridge (incorporating lifts) to the existing island platform of Eaglescliffe Station (at a height that will allow for future electrification of the rail line) to enhance existing but informal pedestrian routes and to provide access to the new footbridge and station from surrounding residential areas to the west of the railway lines.

19. The proposed car park and pedestrian overbridge will allow for future rail passenger growth and rail station population catchment growth. With several committed and allocated residential developments identified in the adopted Local Plan, the proposed scheme is likely to provide direct benefits to the residents of Eaglescliffe, Western Stockton, and the wider area as well as employees of the businesses within the industrial estate. This is particularly the case given that train services from Eaglescliffe Station include direct connections to London up to five times a day. The overbridge will incorporate lifts ensuring that access for all is provided through the proposal.
20. The extension of the existing access road is necessary for the delivery of the proposed car park, but it will have the added benefit of supporting the attractiveness of the site for future employment development. The Council have been in active discussions with The Hansteen Group over recent months around the purchase of land necessary to facilitate the extension of the access road.

### **Added Benefits through Economic and Social Value**

21. The opportunity to purchase the developable land at Durham Lane Industrial Park not only ensures we safeguard strategically important employment land, it also will allow the Council to realise additional economic value as a result of job generation and social value embedded in our approach to procurement.
22. Durham Lane Industrial Park supports around 1300 jobs with a further 1300 supported through its supply chain and other indirect effects.
23. The total economic impact from the wages associated with activity at Durham Lane industrial park is modelled\* at £74.8 million of which £43.6 million is within the Tees Valley economy.
24. It is reasonable to assume that a 20% increase in jobs at the industrial estate (260 additional jobs) would have an economic benefit from wages of £15 million pound per annum of which £9 million would be within the Tees Valley economy. Safeguarding the same number of jobs would prevent an equivalent economic loss.
25. The social benefits of the employment and incomes associated with the industrial estate both directly and indirectly are significant, enhancing the health and wellbeing of thousands of people
26. The Council is committed to maximising the impact of its public expenditure for the benefit of the local economy, the environment and wider society and communities, and this is being delivered through embedding strong Social Value policies through the procurement process. Social Value is an ability to determine and measure what is created as added value through a contracts and commissioning processes, considering more than just the financial transaction but what added benefits we wish to achieve.
27. The Councils embedded Social Value Policy looks beyond the price of each individual contract but at what the collective benefit to Stockton-on-Tees is when we award a tender, meaning that economic, environmental and social outcomes beyond the actual price and outcomes of the award can be quantified. Therefore, the purchase of land at Durham Lane Industrial Park will secure and maximise (over and above the direct award benefits of the contract) wide ranging social outcomes from skills and employment opportunities, to training and development for vulnerable people, sustainable transport improvements, carbon reductions, school projects and health and well-being benefits for communities.

## **COMMUNITY IMPACT IMPLICATIONS**

28. The decision does not seek approval for a new policy, strategy or change to service delivery.

## **CORPORATE PARENTING IMPLICATIONS**

29. There are no corporate parenting implications.

## **FINANCIAL IMPLICATIONS**

30. The purchase of land at Durham Lane will be funded through the Indigenous Growth Fund allocation which will be considered as part of the Council's MTFP.

## **LEGAL IMPLICATIONS**

31. An independent valuation will be undertaken to support the acquisition at market value.
32. The Council will also undertake necessary due diligence as part of the acquisition including legal title checks and any necessary ground condition checks.

## **RISK ASSESSMENT**

33. This Indigenous Growth Fund Update report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

## **WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS**

34. Leader of the Council – Councillor Robert Cook and Cabinet Member for Regeneration and Housing – Councillor Nigel Cooke.

## **BACKGROUND PAPERS**

N/A

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