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The Economic Contribution of Logistics in the Northern Powerhouse

2020

NORTHERN POWERHOUSE HM Government

Turley

Contents

Document prepared by Turley

Turley is an independent national planning and development consultancy. This document has been prepared by the Economics team at Turley which specialises in property market, economic and labour market research

Logistics in the Northern Powerhouse: Key Facts

Business

Business Base

25%
All logistics business in the UK

23,000
Businesses

80%
Business growth (2014-2019)

Multi-sector business growth

Productivity

£15.3 billion
GVA per year (Logistics industry)

£20.9 billion
GVA per year by 2039

People

27%
of all logistics employees nationally

263,000
employees in logistics

24% growth
since 2013

Range of skilled roles available in logistics industry

Higher than average salaries associated with logistics roles

Property

32%
logistics floorspace nationally

1.45 years
supply of land remaining

Setting the Scene

Logistics businesses play an important role within the economy nationally and particularly across the Northern Powerhouse.

In 2015 the British Property Federation published the "Delivering the Goods" report which set out the pivotal role that logistics plays in the national economy supporting trade, investment and economic wellbeing. The sector has continued to grow since the report was published, with 66% more logistics businesses in operation since 2014 and the sector now supporting at least 960,000 employees in the UK. Logistics productivity has also grown over the same period, with the sector now accounting for an estimated £80 billion Gross Value Added – representing a 30% growth on 2013 levels.

Logistics is a sector with good prospects for future growth supporting a wide range of sectors. Headline estimates suggest productivity growth to £114 billion GVA by 2039 and 19% employment growth over the same period.

This paper has been commissioned by Tritax Symmetry to demonstrate this role at a headline level and point to how further support for the sector can assist in helping achieve aspirations for growth and "levelling up of the regions".

The information in this paper has been compiled from:

- Analysis of national data sets including those published by the Office for National Statistics (ONS) and Experian[1] sector forecasts. The latest releases at the time of writing have been used for each[2].
- Wider research published by the British Property Federation (BPF), the Northern Powerhouse, Transport for the North (TfN), and market agents.

There are approximately 12,350 warehouse properties in the Northern Powerhouse (31% of all properties in England), equating to 538 million sqft (32% of all in England)[3]. This area therefore contributes around a third of England's logistics properties and floorspace.

The logistics industry in the Northern Powerhouse serves a large resident population of over 10 million people, as well as large manufacturing and business base. The area is also home to major international companies such as Jaguar Land Rover, Amazon, Loreal and Unilever.

The Northern Powerhouse's network of port, motorway, air and rail infrastructure serves the logistics industry.

An Independent Economic Review (IER)[4] of the Northern Powerhouse identified the logistics sector as one of the key 'Enabling Capabilities', which will play a critical role in supporting the social and economic growth and development of the region. This recognition for the sector is also extending to some Local Industrial Strategies (LIS), for example the Manchester LIS[5] and the evidence base for the Liverpool City Region LIS, but is not universal across all strategies.

[1] Experian (September 2019)

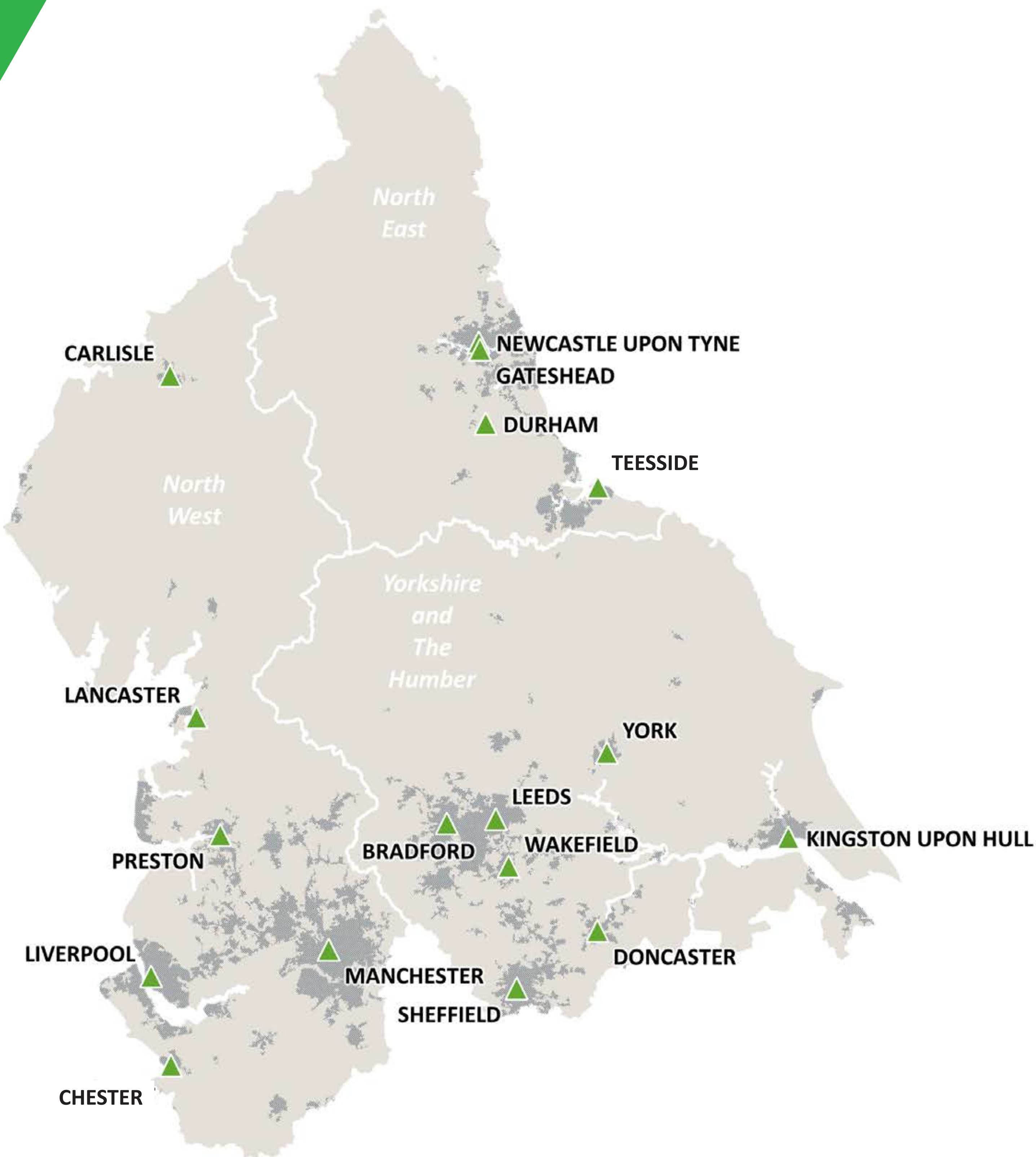
[2] Business Register and Employment Survey (released October 2019), Annual Survey of Hours and Earnings (released October 2019), Experian forecasts (released September 2019)

[3] BPF (2019) What Warehousing Where

[4] Northern Powerhouse Independent Economic Review (SQW, 2016)

[5] Greater Manchester (2019) Local Industrial Strategy

The Northern Powerhouse



The Current Economic Contribution of Logistics in the Northern Powerhouse

Logistics Businesses

The Northern Powerhouse is home to a quarter of all logistics businesses in the UK, accounting for 4% of all businesses in the UK. A total of 23,000 (25%) of the country's total 93,000 logistics businesses are located here.

Between 2014 and 2019 the number of logistics businesses increased by 80% (+10,200 businesses). This rate of growth was higher than that across the UK as a whole for the sector (66%) and higher still than the rate of growth across all sectors in the UK (20%).

Gross Value Added (GVA) of the logistics sector in the North of England is £15.3 billion a year, and is estimated to rise to £20.9 billion a year by 2039.

Logistics Employees

There are 263,000 employees[6] working in the logistics sector in the Northern Powerhouse (2018). This is compared to 212,000 in 2013, showing growth of 24%. This is broadly in line with growth across the country as a whole.

Logistics businesses in the Northern Powerhouse tend to be slightly larger on average than those elsewhere in the country, as evidenced by the sector accounting for 25% of the country's logistics businesses but 27% of its logistics employees. These businesses also occupy larger premises on average, accounting for 31% of national logistics floorspace. This relates to the geography playing an important role in national and regional distribution networks, with larger premises required to fulfil this[7].

Logistics Sub-Sectors

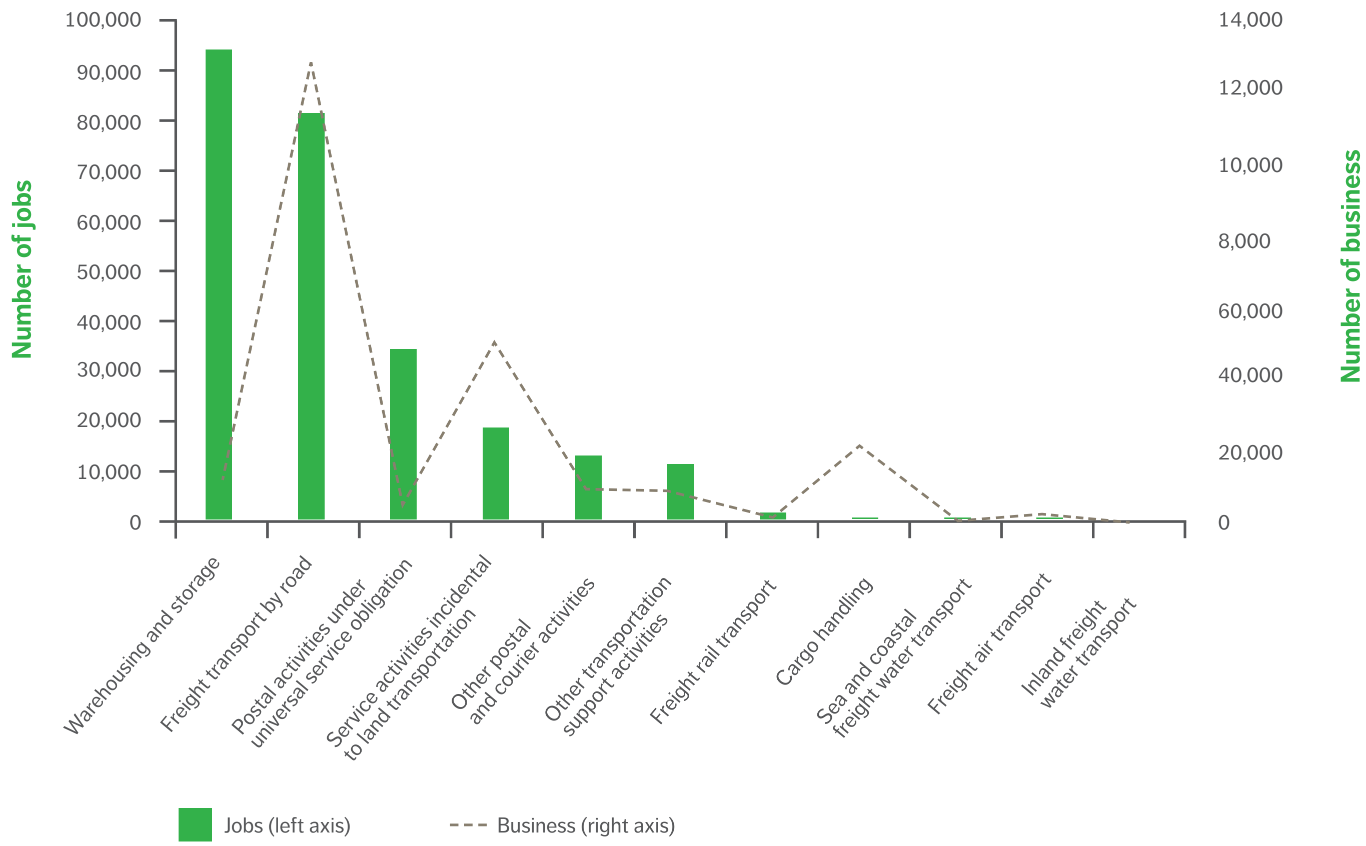
The largest components of the sector are freight transport by road (12,800 businesses, which has grown by 66% between 2014 and 2019); services incidental to land transportation (5,200 businesses, which has grown by 93%); and cargo handling (2,200 business, which has grown by 250%). These are also the sectors which have experienced the most growth in absolute terms, growing by 5,100; 2,500 and 1,600 businesses respectively between 2014 and 2019.

Conversely, the sub-sector with the largest number of employees is warehousing and storage which employs 95,000 people. This grew by 33,000 employees (53%) from 2013 to 2018. Freight transport by road is the second largest sub-sector in terms of employee numbers and this grew by 26,000 (46%) during this time.

[6] Total employees (full time and part time) as opposed to Full Time Equivalent.

[7] BPF (2019) What Warehousing Where

Multi-sector business and employment growth in logistics in the Northern Powerhouse



Characteristics of Employment

An above average proportion of employees in the logistics sector are employed on a full time basis (83% compared to 67% for all employment in the Northern Powerhouse)[8].

Average Salaries in the sector (£30,500) are above average for all sectors in the Northern Powerhouse (£27,800 average salary). They have grown at a rate of (14%) above that experienced across all sectors in the geography (13%) and at a national level (12%)[9] between 2014 and 2019.

Logistics in the Northern Powerhouse delivers

Higher average salaries

Relatively high salary growth

High proportion of full time jobs

[8] ONS via Nomis (2018) Business Register and Employment Survey

[9] ONS (2019) Annual Survey of Hours and Earnings

The Future Economic Contribution of Logistics in the Northern Powerhouse

Current Trajectory

+ 36%	GVA	+ 62,000	Jobs

Between 2019 and 2039 the sector is forecast growth of 62,000 jobs (16%)[10].

The sector is forecast growth of 36% in its Gross Value Added from 2019 to 2039. This compares to lower growth of 32% across all sectors in the Northern Powerhouse. As a result, the sector will account for a larger proportion of GVA generation across the geography: rising from 4% in 2019 to an estimated 5% in 2039[11].

Transformational Growth Potential

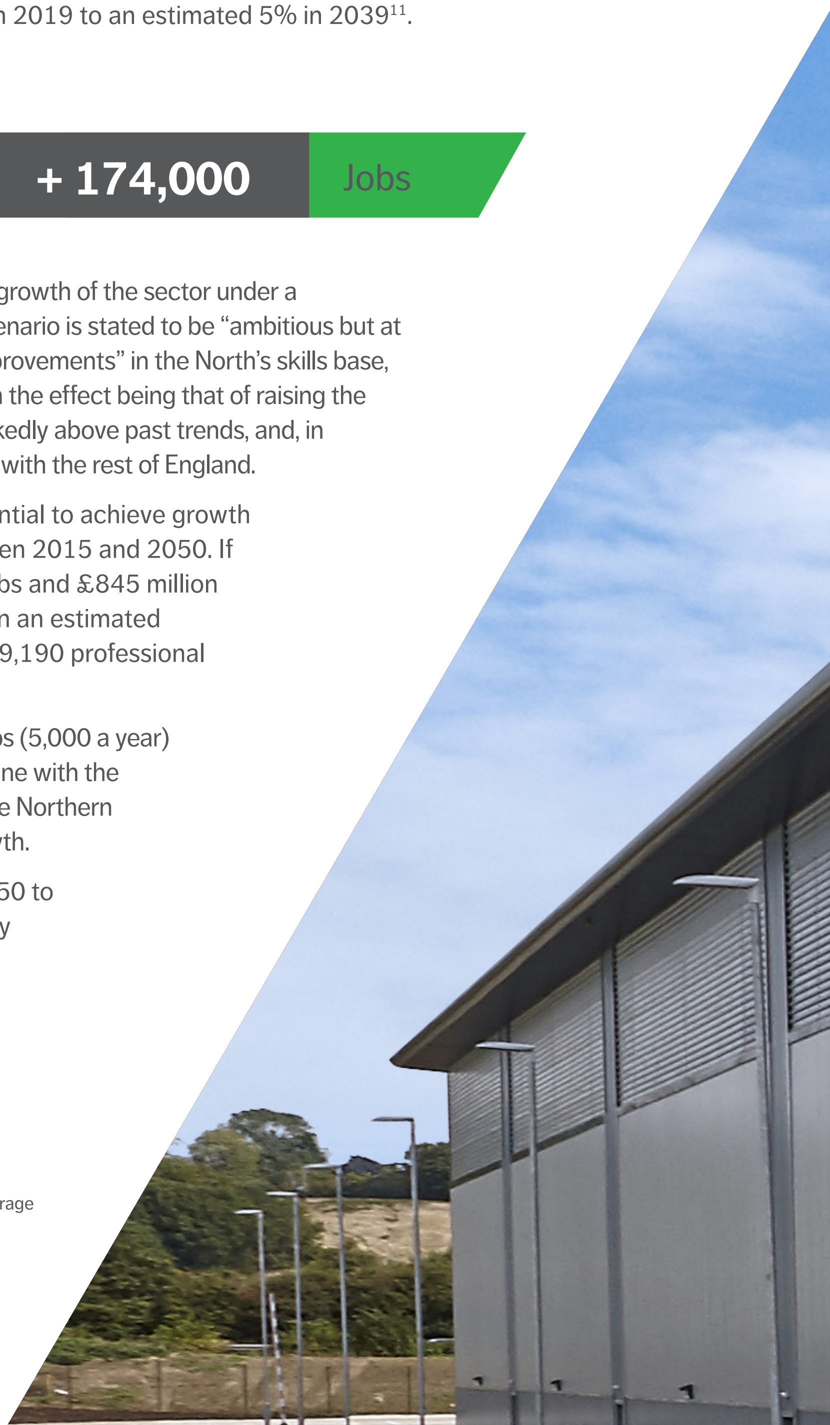
+ £29,6 bn	GVA	+ 174,000	Jobs

The Independent Economic Review[12] identifies the potential growth of the sector under a 'transformational growth' scenario. This 'transformational' scenario is stated to be "ambitious but at the same time credible" and is predicated on "substantial improvements" in the North's skills base, in innovation performance, and in transport connectivity, with the effect being that of raising the growth rate of the North's productivity and employment markedly above past trends, and, in effect, closing the productivity and prosperity gap compared with the rest of England.

Under this scenario, the sector is identified as having potential to achieve growth of 174,000 jobs (11%) and £29.6 billion GVA (8%) between 2015 and 2050. If split evenly by year, this equates to an average of 4,970 jobs and £845 million GVA growth per annum. This level of growth would result in an estimated annual salary increase of £5.3bn[13] and a total additional 29,190 professional positions[14] over the timeframe.

Over the three years from 2015 to 2018, 15,000 logistics jobs (5,000 a year) were created in the Northern Powerhouse. This is broadly in line with the 'transformational scenario' annualised target[15]. At present, the Northern Powerhouse is on track to achieve this transformational growth.

However, a further 159,000 logistics jobs are needed to 2050 to achieve this in full. There are a number of barriers which may prevent this from being delivered.



[10] Experian, Local market Forecasts Quarterly (September 2019)

[11] Ibid

[12] Northern Powerhouse Independent Economic Review (SQW, 2016)

[13] As per average wages in the Transport & Storage Sector in the North in 2019.

[14] Based on 2011 Census data, which found that 17% of jobs in the transport & storage a sectors were categorised as managers, directors & senior officials; professional occupations and associate professional & technical occupations.

[15] ONS via Nomis (2018) Business Register and Employment Survey

Supporting Transformational Growth

The 'transformational growth' outlined on the previous page, and the economic benefits which will be delivered within the Northern Powerhouse as a result, are only achievable if the logistics sector is able to operate effectively and grow.

As an 'enabling' sector, if this growth is stymied or not supported, then the growth potential of other sectors will likewise be curtailed. As the Northern Powerhouse Independent Economic Review identified, 'substantial improvements' are required to achieve this. A number of factors for improvement are outlined below.

Supply of sites and premises

The supply of suitable units is identified within agency commentary[16] as a particular issue.

North West

1.45 years

Supply of floorspace available in the North West

While the North West has the second largest supply of large units of the UK's regions, the five year average take up of grade A space indicates that there is just 1.45 years left of supply in this area. As the focus of logistics activity in the Northern Powerhouse this is concerning. Speculative development has continued in the region for units over 100,000sqft though generally there is limited development pipeline of larger units in 2019. Speculative development of mid-box units (under 100,000 sqft) has also been strong.

Yorkshire and North East

Record take up

(2018)

Decline in supply

In Yorkshire and the North East, a record level of take up in 2018 has led to a decline in available supply.

- In South Yorkshire demand for medium-sized units has increased and activity for larger units has been driven by single transactions such as Amazon at Doncaster iPort. 3PL providers are anticipated to drive demand for larger units in this area. There is a shortage of supply of units under 20,000 sqft and limited availability of mid-sized units.
- In West Yorkshire there is supply of around 1.7m sqft for units over 50,000 sqft due to continued take up and limited speculative development.
- The North East is seeing a decline in the supply of large units, particular Grade A, given limited development activity.

A recent report[17] by the BPF estimated that, based on existing ratios of warehouse floorspace to homes, the three regions of the Northern Powerhouse are under-delivering logistics floorspace in comparison to housing growth. The 'transformational' scenario would require in the region of 130 million sqft of floorspace (or 3,000 ha of land[18]).

[16] Savills (2019) Big Shed Briefing: UK Logistics – July 2019; Knight Frank (2019) Logistic and Industrial Commentary

[17] BPF (2019) What Warehousing Where

[18] Based on 40% plot ratio

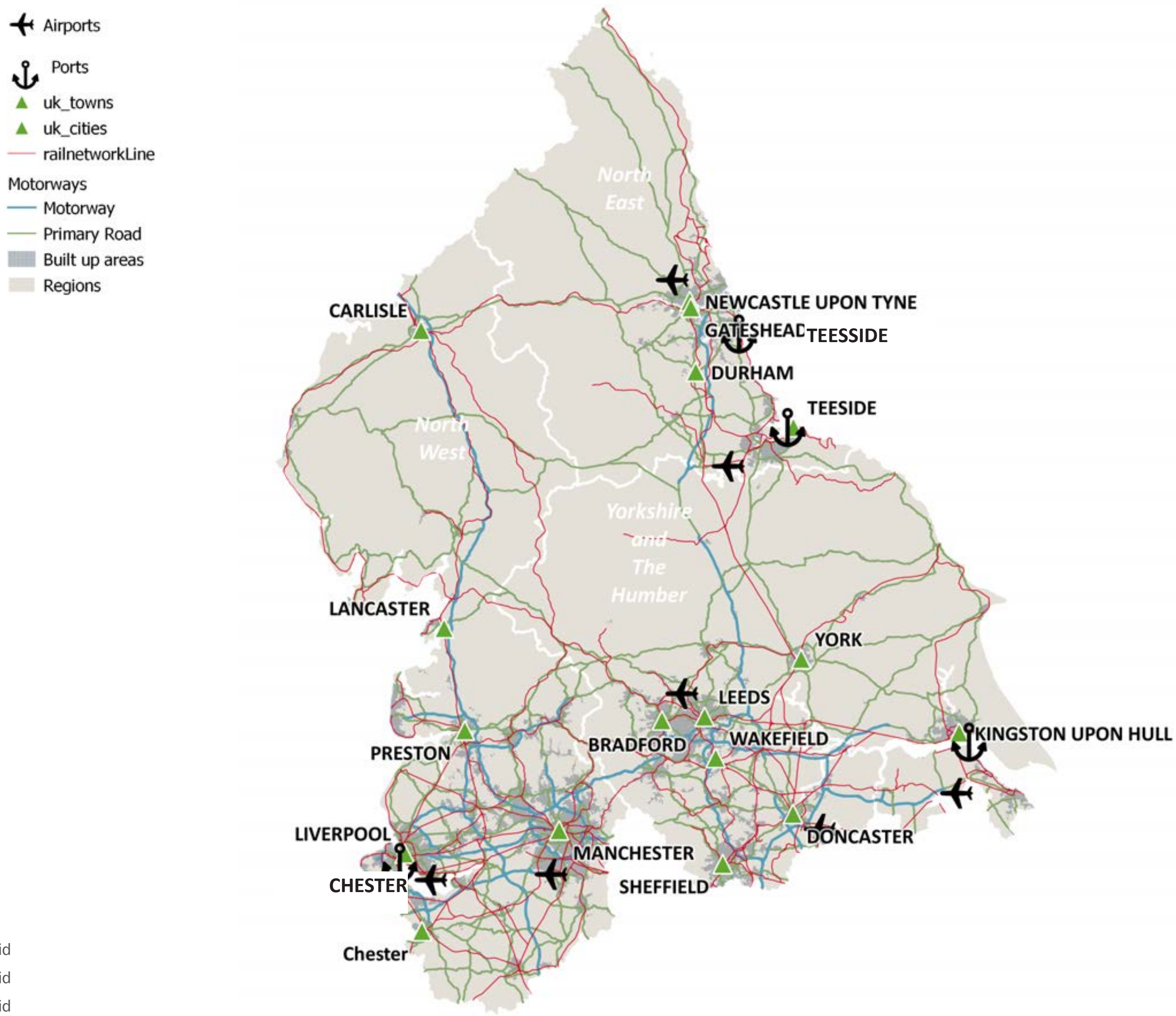
Infrastructure

Transport for the North identifies that the northern ports are facing a number of challenges around finding suitable land for expansion of their existing operations, particularly in relation to port access via road and rail.

However, some infrastructure requires enhancement:

- Digital connectivity (high speed broadband) and power supply are commonly cited by logistics operators as barriers in seeking new sites and premises from which to operate.
- Improvements to routes which join ports to national transport networks are required. These include road and rail and at present can be slow and unreliable, thus reducing competitiveness[19].
- Dedicated air cargo services are currently limited which means that much of the air freight which arrives or departs from the North of England is moved by road. Introduction of dedicated cargo services, or a greater number of long haul passenger services, will help generate critical mass to enable a modal shift[20].
- Enhancement to the east-west and north-south connectivity as well as intermodal connectivity[21].

The Northern Powerhouse is well connected in terms of transport infrastructure (see map below).



[19]Ibid
[20]Ibid
[21]Ibid

Skills gaps

The logistics industry is made up of many different parts that perform very different functions, and this results in a variety of employment opportunities, both skilled and unskilled, on a full time and part time basis.

As the logistics sector becomes increasingly automated there is a need for a greater range of skills within the sector, including IT and engineering. In some parts of the country, specific interventions are being identified to address this issue. For example, developers, occupiers and further/higher education providers are working together to develop logistics-specific curriculums as part of the delivery of large new logistics sites. Logistics developers are also working closely with LPAs, local business groups, colleges and skills and training organisations to deliver Training and Employment Management Plans, in order to ensure jobs, training and work experience opportunities are realised for the local area for the lifetime of the development. Leaders of the Northern Powerhouse will need to continue to work with skills and training providers to ensure that the workforce's skills are well matched to employer requirements.

Specifically, Transport for the North[22] (TfN) identifies workforce and skills shortages in relation to driver occupations. This will place considerable pressure on the logistics and freight industry to service businesses and consumers in the North[23].

The wide range of logistics jobs includes:

- **Construction jobs across the range of construction trades;**
- **IT Operatives**
- **Analysts**
- **Supply Chain and Logistics Coordinators**
- **Engineers**
- **Corporate Managers**
- **Procurement Managers**
- **Warehouse and Distribution Managers**
- **Warehouse supervisors**
- **Transport Manager and Transport Planners**
- **Transport Schedulers**
- **Routing/Scheduling Clerks**
- **Process, Plant and Machine Operatives**
- **Transport and Mobile Machine Drivers and Operatives**
- **Office administration and customer service managers/staff**

Planning Policy

- As logistics becomes increasingly urbanised there is a need to recognise this within planning policy. Transport for the North identifies[24] that 'consolidation of goods' will be increasingly required as part of sustainability goals, which will include process solutions such as Click and Collect, and physical solutions such as urban consolidation centres, locker boxes and pick-up / drop-off parcel shops. Ensuring planning processes are in place which understand and support these needs as part of delivery of urban development will be important.
- A supportive planning framework is also required for strategic rail freight provision as part of developing the multi-model freight infrastructure for the north (rail, air, water, road[25]).
- Planning policies and decisions should recognise the specific locational requirements of different sectors, including provision for storage and distribution operations at a variety of scales and in suitably accessible locations, when identifying strategic / employment allocations through emerging development plans. Options for additional locations should be considered, including as part of the Green Belt review process. This approach is in accordance with the NPPF and Planning Practice Guidance.

[22] England's first sub-national transport body. TfN is made up of a partnership of Transport Authorities, delivery partners and Local Enterprise Partnerships, and aims to agree a Strategic Transport Plan for the North of England

[23] Transport for the North (2018) Enhanced Freight and Logistics Analysis Report

[24] Ibid

[25] Ibid

Recommendations

The following recommendations are made to support growth in the logistics sector and to enable it to play its full role in achieving transformational growth of the Northern Powerhouse:

1. Appropriate and adequate allocation of sites for B8 uses both outside of urban areas and within them. This should be informed by a strategic review of supply and demand of sites and a joined-up approach across the Northern Powerhouse in identifying and allocating an appropriate supply of sites which are fit for purpose and market facing.
2. Holistic consideration of logistics space and servicing requirements within urban centre developments including those of a residential nature.
3. Adequate provision for large floorplate (big box) warehousing in Local Plan allocations to meet occupier requirements.
4. Strategic spatial plans should be adopted quickly to ensure that there is not an absence of policy against which to allocate and release sites to meet logistics needs.
5. Identification of strategic opportunities for public and private sector to work together with further and higher education providers to build a comprehensive skills and training offer for the next generation of logistics employees in the north, as well as re-training/up-skilling opportunities for existing employees. This ambition is echoed by TfN.
6. Respond to TfN policy recommendations to invest in multi-modal infrastructure including rail freight terminals in the north.

A note on definitions

The definition of logistics within Office for National Statistics (ONS) data is limited to pre-defined categories:

- Data from the Business Register and Employment Survey (BRES) this is based on 4 digit Standard Industrial Classifications[26].
- Data from Experian and Annual Survey of Hours and Earnings is based on the Broad Industrial Category of Transport and Storage[27].

These pre-defined categories mean that some logistics operations are not captured, such as where retailers operate their own delivery fleet and this is can be captured within retail data instead[28].

Data on employment relates specifically to employees and does not include self-employed positions.

[26] 4920 : Freight rail transport; 4941 : Freight transport by road; 5020 : Sea and coastal freight water transport; 5040 : Inland freight water transport; 5121 : Freight air transport; 5210 : Warehousing and storage; 5221 : Service activities incidental to land transportation; 5224 : Cargo handling; 5229 : Other transportation support activities; 5310 : Postal activities under universal service obligation; and, 5320 : Other postal and courier activities.

[27] This includes the above plus passenger air, rail and water travel.

[28] Which sector the logistics data is captured within will be dependent on how the company is reported within ONS for each site it operates from.

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