POLICY RECOMMENDATIONS

Following extensive research and discussions with industry-leading real estate, logistics, transport and retail experts, we have set out 12 policy recommendations to feed into the Government's industrial strategy and support further refinement of transport and planning policy.

1 Government must recognise the importance of logistics and industrial property to the country's economy

The success of the country's economy is, in large, part dependent on its manufacturing and retail sectors, which together make up 21.3 percent of the UK's GDP, contributing £331bn towards the economy and employing seven million people (22.6 percent of the workforce) all in all. These companies are dependent on industrial property and warehousing, well funded road and rail networks, and a tax system which encourages investment. While it is vital that there are sufficient homes for our growing population, the need for industrial space must not be overlooked purely because it is not seen as a short-term vote winner.

Industrial and logistics buildings provide a wealth of employment opportunities, both in the low-skilled jobs historically associated with the sector and the increasingly highly-skilled, specialist jobs created from modern manufacturing, logistics and e-commerce. The sector is a vital source of employment outside London and the south east, particularly in the Midlands and North, and in coastal areas that have been largely forgotten at the expense of our cities.

There needs to be a top-level acceptance of the role these sectors will play in our future economic growth. Additionally, there needs to be cohesion in the measures taken across the raft of policy areas which play a supporting role. If we are to have a Britain that works for everyone, we must prioritise support for industry.

2 Councils should be made to designate land for industrial use

While nobody could deny the need for housing across many communities, historic businesses and uses (which have less aesthetic appeal), are pushed to the boundaries of our cities. It has been routine for old industrial sites to be replaced by supermarkets or homes, following compulsory purchase orders (CPOs). This can be seen in east London, where the Olympics regeneration district saw many former industrial uses also face CPOs. We need a balanced economy that has the right mix of homes and employment space.

The new housing and planning minister should encourage local authorities to prioritise properly thought-through employment policies. Housing policy trumps employment policy within local planning, which is not necessarily always the best priority. There should be far greater curation of uses, and this must be intertwined with greater clarity at a national level.

We should also consider what different types of industrial sites are now needed. The changing nature of the economy means the built environment also has to change. How we resolve this will take careful consideration. But, crucially, we must recognise that if consumers want products within 24 hours, 60 minutes or virtually instantly, then infrastructure, real estate and transport will have to support this.

The federalised structure of Germany and Holland's zonal planning structures and building regulations both make development and planning much more simple on the continent. There is much Britain can learn from these countries that would serve both to increase investment and to reduce public sector expense.

3 Government should work in conjunction with the private sector to bring forward more public land for designated uses

There is a shortage of land identified for industrial use. The sites that are still available tend to be either greenfield (which can be controversial, and therefore difficult to develop), or a long way from key junctions. The problem has been exacerbated with the turnaround of the economy, better fortunes for manufacturing and the rapid growth of internet retailing. This growth in demand for industrial space, and the dwindling supply, has seen rents rise, putting pressure on business costs. The Government needs to encourage local authorities to identify more land for industrial development, and in suitable locations near to transport networks and junctions. Finding uses for public land could create long term income for cash-strapped councils as well as Government departments.

Finding innovative ways to create joint ventures with investors to provide big box warehousing or local distribution hubs, could generate significant value for the long term.

4 Government should look to directly support development by SMEs

Many sites that could potentially support industrial development are unlikely to be unlocked because of the lack of infrastructure - such as roads, power or sewerage - and the prohibitively high cost of providing it. The Regional Development Agencies (RDAs), abolished in 2012, were an important source of funding for infrastructure. They bridged the gaps between local authorities, an important way of recognising that infrastructure spending often benefits adjoining council areas. The financial power available now to Local Enterprise Partnerships is very limited compared to that of the RDAs.

The Government needs to consider a greater role for the Homes and Communities Agency, which has £4.7bn of grant funding available for affordable housing, to kick-start industrial development with a similar kind of budget for land assembly, remediation (cleaning up sites) and above all, installing vital infrastructure that could offer many broader benefits to both employment and housing delivery.

Given that funding is limited, the other route ministers can take would involve debt guarantees that could better support the financing of difficult schemes such as pre-let and schemes built to suit occupiers form the majority of new developments. Measures in the housing market to underwrite development finance and then syndicate it to the bond markets provide both a good investment for fixed-income buyer, and a lifeline of funding for those needing to access more reasonably priced finance.

5 Invest in and empower local planners

Developers and ministers routinely criticise local planning for being slow. The complexity of the planning process, and the many contradictions between national policy declarations and local concerns, are exacerbated by the shortage of planning officials and lack of Government investment in the profession.

Government should give greater delegated powers to planning officers so that non-contentious applications can be dealt with and approved without unnecessary delay. Above all, it needs to better resource the system. Developers are largely content to pay a surcharge to support quicker processing of applications and a better, more rigid structure to enable this to happen in a transparent fashion should also be prioritised.

6 Properly coordinate transport infrastructure

We must ensure that major projects contribute to the logistics network effectively, and that growing needs are supported through what we are creating.

We should also clearly set out the routes of major projects at an early stage, avoiding costly delays at planning, and allowing investment to be deployed early. We have a plethora of National Policy Statements on energy and transport, but not one of these sets out any site-specific policies, apart from on nuclear power.

Policies around Nationally Significant Infrastructure Projects, when national policy statements apply, are too vague and open to interpretation.

The final part of this is reforming the Development Consent Order (DCO) process, which applies to significantly sized infrastructure projects such as airports, harbours, railway alterations, and construction of rail freight interchanges. The DCO process is long, complex and expensive, which is a disincentive. There's almost an incentive to keep things small and simple so they stay within the local planning regime.

Additionally, the recent decision to build a third runway at Heathrow must go ahead without further delay. The government should do everything in its power to expedite this long overdue expansion.

7 Better road transport

The Government has already invested significantly in road improvements over the past six years, particularly on the M1 and M6, and has committed to further investment, but the pace of investment must not be slackened. The number of road users is continuing to rise, mitigating the improvements that have been delivered.

In addition to road improvement, we propose that Highways England collaborates more closely with Network Rail to better integrate capacity between road and rail considering how we can better use off-peak periods during the night. A single strategy delivered by Highways England and Network Rail would better serve the needs of logistics businesses.

8 Using finance and technology to drive increased rail freight capacity

The Department for Transport's own national policy statements make the case for rail freight being greener and more efficient. While many companies with the scale to benefit do use it, for the majority it is too expensive and the complexity of access rules it out.

Due to the relatively short distances covered domestically (compared to those on the continent), and the high cost of access, rail transport is not a viable option for many companies. The situation will become worse as passenger numbers increase and the line space available for freight diminishes. HS2 and 3 will free up lines in the centre of the country, but they will not benefit many of those moving freight from coastal ports to central hubs.

There are several things that should happen:

a. Harmonise access contracts so they can function alongside real estate leases

At present, there is a disparity between the amount of time an occupier, such as a supermarket, can rent a warehouse and the length of time it can contract to access the rail freight network. Leases for major distribution facilities are routinely in excess of 20 years, because of the vast expense occupiers incur in fitting out the sheds with complex plant and technology. However, the lack of certainty around rail access massively undermines confidence. After all, why invest in a huge facility reliant on rail access when that access is not guaranteed? We need to harmonise these disparate areas of regulation so they better support investment.

b. Better use of technology to manage the network and incentives to create new rolling stock

At present, rail freight is subservient to commuter trains on the network, and the need to operate in the gaps between passenger trains is often made more difficult by delays, sometimes caused by damage to the track from excessive loading. By incentivising the use of more modern freight carriages - either through the tax system or through Network Rail's Track Access Charging System - we could see less damage occurring on our railways, which would increase capacity. There is little incentive to invest in new rolling stock. This needs to be better coordinated.

c. Rationalise charges

If the Government wants to move more freight off the roads and on to rail, it will need to ensure that the charges paid for accessing the rail network are fair. Currently, there is not a level playing field, as the free road network is obviously more attractive for most transport companies.

If the Government wants to attract private investors to fund new rail infrastructure, it will need to guarantee the return for investors. Infrastructure investors normally expect their payback to come over time from the charges paid for the new services. This is harder for freight, because the charges paid are essentially governed by regulation, and if they do increase, customers would be to likely to move back to road rather than pay them.

9 Focus on skills

One of the biggest risks to many of Britain's business sectors is our future pipeline of skills. This is in evidence both in the road haulage sector, which currently has an employment shortfall of 60,000 hauliers, and similarly in construction, which faces an estimated shortfall of 700,000 workers over the next five years.

However, technological advances that can help to overcome these gaps are in evidence. One such example is in Sherburn-in-Elmet near Leeds, where LGIM is creating the world's biggest modular housing factory, which will be able to factory produce housing units and reduce building times by 70 percent. Techniques such as this will allow the construction industry to focus more on off-site development. Modern methods could generate huge investment for regional areas, revitalising and creating new industrial space and creating significant employment.

There has to be some overarching Government acceptance of the need for wholesale reform of the construction sector and we call on ministers to adopt all the findings from the recent Farmer Review, using this as the basis for the construction sector's own industrial strategy.

10 Making business rates transparent and fair for all ratepayers

We call on the Government to keep its previous promises around radical reform of business rates. The business rates regime has become increasingly onerous, largely because it is the only tax which increases in times of economic downturn. On top of this, recent changes to the appeals system as set out under the 'Check, Challenge, Appeal' system have led to a far less transparent system, restricting the basic rights of rate payers to understand the basis upon which their original bill was calculated. This avoidance of full disclosure is not only unfair, but also potentially damaging to economic growth. We need Britain to be perceived as being open for business and fully transparent: while we seek to attract companies with low corporate tax bills, the increasingly punitive nature of business rates will have them seen as a stealth tax.

Business rates generated £27.8 billion across Britain for the Treasury last year. With the forthcoming 100 percent devolution of rates to local authorities, ministers will not be keen on any measures that reduce revenues and increase the need for supplementary funding for councils. However, making the system fairer doesn't necessarily need to involve collecting less money. It means more frequent revaluations as well as ensuring that those who have seen their property's value decrease and are eligible for a reduction are properly reassessed to keep bills in line with property values as much as possible.

a. Exemptions for speculative schemes

For any speculative development, the Government should not levy rates until the building has a tenant. This would encourage more investment, leading ultimately to higher tax revenues occurring more quickly. The charging of business rates on empty properties is a disincentive to the speculative development of industrial and logistics property. Some local authorities delay entering speculatively built properties in to the national rating list until the building has been occupied, removing the empty rate risk and making development more likely. The Government should set national guidelines for this rather than just leaving the choice up to individual councils.

b. Levelling the playing field

There has been discord from ratepayers around the disparity between industrial online retail occupiers such as Amazon and traditional high street bricks and mortar retail. However, unlike all other non-domestic properties, industrial stock is valued on the basis of the equipment inside and the rise of mezzanine, high-tech and multi-storey sheds could lead to a levelling out in the difference between industrial and high street retailers rates bills.

c. More frequent revaluations

The consultation earlier this year on increasing the frequency of property revaluations for calculating rateable values for business rates was a welcome first step. The current frequency of revaluations once every five years (with next year's updated valuation to be the first in seven years) presents many taxpayers in London and the South East with steep increases in their rates bills, which would be more manageable if there were shorter periods between each business rates revision. A switch to a more regular system would soften the blow, particularly as the sharp increase in the value of logistics assets since the last revaluation in 2008 could potentially tip businesses with tight profit margins into the red.

11 Continuing EU funding after Brexit

Currently, various forms of funding and grants are available from the EU to assist with major infrastructure projects that encourage the development of industrial and logistics property. This finance will no longer be available once the Government signs Article 50 and formally begins the leaving process. The Government must commit to at least matching existing grant funding once the UK has left the EU. As a net contributor to the EU of £8.5bn, an increase in infrastructure grants taken from this funding would be one method of stimulating growth and attracting investment during any potential post-Brexit economic uncertainty.

12 Create an industrial forum to identify sites and overcome barriers

National Policy Statements are produced by the Government for infrastructure and utilities, such as energy, water, and transport networks. Currently, the only national policy statement that features site specific policy is the Nuclear Power NPS. All the others, such as wind energy, have high level guiding principles for locations but remain open to the whims of ministers.

With logistics space being vital to future economic growth, a national forum recommending particular sites as suitable for either logistics use, or for infrastructure to assist logistics transport, would be welcome.

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