



Llywodraeth Cymru
Welsh Government

RESEARCH

Strategic employment sites: final evaluation (summary)

The aim of this report is to provide an account of the final evaluation of the Strategic Employment Sites (SES) operation being delivered by Welsh Government.

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Research aims and methodology

The aim of SES is to increase the number of high-quality employment sites to attract inward investment to Wales and support the growth of Welsh businesses. It does this by providing primary infrastructure and undertaking site preparation works at four sites in different parts of Wales:

1. Brocastle, Bridgend
2. Bryn Cefni, Isle of Anglesey
3. Cross Hands East, Carmarthenshire
4. Ty Du, Nelson, Caerphilly

The aims of the research were to assess:

- whether the operation has successfully met the aims and targets set out in the business plan, including its contributions to Cross Cutting Themes (CCTs)
- the effectiveness and efficiency of operation processes, and whether the operation was delivered on time and on budget
- the economic impacts and value for money of the operation
- differences in achieved outcomes for each of the sites and the reasons for this
- the key success and challenges for the operation, and identify lessons for future interventions

A range of methods were used including a review of operation documentation, analysis of Wales European Funding Office monitoring data and progress reports, analysis of property market trends and consultations with the project delivery staff and commercial agents in each of the areas with SES sites.

This evaluation builds on the interim evaluation of SES which was published in 2020.

Main findings

There continues to be a strategic need for SES

SES is designed to create new job opportunities in parts of Wales with high rates of unemployment and inactivity, and to address the shortage of high-quality employment sites which are acting as a barrier to growth and investment. The report finds there continues to be good evidence for both of these needs.

- The need for employment creation has increased as a result of the Covid pandemic which has led to an increase in unemployment throughout Wales.
- Public intervention in the property market is justified because of widespread and persistent market failure, whereby the costs of development exceed the market value of the site which disincentivizes private sector development of premises.

There have been a number of changes to Welsh Government and regional policy since the interim evaluation. However, these are all consistent with and reinforce the aims and objectives of SES.

The operation as a whole has met its financial and output targets

All sites are now completed, and all outputs have been achieved (59.6 Ha of land developed). It is estimated the final total costs for the operation will be in the region of £20.89m which is only slightly higher than the original estimate of £20.78 in the business plan. Therefore, overall, the operation has been delivered close to budget and the resources allocated were appropriate.

But there were cost overruns and/or delays for two of the

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sites

Incurred costs for Brocastle were £1.5m higher than the original cost estimates and the project was subject to significant delays. This was due to two factors.

1. Welsh Government had originally reached a provisional agreement with INEOS for them to build a new 250,000 sq ft manufacturing and assembly plant on the site. This required additional works on those plots which diverted resources away from the rest of the site. INEOS's subsequent announcement that it was withdrawing from the site meant that further works were required to reinstate access roads and make changes to utilities. This led to further costs and delays.
2. The need to meet WEFO funding timescales meant that not all of the technical details had been approved by the Highways Authority by the time the original contract was awarded to Walters. This meant it was necessary to make a number of changes to the contract, resulting in delays and an increase in costs.

Works at Cross Hands East were also delivered much later than originally anticipated. This was due in part to COVID-19 but also to planning works over winter months when ground conditions meant that the works were at higher risk of being affected by inclement weather.

Project management systems are robust

The structures and processes for management of the operation and individual projects have not changed since the interim evaluation. These have continued to work effectively and have supported the efficient delivery of the operation.

The Operation Manager has managed the operation well, providing good oversight of the projects and offering advice to Property Delivery Leads and

Technical Managers when required. Key success factors include a strong working relationship with the Finance Manager, and the fact the Operation Manager has been in place from start to finish of the operation, which has provided continuity.

Individual sites have employed a tried and tested approach to project management. Experienced contractors have been appointed to deliver the works, and the fact that independent consultants oversee progress provides an additional safeguard to ensure effective and efficient delivery.

SES has made a wide range of contributions to CCTs, particularly at Ty Du and Brocastle

All of the sites have contributed to CCTs by ensuring compliance with Welsh Government standards and regulations, particularly in relation to the Welsh language, equal opportunities and sustainability guidance.

A clear framework was agreed with WEFO to assess SES's contributions to CCTs. Overall this has worked well, particularly at Ty Du and Brocastle where WEFO has agreed almost all of the CCT indicators can be claimed.

Consultees for Cross Hands reported they have also delivered against a range of CCT indicators, but evidence has not been shared with WEFO, meaning the exact contributions are not as clear as for Ty Du and Brocastle.

Three of the sites have delivered a range of community benefits and skill building activities (there was limited scope to do this at Bryn Cefni). The greatest contributions have been at Brocastle due to its scale and the involvement of a contractor with the capacity and commitment to deliver a wide range of community benefits.

Most of the SES sites could be delivered by 2027

As of January 2022, none of the SES sites are occupied. As such the operation has not delivered any economic outcomes or impacts so far. However, the evaluation finds there is very strong market demand at three of the sites (Brocastle, Ty Du and Bryn Cefni) and there is an estimated high probability that these sites will be fully delivered and occupied by 2027.

The timescales for the delivery of Cross Hands East Phase 2 are more uncertain. Phase 1 of this site is still largely undeveloped despite the infrastructure and site enabling works being completed in 2015, indicating a slow delivery rate. Consultees also acknowledged that future development of the site would be dependent on securing additional grant funding to address viability gaps.

SES could support additional jobs by 2027

Based on the above, the evaluation estimate that, by 2027, the SES sites could accommodate just under 2,200 FTEs, supporting gross GVA of £102m per annum. After adjusting for deadweight, displacement and multiplier effects it is estimated that the SES sites could support just over 1,200 net additional jobs and annual GVA of £58m by 2027. A large proportion of these impacts are expected to be at Brocastle due to its scale and attractiveness to inward investors.

Recommendations

Project delivery

Future interventions should closely scrutinise the strength of market demand and need when selecting sites, particularly when there are existing serviced sites nearby which are still largely undeveloped. This was the case at Cross Hands East where the prospects of development and occupation are much weaker than other SES sites.

In areas with a greater viability gap, future interventions should identify opportunities for other public intervention early in the process. The Joint Venture partnership put in place for Ty Du offers one model which has worked effectively and delivered new units to market quickly. Depending on the specific characteristics of the site, other options may be for the public sector to directly deliver floorspace or agree a grant for a developer to overcome the viability gap. As shown by Ty Du, this intervention can help to prove the strength of demand to the point where future speculative development on the rest of the site becomes viable.

Where project delays are due to third parties, future funding programmes should offer some flexibility over timescales to avoid tendering the contract too early, resulting in higher costs and delays.

Future interventions for large sites should carry out research and market testing into the main energy requirements of potential end occupiers, and this should be considered during the design phase. This has proven to be a barrier for a number of potential investors at Brocastle.

There is a clear economic case for additional investment in sites to meet the bespoke needs of a major investor. In providing this support however there is risk should investors subsequently withdraw their interest.

The framework approach for monitoring and evidencing contributions to CCTs and agreeing claims with WEFO has worked well for two of the sites. This is a significant improvement on the approach used in the forerunner to SES (SESIF) where there was no systematic recording of the operation's contributions to CCTs and should be the default on future interventions. It should be agreed which sites will contribute to which indicators at the start of the process, accepting that smaller sites will have less scope to contribute to CCTs.

Welsh Government policy has a major focus on environmental sustainability and the transition to net zero. The SES operation has delivered against all of the environmental indicators agreed with WEFO, but future environmental impacts will be shaped by the type of development and activities on each site. In marginal areas it may be difficult to achieve very high environmental standards in buildings because the increased costs affect viability. Therefore, the Welsh Government may wish to consider making other grants or financial incentives available where this is the case.

The systems and processes put in place for management of the operation have worked well and should be replicated on future interventions. Key success factors have included having a manageable number of sites, an experienced surveyor as Operation Manager who has direct involvement in the larger and more complex sites, and strong working relationships between the Operation Manager and Finance Manager.

Future interventions should set more appropriate and realistic objectives and outcome targets. Two of the aims in the business plan related to improving access to employment for workless households or groups who had withdrawn from the labour market. SES was never likely to achieve these aims which require supply-side labour market interventions to address barriers to work.

Welsh Government will need to work with tenants and partners to maximise local employment benefits. The scale of local employment and training benefits is still unclear. But there may be significant scope for Welsh Government to influence

this at Brocastle, where the scale of benefits is greatest and where there is very strong market interest. Welsh Government and Bridgend County Borough Council should use this position of power to maximise local employment benefits, and make linkages between employers and local labour market programmes which help to reduce other barriers to accessing employment.

Contact details

Authors: Chapman, O and Evans, N

Views expressed in this report are those of the researchers and not necessarily those of the Welsh Government.

For further information please contact:

Andrew Booth

Email: research.evaluation@gov.wales

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