

# Appendix 9A Economic Report



E & JW GLENDINNING

LINHAY HILL EXTENSION

THE ECONOMIC BACKGROUND AND IMPACT

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# Development Plans Linhay/Alston: The Economic Background and Impact

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## Development Plans Linhay/Alston: The Economic Background and Impact

### 1. Executive Summary

- 1.1 E & JW Glendinning Ltd (“the Company”), an independent family business which has operated in the South West Peninsula for over 50 years, plans to extend its principal quarrying site at Linhay Hill, Ashburton, to an adjacent site owned by Glendinning at Alston Fields. This is immediately to the north of the existing quarry, with the A38 Devon Expressway on its eastern boundary.
- 1.2 Linhay Hill Quarry is one of the most important sources of limestone in the South West Peninsula, supplying public and private sector customers in Devon and Cornwall with materials for maintenance and repair (typically of roads and buildings), new construction and agriculture. The quarry supplies aggregates to the Company’s readymix concrete batching plants and pre-cast works at Exeter, Plymouth and Paignton.
- 1.3 As such, the Quarry is a very important strategic asset for the South West. It has reserves for 12 more years at current rates of production and will remain workable for up to 20 more years. But output will gradually diminish as extraction – already undertaken below the water table – becomes less economic.
- 1.4 The Company has a long history of supplying key sectors of the regional economy. Its products support – directly and indirectly – the production of food (through the supply of agricultural lime); the very important tourist sector (keeping roads, railways and airports supplied, contributing to the building and refurbishment of hotels and guesthouses); much needed new and refurbished homes for Devon and Cornwall residents (it has a range of essential building services and products, including concrete blocks manufactured at the Linhay Hill site). Supplying the house building sector, eg in the priority areas of Plymouth and East Devon, will be a major element of the Company’s strategy for the years ahead.
- 1.5 The Company’s processed stone is also used for products made locally and exported. This includes ceramic tiles, which are manufactured at the British Ceramic Tile plant a few miles further north on the A38.
- 1.6 The series of severe storms affecting the West Country in the winter of 2013/14 cost the whole regional economy an estimated £5-7mn a day in late December 2013 and

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January 2014. This underlines the importance of having long-term, strategic supplies of materials – firstly, for repairing and reinforcing infrastructure such as the GWR rail route to Penzance; and, secondly, supplying stone for defences to protect the coastal communities from the flood and erosion risks that are likely to be a consequence of the warmer, wetter winters predicted by the Met Office. Options to improve the West Country's transport resilience would require very significant quantities of raw materials; and the Linhay Hill extension would provide a competitive local supply and minimise haulage miles.

- 1.7 It follows that the Company needs to take a long forward view of its capacity to meet demand. Infrastructure projects have enormously long lead times and extending the Linhay Hill facility at Ashburton will give the Company a 50 year capability.
- 1.8 In the shorter term, an economic recovery has been underway in the UK since 2013 although there are several "headwinds" and "cross currents" that continue to affect our main trading partners. Any one of a number of downside risks has the potential to knock the UK's recovery off-course again. The inter-connected nature of the world economy means that Devon's economy cannot be immune to a range of geopolitical risks.
- 1.9 But, notwithstanding the global risks, the UK's recovery has reasonable momentum and, in the medium and longer term, this should lead to steadily improving demand for the Company's products in all its main markets – particularly house building, commercial construction and infrastructure, as well as the production of food. Current major infrastructure projects, to which the Company has been supplying goods and services, include the B3193 realignment scheme and the South Devon Link Road.
- 1.10 Furthermore, in the Dartmoor National Park alone, the Company's customers spend around £600,000 each year on Linhay Hill stone and derived products.
- 1.11 In the past year or so, the Company has experienced strong demand for its products. In its latest financial year (to 30 April 2015), the Company's sales increased by 25% to £35mn. This scale of growth is welcome and can be met from existing resources. However, the corollary is that existing limestone reserves will be depleted more rapidly.

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- 1.12 The Company is a significant private sector employer in the Teignbridge and South Dartmoor area. Its operations have a high level of productivity – reflecting the volume and value of its output relative to the size of its workforce. This makes it unusual in a region in which productivity (and associated competitiveness) is relatively low. The Company has invested significantly at its Ashburton facilities in recent years; and, if its development plans go ahead, will continue to do so.
- 1.13 The Company's employment in Ashburton is some two-thirds of the total workforce of 240. Average earnings of production and administrative staff at the Company are some £31,500 pa, significantly higher than the average for the UK (£27,000) and especially for Devon and the South West Peninsula (£24,000).
- 1.14 Unemployment in the Devon Unitary area, of which Ashburton (in Teignbridge) is part, is significantly lower than the national average. Some skills are accordingly in short supply, especially skills related to the construction trades that are increasingly stretched reflecting the recovery in construction output since 2013; and Local Authority plans will provide for more housing development, in particular, over the years ahead. So the county needs to preserve and grow capital-intensive, highly productive businesses such as the Company, which do not need to draw heavily on the labour pool and are also strategic suppliers for the county's economic growth.
- 1.15 Extending the Linhay Hill facilities will enable local high-wage employment to be sustained for many years to come. But, if the Company's development plans do not go ahead, employment in the firm will gradually decline as output from Linhay Hill falls; and supply will be less competitive as diseconomies of scale begin to build. The converse of course applies – extending the Ashburton site will offer greater economies of scale reflecting lower cost extraction and volumes that can be flexed to respond to demand.
- 1.16 The Company has considered the option of running down production in Ashburton and developing a new site elsewhere in Devon. A site at Newton Abbot was considered. However, there are a number of disadvantages with this option: all the associated new infrastructure required; wider sustainability implications arising from use of energy and materials required to establish a new quarry; a site less advantageously situated than

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the current location on the A38; and significant additional financial cost, which would impact the price to customers.

- 1.17 There are other sources of limestone in Devon. However, the other quarries are owned by a single supplier, Holcim Group. It is essential to maintain competition in a region which is geographically challenging – covering some 150 miles from the Devon/Somerset border to Penzance – and customers across Devon and Cornwall are best served if a choice of supplier is retained.
- 1.18 However, consolidation in the industry militates against this. For example, Lafarge and Holcim have merged to form the new LafargeHolcim business and, although a condition of the merger was to sell Lafarge's UK businesses, the number of players in the industry is likely to fall further over time. It is therefore in the interests of competition that a strategic reserve such as the one at Alston Fields should be released onto the market. The corollary is that competition will be inhibited if land banks concentrated in very few sites, controlled by a small number of companies, are withheld from production.
- 1.19 Furthermore, the prime focus of the international majors is the volume of cement to market, as they are cement producers first and foremost. For these firms, the aggregates market is simply a vehicle to move cement. The county could become very uncompetitive if the sole supply of aggregates was controlled by an international cement producer and this could impair Devon County Council's statutory objective to achieve Best Value in procurement.
- 1.20 The Company's own procurement is as locally focused as is practicable. Of the £20mn or so of services (including sub-contract) and materials purchased in 2014/15, £5.2mn or about a quarter was sourced in Devon.
- 1.21 In the year to end April 2015, total payments to the Treasury and HMRC were some £8.5mn comprising: £2.9mn in VAT; £2.5mn in PAYE and Employer's NICs; £1.0mn in Corporation tax; and £2.1mn under the Aggregate Levy, which rises as output tonnages increase.

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- 1.22 In addition, Business Rate payments to Teignbridge in respect of the Ashburton facilities were some £203,000; and to Plymouth and Exeter, in respect of the other sites in Devon, £53,000 and £46,000 respectively.
- 1.23 So in very broad terms, if the Company is able to sustain its output over 50 years, at existing rates of tax some £400mn could be paid over to the Exchequer. But to achieve this, the Company would need to supplement its diminishing reserves at Linhay Hill by extending its operations to Alston Fields.
- 1.24 The Company's employment and procurement of services in Devon has a very high impact on the growth and sustainability of the local economy. This reflects several factors: the requirement for higher and scarcer skills (which have commensurately higher earning power); the use of around 400 local suppliers and sub-contractors, most of whom are small businesses which rely on custom from a relatively small number of "big players" in the South West; and, thirdly, a customer base which is predominantly in Devon and Cornwall.
- 1.25 If Glendinning were to scale back its operations because its usable reserves were depleted and not replaced, the impact on Devon and the Ashburton/Newton Abbot area, in particular, would be very significant. Our projections quantify the economic impact over 50 years of two scenarios: to extend Linhay Hill into the Alston Fields land (the proposed option) and, secondly, to run down reserves at the existing Linhay Hill quarry.
- 1.26 Applying an economic multiplier to local employment and procurement, the benefit of the quarry extension to the Devon and Dartmoor local economy (as compared with the alternative – to reduce output and gradually to scale back operations) is estimated to be some £6mn on average per annum. In current prices, this implies a net positive impact on the local economy over the extended life of the plant of some £300mn. These figures roughly double to £600mn if 2% CPI inflation per annum (the Bank of England's target for inflation) is factored in.
- 1.27 Quarrying is not always seen as compatible with environmental sustainability. But the Company has built a strong reputation over the years for working sensitively with the environment in which it has its roots. Its objectives are fully congruent with the aims of the two counties, Devon and Cornwall, and of the National Park Authority. These

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might be summarised as: to enable an outstanding rural environment to be preserved through active stewardship for the benefit of residents and visitors alike; and for the working environment to support growth, employment, productivity and, at the same time, a strong sense of community. Please see Appendix 1 as well as the other relevant parts of the Report.

- 1.28 The Company prides itself on being a responsible employer and business, with a long term commitment to its family roots and to its operations in the South West Peninsula. As such it is strongly committed to supporting the community in the region where it has its main markets. Section 8 of the main Report outlines the local projects and activities the Company has supported.
- 1.29 In Ashburton (“the southern Gateway to Dartmoor”), it has supported financially and in kind a range of local causes. For example, Glendinning contributed £5,000 plus in-kind assistance towards a project to move the closure-threatened Ashburton Library into vacant space within the town’s Post Office, thereby helping secure the future of two valuable local facilities.
- 1.30 The Company has particularly focused its support on educational projects such as those at the South Dartmoor Community Academy, where a Studio School for the Built Environment is being established; and where last year the firm donated £5,000 to complete funding for a skate park.
- 1.31 The Company’s continuing support will help the young people of South Dartmoor become responsible employees and citizens over what the Company hopes will be its own 50 year future at Ashburton.

### 2. Background to the application

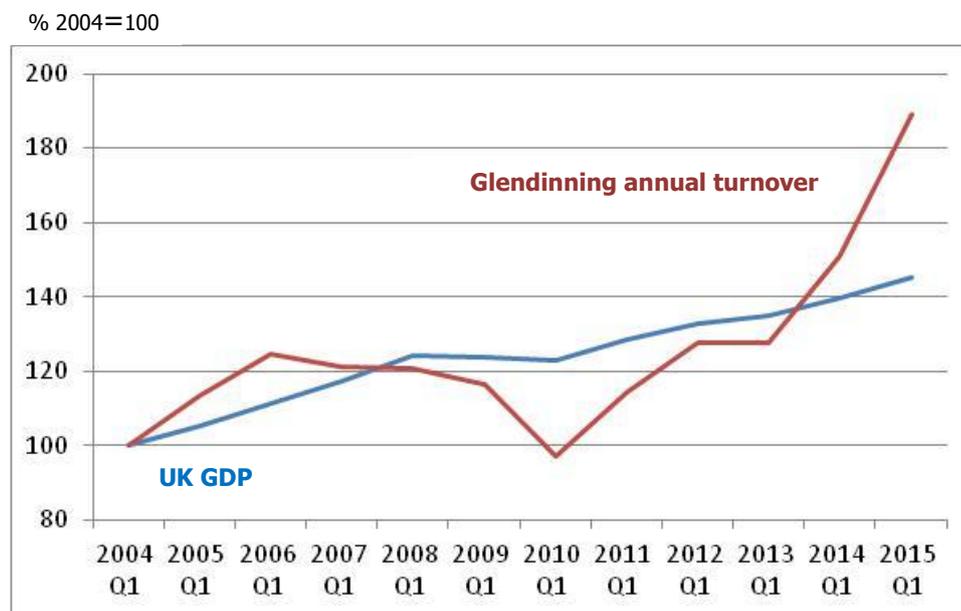
- 2.1 E & JW Glendinning ("the Company") is an independent family business which has been based in the South West Peninsula since 1958. The firm originally supplied agricultural lime – and still does, with many of its customers located in the Dartmoor National Park – but it subsequently diversified into the extraction and supply of stone for road building and developed a wide range of stone and concrete products for commercial building, homes and gardens. The Company is now a leading supplier in the South West of asphalt, aggregate, readymix concrete and concrete products and civil engineering contracting services, with production principally at Ashburton but also at its concrete plants in Exeter, Paignton and Plymouth. It also has a gritstone quarry at Launcells, near Bude in Cornwall.
- 2.2 Excluding the small operation in Cornwall, the company's annual sales turnover in the last financial year ended 30 April 2015 was some £35mn, with strengthening demand through 2014 and into 2015 reflecting the UK's economic recovery. Product from the Ashburton operation contributes to almost all of this turnover through direct or indirect sales.
- 2.3 Linhay Hill at Ashburton accordingly represents the bulk of the Company's extraction and a large part of its manufacturing operations, specialising in limestone-based asphalt, readymix concrete, concrete block manufacture and agricultural lime. In 2010 the firm undertook two major investment projects at Linhay Hill, including a new asphalt plant, to boost local production for supply to its customers in the Peninsula.
- 2.4 The strategic changes undertaken thus far have strengthened the Company's market position in the two counties in the face of competition from overseas-owned and/or international businesses such as Lafarge Tarmac, Hanson Heidelberg and Aggregate Industries Holcim. The proposed extension of Linhay Hill is also fully consistent with the UK Government's target of "de-carbonising" the UK economy by some 80% by 2050 because the extended quarry will continue to provide a strategic local reserve of limestone to maintain the transport infrastructure of Devon and the South West Peninsula.

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- 2.5 The Company's location at Ashburton is significant for the de-carbonising agenda in several ways. Transportation in the minerals industry accounts for about one-third of the industry's CO<sub>2</sub> output. So minimising "haulage miles" and enabling fuel-efficient transport on arterial routes is a key objective. Linhay Hill is ideally placed for access to the A38 Devon Expressway and thence to Plymouth and West Devon (via the A38/A382), Torbay (via the A380), East Devon (via the M5/A376), Mid and North Devon (via the M5/A39), Cornwall (via the A38 or A30). This enables transportation on local roads to be kept to the minimum necessary for destination access rather than as an intermediate route.
- 2.6 Furthermore, the Company is actively involved in carbon reduction initiatives through the UK Minerals' Forum. It follows that the Company has keenly supported initiatives to mitigate its own output of carbon: local reclaimed granite aggregates are used in a number of the Company's products; and, for higher grade products such as gritstone, production and supply in the South West Peninsula has a significantly lower carbon footprint than the alternative sources of such stone in Wales or Ireland.

### 3. The wider economic context

- 3.1 The South West economy and the Company's business have been affected fundamentally by the developments in the world economy over the past decade and it is therefore important to comment on the wider economic background – Devon and Cornwall are very much part of the "global village" which affects all our lives so profoundly nowadays.
- 3.2 The chart below shows the % change in the Company's annual turnover alongside the change in money values of UK GDP indexed to 2004, before and during the recession and then through its aftermath. Both data series illustrate the severity and duration of the recession and the severe effects on firms in the construction supply chain (such as the Company), for which the downturn came earlier and was more protracted. But the Company has grown by more than the UK economy since 2013 reflecting strong demand for its services and products in Devon and Cornwall.



- 3.3 Even now, 8 years on from the start of the "credit crunch" in 2007, the outlook for the world economy is still unclear, with the IMF's Economic Outlook published earlier this year describing "cross currents" which, on the one hand, enable benefits to accrue to net energy consumers from the cut in the oil price but, on the other, increase the risks of renewed financial instability as a result of geopolitical risks affecting eg Greece and the euro-zone, China and emerging market economies. However, the world's leading

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economies will probably continue the gradual re-balancing that has been underway for several years and in which the UK has participated.

- 3.4 The UK's economic recovery gained some traction in 2014 and real GDP finally returned to its pre-crisis level. Consumer spending and the housing market started to pick up in 2013 and consumer spending has remained robust through 2014 and 2015. The Government has gradually been reducing its budget deficit as a proportion of economic output (to about 5% compared with a peak of 11% after the economic crisis) but the estimated date for balancing the budget has been pushed back several times – to 2018/19 on the latest projections.
- 3.5 The Bank of England's continuing commitment to stimulatory monetary policies has helped to improve levels of confidence of businesses and households; and long-term borrowing rates remain exceptionally low. The Bank's Base Rate is likely to be raised over the next 12 months but will also increase gradually and to a level well below the peaks of past cycles.
- 3.6 Although earnings growth remained below inflation until the end of last year, the "squeeze" on incomes has narrowed as lower oil price effects have worked through and wage increases have picked up from previously very low levels. Private sector employment has grown and unemployment is down to around 5.5% compared with nearly 8.5% during the recession.
- 3.7 However there are some aspects of the recovery which are not beneficial – for the South West in particular. True, unemployment in Devon County is much lower than the national average; and in Plymouth and Torbay is close to it. But productivity across the country has fallen since the recession and remains particularly weak in Devon and Cornwall. An improvement in productivity – as measured by the volume or value of goods and services supplied by each person in employment – is vital for the UK's competitiveness and specifically for regions like the South West which tend to have a higher proportion of employment in low wage and lower value-added activities.
- 3.8 The Tourism and Hospitality sector is vitally important for the economy and communities in the South West, especially in the area around Dartmoor, but it tends to yield lower revenues per head of employment and to employ lower skilled, lower wage workers. It is accordingly important to increase the number of higher

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productivity businesses (such as the Glendinning Company) which employ higher skilled, higher paid workers who will in turn boost aggregate spending in the local economy.

- 3.9 Business investment, which has been weak throughout the UK in recent years, is also vital for the longer term competitiveness of the UK and of the South West. Within business investment, building new homes to address Devon's long term shortage of affordable property will be a strategic priority. As such, the Company's supply of materials and products manufactured at its Devon sites, especially at the block making plant at Linhay Hill, is critical. The Company itself invests in the future of its business and, through investing, demonstrates the benefits of value-added production and higher levels of productivity.

### 4. Economic context for Devon

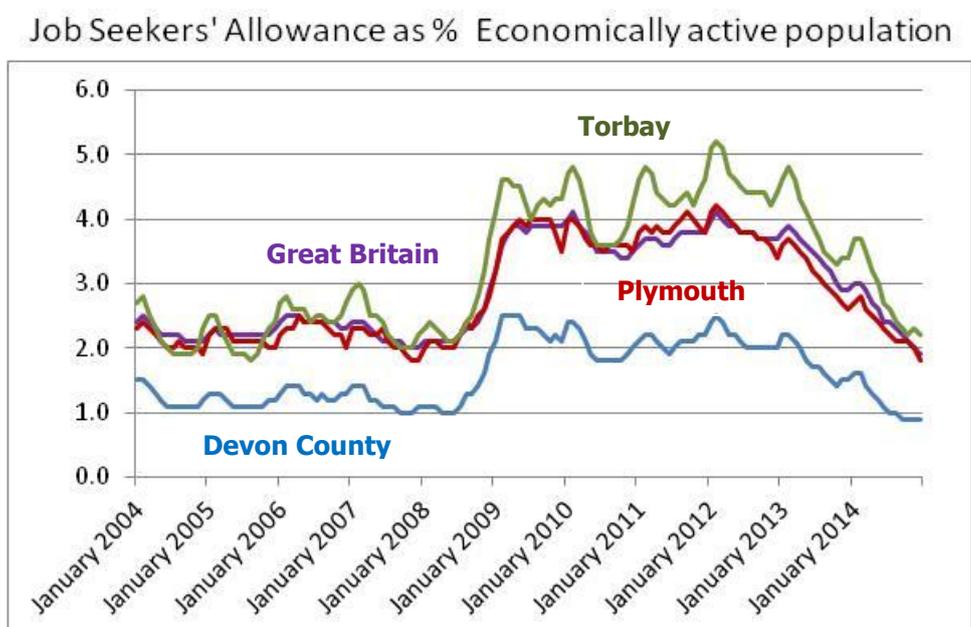
- 4.1 The following facts are relevant to the Company's economic case:
- 4.2 Devon County's population was around 750,000 in 2012, an increase of 6.8% from the level at the time of the 2001 census – a somewhat lower increase than across the South West (+8.0%) and in England & Wales (+7.8%). Plymouth adds a further 260,000 (+ 7.1%) and Torbay 130,000 (+1.2%).
- 4.3 Gross Value Added (GVA)<sup>1</sup> for Devon was estimated to be around £20.6bn according to the latest data available for 2013 (just over 18% of GVA in the South West and 1.35% of UK GVA).
- 4.4 But GVA per head in 2013 was around £18,000, some 85% of the South West average and only 76% of the UK average.
- 4.5 Devon experienced economic growth broadly in line with the UK average in the lead up to the recession, but GVA growth (of only 4.7% from 2008 to 2013) was only around two-thirds of the, relatively low, national figure for this period (of 7.3%) – an average of just over 1% per annum.
- 4.6 This growth pattern (weak for the country as a whole but exceptionally weak in the South West Peninsula) largely reflects the squeeze on consumer spending from 2008 onwards caused by wages and salaries rising more slowly than inflation. This squeeze on consumers has been more acute in a lower wage economy such as Devon's, because there is less scope for discretionary spending or saving and a higher proportion of the weekly wage is spent on "food and fuel" which saw prices rising fastest for most of the period to end 2013. This squeeze on South West consumers did not ease until late 2014 when oil prices fell and wage growth started to pick up.

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<sup>1</sup> GVA, or gross value added is the value of goods and services produced in the economy net of taxes and subsidies. It is used here as a measure of economic output in Devon, which includes Plymouth and Torbay unless indicated otherwise.

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4.7 Unemployment in Devon County, where Linhay Hill is based (in the District of Teignbridge), is now lower than before the recession. People drawing Jobseekers' Allowance account for just 0.9%% of the economically active population – around half the average for Great Britain (1.9%) as at December 2014. The employment rate conversely is relatively high (at 76% compared with 72% for Great Britain). Although unemployment rates are higher in nearby Torbay and Plymouth, the local labour pool is tight and will remain so for the foreseeable future. Businesses such as the Company, which produce high levels of output and revenue per capita, are therefore important because they are 1) likely to be more competitive and 2) put relatively less strain on a tight labour market.



4.8 Across Devon, average worker productivity (defined in terms of output per head) was a little over £30,000 in 2010, less than three-quarters of the UK average. In the same year the Company's output per head was around £90,000 and was over £150,000 in 2014/15.

4.9 Furthermore, while average earnings in Devon were around £24,000 in 2014, compared with the GB average of around £27,000, the average production wage/salary at the Company was £31,500 (nearly a third higher than the local average wage). This underlines how important higher wage businesses such as the Company are in a sub-regional economy like Devon's.

4.10 Devon has a challenging economic geography. It has more miles of road than any other English county. Many of these roads are minor ones in the huge rural hinterland

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of Devon, including the moorland districts. But these minor roads (as well as the major ones) are often critical in the supply of foodstuffs from farms to processing and distribution facilities. As such, strategic supplies of materials used to maintain these roads are essential and the quarry at Linhay Hill (at the southern gateway to Dartmoor) is in an ideal location for supplying remote rural as well as urban locations.

- 4.11 Furthermore, there are some very significant construction schemes, including housing and infrastructure, underway or in prospect across the county (notably in Exeter/East Devon and Plymouth), which will require significant volumes of limestone-based materials for many years to come. The Company's block manufacturing at Linhay Hill contributes some 6 million concrete blocks per annum to the county's housing and construction sector.
- 4.12 In addition, more frequent extreme weather events of the kind experienced across the county in the winters of 2012/13 and 2013/14 will require increasing recourse to strategic reserves of construction materials to repair rail as well as road infrastructure. Significant investment in rail will be necessary to improve the Peninsula's resilience to extreme weather conditions and prevent the exposure in early 2014 to a single point of failure involving the break in the GWR main line at Dawlish.
- 4.13 Plans to upgrade the A30/A303 from Somerset to the M5 and into Devon will help to "future proof" the South West Peninsula by improving resilience and productivity. Supplies of limestone, concrete and asphalt, with a minimum of haulage miles, will be necessary to support this work.

### 5. The Company's operations

- 5.1 The Company has invested significantly at Linhay Hill in recent years – £8.5mn in 2010 alone. The extension to Alston Fields will be undertaken gradually over a period of several years, mainly funded from revenue expenditure (principally through additional employment) but they plan to spend some £2mn on a fixed Primary Crusher. The present machine is a mobile crusher, but the extension will justify fixed plant with sufficient capacity to meet processing needs for a number of years.
- 5.2 In addition, the Company plans to spend £1-2mn diverting a minor road around the boundary of the proposed quarry extension, creating a replacement road and access route onto the A38, with associated infrastructure including drainage.
- 5.3 The Company's employment is currently 240 people (of whom about two-thirds are employed at Ashburton, with the remaining one-third mostly spread across their Contracting division and plants at Exeter, Plymouth and Paignton – with a small workforce in Cornwall). Employment has increased since 2013 reflecting the pick-up in demand. The total wage/salary bill is around £7.5mn and average earnings of production and administrative staff are around £31,500 pa (compared with the Devon average in 2014 of £24,000).
- 5.4 The Company aims to buy as many of its supplies of goods and services from local sources as possible. Inevitably commodities which the Company buys in bulk such as cement and bitumen, which are internationally traded, come from outside the county. But, provided the price is competitive, as it usually is for a range of business services including legal and accounting, the Company sources its needs locally. Goods and services purchased from suppliers in Devon postcodes are some £5mn pa, around quarter of the firm's total procurement of £20mn.
- 5.5 Moreover, most of the Company's Devon suppliers – comprising 360 or around 40% of all the Company's suppliers – are small firms. Average purchases by the Company involving these Devon firms were only £14,000 during 2014/15 and are likely to have been a much bigger share of their sales than of the Company's purchasing ledger, ie more significant for the supplier than for the Company as customer. As a general point, small firms are typically more vulnerable to changes in economic conditions and

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therefore rely for their own growth on the stability of their larger customers – Glendinning being one of the larger private companies in Devon and Cornwall.

- 5.6 Furthermore, local procurement from competitive, quality sources will remain a key element of the Company's strategy and a differentiator from other quarrying businesses. The latter tend to have less commitment to the Peninsula because their geographical business spread is much greater and they normally operate under national procurement agreements.

### 6. Alternative options

6.1 If permission to extend Linhay Hill to Alston Fields is not granted, the Company will need to balance current operating costs, the reserve, sales demand and return on investment. With peak output forecast to last for only another 10 years, an alternative plan will have to be developed to meet demand from the local market and achieve an acceptable return on capital. The main problem, however, is that the Ashburton facilities are at the heart of the Company's production capability and geared for volume output of aggregates, readymix concrete, concrete blocks and asphalt. The manufacturing plant needs to be operated at high levels of capacity utilisation and this will not be achievable when limestone production starts to fall below current levels of output.

6.2 An alternative plan is to open a new quarry, ideally with the advantageous infrastructure logistics, particularly the close access to the A38 artery, that enable product to be transported anywhere in the South West Peninsula very quickly and with a minimum of haulage miles. Of course, you can only quarry limestone where it occurs.

6.3 However this plan has the following disadvantages:

- A green field site would be required, presenting significant practical and cost disadvantages.
- Diluting the economies of scale arising from a principal operating hub would increase the marginal cost of production and the price to customers. It would probably also mean additional haulage miles arising from the transport of stone from one site to the processing plant (for asphalt) at Ashburton.
- The resources required to establish a new quarry would be significantly greater than those needed for the extension proposed. Directly or indirectly, CO2 emissions would be much higher. This outcome would be contrary to the sustainability agendas of both the Dartmoor National Park Authority and of Devon County Council.

6.4 The business would gradually wither on the vine if output from the main operating facility dwindled to the point at which it became uneconomic. A radical alternative would be for the Company to sell the business to a competitor or another investor and

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withdraw from the quarrying business altogether. This would be entirely contrary to the family's ethos, which over the years has been to provide an endowment for future generations. This is why the firm has remained a private company, faithful to its family and Devon roots.

- 6.5 In any case, there are several risks for the local community and the county. A sale could possibly lead to further concentration of production in the hands of one international cement firm. The purchaser would face the same issue of potentially uneconomic production at Linhay Hill and would in time seek to extend its life or consolidate production at other sites which it operates – probably leading to a shorter life for these – or seek planning consent for a new site altogether. If the sale was to a firm outside the Peninsula, with that firm's procurement also likely to be out of region, benefits to the local economy would be significantly reduced.
- 6.6 It could of course be argued that securing planning consent to extend Linhay Hill would make the Company more saleable eg to a rival or a private equity firm. But the firm emphasises that it is seeking a sustainable future for a business that intends to remain faithful to its roots and be a key producer of strategic materials in Devon and Cornwall.
- 6.7 The most likely outcome in the event that development approval is withheld is that the Company's business model changes. From 2025 onwards, the volume the Company currently generates from its own resources, mostly quarried and processed at Linhay Hill, would be progressively shifted towards materials bought in – at least partly from outside Devon – to supply its readymix concrete and asphalt operation at Linhay and its concrete works in Exeter, Plymouth and Paignton. The remaining operations of processing, distribution and services could be re-structured to be commercial. But the group would be scaled down and would have lower employment and make a much lower contribution to the local economy. Section 7 below outlines the impact of this scaled down model, as compared with the preferred option of the Extension.

### 7. Economic impact on the local economy

- 7.1 Economists estimate multipliers for the “trickle-down” of expenditure through the economy, with their estimates varying according to the value added in different industries and regions. In other words, investment spending, employees’ wages and local procurement involve at least some degree of expenditure on local goods and services. Other firms and employees provide these goods and services and, in turn, make their own purchases of goods and services.
- 7.2 The trickle-down is limited by two things: most significantly, leakages of expenditure outside the local economy and, secondly, savings – by households and businesses. Given the imprecision of this calculation – which will vary according to prevailing levels of unemployment, prevailing confidence levels as to whether to save or consume, the state of the economy and level of vacancies etc – the multiplier effect is usually estimated to be between 1.5 and 2.5 times.
- 7.3 So as a very broad rule of thumb, a 2x multiplier implies that 50 local jobs/wages created or preserved by the Company equates overall to 100 jobs/wages created or preserved in the local economy. Conversely and other things being equal, 50 jobs lost in the gradual run down of a facility like Linhay Hill equates to 100 jobs lost in the local economy. Similarly, an approximate multiplier of 2x can be applied to other forms of spending on goods and services – especially if the supplier is local.
- 7.4 To refine the broad estimate somewhat, we have used a 1.75 multiplier in our projections. This is based on work by the British Geological Survey for the Office of the Deputy Prime Minister in 2004, which estimated that the employment multiplier for the Minerals Sector was in a range 1.6-1.9. The median of this range is thought to be a sufficiently conservative basis for estimating the net impact of the Company’s plans, as explained below.
- 7.5 There are two basic scenarios: firstly, Linhay Hill is extended to Alston Fields, which enables current levels of output to be sustained for another 50 years, with the remaining 12 years of reserves at Linhay worked out at the current rate of production. There would be some enhanced capacity to enable the Company to respond to higher demand reflecting factors requiring greater supplies of limestone –

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as outlined in section 4 above. But the central proposition is to maintain current levels of output for the next half century.

- 7.6 The second scenario is that there is no extension. The Company accordingly makes a strategic decision to “sweat” existing assets as long as possible, slowing down current rates of production. Under this second scenario, output will start to decline about 10 years from now and Linhay will close in around 20 years. The business would be focused on managing the down-scaling as profitably as possible. Since the fixed cost base cannot easily be varied, cuts in variable costs would involve labour reductions; and fixed costs would rise as the quarry deepened with the increased cost of pumping water and hauling stone from greater depths.
- 7.7 The third scenario, which is a variant of the first, is to develop another site elsewhere in Devon. But this has a number of disadvantages, as outlined in section 6 above, and this is therefore disregarded. There would probably be some positive impact for the local economy arising from this option but it would be less than under the extension option; and there would be significant disadvantages in relation to wider sustainability issues.
- 7.8 The first (“Extension”) scenario assumes higher spending than would occur in the second (“Contraction”) scenario, although Contraction would certainly involve some additional costs (including redundancy) over and above the reduction in profitability that would gradually occur as Linhay Hill became less and less economic to run.
- 7.9 In both scenarios, the baseline for the start of an incremental change programme is 2015. The main milestones thereafter are 2025 (at which point Linhay Hill’s output starts to decline and Alston Fields’ output to “ramp up”); 2035 when Linhay Hill closes and Alston Fields is able to run at sufficient output to compensate for loss of Linhay; 2065 when Alston Fields is worked out.
- 7.10 “Extension” would involve some additional capital expenditure, including works on road infrastructure and new access to the A38 with a minor lane diversion. New crushing equipment (costing around £2mn) would be purchased from outside the county and probably from abroad, so there would be relatively little trickle-down arising from this new equipment purchase to the local economy although local sub-contractors may be employed for the installation. However, “Extension” would

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require some additional permanent labour and there would be also be local contracted-out works related to the re-routing of the road and A38 access. Accordingly, 10 additional heads on average are assumed to be needed from 2015 to 2025 and bought in goods and services of an additional £0.5mn per annum over the same period.

- 7.11 From 2025 onwards, with a like-for-like comparison of output and output/employment ratios, there follows 40 years of employment and other local expenditure on roughly the current scale in today's values.
- 7.12 Under "Contraction", there would be 10 fewer jobs and less contracted-out spending from 2015 to 2025 than would occur under "Extension". But the major (negative) impact would occur from 2025 onwards as the rate of production slowed down.
- 7.13 The Company's experience during the recession is a guide to what might happen after 2025 under the "Contraction" scenario. During the worst of the construction recession from 2007-2009, the Company's output volumes fell by 22% from their peak in 2006/7 to low points in 2008/9 and 2009/10. Over the same period, employment across the business was reduced by 12%.
- 7.14 So strategic downsizing under "Contraction" might reasonably result in a decline in output volumes from Linhay Hill of about 10% per annum from 2025, falling to zero by 2035. This would be accompanied by an average reduction in employment and procurement, including local procurement, of 5% per annum. It is assumed that greater reductions would impair the viability of the whole business but that the Company's other activities – manufacturing, contracting, distribution and high value-added quarrying of gritstone in Cornwall – would remain commercially viable.
- 7.15 Even so, it is possible that, without the majority of its raw materials coming from an internal source at Linhay Hill, the group might not remain viable in its existing form and the separate businesses within the group could conceivably be sold off as independent entities. But a more reasonable assumption is that the Company, which has operated in Devon for over 50 years, will continue to operate as a group – albeit on a much smaller scale.

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- 7.16 On the assumption therefore that there is a viable commercial model for the Company after 2035, under “Contraction” there will be no quarrying or manufacturing at Linhay Hill from 2035; and employment and other (local) expenditure will have fallen by over 40% from levels in 2015.
- 7.17 So, allowing for the 1.75x trickle-down multiplier, the “Extension” option as compared with the alternative option of “Contraction” implies a net positive impact on the local economy of around £1.5mn per annum from 2015 to 2025. From 2025 onwards, the net positive impact rises progressively to around £8mn per annum by 2035 and continues at this level until 2065.
- 7.18 The aggregate difference on spending in the local economy – again expressed in today’s monetary values and, very conservatively, does not allow for any inflation over the years – is estimated to be £6mn on average per annum or a total £300mn over the 50 year period. With 2% inflation per annum, these numbers roughly double to £12mn per annum or £600mn over 50 years.
- 7.19 We have considered whether there could be any negative factors to offset some of the very substantial benefits for the local economy arising from the Company’s employment, procurement and investment plans. If, for example, the extension of Linhay Hill were to affect Devon’s visitor economy adversely, there could be implications for employment and visitor spend that would offset some of the projected benefits of the project.
- 7.20 However, the risk of any adverse impact on other sectors, including the visitor economy, is considered to be very low indeed and has therefore not been taken into account in the economic modelling.
- 7.21 The reasons for this are as follows:
- the Linhay/Alston quarry is adjacent to a busy (and noisy) highway on the extreme eastern edge of the National Park;
  - it is not therefore in a sensitive part of the National Park so far as visitors are concerned;
  - there is not a concentration of visitor attractions or facilities in the immediate vicinity;

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- landscaping will over time mask any visual detriment;
- there is plenty of competition in the local market for tourism;
- walking and cycling routes around or near the quarry will be enhanced;
- viewing and information facilities will enable visitors to learn about a working quarry, its significance for the regional economy and its place in Dartmoor's living industrial landscape – inter alia, supporting as it does the supply of limestone for agriculture.

### 8. Other relevant information

- 8.1 In the year to end April 2015, total payments to the Treasury and HMRC were some £8.5mn comprising £2.9mn in VAT; £2.5mn in PAYE and Employer's NICs; £1.0mn in Corporation tax; and £2.1mn under the Aggregate Levy, which rises as output tonnages increase.
- 8.2 So in very broad terms, if the Company is able to sustain its output over 50 years, at existing rates of tax some £4-500mn could be paid to the Exchequer. But to achieve this goal of sustaining output, the Company would need to supplement its diminishing reserves at Linhay Hill by extending its operations to Alston Fields
- 8.3 The Company's operations in Devon, including Plymouth and Torbay, also make a Business Rate contribution of some £300,000 per annum. Linhay Hill alone contributes around two-thirds of this figure.
- 8.4 The Company prides itself on being a responsible employer and business, with a long term commitment to its operations in the South West Peninsula. It fully endorses Devon County Council's and the Dartmoor National Park Authority's agendas for environmental, economic and community sustainability. Its plan for the quarry extension ensures that Devon will retain a strategic reserve and processing capability for new development as well as the maintenance and repair of the county's built environment and infrastructure – with "haulage miles" kept to a minimum. Glendinning's own strategy is well aligned with the County's economic and environmental priorities, as the table (Appendix 1) below demonstrates.
- 8.5 The Company is a sponsor of the South Dartmoor Community College (SDCC), to which it regularly donates materials and resources for a wide range of projects, including a golf driving practice pitch (complete with 2 covered structures). Glendinning donated land and buildings (4 – 5 acres) to form the core asset for SDCC's new Built Environment Studio School; they have leased to the College, on a peppercorn basis, Place House – SDCC's 6th form centre; they have built playing fields for the College; and the Company is a trustee of the College. Barry Wilson, the Company's Managing Director, represents the Company on the Trustee Board and is also a Governor of Ashburton Primary School.

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- 8.6 The Company has donated materials to the Dame Hannah Rogers Trust at Seale Hayne; to Bidwell Brook School; to Mayfield School; to Newton Abbot Rugby Club; to Buckfastleigh Petanque Club; to Ashburton Football Club; and to Ashburton Outdoor Swimming Pool. They donated £5,000 to Ashburton Skate Park with a reduced price for materials to enable construction in summer last year.
- 8.7 Glendinning contributed £5,000 plus in-kind assistance towards a project to move the closure-threatened Ashburton Library into vacant space within the town's Post Office, thereby helping secure the future of two valuable local facilities.
- 8.8 The Company has also made numerous small donations to worthy causes in the local community (£200/£250 a time) as well as larger donations to the Ashburton Parish Church amounting to £10,000 or so over the last decade.
- 8.9 In 2010, the Company hosted morning and afternoon sessions for the Dartmoor National Park Authority's training day for planners.

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Consultant Economist, Milsted Langdon Chartered Accountants

**Appendix 1 – Alignment of the Company’s strategy with Devon’s and Dartmoor’s economic and environmental priorities**

Strategic Issue	Alignment with the Company’s corporate strategy
<p><b>Sustainable economic growth</b></p>	<p>A private family business, which has contributed to the economy of Devon and the South West Peninsula for over 50 years.</p>
	<p>The Company has increased capital investment significantly in recent years – from internally generated funds rather than bank credit.</p>
	<p>The planned extension of the Linhay Hill Quarry further enhances sustainability of employment, local procurement and supply of products – predominantly sourcing from small businesses in the county – from a base close to the Company’s main markets which are in the South West Peninsula.</p>
<p><b>Business growth and raising productivity</b></p>	<p>The Ashburton site offers wage/earnings levels significantly above the Devon average, reflecting higher than average skill requirements in a capital intensive business.</p>
	<p>The Company’s investment programme increases the long term productive potential and productivity of its sites in the Peninsula.</p>
<p><b>Better connectivity in a large and dispersed regional economy</b></p>	<p>Resilient and efficient transport for joining up major population centres and the rural hinterland is key to Devon’s economic growth and improved productivity objectives. So being able to supply all its products from source to local markets (as the Company does) meets a range of objectives – including lower carbon, sustainable employment and added value.</p>
	<p>The location of the Company’s Ashburton plant is highly advantageous for supply to Cornwall as well as to all parts of Devon – enabling “haulage miles” to be minimised.</p>

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<p><b>Local roots and community</b></p>	<p>The Company's roots in the South West Peninsula originated from an entrepreneurial decision – spotting a gap in the market to supply agricultural lime. The firm has grown in that tradition to become one of the largest family businesses in the Peninsula.</p>
	<p>Private sector economic activity in rural Devon area is often associated with agriculture and related “rural businesses”; and with the visitor economy. However, there is also a community of production businesses in North and South Devon, to which the Company is an important contributor.</p>
	<p>The Company has had a positive operational and public profile in Devon and wishes to continue to work with the local community and the Dartmoor National Park Authority (whose planners visited the Linhay Hill Quarry in 2010) to retain this.</p>
<p><b>Low Carbon economy</b></p>	<p>The Company is committed to innovative ways of increasing local procurement and supply; and working with the community to reduce the environmental impact of its operations.</p>
	<p>The Company is actively involved in carbon reduction initiatives through the UK Minerals' Forum.</p>
	<p>The Company manufactures in an environmentally responsible manner and sources products and services locally where possible. Its location enables “haulage miles” to be kept to a minimum, thereby enabling energy consumption in the Company's mineral processing and distribution operations to be kept as low as possible.</p>
	<p>Beacon companies are important to show how, across a wide range of industries, lower carbon can be a catalyst for longer term growth. The Company's investment programme facilitates lower carbon through keeping its longer term production potential close to its markets.</p>

### Appendix 2: Author's biography

#### **Kevin Y Butler MA (Oxon)**

##### **Consultant Economist, Milsted Langdon Chartered Accountants LLP**

Milsted Langdon LLP, established in 1988, has offices in Bath, Bristol, Taunton and Yeovil. The firm acts for, and with, owner managed businesses throughout the whole of the South West of England and beyond. 17 partners and a team of approximately 170 staff, spread across the four locations, support a client base ranging from individuals and families in business to large commercial groups of companies.

Kevin Butler joined Milsted Langdon as their Consultant Economist in May 2011, having previously spent 33 years at the Bank of England where his roles included Head of Audit and Regional Agent for the South West, the latter involving reporting to the Bank's Monetary Policy Committee on economic and business trends in the region.

Kevin's arrival at Milsted Langdon enabled the firm to add a new dimension to both its commercial and private client offerings. He also runs the Milsted Langdon Business Club in various locations across the South West of England, an initiative modelled on the Bank of England's own regional Business Panels – including their Exeter and Plymouth Business Panels – which have proved very successful.

In his consultancy role, Kevin is also able to share his in-depth research and expert views on a wide range of economic and financial topics with Milsted Langdon clients. Highly respected within the local business community for his pragmatic and down-to-earth approach, Kevin is an accomplished speaker and is regularly asked to provide expert comment on the latest economic issues in the media, including BBC Spotlight South West and BBC Points West.

## Appendix 3: Glossary

Table 1.1 Socio-economic magnitude criteria

<b>Magnitude of socio-economic impact</b>	<b>Definition</b>
High	An impact that is expected to have considerable adverse or beneficial socio-economic effects. Such impacts will typically affect large numbers of businesses, workers or residents. High magnitude impacts will typically be long-term in nature, resulting in the permanent change of the study area's baseline socio-economic conditions.
Moderate	An impact that is expected to have a moderate socio-economic effect. Such impacts will typically have a noticeable effect on a limited number of businesses, workers or residents, and will lead to a permanent (but not drastic) change to the study area's baseline socio-economic conditions
Low	An impact that is expected to affect a small number of businesses, workers or residents. Or an impact that may affect a larger number of receptors but without materially changing the study area's baseline socio-economic conditions. Such impacts are likely to be temporary in nature.
Negligible	An impact that is likely to be temporary in nature, or which is anticipated to have a slight or no effect on the well-being of the study area's businesses, workers or residents.

Table 1.2 Socio-economic receptor sensitivity criteria

<b>Sensitivity of receptor</b>	<b>Definition</b>
High	Socio-economic receptor is likely to be directly affected by the project. Receptor is well placed to take advantage of beneficial impacts, and/or is not well placed to deal with any adverse impacts.
Moderate	Socio-economic receptor is likely to be indirectly affected by the project. Average ability to maximise beneficial impacts or cope with adverse impacts.
Low	Socio-economic receptor is unlikely to benefit from the project. Receptor is not well placed to take advantage of beneficial impacts, and/or is well placed to deal with any adverse impacts.

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Table 1.3 Socio-economic significance criteria

	<b>High impact</b>	<b>Moderate impact</b>	<b>Low impact</b>	<b>Negligible impact</b>
<b>High sensitivity</b>	Major beneficial / adverse - significant	Major beneficial / adverse - significant	Moderate beneficial / adverse - significant	Minor beneficial / adverse - not significant
<b>Moderate sensitivity</b>	Major beneficial / adverse - significant	Moderate beneficial / adverse - significant	Minor beneficial / adverse - not significant	Negligible - Not significant
<b>Low sensitivity</b>	Moderate beneficial / adverse - significant	Minor beneficial / adverse - not significant	Negligible - Not significant	Negligible - Not significant