

Pre-Scrutiny Questions and Answers – Cabinet Agenda 15 November 2023

Report Title: Participation in the West Midlands Investment Zone

Report Author(s): Chris Elliott

Councillor Russell:

1. If having joined the WMCA as a non-constituent member, how easy would it be to 'de-couple' in the future if it was felt it was no longer advantageous to remain a member?
2. How much officer resource would our non-constituent membership of the WMCA utilise, and what that additional workload be absorbed into existing staff resource?

Response:

1. I will seek further legal advice but thus far no one has ever left a Combined Authority so its an unrehearsed scenario. However, attaining non-constituent membership of the WMCA has become easier because agreement has become devolved to the WMCA and away from Central Government. Therefore, the reverse must also be true, that the devolution must also enable leaving to be as easy as joining. That said, it is not path trodden before.
2. That depends. The advantages of joining are around accessing additional funds for our communities and I think it's a question therefore of you get out what you put it. So if you don't want to invest much if any time of officers or Cllrs that is easy to do but don't then expect much by way of a return; but if you do, then do expect that more officers time will be needed to work up bids and so on; and likewise Cllr time. However, at the very basic level we already have an input as an Observer which falls at the moment to the Leader and myself but it is not a significant time commitment. Non Constituent Membership won't involve more time than that in general but see my comments about bids for funds. The IZ proposal if this Council supports will though generate more time demands whether we are a Non Constituent Member or not, for other reasons.

Councillor Milton:

Thanks for bringing forward the item on membership of the WMCA and Investment Zone.

This is clearly quite a complex piece of work which has significant impacts for our district. Timescales are also compressed. As such it would be useful for members to have an executive summary of Pros & Cons or Risks and Opportunities to help them assess how this should be supported or not. Is it possible to provide such a thing?

Response:
How about this:

Pro's: In essence the Investment Zone is the only way the Government is offering to deliver the Gigafactory with all of the potential benefits in terms of business investment, jobs , training and associated incomes, supply chain enhancement and of course the benefits for the transition of the economy to a non-carbon basis; This is a multi-billion £ investment.

Con's: It will involve land that WDC would expect to generate business rates which would help our finances. This business rate income above a baseline, would under the IZ proposal, go into a wider WMCA pot to go back into the priority economic sector. However, a mitigation is that WDC should not be impacted – so no worse off and potentially it can lead to more investment in the District.

Additional Question from Councillor Milton:
Thanks Chris - that's helpful.

On the first point about pros and cons it would be useful to be able to quantify the financial amounts at stake in some way. Members maybe unfamiliar with the value of Business rates for instance so having some actual values would be useful.

Response:
WMCA have communicated with this that the Business Rate Yield before a Business Rate Reset could yield to WDC in the order of £40 to £50m over a 5 to 7 year period. I would advise Members to be cautious at this stage about taking the sum as being too certain.

Would someone be able to explain in plain English what Recommendation 6 (iv) means?

Response:

Iv That the other principles for determining the BRR spend, set out in this report are amended to reflect a fairness of distribution vis a vis the generation of business rates, after the contribution to initial infrastructure investment in the WMIZ, to deliver visible benefit for and within the District, and without detriment.

Sorry for the convoluted wording, it's one of those that has been through the mangle a number of times and now shows it. In essence we are asking that the principles that the WMCA is proposing for how the Business Rates Retention surplus money (i.e. after the initial infrastructure costs are invested) is to be spent; are amended to allow for a fairness of distribution for WDC so that we can demonstrate visible benefits within the District and that it is without detriment to the District.

Recommendation 4 outlines the principle of one member, one vote. It also notes the desire for consensus decision making. Whilst this may sound logical and attractive I wonder how feasible and realistic it is, particularly when decisions become really difficult. Has the possibility of a proportional voting scheme been considered, where members have a say according to the level of investment that they are bringing?

Response:

We have raised a number of issues about the Governance and the WMCA has said they operate in practice on a consensus basis but clearly it does allow for the possibility of a majority vote. I am not sure of a proportional vote as it relates to two points – how do you define that and it may be that depending on what is included it might not work in our favour. I also don't think the WMCA would accept it. The mitigation has to rely on the without detriment provision.

Does the cabinet has a set of KPI's or Critical Success Factors that this decision needs to satisfy? Without those it is difficult to understand the cost benefit analysis, particularly in the context of 1.5.5 to 1.5.7.

Response:

Ian may have a view but the steer I have been given is that overall we need not to be worse off financially than if the IZ didn't happen – the without detriment clause should cover that but we need to define it. I'd say that if we got the Gigafactory away and we were no worse off on business rates then this would be a success. We'd get the cherry and the icing on the cake in terms of investment into key visible projects.

As we are at the in principle stage, it's difficult to calculate the precise costs/benefits at this stage though we need to do that in order to define what the without detriment position would be.

Councillor R Dickson:

Thanks for this detailed report.

At this stage this is clearly a balanced Agreement In Principle decision based, in part, on an assessment of the likelihood and possible extent of any future changes in business rates retention. It would be helpful therefore, if commercial confidentiality allows, to have more information about the level of interest of the investor and the size of the multiplier effect referred to in Section 1.5.7.

Also, the 2nd sentence in Section 10.1 does not seem to make sense. Should BBB be BRR?

Response:

Quantitative economic benefits of delivering the West Midlands Gigafactory opportunity (Hatch 2021):

- 6,000 direct new jobs in fully operational Gigafactory
- Further 7,700 jobs supported across the West Midlands (indirect impact)
- Further 3,400 jobs supported in household goods and services businesses (induced impact)
- £434m of Direct Gross Value Added per annum to the UK economy (2021 prices)
- GVA per direct job of c.£72,300 per annum, exceeding the national manufacturing average
- 2,500 construction jobs per annum supported during the construction phase
- Potential for 90 apprenticeships per annum once fully operational
- £40,000 annual salary for direct employees
- Net additional business rates revenue to the Exchequer – estimated to be up to c.£15m per annum

Qualitative economic benefits of delivering the West Midlands Gigafactory opportunity:

- Putting the UK on the map as a Gigafactory location globally, attracting significant follow on inward investment opportunities
- Safeguarding the West Midlands and potentially wider UK automotive market and supply chains:
 - The UK's automotive sector generated turnover of c.£79 bn in 2019 supporting 182,000 direct jobs and over 800,000 across wider supply chains, with a GVA of c.£16bn – the second highest of all UK manufacturing sectors.
 - There are 44,000 people directly employed in the automotive sector in Coventry & Warwickshire, representing c.29% of total employment. The West Midlands accounts for 36% of national automotive jobs and GVA is estimated at £4.4 bn, or c. 25% of total UK GVA in the sector (Hatch, 2021).
 - Faraday estimates that without UK battery manufacturing, national direct sector automotive employment could fall from 182,000 to 20,000 by the early 2030s, a decline of c.90% and a net loss of c.160,000 jobs from the UK economy. Assuming this same level of decline in the West Midlands could result in direct automotive sector employment falling from c.65,000 to c.6,500, a net loss of c.58,000 jobs from the West Midlands economy. This would be catastrophic at all levels and does not even account for wider supply chain impacts of this.
- Potential to drive the UK exports market and address the current UK current account deficit. In 2021, the UK automotive industry exported products worth a total of £77 bn, which accounted for 10% of the UK's export goods (SMMT, 2022).
- Local Section 106 and CIL revenues
- Social value benefits associated with new employment and training benefits
- Significant upskilling and formal qualification opportunities in new areas

- Catalytic impacts on the local commercial property market given that this would be the UK's largest single plant manufacturing facility.
- Supporting the drive to a net zero economy – the proposals will be 100% renewable powered

On your second point – it should be BRR – I did go goggle eyed in doing this so apologies for that and any other spelling/grammar errors.

Report Title: Future High Streets Fund update

Report Author(s): Martin O'Neill

Councillor Armstrong:

Why is the cycle path considered unviable in the time frame? Again on the surface it seems like a much simpler project.

Response:

It was colleagues at the County Council that advised officers that the work required to carry out the East West cycle route could not be completed by the original deadline, nor indeed by the revised deadline. This is mainly due to the work that had to be carried out as part of the much broader Mini Holland scheme – and that work is still ongoing with the East West route as part of that. It is still the ambition of both WDC and the County Council to deliver the cycle route as part of the wider proposals in the Mini Holland work but due to the processes involved by the County team it could not be delivered in time to use Future High Streets funding.