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WEST MIDLANDS ECONOMIC MONITOR

June 2019

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The University of Birmingham's HydroFLEX – the first hydrogen-powered train tested on the UK rail network (source: UK Rail Research and Innovation Network)

The future of the [HS2 rail project is in doubt](#), with Boris Johnson, the most likely future Conservative Prime Minister, calling for a review of the business case for the scheme “to think about whether and how we proceed”. He also criticised costs that are “[spiralling out of control](#)” and said he still had an open mind about whether HS2 should go ahead or not. However, business secretary Greg Clark called for the future prime minister to back the project, calling it **important not just for the future but for now**.

[Electrification of the Chase Line to Walsall](#) has been completed, bringing to an end a six-year period of disruption of trains to and from the Black Country town. There has also been a major development in services, with a new hourly stopping service from **Walsall to London Euston** from Monday-Saturday.

The University of Birmingham Centre for Railway Research and Education (BCRRE) has won funding from the Department for Transport and Innovate UK to undertake the country's first mainline testing of a [hydrogen-powered train](#), called HydroFLEX. The potential for hydrogen-fuelled trains is impressive: they give off **zero carbon emissions and their only by-product is water**. Two hydrogen trains

are already in use on the German rail network but this is the first time such a vehicle has been tried on the British system.

Birmingham Airport has [published a masterplan](#) vision for 2033 for sustained growth in passengers using the terminal. £500 million worth of investment is planned that could support 34,000 jobs. A planned Birmingham Interchange station to open in 2026 on the HS2 network will link the airport with central London in just 38 minutes, making it a more viable option for travellers to the capital city and thus increasing service demand.

The proposed Clean Air Zone covering all of Birmingham city centre inside the ring road has been [delayed by the government](#). Originally there was to be a congestion charge for entering the city centre from 1 January 2020 to ensure that Birmingham does not **fail air quality tests in 2020**, but the city council said it would not be able to introduce the scheme until July 2020 at the earliest. The delay is caused by problems with the vehicle checking software the government needs to deliver to the local authority, which was scheduled for October but has now been pushed back to at least December.

I D E A S

The UK government has a policy of using public investment to support London and the South East while at the same time [running down the Midlands and North of England](#). That's the finding of an independent inquiry into regional inequality in Britain chaired by Lord Kerslake, called the [UK2070 Commission](#). The commission chair has said that the extent of the UK's regional inequality requires funding and action [on the scale of German reunification](#), and said he believes that regional inequality in Britain is greater than in any other large, developed country. Kerslake noted that the UK is unusual in not having an overall national plan for economic and infrastructure investment, spatial consideration of inequality, or auditing of patterns of government investment. The inquiry has estimated that [investment of £250 billion into the Midlands and North is required](#) to address historic underinvestment in places, skills and infrastructure.

Andy Street, the Mayor of the West Midlands Combined Authority, has launched a [Clean Growth Challenge](#) for the region and called on business, academics, policy-makers and artists to collaborate in order to cut pollution. The four challenges are for low carbon buildings, clean transport systems, clean energy leadership and behavioural change. Toxic air pollution causes an estimated **900 early deaths each year** in Birmingham alone, as well as contributing to asthma, heart disease and certain types of cancer.



Andy Street, Mayor of the West Midlands (source: WMCA)

A [new report by Locality](#), the national network of community organisations, warns that the poorest regions of the UK will be worse-off after Brexit once EU structural funds are withdrawn – and at the same time, wealthier areas will benefit. With very few details yet to emerge about Theresa May's proposed "shared prosperity fund", the report [urges Conservative leadership contenders](#) to

commit to matching the existing levels of funding and end the current uncertainty. Without European funds being matched, Wales would lose £2.3 billion in investment over 2021-2027, South West England would lose £1 billion and the **West Midlands would lose £225 million**. By contrast, with government capital spending earmarked predominantly to the south, London would receive £19 billion worth of investment and South East England £1.2 billion over that period. The report also calls for ongoing commitment to greater devolution and allowing local areas to raise money and decide how it is spent as happens in many other countries, rather than needing to bid for funds from the government. The UK is commonly seen as being the [most centralised country in the developed world](#).

Wolverhampton has one of the [lowest rates of internet use in the UK](#), with 23% of the city's population not having used the internet at all in the past 3 months. Dudley, Sandwell and Walsall were also lower than the national average. The West Midlands region as a whole had **lower internet use than the national average** of 91%. With government services now following a "**digital by default**" policy, including Universal Credit, there is a risk that some people will be left behind owing to not having access to the internet in their own homes.

Reports from [Walsall's Manor Hospital](#) warn that there has been an "unprecedented" increase in the number of people attending A&E, putting a "huge strain" on service provision. **A&E numbers were up 14% in April** compared with last year and as a result waiting times have increased; 1 in 5 patients wait longer than 4 hours to be seen. The NHS target is that no more than 1 in 20 patients wait this long. The chief executive of the Manor noted that other hospitals across the Black Country have also seen an increase in demand, along with **staffing and financial issues**.

Hospices offering palliative care are also experiencing financial distress. Acorns children hospice, providing end-of-life care to children with terminal illnesses, is being forced to [close one of its three centres](#). The families of 233 children currently at Acorns' Walsall branch will need to travel to either Worcester or Birmingham and **70 full-time staff at the hospice face losing their jobs**. While hospices do receive some funding from the NHS, this does not cover the cost of running the service, which is **typically met through donations** – quite unusual for healthcare, especially given the important role that hospices play in helping people to die with dignity.

PEOPLE

[Regional GDHI data](#) has been released by the ONS, which is a calculation of how much money people have left after paying their taxes and can thus be used to measure how much individual wealth is in the local economy for buying goods and services. Overall the West Midlands figures show improvement, but there is still a large shortfall compared to the rest of the UK. **GDHI per head in the WMCA area was £14,846 in 2017** - £4,668 below the UK average of £19,514. Three of the local authorities in the area – Wolverhampton, Birmingham and Sandwell – are in **the bottom 10 of all local authorities in the UK** for GDHI per head. Walsall is also just narrowly outside the bottom 10, as is Coventry.

Almost **a quarter of workers in the West Midlands** earn [less than the real living wage](#) – a total of 571,000 people, with **the problem particularly acute in Walsall**, where over 3 in 10 earn below the amount. The Real Living Wage is independently calculated according to the minimum amount a person needs to earn to meet their everyday living costs and is currently set at £9 per hour; in contrast, the legal minimum wage is £8.21. In 2016 the government rebranded the minimum wage as the “National Living Wage”. This caused controversy as it does not meet the [internationally agreed definitions](#) of a living wage, while also creating confusion by taking the name of the Living Wage as calculated by the Living Wage Foundation (which has since been renamed to “Real Living Wage”).

[Fuel poverty](#) continues to be a problem in the West Midlands, with higher than average fuel poverty levels according to ONS statistics. 163,983 households in the WMCA area struggled with heating their homes in 2017, a decrease of 9,041 since 2016. Of 326 local authorities,

Birmingham was ranked eighth highest for incidences of fuel poverty, with 16.2% of residents experiencing the problem. Sandwell, Coventry, Wolverhampton, Walsall and Dudley were also above the England-wide average.

[Homelessness figures](#) for the final quarter of 2018 showed that while the numbers of those assessed as needing support were down, the number of **rough sleepers and those in temporary accommodation in the West Midlands are up**. One quarter of those who are made homeless are because their family can no longer support them and a further quarter are due to violent and non-violent relationship breakdown. There were an estimated **286 rough sleepers** in the WMCA area and **3,422 households in temporary accommodation** by the end of 2018. 845 of those households in temporary accommodation were single parents with dependent children.

Ongoing anti-LGBT protests outside Anderton Park primary school in Sparkhill are now [subject to an injunction](#) barring demonstrators from an exclusion zone around the school. The protests spread from Parkfield Community School in Alum Rock, another Muslim area in the east of Birmingham. As mentioned in previous editions of the West Midlands Economic Monitor, not only have the **homophobic protests damaged community relations** in the city but they have also negatively **impacted upon Birmingham’s reputation**, being featured in national and international media. The issue has also caused controversy in the Labour Party; Birmingham Hall Green **MP Roger Godsiff spoke out in support of the protestors**, leading to him being reported to the party’s chief whip for “discriminatory and irresponsible” comments.



Players on the pitch near Edgbaston Cricket Stadium (source: [Roman Zwicky](#))

BUSINESS ENVIRONMENT

The West Midlands is performing well compared to other regions, according to the [latest UK regional trade in goods data](#), although it is not clear how much of this is due to companies stockpiling because of Brexit and therefore 'borrowing' imports from future quarters. In the year to March 2019, the **West Midlands' trade in goods was worth £32.5 billion**. The region has a trade deficit of £5.7 billion (all regions of the UK apart from Scotland have a trade deficit). **The EU is by far the largest export market for the region** at £15 billion (and £24 billion in imports from the EU), followed by North America at £7 billion worth of exports.

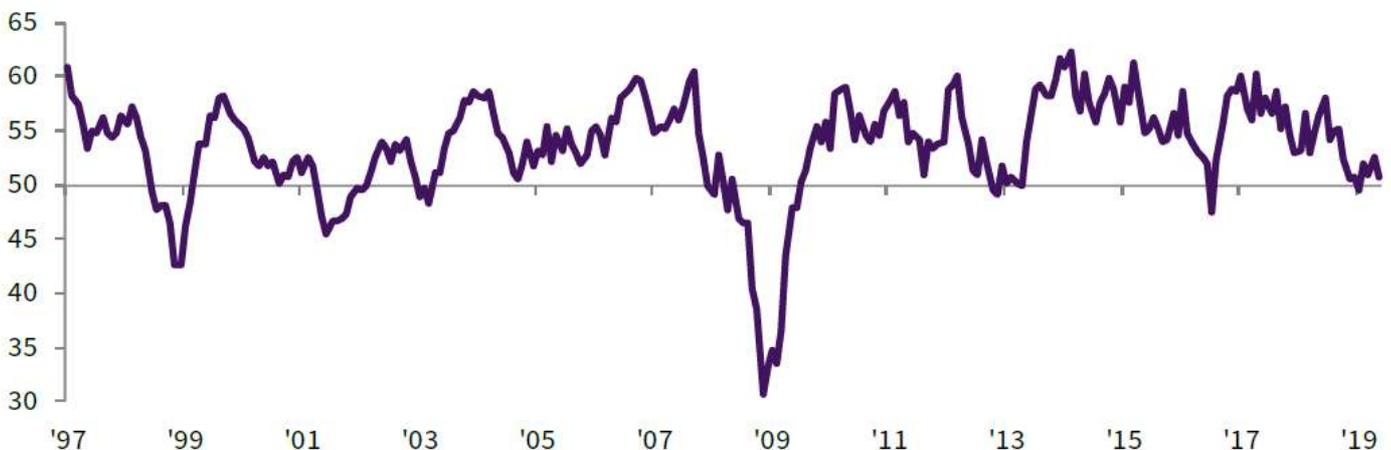
Evidence that manufacturing firms have been stockpiling because of Brexit comes in the [latest factory output data](#), with a contraction recorded in the Purchasing Managers Index (PMI) for the sector. Duncan Brock of the Chartered Institute of Procurement and Supply described the "likelihood of more bad news to come" for manufacturers, with the statistics registering the fastest decrease in output in six-and-a-half years.

Elsewhere in the PMI figures, the [latest report for the West Midlands](#) show that business activity in the region remains quite subdued. Output growth has slowed to a very slight rate of growth roughly on par with the UK-wide figure. Qualitative evidence from firms suggests that this is at least in part due to **businesses delaying investment decisions** until ongoing uncertainty about future trading relationships have been made by the government. Demand for goods and services remains lacklustre and there has been a **sharp decrease in backlogs for the tenth consecutive month**.

Input prices also continue to remain high owing to weak sterling exchange rates and wage pressures, but the prices businesses are able to charge for their goods and services have seen only modest increases. One area of optimism though comes from the future business activity index, which shows **high levels of confidence** among businesses for the year ahead. Firms surveyed suggested this was due to new product launches, increased focus on marketing and potential investments in new equipment.

West Midlands Business Activity Index

sa, >50 = growth since previous month



Business activity remains muted, which firms attribute to uncertainty around Brexit (source: IHS Markit)

[GDP data](#) for the first quarter of 2019 registered a growth of 0.3%, showing a weakening mainly due to a sharp fall in car production. This is due both to planned shutdowns and extensions of shutdowns owing to uncertainty around Brexit. However, this **uncertainty was widespread across manufacturing**. The construction industry also registered a contraction, as did agriculture.

The [Midlands Engine Investment Fund](#) has reached a milestone with **£50 million worth of investment** into firms based in the East and West Midlands. Over **150 businesses have received funding** from the fund operated by the government's British Business Bank that is making strategic investments alongside the new industrial strategy for the region, particularly targeting SMEs where there is a gap in commercially-available finance.



Birmingham's first new modular-build homes have been unveiled in Hockley (source: Birmingham City Council)

Birmingham City Council's social housing building arm, Birmingham Municipal Housing Trust, has built its [first ever modular home](#) on a site in Hockley. The houses are produced in a factory and assembled on site, cutting down on the construction cost and time required to build while also being suitable for **smaller parcels of land** where larger-scale development is not economically viable. The new modular build model will help the city meet its growing housing need, with **89,000 extra homes required by 2031** to meet a forecasted population growth of 156,000 people. They will also help the authority satisfy the demand for affordable housing in the city, and sales of some properties made at market rates are planned to enable the City Council to fund social housing provision.

Gulf Islamic Investments has made a [£140 million investment in central Birmingham property](#), buying Priors Court and the Lewis Building near Snow Hill station from Legal & General. The firm, headquartered in Dubai in the United Arab Emirates, is one of the world's major Sharia-compliant investment funds. Its newly-refurbished offices in the heart of Birmingham already have lets agreed with organisations including the Ministry of Justice, the Business Growth Fund, Freightliner and Spaces.

ONS figures on regional public sector finances for the financial year ending 2018 showed that all regions of the UK outside of London, the South East and East of England have [net fiscal deficits](#). The West Midlands' deficit is roughly on par with Wales and Scotland; the North West registers the highest deficit. In Birmingham, auditors have

accused the City Council of '[unprecedented levels of financial incompetence](#)' and issued a third 'rare' auditor warning in 4 years. One of the warnings relates to management of the waste service, which has experienced rolling strike action following attempts at reform. However, the Council argues that against a background of rising demand, it has had its **funding cut by over £690 million through austerity** measures since 2010, negatively impacting its ability to deliver services effectively.

The latest figures from the Ministry of Housing, Communities and Local Government show that housebuilding in the West Midlands Combined Authority area is [keeping pace with the England average](#), with a growth rate of 0.9% per year in the number of dwellings. Slightly **more** houses in the area are in the private rather than public sector, with 80% compared to the 83% average for England. [Figures from Homes England](#) showed that in the year up to 31 March 2019 there was a small decrease in new housebuilding starts in the West Midlands, but completions were more than 46% above the previous year with 902 new units added to the market. For context, there are **1,719,094 total housing units in the WMCA**.

House prices in the area remain below the UK average, with an average house price of £195,498 compared to £228,903 nationally – [a 3.3% increase over the past year](#), compared with national growth of 1.4%. Over the past year there has also been a [growth of 1.4% in private rental prices](#) in the region, just above the national figure of 1%.

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Written by
Liam O'Farrell



The City-Region Economic Development Institute
June 2019