

Cabinet
Council

8th October 2019
15th October 2019

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration – Councillor O’Boyle

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

All

Title:

UK Battery Industrialisation Centre – Loan from WMCA

Is this a key decision?

Yes – income/additional funding is in excess of £1m.

Executive Summary:

More and more car manufacturers are announcing their intention to move towards building electric cars, and the demand for batteries will increase sharply over the next ten to twenty years. Currently, expertise in battery development is concentrated in Asia, Germany and the United States, and the UK is lagging behind.

The UK Government announced the Faraday Challenge, part of the Industrial Strategy Fund, during the summer 2017. It aims to fund battery research and development work to ensure that the demand for batteries leads to the creation of jobs here in the UK rather than overseas in battery manufacturing. One of the strands of the Faraday Challenge aims to bridge the gap between battery research in universities and large-scale battery production by car manufacturers.

In November 2017, as part of a national competition £80m of Faraday Challenge funding was awarded to the consortium of Coventry City Council, Coventry & Warwickshire Local Enterprise Partnership (CWLEP) and Warwick Manufacturing Group (WMG), University of Warwick to develop a manufacturing scale-up facility (UKBIC) in the West Midlands region (“the Project”). The funding was awarded through an open competition run by the Advanced Propulsion Centre (APC) and Innovate UK.

This funding award was approved by Cabinet and Council in November 2017 with the authorisation to accept £80m of Faraday Challenge funding and up to £40m of local match funding, which at the time formed part of the West Midlands Combined Authority (WMCA)

Devolution Deal 2 bid to central Government. Since then the Devolution Deal 2 has not materialised the project has been looking to secure other sources of local match funding.

Earlier this year the project scope was enhanced in response to industry demand and the full cost rising to £126m. In response Innovate UK awarded an additional £28m through the Faraday Challenge on the condition that a newly revised local contribution of £18m was found to match the Faraday Challenge grant investment.

The UKBIC Partnership (CWLEP, WMG and Coventry City Council) has managed to secure the £18m from the WMCA in the form of a repayable grant.

The WMCA funding will be secured against UKBIC assets and repaid using UKBIC Ltd surpluses over time. The funding will be of no cost to the Council.

The UKBIC programme is part-way through development and progressing well. The programme is due for completion in March 2020 when the UKBIC facility will open for business. Construction work is well underway on the site on the outskirts of Coventry alongside the procurement of machinery and a team of 50 has been recruited to date.

Recommendations:

Subject to agreement with Innovate UK, Cabinet is asked to recommend that Council:

- 1) Authorise the Council to act as Accountable Body and accept the £18m contribution from the WMCA as a repayable grant and to make the necessary adjustment to the Capital Programme.
- 2) Delegate authority to the Director of Business Investment and Culture, the Finance Manager (Corporate Resources) and the City Solicitor and Monitoring Officer to undertake the necessary due diligence, negotiate the terms and conditions of the funding agreement with the WMCA and also enter into the necessary agreement.
- 3) Delegate authority to the Director of Business Investment and Culture and the Finance Manager (Corporate Resources) following consultation with the Cabinet Member for Strategic Finance and Resources (in the event that the legal documentation are not completed before the end of October) to commit the necessary agreed funding in recommendation 1 above up to a value of £5m for the delivery of the Project.
- 4) Delegate authority to the Director of Business Investment and Culture, the Finance Manager (Corporate Resources) and the City Solicitor and Monitoring Officer to finalise the terms of the transfer of the funding to UKBIC and the repayment mechanism back to the Council.

Council is asked to:

- 1) Authorise the Council to act as Accountable Body and accept the £18m contribution from the WMCA as a repayable grant and to make the necessary adjustment to the Capital Programme.
- 2) Delegate authority to the Director of Business Investment and Culture, the Finance Manager (Corporate Resources) and the City Solicitor and Monitoring Officer to undertake the necessary due diligence, negotiate the terms and conditions of the funding agreement with the WMCA and also enter into the necessary agreement.

- 3) Delegate authority to the Director of Business Investment and Culture and the Finance Manager (Corporate Resources) following consultation with the Cabinet Member for Strategic Finance and Resources (in the event that the legal documentation are not completed before the end of October) to commit the necessary agreed funding in recommendation 1 above up to a value of £5m for the delivery of the Project.
- 4) Delegate authority to the Director of Business Investment and Culture, the Finance Manager (Corporate Resources) and the City Solicitor and Monitoring Officer to finalise the terms of the transfer of the funding to UKBIC and the repayment mechanism back to the Council.

List of Appendices included:

None

Background papers:

None

Other useful documents

Faraday Challenge: <https://youtu.be/TGFRbGij29E>

National Battery Manufacturing Development Facility - Faraday Challenge Paper
Cabinet 28th November 2017

<https://edemocracy.coventry.gov.uk/ieListDocuments.aspx?CId=124&MId=11478&Ver=4>

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes – 15th October 2019

Report title: UK Battery Industrialisation Centre Additional Funding Award from the WMCA

1 Context (or background)

- 1.1 In 2017, the UK Government, through its Industrial Strategy Challenge Fund, launched the Faraday Battery Challenge a £246m commitment over four years to develop world leading batteries, designed and manufactured in the UK in order to fully exploit the industrial opportunity of vehicle electrification.
- 1.2 In November 2017, £80m of Faraday Battery Challenge funding was awarded to the consortium of Coventry City Council, Coventry & Warwickshire Local Enterprise Partnership (CWLEP) and Warwick Manufacturing Group (WMG), University of Warwick to develop a manufacturing scale-up facility (UKBIC) in the West Midlands region. The funding was awarded through an open competition run by the Advanced Propulsion Centre (APC) and Innovate UK.
- 1.3 Through engagement with industry and government, there is now a need for an enhanced specification with the latest technology to attract top-tier automotive manufacturers and research and development companies. In addition, the West Midlands region is seeking to secure further investment in the sector and establish larger multi-gigawatt-scale annual production of batteries in the UK (a “Gigafactory”).
- 1.4 To secure these opportunities and meet industry need, additional funding is needed to ‘pull forward’ delivery of a manufacturing development facility which is fully specified to industry leading standards. The current opportunity requires an increase in total project costs to £126m. 85% of this funding is being provided through the Industrial Strategy Challenge Fund (Faraday Battery Challenge) as the project has secured an additional £28m on top of the original £80m award. £18m has now been awarded from the West Midlands Combined Authority to support this opportunity for the region.
- 1.5 The 18,000m² facility, which is due for completion in March 2020, will initially employ an estimated 100 people once fully operational. Additional jobs will also be generated in the supply chain, and further employment and training opportunities will be created in the future.
- 1.6 The UKBIC programme is part-way through development. Construction work has begun on the site on the outskirts of Coventry alongside the procurement of machinery and a team of c50 has been recruited to date, including UKBIC Managing Director Jeff Pratt. This team has extensive and valuable experience in both industrial battery production and delivering complex, large scale manufacturing projects.

2 Options considered and recommended proposal

2.1 Not accept the grant award from the WMCA (Not Recommended)

The option to not accept the funding would result in a facility which does not deliver what industry needs and does not unlock further investment and opportunities within the automotive sector.

2.2 To accept the grant award from the WMCA (Recommended)

It is therefore recommended the additional funding from the WMCA is accepted for the reasons outlined within the report.

3 Results of Consultation Undertaken

No consultation has been undertaken.

4 Timetable for implementing this decision

- 4.1 The project needs to make commitments based on the additional funding in November 2019. It is therefore critical that a decision is made as soon as possible.

5 Governance Arrangements

- 5.1 The UKBIC CCC Programme Board comprises senior management from relevant services and meets monthly to monitor progress and ensure that the best interests of the Council are maintained.

- 5.2 The Director of Property and Project Management and the Director of Finance and Corporate Services have been appointed directors of the new company UKBIC Ltd. The directors of the company must ensure that the company does everything it is obliged to do by law and that any decisions they make are in the best interests of the company.

6 Comments from Director of Finance and Corporate Services

6.1 Financial implications

- 6.1.1 The WMCA £18m will be made in the form of a repayable grant which will not attract interest. The initial capital outlay will be repaid to the WMCA by Coventry City Council from UKBIC's revenue surpluses. It is a requirement of the UK Government as major funder of UKBIC that the majority of these surpluses are retained for re-investment in the facility, but agreement in principle has been reached to allow 25% of these surpluses to be directed towards recovery of the WMCA investment. Based on the current business planning forecasts for UKBIC, it will be possible to repay the facility over an estimated period of c. 12 years.

- 6.1.2 The WMCA funding will be secured against UKBIC assets and repaid using UKBIC Ltd surpluses over time. The funding will be of no cost to the Council.

- 6.1.3 It is expected that the total Innovate UK grant of £108m will be exhausted by the end of October 2019. The legal documentation will therefore ideally need to be in place before then. In the event of this being delayed, agreement is sought in this report to delegate authority as per recommendation 3 to temporarily commit funds up to a value of £5m whilst the documentation is agreed.

- 6.1.4 To date, over £60m has been spent and claimed from Innovate UK in grant by Coventry City Council and the project has been successfully audited by Grant Thornton demonstrating the robust governance and financial management in place.

6.2 Legal implications

- 6.2.1 There are no legal implications of accepting the WMCA grant itself, other than to ensure that the terms of and conditions of the grant award as set out by the WMCA are adhered to. The Council's Economic Development Service will be responsible for ensuring that the grant is managed correctly, and Legal Services will provide the necessary support.

6.2.2 A separate legal agreement will be drafted and agreed with UKBIC Ltd to set out the terms. Officers are in discussions with UKBIC Ltd to finalise the terms of such agreement.

7 Other implications

7.1 How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?

7.1.1 The establishment of the UKBIC will make a significant contribution to the Council Plan. Coventry is already a focal point for the UK auto industry and securing the UKBIC will make the area hugely attractive to investors from the industry. The manufacture in Internal Combustion Engines is expected to decline steadily over the next twenty years as more and more car manufacturers plan to move towards electric fleets. It is expected that the market for battery technology in the EU will be worth as much as EUR50Bn during this period, and with the UKBIC operating in Coventry this will provide an excellent incentive for inward investment and job creation, in line with the aims of the Council Plan.

7.2 How is risk being managed?

7.2.1 With a project as large and complex as this one, detailed work on risk management is ongoing, and the joint CCC-CWLEP-WMG project team has devoted considerable resources to assessing risks and planning mitigation actions.

7.2.2 In any project that uses public funding to support private businesses, particularly with a grant as large as this one, it is important to assess any state aid risks created as a result on an ongoing basis. A specialist firm, Oxera Consulting, is on board to advise partners on the state aid implications of the UKBIC proposals.

7.3 What is the impact on the organisation?

7.3.1 Two new posts have been created within the Economic Development Service and officer time from existing staff in Finance, Legal and Procurement teams will continue to be required. The costs for both the new posts and existing officer time will continue to be recovered from the grant.

7.4 Equality and Consultation Analysis (ECA)

7.4.1 This project is not expected to have any negative equalities impacts. CCC and CWLEP will place requirements upon the new company to ensure that appropriate equalities impact assessment work takes place as it begins to run its services.

7.5 Implications for (or impact on) climate change and the environment

7.5.1 This project has the potential to have a positive environmental impact. As the UK auto industry moves to electrification there will be a huge reduction in emissions from road vehicles on the country's road. The work of the UKBIC aims to speed up this transition, and therefore have a positive environmental impact.

7.6 Implications for partner organisations?

7.6.1 Establishing the UKBIC here will allow the University of Warwick and WMG to cement their position among the top universities in the world for advanced engineering and automotive R&D. In turn this will lead to further benefits for the city.

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