
A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it contains information relating to the financial and business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Cabinet

23rd February 2021

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration - Councillor J O'Boyle

Director(s) Approving Submission of the report:

Director of Property Services and Development
Director of Business, Investment and Culture

Ward(s) affected:

All

Title:

Entering into a Joint Venture Arrangement to Promote a Strategic Land Opportunity

Is this a key decision?

Yes – the expenditure to be approved pursuant to this report will be in excess of £1 million pounds

Executive Summary:

The delivery of a Gigafactory, making batteries for electric cars on a mass scale, is a key national and regional priority and will be a key part of the UK's efforts to deliver the technology that can remove the dependence on fossil fuels within the economy. The Council believes that Coventry and Warwickshire is well placed to be the location for a Gigafactory given its proximity to large scale automotive production throughout the west Midlands.

A Gigafactory could deliver up to 4,000 new jobs directly, as well as thousands more in the supply chain, and would lead to significant investment into the local economy. The West Midlands Mayor, the West Midlands Combined Authority (WMCA) and the leaders of all its constituent authorities have all agreed that Coventry Airport is the preferred regional site for a Gigafactory.

This report is seeking approval to enter into a joint venture arrangement with Coventry Airport Limited in order to promote the Coventry Airport site as a location for a Gigafactory or, if the Gigafactory proposal is not forthcoming, employment led commercial development.

Coventry Airport Limited have a 150-year lease on the site expiring in 2160 and the Council is the freeholder of the site. These arrangements mean that neither party is able to take forward any

proposals on the Airport site without the full co-operation of the other, hence the need for a joint venture approach to take forward this opportunity.

Recommendations:

Cabinet is recommended to:

- 1) Approve the Council entering into a joint venture arrangement with Coventry Airport Limited to promote the Coventry Airport site for use as a Gigafactory or employment led commercial development.
- 2) Delegate authority to the Director of Property Services and Development and the Director of Law and Governance, following consultation with the Director of Finance and Corporate Services and the Cabinet Member for Jobs and Regeneration, to undertake the necessary due diligence and approve the structure of the joint venture arrangements and, thereafter, enter into any associated legal agreements (including the authority to effect any lease variations/surrender and any future disposal if appropriate) that are necessary to deliver the joint venture arrangements and give effect to the recommendations within this report.
- 3) Approve expenditure of up to £250,000 from reserves in advance of future capital receipts to fund the workstreams required to further develop the Gigafactory proposal (including further technical feasibility and business case development).
- 4) Approve expenditure of up to £1m (as a 50% share) from reserves in advance of future capital receipts to fund the work streams required to take forward the entry into the joint venture arrangements, the submission of the planning application and disposal process (if appropriate) for the Coventry Airport site.

List of Appendices included:

Appendix 1 - Site Plan

Background papers:

None

Other useful documents:

None

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?

No

Title: Entering into a Joint Venture Arrangement to Promote a Strategic Land Opportunity

1. Context (or background)

- 1.1. Decarbonising the economy and reducing the dependence on fossil fuels whilst delivering significant investment and new jobs in clean technologies are key priorities for all parts of national, regional and local government. One aspect of this are proposals for the delivery of a “Gigafactory” within the UK, sponsored by central government, that can make batteries for electric vehicles on a mass scale and, therefore, play a key part in the move away from the internal combustion engine within the automotive sector (the sale of new petrol and diesel cars and vans will be banned from 2030 and hybrid cars and vans from 2035).
- 1.2. A Gigafactory is a high-volume production facility for batteries principally for the automotive sector but also with potential future applications across other industries. From the investment in other countries by reputable battery manufacturers, it is understood a Gigafactory could require a facility of up to six million square feet (the equivalent of 78 football pitches) and would employ up to 4,000 directly. A Gigafactory is very much seen as the future of automotive manufacturing and it should be noted that the UK currently has very little in the way of electric battery production which in itself is a threat to the UK automotive industry as decarbonisation continues.
- 1.3. A Gigafactory would also create thousands of new supply chain jobs in the local economy, whilst also safeguarding many more in the automotive sector, and could potentially generate £2bn of inward investment into the region. It is estimated that the global market for electric vehicles is expected to be \$567 billion by 2025, an increase from \$118 billion in 2017 or 22.3% per year. The UK itself is witnessing rapid increases in electric vehicles sales, with 37,850 electric vehicle sales in 2019, an increase of 144% from 2018. Furthermore, demand from the UK market alone is projected to make up 20-25% of the whole battery market in Europe and the Faraday Institution predicts that by 2030, 64% of all new cars bought by UK consumers will be electric.
- 1.4. A further sign of the national government’s commitment to a Gigafactory, and seizing the opportunity outlined above, has also come with the announcement in the 2020 Comprehensive Spending Review of £500m funding over four years for battery production on a mass scale and the electric vehicle supply chain. A further £500m is due to be made available in the following parliament.
- 1.5. Electric battery production needs to be as close to its customers as possible to reduce the costs of expensive transportation and, given the scale of the automotive production sector in the West Midlands region (where a third of the cars produced in the UK come from as well as 46,000 employees across 430 specialist automotive firms), the Council believes that the Coventry and Warwickshire region is the natural home for a Gigafactory presence. Allied to this is the fact that the UK Battery Industrialisation Centre (UKBIC) is already located in Whitley, South Coventry which provides a potentially significant competitive advantage in securing Government backing for a Gigafactory. The UK/EU trade deal is also relevant because it will require vehicles manufactured in the UK to have at least 55% of their components manufactured either in the UK or EU in order to qualify for tariff-free trade. Because batteries are such a high proportion of the value of an electric vehicle, producing batteries in the UK will be an attractive way to help manufacturers comply with rules of origin requirements.
- 1.6. Given the size of a Gigafactory and any ancillary uses it requires, only very large sites that are also well connected to the transport network and an extensive automotive supply chain would be suitable for this purpose. This is a key reason why the Coventry Airport site has been identified as a potential location for a Gigafactory.

- 1.7. On 18 December 2020, the WMCA formally confirmed its support for the Coventry Airport site as the West Midlands preferred Gigafactory location. The West Midlands Mayor and the leaders of all the WMCA constituent authorities are all committed to promoting Coventry Airport as the West Midlands chosen site for a Gigafactory.
- 1.8. The City Council's Economic Development service is currently working with regional partners to develop a business case to be submitted to government which will set out why Coventry Airport is an excellent location for a Gigafactory and makes the case for investment from government funds allocated to these activities.
- 1.9. It is important to emphasise that the decision on the location of a Gigafactory will ultimately be a commercial one made by a battery supplier. Their decisions will be based on a range of factors such as land value, power supplier, confirmed orders from customers and proximity to those customers, skills and transport links. The business case demonstrates how the Coventry Airport site can meet all these needs and is an excellent candidate for an investor and should receive the full backing of Government.
- 1.10. Coventry Airport, located in the Warwick District Council municipal area, is held by Coventry Airports Limited (CAL) by way of a long leasehold from Coventry City Council for a term of 150 years from the 18th May 2010 and will expire in January 2160. The lease provides for a peppercorn rent to be paid to the Council alongside a "profit rent" arrangement where CAL are obliged to make a payment to the Council if specific profit thresholds are met. This has resulted in one payment of £20,533 over the course of the lease to date.
- 1.11. If the recommendations within this report are agreed, there is the opportunity to create a 50/50 joint venture arrangement between CAL and the Council to take forward the necessary work to deliver an outline planning application that would support the Gigafactory proposal (or other employment led commercial uses if the Gigafactory opportunity is not forthcoming) as well as providing the basis for any future disposal of the site.

2. Options and recommended proposal

2.1. Option 1. To not agree to the creation of a 50/50 joint venture arrangement

- 2.1.1. If the Council and CAL were to not proceed with the proposal that is the subject of this report, then two key implications should be highlighted for Cabinet's attention.
- 2.1.2. The first implication is that it would make the delivery of a Gigafactory in the local area significantly less likely. A joint venture arrangement provides the opportunity for the parties to take forward a planning process for the site that will work through and understand the feasibility and challenges of delivering a Gigafactory on the site. Clearly, national government will need to be satisfied that the local authority has undertaken thorough due diligence on a site and worked up proposals that are realistic and deliverable before investing time and resource in further detailed dialogue with the local partners. A joint venture in the manner set out within this report therefore provides the necessary confidence to the parties to invest in a planning application and feasibility process in order to move this proposal forwards.
- 2.1.3. The second implication relates to the operation of Coventry Airport. Although it is an important business within the local economy, even before the hugely damaging impact of COVID on the aviation sector the Airport was not running at an optimal level of capacity. Whilst there is a "keep open" clause within CAL's lease, requiring them to operate the site as an airport, it is anticipated that future aviation operations at the site will be limited in nature given the economic challenges the sector faces. Clearly, this will impact on the

opportunity both for the site to provide “profit rent” payments to the Council and to create much needed jobs on an increasingly under-utilised site.

2.1.4. Given the implications set out above, and the wider impacts on the Council's economic development, sustainability and climate change objectives for its residents and businesses of not exploring the opportunity that is proposed within this report, this option is not recommended.

2.2. Option 2. To agree to the creation of a 50/50 joint venture arrangement

2.2.1. To facilitate the opportunity for a Gigafactory (or if that proposal were not able to come forward an opportunity for optimising the use of the Airport site through employment led commercial development uses) and to help meet our wider economic development, sustainability and climate change objectives for Coventry it is recommended that the option to agree to the creation of a 50/50 contractual joint venture arrangement to promote the site is agreed. This approach provides the opportunity to provide the following key benefits for Coventry and Warwickshire.

2.2.2. Key benefits for Coventry and Warwickshire

2.2.2.1. Coventry has already demonstrated its credentials as the home of the electrified automotive industry by winning a national competition to establish the UKBIC on a site adjacent to Coventry Airport. The £130m facility has gone from a concept to a purpose-built world-class R&D facility in barely three years and will cement our place at the forefront of the move to electric vehicles. In order to fully benefit from winning UKBIC, we must now use the opportunity that it gives us to put the city in the shop window by securing private investment into production of electric vehicles in the area. A Gigafactory is the single biggest prize in automotive investment. A facility producing batteries for thousands of electric vehicles, as well as employing thousands of people directly, effectively becomes the “keystone” at the centre of a much wider supply chain related to electric vehicles. It is estimated that there is a £20bn opportunity for key technologies in the electrification passenger cars which companies the supply chain will be able to take advantage of if they are able to diversify into these markets. As well as batteries themselves, this also includes production of electric motors and their components, and the high-performance power electronics required for electric vehicles. With its concentration of R&D activity and highly skilled advanced manufacturing workforce, Coventry and Warwickshire is excellently placed to make the most of these opportunities, safeguarding the 20,000 automotive jobs in the area and creating thousands of new opportunities beyond that.

2.2.3. Proposed Joint Venture Arrangements with CAL

2.2.4. The objectives of the joint venture approach (to be formalised through a contractual Joint Venture Agreement (JVA)) will be to establish the necessary arrangements between the Council and CAL to take forward and deliver an outline planning application for the site in an expeditious manner and then for the parties to be in a position to dispose of the site if they so wish. To this end, CAL and the Council will also work together to secure a relevant allocation to support a Gigafactory and / or commercial development in the Warwick District Plan (it should be noted that Warwick's Local Plan currently allocates the site as “green belt” and it is anticipated that Warwick will be commencing a review of their Local Plan during 2021 which will include a “call for sites”) and to maximise the value of the site.

2.2.5. Further information on the draft current key terms of the joint venture arrangement is contained in the private version of this report.

3. Results of consultation undertaken

- 3.1. Formal public consultation will take place on any future planning application or through any Local Plan review process.

4. Timetable for implementing this decision

- 4.1. Subject to Cabinet and Council approval, it is anticipated that the JVA will be entered into during Spring 2021. The entry into the JVA does not mean that the airport will cease operations at that point, notwithstanding that it will be CAL's responsibility to engage with airport businesses about the implications of this. It is also anticipated that an outline planning application will be brought forward by the end of 2021 with Warwick District Council's Local Plan Review commencing during 2021.
- 4.2. Should the site be brought forward for use as a Gigafactory and subject to planning approval, it is anticipated that construction of the Gigafactory would commence in Q4 2022 with a view to construction being completed in Q4 2024.
- 4.3. In the event that planning for the site to be used as a Gigafactory cannot be achieved or a Gigafactory cannot be secured it would be the intention of the parties to pursue planning consent for B1/B2/B8 purposes through the Warwick DC planning process.

5. Comments from the Director of Finance and the Director of Law and Governance

5.1. Financial implications

- 5.1.1. Details of the financial implications of this transaction are contained within the private element of this report.

5.2. Legal implications

Legal Powers

- 5.2.1 Regarding the structure proposed within this report, the powers available to local authorities are:
- Section 1 of the Localism Act 2011 provides a "general power of competence" for local authorities, defined as "the power to do anything that individuals generally may do" and which expressly includes the power to do something for the benefit of the authority, its area or persons resident or present in its area.
 - The power to do "anything which is calculated to facilitate or conducive or incidental" to the exercise of functions under Section 111 of the Local Government Act 1972.
 - The power to dispose of land contained in Section 123 of the Local Government Act 1972

There are good and proper reasons for adopting the approach set out in this report as follows:

- De-risking the project by partnering with experienced and credible private sector partners and the ability to apply this knowledge to future opportunities;

- Enables the Council to access the skills, resources and capacity of the private sector in bringing the site forward for development; and
- Maximises financial return to the Council

Subsidy Control/State Aid

- 5.2.2 On 24th December the UK and EU reached an agreement in principle with the 'UK-EU Trade and Cooperation Agreement' (UK-EU TCA). On 31st December, the UK government published guidance to assist funding bodies in understanding what international subsidy control commitments and related obligations the UK has as of 1st January 2021. All funding bodies must comply with these obligations when awarding subsidies. Funding bodies must undertake their own analysis on a case by case basis to determine whether their proposed measures breach any of the international obligations.

The Council has commissioned external legal advisors who are working alongside our in-house legal service to assess the proposal set out within this report to ensure that it aligns with the subsidy control principles. Provided that it can be shown that there is no subsidy in the first place there should be no legal concerns, but this will be verified as part of the external legal advice.

Land Disposal

- 5.2.3 Where the Council wishes to dispose of the site, S123 of the Local Government Act 1972 puts a duty on the Council to obtain best consideration reasonably obtainable. Officers will ensure that any offers represent the best price likely to be achieved in the market and has been independently assessed as representing market value. This in turn will be used as evidence that no purchaser of the site has benefitted from unlawful state aid.

6. Other implications

6.1. How will this contribute to achievement of the Council's Plan?

- 6.1.1. The delivery of the proposal outlined in this report will help deliver a range of economic development, sustainability and climate change objectives that will help to realise the Council's strategic ambitions for a more vibrant and economically prosperous city.

6.2. How is risk being managed?

- 6.2.1. The Council's key requirements for this project are to ensure that every opportunity is explored to secure a Gigafactory for the Coventry and Warwickshire economy. Furthermore, if a Gigafactory is not able to be realised then the opportunity to create sustainable employment uses and drive jobs growth is seized. The proposed joint venture arrangements that are the subject of this report are the mechanism to try and achieve these objectives on the Airport site through arrangements where the parties participate financially on a 50/50 basis, take decisions on a 50/50 basis and realise benefits on a 50/50 basis. The contractual obligations that will be contained within the JVA are the basis on which risks to the key requirements identified above will be managed.
- 6.2.2. Support and incentives to facilitate the Gigafactory development at Coventry Airport are being sought from Central Government. To secure this support, a business case has been prepared for Government detailing the unique offer and associated incentive requirements necessary to facilitate a successful Gigafactory investment and support further development of the local EV supply chain. It is anticipated that successful Government support will be secured via this process by mid-2021.

- 6.2.3. A strategy has been developed to ensure the provision of Gigafactory level power to the area. This strategy will also benefit other previously announced planned major developments in the vicinity of Coventry Airport (including the Gigafactory, JLR, Gateway South and other nearby sites). The power demand consortium approach will be developed utilising Government incentives and a public guarantee for the necessary infrastructure development.
- 6.2.4. A demand consortium for EV batteries will be drawn together made up of the key battery customers in the vicinity of Coventry and Warwickshire. This consortium will be used to define the market opportunity and the technical solution required. This information will be used to identify and engage appropriate battery manufacturers / investors to ensure the right investment and associated battery supplier is established at the facility.

6.3. What is the impact on the organisation?

- 6.3.1. The impact to the organisation will be primarily on officers within the Property Services and Development and Legal Services Directorates who will be responsible for undertaking the work to conclude the negotiations to establish the JVA and associated legal documentation, as well as then managing the various workstreams required to deliver the objectives of the JVA.

6.4. Equalities / EIA

- 6.4.1. Section 149 of the Equality Act 2010 requires the Council in the exercise of its functions to have due regard to the need to:
- eliminate discrimination, harassment, victimisation and other form of conduct prohibited under the act; and,
 - to advance equality of opportunity and to foster good relations between persons who share a relevant protected characteristic (age, disability, gender re-assignment, pregnancy and maternity, race, religion and belief, sex, and sexual orientation) and persons who do not share it.
- 6.4.2. Having regard to the need to advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share it involves having due regard, in particular, to the need to:
- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
 - take steps to meet the needs of the persons who share that characteristic that are different from the needs of persons who do not share it; and,
 - encourage persons of the relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
- 6.4.3. The Equality Duty has been considered and it is felt that an Equalities Analysis is not required as the proposal concerns the potential disposal of land for redevelopment and no Council service or group will be impacted.

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

- 6.5.1. Development of a Gigafactory would help to create the conditions for the increased roll out and take-up of low emission vehicles, particularly as the UK Government aspires to cease the sale of petrol and diesel vehicles by 2030. This would play an important role in reducing greenhouse gas emissions, particularly along key local routes and within the city centre and would make an important contribution to the West Midlands Combined Authority's aim for the region to be net zero by 2041. The location of a Gigafactory in Coventry, to complement UKBIC and associated charging infrastructure, would also further strategically position Coventry as taking the lead nationally on expanding production and take-up of low emission vehicles to tackle the climate change challenge.
- 6.5.2. The Gigafactory would play a significant role in the nation's transition to low emission zero carbon vehicles assisting the City in its drive to become a Zero Carbon City and also assisting the implementation of the City's Air Quality Management Plan.
- 6.5.3. The presence of a high-profile development will also help to act as a catalyst for the City to be seen as a centre for the development of environmental technologies
- 6.5.4. The development of the Gigafactory and its immediate impacts upon biodiversity can be offset through support for the River Sherbourne Living Landscapes project which shows significant potential for habitat enhancement.
- 6.5.5. Any potential Gigafactory development will be undertaken in accordance with the Council's planning policies for sustainable development.

6.6. Implications for partner organisations?

- 6.6.1. Apart from CAL, there are no implications for any partner organisations.

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