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WEST MIDLANDS ECONOMIC MONITOR

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Over 20 leaders from politics and business, including West Midlands Mayor Andy Street and the leaders of Manchester and Leeds city councils, have signed a letter saying that **'failure to deliver HS2 would be a disaster to the UK's regional economies and national prosperity'**. They estimate that [HS2 will support up to 500,000 jobs](#) once it is completed and add billions to the UK's economy, while also upgrading Victorian infrastructure for a country with a much larger population than the original network was designed to accommodate. It is also worth noting that despite uncertainty around Brexit, [Land Registry](#) figures show that **the property market in Birmingham remains buoyant** and prices are continuing to increase. This is in sharp contrast to London, where property values have stagnated since the Brexit referendum and have in fact been decreasing since March 2018. Figures from last year also show that West Midlands is also the only region to have [seen a growth in both number of projects and new jobs](#) generated by Foreign Direct Investment, suggesting **that international investors still see the region as a good investment**. It is highly likely that this is at least in part being driven by speculation around HS2.



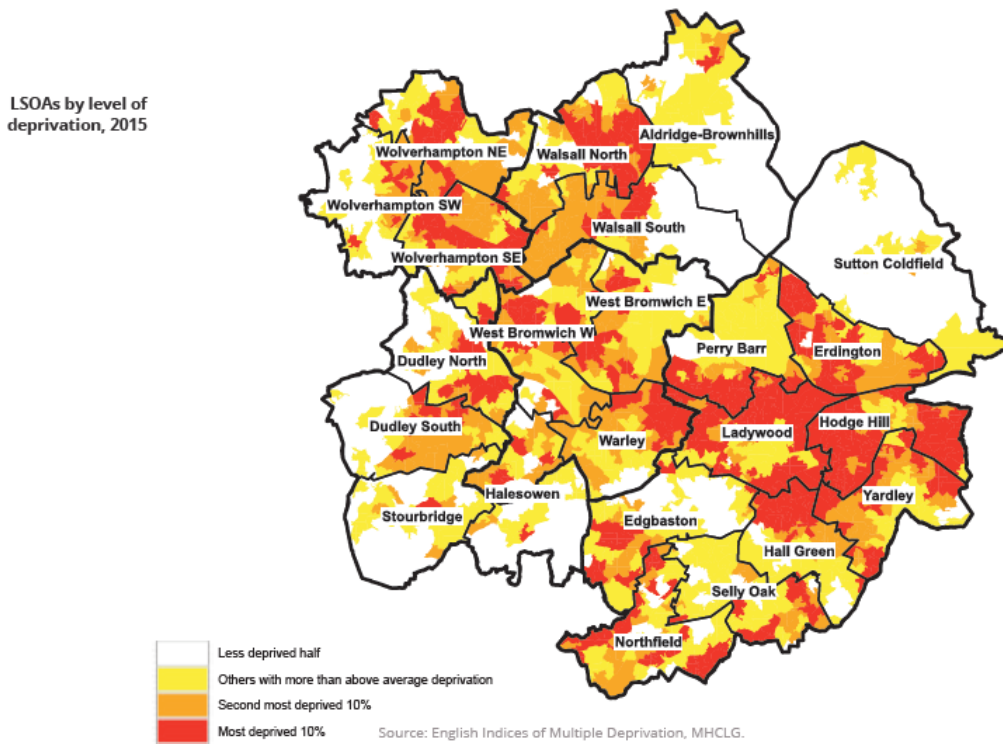
A new vision of the future Curzon Street Station. The original cellular glass roof has been replaced with a cheaper alternative (source: HS2)

The cost of HS2 has sharply increased from an initial £30 billion to a current official budget of £56 billion – with recent reports suggesting [it could reach £80-100 billion](#). Given that **Theresa May has announced she will step down imminently**, leadership contenders for the Conservative Party have been setting out their stalls. Many have said they would scrap HS2, including the front-runner, Boris Johnson, as well as David Davis, Esther McVey, Liz Truss and Andrea Leadsom. A poll of Conservative Party members also showed that [a majority want to scrap the project](#), increasing focus on the project in the upcoming leadership contest. One of Nigel Farage's new **Brexit**

Party's few [policy announcements](#) – beyond agitating for a hard Brexit – **is to scrap HS2**. There is a danger that this will not only pull the Conservative Party closer towards the idea of a damaging hard Brexit but also make opposition to HS2 the dominant position in the current party of government.

A recent report from the House of Lords Economic Affairs Committee has [called for HS2 to be paused](#) until an accurate understanding of the costs of the project can be reached. The report states concerns that **Phase 2 from Birmingham to Manchester and Leeds may end up being scrapped** as 'the costs do not appear to be under control'. The Lords said there is no need for such high speeds on the route and found [little evidence of serious overcrowding](#) on existing London to Birmingham lines to the extent that would justify the project. The report also suggested moving the London terminus of the line from Euston station to Old Oak Common in Zone 3. However, this would negatively impact the project's business case, which is based on central Birmingham being only 49 minutes from central London, thus making commuting from the West Midlands to the capital a realistic proposition. The House of Lords added that in their opinion 'the north is being short-changed' and 'any overcrowding relief from HS2 will mainly benefit London commuters'. The report states that [northern rail improvements should take priority](#) over HS2, and merging rail improvements in the north with HS2 would be [of greater benefit](#) to the UK's economy.

The Taxpayer's Alliance has released a list of [28 regional road and rail schemes](#) that could be funded by scrapping HS2 in a new report. In the West Midlands, the report suggested re-opening the Sutton Park Line linking Sutton Coldfield with the Black Country and Warwickshire; electrification of parts of the Chiltern Main Line from London Marylebone to Birmingham Moor Street and Snow Hill; re-opening the Stourbridge to Lichfield line; and upgrading the Rugby to Birmingham line. However, some of these **projects are already included in the package of transport improvements** to connect with HS2 in the region. An analysis of the figures featured in Rail News said that the report is **'fantasy and fiction'**, also noting a Guardian investigation that found the Taxpayer's Alliance is far from being the grassroots campaign group it claims to be. It is in fact part of a group of over 475 right-wing lobbying organisations around the world called the Atlas Network, which [receive funding from US donors](#) in order to promote deregulation and free market capitalism.



Deprivation across Birmingham and the Black Country is both deep and widespread (source: NPI)

Coventry is to be the home of a new national centre of excellence in developing the latest [electric car battery technology](#). Following on from an initial £80m public investment, the government has provided a further £28m of funding as part of the new [West Midlands Local Industrial Strategy](#), which focuses on life sciences, business and professional services, and other transport innovations such as autonomous vehicles and making the most of improved connectivity from HS2. The latest investment by the government will enable the region's automobile producers and their supply chains to adapt to a low-carbon future, and may even encourage diversification into other forms of manufacturing. [Figures from the Centre for Cities](#) showed that **59% of all exports from Coventry** are from the city's car industry, making it the city with the fourth-least diversified export base in the UK. Birmingham came in at 9th least diversified, with 42% of its exports also coming from the automotive sector. While specialisation enables the region to build a cluster of expertise and highly-skilled staff in that industry, it does also make the West Midlands **vulnerable to Brexit-related trade disruption**.

The running of **HMP Birmingham is to be stripped from contractor G4S** and returned to government control after the prisons watchdog found '[staff living and working in fear](#)' in 'war zone' like conditions, with widespread violence, open drug use by prisoners, and human waste in cells and corridors. G4S will pay £9.9m back to HM Prison and Probation Service once the prison is transferred to the

Ministry of Justice on 1 July. This is not the first **challenge to the outsourcing model** pioneered by the UK; there has also been the recent collapse of Carillion, which was scheduled to construct parts of HS2, as well as the bankruptcy of Interserve, which provides cleaning and catering services in schools and hospitals, probation services and construction project management. A [report from Bloomberg](#) noted that the UK government's outsourcing bill now exceeds £200 billion per year, more than the government pays to all public sector employees, and comments that the value of the model is now under increased political scrutiny.

A report by the New Policy Institute and the [Barrow Cadbury Trust](#) warns that the continued austerity and the roll-out of Universal Credit are deepening the already very high levels of deprivation in the West Midlands. It notes that '**Birmingham and the Black Country have markedly more deep deprivation than Greater Manchester**', and that deprivation in '**London's historically deprived east does not come close**'. In urban areas of a comparable size only Liverpool has similar levels of deprivation, but even there Birmingham and the Black Country have higher rates of neighbourhoods in the two most deprived tenths in the country. The report concludes with saying that the deprivation levels in the region are 'damaging at an individual and societal levels' yet are 'avoidable', arguing that this combination 'turns them into injustices'.



A multicultural crowd in central Birmingham (source: [Roman Zwicky](#))

Would a pay rise make you happier? Only if you are currently earning below £44,000. That's the finding of the latest ONS analysis of [personal and economic well-being](#) that surveyed nearly 300,000 people to understand life satisfaction. It found that pay increases had a positive impact on happiness only when a person is earning between £24,000 and £44,000; **increased pay beyond this had no impact on happiness**. People are more likely to value instead having **good health** and being in a **relationship**. Being retired also increases life satisfaction, with slighter increases for being self-employed or working with family. Being unemployed and living in a rented property both make people unhappier. This research reminds us that it takes more than economic growth to create a society with a good quality of life for all.

Research by the Trussell Trust has found that the number of GPs per 100,000 people in the UK has **fallen for the first time in over 50 years**, from 65 GPs per 100,000 in 2014 to 60 in 2018. Many areas of the West Midlands already had fewer GPs per head of the population than the national average and in recent years have seen [recruitment difficulties increase](#). The President of the Black Country British Medical Association says that in the short-term an overseas recruitment drive could meet demand, but there needs to be a rethink of workforce planning in the NHS, such as more support and better working conditions for those wishing to train as medical practitioners.

The link between health and happiness is a well-established one that has already been referenced above. A [recent report](#) funded by the Wellcome Trust looked at health issues specifically affecting the LGBT community and found that health inequalities persist, particularly as

members of this community age. There was a statistically significant correlation, with **older LGBT people reporting poorer health and lower life satisfaction** than their straight peers. The researchers found that continuing stigma around sexuality leads to long-term stress and increased reluctance among the gay community to engage with the health service, compounding issues such as a greater incidence of loneliness and higher rates of harmful behaviours such as smoking and high alcohol consumption. The researchers also found issues with homophobia and denial of older people's sexuality or gender in social care settings. Recommendations included equality and diversity training for health staff and the provision of more specialist services. Such services rarely exist at present, only being found in the largest cities if they exist at all.

On the topic of stigma, **weeks of anti-LGBT protests outside primary schools in predominantly Muslim areas of Birmingham** have been heavily featured in the [national media](#). The protests are against the [award-winning 'No Outsiders'](#) programme, which teaches children tolerance of others, including of classmates with same-sex parents. A small counter-protest in support of the headteacher, who has received violent threats, was [attacked by the crowd](#), leading to West Midlands Police attending the scene. In the absence of local MP Roger Godsiff, Labour's Jess Phillips visited Anderton Park Primary School in Sparkhill and was [shouted at by protestors](#). The coverage is **damaging Birmingham's reputation** as a tolerant city, with the Economist commenting that recent events fit into a wider [pattern of inter-cultural tensions](#). International media such as the New York Times has also [commented on Birmingham](#), noting 'radicalisation' of some of the city's Muslims, the use of sharia law councils and the 2014 [Trojan horse scandal](#) when strict Islamic values were propagated in some of Birmingham's schools.

Finally, figures have shown that **Wolverhampton's gender pay gap** is the second highest in the UK, with women paid £10,540 less than men according to an [analysis of ONS figures](#) conducted on behalf of the Times. Only Derby registered a higher gender pay gap. A partial explanation of the figure lies in the economic structure of both places being traditionally industrial, with men predominating in the higher-paid roles and women in more part-time or less senior positions. This does not fully explain the pay gap however, with a [much smaller gender disparity](#) being recorded in Leicester, another nearby industrial city.

The latest [regional labour market statistics](#) show that the **employment rate in the West Midlands increased better than the national average** in the first quarter of 2019, with a 0.8% increase to 73.9% compared to 0.2% increase to 76.1% nationally. The economic inactivity rate also decreased more than the UK-wide average, falling by 0.6% to 22.0% compared to a 0.1% decrease to 20.8% in the country as a whole. However, a number of statistics demonstrate persistent issues in the region. For example, 5.1% of people in the West Midlands Combined Authority area are currently unemployed; the national rate is 3.7%. The share of people claiming benefits in the region also increased by 0.7% over the past year to 3.9%, which is higher than the national claimant rate of 2.7%.

The latest [GDP figures for Q1](#) of 2019 (January-March) show that as a whole, **the UK economy grew by 0.5%**. Growth in the services sector slowed to just 0.3% in the period, whereas the manufacturing sector registered an impressive growth of 2.2%. In the same quarter, the UK's

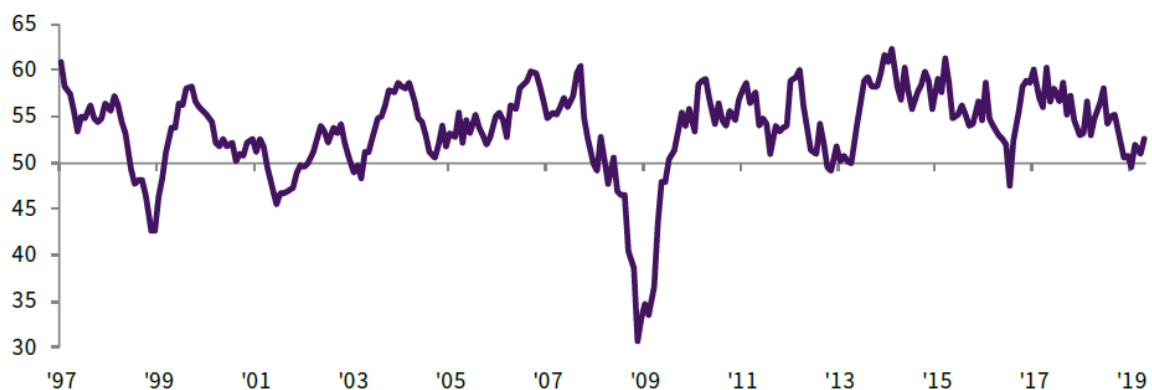
trade deficit increased to 3.4% of GDP – **the widest trade deficit in over half a century**.

As of this month, small- to medium-sized manufacturing firms in the Midlands can make use of an **£11.8 million business support programme** [funded by the EU's](#) European Regional Development Fund. A wide variety of support packages are on offer, ranging from marketing, skills and strategy training to environmental and sustainability support. These will be based upon a bespoke business diagnostic and in-depth tailored action plan, along with improvement grants starting from £1,000.

The latest [West Midlands PMI report](#) showed that businesses in the region have made a positive start in the second quarter of 2019. The headline Business Activity Index, which measures changes in the combined output of services and manufacturing, registered a figure of **52.6 in April** – up from 50.9 in March and comparing favourably with the UK-wide figure this month of 50.9.

West Midlands Business Activity Index

sa, >50 = growth since previous month



Business activity in the West Midlands reported growth this month, but remains subdued (source: IHS Markit)

New analysis of the [2017 Annual Business Survey](#) carried out by the ONS showed that on average, businesses that were older and larger (in employment terms) were the most productive. Interestingly, it found that **foreign-owned businesses were approximately 18% more productive** than equivalent, domestically-owned businesses. This may be due to different management practices and restructuring, or perhaps reflects that foreign investors tend to invest in businesses with greater growth potential. The analysis also found that the capital-intensive **manufacturing sector is the most productive**, particularly petroleum products, food, pharmaceuticals, mining, and utilities such as water and electricity. On the other hand, many labour-intensive **services are the least productive** in

the economy. This includes libraries and museums, social work, education, residential care, cleaning and facilities management, sports and leisure, and security. Nevertheless, these sectors serve a valuable social function that cannot be measured in purely financial terms.

Coventry's **Jaguar Land Rover**, one of the region's most important firms, registered its [largest ever loss](#) in the last financial year. The car-maker blamed the **£3.6 billion loss** on a weakening of Chinese demand for its products, a drop in diesel sales and a one-off downward revision in the business's value. These results come after the company recently announced [it intends to cut 4,500 staff](#) – a year after it already shed 1,500 jobs.

PLACES



Vision of the redeveloped Edgbaston Reservoir (source: Jon Sheaff and Associates)

A [major new regeneration](#) is planned in Birmingham, named the **Rea Valley Urban Quarter** in Deritend, south of Digbeth. This 73 hectare site immediately adjoins the Smithfield redevelopment of the old markets and would accommodate a further **5,000 new homes** along with an improved urban realm, with plans to make the hidden River Rea a more prominent feature. At present much of the river is inaccessible and the area has is blighted with many derelict warehouses. This is another piece in the regeneration of the city centre around the new HS2 station.

A [masterplan has been released](#) for **Edgbaston Reservoir** to encourage visitors to the area with a promenade, cycling and footpaths, and a mixture of new residential and leisure spaces. The reservoir in North Edgbaston can be accessed from Gillott Road and is located in what was once a prosperous area in the Victorian period that is today characterised by economic deprivation. The masterplan would connect the reservoir to Icknield Port Loop adjoining Brindleyplace, which is currently being developed as a new neighbourhood by Urban Splash.

Elsewhere in property news, a [51-storey tower](#) next to the new HS2 Curzon Street station is being planned, which would be the **tallest building in the Midlands**. The development would also feature a 15-story building next door, delivering a total of 667 apartments in the city centre and showing the continued impact that anticipation around HS2 is having on Birmingham's property market.

The West Midlands Combined Authority has **launched a new fund to revitalise town centres**. The first wave of the [Future High Streets Fund](#) has earmarked money for five locations in the region: the centres of **Walsall, Dudley and West Bromwich, Bordesley Green** in East Birmingham and

Bilston, a Black Country town equidistant between Walsall, Dudley and Wolverhampton. All are areas with significant deprivation that have suffered as retail outlets close. The fund will be used to buy up derelict buildings to create new housing, business units or community spaces. A second wave of struggling town centres will be selected for support later in 2019 to build upon the project.

Birmingham City Council is currently in the process of consulting for a new set of [Public Space Protection Orders](#) in Ladywood and Winson Green to **drive beggars, drunks and drug users off the street**. PSPOs give police and council staff the power to move people on who are committing these anti-social behaviours and are already in place in the city centre and suburbs such as Moseley and Kings Heath. However, given a lack of resources these are not always fully enforced, and there is a risk that the orders may target those who are begging out of desperation. Moreover, anecdotal evidence suggests that the orders can cause the people they are targeting to congregate in areas just beyond the boundaries of the PSPOs.

Newly-released figures for 2018 show that **crime is increasing** at a faster rate in the West Midlands than in England as a whole, with an [11% increase](#) to 87.2 crimes per 1,000 population in the Combined Authority area compared to a 7% increase to 87.0 per 1,000 nationally. Figures showed that last year there were higher incidents of knife crimes, attempted murder and homicide in the West Midlands than the national average. [690 victims of knife crime in the region were children](#). While the region registers lower rates of violence, sexual offences and public order offences than the English average, the West Midlands also saw sharper increases in these types of crime than in the national figures.

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