



West Midlands
Combined Authority

WMCA Board

Date	9 June 2023
Report Title	West Midlands Investment Zone
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Report has been considered by	Senior Local Authority Officer Group; Regional IZ/LUZ Officer Working Group

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

- (1) Note the Government's requirement for WMCA to select a 'Primary Sector' in relation to the development of the West Midlands Investment Zone proposition.
- (2) Endorse the recommended Primary Sector for the West Midlands Investment Zone, as advanced manufacturing, to inform and underpin further co-development of the Investment Zone proposition.

1. Purpose

- 1.1 The Government's Investment Zone ('IZ') programme which was launched in March 2023 aims to grow high-potential innovation and industrial strengths in areas with significant scope for catch up economic growth to drive national productivity growth. The West Midlands Combined Authority, as with the other Combined Authorities, is developing a sector-led Investment Zone proposal that covers the WMCA geography, as required under the programme announced by the Government in March 2023.
- 1.2 In line with the published DHLUC timetable for IZ development, the region's *emerging* thinking on its key primary sector was submitted by the deadline of 26th May 2023. This followed extensive discussion with LA Regeneration Teams as well as Directors of Economic Development and Finance Directors. It was submitted with the explicit caveat that this was emerging thinking and was subject to Board endorsement.
- 1.3 This report, therefore, seeks endorsement by the CA Board of the key 'primary sector' for the West Midlands Investment Zone proposal taking into account the economic rationale for the identification of that sector, which is firmly based on the region's Plan for Growth, and reflects extensive engagement with local authority partners and other stakeholders.
- 1.4 The report does not, at this stage, seek Board endorsement for any specific sites for inclusion in the Investment Zone proposal. It does explicitly recognise the work being undertaken by the WMCA and local authorities together with partners across the region to develop a West Midlands Investment Zone proposal alongside the development of Levelling-Up Zones, as part of a coherent approach to zonal and economic growth policy across the region.

2. Background

2.1 Investment Zone Principles

- 2.1.1 In March 2023, the Government announced a new wave of 'Investment Zones'. With a clear objective of driving economic growth, the programme is focused on removing barriers that are currently holding back growth in a key sector identified by, and most relevant to, selected regions. The initial prospectus for the Investment Zone programme, which has been recently supplemented by more detailed criteria and guidance, identified the following underlying principles for any proposition:

- The Investment Zone will be for the whole of the Combined Authority area.
- It will need to focus on removing barriers to growth within a key primary sector – although additional consideration will be given to relevant clusters and supply chain opportunities.
- The IZ proposition should be co-designed by the Combined Authority with regional partners, including local authorities and universities, and DLUHC officials.

- It should have a focus on innovation and R&D, within the identified key sector, and the final proposition will need to be signed off by relevant university or research institution partners.
- The Investment Zone proposal should also deliver levelling up outcomes and leverage match-funding and private investment.
- A total value of £80m has been identified by Government to support sites within the Investment Zone – either by way of grant to enable development or tax incentives to facilitate development.
- Three major (up to a maximum total of 600 ha) tax sites can be identified within the Investment Zone, which will be afforded a range of incentives – from reliefs on business rates, to stamp duty and national insurance.
- Of these tax sites, two sites can retain [100%] business rate growth above a baseline for 25 years. Retained business rates growth must be reinvested in the primary sector at a regional level, not into the specific tax site.
- Sites must be ‘underdeveloped’.

2.1.2 As such, there are three key components to any Investment Zone proposition:

- a) Identifying a region’s primary sector and associated sectors/clusters that intersect with that.
- b) Identifying a geography that reflects primary sector strengths and growth opportunities.
- c) Identifying key sites and proposed interventions that can support growth in the primary sector and associated clusters.

2.1.3 This paper **focuses primarily on the first of these priorities for the West Midlands** and begins to reflect on some of the geographic aspects of the identified sector. The **detailed geography and specific sites of the Investment Zone will then come to a future Board meeting** in line with the phased approach to Investment Zone development and the extensive co-development we have planned with local authorities, universities and HMG officials.

2.1.4 Additional guidance on the mechanics of identifying sites within the regional Investment Zone has recently been received from Government and is being discussed in the regional IZ/LUZ working group, which consists of representation from all local authorities. This begins to identify the potential tax site constraints and opportunities, rather than providing more guidance on the sector and economic rationale, which DLUHC are relying on the region to develop.

2.2 Development and Engagement

- 2.2.1 Since the Investment Zone programme was announced, teams within the CA and local authorities have been meeting regularly bilaterally and collectively to explore the potential sector focus and early thinking on sites/geography – building on the extensive and productive engagement for over a year already underway before and during the development of the Trailblazer Devolution Deal and its Levelling Up Zones proposition (please see below for commentary on the interaction between the Investment Zone and Levelling Up Zones). This work has led to a better understanding of the nature of the economic geography, key interventions and the particular sites that could contribute to the regional Investment Zone proposition.
- 2.2.2 The proposed primary sector and its rationale, set out below and in the accompanying Annex, has been discussed and agreed with local authority officers, including Directors of Economic Development, Regeneration teams, and Finance Directors, and with university partners.

2.3 Levelling Up Zone Interaction

- 2.3.1 While Investment Zones are a Government-led initiative that sit outside the Deeper Devolution Deal, Levelling Up Zones ('LUZs') have been developed as a key, locally-led, component of the region's Devolution Deal. Identified sites within both programmes will benefit from 100% business rate growth retention for 25 years, free from resets, underpinning greater borrowing opportunities. Within LUZs this will follow the existing arrangements for business rate growth retention, while for Investment Zones that growth must be reinvested in the primary sector across the region as a whole. Additionally, IZs will offer grant and/or tax incentives as part of the Government programme, while LUZs will provide a focus for combining, complementary local funding opportunities.
- 2.3.2 The region has been firm in its position that the Investment Zone programme must be considered in close conjunction with our landmark Deeper Devolution Deal Levelling Up Zones proposition – and that will continue to be the case, particularly when we start to explore geography and specific sites. Although the West Midlands has always been clear that LUZs should be locally led and designated, this would still need to fit within a tax framework agreed with Government. Unfortunately, guidance on the mechanisms to develop and deploy Levelling Up Zones has been one step behind that for Investment Zones and we continue to push at the heart of Government on LUZs to carry forward the policy we have developed.
- 2.3.3 At the next stage of the Investment Zone development process – site assessment and identification – regional partners will be carefully developing the LUZ proposition in conjunction with the IZ opportunity: ensuring that we maximise growth and levelling up opportunities that are relevant to the region's economy and communities.

2.4 Primary Sector Rationale

- 2.4.1 When establishing the Investment Zone programme, Government indicated that regional propositions should be based on existing strategies and evidence, rather than expecting combined authorities to undertake extensive new work. As such, our primary sector rationale builds firmly from the agreed 'Plan for Growth', which has already achieved strong support from local partners and indeed central Government, and its underpinning evidence base.
- 2.4.2 Government has identified its own priority sectors at a national level to support Investment Zones – the five indicated in the table below and indicated that any successful Investment Zone must align with at least one of these.

The economic rationale for the identified primary sector is contained in Annex 1.

- 2.4.3 'Plan for Growth' identifies 8 priority clusters that will return the region's economy to its pre-pandemic status as the fastest growing region outside London and the South East. 'Plan for Growth' not only indicates the breadth and depth of those key clusters but also the barriers faced by businesses and the interventions that are needed to remove those barriers.
- 2.4.4 Partners in local authorities, business and universities across the region have consistently registered that the **key primary sector must be as 'broad as possible'**. Equally, Government has strongly indicated that the primary sector can be broad and include intersecting 'sub-sectors' provided there is a clear economic rationale for that. This acknowledges the point made by many combined authorities that economies are reliant on a diverse range of sectors rather than a single sector.
- 2.4.5 An accepted definition of 'Advanced Manufacturing' – one of Government's priority sectors – is as follows:
- Advanced manufacturing involves the use of innovative technologies, processes, and systems to improve the production and delivery of goods. It includes the integration of cutting-edge technologies, such as automation, robotics, additive manufacturing (3D printing), artificial intelligence (AI), internet of things (IoT), big data analytics, and advanced materials.*
- 2.4.6 Adopting this definition would enable a **broad range of regional growth clusters to coalesce** within it – generating the greatest breadth of economic growth and innovation opportunities (as outline in the above table).
- 2.4.7 This does not mean that other key sectors are of lesser significance – for example focusing purely on Life Sciences, or Creative and Digital. Rather, that by pursuing Advanced Manufacturing as the top level, or primary sector, will enable the region's Investment Zone to truly address the economic barriers within relevant key clusters and deliver significant growth.

2.5 Primary Sector Proposition

- 2.5.1 Adopting Government's own definitions and interpretation of 'Advanced Manufacturing' and applying the economic cluster strengths of the region, the **recommendation in our primary sector rationale is that the West Midlands Investment Zone should focus on Advanced Manufacturing with particular emphasis on its interrelationship with green industries, health and med-tech, and underpinning digital technologies.** This not only reflects regional strengths, but also supports other national priority sectors (Green Industries, Life Sciences), in areas that resonate powerfully with the West Midlands' economic distinctiveness.
- 2.5.2 Adopting 'Advanced Manufacturing' as the primary sector in these terms would **enable a broad geographic approach** for the exploration of particular Investment Zone sites, alignment with a wide range of university and research institutes and also support the approach we are advocating of co-developing IZ and LUZ proposals and sites together.
- 2.5.3 It should be noted that Levelling Up Zone propositions will not need to be underpinned by the same economic sector logic and can be developed to meet wider need and opportunity paradigms.

3. Financial Implications

- 3.1 There are no direct financial implications as a result of the recommendations within this report.
- 3.2 The Investment Zone guidance requires the selection of a Primary Sector by WMCA and, as detailed in the report, Government is offering a blend of grant and / or tax incentives to the value of £80m for deployment in the Investment Zone.
- 3.3 It should be noted that where Business Rates Retention sites are selected as part of the Investment Zone, financial surpluses which accrue from those sites will need to be re-invested in the chosen Primary Sector as outlined in the guidance; making the selection of the sector an important factor for that reinvestment ultimately.
- 3.4 As such, clearly there will be significant financial implications associated with the development of the Investment Zone itself, its sites and associated tax or business rate arrangements. Those issues are not, however, part of this recommendation to Board.

4. Legal Implications

- 4.1 Under the West Midlands Combined Authority Order 2016, WMCA has a general power of competence in relation to economic development and regeneration across the Combined Authority area which enables the WMCA to promote the Investment Zone and Levelling Up Zones.

- 4.2 There are no legal implications from the sole decision sought from Board through this paper – that is ratification of the identification of the primary sector as part of the emerging and developing Investment Zone proposition.
- 4.3 The identification of sites, and the arrangements for their governance alongside arrangements for the administration of the regional Investment Zone overall, will require further detailed involvement from legal teams within the Combined Authority, local authorities and Government departments. Those issues are not, however, part of this recommendation to Board.

5. Equalities Implications

- 5.1 There are no direct issues or implications relating to equalities from the substance of this report, that is the identification of the primary economic sector as part of the developing IZ proposition. Equalities implications will, however, become an important factor during the development of interventions phase of the IZ programme which will be coming to the CA Board in the future.

6. Inclusive Growth Implications

- 6.1 Inclusive growth seeks to ensure that the objective of ‘growth’ is not merely to deliver it as fast as possible, but rather that its benefits are felt more deeply and widely across the region and its communities as a whole. This approach requires that strategies, plans and proposals are all considered within that clear paradigm. It should not be viewed as a constraint but rather an enabler of better outcomes that are mutually reinforcing and comprehensive.
- 6.2 ‘Plan for Growth’ and other regional economic strategies have underpinned the identification of the primary sector for the Investment Zone. These are also important components of, and considerations for, the WMCA’s Inclusive Growth Framework and priority outcomes. By adopting a broad ‘Advanced Manufacturing’ primary sector and aligning this with key, evidenced, economic clusters in the region, the Investment Zone is more likely to have broader, and more inclusive, growth outcomes. For example, the opportunity to promote and deliver higher skills opportunities through digital and technological development routes, or the focus on environmental sustainability through the ‘green industries’ lens of the sector.
- 6.3 The breadth of the sector is also likely to encompass a wider economic geography which should, to meet Government’s levelling up ambitions, also address regional inequalities and access to opportunities. As the proposition for the geography and sites within the Investment Zone is developed, it will have a far greater direct impact on the potential outcomes for communities and the Inclusive Growth Framework. As such, the Inclusive Growth team will be significant and critical contributors to the development of the detailed propositions around Investment Zone sites and their outcomes to ensure they align with that regional inclusive growth imperative.

7. Geographical Area of Report's Implications

- 7.1 The Investment Zone itself is defined by Government, as the combined authority area. In reaching the conclusions of this report, consideration has been given, through the relevant strategies and economic evidence, to the both the core CA geography and the different functional economic geographies of the West Midlands.

8. Other Implications

- 8.1 There are no other implications relating to this recommendation.

9. Schedule of Background Papers

Annex 1 – Emerging economic rationale as submitted to Government on 26th May 2023.