WMCA Board

Date	21 July 2023
Report title	Levelling Up Zones and Investment Zones
Portfolio Lead	Levelling Up / Devolution - Councillor Sharon Thompson
Accountable Chief Executive	Laura Shoaf, West Midlands Combined Authority email: laura.shoaf@wmca.org.uk
Accountable Employee	Ed Cox, Executive Director of Strategy, Integration & Net Zero email: ed.cox@wmca.org.uk
Report has been considered by	A previous version was considered at Mayor & Portfolio Leaders meeting

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

(1) Agree the emerging proposition on the West Midlands Investment Zone as the basis for negotiation with Government.

(2) Endorse the emerging proposition for Levelling Up Zones as the basis for negotiations with Government.

(3) Endorse that further work be carried out between local authority and combined authority teams to develop a proposal for the WMCA Board on an integrated approach to financing and funding of Levelling Up and Investment Zones.

1. Purpose

1.1 To update on recent discussions with Government and to seek endorsement of the proposed direction of travel on a West Midlands Levelling Up Zones and Investment Zone propositions.

2. Background

Engagement

2.1 Local Authority Teams have been instrumental in shaping and co-designing the propositions set out below, through in-depth bilateral discussions and steering groups (Senior Local Authority Officers Group; Regeneration Leads; Directors of Economic Development; Finance Directors). In the case of the Investment Zone proposition, this has been co-written with colleagues in the relevant local authorities, who have, in turn, been leading the engagement with university partners.

2.2 We have shared emerging thinking on Levelling Up Zones with DLUHC colleagues, with informal meetings on 10 July. They welcomed our rationale and approach and confirmed that Levelling Up Zones were to be designated and designed locally. They also maintained their position that Government would only agree a maximum of 3 sites as eligible for 25 year business rate retention within the West Midlands Levelling Up Zones and that this could include sites grouped together by one “red line” up to a maximum of 3 x 200 hectares, where there was a clear economic and geographic rationale for doing so. The implications of this are considered below.

2.3 We have also provided Government with emerging thinking on Investment Zones and discussed this with DLUHC and HMT colleagues at a formal “gateway” meeting on 6 July. Government welcomed the sector focus agreed by the CA Board on 9 June and the rationale and outline proposal set out. They asked for some further detail of how the proposals targeted specific barriers faced by the sector and how these related to specific sites.

Single LUZ/IZ approach

2.4 Investment Zones and Levelling Up Zones have slightly different policy objectives and tools available to them. The approach we have taken is to ensure that we apply the tools available in the most effective way to meet the different spatial and economic priorities in each zone, whilst seeking to get as close to meeting Government guidance as possible.

2.5 We have continued to be clear that for the West Midlands, IZs and LUZs have to be developed and announced in parallel. Government have said they welcome and support this approach.

2.6 The principal similarity between the two initiatives is that they both involve 25-years Business Rates Retention on specific sites. Government is being particularly prescriptive in relation to this incentive. As regards Investment Zones, it has said that it will approve up to 2 sites of 200Ha each. As regards Levelling Up Zones, it has maintained its position it will only approve a maximum of 3 sites in total, irrespective of how we define wider Levelling Up Zones. In total, this effectively provides the region with 5 BRR sites in total. There are then a range of other funding and policy tools available, including tax incentives for Investment Zones and new and existing capital and revenue programmes. How these are deployed is driven by the priority for each zone.

2.7 We have been clear with Government that the West Midlands requires an approach to business rate sites that reflects the economic geography of the region, which consists of a number of smaller sites, often relatively close together and with strong economic ties and linkages in defined corridors. Government remains committed to its requirement that each site needs a single red line boundary, however, it has indicated that this could be constructed in a way that enables different plots to be combined (up to a total of 200ha) and, for Levelling Up Zones, that not every parcel of land within the identified site has to be underdeveloped. It has also indicated that where a 200ha site crosses an LA boundary it can be counted as one.

2.8 Local Authority and CA teams have been working to identify those packages of sites that could be combined to meet Government's "large sites" criteria and secure the maximum number of business rate sites possible, whilst retaining the real levelling up opportunities originally envisaged in the Deal.

2.9 This paper seeks approval to continue to push Government for the maximum number of BRR sites possible, it sets out a package of BRR sites that would include 1 for the IZ and 4 or 5 for LUZ, recognising that this may be 1 too many for Government.

2.10 As negotiations progress, the proposal is that the overall funding and financing approach for Levelling Up Zones and Investment Zones would be agreed in a new ***LUZ and IZ Funding and Financing Plan*** to be agreed by all Local Authorities through the CA Board. This will ensure that a number of financing elements can be agreed together to ensure they meet the needs of each Local Authority as well as maximising the benefits for the region as a whole. The need for this is further reinforced by the requirement to use IZ related retained rates to benefit the sector across the region as a whole. We think that this is the mechanism that works best to meet the criteria that Government have set whilst delivering what we want as a region and individual Local Authorities.

2.11 Details of all currently proposed zones and sites, including maps, are set out in the exempt Annex 1. These are subject to change.

Investment Zone Sites

2.12 Investment Zones are nationally led and designated. Government requires that they focus on overcoming barriers to growth in a specific sector, with a strong R&D focus and the active participation involvement of relevant Universities. Guidance also indicates that it is expected that there will be significant private sector investment to match public expenditure in Investment Zones. Government has been clear that IZs cover the whole region, and that they may contain up to 2 sites for Business Rate Growth Retention (up to 200ha each) and 3 sites that benefit from up to £80m in total that can find a range of tax incentives of 5 years and/or a mixture of revenue and capital interventions. Retained business rates must be used for interventions that benefit the sector as a whole across the region.

2.13 The WMCA Board agreed in June that the region's primary sector focus for the IZ is 'advanced manufacturing and its associated intersections with green industries, health-tech and digital/tech.' In validating the R&D potential of the primary sector focus, the West Midlands Innovation Board pinpointed advanced engineering with digital technologies as a particular point of comparative advantage of the West Midlands. Applying this to health and clean/green technologies reflects the focus of the West Midlands Innovation Accelerator, where it's focus on translational and applied research complements the large-scale commercial opportunity of the Investment Zone. This focus on advanced engineering has been broadly accepted by DLUHC colleagues who acknowledge its rationale, relevance and economic opportunities for the West Midlands. On this basis, and given spatial criteria constraints, the emerging IZ proposition focuses on three hubs that represent the respective geographic focus of relevant R&D and innovation strengths.

2.14 DLUHC have maintained their position that Investment Zones sites need to be of significant scale and support a 'continuous' red line boundary. Like many CAs across the country, the West Midlands does not have many sites that are of such scale, but the teams have been working closely to develop a proposition that moves towards that principle and reflects the genuine economic geography of the region.

2.15 Government has provided a concession that where a proposed IZ site lies across two LA boundaries, this can be considered as a single site for business rate growth retention (BRR), rather than multiple as previously indicated. This assists with the fact that there is a quota of just two BRR sites for each region.

2.16 Details of the sites are set out in Annex 1. All of the sites are subject to ongoing refinement of financial and spatial modelling and co-development with relevant teams.

2.17 The next stages of work will focus on the financial and fiscal mechanisms particularly, identifying potential anchor investment to support the case to government and developing detailed governance arrangements as part of DLUHC's gateway process.

Levelling Up Zones and Sites

2.18 Levelling Up Zones are an initiative developed by the West Midlands through exceptional collaboration between local authorities and the CA. The intention has always been that these should be locally designed and designated, combining bespoke and consistent packages of funding, policy and powers to address wider levelling up needs and opportunities, including public service reform and infrastructure, including transport connections across Local Authority boundaries to improve access to jobs, skills and services. The intention has always been that these would be underpinned by a range of the funding and new fiscal measures secured from government through the Devolution Deal, including CRSTS funding, Housing and Regeneration programmes, Business Rate Retention and other capital programmes.

2.19 Defining the exact scale, nature and boundaries of Levelling Up Zones remains in the gift of the WMCA and further work can be done – as part of the LUZ and IZ Funding and Financing Plan described above – to set out the range of interventions going into any particular Zone. What government is particularly concerned about at this stage is the definition of specific sites for Business Rates Retention within our Levelling Up Zones.

2.20 As stated above, Government has maintained its position it will only approve a maximum of 3 sites in total for 25 year Business Rate Retention, each of up to 200ha for Levelling Up Zones. While we continue to negotiate on the detail of this, we have made significant attempts, working closely with local authority colleagues, to group smaller sites into one single 'red line' larger site. This has been helped by the fact that government is more relaxed about the land type that can be included within Levelling Up Zone sites (i.e. not just "underdeveloped" as per IZ sites).

2.21 The proposals included in the Annex for each Levelling Up Zone and associated Business Rate Retention Sites have been developed jointly between CA and LA colleagues but they are still a work in progress and are <u>not definitive at this stage</u>. The aim is to agree a package that can form the basis of the next stage of negotiations with DLUHC.

2.22 All of the above are subject to ongoing discussions between local authority and CA colleagues and we fully anticipate that these will evolve over the coming weeks.

Next Steps

2.23 Subject to the Board's decision, the CA and Local Authority teams will revise the Investment Zone proposal to take account of Government's comments and aim to be in a position to secure Government agreement to the sector and sites by the end of July and then to proceed to the next Government "gateway" of agreeing how the available tax incentives and capital funding are deployed. We are not expecting any Government announcement on the West Midlands Investment Zone until after the summer. Government may announce details of other Investment Zones earlier.

2.24 On Levelling Up Zones, subject to the views of the Board on the recommendations in this paper, CA and Local Authority Teams will continue to develop an approach to the overall package of funding and interventions available for the Zones and the interventions (including public services) and work with Government to secure agreement for the maximum possible number of Business Rate Retention sites.

2.25 As negotiations progress, the proposal is that the overall funding and financing approach for Levelling Up Zones and Investment Zones would be agreed in a new ***LUZ and IZ Funding and Financing Plan*** to be agreed by all Local Authorities through the CA Board in September.

3. Financial Implications

3.1 The financial characteristics of the Investment Zones and Levelling Up Zones are detailed within the paper. Local Authority and WMCA teams have been working closely to identify the packages of sites which both maximise the outcomes for the region and are compliant with the Government criteria.

3.2 Work to assess and assure financial projections around costs and incomes associated with each of the initiatives is underway. As this work develops, WMCA intend to continue using the WM Finance Director Group to ensure the financial impact, risks and opportunities to Local Authorities are understood and agreed.

3.3 As detailed above, it is intended that this work is consolidated into a combined LUZ and IZ funding plan to be agreed though the WMCA Board in September.

4. Legal Implications

4.1 WMCA has a general power of competence under section 1 of the Localism Act 2011 in relation to economic development and regeneration which supports the designation of Investment and Levelling Up Zones.

4.2 The formal designation of Investment Zones will require the Government to make the necessary statutory Orders to confer the specified tax exemptions on sites within the defined areas, as proposed in this report.

4.3 The actual benefits available for parcels of land within the defined areas will then be a matter for determination by WMCA, subject to the cap on the value of tax exemptions available.

4.4 Designation of Levelling Up Zones will not require the making of statutory Orders and will be a matter for determination by the WMCA Board.

4.5 Identification of areas to benefit from Business Rate Retention will require designation under regulations made under Schedule 7B of the Local Government Finance Act 1988.

4.6 Following formal designation of the Investment and Levelling Up Zones, there will be a need for formal governance arrangements to be agreed locally for each designated area

5. Equalities Implications

5.1 See Inclusive Growth Implications below.

6. Inclusive Growth Implications

6.1 WMCA defines Inclusive Growth as ‘a more deliberate and socially purposeful model of growth, measured not only by how fast or aggressive it is; but also, by how well it is created and shared across the whole population and place, and by the social and environmental outcomes it realises for our people.’ The Inclusive Growth Fundamentals are aligned to the Levelling Up missions and are key to achieving this growth, while ensuring that investment in the region is tailored to support local communities and build resilient inclusive economies.

6.2 Creating the conditions for our local economies to thrive is vital to securing inclusive economic growth for the region. Levelling Up and Investment Zones provide a mechanism to tailor this growth to local need and priorities. There is evidence throughout the paper that a breadth of sectors will be covered by the Levelling Up Zones and Investment Zones. This includes health, clean/green technologies, advanced manufacturing, and digital/tech. This presents the opportunity for a range of skills and learning opportunities, as well as the potential to create a wide range of high-quality employment opportunities.

6.3 As the Levelling Up and Investment Zones develop over time, the fundamentals of the Inclusive Growth Framework will be applied collaboratively with partners to each geographical location to ensure specific alignment to inclusive growth priorities.