

WMCA Board

Date	17 November 2023
Report title	West Midlands Investment Zone and Levelling Up Zones Update
Portfolio Lead	Levelling Up / Devolution - Councillor Sharon Thompson
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Report has been considered by	Finance Directors Group; Policy Development, Integration & Place Group; Directors of Economic Development Group

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

- (1) The WMCA Board is recommended to approve the overall proposition for Business Rate Retention and Tax incentive sites to be included in the West Midlands Investment Zone and for those 'Growth Zone sites' that will be included for Business Rate Retention within Levelling Up Zones.
- (2) The WMCA Board is recommended to approve the establishment and responsibilities of a Joint Committee to govern the implementation of the West Midlands Investment Zone, its Terms of Reference and to unanimously approve that Warwickshire County Council, as a non-constituent authority, be given full voting rights on the Investment Zone Joint Committee.

- (3) The WMCA Board is recommended to note the work in progress regarding the finance and funding plan that will underpin delivery of the IZ and LUZ sites and comment on the key actions and principles to guide its further development.

1. Purpose

- 1.1 To update the WMCA Board on the development of Investment Zone and Levelling Up Zone work; to approve the distribution of Investment Zone and Levelling Up Zone sites; to approve Investment Zone governance proposals; and to endorse the direction of travel and further work on the detailed funding and financing plan that will underpin delivery.

2. Background

- 2.1 In July 2023 the WMCA Board approved an emerging proposition as the basis for negotiations with Government on both the Investment Zone (IZ) and Levelling Up Zones (LUZ). The Board also agreed that the West Midlands should ensure that the Investment Zone and Levelling Up Zones were developed in parallel, to ensure maximum benefit for the region.
- 2.2 Since then, extensive development work that has taken place which has involved significant collaboration between the CA and Local Authority officer teams, through IZ and LUZ working groups, bilateral discussions and meetings of the Finance Director and Economic Development Director groups. Relevant Universities and investors have also been fully involved, with locally led groups leading the design of the IZ and LUZ propositions in each Local Authority area.
- 2.3 Government has welcomed the overall economic case and argument for both the Investment Zone and the focus on advanced manufacturing in its broad sector definition, and the wider development of Levelling Up Zones. Government has maintained the position that it will only agree a maximum of 3 Growth Zone sites for Business Rate Retention and 2 Investment Zones BRR sites. At the same time, Government has recognised that the economic geography of the region means that there is a strong case for genuine economic and transport corridors, with individual sites linked via road and rail.

3. Investment Zone

- 3.1 As a national Government programme, the Investment Zone initiative must operate within the rules set out by the Government in the Investment Zone Prospectus¹. This includes requirements in relation to the governance of the Investment Zone, the participation of the interested parties and the role of the WMCA as the accountable body. The whole of the WMCA area and Warwick District Council, has been identified as the Investment Zone. The inclusion of Warwick District Council is to enable the important Coventry-Warwick Gigapark site to be included as an Investment Zone tax incentive site and business rate retention (BRR) site. This will maximise benefits for the whole of the Investment Zone area.

¹ [Investment_Zone_Policy_Prospectus.pdf \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/114444/Investment_Zone_Policy_Prospectus.pdf)

- 3.2 The national programme offers each Investment Zone £80m over 5 years either to be taken entirely as funding or split between up to £45m of a tax incentives package for investors (which includes Business Rates Relief, Employer NI reliefs et al) and £35m spending. The £80m envelope is allocated on a 60:40 capital:revenue ratio and may be spent more widely across the IZ area, with priority given to delivering the Investment Zone sites and programmes to support growth in the identified primary sector. For the West Midlands, this sector has been identified as advanced manufacturing, particularly around EV and battery development, and its intersection with green industries, digital and health-tech.
- 3.3 No more than 3 sites totalling 600 hectares may benefit from tax incentives. A further 2 areas may be selected as business rates retention sites where 100% of the growth in business rates above a baseline may be retained for 25 years. It is anticipated by government that these sites will be aligned with the tax incentive sites (if tax sites have been identified).
- 3.4 The IZ Policy requires that allocation of the initial retained business rate growth must be targeted towards bringing forward the Investment Zone sites and financing measures associated with that. After this, further surplus retained rates growth will then be allocated to projects across the Investment Zone area that support growth in the primary sector, with some flexibility granted by DLUHC over deployment of receipts prior to a national reset of Business Rates. As part of the governance arrangements DLUHC require the Authorities which are involved with the IZ BRR sites to sign a MOU accepting these principles.
- 3.5 Three sites have been identified as part of the WM Investment Zone:
- Coventry-Warwick Gigapark
 - Birmingham Innovation and Knowledge Quarter
 - Wolverhampton Green Innovation Corridor

Coventry-Warwick Gigapark and Birmingham Innovation and Knowledge Quarter have been identified as both business rate retention sites and tax incentive sites. It is expected that the IZ programme will come into effect from April 2024..

- 3.6 The Gigapark site is situated across the boundary of Coventry City Council with Warwick District Council, with part of the site therefore falling outside of the geographical area of the WMCA. To enable Gigapark to be included as a tax incentive site and business rate retention (BRR) site, the Investment Zone therefore covers the whole of the WMCA area and Warwick District Council. This will maximise benefits for the whole of the Investment Zone area.
- 3.7 Given that Warwick District Council is neither a constituent or non-constituent member of the WMCA, this requires a new governance arrangement. The governance proposals set out in Appendix 1 have been developed in conjunction with Warwick District Council and Warwickshire County Council.
- 3.8 The proposed arrangements are for a new Investment Zone Joint Committee to be established as part of both the WMCA Governance arrangements and those of Warwick District Council, with delegated authority from the WMCA Board and from Warwick District Council to make all decisions in relation to the Investment Zone up to a financial threshold to be set by WMCA Board as the Investment Zone's accountable body.

- 3.9 The new Investment Zone Joint Committee would be equivalent to WMCA's Investment Board in terms of the CA's governance structure, but with a remit for taking decisions solely in relation to Investment Zone matters. Decisions of the Joint Committee would be reported to the WMCA Board in the same way as the decisions of the Investment Board. Decisions would also be reported for information to the relevant Warwick District Council governance structures.
- 3.10 Proposed members of the Joint Committee will be asked to nominate representatives to the Committee as soon as possible to ensure its rapid establishment to enable decision-making on the final submissions to Government on the Investment Zone proposition.

4. Levelling Up Zones

- 4.1 Levelling Up Zones are a locally led initiative and as such the location, funding and design of each is for West Midlands partners to decide. As part of the Trailblazer Devolution Deal, Government agreed that the West Midlands could have up to 3 Business Rate Retention sites (Government calls these "Growth Zones") but there is scope for local and regional partners to align other sources of funding with retained business rates and associated financial mechanisms to successfully progress Levelling Up Zones.
- 4.2 Government has maintained its position that there can be no more than three Growth Zone sites and each should be around 200ha. They must have a single red line boundary and be associated with large scale economic opportunities. Local Authorities and the CA have worked closely together to model a wide range of options, identifying where local priorities can best be supported. This has involved LAs and the CA grouping sites together and testing them with Government and other local stakeholders.
- 4.3 The following 3 groups of sites have been identified for Growth Zone Business Rate Retention which make provision for Levelling Up Zones in five local authority areas.:
- Sandwell and Dudley Metro Corridor
 - Walsall Junction 10 sites
 - East Birmingham and North Solihull
- 4.4 We are currently working on the basis that the 25-year period for business rate growth retention for Growth Zone sites may begin in April 2025 with the baseline being set from April 2024. This is still subject to ongoing discussions with local authorities and Government.
- 4.5 A table identifying specific sites that are proposed for Investment Zone or Growth Zone benefits has been included as a private Appendix 3 attached to this Board report as it may contain commercially confidential or sensitive information.

5. Financial Implications

- 5.1 There are no immediate budgetary or financial implications as a result of the recommendations in this report being approved.

- 5.2 The Finance and Funding Paper attached as Appendix 2 documents the range of fiscal levers at WMCA' disposal in bringing forward the Levelling Up Zones. These include direct Government fiscal support and tax incentives, guarantees concerning the retention of incremental business rates for 25 years and single settlement funding (CRSTS2 / regeneration funds etc.) and flexibilities.
- 5.3 The individual financial characteristics of each Investment Zone and LUZ Growth Zone have been consolidated into an initial financial model to assess the viability of each site at a headline level. It should be noted that work to assure and 'sign off' these values on a site-by-site basis remains ongoing between Local Authorities and in particular, West Midlands Finance Directors. The values in the Funding and Financing plan should therefore be treated as indicative at this stage.
- 5.4 A number of local and regional financial risks and opportunities are inherent within the Investment Zone LUZ Growth Zone proposals and work will be undertaken in the coming weeks to understand how best to mitigate / share risks and gain from those opportunities.
- 5.5 In particular, specific and material opportunities are expected with respect to Investment Zone business rates retention and decisions around how surpluses are used and distributed that will need the form the basis of an Investment Plan which will require approval by WMCA Board. Appendix 2 does include some broad principles around how the deployment of such sums will be managed.
- 5.6 Approval of the recommendation to establish a Joint Committee for the purposes of the Investment Zone will result in that Committee having an element of delegated decision making up to the value of £20m with decisions in excess of that value requiring full sign off at WMCA Board.
- 5.7 It will be for each LA and the CA to work up the overall funding for Levelling Up Zones (including but not limited to BRR) in the months ahead. Starting the BRR in 2025 will allow the time needed for this work and will ensure that LAs do not "miss out" on potential longer term growth in the harder to deliver sites by starting the period too early.

6. Legal Implications

- 6.1 The proposed Investment Zone Joint Committee will be a formal decision making Committee of the WMCA and as such will be subject to the transparency requirement of Part VA of the Local Government Act 1972 (Access to Meetings).
- 6.2 The Joint Committee is constituted by both WMCA and Warwick District Council under section 102 of the Local Government Act 1972 with formal delegated powers from both Authorities. This will enable Warwick District Council to appoint a voting member to the Board.
- 6.3 Business rate billing authorities will be expected to sign a Memorandum of Understanding with WMCA to ensure the retained business rates secured through the implementation of the Investment Zone programme can be reallocated in accordance with national policy.

7. Equalities Implications

- 7.1 All proposals will be expected to demonstrate that they support the WMCA's Equalities and Diversity objectives set out in the Equality Scheme - the proposal of this strategy directly support two of four of objectives in the ES. The Levelling Up, Growth and Investment zones in the strategic proposals are likely to have a direct positive impact on socio-economic outcomes e.g. reduction in unemployment, increase in training opportunities and an indirect positive impact on some protected characteristic groups such as disabled people and racialised (minority ethnic) communities who face disproportionate levels of unemployment and access to training opportunities when compared to non-disabled and White ethnic groups. To explore this fully, it is recommended that a 'Health and Equity Impact Assessment' is carried out, and the findings of that assessment added to this strategy where appropriate.

8. Inclusive Growth Implications

- 8.1 The principles of the Inclusive Growth Framework will be incorporated into many of the considerations in bringing forward Investment Zone sites and Levelling Up Zones. As part of WMCA's overall accountability function, the Inclusive Growth Framework Fundamentals will provide a valuable mechanism for measuring and demonstrating wider benefit outcomes.

In particular, it is anticipated that Levelling Up Zones in particular will:

- build-in climate resilience through the appropriately planned development of interventions;
- ensure inclusive economic benefits are enshrined during proposal scoping and development;
- bring forward affordable and safe places through the targeted application of Affordable Homes and Retrofit funding;
- align transport and digital connectivity opportunities presented through comprehensive place plans;
- generate new skills growth through aligned Skills funding and potentially new capital infrastructure;
- secure better health outcomes through aligning several funding streams, for example more effective deployment of retrofit investment.

Some of these elements, particularly inclusive economic benefits, transport connectivity and skills growth, will also apply to the Investment Zone considerations of this paper.

9. Geographical Area of Report's Implications

- 9.1 The geographical area of the report's implications is the whole of the WMCA area, plus for Investment Zone considerations, Warwick District Council, and insofar as WDC is within WCC, that part of Warwickshire County Council.

10. Other Implications

- 10.1 There are no other implications.

11. Appendices

- Appendix 1 WM Investment Zone Joint Committee – Terms of Reference
- Appendix 2 WM IZ/LUZ Funding and Finance Plan
- Appendix 3 Identification of sites under the IZ and Growth Zone programmes. (Confidential Item)

12. Schedule of Background Papers

[Investment Zone Policy Prospectus.pdf \(publishing.service.gov.uk\)](#)