APPENDIX 2: WMCA LEVELLING UP ZONES AND INVESTMENT ZONE FUNDING AND FINANCING PLAN

Introduction

1. This first draft of the funding and financing plan seeks to provide a position statement on the development of funding and finance matters related to Levelling Up Zones (LUZ) and the WM Investment Zone (IZ); documenting the various issues, options risks and opportunities available to the region in delivering these initiatives.

2. As detailed in the covering Board report, a considerable amount of work has been undertaken by local authority officers in conjunction with WMCA to develop proposals concerning the various fiscal and policy levers including LUZ and IZ business rates retention, tax incentives and other investment opportunities. Together with new flexibilities gained from the Single Settlement, these levers present an opportunity for the region to redefine how it channels investment through the development of place-based strategies to drive multi-year inclusive economic impact.

3. Further detail is set out in the covering Board paper, but the proposed LUZ and IZ sites, together with the proposed LUZ and IZ financial levers proposed for each, have been summarised into a table which, given potential commercial confidentiality or sensitivity, is contained within a private annex attached to this report.

4. This paper includes initial work concerning a) financial modelling regarding business rates retention on proposed sites; b) indicative allocations relating to the £80m IZ grant and tax incentive programme. There are a range of other fiscal levers that might be used in the development of particular places and corridors that will need to be brought into this analysis in order to maximise the economic impact and serve a level of fairness in the distribution of funding across the region. This will be brought forward in further iterations of this finance and funding plan. The purpose of this paper is to get reflections on the work to date, the broad principles and the direction of travel.

Investment Zone Flexible Funding

5. Government has made £80m available for the Investment Zone. This funding must be spent in accordance with Government guidance and the interventions it funds must be signed off by Government. The funding is structured as follows: up to £50m for Tax Incentives with the remainder split 60/40 between capital and revenue. Our current IZ site proposals are likely to mean around £25m is used for tax incentives (Government has set very inflexible criteria on eligibility for tax incentives) with the rest split between capital and revenue. Capital funding is being identified to bring forward the IZ sites in Coventry-Warwick, Birmingham and Wolverhampton. The revenue element has to be spent on interventions that directly support the priority sector and is likely to include targeted programmes to strengthen skills, supply chain development and SME growth and inward investment. An element will also be needed to support local and regional delivery of the sites. This programme is being further developed between local authorities and the CA in negotiation with Government, for discussion and agreement through the Investment Zone Board.

Financial Modelling Outcomes

6. WMCA officers have worked closely with Local Authorities officers, including Finance Directors, to develop a financial model which consolidates the financial characteristics of the LUZ and IZ sites and seeks to verify their viability at a headline level. The financial model covers:

    - Costs of delivery for critical site infrastructure.

- Indicative, incremental Business Rates revenues generated within sites, which can be retained for re-investment as appropriate.

- The volume of debt each zone could afford based on the levels of revenues accruing as detailed above.

- Specific assumptions around risk allowances, cost of finance and timing of payments and receipts.

- Accounting considerations such as repayment of MRP and the timing of such payments.

7. The model provides a sense of scale with respect to the quantum of debt involved in bringing the sites forward, as well as the value of Business Rates which could accrue over the 25 year period; this being the timeframe for the Business Rates Retention mechanisms which Government have offered.

8. In most cases, the maturity of the development appraisals and site design / development is relatively low. As such, significant variations in costs, income, phasing and other economic assumptions should be expected. Nevertheless, the financial model provides an indication about which sites are likely to be commercially viable on a stand-alone basis, and which sites are likely to require subsidy and / or other financial support.

9. The broader range of fiscal options that should be considered available to WMCA in enabling delivery of Levelling Up Zones are referenced in Annex A and as the levels of subsidy / surplus on each site becomes clear, these wider funding options will be incorporated into the financial model to help assemble viable funding packages for each site. At this stage though, the financial model **does not** include assumptions around direct private sector funding / involvement, attribution of grants from sources such as WMCA regeneration funds, attribution of funding from the Investment Zone grant and tax incentive programme (£80m total).

10. A summary of the financial model outputs is included in Annex B. The table below outlines the initial conclusions drawn from the financial model and proposes a number of actions / next steps / challenges to explore and to overcome:

Theme Emerging from Financial Modelling	**Implications / Actions / Next Steps**
The Investment Zone Business Rates retention surplus is likely to be significant with a closing positive cash-flow of £549m overall.	In line with the Investment Zone criteria laid out by Government, the surpluses after sites are delivered, must be allocated to schemes that support the priority sector. This could include (for example) cross subsidy of sites such as the Wolverhampton Investment Zone site. **ACTION**: A detailed plan for re-investment will need to be produced and agreed by all parties including each LA with an IZ site and Warwick District Council, which is the collection Authority for the majority of the Gigapark site.
BRR and non-BRR Investment Zone sites will require elements of £80m Government flexible funding and / or support from the Gigapark surpluses to enable delivery.	Work to determine the optimal share of Government grants (capital and revenue) and tax incentives (£80m total) across qualifying sites is ongoing which will assist with site viability. **ACTION:** A proposal will be brought back through the relevant Governance structures in due course. Any remaining viability gaps will then need to be assessed and proposals developed between

Theme Emerging from Financial Modelling	Implications / Actions / Next Steps
	WMCA and the sponsoring Local Authorities to enable sites to come forward.
The extent of the public sector borrowing required is significant in total (over £1bn) but also on a site-by-site basis for the larger sites (Gigapark / North Solihull / East Birmingham) requiring some Local Authorities to potentially take on considerable risk / exposure.	Where individual borrowing requirements are significant, the risk to those individual Authorities is likely to require mitigating in full or in part. Options including collective guarantees and / or similar arrangements are being considered as potential solutions and will need to be framed in the context of an equitable share of risk / reward for effected Authorities. **ACTION:** WM Finance Director Group to consider this issue and develop potential options for how the collective borrowing needs may be best addressed.
There is a mixture of viable and non-viable LUZ Growth Zone sites when assessed on a pure Tax Incremental Financing (i.e. using long term Business Receipts to leverage borrowing up front) basis.	**ACTION**: Where there are viability challenges, other forms of investment (including Private Sector involvement) will need to be investigated on a site-by-site basis by the respective project teams, supported by WMCA.
There may be limited scope for pooling Growth Zone business rates surpluses at scale, but opportunities to assess the extent and effectiveness of any possibilities to be explored.	Initially, it is likely that BRR financing would be reinvested to ensure the viability of sites and subsequent business rate growth, but there may be opportunities for cross-subsidy using surplus BR receipts from viable sites within zones or (if there is appetite) across the whole WMCA area. These options should be assessed. **ACTION:** The possibility of pooling / cross-subsidy to give all sites the best possible chance of delivery (within the context of a broader risk vs reward discussion), should be further explored by WMFDs.
All sites including viable sites have financial issues to over-come including cash and P&L (MRP) deficits in the initial years which need to be resolved if the sites are to be delivered.	**ACTION:** Options need to be considered by project sponsors and supported by WMCA on a site-by-site basis including the involvement of Private Sector finance to front-load the development appraisal to reduce the impact on the public sector in lieu of receipts from Business Rates being realised.
There will be significant risks that will arise as sites are taken forward and there will be a need to ensure appropriate operational controls are in place to limit undue financial exposure.	Precise operating arrangements to protect Authorities from undue financial exposure will be developed as the site development / delivery arrangements mature. **ACTION:** Ensure that the financial model incorporates adequate risk provision and makes allowances for prudent management of future receipts including non-collection, rates listing timing etc.

Development Principles

11. As detailed above, whilst significant work has been undertaken to develop proposals to this point, there remains a significant amount of work for Local Authorities and WMCA to undertake if the region is to exploit the opportunities available to it to the fullest extent.

12. In order to effectively shape the direction this work takes, WMCA Board are requested to support or provide comment on the following principles:

    a) In order to ensure the overall fairness and economic impact of IZ and LUZ policy initiatives, we should continue to work on packages of measures which unlock the full range of financial levers that best fit local authority priorities, including other sources of public and private investment.

    b) As regards business rates retention on nominated IZ and LUZ sites:

        i. Plans will be made over agreed accounting cycles (e.g. 5-year period) and agreed through the relevant governance structures.

        ii. We will seek to ensure, where appropriate and reasonable, that local authorities are no worse off than they would have been under current business rates regimes; note under the IZ programme, Government has agreed that there can be a relaxation over the reallocation of retained rates to 'local growth' projects.

        iii. BRR related financing will prioritise the viability and deliverability of relevant sites and related infrastructure.

        iv. Any surplus BRR related financing should be considered for pooling / cross-subsidy to give all sites the best possible chance of delivery within the context of a broader risk vs reward discussion.

    c) Opportunities to deploy the regions collective financial leverage in a strategic manner (such as aggregating / pooling Business Rates, use of the region's collective Balance Sheet strength) will be fully explored.

    d) Where parties are required to take on board a degree of local risk to deliver a regional benefit, there should be agreement on what a suitable level of reward, in exchange, should be.

    e) Where the viability of a site is improved through the receipt of a subsidy or a grant, the incremental gains should be shared where appropriate (e.g. in the form of a repayable brownfield grant).

    f) Whilst it may not be possible to fully satisfy every individual stakeholder need and requirement in delivering Levelling Up Zones, the sites will be developed in an environment of trust, transparency and fairness across all parties.

ANNEX A : IZ, LUZ and wider Funding Options

Funding Type	Details
Investment Zone Specific Funding	**£80m of flexible spend** for Investment Zone between 2024/5 and 2028/9, with a smaller amount in the first year and then a relatively flat spending profile and a 60:40 split between capital and revenue. The total of £80m includes the value of tax incentives, so the actual amount of flexible spend available is £80m less the amount of tax incentives drawn down. Flexible spend needs to be used on development of Advanced Manufacturing sector, but is not geographically bounded. It should likely need to be used in one of five intervention areas: research & innovation, skills, local infrastructure, local business and enterprise support, and planning & development. **Up to 3 Investment Zone tax incentive sites**, of up to 200ha each. The value of tax incentives and reliefs drawn down will be deducted from the £80m of flexible spend available. Sites need to be currently 'underdeveloped' to ensure tax incentives aren't being distributed as deadweight spending on already functional employment sites. Note: The £80m Broadly breaks out as follows: £25m Tax incentives (Note: First 5 Years Only) £33m Revenue £22m Capital
	Up to 2 Investment Zone BRR sites (for 25 years from April 2024. Income disregarded for re-set purposes), up to a total 600ha. Rates retained from IZ-BRR sites need to be used towards development of Advanced Manufacturing sites, across the five intervention areas outlined above, and are not geographically bound to the site / region from which they were realised. As a principle, the receipts are expected to be used to bring forward the site infrastructure with any surpluses being governed by an Investment Plan which will be presented to and endorsed by WMCA Board in due course.
Growth Zone Specific Funding	**Designation of up to three specific growth zones within which 100% of business rates (above an agreed baseline) will be retained for 25 years**. The income is disregarded at the point of a reset. There are no requirements around 'underdevelopment' or area maximums. Growth Zones can cross Local Authority boundaries but must have a contiguous boundary. Receipts can be used entirely at the discretion of the billing Authority but options to consolidate / pool should be explored.
Other Funding	**Private Sector** contributions need to be thoroughly explored by all Local Authorities. Previous experience of delivering Enterprise Zones in the region has shown that private sector funding (particularly when able to be deployed in the initial stages of delivery before Business Rates revenues crystalise) helps sponsors overcome significant delivery challenges.
	WMCA funds within the remit of the **Single Settlement capital** including Brownfield funds, the Single Regeneration Funds, £2.6bn CRSTS2 etc can be deployed within the Levelling Up Zones. These funds are intended to be directed through functional and place-based strategies to focus investment and maximise the potential for inclusive economic growth.
	Additional flexibility expected to be incorporated into the **Single Settlement** may present opportunities for **revenue initiatives** such as investment in Skills and Transport to be implemented to assist with the delivery / success of Levelling Up Zones.
	Other regional resources including excess upside from the 100% Business Rates retention arrangements may be appropriate to consider for use in delivering the Levelling Up Zones.

ANNEX B : WMCA - LEVELLING UP ZONES FINANCIAL SUMMARY (DRAFT)

SITE DETAILS (£000)	Incremental Business Rates Over 25 Years	Estimated Public Sector Cost	Financial Appraisal based on forecast rates and costs - including inflation and risk adjustments: Total Investment	Closing Cash Position	Surplus / (Deficit) of Receipts vs MRP	Peak Borrowing Requirement	Financial Appraisal Summary: Affordable TIF investment	GAP Other public grant to be secured (£000)
BUSINES RATES RETENTION SITES : INVESTMENT ZONE								
WARWICK DC / COVENTRY	£1,052,697	£213,831	£256,597	£507,517	£521,750	-£234,799	£256,597	-
BIRMINGHAM	£673,074	£219,370	£263,243	£41,789	£121,797	-£148,602	£263,243	-
INVESTMENT ZONE BRR TOTAL	**£1,725,770**	**£433,200**	**£519,840**	**£549,305**	**£643,547**	**-£383,401**	**£519,840**	**-**
BUSINES RATES RETENTION SITES : GROWTH ZONES								
SOLIHULL	£996,103.2	£375,359.9	£450,431.8	£5,534.7	£174,681.8	-£362,066.4	£446,260.4	£4,171.5
BIRMINGHAM	£471,541.0	£212,027.1	£254,432.5	-£75,719.3	£45,490.0	-£152,410.5	£218,771.5	£35,661.0
DUDLEY	£64,027.7	£20,042.6	£24,051.2	£21,043.0	£18,457.6	-£21,788.8	£24,051.2	-
SANDWELL	£79,784.8	£58,825.0	£70,590.0	-£68,161.1	-£35,708.3	-£62,877.4	£39,766.5	£30,823.5
WALSALL	£113,132.1	£59,619.6	£71,243.5	-£60,412.6	-£16,842.3	-£68,178.2	£48,205.6	£23,037.8
GROWTH ZONE BRR TOTAL	**£1,724,589**	**£725,874**	**£870,749**	**-£177,715**	**£186,079**	**-£667,321**	**£777,055**	**£93,694**
OTHER INVESTMENT ZONE SITES (NON BRR)								

Wolverhampton GIC to benefit from Investment Zone flexible spend funding

Note: 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.