

WMCA Board

Date	15 March 2024
Report title	West Midlands Investment Zone
Portfolio Leads	Economy & Innovation - Councillor Stephen Simkins Levelling Up / Devolution - Councillor Sharon Thompson
Accountable Chief Executive	Laura Shoaf, West Midlands Combined Authority email: laura.shoaf@wmca.org.uk
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Report has been considered by	Mayor & Portfolio Leads Liaison - 1 March 2024 Informal West Midlands Investment Zone Joint Committee - 7 March 2024

Recommendation(s) for action or decision

The WMCA Board is recommended to:

On WM Investment Zone proposition (Appendix A & B)

- (1) Ratify the submissions to Government detailing the WM Investment Zone proposition.
- (2) Approve the initial WM Investment Zone 'Investment and Delivery Plan'.
- (3) Approve the transition of the WM Investment Zone Joint Committee to become the WM Investment Zone Board, with minor amendments to agreed Terms of Reference accordingly.

On IZ Funding and Finance (Appendix C & D)

- (4) Note the progress to date on developing the financial aspects of the Investment Zones including the agreed Business Rates Retention Principles.
- (5) Approve the use of £7m (from the initial £80m) of capacity resources funded from Government Investment Zone grant (subject to a detailed business case being submitted to, and approved by, the Investment Zone Joint Committee).
- (6) Note the intention to provide direct capacity funding to Local Authorities to assist with developing place-based strategies.
- (7) Approve the 'no detriment' principles it is intended to establish between WMCA and Warwick District Council / Warwickshire County Council and note the implications for Birmingham City Council.
- (8) Note the need for Memorandums of Understanding (MoUs) to be established between WMCA and relevant Billing Authorities (Birmingham, Coventry, Warwick and Warwickshire) before the date of the next WMCA Board meeting.
- (9) Delegate finalisation of the above MoUs to the WMCA Executive Director for Finance and Business Hub in consultation with the Portfolio Holder for Finance.

1. Purpose

- 1.1 To agree the final components of the Investment Zone proposition to enable the region to commence its implementation from 1 April 2024, as informed by consultation with the Members of the WM IZ Joint Committee.
- 1.2 It should be noted that at the time of drafting, there remain outstanding concerns regarding the nil detriment principles set out in the IZ Funding and Finance Plan. Further information and recommendations may need to be tabled as an addendum to these papers at the Board meeting.

2. Background

- 2.1 Investment zones are a national programme which seeks to remove barriers to growth in key economic sectors through the application of an unprecedented blend of tax incentives, 25-year business rate retention and flexible spend. Since its announcement in March 2023, and its extension as part of the Autumn Statement in November 2023, colleagues from local authorities, universities/research institutions and private investors have been working hard to develop a compelling proposition for the WM Investment Zone (the whole of the CA area plus Warwick DC and Warwickshire CC). Three key sites have been identified which will drive long-term economic benefits for the whole of the Investment Zone area. These sites and the measures to be incorporated into those were agreed by the CA Board at its meeting of 17th November 2023. These are:
 - a. Coventry-Warwick Gigapark – tax incentives sites, business retention site, and capital investment.
 - b. Birmingham Knowledge Quarter – tax incentives sites, business retention site, and capital investment.

c. Wolverhampton Green Innovation Corridor – capital investment.

- 2.2 In addition, flexible spend amounting to £65m has been identified for capital and revenue programmes (60:40 split), with £15m having been agreed for tax incentives.

3. WM IZ Proposition

- 3.1 Following the agreement by Board of the substance of the WM Investment Zone proposition – primary sector, key sites and governance – WMCA has continued to work with local authority, university and private sector partners across the IZ area to develop the proposal and submitted agreed propositions as part of DLUHC's formal **IZ Gateway process (outlined in Appendix A)**. Given the pace at which this work has been undertaken, this paper is seeking the Board's ratification for the formal submissions made to DLUHC.
- 3.2 Government has confirmed its approval to the proposition, and so partners have now developed an initial **Investment and Delivery Plan**. This will underpin the overall implementation of the IZ and provide the foundations for the governance structures to monitor and steer its delivery and compliance. It is recognised that this Plan will need to evolve as the site-level teams mature costings as part of the business case process. The development of both the Gateway process and the Investment and Delivery Plan has informed the approaches to Funding and Finance set out below and agreed with Local Authority Finance Directors.
- 3.3 Appropriate **governance** of the WM Investment Zone has been key for both regional partners and DLUHC – particularly with part of the Investment Zone lying outside the constituent authority area. The intention has always been to ensure that Warwick District Council ('WDC') and Warwickshire County Council – both affected by business rate retention provisions – have a full role in the decision-making process. As WDC were neither a constituent nor non-constituent authority, a 'Joint Committee' was approved by the November CA Board meeting, with a clear undertaking that should WDC become a non-constituent authority, this would transition to a normal board of WMCA. Provided the Board have approved WDC's status in an earlier paper at this March Board meeting, the proposal is that the governance structures do transition to a WM Investment Zone Board – with minor amendments to the Terms of Reference accordingly. (Appendix B).
- 3.4 It should be noted that these issues have been, and are still, proceeding through other local authority and parliamentary processes through the course of March.

4. WM IZ Joint Committee

- 4.1 The WM IZ Joint Committee met informally on 7th March 2024 so that Members could be consulted on the proposals in this report and their views reported to the Board. The informal nature of the meeting was necessitated owing to pressures on members' diaries precluding an in-person meeting – a pre-requisite for formal decision-making. Recommendations from the Meeting will however be reported to the WMCA Board to inform its decisions.
- 4.2 Given the timing of the Joint Committee taking place immediately prior to the deadline for WMCA Board paper circulation, feedback from the Joint Committee will be provided verbally at the meeting.

5. IZ Funding and Financing Plan

- 5.1 The WMCA has been selected by Government to be the Accountable Body for the financial arrangements which underpin the WM Investment Zone. A report to WMCA Board on 17 November 2023 (Funding and Financing Paper) provided details on the headline financial characteristics of the Investment Zone and obtained approval for the establishment of the Investment Zone Joint Committee and the tax / business rates retention sites. **Appendix C** to this report (Funding and Financing Update) highlights progress on key, financial developments since the November 2023 report as WMCA and partner Local Authorities begin to design the details that will be critical to the success of the Investment Zone.
- 5.2 Whilst elements of the Funding and Financing Update are for noting, delegated approval from Board is requested to finalise the Memorandum of Understanding (MoU) between WMCA and Investment Zone Business Rates Retention site hosts (Birmingham, Coventry, Warwick District and Warwickshire). These MoUs are required to manage the flow of Investment Zone Business Rates accruing above the base line, and will give Government confidence to activate the retention arrangements on 1 April 2024. Given the need to have the MoUs in place before the date of the next Board meeting, the delegation to the Section 151 Officer to finalise the details in consultation with the Portfolio Holder for Finance and in dialogue with the WM Finance Director Group is required.
- 5.3 Additionally, approval to the 'no detriment' arrangements that will underpin the BRR MOUs and collection and allocation of retained rates is required to enable WMCA to finalise this arrangement with the relevant parties. The Appendix fully details the background and need for this agreement to be made and the WM Finance Directors Group has worked hard to agree a mutually agreeable position which sees the affected parties no better or worse off (in financial terms) as a result of the Business Rates designations within the Investment Zone. These arrangements need to be in place with the respective billing authorities and were discussed at the recent meeting of the WM IZ Joint Committee. At the time of drafting, there remain outstanding concerns regarding these matters and further information and recommendations may need to be tabled as an addendum to these papers at the Board meeting.
- 5.4 Finally, agreement is sought to a business case being brought forward for £7m of delivery capacity resource, funded by Government as detailed within **Appendix D**. The business case will be processed through the WMCA Single Assurance Framework and presented for approval by the Investment Zone Joint Committee / Board (being between £5m and £20m).

6. Financial Implications

- 6.1 See Appendix C and Appendix D for a full outline of financial implications.

7. Legal Implications

- 7.1 Should Warwick District Council's proposal to become a nominating body of WMCA (equivalent to non-constituent authority) be approved by the CA Board, it is proposed that the proposed approach of establishing a formal Investment Zone Joint Committee is no longer pursued and that, as proposed previously, the IZ should be governed through the establishment of an Investment Zone Board. The Terms of Reference for this Board are set out in Appendix B.

8. Equalities Implications

- 8.1 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.

9. Inclusive Growth Implications

- 9.1 The principles of the Inclusive Growth Framework will be incorporated into many of the considerations in bringing forward Investment Zone sites. 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.
- a. build-in climate resilience through the appropriately planned development of interventions;
 - b. ensure inclusive economic benefits are enshrined during proposal scoping and development;
 - c. align transport and digital connectivity opportunities presented through comprehensive place plans;
 - d. generate new skills growth through aligned Skills funding and potentially new capital infrastructure;

10. Geographical Area of Report's Implications

- 10.1 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.

11. Other Implications

- 11.1 There are no other implications.

12. Schedule of Background Papers

12.1 The draft Investment & Delivery Plan is available on request.

13. Appendices

Appendix A – WMIZ Final Proposition

Appendix B – Amended WM IZ Terms of Reference

Appendix C – WMIZ Funding & Financing Plan

Appendix D – WMIZ Government Fiscal Support

APPENDIX A: WEST MIDLANDS INVESTMENT ZONE – FINAL PROPOSITION

Corresponding recommendations as set out above:

- a. Ratify the submissions to Government detailing the WM Investment Zone proposition.
- b. Approve the initial WM Investment Zone 'Investment and Delivery Plan'.
- c. Approve the transition of the WM Investment Zone Joint Committee to become the WM Investment Zone Board, with minor amendments to agreed Terms of Reference accordingly.

Introduction

1. The West Midlands Investment Zone is considered to be a 'forerunner' in the national IZ programme. It has been developed at pace with considerable contributions from local authority, university/research, and private sector partners. It has been formally announced in the Government's Autumn Statement and is due to launch on 1 April 2024.
2. Building on approvals from Board on key issues around sector focus, sites for tax, rate retention and flexible spend, and governance, officers from across the local authorities have made submissions to satisfy DLUHC's 'Gateway' process. As such, this paper seeks the Board's ratification of those submissions as detailed below.
3. Given the accelerated nature of delivery expected of the Investment Zone, an initial Investment and Delivery Plan ('IDP') has been developed in conjunction with the partners identified above. This sets the foundations for the IZ's implementation. It will continue to be developed as site and programme information matures, and will form the basis for the ongoing monitoring and management of the programme by relevant governance structures. The IDP indicates the scale and nature of in principle funding. Aside from the cost of tax incentives, which are calculated and deducted from the overall funding element 'at source' by Government, all other expenditure will be subject to the WMCA's assurance framework and business case methodology.
4. To ensure appropriate governance measures are in place, which also reflect the overall governance of WMCA as accountable body for the WM IZ, it is proposed that the IZ Joint Committee transitions to becoming a normal board of WMCA with full voting rights approved for both Warwickshire County Council ('WCC'), an existing non-constituent authority, and Warwick District Council ('WDC'), approved as a 'nominating body' at this Board meeting.

Background

5. The Investment Zone programme is nationally set by government and includes the opportunity for investment (flexible spend/tax incentives) up to £160m over 10 years, and 25-year business rate retention on specific sites within the 'Investment Zone' which

is deemed to be the region as a whole (in this case, WMCA area, plus Warwick and Warwickshire).

6. Government established 5 Gateways through which each of the 8 CAs identified to be beneficiaries of the IZ programme should pass:
 - a. Gateway 1: Overall vision
 - b. Gateway 2: Identification of priority economic sector and specific IZ sites
 - c. Gateway 3: Governance of the IZ
 - d. Gateway 4: Interventions (tax and business rate retentions; flexible spend)
 - e. Gateway 5: Delivery (summarising Gateways 1-4 and outlining future programme).
7. The WMCA Board has previously approved the primary sector focus and sites, and officers have been co-developing the interventions to maximise the IZ opportunity, working with university and investor partners to ensure appropriate implementation. The sites are:
 - a. Coventry-Warwick Gigapark – tax incentives sites, business retention site, and capital investment.
 - b. Birmingham Knowledge Quarter – tax incentives sites, business retention site, and capital investment.
 - c. Wolverhampton Green Innovation Corridor – capital investment.
8. The Investment and Delivery Plan has also been considered at an informal meeting of the WM IZ Joint Committee whose recommendations have been included below. The Joint Committee was established between WMCA and Warwick District Council (WDC) to meet appropriate governance requirements and to give WDC full voting rights. However, this has not yet been formally constituted. In the meantime, Warwick District Council ('WDC'), a key contributor to the overall WM IZ, has sought 'nominating body' status through the Levelling Up and Regeneration Act 2023, enabling the transition of the Joint Committee to become a Board of WMCA on which both WDC and Warwickshire County Council will have full voting rights.

WM IZ Proposition

9. Although government extended the IZ programme from its initial 5-year period and associated £80m investment sum, to 10 years and £160m, all figures below are based only on the initial 5-year period. All parties recognise that it would be counterproductive and lack validity to try to estimate the optimum approach to investment for 2029-2034.
 - a. Gateways 1-5 and the initial Investment and Delivery Plan outline, therefore, the following interventions for the first 5-year period. These are also summarised in Figure 1:
 - d. *Tax incentives – costed by government at £15m:*

- i. Coventry-Warwick Gigapark
- ii. Birmingham Knowledge Quarter (focused on the Birmingham – Innovation Zone around Aston University and BCU).

- The remaining £65m needs to be allocated on 60:40 capital:revenue split and the following interventions have been identified (again as summarised in Figure 1):

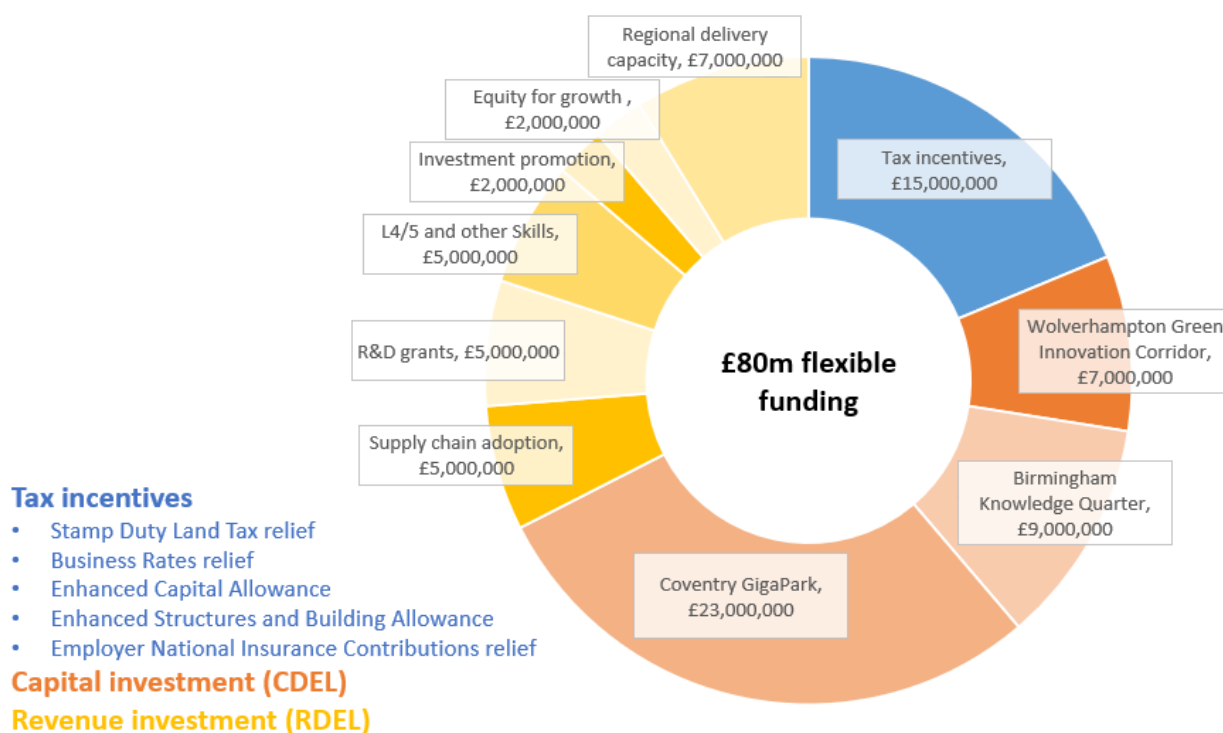
e. Capital investment - £39m:

- iii. £23m Coventry-Warwick Gigapark – to tackle land remediation, infrastructure and grid connectivity issues.
- iv. £9m Birmingham Knowledge Quarter – public realm and active travel infrastructure to attract investment.
- v. £7m Wolverhampton Green Innovation Corridor – investment in land remediation and key infrastructure.

f. Revenue investment - £26m:

- vi. Key business and skills support programmes to be designed to support the priority sector across the region and complement mainstream activity funded through the Single Settlement from April 2025:
 - vii. £5m Supply Chain adaption – to support businesses to pivot and maximise new IZ opportunities.
 - viii. £5m R&D grants – broadening and providing sustainability to Innovation Accelerator funding.
 - ix. £5m L4/5 and other skills – enabling local residents to build the skills to meet the increased demand from high tech investment.
 - x. £2m Investment promotion – region-wide and bespoke inward investment activity to accelerate investor interest.
 - xi. £2m Equity for growth – funding for innovating company growth in the space of risk to angel investors, and building on existing regional programmes.
- g. In addition – £7m regional capacity funding to ensure local authorities and the CA have the skills and capacity to deliver the IZ.

Figure 1: Overview of investments



10. All of the capital and revenue investments identified in section 3.3 will be subject to full business case assessments and WMCA's Single Assurance Framework, and the principles for funding agreed by Finance Directors (Appendix 2). As these are developed, it is likely that some of the figures above may change – especially allowing for appropriate contingency sums and finance protection. Decisions on actual investment is delegated to the WM IZ Joint Committee/Board (as agreed at the November CA Board) up to a maximum of £20m.

11. It should also be noted that the IZ programme is subject to a monitoring regime with DLUHC. Gateways 4 and 5 indicated a series of milestones and outputs, which need to be encapsulated in an Annual Delivery Plan ('ADP'). A draft ADP has been prepared and submitted to DLUHC, and will be under consistent review by the WM IZ Joint Committee/Board. This will also need to incorporate any 'change control' requests.

Governance

12. With Warwick District Council becoming a nominating body under LURA 2023, equivalent to non-constituent authority status, it is recommended that the current Joint Committee is formally approved as a WM Investment Zone Board within WMCA's overall governance structure, equivalent in delegations and responsibilities to the main WMCA Investment Board and that both WDC and Warwickshire County Council should be granted full voting rights on this Board.

13. The approval of the WM IZ Board presents the opportunity to review and refresh the body's Terms of Reference:

14. The delegation to the IZ Joint Committee to determine the allocation of the £80 million government grant has been largely overtaken by events since the allocation between tax incentives and spend was agreed through the Gateway process and is proposed in this report for ratification by the WMCA Board. It is recommended that this delegation be deleted.
15. This results in a minor amendment to the following delegation of investment decisions to the WM IZ Board.
16. Finally, the option to terminate the 'Joint Committee' arrangement no longer applies but any Member is able to withdraw from participation in the WM Investment Zone Board at any time.
17. It should be noted that the Joint Committee was never formally constituted and therefore has not formally met although Members nominated to the Committee have met informally and been consulted on the IDP.

Conclusion

18. With the ratification of the Gateway process and approval of the Investment & Delivery Plan, the WM Investment Zone can launch on 1 April (subject to final government approvals). The conversion of the WM IZ Joint Committee to an IZ Board, enables alignment with WMCA governance processes while ensuring full decision-making roles for all participating authorities.
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Appendix B WM Investment Zone Board

Introduction

1. The West Midlands Investment Zone governance structures were established as a Joint Committee to enable Warwick District Council ('WDC') to hold full voting rights on decision-making. The Joint Committee approach was the only route available as WDC are currently neither a constituent or non-constituent authority of WMCA and yet as both a billing authority for business rates and a key delivery partner, it was essential to ensure their full representation on the governance body.
2. Subsequently, WDC have requested to become a 'nominating body' of WMCA through the Levelling Up and Regeneration Act 2023 – this is equivalent to non-constituent authority status.

Proposal

3. If Warwick District Council becoming a nominating body under LURA 2023, equivalent to non-constituent authority status, the recommendation to the WMCA Board on 15th March is that the current Joint Committee is formally approved as a WM Investment Zone Board within WMCA's overall governance structure, equivalent in delegations and responsibilities to the main WMCA Investment Board, and that both WDC and Warwickshire County Council should be granted full voting rights on this Board.
4. The WMCA Board's consideration of the approval of the WM IZ Board presents the opportunity to review and refresh the body's Terms of Reference, which are set out in the table below (with original terms included for ease of reference). The substantive changes to the ToR are:
 - i. The increase in quoracy to reflect comments at MPL on 29th February 2024 and in light of the significance of the matters proposed for consideration and decision by the Investment Zone Board.
 - ii. The delegation to the IZ Joint Committee to determine the allocation of the £80 million government grant has been largely overtaken by events since the allocation between tax incentives and spend was agreed through the Gateway process and is proposed in the report for ratification by the WMCA Board. It is recommended that this delegation be deleted.
 - iii. This results in a minor amendment to the following delegation of investment decisions to the WM IZ Board.
 - iv. Finally, the option to terminate the 'Joint Committee' arrangement no longer applies but any Member is able to withdraw from participation in the WM Investment Zone Board at any time.

- v. It should be noted that the Joint Committee was never formally constituted and therefore has not formally met although Members nominated to the Committee have met informally and been consulted on the IDP.

Governance	WM Investment Zone Board
Purpose	Overall responsibility for developing and delivering the West Midlands Investment Zone and ensuring accountability to Government for its successful and compliant implementation.
Membership	<p>Voting Members: Mayor of the West Midlands One representative from each of the WMCA 7 Constituent Authorities One representative from Warwick District Council One representative from Warwickshire County Council</p> <p>Non-Voting Members: Universities that have signed up to the Investment Zone sites.</p> <p>Observers: Overview and Scrutiny Chair from the WMCA Scrutiny Chair from Warwick District Council (in the event of a Joint Committee) Other stakeholders may be invited to attend as observers when appropriate.</p>
Chair	Mayor of the West Midlands.
	Vice Chair - to be appointed from among Members.
Voting	<p>All voting Members shall have one vote.</p> <p>Matters shall be decided by consensus where possible. Where consensus is not achieved, decisions shall be taken on the basis of a simple majority of the votes cast.</p> <p>The Chair shall not have a second or casting vote and in the event of an equality of votes the motion shall not be passed but shall be deferred to the next meeting.</p>
Quorum	Three voting members of the Committee. The Chair plus 5 voting members of the Board.
Frequency	Quarterly or more frequently as required on the giving of 5 clear working days' notice.
Location	Meetings will be held at locations agreed by its members.
Timing of Meetings	To be determined.
Type of Meeting	Formal meetings shall be held in public except when exempt or confidential information is being considered and the press and public are excluded in accordance with the Local Government Act 1972 (as amended).
Administration	The meeting will be administered by WMCA and papers will be published on both authorities' websites at least 5 clear working days before the date of the meeting.

Allowances	None
Responsibilities	<p>The body will be a collaborative entity with the respective authorities working together to implement the WM Investment Zone in line with Government's Investment Zone Policy Prospectus and Technical Guidance.</p> <p>Its functions will include:</p> <ul style="list-style-type: none"> a. Overall responsibility for developing and delivering the Investment Zone. b. Approval in principle of Investment Zone sites development proposals and interventions. c. Oversight of each Investment Zone Site delivery vehicle's performance in implementing the WM Investment Zone. d. Ensuring delivery of the identified and agreed outcomes and outputs. e. Allocation of Investment Zone resources in line with a developed and agreed Investment Plan. f. Determination of the proportions between the tax incentives and spending elements of the £80 million IZ government grant. g. Allocation of the tax incentives element of the £80 million grant and of the spending element of the £80 million grant. h. Allocation of surplus retained business rates growth generated by the Investment Zone's BRR site, in line with Government's Investment Zone policy. i. The allocation of retained business rates to be allocated by the WMCA through the established governance arrangements will be subject to a robust investment plan to be developed and approved by the IZ governance body. There will be a requirement within the investment plan that, over an agreed accounting cycle (not greater than 5-years), sufficient investment will be in projects in those authorities who would otherwise be benefitting from alternative business rate regimes, to ensure that they are no worse off than if they had not agreed to participate in the WM Investment Zone. This will also reflect agreement between WMCA and Government that up until the point of a reset of business rates baselines, Government will allow relaxation of spending requirements within the Investment Zone business rates retention site to allow those rates retained to be invested in local growth.

	<p>j. To ensure that the decisions of the Board do not import any undue risk to the WMCA in financing schemes that result from those decisions.</p> <p>k. Approving reports to Government as part of the WMCA's accountability function.</p>
<p>Delegation</p> <p>(previous text included for reference)</p>	<p>Decisions in relation to the allocation of the initial £80 million government grant up to a total value of £80 million and within Government's proportionate allocation framework between the fund's components.</p> <p>All other and subsequent investment decisions up to a value of £20 million. Decisions above £20million will be required to be taken by the WMCA Board as the accountable body for the Investment Zone.</p> <p>All decisions will need to follow the WMCA's existing assurance frameworks and any introduced through the Deeper Devolution Deal or any subsequent legislative frameworks.</p>
<p>Withdrawal from Joint Committee</p>	<p>Either Authority may give to the other not less than twelve months' written notice expiring on 31st March in any year of its intention to withdraw from the Joint Committee.</p> <p>Once the Joint Committee ceases to exist, unless that is by way of transitioning into a full Board of WMCA as outlined in 3.13 above, the functions delegated to it will each revert back to the relevant delegating Authority.</p>

APPENDIX C: Investment Zone Funding and Financing Update

Corresponding recommendations as set out above:

- d. Note the progress to date on developing the financial aspects of the Investment Zones including the agreed Business Rates Retention Principles.
- e. Approve the use of £7m (from the initial £80m) of capacity resources funded from Government Investment Zone grant (subject to a detailed business case being submitted to, and approved by, the Investment Zone Joint Committee).
- f. Note the intention to provide direct capacity funding to Local Authorities to assist with developing place-based strategies.
- g. Approve the 'no detriment' principles it is intended to establish between WMCA and Warwick District Council / Warwickshire County Council and note the implications for Birmingham City Council.
- h. Note the need for Memorandums of Understanding (MoUs) to be established between WMCA and relevant Billing Authorities (Birmingham, Coventry, Warwick and Warwickshire) before the date of the next WMCA Board meeting.
- i. Delegate finalisation of the above MoUs to the WMCA Executive Director for Finance and Business Hub in consultation with the Portfolio Holder for Finance.

Background

- 1. Investment Zones are a national policy offer from Government. They are designed to focus investment in specific places and sectors to improve the overall health of regional and national economies.
- 2. A report to WMCA Board on 17 November 2023 provided details on the headline financial characteristics of the Investment Zone and also obtained approval to the establishment of the Investment Zone Joint Committee and the tax / business rates retention sites.
- 3. The report also outlined the fiscal offer from Government which accompanies the Investment Zones, being initially £80m of direct financial support and 100% Business Rates Retention (without a reset) for 25 years from April 2024.
- 4. The £80m of direct financial support breaks back to £15m of tax incentives, £39m of capital grants and £19m of revenue grants for the first five years of the programme to 2029. It is likely Government will provide a second £80m for the five years commencing 2030 following a positive announcement in the Autumn Statement of 2023.
- 5. The remainder of this report highlights the progress on key financial developments made since the November 2023 report which are considered important to bring to the attention of the Board.

Business Rates Retention (Recommendation 'd' Refers)

6. The Business Rates Retention offer from Government means WMCA are able to retain 100% of the Business Rates which accrue above an April 2024 baseline in specific, designated areas. The WMCA Board approved areas are the GigaPark site (Warwick District Council, Warwickshire County Council and Coventry City Council) and the Birmingham Knowledge Quarter (Birmingham City council only).
7. As detailed to the Board in November, there are specific restrictions on how the rates accruing above the baseline should be used. These restrictions exist to protect the policy intent of the Investment Zone initiative and should be viewed in the context of the significant direct fiscal support Government also provide to Investment Zone areas.
8. Essentially, the retained rates must be used to facilitate investment in the WMCA priority sector, which WMCA Board approved as advanced manufacturing, with a focus on EV and battery development, and its intersection with green industries, digital and health tech.
9. It should be noted that Government have provided a relaxation of the policy up to the point of a business rates reset (expected 2025 at the earliest) meaning the retained rates can be used more broadly on 'local growth' projects.
10. With respect to the financial characteristics of the Investment Zone, there are a series of complex issues which WM Finance Directors have been working through over recent weeks. This includes considering how the flow of Business Rates can be engineered to allow all relevant parties to become comfortable matters such as decision-making / governance, borrowing, and both direct and indirect risk and reward.
11. To this end, the WM Finance Directors have established a series of principles which are intended to underpin the next stages of the Investment Zone development which will include the construction of detailed business cases and detailed borrowing / financing arrangements.
12. Those principles were presented to WM Chief Executives (including Warwick / Warwickshire) on 9 February 2023 who confirmed the principles appeared adequate for the purposes intended.
13. The principles are shown below and Board approval to these principles will give Local Authorities confidence that the principles are robust and have the full support of the region.

No.	Principle Details
1	No borrowing to be undertaken until proper modelling is complete and robust business cases are agreed to the satisfaction of the Section 151 Officers.

2	Further definition on borrowing to follow but broadly; WMCA to undertake borrowing at a regional level where headroom allows. WMCA will retain all business rates generated within IZ BRR sites above the agreed baseline. LA borrowing options not ruled out.
3	Government funding ('£80m' or £65m excl. Tax) will not be accessed until DLUHC grant conditions are agreed and that they can be met (so as not to jeopardise second tranche of £80m (Yrs 6-10))
4	Note that in WMCA governance arrangements, decisions around capital and treasury spend must be unanimous.
5	Investment Zone finance must be ring-fenced within the WMCA IZ budget and not used to underpin other areas of WMCA activity.
6	Hierarchy on allocation of retained rates: <ul style="list-style-type: none"> a. Used firstly to meet 'no detriment' requirements, then; b. Used to service the cost of debt & interest from TIF, then; c. Used to build a programme level 'risk pot' to mitigate repayment risk, then; d. Remaining surpluses used for region-wide (including WDC-WCC area) Advanced Manufacturing programmes.
7	No detriment principle: For specific, identified sites which would come forward irrespective of the IZ, WDC / WCC should suffer no detriment in financial terms when assessing the business rates which would otherwise accrue to those sites. Details to be to the satisfaction of WM Section 151s.
8	WMCA to explore opportunities for a defined element of the initial Government funding balance (£65m) to mitigate business rates timing risks.
9	Options for a phased delivery approach (based on strategic priorities) to be explored where this could maximise overall revenue & value to the region.
10	WMFDs to agree a 'risk-reward' algorithm / formula to ensure there is balance for all LAs in the risk / reward equation.

14. As noted above, the principles are intended to underpin the next stage of development. There is still significant work to do specifically around the borrowing / financing arrangements and the risk / reward equation to ensure all Local Authorities receive a proportionate reward in exchange for any risk it may be exposed to in delivering the Investment Zone programme.

Provisional Allocation of Government Resources (Recommendations 'e' refers)

15. As detailed above, the Investment Zone programme is able to receive direct financial support from Government in the form of grants and tax incentives amounting to £80m for the first five-year period.
16. The provisional, proposed allocation of those resources is documented in Annex 1D and this has been developed between WMCA and Local Authority teams.
17. It should be noted that Principle 8 above agreed by the WM Finance Director group does mean that the provisional allocations are likely to be subject to a review to determine if

there is merit in preserving some of the funding to act as a 'first-loss' risk provision. Should WMFDs determine the allocations need to be amended, an appropriate update will be brought back to WMCA Board.

18. In light of the need to find a balance between WMFDs undertaking this review and the need to quickly provide capacity funding to WMCA and Local Authorities to develop the Investment Zone programme, this Board is asked to approve the principle of £7m being called down from the £80m to be used on delivery capacity. This draw down would be subject to a suitable business case documenting how the £7m will be used and approved by the Investment Zone Joint Committee.
19. Once the WMFD review of the £80m is concluded, if there are significant changes it is expected that WMCA Board will be requested to approve the changed allocation of funding (£80m). If not, then detailed business cases approving access to the funds will be progressed through the WMCA Single Assurance Framework and approved in line with normal delegated structures (including approval by Investment Zone Joint Committee/Board and WMCA Board where appropriate).

Capacity Funding for Wider Place Based Strategy Work (Recommendation 'f' Refers)

20. It should be noted that it is intended to provide up to £500,000 to each of the Constituent Local Authorities over a two-year period to help with capacity matters relevant to the development of Growth Zones, Investment Zones and associated Place Based Strategy work, subject to further detailed profiling and collective understanding of how it will be used. This matter is being dealt with in the Financial Monitoring Report to March 2023 Board with payments following shortly after. This funding is additional to the £7m capacity funding referred to above which will be taken from the £80m Government Investment Zone grant.

Business Rates Retention MoUs (Recommendation 'h' refers)

21. Government has nominated the WMCA to be the accountable body for the WM Investment Zone. The WMCA is not formally recognised in the business rates system as a billing Authority however, meaning all rates (including those above the IZ baseline) naturally flow to the Local Authority where those rates accrue.
22. To ensure the WMCA is able to influence and direct the business rates as intended, billing Authorities in Investment Zone business rates retention areas (Birmingham, Coventry, Warwick District and Warwickshire County) are required by Government to enter into an MoU with WMCA documenting how the rates issues will be managed.
23. At a headline level, the MoU needs to demonstrate to Government that billing Authorities intend to collect the rates above the baseline, report these to WMCA and remit the necessary sums to WMCA for those rates to be used as collectively agreed through the relevant investment plan.
24. Importantly, the WMCA needs to show DLUHC evidence that the MoUs are in place before the retention arrangements are able to become effective. The WMCA initially shared draft MoUs with the relevant Local Authorities in November 2023, but work over recent weeks has focused mostly on resolving the 'no detriment' principles which will be a key feature of the MoU.

25. Given the firm Government deadline and there being no further opportunities to obtain Board consent to the content of the MoUs, Board is asked to approve delegating the details of the MoUs to the Executive Director of Finance Business Hub in consultation with the Portfolio Holder for Finance. It is also expected that WM Finance Directors will be fully consulted on the content of the MoUs as these are developed.

No Detriment (Recommendations 'g' Refers)

26. Warwick District Council, Warwickshire County Council and Birmingham City Council have all advised that participation in the Investment Zone is subject to a satisfactory agreement on 'no detriment'.
27. The term no detriment refers to any specific Local Authority being placed at 'no financial disadvantage' when compared to a scenario where the Investment Zone had otherwise not existed in those areas.
28. There is scope for detriment to occur in these Local Authorities as all sums accruing above the April 2024 baseline will have specific investment restrictions attached to them (e.g. Local Growth or Advance Manufacturing Project investment only). This is particularly relevant where developments which are already being brought forward by the Authorities are likely to result in a rates uplift, which is then caught by the Investment Zone baseline. In this scenario, Local Authorities could (in theory) have the known business rates uplift included in short to medium term financial plans, but these amounts may no longer be accessible to them for the originally intended purpose.
29. The WM Finance Director Group have spent significant time working on a further set of 'no detriment principles' initially intended to address the no detriment position within the Warwick / Warwickshire area where two sites (Segro & Whitley South) are expected to be developed and delivered independently of the Investment Zone, but the uplift is caught within the Investment Zone baseline.
30. The 'no detriment principles' which WMCA Board are requested to approve are as follows:

ND Principle 1

WDC & WCC will receive 50% (currently 40% and 10% respectively in line with the national tier split) of the business rate growth from Segro Park and Whitley South above an agreed baseline position. In the event of a reset[s] WDC/WCC will continue to retain the same quantum of business rates income that would have been retained from these sites had these sites not been included within the Investment Zones, therefore replicating the national business rates regime.

ND Principle 2

These retained rates will be invested in the local authority's 'local growth' projects up to the point of a national reset, and thereafter the Advanced Manufacturing sector (for WDC especially at its intersection with the Digital & Creative sector and for WCC its alignment with the county's economic strategy).

ND Principle 3

For the purposes and definition of Principle 2 above, the following shall apply:

- a. Business rates retained from the IZ will be available to support 'local growth' projects within a billing authority area up to a point of a reset. Post-reset they will be available to be applied to repay borrowing in respect of those projects only.
- b. Retained business rates from the IZ will not be available for new 'local growth projects' after the point of a national reset, and retained rates will have to comply with wider IZ policy in terms of supporting the identified priority sector.
- c. Local growth projects considered eligible for treatment under 3 i) will be those where the LA has made a clear and formal commitment to investing in that project, having entered into contracts for their delivery.

ND Principle 4

As WCC are an existing beneficiary of business rates and therefore potentially subject to detriment, the benefits intended through the above provisions will be able to be applied across the WCC geography.

ND Principle 5

It is not anticipated that future public sector investment is required from the IZ for the sites that are affected by these principles (for WDC & WCC - Segro Park and Whitley South). In the event that such investment is required, WDC and WCC recognise that any settling of business rate 'no detriment' calculations will need to reflect such investment and all parties will work collaboratively to resolve that.

31. The above principles were all worked through with the WM Finance Director group and are considered to be adequate for the purposes intended; essentially ensuring the GigaPark Authorities are no worse off for the specified sites identified as part of this exercise.
32. The no detriment agreement does not result in a 'cost' to WMCA, it simply means the affected Authorities remit less of the accrued funding to WMCA. The total value retained over the 25 years by those Authorities under this agreement can vary significantly depending on currently unknown factors WMCA cannot influence (the date of the first reset and the timing and frequency of subsequent resets). WMCA have, however, assessed and confirmed that the intended developments remain affordable even with the no detriment agreement in place.
33. It should be noted that detailed arrangements / principles pertaining to any 'no detriment' agreement with Birmingham City Council are still to be finalised, but it is not expected there will be any material deviation from the intention behind the principles detailed above which apply to Warwick District and Warwickshire County.
34. However, at the time of drafting, there remain outstanding concerns regarding these principles. Further information and recommendations may need to be tabled as an addendum to these papers at the Board meeting.

Appendix D Investment Zone Government Fiscal Support – Provisional Distribution

Investment Theme	Investment Area	Financial Year					TOTAL
		2024-25	2025-26	2026-27	2027-28	2028-29	
Local Infrastructure	Wolverhampton Green Innovation Corridor	750,000	750,000	2,000,000	2,150,000	1,350,000	7,000,000
	BKQ	500,000	2,583,000	2,834,000	2,833,000	250,000	9,000,000
	GigaPark	2,250,000	5,500,000	4,500,000	3,600,000	7,150,000	23,000,000
Business or stakeholder support	Investment Promotion	-	500,000	500,000	500,000	500,000	2,000,000
Research and Innovation	R&D Grants	250,000	1,000,000	1,250,000	1,250,000	1,250,000	5,000,000
Business or stakeholder support	Supply Chain Adoption	250,000	1,000,000	1,250,000	1,250,000	1,250,000	5,000,000
Skills	Level 4 & 5 Skills	200,000	1,050,000	1,250,000	1,250,000	1,250,000	5,000,000
Planning	Regional Delivery Capacity	2,000,000	2,000,000	1,300,000	950,000	750,000	7,000,000
Business or stakeholder support	Equity for Growth	250,000	300,000	450,000	500,000	500,000	2,000,000
TOTAL GRANTS		6,450,000	14,683,000	15,334,000	14,283,000	14,250,000	65,000,000
TOTAL TAX INCENTIVES							15,000,000
TOTAL FISCAL SUPPORT FROM GOVERNMENT		6,450,000	14,683,000	15,334,000	14,283,000	14,250,000	80,000,000

Note:

Regional Delivery Capacity of **£7m**; WMCA Board recommended to approve subject to the approval of a business case by the Investment Zone Joint Committee. Remaining allocations are provisional pending a review by the WMFD group regarding potential to use funds to off-set risk in TIF related borrowing scenarios.