



Name of meeting: Investment Zone Board

Meeting date: 25 July 2024

Report title: West Midlands Investment Zone – Programme Business Case

Responsible Director: Ed Cox, Executive Director for Strategy, Economy & Net Zero

Report author: Steve Bowyer, Partnerships and Engagement Strategic Lead

Key Decision? Yes 01/04/24

Is the ability for the Combined Authority to make a decision internally reliant on Constituent or Non-Constituent Councils making a formal decision first?

Yes No

Public/private report: Public

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- 1. Decision/s Recommended**
- (1) Approve the Programme Business Case ('PBC') noting the comments from Investment Panel (see Section 3).
 - (2) Approve amendments to the Year 1 and Year 2 spend profiles following the conclusion of negotiations with MHCLG (an updated spend profile table will follow as a supplementary paper).
 - (3) Note that Investment Zone Board is asked to approve the Programme Business Case for the Investment Zone and specifically the allocation of £5.150 million for capacity in admin (£2.350m) and planning (£2.8m) from within the overall £65 million funding envelope. This will support capacity within Local Authorities for site delivery and programme management, and within the Combined Authority for overall programme and accountable body functions.
 - (4) To address potential commercial sensitivities with regards to commissioning the revenue programmes within the PBC, the Board is asked to consider its recommendations in three key parts, to facilitate discussions at the IZ Board meeting:

- i. That the PBC accurately reflects the overall WMIZ proposition approved by WMCA Board on 14th June 2024 and approves the allocation of capacity funding as outlined above.
- ii. That it approves the capital projects outlined in the PBC, subject to appropriate business cases passing through the Single Assurance Framework (SAF) process subsequently.
- iii. That it approves the approach to revenue projects as outlined in the PBC subject to appropriate business cases passing through SAF processes subsequently.

2. Voting Requirements

- 2.1 A majority of voting members, in attendance in the meeting room and indicating their preference, are required to vote in favour of any recommendation/proposition for it to become a decision of the committee.

3. Executive Summary

- 3.1 The purpose of the Programme Business Case (PBC) is to set out the Investment Plan for the first tranche of 'Flexible Funding' provided by Government as part of its Investment Zone programme; and in the context of the overall 25-year timeframe of the overall West Midlands Investment Zone ('WMIZ') opportunity.
- 3.2 Government is providing £65m of Flexible Funding for the first 5 years of the Investment Zone. An additional £15m is being held back by Government to cover the costs of tax site incentives designated for the WMIZ. This Flexible Funding will be used to support capital works on key IZ sites (Coventry-Warwick Gigapark; Birmingham Knowledge Quarter; Wolverhampton Green Innovation Corridor) and business support and skills programmes (revenue). Business cases of each of these areas will be developed and submitted through WMCA's SAF process.
- 3.3 Government has, overall, committed to £160m over 10-years for the IZ programme, so a similar split between funding and tax incentives (£65m: £15m) is anticipated for years 2029-2034; subject to WMCA, as accountable body, satisfying outputs for this first tranche.
- 3.4 Given the 25-year business rate retention opportunity also allowed through the IZ programme, this initial funding is also presented in this PBC within that wider timeframe in terms of other outputs that may be achieved.
- 3.5 Investment Panel met on 15th July and endorsed the Report going to Investment Zone Board subject to the following:
 - Report to state whether outputs aligned to capital and revenue investment (output table) are direct or in direct.
 - Report to reference WMGC and the role of the five universities supporting local authorities.

These amendments have been made to the Programme Business Case.

4. **Matters for Consideration**

Background

- 4.1 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. Initially (March 2023) the combination of tax incentives and flexible spend was offered at £80m per CA for 5 years; this was extended to £160m for 10 years in the Autumn Statement of November 2023. The IZ policy required a 60:40 split capital: revenue and costs of tax incentives would be assessed by government and held back from any flexible fund allocation.
- 4.2 Since its announcement, colleagues from local authorities, universities/research institutions and private investors have worked hard to develop a compelling proposition for the WM Investment Zone. It should be noted that the WMIZ is made up of the whole of the CA area; plus Warwick DC and insofar as WDC is within WCC, that part of Warwickshire County Council to incorporate the proposed Gigapark site.
- 4.3 The region (WMCA board, local authorities, universities and other partners) has identified, and agreed with Government, the priority economic sector as ‘advanced manufacturing’, and as it intersects with electric vehicle and battery technology and development, green industries, med-tech and digital. These inter-related clusters represent distinctive strengths of the region’s economy, opportunities for growth and strong alignment with Government’s industry focus. There are however barriers to growth in these sectors: viable development opportunities for relevant investors; incentives for investment in a globally competitive marketplace; support for businesses to transition to meet to new opportunities, and related skills in the workforce. The WMIZ seeks to address all of these through its comprehensive suite of investment and incentives.
- 4.4 It has also been agreed to explore the full range of opportunities available through IZ policy:
- Tax incentives – assessed by government at £15m for the first 5 years
 - Flexible spend – the remaining £65m (first 5-year period)
 - Business rate retention on key sites for 25 years
- 4.5 Three key sites, which will drive long-term economic benefits for the whole of the Investment Zone area, were identified and agreed by the CA Board at its meeting of 17th November 2023:
- Coventry-Warwick Gigapark – tax incentives sites, business rates retention site, and capital investment (£23m).
 - Birmingham Knowledge Quarter – tax incentives sites, business rates retention site, and capital investment (£9m).
 - Wolverhampton Green Innovation Corridor – capital investment (£7m).
- 4.6 In addition, it was agreed that the revenue element of the Flexible Funding (£26m) would be used for business support and skills programmes, investment and promotion, and capacity to deliver the WMIZ.

Proposition Overview

- 4.7 This Programme Business Case provides the over-arching and high-level outline for the utilisation of the £65m flexible funding pot awarded by Government through its Investment Zone programme; £15m of the first 5-year £80m tranche of funding being retained by Government to cover costs of tax incentives.
- 4.8 The aim and rationale for the programme is to address fundamental barriers to growth in the region's identified priority sector – advanced manufacturing – where it has comparative advantage and commercial opportunity for translational research. These barriers to growth include:
- The region's legacy of site contamination within the region increasing the cost and risk of new manufacturing developments and the lack of large-scale infrastructure to meet the demands of industries such as battery production.
 - Alongside viability impacts of remediation costs, investors are also deterred by a lack of financial incentives, hindering the West Midlands' ability to attract domestic and foreign investment.
 - The West Midlands' 'Plan for Growth' identifies a general skills gap where vacancies within the manufacturing sector are hard-to-fill because of applicants lacking the appropriate skills, qualifications or experience.
- 4.9 To address these challenges and barriers to growth, alongside Government's package of tax incentives, the following interventions are proposed with allocations to the lead partner identified for delivery:

Capital Infrastructure

- £23m Coventry-Warwick Gigapark (lead – Coventry City Council)
£9m Birmingham Knowledge Quarter (lead – Birmingham City Council)
£7m Wolverhampton Green Innovation Corridor (lead – Wolverhampton City Council)

Revenue Programmes

- £5m Supply Chain Adaptation/Transition (lead – WMCA)
£5m R&D Grants (lead – WMCA)
£5m Skills development (lead – WMCA)
£2m Investment & Promotion (lead – WMCA/WMGC)
£2m Equity Funding (lead – WMCA)
- 4.10 Specific business cases for each of the interventions identified in this Programme Business Case (as outlined below) will be developed by respective leads and submitted through the SAF process and will carry the detailed justification for each investment.
- 4.11 In addition, £7m has been allocated to 'Capacity Funding' – to bring sites forward and support the overall delivery of the Programme. This will be used by WMCA for programme delivery costs, and by local authorities leading on site delivery and programme management. An initial allocation of £1.85m for initial capacity support (Year 1 budget) was agreed by WMCA Board at its meeting of 14 June 2024, and this Programme Business Case seeks approval for the allocation of the remaining £5.15m.

Strategic Aims and Objectives

- 4.12 The WMIZ's comprehensive economic package will support key WMCA aims: promoting inclusive economic growth and ensuring everyone has the opportunity to benefit. Given its sector focus, it will also support the region's drive to net zero as well as its 'Plan for Growth' ambitions. Capital investment will address site viability challenges, making development more attractive to investors – building new job opportunities. While the revenue programmes will support existing West Midlands businesses to pivot to take advantage of new supply chain opportunities – integrating business advice, investment in innovation in R&D and upskilling existing workforces.
- 4.13 Detailed business cases for each area of investment will provide detailed outputs, outcomes and benefits, but broadly the programme is anticipated to secure:

<i>Investment</i>	<i>Outputs</i>
Capital	125+ha of land reclaimed/remediated 512,000 m2 of new/improved development 8km of improved walking/cycle ways Enhanced public realm
Revenue	620 new high level jobs directly supported 42 training courses 340 new learners (L4/5)

- 4.14 This, however, is just part of a much larger programme of investment and investor attraction, beyond the first 5-year, catalytic, tranche. The WMIZ is anticipated to attract over £5.5bn of private investment and generate £1.5bn in retained business rates over its 25-year period, and generate in excess of 30,000 jobs, potentially, by 2034.
- 4.15 Given the high-level nature of the programme and its diverse range of interventions, which will be subject to more detailed business cases, it has not been possible to provide detailed NPSV and NPSC calculations. It is clear, however, that the programme will directly support key fundamentals of the Inclusive Growth Framework:
- Working with partners such as Aston University and BCU, who are nationally renowned for their track-record in providing opportunities for local students to progress into highly skilled employment, and other HE and FE institutions such as University of Warwick, University of Wolverhampton and Coventry University, the programme will offer new skills pathways for residents across a range of levels.
 - Integrating transport considerations at an early stage in site development propositions will ensure better access and connectivity to new job opportunities.
 - Investment in business transition and growth will underpin increased productivity and higher wages.
 - Physical interventions will ensure environmental improvements, including air quality, while the sectoral focus will provide new solutions to net zero ambitions.

Delivery & Governance

- 4.16 The Investment Zone Board has been established with representation from all 7 constituent authorities plus Warwick District Council and Warwickshire County Council, and non-voting representation from 5 of the region's universities with a specific interests in WMIZ sites. The Board has delegated authority from WMCA Board for investment decisions between £5m-£20m, with WMCA officer delegations applying otherwise. It was also delegated the authority to approve the overall Programme Business Case.
- 4.17 WMCA is the accountable body for the Investment Zone funding and its compliant and effective delivery. The Investment Zone Board will monitor and review delivery and provide overall programme assurance and reporting to DLUHC.
- 4.18 Local authority teams will lead on the delivery of site development – securing investment through SAF business cases. Each has established local governance arrangements with relevant partners, and will be responsible for reporting on delivery to the Investment Zone Board. Each lead authority (Coventry, Birmingham, Wolverhampton) has a strong track-record in capital programme delivery. It is anticipated that funding to local authorities will be managed through a standard legal agreement in accordance with WMCA's usual funding policies.
- 4.19 Revenue programmes will be led by WMCA's Economy teams who are already working closely with Procurement, Finance, SAF and Legal teams to mobilise delivery. It is anticipated that the majority of the revenue funding will be awarded through competitive commissions. Further work is still required on the routes to delivery for the identified 'Equity Funding' (£2m) and 'Investment & Promotion' (£2m).
- 4.20 Owing to disruption caused by the recent General Election, the formal grant agreement has yet to be received from DLUHC; although officials have shared the content of the MOU and have undertaken to make this a priority for the new Government.
- 4.21 The Programme Business Case contains a high-level risk log along with associated mitigation measures (see also section 13 below).

5. What options have been considered and what is the evidence telling us about them?

5.1 **Option 1: Do Nothing - In effect, declining to deploy Government's policy offer in the West Midlands.**

This would reduce opportunities for attracting inward investment, boosting jobs, business and skills growth, and for generating significant business rate retention to support wider economic growth of the priority sector.

5.2 **Option 2: Deploy the £80m of flexible spending entirely on capital and revenue spend rather than pursuing tax incentive packages and not designate BRR sites.**

This would reduce the potential to attract private investment through the absence of incentives offered by many competing economies, while not adopting the BRR opportunity would undermine site development financing and remove the potential for

long-term sector investment.

5.3 Option 3: Establish IZ with both tax sites and business rate retention sites, but allocate all £65m of flexible funding focused purely on those sites, including both revenue and capital spend.

This would reduce the ability to support region-wide skills and supply chain ecosystems and merely focus on, and benefit, site-level businesses.

5.4 Option 4: Establish IZ with both tax sites and business rate retention sites. Allocate all £65m of flexible funding by deploying capital funding at site-level to improve viability, but developing a regional programme approach to deploying revenue funding.

As well as bringing sites forward, this option also provides a wider strategically coordinated opportunity for economic growth, and spreads the benefits from adopting the IZ across the region as a whole by creating ecosystem-wide skills and supply chain benefits.

5.5 Option 5: Establish IZ on the basis of 60:40 capital, with capital on a site level basis, but revenue funding awarded through place-based competition.

This option would reduce strategic coordination of business support and skills programmes with the potential to miss opportunities derived through a collaborative, rather than competitive approach. It would also necessitate a great resource commitment by customers in developing competitive bids.

6. Reasons for recommending preferred option

6.1 Option 4 will apply critical capital funding where it is needed alongside an informed, coordinated regional approach to revenue funding for business support, skills and inward investment activity. There is also a clear opportunity in building on, and therefore in some cases sustaining, existing regional economic support programmes – providing legacy and longevity rather than short-termism funding, as well as potentially accelerating start-up and delivery. It also maximises the full range of levers available through this unprecedented combination of grant, incentives and rates retention.

6.2 The impacts from adopting this approach will be measured through financial modelling around rates retention, the progress of site delivery and the outputs generated through the regional revenue programmes. These will be monitored through the robust programme delivery and governance routes established as part of the programme.

7. Implications and Considerations

Priority:	Contribution:
Delivery of Strategic Transport Plan	Site delivery plans are likely to incorporate measures to improve access to sites: eg BKQ includes proposals for Active Travel enhancements.
Promote inclusive economic growth in every corner of the region	WMIZ is fundamentally founded on the principle of boosting, and removing the barriers facing, priority sector growth. Integrating the Inclusive Growth principles

Priority:	Contribution:
	into the IZ, will ensure it supports the wider benefits and opportunities articulated here.
Ensure everyone has the opportunity to benefit	Strong engagement with local authority and university partners will ensure that interventions are geared towards the widest possible communities.
Connect our communities by delivering transport and unlocking housing and regeneration schemes	Although the IZ has an economic rather than housing focus, in many instances, particularly at the site level, it will act as a catalyst for wider transport accessibility and community regeneration opportunities.
Reduce carbon emissions to net zero and enhance the environment	<p>The IZ is focused on Advanced Manufacturing and in particular its intersection with battery technology and green industries (as well as digital and med-tech). As such it will be directly supporting the industries and supply chains providing the products, goods and services for a net zero transition.</p> <p>In addition, investment into site level public realm will help to enhance environmental conditions and through encouraging Active Travel, contribute to air quality improvements.</p>
Secure new powers and resources from central government	Although the IZ programme requires DLUHC sign-off and regular reporting, its development through co-design and the degree of flexibility afforded to the local management of the scheme demonstrates a commitment from Government to devolve greater responsibility to the region.
Develop our organisation and our role as a good regional partner	Strong engagement with local authorities, universities and other regional partners by the WMCA has reinforced the organisation's credibility as a regional partner in seeking co-design and co-development routes for the proposition.

8. Internal Consultation and Scrutiny:

8.1 Colleagues from Legal, Finance, Procurement and SAF Assurance and Appraisal Team have been consulted on this Business Case.

9. External Consultation and Scrutiny:

9.1 The development of the proposition has been undertaken in partnership with local authorities, universities and other partners across the region. The business case itself has been shared with leads within key organisations involved in the delivery of the WMIZ.

10. Financial implications:

10.1 As detailed in the attached Programme Business Case, Government have committed £65m of grant for investment in the West Midlands Investment Zone. Within this total is a sum of £7.0m for Planning (£3.8m) and IZ Administration (£3.2m). On 14 June 2024, WMCA Board approved the use of the 'year one' allocations for Planning Resources (£1.0m) and Admin Resources (£0.85m) to enhance regional capacity to deliver the Investment Zone Programme and the commence the development of business cases. This Programme Business Case now seeks approval for the remaining sum of £5.15m to be made available.

10.2 A number of business cases are now being developed through the Single Assurance Framework which will enable the utilisation this funding in line with the approved investment plan. The first of these business cases is this Programme Business Case which provides the overarching strategy for the investment plan and also seeks to approve the remaining capacity funding for admin and planning.

10.3 The capacity funding will be utilised by both the WMCA and local authorities. Where appropriate, grant agreements will be made with local authorities and specific allocations will be approved in line with the WMCA scheme of delegations.

11. Legal implications:

11.1 There are no legal implications directly relating to this Programme Business Case, other than where and if appropriate, as referenced in 9.3, capacity funding is granted to local authority partners, these may be achieved through grant agreements.

11.2 Funding for particular workstreams within the programme will be subject to a range of business cases. Similarly, where required, legal agreements for grants or contracts for service providers, will be identified within each of those project specific business cases.

12. Single Assurance Framework implications:

12.1 This Programme Business Case has been considered by the SAF team. The related Risk and Investment Appraisal Report is attached as Appendix B. The project team has responded to the issues raised and amended the PBC where it has been possible to do so.

Appraisal Recommendation:

Recommendation for the West Midlands Investment Zone, PBC to be approved by decision makers. The West Midlands Investment Zone (WMIZ) programme presents significant benefits, including the creation of 620 high-level jobs in the

Advanced Manufacturing sector by 2029, supporting 360 new learners in related qualifications, and attracting over £1.2 billion in private investment during the funding period. The programme will enhance the region's competitiveness in sectors such as Electric Vehicles, Battery Technology, Digital, Green Industries, and Health-tech, and promote inclusive growth by providing grants to SMEs and improving regional infrastructure. However, several risks need to be managed, including the lack of detailed Net Present Social Value (NPSV) and Net Present Social Cost (NPSC) calculations which are difficult to accurately supply at this stage. Ensuring financial viability and timely recruitment are critical to successful delivery.

- 11.2 It should be noted that PBC is an overarching business case relating to the overall £65m flexible funding being awarded by Government. As such it includes a diverse range of projects. Overall the programme has the potential to support a wide range of capital infrastructure and revenue support programmes, which are not defined at this high level. As such, and in response to one of the risks identified in the RIA report, it is extremely difficult to provide NPSV and NPSC calculations in any meaningful way. These will, of course, be included within the business cases for each of the specific interventions to demonstrate the economic viability of those specific investments. Other issues in the report have been fully addressed.

13. Risk implications, including Risk Appetite:

- 13.1 Executive Board has identified a strategic risk to the WMCA of failing to deliver the IZ Programme, this primarily reflects potential reputational and financial impacts, should the region fail to deliver the agreed outputs generated from the funding and incentives offered by the national programme, and should costs of IZs not be fully understood. The first step towards managing those risks is to agree an ADP and sign an MoU with DLUHC.
- 13.2 In addition, the WMCA is seeking to manage these risks through the application of systems to regularly monitor progress, and through the need for robust business cases and financial modelling, with associated principles for investment, which has been emphasised by regional Finance Directors.
- 13.3 As each business case is developed, it will be considered through the WMCA's Programme Appraisal and Assurance (PAA) route and Single Assurance Framework, being assessed for risk, assurance and appraisal before any decision is taken.

14. Procurement Implications:

- 14.1 The Procurement Team has been informally involved in early meetings to scope the implementation of the IZ. It is recognised that there are two key tranches of activity within the £65m flexible spend:
- Site delivery capital activities: as these will be implemented by the LAs leading site delivery via grant awards from WMCA, it will be for those local authorities to ensure that all public procurement routes are being followed and for those authorities to identify these as part of the full SAF and business case development processes being applied to the IZ programme.
 - Regional revenue programmes: the commissioning routes for these will be identified as part of the business case development processes and will follow all internal WMCA SAF and procurement processes. Procurement colleagues are already involved at an early stage in the identification of those routes and

will be engaged throughout.

15. Equality implications:

15.1 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 objectives in the ES. With its focus on inclusive economic growth, business support and skills, the Investment Zone is 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.

16. Inclusive Growth Implications:

16.1 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.

17. Local Authority Impact:

17.1 WMIZ will have the potential to generate significant investment opportunities for local authority partners, both directly through the IZ's flexible spending programme, but also through the future investment of retained business rates. There has been significant consultation with local authorities around both aspects to ensure consensus across the region. The latter element (investment of retained bus rates – 'BRR') has been perceived by some local authorities as creating a detrimental position by remitting retained rates to WMCA in line with national IZ policy. The WMIZ programme has been developed in close collaboration with all LAs and MOUs agreed with those affected by the BRR scheme to ensure an agreed position.

17.2 This high level of consultation and co-development with local authority partners will be maintained as part of the IZ implementation phase, particularly in the development of investment and financing models, including any borrowing that may be required to bring sites forward.

18. List of appendices referred to:

18.1 Appendix A – Programme Business Case

18.2 Appendix B – Risk and Investment Appraisal Report

19. Background papers used to compile this report:

19.1 WMIZ Investment & Delivery Plan (available on request).

19.2 Gateways 1-5 submissions to DLUHC (available on request).

19.3 Year 1 Annual Delivery Plan (available on request)

20. List of Other Relevant Documents

20.1 CA Board 17 November 2023: West Midlands Investment Zone & Levelling Up Zones Update.

20.2 CA Board 14 June 2023: West Midlands Investment Zone