WMCA Board

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

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

(1) The WMCA Board is recommended to approve the overall proposition for Business Rate Retention and Tax incentive sites to be included in the West Midlands Investment Zone and for those 'Growth Zone sites' that will be included for Business Rate Retention within Levelling Up Zones.

(2) The WMCA Board is recommended to approve the establishment and responsibilities of a Joint Committee to govern the implementation of the West Midlands Investment Zone, its Terms of Reference and to unanimously approve that Warwickshire County Council, as a non-constituent authority, be given full voting rights on the Investment Zone Joint Committee.

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

1. Purpose

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

2. Background

2.1 In July 2023 the WMCA Board approved an emerging proposition as the basis for negotiations with Government on both the Investment Zone (IZ) and Levelling Up Zones (LUZ). The Board also agreed that the West Midlands should ensure that the Investment Zone and Levelling Up Zones were developed in parallel, to ensure maximum benefit for the region.

2.2 Since then, extensive development work that has taken place which has involved significant collaboration between the CA and Local Authority officer teams, through IZ and LUZ working groups, bilateral discussions and meetings of the Finance Director and Economic Development Director groups. Relevant Universities and investors have also been fully involved, with locally led groups leading the design of the IZ and LUZ propositions in each Local Authority area.

2.3 Government has welcomed the overall economic case and argument for both the Investment Zone and the focus on advanced manufacturing in its broad sector definition, and the wider development of Levelling Up Zones. Government has maintained the position that it will only agree a maximum of 3 Growth Zone sites for Business Rate Retention and 2 Investment Zones BRR sites. At the same time, Government has recognised that the economic geography of the region means that there is a strong case for genuine economic and transport corridors, with individual sites linked via road and rail.

3. Investment Zone

3.1 As a national Government programme, the Investment Zone initiative must operate within the rules set out by the Government in the Investment Zone Prospectus[1]. This includes requirements in relation to the governance of the Investment Zone, the participation of the interested parties and the role of the WMCA as the accountable body. The whole of the WMCA area and Warwick District Council, has been identified as the Investment Zone. The inclusion of Warwick District Council is to enable the important Coventry-Warwick Gigapark site to be included as an Investment Zone tax incentive site and business rate retention (BRR) site. This will maximise benefits for the whole of the Investment Zone area.

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[1] Investment_Zone_Policy_Prospectus.pdf (publishing.service.gov.uk)

3.2 The national programme offers each Investment Zone £80m over 5 years either to be taken entirely as funding or split between up to £45m of a tax incentives package for investors (which includes Business Rates Relief, Employer NI reliefs et al) and £35m spending. The £80m envelope is allocated on a 60:40 capital:revenue ratio and may be spent more widely across the IZ area, with priority given to delivering the Investment Zone sites and programmes to support growth in the identified primary sector. For the West Midlands, this sector has been identified as advanced manufacturing, particularly around EV and battery development, and its intersection with green industries, digital and health-tech.

3.3 No more than 3 sites totalling 600 hectares may benefit from tax incentives. A further 2 areas may be selected as business rates retention sites where 100% of the growth in business rates above a baseline may be retained for 25 years. It is anticipated by government that these sites will be aligned with the tax incentive sites (if tax sites have been identified).

3.4 The IZ Policy requires that allocation of the initial retained business rate growth must be targeted towards bringing forward the Investment Zone sites and financing measures associated with that. After this, further surplus retained rates growth will then be allocated to projects across the Investment Zone area that support growth in the primary sector, with some flexibility granted by DLUHC over deployment of receipts prior to a national reset of Business Rates. As part of the governance arrangements DLUHC require the Authorities which are involved with the IZ BRR sites to sign a MOU accepting these principles.

3.5 Three sites have been identified as part of the WM Investment Zone:

- Coventry-Warwick Gigapark
- Birmingham Innovation and Knowledge Quarter
- Wolverhampton Green Innovation Corridor

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

3.6 The Gigapark site is situated across the boundary of Coventry City Council with Warwick District Council, with part of the site therefore falling outside of the geographical area of the WMCA. To enable Gigapark to be included as a tax incentive site and business rate retention (BRR) site, the Investment Zone therefore covers the whole of the WMCA area and Warwick District Council. This will maximise benefits for the whole of the Investment Zone area.

3.7 Given that Warwick District Council is neither a constituent or non-constituent member of the WMCA, this requires a new governance arrangement. The governance proposals set out in Appendix 1 have been developed in conjunction with Warwick District Council and Warwickshire County Council.

3.8 The proposed arrangements are for a new Investment Zone Joint Committee to be established as part of both the WMCA Governance arrangements and those of Warwick District Council, with delegated authority from the WMCA Board and from Warwick District Council to make all decisions in relation to the Investment Zone up to a financial threshold to be set by WMCA Board as the Investment Zone's accountable body.

3.9 The new Investment Zone Joint Committee would be equivalent to WMCA's Investment Board in terms of the CA's governance structure, but with a remit for taking decisions solely in relation to Investment Zone matters. Decisions of the Joint Committee would be reported to the WMCA Board in the same way as the decisions of the Investment Board. Decisions would also be reported for information to the relevant Warwick District Council governance structures.

3.10 Proposed members of the Joint Committee will be asked to nominate representatives to the Committee as soon as possible to ensure its rapid establishment to enable decision-making on the final submissions to Government on the Investment Zone proposition.

4. Levelling Up Zones

4.1 Levelling Up Zones are a locally led initiative and as such the location, funding and design of each is for West Midlands partners to decide. As part of the Trailblazer Devolution Deal, Government agreed that the West Midlands could have up to 3 Business Rate Retention sites (Government calls these "Growth Zones") but there is scope for local and regional partners to align other sources of funding with retained business rates and associated financial mechanisms to successfully progress Levelling Up Zones.

4.2 Government has maintained its position that there can be no more than three Growth Zone sites and each should be around 200ha.They must have a single red line boundary and be associated with large scale economic opportunities. Local Authorities and the CA have worked closely together to model a wide range of options, identifying where local priorities can best be supported. This has involved LAs and the CA grouping sites together and testing them with Government and other local stakeholders.

4.3 The following 3 groups of sites have been identified for Growth Zone Business Rate Retention which make provision for Levelling Up Zones in five local authority areas.:

- Sandwell and Dudley Metro Corridor
- Walsall Junction 10 sites
- East Birmingham and North Solihull

4.4 We are currently working on the basis that the 25-year period for business rate growth retention for Growth Zone sites may begin in April 2025 with the baseline being set from April 2024. This is still subject to ongoing discussions with local authorities and Government.

4.5 A table identifying specific sites that are proposed for Investment Zone or Growth Zone benefits has been included as a private Appendix 3 attached to this Board report as it may contain commercially confidential or sensitive information.

5. Financial Implications

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

5.2 The Finance and Funding Paper attached as Appendix 2 documents the range of fiscal levers at WMCA' disposal in bringing forward the Levelling Up Zones. These include direct Government fiscal support and tax incentives, guarantees concerning the retention of incremental business rates for 25 years and single settlement funding (CRSTS2 / regeneration funds etc.) and flexibilities.

5.3 The individual financial characteristics of each Investment Zone and LUZ Growth Zone have been consolidated into an initial financial model to assess the viability of each site at a headline level. It should be noted that work to assure and 'sign off' these values on a site-by-site basis remains ongoing between Local Authorities and in particular, West Midlands Finance Directors. The values in the Funding and Financing plan should therefore be treated as indicative at this stage.

5.4 A number of local and regional financial risks and opportunities are inherent within the Investment Zone LUZ Growth Zone proposals and work will be undertaken in the coming weeks to understand how best to mitigate / share risks and gain from those opportunities.

5.5 In particular, specific and material opportunities are expected with respect to Investment Zone business rates retention and decisions around how surpluses are used and distributed that will need the form the basis of an Investment Plan which will require approval by WMCA Board. Appendix 2 does include some broad principles around how the deployment of such sums will be managed.

5.6 Approval of the recommendation to establish a Joint Committee for the purposes of the Investment Zone will result in that Committee having an element of delegated decision making up to the value of £20m with decisions in excess of that value requiring full sign off at WMCA Board.

5.7 It will be for each LA and the CA to work up the overall funding for Levelling Up Zones (including but not limited to BRR) in the months ahead. Starting the BRR in 2025 will allow the time needed for this work and will ensure that LAs do not "miss out" on potential longer term growth in the harder to deliver sites by starting the period too early.

6. Legal Implications

6.1 The proposed Investment Zone Joint Committee will be a formal decision making Committee of the WMCA and as such will be subject to the transparency requirement of Part VA of the Local Government Act 1972 (Access to Meetings).

6.2 The Joint Committee is constituted by both WMCA and Warwick District Council under section 102 of the Local Government Act 1972 with formal delegated powers from both Authorities. This will enable Warwick District Council to appoint a voting member to the Board.

6.3 Business rate billing authorities will be expected to sign a Memorandum of Understanding with WMCA to ensure the retained business rates secured through the implementation of the Investment Zone programme can be reallocated in accordance with national policy.

7. Equalities Implications

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

8. Inclusive Growth Implications

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

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

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

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

9. Geographical Area of Report's Implications

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

10. Other Implications

10.1 There are no other implications.

11. Appendices

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

12. Schedule of Background Papers

Investment_Zone_Policy_Prospectus.pdf (publishing.service.gov.uk)

APPENDIX 1: WEST MIDLANDS INVESTMENT ZONE – GOVERNANCE PROPOSALS

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1. Introduction

1.1 WMCA is required by Government to act as the accountable body for the successful and compliant implementation of the WM Investment Zone. This includes the allocation of the initial IZ programme support funding (£80m) and future business rate surplus remitted as a result of the WM IZ development. Its governance arrangements in achieving this need to be inclusive and transparent as well as maintaining a direct relationship with the delivery mechanisms established for individual Investment Zone sites.

1.2 To achieve this, the Board is asked to approve the following approach which includes all local authorities with a responsibility for the Investment Zone and other partners with a specific interest (eg universities).

1.3 The proposal seeks to establish a 'governance body' which is chaired by the Mayor of the West Midlands and includes, as voting members, all 7 Constituent Authorities of the WMCA, Warwick District Council ('WDC') as the business rate billing authority for sites within the IZ, and Warwickshire County Council ('WCC') who are also closely affected by business rates arrangements for those sites. The Board is asked to approve the nomination of WCC to the 'governance body' as a voting member as a non-Constituent Authority. As WDC is currently neither a Constituent nor non-Constituent Authority of WMCA, arrangements for its membership are set out in Section 3.

1.4 Additional, non-voting members of the 'governance body' will include the universities with an interest in IZ delivery. Chairs of Overview and Scrutiny Committees may attend as observers.

2. Background

2.1 The background to the Investment Zone programme and policy is set out in Section 3 of the main Board paper to this Appendix. The purpose of this Appendix and recommendation to Board has arisen from the inclusion of areas outside the WMCA geography within the IZ and the need to ensure appropriate governance for decision-making to comply with expectations in the Government's IZ policy. That is: providing full voting rights on decision-making for the business rate billing authorities and the remittance of business rates growth to WMCA to support IZ implementation and growth in the agreed primary economic sector.

3. Proposal

3.1 The development of IZ governance must meet a number of timed gateways if Orders for relevant fiscal measures are to be laid before parliament in time for a final announcement of the WM IZ at the Spring Statement and launch of the scheme in April 2024. To meet the relevant deadlines, Government needs sufficient confidence that the appropriate governance arrangements and agreements are in place for the fiscal measures to be developed. As such, WMCA Board is being asked to approve the principles of the WM IZ governance structure, with clear and consistent 'terms of reference' but two potential options for how the 'governance body' would manifest itself.

3.2 At its Cabinet and Council meeting of 15th November 2023, Warwick District Council is expected to consider the nature of its involvement within the WM IZ and associated governance arrangements. As neither a Constituent Authority nor non-Constituent Authority, it is not possible for WMCA, who are the accountable body for the Investment Zone, to give WDC voting rights on a decision-making body.

3.3 For this reason, it is proposed to establish a Joint Committee between WMCA and WDC, with equal voting rights for all members. It is proposed that the WM IZ Joint Committee would be chaired by the Mayor of the West Midlands, with all WMCA Constituent Authorities entitled to nominate members with full voting rights. As a non-Constituent Authority of the WMCA, Warwickshire County Council would be granted full voting rights and Warwick District Council would have full voting rights. Universities that have signed up to Investment Zone sites will be non-voting members of the governance body.

3.5 The WM IZ Joint Committee would have delegated authority from the WMCA Board and from Warwick District Council to make all decisions in relation to the Investment Zone up to a financial threshold to be set by WMCA Board as the Investment Zone's accountable body. The new body would be equivalent to WMCA's Investment Board in terms of the CA's governance structure, but with a remit for taking decisions solely in relation to Investment Zone matters. Its decisions would be reported to the WMCA Board in the same way as the decisions of the Investment Board. Decisions would also be reported for information to the relevant Warwick District Council governance.

3.6 Decisions that would be taken under the proposed governance structure include:

i. To consider the application of the tax incentive portion of £80 million government grant and the application of the cash portion of £80 million government grant.
ii. To consider the allocation of surplus retained business rates revenue, as set out in its Terms of Reference.

iii. To ensure accountability for the successful and compliant implementation of the Investment Zone overall.
iv. To take account of the opportunities from, and implications for, other funding measures and programmes available through the CA and/or its partners.

3.7 Existing WMCA boards and committees, such as the WM Innovation Board, would advise the WM IZ Joint Committee, which in turn would align its decisions with the area's overall economic strategic direction set by WMCA's Economic Growth Board. Warwick District Council would also need to ensure that its involvement aligns with its own strategies and policies.

3.8 Decisions of the WM IZ Joint Committee would be subject to review and scrutiny by WMCA's Overview and Scrutiny Committee, and Audit, Risk and Assurance Committee. Scrutiny chairs from WMCA and Warwick District Council will be invited to attend meetings as observers.

3.9 All decisions would need to be taken in the context of existing WMCA and regional strategies and spending decisions,and would need to comply with the regional Single Assurance Framework and any other relevant accountability and assurance frameworks in place during the term of the Investment Zone. The Joint Committee must not import any undue risk to the WMCA for financing schemes that result from those decisions.

3.10 The Joint Committee would be supported by an officer steering group made up of representative officers of the member authorities and universities most closely involved with the implementation of the WM IZ to inform decision-making.

3.11 Under the new Levelling Up and Regeneration Act, as from 26th December 2023 the process for local authorities to become non-constituent authorities of the WMCA will be simplified to a simple majority decision by the WMCA Board following receipt of a request from the local authority and the satisfactory completion of the resulting Governance Review. In this scenario, there would be no need for a Joint Committee and the WMCA Board could nominate WDC to be a full voting member of a 'WM Investment Zone Board' within its existing structures.

3.12 In such a scenario, the WM Investment Zone Board would have identical arrangements as those described above and set out in the Terms of Reference below.

3.13 It is likely that there will be a need to establish a Joint Committee initially but that this then becomes a WM Investment Zone Board should WDC choose – and WMCA agree - to non-constituent status.

3.14 Each Investment Zone site will need to have its own delivery body and/or governance structures to ensure timely delivery and accountable implementation. These will be locally determined and established by the relevant local authorities and will be expected to have representation from all the major stakeholders in that Investment Zone site, in particular universities, and landowners and developers. The local body will be responsible for the delivery of Investment Zone developments and related interventions, and for delivering the expected outcomes. WMCA as accountable body for the overall Investment Zone programme will expect to be represented on these delivery bodies. The site delivery bodies will be expected to report into the Investment Zone governance body on progress and any major risks to delivery. This relationship is shown in figure 1 below.

4. Timing

4.1 At the latest, the governance body should be in place for the commencement of the implementation phase of the IZ in April 2024 but may be established earlier to inform the final phases of the IZ development over early Spring 2024. As such, and subject to the WMCA Board and Warwick District Council approving this governance structure, the WM IZ Joint Committee would be established with immediate effect to enable the full involvement of all parties in decision-making on the development and design of the Investment Zone proposition. Nominations for members of the Joint Committee will be sought from all participating Authorities following this Meeting.

4.2 Should WDC become a non-Constituent Authority, at that point the Joint Committee would become a WM IZ Board of the WMCA structures, with all terms of reference remaining consistent. In conjunction with these considerations, WMCA will continue to work with Government colleagues around the appropriate timing for the formal establishment of the WM IZ governance body to ensure alignment with WMCA's accountable body responsibilities.

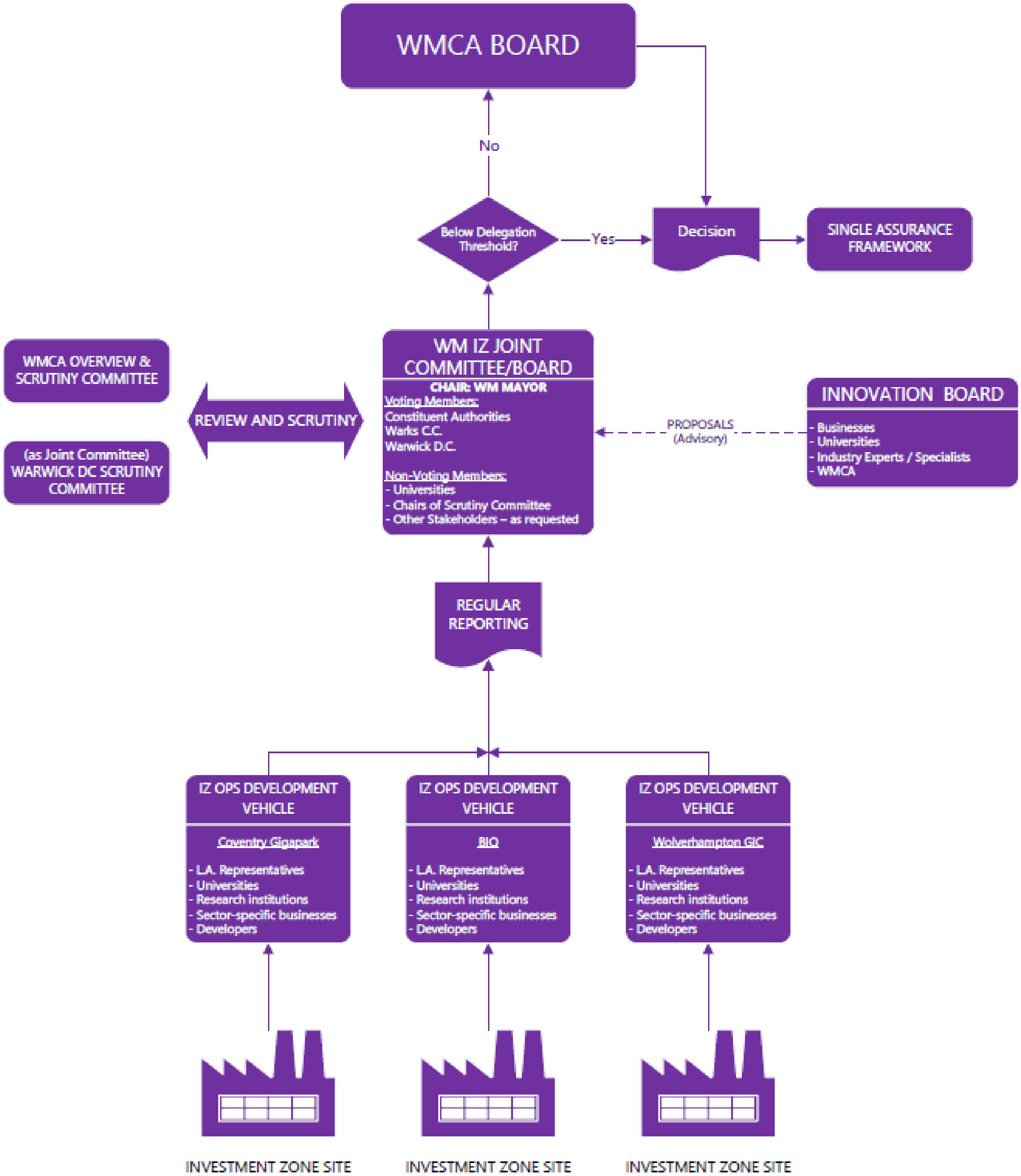

Figure 1: Governance structure illustrating relationships for new WM IZ governance body.

Annex 1: Draft Terms of Reference

Governance	WM Investment Zone Joint Committee / 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	**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 **Non-Voting Members:** Universities that have signed up to the Investment Zone sites. **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.
Chair	Mayor of the West Midlands.
	Vice Chair - to be appointed from among Members.
Voting	All voting Members shall have one vote. 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. 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.
Quorum	Three voting members of the Committee.
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	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. Its functions will include: • Overall responsibility for developing and delivering the Investment Zone. • Approval in principle of Investment Zone sites development proposals and interventions. • Oversight of each Investment Zone Site delivery vehicle's performance in implementing the WM Investment Zone. • Ensuring delivery of the identified and agreed outcomes and outputs. • Allocation of Investment Zone resources in line with a developed and agreed Investment Plan. • Determination of the proportions between the tax incentives and spending elements of the £80 million IZ government grant. • Allocation of the tax incentives element of the £80 million grant and of the spending element of the £80 million grant. • Allocation of surplus retained business rates growth generated by the Investment Zone's BRR site, in line with Government's Investment Zone policy. • 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. • 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. • Approving reports to Government as part of the WMCA's accountability function.
Delegation	1) 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. 2) All other and subsequent 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. 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.
Withdrawal from the Joint Committee	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. 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.

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				Financial Appraisal Summary	
			Total Investment	Closing Cash Position	Surplus / (Deficit) of Receipts vs MRP	Peak Borrowing Requirement	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.