

Cabinet

5 March 2024

West Midlands Investment Zone

Recommendation

That Cabinet:

- 1) Supports Warwickshire County Council's participation in the West Midlands Investment Zone (WMIZ) and agrees to the Council becoming a member of such Investment Board, including any Joint Committee, established by the West Midlands Combined Authority relating to the WMIZ whose functions include oversight of the development of the GigaPark site; and
- 2) Authorises the Executive Director for Communities to enter into a Memorandum of Understanding (MoU) with the West Midlands Combined Authority, Warwick District Council and Coventry City Council in relation to business rates and their retention across the proposed West Midlands Investment Zone area, on terms and conditions acceptable to the Executive Director for Resources.

1. Executive Summary

- 1.1 In March 2023, the UK published an Investment Zones Policy Prospectus, which invited the 8 mayoral combined authority areas in England, including the West Midlands Combined Authority (WMCA) to submit proposals for Investment Zones (IZ) in their areas. Within IZs, underdeveloped sites can be designated to provide new occupiers with tax incentives such as relief from business rates, national insurance contributions and stamp duty. The policy also offers the ability to designate sites for local retention of business rates growth for reinvestment into activities to develop a selected industrial sector. Finally, government announced that £80m, later increased in £160m in flexible capital and revenue funding would be made available for each IZ to support development of sites and the sectors they serve. Since March 2023, WMCA officers have worked with the County Council, Coventry City Council, Warwick District Council and the other constituent members of the WMCA to develop proposals for a West Midlands Investment Zone (WMIZ).
- 1.2 The WMIZ proposal is being "co-developed" between government, WMCA and local authorities including the County Council. The work is being completed in stages, working towards having all the necessary details agreed and arrangements in place for the WMIZ to be established at the start of the 2024/25 financial year.

- 1.3 The WMIZ presents an opportunity to drive forward economic growth and development in the region, with a particular focus on three geographic locations – the Coventry & Warwick Gigapark, the Birmingham Innovation and Knowledge Quarter, and the Wolverhampton Green Innovation Corridor. As a result of Investment Zone designation by the Government, these sites would benefit from the range of incentives set out in 1.1 above, helping to facilitate and accelerate growth in advanced manufacturing, green industries, health-tech and digital technologies. Collectively, it is expected that the WMIZ will create 30,000 new jobs and drive up to £5.5bn of growth in the region.
- 1.4 More specifically, the Coventry & Warwick Gigapark (CWGP) – which includes the Coventry Airport site where the proposed new West Midlands Gigafactory would be located and surrounding designated employment land sites (Whitley South and Segro Park in Warwick District, and Whitley East in Coventry) – are expected to create some 9,300 new jobs and generate over £2bn in growth. A map of the proposed CWCP is contained in Appendix 2.
- 1.5 Since this matter was last reported to Cabinet on 9 November 2023 the Government has formally announced the inclusion of a WMIZ in its Autumn Statement on 22 November 2023 and also announced that the available funding for each Investment Zone (IZ) would be doubled from £80 million to £160 million by extending the programme and associated tax reliefs from five to ten years.
- 1.6 The Birmingham Innovation and Knowledge Quarter site has also been identified as a Business Rate Retention (BRR) site in addition to the Coventry & Warwick GigaPark site and therefore both sites would generate business rate revenues to be reinvested in the WMIZ.
- 1.7 In terms of what the retained business rates can be used for, the Government’s policy for Investment Zones 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 (advanced manufacturing for the WMIZ). However, since this matter last came to Cabinet the Government has agreed a degree of flexibility over allocation of retained rates initially towards ‘local growth projects’ within billing authority areas, up to a point of a national reset, so that those local authorities are not disadvantaged by participating in the WMIZ programme.
- 1.8 There has also been development in relation to the “no detriment” principle that was referred to in the report that came to Cabinet on 9 November 2023. Following significant discussions between WMCA, the County Council (WCC) and Warwick District Council (WDC), we have agreed a position that ensures a position of no detriment with regard to the development of the Whitley South and Segro Park sites. WDC and WCC will continue to receive 50% of business rates growth on these sites (40% to WDC and 10% to WCC), up to the point of a national reset, as we would have done without an IZ. Following any reset, the two authorities will continue to retain the same quantum of any

business rates growth on these sites that may occur as we would have done without an IZ.

- 1.9 Due to the significant grant funding investment being directed towards the Coventry Airport site to support the development of the Gigafactory, and recognition of the importance of the Investment Zone to help facilitate and incentivise investment in the Gigafactory, it has been agreed that all retained business rates from this Gigafactory site should be reinvested back into the WMIZ and that this is not detrimental to the two Warwickshire authorities. This is because outside of the Segro Park and Whitley South sites there will be no business rates generated without the upfront investment.
- 1.10 Finally, in terms of developments since Cabinet last considered this matter, there has been some progress in terms of identifying potential funding for the initial infrastructure development required at the Gigapark site. £23m of funding from the initial £160m from Government directed to support the WMIZ will be utilised to undertake the enabling infrastructure works for the Gigafactory, routed via Coventry City Council and utilising an existing delivery vehicle established for this purpose in 2021. While other funding will be pro-actively investigated to support the development of the Gigafactory, it is not envisaged at this stage that any local borrowing (via tax increment financing) will be needed. If any such borrowing would be helpful in the future, this would be subject to a business case proposal and require collective decision-making.
- 1.11 Since the Cabinet report in November and following the Government's announcement, discussions have been ongoing with the WMCA (who in turn have been in discussion with the Department of Levelling Up, Housing and Communities (DLUHC)), WDC and Coventry City Council (CCC) to work out the finer details of the proposals. This report therefore provides an update for Cabinet and seeks authority to progress to the next steps, including approval for the County Council to become a formal member of the governance arrangements established to oversee the development of the Gigapark site which spans the Warwick District and the Coventry City Council areas.

2. Update on governance arrangements

Governance Model

- 2.1 On 15 November 2023 WDC's Cabinet recommended that an application for membership of the WMCA as a non-constituent member be made in light of the enactment of the Levelling Up and Regeneration Act which received royal assent on 26 October 2023 and simplifies the process for the boundaries of a combined authority to be amended. If this application is made and accepted by the WMCA then there would be no need for a Joint Committee to be established by WMCA and WDC to govern the WMIZ and instead a committee (referred to as an Investment Board) of the WMCA would be established which WDC would be able to participate in as a non-constituent member of the WMCA, on the same basis as the County Council's

membership of the Investment Board would operate. This Investment Board would have all the same functions as the proposed Joint Committee but would be simpler to establish from a governance perspective as it only requires a decision of the WMCA (whereas a Joint Committee also requires a formal decision from all participating bodies) and nominations of member representatives from each authority.

- 2.2 The proposed terms of reference for the Joint Committee/Investment Board which were approved by the WMCA on 17 November 2023 are attached at Appendix 1. Its responsibilities are set out in the terms of reference however its primary purpose is to implement the WMIZ in line with Government's IZ Policy Prospectus and Technical Guidance. This includes approval in principle of development proposals, oversight of delivery and allocation of surplus retained business rates growth in line with the agreed investment plan. The WMIZ area comprises the whole of the West Midlands Combined Authority area and the whole of the Warwick District Council area (see proposed map at Appendix 2 which is still subject to final Government approval). It is proposed that this Council, WDC, the WMCA Mayor and each of the seven constituent authorities of the WMCA are represented with each having full voting rights, and with the Mayor chairing the Joint Committee. The Council's proposed appointment to the Joint Committee/IZ Board, the Portfolio Holder for Economy, will be approved by the Council's Regulatory Committee.
- 2.3 The term 'full voting rights' in the context of any Investment Board / Joint Committee would in practice mean that the County Council would have one representative on the Board with one vote on any matter. The terms of reference do not indicate any matters requiring unanimous consent and so the County Council would effectively have one vote out of 10 (as the Mayor as Chair would be a voting member in addition to all 7 constituent authorities, WDC and the County Council). Additionally, universities that have signed up to WMIZ sites will be non-voting members and overview and scrutiny chairs from WMCA and WDC will be invited to attend as observers. As set out in the previous Cabinet report, decisions would be made on the basis of the majority vote, notwithstanding the principle of seeking consensus wherever possible that we expect to be enshrined in the MoU.
- 2.4 In the terms of reference approved by the WMCA on 17 November 2023 there was a reference to the allocation of retained business rates being subject to a robust investment plan to be developed and approved by the WMIZ Investment Board/Joint Committee. The terms of reference also state that there will be a requirement within this 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 WMIZ. This is referred to as the "no detriment principle" and there has been a significant amount of discussion between the WMCA, WDC and WCC on this point. A set of key principles as set out in Appendix 3 have now been resolved, and provide assurance to both WDC and WCC that the WMIZ will be of no detriment to either authority with respect to business rates for the Segro Park and Whitley South sites.

- 2.5 These principles will now be worked into the MoU that will need to be agreed between all parties with regards to business rates retention and the sharing of the business rates income received by the billing authorities, WDC and CCC.
- 2.6 As referenced in the last report to Cabinet, the legal basis underpinning the allocation of retained business rates, whether within Warwickshire or across the wider region, via decision making of a Joint Committee has been explored further. Business Rate Retention (BRR) sites which are approved by the Government will be designated as such in regulations under Schedule 7B to the Local Government Finance Act 1988. We anticipate that these regulations will require the relevant billing authorities (WDC and CCC in relation to the Gigapark site) to pay 100% of the business rates growth collected by the billing authority in respect of the Gigafactory site and 50% of the business rates growth in respect of the Segro Park and Whitley South sites (in line with the agreed 'no-detriment' principles) to the WMCA as the accountable body for the WMIZ. The Joint Committee/Investment Board will then be responsible for making decisions about how this is spent.
- 2.7 In addition, a local Coventry and Warwick Investment Zone officer group has been established which will:
- Advise CW representatives on the WM IZ Board on how to best represent the interests of CW and CW IZ sites, for example on plans for reinvestment of retained business rates, and the strategic direction of WMIZ as a whole.
 - Work together to attract the right occupiers to CW IZ sites and making sure regional resources (WMGC etc.) are aligned.

Membership of the group will be made up of LA officers and University representatives, and individual LAs will be responsible for briefing their elected members, ensuring a common approach to WMIZ Board

The Memorandum of Understanding (MoU)

- 2.8 A draft MoU has been provided and is under discussion between officers of this Council, Warwick District Council, Coventry City Council and the WMCA. The MoU will set out the intention of the parties in relation to the operation of the WMIZ.
- 2.9 The main provisions of the draft MoU cover the following;
- 2.9.1 The collection of business rates by the two billing authorities (WDC and CCC)
 - 2.9.2 The calculation of the value of the business rates
 - 2.9.3 The business rate retention arrangements and/or remittance to WMCA
 - 2.9.4 The principle of deploying investment in line with the agreed Investment Plan
 - 2.9.5 The arrangements for investment in local growth in the WDC area
 - 2.9.6 It is proposed that the MoU should enshrine the agreed 'no detriment' principles

- 2.9 It should be noted that an MoU is not a contractually binding agreement and sets out the spirit and intention behind the operating arrangements.

3. Financial Implications

- 3.1 As set out above, the Government's announcement in the Autumn Statement on 22 November 2023 confirmed that the available funding for each Investment Zone (IZ) would be doubled from £80 million to £160 million by extending the programme and associated tax reliefs from five to ten years. This means that although not guaranteed, there is greater scope for a greater proportion of the infrastructure costs of the Gigapark site development to be funded from this funding source.
- 3.2 When this matter was last reported to Cabinet, it was outlined that the cost of infrastructure for the GigaPark is likely to be in excess of £200m which would therefore require significant additional capital finance being raised to ensure completion of the development. Since that report, the Gigapark site has secured £23m of £180m funding to pay for the immediate infrastructure works around entrances to the site and increasing energy supply, which will be routed through Coventry City Council as the grant recipient. Further investment and alternative funding routes are being explored to help support future development phases of the site if gap funding is required. In particular, Coventry City Council and the WMCA are also looking at wider investment from the Government off the back of the announcements in terms of support for advanced manufacturing, automotive and battery technology.
- 3.3 There is no requirement on the County Council to invest in the Gigafactory as part of the proposals. Therefore, the financial risk and potential wider risk to the capacity to borrow to support the County Council's own capital programme is avoided.
- 3.4 There is currently no expectation that any borrowing will be required for either the Coventry & Warwick Gigapark, or the other 'spoke' IZ sites. However, as sites develop, and opportunities arise, this is a possibility. In the event that a local investment is required, there may be an option for individual authorities to invest, but the default is that this would be carried out at a regional level by the WMCA on behalf of its members. To be clear, there would be no borrowing undertaken by the County Council with respect to the Gigapark or wider WMIZ. Any investment required would need to demonstrate a sound business case whereby the financial benefits of additional business rates are more than sufficient to service any debt incurred.
- 3.5 It is also of note that the further work undertaken on the modelling still suggests that the Gigapark site has the ability to raise in the region of £560m over a 25-year period in retained business rates (and it should be noted that this is not impacted by any reset of business rates, as this is one of the benefits of IZ designation to provide confidence in future income generation). Provided the governance arrangements support the 'no detriment' principle for

both Warwickshire County Council and Warwick District Council and that this principle is not diluted over time, this has the potential to reap significant financial benefits to Warwickshire as well as the wider West Midlands region.

- 3.6 If the proposals are agreed and the Investment Zone is designated from 1 April 2024 there will be a need to set a baseline against which the Segro Park and Whitley South 'no detriment' principle for the sharing of future business rates growth will be measured.
- 3.7 To put this into context, the 2024/25 National Non-Domestic Rating return (NNDR1) from WDC to the Government included an estimated £0.327m business rates income from the Segro Park/Whitley South sites, representing growth of £0.065m above a £0.262m baseline, of which the County Council would receive 10% of this growth. However, the modelling undertaken on behalf of the WMCA goes on to suggest the County Council's 10% share could rise to as much as £2m a year by 2030/31 once the site is fully developed, subject to any changes in the national business rates system following a reset.
- 3.8 As set out in the 'no detriment' principles any additional business rates income retained by the County Council prior to any national reset will need to be spent on local growth projects across the county area. Following a national reset the definition of local growth projects is narrowed to investment and infrastructure to support the advanced manufacturing sector. The County Council has agreed with the WMCA that we would focus our investment of our share of retained business rates in the priority sectors for the IZ. Should there be other compelling opportunities for reinvestment in growth using those retained rates, which go outside the target sectors, we would seek agreement for that use with WMCA/DLUHC. Anything of this nature would directly align with WCC's Economic Growth Strategy
- 3.9 The prescriptions on how the additional business rates income can be used as a result of being part the Investment Zone will restrict the Council's flexibility in the use of these resources. Based on the Council's approved Medium Term Financial Strategy and Capital Strategy this requirement is not expected to impact materially on future budget and capital investment decisions. Also, any loss of flexibility will be more than offset by the benefit to the county's economic growth from the successful delivery of the Investment Zone.
- 3.10 For the wider Gigapark site, beyond Segro Park and Whitley South, included in the Investment Zone, the Council will not receive its share of the business rates generated (currently 10%). However, without the £200m investment in the site infrastructure it is unlikely the level of additional business rates would be generated.

4. Environmental Implications

- 4.1 There are no direct environment implications arising from this report

5. Supporting Information

- 5.1 The potential opportunities for Warwickshire of development of the Gigapark site remain as set out in the November Cabinet report. It is anticipated that the success of the GigaPark will generate significant and long-term economic growth for the area, including job creation, supply chain growth and new skills programmes, and reinvestment from Business Rate Retention to help drive delivery both of the site itself and beyond, attracting more investment into the area.
- 5.2 The proposed Gigafactory also remains an important component of the future growth and prosperity of our automotive industry. With the shift to electric vehicles that all automotive brands and Original Equipment Manufacturers (OEMs) are undertaking, there is increased need for a UK supply of batteries.
- 5.3 Some of the potential risks however also remain as set out in the November Cabinet report. These are replicated below, noting that the original risk around the 'no detriment' principle has now been addressed and resolved:
- 5.3.1 Gigapark investment to enable development of the site is likely to be significant and beyond the financial capacity of any council. The site is a strategically significant national asset and external funding will likely be required to develop the site.
 - 5.3.2 Were investment to be secured, there is a risk that the £160m Government allocation (or part thereof allocated to this site) coupled with the BRR uplift would not be sufficient to meet the development and financing costs.
 - 5.3.3 Whilst the intention is for the business rates within the designated BRR sites to be retained at 100% for 25 years, free from re-sets, it is not possible to bind the authorities forming the IZ Joint Committee to do so for the same period and even if they did, ensuring a decision by consensus approach would not be guaranteed. There could therefore be a gap in the governance structure for the reinvestment of the retained business rates which is a risk which would need to be recognised and managed.

6. Timescales associated with the decision and next steps

- 6.1 Should Cabinet approve the recommendations in this report, steps will be taken to finalise the governance arrangements, including the MoU to be entered into by the County Council.
- 6.2 In addition, a report will be taken to the next available Regulatory Committee to propose the Portfolio Holder for Economy as the Council's representative to the Investment Board/ Joint Committee.

6.3 It is envisaged that the Investment Board/ Joint Committee arrangements will be effective from April 2024.

Appendices

1. Appendix 1 – Terms of Reference for the WMIZ Joint Committee/ IZ Board
2. Appendix 2 - Indicative map of the WMIZ GigaPark site (still subject to change)
3. Appendix 3 – The agreed ‘no detriment’ principles

Background Papers

None

	Name	Contact Information
Report Author	Sioned Harper - Team Leader & Senior Solicitor Governance Legal Team	sionedharper@warwickshire.gov.uk
Director	Dave Ayton Hill - Director for Economy & Place	davidayton-hill@warwickshire.gov.uk
Executive Director	Mark Ryder – Executive Director for Communities	markryder@warwickshire.gov.uk
Portfolio Holder	Cllr Martin Watson - Portfolio Holder for Economy	martinwatson@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): Cllr Redford

Other members: Chair and Party Spokes of the Communities Overview and Scrutiny Committee

APPENDIX 1

Investment Zone Joint Committee (IZ Board) – Draft Terms of Reference

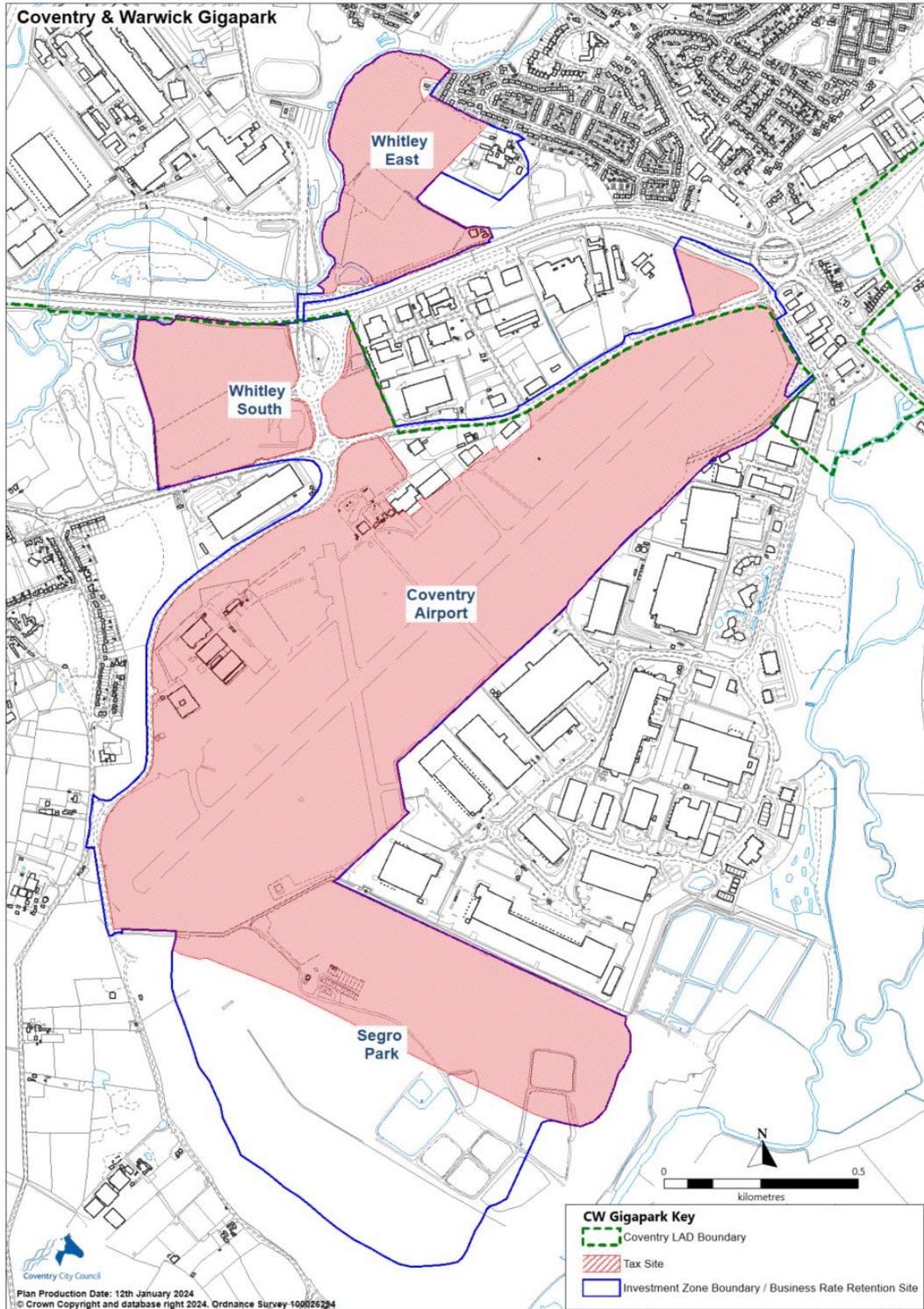
Governance	WM Investment Zone Joint Committee / WM Investment Zone Board
Purpose	Overall responsibility for developing and delivering the West Midlands Investment Zone and ensuring accountability to Government for its successful and compliant implementation.
Membership	<p>Voting Members: Mayor of the 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.
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"> • 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

	<p>requirements within the Investment Zone business rates retention site to allow those rates retained to be invested in local growth.</p> <ul style="list-style-type: none"> • 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	<ol style="list-style-type: none"> 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. <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>
Withdrawal from the Joint Committee	<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>

Map of Coventry & Warwick Gigapark

The designations indicated here are proposed only and are subject to HM Government's decisions on designation and ultimately parliamentary approval. They are published without prejudice to those decisions and must not be interpreted as being confirmed.



Agreed 'no detriment' principles

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.

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).

Principle 3

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

- i. 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.
- ii. 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.
- iii. 'Local growth projects' considered eligible for treatment under 3 i) will be those where the local authority has made a clear and formal commitment to investing in that project, having entered into contracts for their delivery.

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.

Principle 5

It is not anticipated that future public sector investment is required from the IZ for the site [s] 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.