



## **DEEPER DEVOLUTION IN THE WEST MIDLANDS:**

How will new powers and funding incentivise economic growth across the region?



## INTRODUCTION

The West Midlands Combined Authority (WMCA) was established in 2016. Home to 2.9 million people, it has one of the youngest and most ethnically diverse populations in Europe.

The most recent figures available from 2021 indicate that the WMCA has a Gross Domestic Product of **£74.2bn**, which is **3.5%** of the UK's economy. Whilst the region is bouncing back from the depths of the pandemic, economic recovery has been slower than the UK overall. This is in marked contrast to prior to the pandemic when economic growth in the WMCA area exceeded the UK average.

The success of the WMCA in delivering on the opportunities created by previous devolution deals in 2015 and 2017 has most recently been demonstrated by the selection of the West Midlands in March 2023 by the government as one of only two locations in England for a 'trailblazer' deeper devolution deal.

This briefing explores the key new devolved powers, with a particular focus on those that can particularly incentivise economic growth across the region, and our insights on the risks and opportunities that should be addressed over the next mayoral term.

## WHAT IS DEEPER DEVOLUTION?

Deeper devolution is, at its simplest, the transfer of more control and influence over the levers of economic growth and levelling up to the Mayor and West Midlands Combined Authority. Alongside this increased level of autonomy, there is also a greater level of accountability and local scrutiny.

With an estimated value in the region of **£1.5bn**, the deeper devolution deal has been described as an end to the 'begging bowl culture' associated with piecemeal applications to one-off funding pots, and subsequent restrictive requirements on the use of funding when secured.

The deal provides a range of new powers, responsibilities and resources for the region and is established on the key principles that new powers and funding should:

- Sit at the lowest feasible level of governance.
- Be drawn down from government, not drawn up from local authorities.
- Be 'double-devolved' where appropriate.

## WHAT'S ON OFFER?

### Fiscal devolution, funding and the single settlement

**The retention of business rates for 10 years** across the region is expected to be worth around **£450m** over the period. This will accelerate delivery by driving confidence in public sector borrowing, and de-risking investment modelling. In contrast to past business rate retention pilots, which have only been offered for a few years at most, the commitment to a decade of retention will boost public financial sustainability and local authority spending power.

The '**single settlement**' will, for the first time, treat a region as if it were a government department, increasing regional autonomy and providing the ability to prioritise decisions locally over the entirety of a spending review period in the areas of:

- Local growth and place
- Local transport
- Housing and regeneration
- Adult skills
- Housing retrofit

The Government has also committed to a **£25m capital fund** which will support environmental programmes, business decarbonisation, culture, and the West Midlands' Smart City Region initiative.

In the March 2024 Budget it was confirmed that a further **£10m** will be provided to support culture and heritage, and **£5m** to drive inward investment.

### Housing, land and regeneration

Homes England will invest **at least £200 million** of the **Affordable Housing Programme (AHP)** within the WMCA area by March 2026 with a clear ambition for the WMCA, local partners and Homes England to work together to **invest up to £400 million** to build more social and affordable homes **by 2026**.

**Full devolution of the Affordable Housing Programme (AHP)**, worth billions of pounds in funding, will take place **from 2026**, with the WMCA taking on the responsibility for key strategic decisions, currently taken by Homes England, over local investment and spend of the Affordable Homes Programme in the WMCA area in line with its strategic framework.





Building on the successful deployment of existing WMCA funds such as the Commercial Investment Fund, Residential Investment Fund, and Brownfield Land Property Development Fund, a new **£200m fund** was announced on 4<sup>th</sup> March 2024 to spearhead the delivery of another **12,000 new homes** on brownfield land across the region. This comprises £100m of redeployed existing funds and a further **£100m** of funding secured through the deeper devolution deal.

The WMCA will be involved in decisions on major UK **government land** disposals and reconfiguration, enabling the repurposing and redevelopment of publicly owned land to drive regeneration and unlock private investment.

## LEVELLING UP ZONES

First proposed through the WMCA Levelling Up Growth Prospectus, the region will be able to designate priority areas across the region as **Levelling Up Zones**. These areas will benefit from further enhanced and targeted fiscal measures including **25-year Business Rates Retention** (with no reset). Six zones are being considered for inclusion:

- East Birmingham North Solihull Corridor (including UK Central)
- Wolverhampton Corridor (incl. Green Innovation Corridor & University of Wolverhampton's National Centre for Sustainable Construction)
- Walsall Growth Corridor
- Dudley Metro Corridor [x2] (Sandwell Zone from Wednesbury to Birmingham Road, Tipton; Dudley Zone from Dudley to Brierley Hill)
- Coventry and Warwickshire Gigafactory Levelling Up Zone

### Net zero and environment

The **devolution of housing retrofit funding** will be piloted in the West Midlands from 2025. This will assist with removing uncertainty and inefficiencies in the existing funding system and inform future models for Government net zero funding.

The WMCA will have an enhanced role in wider **energy system management and planning**, with responsibilities for the designation of heat zones, energy efficiency advice and attracting private sector finance. In addition, funding from the **£25m capital pot** is anticipated for **industrial decarbonisation**, programmes for regional businesses, **natural environment finance models** and **air quality** monitors.

### Trade and investment

The West Midlands Growth Company (WMGC) will be recognised by the Department for Business and Trade as the lead agency for investment in the region. They will work collectively to develop a **WM International Strategy**, reviewing key account management with the region's major employers and enhancing the sharing of data.

The WMCA will be supported to boost the presence of the West Midlands in **trade missions** with dedicated support from the UK Export Academy to increase trade opportunities.

### Business productivity and innovation

The WMCA will take on a new role in integrating and promoting **business support services** across the region. This will be enabled by a new **Strategic Place Partnership** with departments from across the Government. The WMCA will have greater involvement in the governance of the British Business Bank's UK funds and collaborate with the UK Investment Bank on commercial arrangements for infrastructure finance.

A new **Strategic Innovation Partnership** will allow the WMCA to present regional innovation opportunities to inform UKRI's future funding strategies. This will facilitate collaboration to bolster **regional R&D growth** and the piloting of new initiatives such as a place-based knowledge transfer programme, the UK Education Innovation Fund, and public procurement flexibilities.

### Skills and employment support

Greater oversight of **post-16 technical education and skills and careers** will be devolved to the WMCA, alongside the devolution of further areas of **post-19 education and skills**. This will include ensuring that the local skills system responds to the Local Skills Improvement Plan. From the next Spending Review this will include greater devolution of non-apprenticeship adult skills functions and funding, as well as greater freedoms around Free Courses for Jobs and Bootcamps.

The WMCA will become the 'central convenor' for **careers advice** in the region by working with the Government to ensure that provision meets the evolving economic needs of the West Midlands.

A Regional Labour Market Partnership Board will be established, and the WMCA will co-design contracted **employment support programmes** with DWP to ensure that they meet the aspirations of the region.





## WEST MIDLANDS INVESTMENT ZONE

Separately, and in addition to the Deal, the WMCA was also identified to submit a proposal for a sector-led Investment Zone. The Investment Zone programme aims to grow high-potential innovation and industrial strengths in areas with significant scope for catch up economic growth to drive national productivity growth. The Government's key principles for Investment Zones include:

- A focus on innovation and R&D, within the identified key sector, with sign off by relevant university or research institution partners.
- The Investment Zone proposal should also deliver levelling up outcomes and leverage match-funding and private investment.
- A total value of £80m has been identified by Government to support sites within the Investment Zone – either by way of grant to enable development, or tax incentives to facilitate development.
- Three major (up to a maximum total of 600 ha) tax sites can be identified within the Investment Zone, which will be afforded a range of incentives – from reliefs on business rates, to stamp duty and national insurance.
- Of these tax sites, two sites can retain [100%] business rate growth above a baseline for 25 years. Retained business rates growth must be reinvested in the primary sector at a regional level, not into the specific tax site.
- Sites must be 'underdeveloped'.

The March 2024 Budget confirmed that the West Midlands Investment Zone will build on the region's historic strengths in advanced manufacturing across three core sites with a particular focus on driving growth in battery, digital, and sustainable construction technologies.

In **Birmingham City Centre** a **multi-disciplinary innovation quarter** with translational research and laboratory facilities will be created, benefiting from tax incentives which will strengthen partnerships between businesses and world-leading universities.

In **Coventry and Warwick** tax incentives will be used to help secure investment for a **new battery gigafactory** and support agglomeration benefits by stimulating clustering of associated businesses and technologies.

Up to **£40m** will support improved **infrastructure** for travel and power in these sites as well as bring forward developments at the **Green Innovation Corridor in Wolverhampton**.

In addition, up to **£19m** will be provided to facilitate **a package of support** for business, research and innovation, and skills. This will help grow the innovation ecosystem and skills base in the sector.

Overall, it is expected that this will attract more than **£2bn** of initial investment, with **a further £3.5bn over the lifetime of the Investment Zone**, creating more than **30,000 new jobs** over the next decade.

## WHAT ARE THE CURRENT ISSUES AND RISKS FOR THE WEST MIDLANDS?

As evidenced by slower growth in comparison to many other parts of the UK in recent years, the West Midlands was particularly affected by the combined impacts of the pandemic and Brexit. Key aspects of the regional economy, which had fuelled higher rates of growth prior to these events, served to exacerbate the impacts:

- The local economy, built upon the region's proud history of manufacturing, was subject to more significant effects from post-Brexit trade restrictions on imports and exports than other regions.
- In addition, many of the jobs associated with manufacturing can only take place within factories, and so such workers were unable to remain productive by working from home during the worst parts of the pandemic.
- The comparatively young age profile of the region meant that the disruption to education experienced by younger residents will have had a greater impact on the local skills base.
- Success in attracting high levels of inward investment in recent years led to a greater impact when inward investment fell as result of these events.

- The region's location at the heart of the country's transport network meant that there are particular benefits for the West Midlands from High Speed 2. The ongoing delays to the delivery of phase 1 and the scrapping of phase 2 have both impacted adversely on the wider growth of the regional economy.

It is important to note that both the pandemic and Brexit were unique events and that these key elements of the regional economy can and are becoming strengths again.

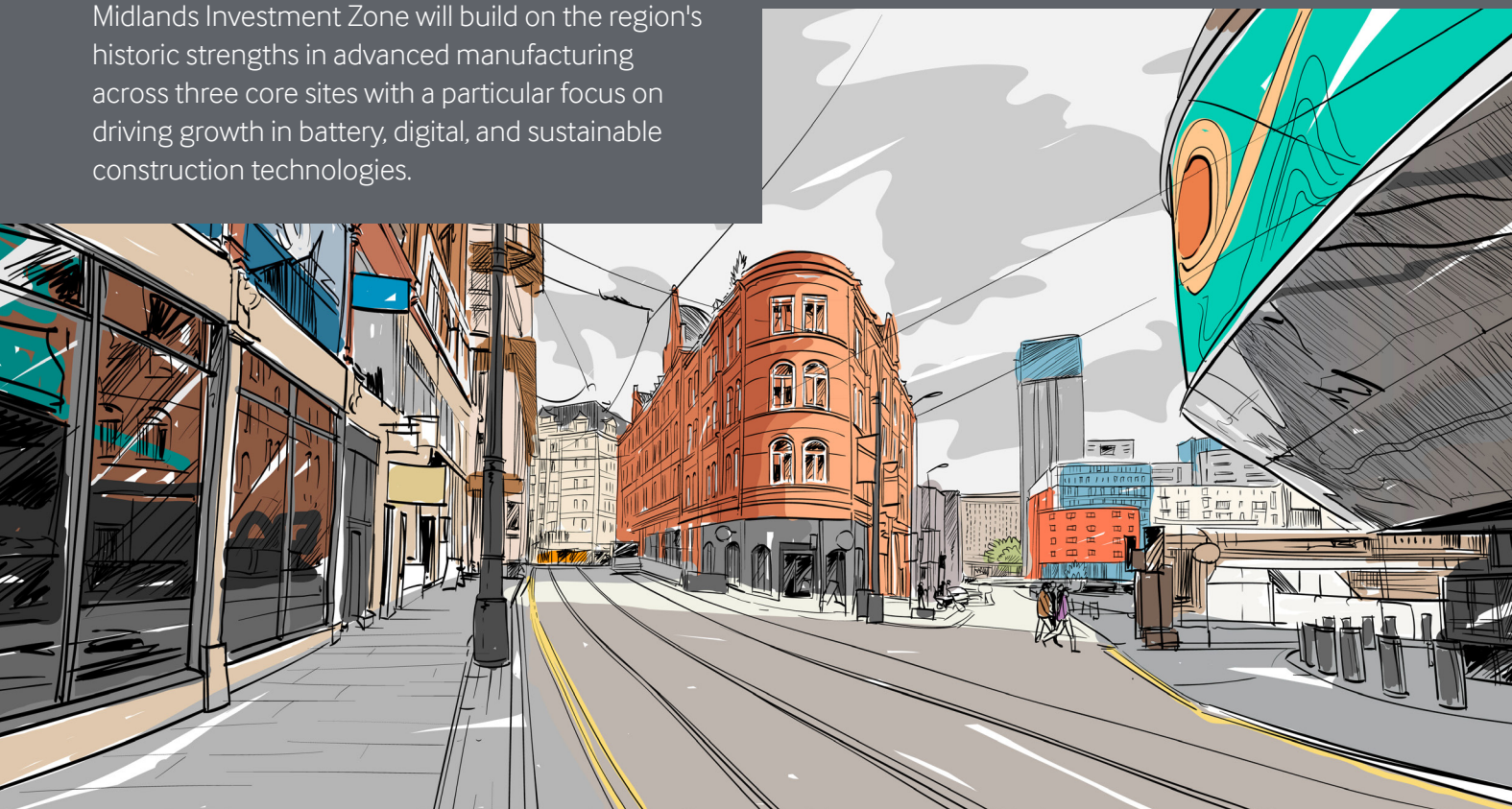
However, there is also a key issue for the West Midlands around local authority funding and capacity. While Birmingham has been identified in the media as the poster child for these issues, this is not an issue unique to Birmingham. Local authorities across the country, including others in the region, are flagging up forthcoming concerns around their ability to set legal budgets.

## WHAT CAN BE DONE TO CREATE CERTAINTY AND DRIVE THE REGIONAL ECONOMY?

Building upon the successes that have been delivered in recent years the next Mayor and the WMCA are in an enviable position of having a much wider range of funding, powers, and responsibilities available to them to 'unleash the potential of devolution'.

Given the breadth of powers available and the many and varied potential interactions between different areas, it will be particularly important that such opportunities are deployed in a coordinated and cohesive manner.

The new deeper devolution deal powers provide a substantially enhanced role in directing various forms of development and investment. This includes inclusive employment and commercial growth through the Levelling Up Zones, alongside the specific focused support for innovation through West Midlands Investment Zone, and a much stronger role in the strategic deployment of the affordable housing programme.



While the inherent political challenges of strategic land use planning in the West Midlands are well known, the WMCA have existing responsibilities to prepare both a Strategic Economic Plan, and a Local Transport Plan. These are already important existing tools that are upgraded by the additional opportunities created by the deeper devolution deal. In particular, they can assist in providing certainty on where infrastructure delivery will take place and support the delivery of the Levelling Up and Investment Zones which will both assist with attracting inward investment and supporting the growth of local businesses. The ability to direct the strategy and delivery of affordable housing investment will also assist in addressing well established issues with a shortfall in the supply of affordable homes in the region.

Given the challenge around local authority capacity and resources, the WMCA should also consider how they can assist their partner local authorities through difficult circumstances. There are potential opportunities to forward fund infrastructure investment through tax increment financing made possible by the new Business Rates Retention powers, alongside the flexibilities provided through the single settlement.

Finally, the Mayor and WMCA should not forget their role in representing the region both in negotiations with Government and promoting the region on the world stage.

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