

Birmingham City Council

Report to Cabinet

Date 30th July 2019



Subject: ENTERPRISE ZONE INVESTMENT PLAN 2019
Report of: DIRECTOR, INCLUSIVE GROWTH
Relevant Cabinet Member: Councillor Ian Ward – Leader of Birmingham City Council
Councillor Tristan Chatfield – Cabinet Member for Finance and Resources
Relevant O &S Chair(s): Councillor Tahir Ali, Economy & Skills
Councillor Sir Albert Bore, Resources
Report author: James Betjemann, Head of Enterprise Zone and Curzon Development: 0121 303 4174
Email Address: james.betjemann@[birmingham.gov.uk](mailto:james.betjemann@birmingham.gov.uk)

Are specific wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s): Ladywood, Nechells and Bordesley and Highgate		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 004101/2017		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

1.1 The Enterprise Zone (EZ) was formed in 2011 with the purpose to accelerate development in the City Centre, delivering the strategy of the Big City Plan (2010) and Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) priorities including;

- Improving economic performance and creating jobs

- Delivering the spatial strategy for growing the City Centre Core by over 25% through five Areas of Transformation as set out in the Big City Plan.
 - Delivering enhanced infrastructure including improvements to public transport and public realm all focused on attracting inward investment, occupiers, visitors, residents and workers.
- 1.2 The Programme includes funding for public realm, transport improvements and site enabling. The EZ is predicated on the growth in business rates and BCC utilising its prudential borrowing powers to fund investment.
 - 1.3 The Enterprise Zone Investment Plan 2019 (EZIP 2019) sets out a £1.023bn programme of infrastructure investment up to 2045/46. Within this Programme it defines a phased implementation period up to 2028 along with the financial principles, governance and reporting requirements that will support delivery.
 - 1.4 The Birmingham City Centre Enterprise Zone (EZ) is one of the Greater Birmingham and Solihull Local Enterprise Partnership's (GBSLEP) major programmes for driving growth and regeneration in the region. Birmingham City Council (BCC) is the Accountable Body for the GBSLEP and is responsible for the receipt and investment of business rate growth.

2 Recommendations

- 2.1 Notes the Enterprise Zone Investment Strategy set out in the Enterprise Zone Investment Plan 2019 (Appendix 1).
- 2.2 Notes that, subject to approval to the recommendations in this report, the total lifetime EZ revenue funding requirement to cover the City Council's prudential borrowing and other costs is now £1.632 bn.
- 2.3 Approves a revised EZ capital programme which identifies an overall prudential borrowing requirement, including capitalised interest of £1.299 bn. This includes additional funding for the Paradise Phase 2 (£51.277m) and Metro Extension to Centenary Square (£4.474m) projects and a provisional allocation of £150m for the regeneration of Smithfield.
- 2.4 Notes that business cases for projects will come forward for approval for EZ funding, subject to their affordability and alignment with the strategy for the EZ and meeting the requirements of HM Treasury's Green Book guidance.
- 2.5 Approves the revised Financial Principles as set out in section 7 of this report.
- 2.6 Agrees that the Financial Principles for the Enterprise Zone will be reviewed on a biennial basis.
- 2.7 Notes that a new Enterprise Zone Investment Plan will be produced in 2028.

3 Background

- 3.1 The first EZ Investment Plan was launched in 2012 with a £128m programme of investment. In 2014 the Investment Plan was updated to reflect a longer term

investment period up to 2022/23 and a revised £275m infrastructure programme. In 2015 the EZ area was extended from its original 26 sites to 39 sites, covering 113ha. In 2016 the Curzon Investment Plan was launched setting out a £724m programme, consisting of £587m of further EZ funding and £137m of West Midlands Combined Authority (WMCA) resources to maximise the potential of HS2. A further commitment from the EZ of £183m was made to support delivery of the Midland Metro from Digbeth, through East Birmingham, to UK Central. The EZ investment plans are funded through the projected growth in business rates generated within the EZ sites managed through a financial model.

- 3.2 Decisions relating to the EZ are taken by the GBSLEP under the systems and processes set out in its Assurance Framework. Capital projects within the EZIP 2019 will be sponsored through the City Council and are funded by BCC prudential borrowing, which is supported by an annual revenue grant from the EZ. The capital expenditure and the associated borrowing costs are accounted for within the City Council's overall finances and accounts with reimbursement from the EZ through the revenue grant.

Progress

- 3.3 Since the launch of the EZ in 2011 considerable progress has been made in delivering investment, development and jobs in the City Centre. In total 4,264 jobs and 208,000sqm of new floorspace has been created. To date the EZ has invested £128.7m for infrastructure investment which has leveraged £598m of private sector investment. This represents a ratio of 1:5 for public to private sector spend. A summary of the impact to date is set out in Table 1 below.
- 3.4 The EZ investment has been instrumental in unlocking and accelerating key strategic sites. One of the largest EZ sites is the Paradise development which has seen considerable progress following an initial investment approval of £87.790m in 2013. All the key highway works and infrastructure preparation work are complete for Phase 1 and it is set to deliver 335,000sqft of prime office space with Price Waterhouse Cooper taking occupation of the first building, One Chamberlain Square (150,000sqft,) in mid-2019. In January 2019 the GBSLEP approved a further investment of £51.277m to deliver Phase 2 and work is already underway to deliver the first building, One Centenary Way, which will be speculatively built to deliver another 275,000sqft of office space. In total the Paradise scheme will deliver 10,000 jobs and 1.5msqft of new floorspace.
- 3.5 Birmingham Smithfield, which is a £1.5bn redevelopment and the largest single EZ site, will see expansion of the city core creating opportunities for over 300,000sqm of new leisure, retail, cultural and commercial floorspace and 2,000 new homes. EZ investment has helped unlock the site through the relocation of the Wholesale Markets and Birmingham City Council, as the major landowner, is working with Lendlease as its preferred development partner and work is underway to bring forward the full business case that will define the level of EZ funding needed to unlock the site and accelerate development.

- 3.6 A further £3.3m has contributed towards the delivery of business space supporting the creative and digital sectors, such as the Garrison Data Centre and Innovation Birmingham.
- 3.7 The EZ also has a crucial role to play in maximising the impact of HS2 within the region and an initial £1.1m has been approved for design work of the public realm surrounding the HS2 station which will be essential for connectivity and opening up EZ sites. £9m has also been committed to support delivery of the Metro stop, within the HS2 Station, as part of the Eastside extension of the Midland Metro.

The Enterprise Zone Investment Plan (2019)

- 3.8 Today the EZ consists of 39 sites covering 113ha of the city centre. With the EZ programme being set out across 2 Investment Plans, the EZIP (2014) and the Curzon IP (2016) a consolidated approach is needed in order to manage the programme and its investments. Linked to this has been a comprehensive review of the programme including governance, financial principles and the overarching financial model, development phasing, business rates projections and project delivery. The creation of the EZIP 2019 will ensure that there is a clearly defined strategic programme with a robust governance framework in place to deliver the transformational EZ programme now and into the future, subject to future cashflow and affordability.

Table 1 – EZ output achievement between 2011-2019

Number of jobs created	4,264
Number of businesses locating in the EZ	65
Land Developed - (Sqm) ('000)	208
Land reclaimed and made ready (ha)	16
Total Investment (£m)	719
Investment - Public (£m)	128
Investment - Private (£m)	598
Uplift in Business Rates (£m) secured	13.4
EZ Investment Programme Total Expenditure (£m);	134.3
EZ Investment Programme Capital Expenditure (£m)	128.7
EZ Investment Programme Revenue Expenditure (£m)	5.6

- 3.9 The EZIP 2019 focuses on a 10-year period over which to manage investment against forecasted income and deliver upon clear priorities. This approach responds to the need to continue the acceleration of major development schemes and infrastructure works that will unlock growth and maximise the potential of HS2. This approach is fully aligned to the Big City Plan, Curzon HS2 Masterplan and HS2 Growth Strategy as well as continuing the delivery of GBSLEP priorities. Appendix 3 sets out the 10 year phased investment programme, which has been structured as follows:

- Accelerate delivery of current commitments (Phase 1-2).

- Maximising early opportunities from HS2 (Phase 3-4).
- Delivering longer term strategic priorities (Phase 5-9).

3.10 The EZIP 2019 is attached as Appendix 1 and sets out the overall strategy for the EZ, including the detail of each phase and associated projects. It builds on the programmes set out within the EZ Investment Plans approved in 2012 and 2014 and the Curzon Investment Plan in 2016. The EZIP 2019 now includes additional capital investment in Paradise (£51.277m) and the Metro Extension to Centenary Square (£4.474m) along with a provisional allocation of £150m for regenerating Smithfield. These projects are contained within a revised prudential requirement on the City Council of £1.299bn across the lifetime of the EZ. Following a project prioritisation and re-profiling exercise the impact on the City Council's 10 year Financial Plan has seen a reduction on the City Council's overall borrowing requirement from that previously reported to Cabinet in December 2018 as detailed in a reconciliation, see Appendix 4. The prudential borrowing costs arising for the City Council from these EZ investments will be funded through the uplift in business rates income from current hereditaments as well those which are expected to be delivered over the next ten years. For reasons of prudence the 2019 EZIP has been modelled on the basis of 'secured' business rate income only and ignores the additional business rate income from future planned investments. Additionally the financial model has been developed to include some prudent contingencies around business rate income. As each year progresses it would not be unreasonable to expect the EZ resource base to grow above that currently anticipated. As with all EZ projects the City Council's Accountable Body and Governance framework will receive Business Cases and will consider them for approval based on the latest information available around the authority's prudential borrowing limits and cash affordability.

3.11 The GBSLEP has overall strategic ownership of the programme and for setting and approving the Investment Plans. All governance is carried out in accordance with the GBSLEP Assurance Framework and is outlined in the EZIP 2019.

3.12 Birmingham City Council will deliver the investment strategy and programme of projects and resources are allocated to undertake these functions on behalf of the Accountable Body.

Governance Improvements

3.13 In order to learn lessons from projects such as Paradise, a number of improvements have been made to the EZ's governance. Previously it was agreed that responsibility for programme management and delivery was delegated by the GBSLEP Board to an EZ Executive Sub Board, whilst BCC would undertake the role of Accountable Body and have responsibility for performance management and, in most cases, project delivery. However, it has become clear that this has resulted in insufficient oversight and transparency, which has meant the GBSLEP Board has been unsighted on key issues affecting delivery, for example progress with delivering Paradise. In learning the lessons from this the GBSLEP will now be represented on the main Paradise project board to ensure there are clear lines of

communication and any issue affecting delivery can be addressed at the earliest stage. These arrangements are now being replicated for the Smithfield project, which is at a much earlier stage in its life cycle and will enable better oversight from the outset. Going forward, all aspects of EZ governance will be aligned with the GBSLEP's existing assurance arrangements for its other funding programmes, such as the Local Growth Fund.

- 3.14 The GBSLEP Programme Delivery Board (GBSLEP PDB) will be responsible for programme management, which is charged with ensuring the delivery of the EZ to achieve the objectives of the Strategic Economic Plan. It's empowered to grant full approval to projects seeking funding of up to £10m and the release of development funding or change requests within this level of delegation. Investment Decisions above this will be the responsibility of the full GBSLEP Board. The GBSLEP Executive Team will co-ordinate all aspects of appraising funding applications and day to day monitoring and performance management of projects and will report to both the GBSLEP PDB and main Board. BCC will continue to provide support for the management of the financial model that provides assurance with business rate forecasting and project affordability to support investment decisions.

4 Options considered and Recommended Proposal

- 4.1 An alternative option would be to cease EZ activity. This is not supported as the programme is forecast to deliver a range of benefits for the GBSLEP region and Birmingham, including the creation of 71,000 jobs and 9,300 new homes.
- 4.2 Another option would be for a different local authority, within the GBSLEP region, to become the Accountable Body. This is not considered suitable given the programme is of sufficient scale that only BCC, subject to its own prudential borrowing limits, has the resources to undertake this role. In addition all EZ sites are in the City Centre, therefore, all development investment to create income and revenue growth for the GBSLEP is based in Birmingham; as such there is a clear strategic need for the City Council to be the Accountable Body for these projects.

5 Consultation

- 5.1 The Leader of Birmingham City Council and Cabinet Member for Finance and Resources will be consulted on the contents of the report. Officers from Procurement, Finance and Legal Services have been involved in the preparation of this report.

External

- 5.2 Members of the GBSLEP Board approved the EZIP 2019 on 6th June 2019.

6 Risk Management

- 6.1 All projects will be required to produce robust risk strategies as part of their full business case. These will be maintained throughout the life cycle of the project in line with BCC and GBSLEP performance management requirements.
- 6.2 A risk register is included within the EZ Investment Plan 2019 and further detail on how these risks will be managed is provided in section 7.3.

7 Compliance Issues:

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

7.1.1 The EZIP 2019 supports the Council's Business Plan and Budget 2019+, specifically the priority is to make Birmingham a great city to live in and Birmingham is an entrepreneurial city to learn, work and invest in. In addition it promotes transformational change in the City Centre in line with the Big City Plan, Curzon Masterplan and Birmingham Development Plan.

7.2 Legal Implications

7.2.1 Investment in economic development is made pursuant to the general power of competence contained in Section 1 of the Localism Act 2011.

7.3 Financial Implications

7.3.1 Within the EZ all business rates are collected by the City Council with any net uplift within the Zone allocated to the GBSLEP for the period through to 31 March 2046. It is the LEP who decide how and where these funds are deployed and will make the investment decisions over the resource. As Accountable Body for the GBSLEP, the City Council has responsibility for financial governance over the EZ.

7.3.2 In its Accountable Body role, the City Council has and will undertake prudential borrowing, subject to financial and treasury limitations, to support GBSLEP approved capital projects. To support the governance of this role where projects are delivered through the City Council, individual project Business Cases for capital and revenue investments will be taken through both the GBSLEP and City Council's governance process. The City Council's Prudential borrowing costs will be financed by the revenue resources generated through the uplift in business rates within the EZ. There are financial risks associated with the Accountable Body role, the main one being failure of the EZ to deliver sufficient business rates uplift to cover the level of borrowing and up-front revenue expenditure incurred by the City Council. These risks have and will continue to be managed primarily through detailed financial modelling and phased contractual developer obligations and by receiving, for independent examination / approval by the GBSLEP, detailed individual Business Cases for project spend. The development and cost risks of EZ funded projects sponsored outside of the City Council will be the responsibility of the relevant local

authority or delivery partner if the income doesn't materialise as expected to ensure overall delivery is contained within the available funding profile.

7.3.3 In 2012 Birmingham City Council and the GBSLEP established a set of financial principles for the EZ, and these will continue to apply to the extended EZ including Curzon. Accordingly, the City Council will continue to apply a safety margin whereby 15% of secured/committed business rate income is held in reserve and not committed against investment proposals until there is greater surety of future uplift in business rate income. The programme will also work to keep borrowing costs within 65% of 85% of secured/committed forecast income. In developing the EZIP 2019 a comprehensive review of the EZ programme has been undertaken, in particular a more robust approach to the consideration of business rate income has been taken to manage the financial risks associated with the EZ model. The Business Rate income from each of the EZ sites has been categorised according to its risk status. This is intended to identify the "secured income" which may reasonably be relied on to support borrowing costs and in EZ financial planning. The categories are as follows:

- a) Secured – business rates paid or legally due.
- b) Committed – where construction is on site or business are guaranteed via legal agreement i.e. business rates are deemed to be reasonably secure.
- c) Other Committed - specifically relates to commitments on the Paradise redevelopment. A separate category was deemed necessary due to the size and impact of Paradise on the wider EZ Programme.
- d) Uncommitted – developments not yet started so business rate income is not secure.
- e) An additional 5% of gross business rate income per annum is ring fenced for appeals. This is in addition to the 4.38% already set aside for appeals.
- f) 5% of gross business rate income per annum is ring fenced to mitigate the impact of future business rate revaluations by Central Government. This would provide a greater level of funding against the current principle which allocates a notional £1m every 3 years.
- g) In the period 20212-2023 provision is made to repay the contingency budget utilised up to 2019/20 when in-year income was insufficient to repay the borrowing costs. This will ensure that the contingency budget will be sufficient to safeguard against lower than forecast business rate income in future years.

7.3.4 Categories (a) to (c) have been included in EZ financial planning as "secure income" for the purposes of supporting a prudent level of prudential borrowing and for determining the affordability of the EZIP 2019 borrowing set out in section 3.10.

7.4 Procurement Implications (if required)

7.4.1 This report has no procurement implications. All projects funded by the EZ will need to satisfy BCC's procurement requirements, which will be identified through the appraisal of each business case and subsequent monitoring.

7.4.2 Projects which receive EZ funding will be required to fulfil the social value obligations as set out in the Council Social Value policy (2013). This includes becoming a signatory of the Birmingham Business Charter for Social Responsibility and securing social value through procurement and commissioning.

7.5 Human Resources Implications (if required)

7.5.1 This report has no Human Resource implications.

7.6 Public Sector Equality Duty

7.6.1 In overall terms the EZ has been assessed (Appendix 2) as leading to a positive effect on the equality considerations through the promotion of economic activity, job creation and improving skills that will benefit local people. It has been assessed that the EZ will advance equality of opportunity as a result of its promotion of development and regeneration activity.

8 List of Appendices accompanying this Report (if any):

8.1

- 1. Enterprise Zone Investment Plan 2019
- 2. Equality Analysis
- 3. EZ Phased Programme Summary
- 4. EZ Financial Reconciliation Summary

9 Background Documents

9.1 Enterprise Zone Investment Plan 2012

Enterprise Zone Revised Investment Plan 2014

Curzon Investment Plan 2016