| | APPROVED FINANCIAL PRINCIPLE | RATIONALE FOR CHANGE | PROPOSED FINANCIAL PRINCIPLE |
|---|---|---|---|
| | **INCOME/FUNDING** | | |
| **1** | Income/funding - 15% of the business rates income every year is ringfenced for uncertainties and the release of contingency kept under review on an annual basis:<br>• Once all capital projects are completed and/or all borrowing has been repaid, no further contingency provision to be made;<br>• The level of contingency will be reviewed annually subject to programme risk and current forecasting; and<br>• The allocation of contingency is subject to satisfying existing borrowing which will be based on risk and current forecasting. Should sufficient contingency exist to allow additional project investment this could be reallocated in accordance with the current EZIP. | Contingencies are expected to reach c.£31m in the next 5 years. Current principles do not allow for the utilisation of contingency balances when considering the future EZ proposed programme. This could stifle growth and hinder proposed pipeline projects coming forward as part of the EZIP 2022 refresh. | Income/Funding – 15% of the business rates income every year is ringfenced for uncertainties and the release of contingency kept under review on an annual basis.<br><br>Where it is deemed financially beneficial to the EZ programme, the total surplus position, including contingency and surpluses built up in previous years, can be used to repay debt or fund future Capital spend depending on relevant interest rates. E.g., If past debt interest rates are higher than current/future borrowing rates then past debt should be repaid with equivalent amounts being borrowed for ongoing/future capital expenditure at the lower interest rate. If current/future rates are higher, then Revenue to be utilised to fund Capital Expenditure rather than borrowing.<br><br>The impact of BCC's Treasury Management early debt repayments, if any, to be calculated and funded from surplus balances as part of paying off debt. This could include for example, penalties incurred as a result of early redemption of amounts borrowed.<br><br>The level of maintained contingency will be reviewed annually subject to programme risk and current forecasting. |
| **2** | Income/funding - of the remaining 85% of business rates income, financial commitments through borrowing will be monitored to endeavour they remain within 65% of the total business rates income. | | Income/funding - financial commitments through borrowing will be monitored to endeavour they remain within total business rates income subject to Financial Principle 1. The model will continue to assess financial commitments through borrowing to endeavour they remain within 65% of the total business rates income. |

| | APPROVED FINANCIAL PRINCIPLE | RATIONALE FOR CHANGE | PROPOSED FINANCIAL PRINCIPLE |
|---|---|---|---|
| | **INCOME/FUNDING** | | |
| **3** | Income/funding – 13% of **gross** business rates income is ringfenced to account for circumstances such as bad debts (4%), appeals (5%), rate relief and future rate rises (4%). | **No change** unless actual experience in 21/22 evidence need to change | NA |
| **4** | Income/funding - 5% of **gross** business rate income is ringfenced to mitigate a potential loss of Business Rates income, during Valuation Office Rate Reviews, is incorporated into the EZ model. | **No Change** proposed at this stage. However, this will be reviewed following Revaluation 2023. | NA |
| **5** | Income/funding - Bi-monthly forecasting of EZ site developments will take place to ensure the Business Rate profiles are accurate and robust. | **Proposal:**<br>Move to quarterly | Income/funding - Quarterly forecasting of EZ site developments will take place to ensure the Business Rate profiles are accurate and robust. |
| **6** | Income/funding - The introduction of 12-month lead-in times for the receipt of business rates from completed developments. | **Proposal:**<br>Revert to six months. Agreed, given variables in size of developments, an acknowledgment of this risk would be appropriate.<br>Propose 12 months for complex projects – buildings 3 storeys and above, 6month all others. As building develops the lead in time is managed down. | Income/funding – For completed projects, a 6 month lead-in time for receipt of business rates will be utilised, except for complex projects (3 storeys and above) where it will be a 12-month lead-in time. |
| **7** | Income/funding - The availability of contingency funding to support programme delivery will be reviewed throughout the year with a formal review at least annually. | **No change** | NA |

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|---|---|---|---|
| | **INCOME/FUNDING** | | |
| **8** | Income/funding - only secured and committed business rates income should be included.<br>Definitions:<br>• Secured - business rates paid or legally due<br>• Committed - Construction on site or guaranteed via legal agreement; business rates reasonably secure<br>• Uncommitted - Development not yet started; business rates not secure | **No change** | NA |
| **9** | Income/funding - On a case-by-case basis the model to be tested for affordability prior to making investment decisions. | **Addition**:<br>Reference OBC for Development funding and at FBC for clarity | Income/funding - On a case-by-case basis (Development Funding for Outline Business Case and Delivery Funding for Full Business Case) the model to be tested for affordability prior to making investment decisions. |
| **10** | Income/funding - An additional 5% of **gross** business rates income is ringfenced as a specific contingency to account for additional appeals, on top of existing 5% provision | Delete due to the proposed changes to Financial Principle 1 and the 5% provision already included in Financial Principle 4 | Financial Principle 10 to be deleted.<br><br>NOT USED |
| **11** | Income/funding - an additional amount of BRI to be agreed by the Board is held back to 'top-up' the Contingency balance when sufficient funds are available in the model, for amounts used in previous years following the 2017 Government RV revaluation. | Delete due to the proposed changes to Financial Principle 1 | Financial Principle 11 to be deleted.<br><br>NOT USED |
| **12** | Income/funding – Gross Uncommitted business rates income is deducted from gross BRI **after** provisions and allowances when calculating annual revenue to offset against expenditure. | **No change** | NA |

| | APPROVED FINANCIAL PRINCIPLE | RATIONALE FOR CHANGE | PROPOSED FINANCIAL PRINCIPLE |
|---|---|---|---|
| | **INCOME/FUNDING** | | |
| **13** | Income/funding - Interest earned on retained Business Rates Income (the Contingency) is to be ringfenced for EZ programme commitments (subject to Financial Principle 27). | **No change** | NA |
| **14** | Income/funding - any EZ project investment surplus is to be returned to the EZ programme. | **No change** | NA |

| | EXISTING FINANCIAL PRINCIPLE | RATIONALE FOR CHANGE | PROPOSED FINANCIAL PRINCIPLE |
|---|---|---|---|
| | **COSTS** | | |
| **15** | Costs - Interest charges for local authority assets are rolled-up to match cost income cash flows.<br>i.e., interest on borrowings is capitalised for each capital project during construction | **No change** | NA |
| **16** | Costs - All EZ expenditure must comply with Birmingham City Council accounting and debt repayment policies. | **No change** | NA |
| **17** | Costs - any capital project costs not yet approved (OBC) to be profiled into the final EZ programme year 2045/46 | **No change** | NA |
| **18** | Costs - a proportion of LEP Programme Delivery Team costs are to be included in-line with those included for BCC EZ Programme Delivery Team costs. | **No change** | NA |
| **19** | Costs – EZ Programme Delivery Team costs (BCC and LEP) may be capitalised rather than treating as Revenue, where they can be identified with specific capital projects. | **No change** | NA |

| | EXISTING FINANCIAL PRINCIPLE | RATIONALE FOR CHANGE | PROPOSED FINANCIAL PRINCIPLE |
|---|---|---|---|
| | **BORROWING** | | |
| **20** | Borrowing - All borrowing is repaid within the life of the Enterprise Zone Programme. | **No change** | NA |

| | EXISTING FINANCIAL PRINCIPLE | RATIONALE FOR CHANGE | PROPOSED FINANCIAL PRINCIPLE |
|---|---|---|---|
| | **GOVERNANCE** | | |
| **21** | Governance – all financial principles and assumptions are to be approved by the GBSLEP PDB and GBSLEP Board, or successor governance, in conjunction with BCC s151 Officer (or deputy) and approved by BCC Capital Board and governance process as dictated by the materiality of the change. | **No change** | NA |
| **22** | Governance – in-year income and expenditure, capital and revenue, are updated with actuals at least quarterly providing such information has been received by BCC by relevant delivery partners and agencies. | **No change** | NA |

| | EXISTING FINANCIAL PRINCIPLE | RATIONALE FOR CHANGE | PROPOSED FINANCIAL PRINCIPLE |
|---|---|---|---|
| | **AFFORDABILITY** | | |
| **23** | Affordability - the affordability of new projects on the EZ financial model as well as changes to existing projects to be assessed for each of the years remaining in the current EZIP (i.e. up to 2027/28) | **Proposal:** Refer to Enterprise Zone Project Pipeline And change to 10-year rolling | Affordability - the affordability of new projects on the EZ financial model and Enterprise Zone Project Pipeline (10 year rolling programme) as well as changes to existing projects to be assessed for each of the years remaining in the current EZIP (i.e. up to 2027/28) |
| **24** | Affordability – the affordability of the EZIP (current) included in the EZ financial model to be assessed annually, for all years (i.e. up to 2045/46) using latest estimated timing for each project and for BRI commitments. | **No change** | NA |

| | EXISTING FINANCIAL PRINCIPLE | RATIONALE FOR CHANGE | PROPOSED FINANCIAL PRINCIPLE |
|---|---|---|---|
| | **AFFORDABILITY** | | |
| **25** | Affordability – where there is insufficient BRI in a year to fund programme borrowing repayment costs and revenue costs incurred, planned capital and revenue project costs ~~are reviewed and~~ will be reduced to 'break-even', or move to surplus, in that year. These actions will continue and will be the primary response to such an occurrence where foreseen.<br><br>Should unforeseen reductions in BRI cause a shortfall in-year that cannot be managed by in-year spend reductions, then BCC will be requested to underwrite the costs in that year. Notice of this forecast position or risk thereof will be made to BCC Capital Board and to Cabinet (where material) as part of the capital monitoring report.<br><br>Where the in-year or short-term position could be managed and reduced to break-even in-year, yet that would impact on performance and outcomes, then the LEP may choose to apply alternative sources of funding or to request a loan facility to the EZIP from BCC.<br><br>In all instances of the EZ being in deficit, the first call on all income will be the repayment of BCC borrowing including interest and reimbursement of any repayable alternative sources applied. | **Minor amendment** – feel that "reviewed" is unnecessary – so tweak for a firmer action.<br><br>Agreed, as reviewing will be part of the "action" process. | Affordability – where there is insufficient BRI in a year to fund programme borrowing repayment costs and revenue costs incurred, planned capital and revenue project costs will be reduced to 'break-even', or move to surplus, in that year. These actions will continue and will be the primary response to such an occurrence where foreseen.<br><br>Should unforeseen reductions in BRI cause a shortfall in-year that cannot be managed by in-year spend reductions, then BCC will be requested to underwrite the costs in that year. Notice of this forecast position or risk thereof will be made to BCC Capital Board and to Cabinet (where material) as part of the capital monitoring report.<br><br>Where the in-year or short-term position could be managed and reduced to break-even in-year, yet that would impact on performance and outcomes, then the LEP may choose to apply alternative sources of funding or to request a loan facility to the EZIP from BCC.<br><br>In all instances of the EZ being in deficit, the first call on all income will be the repayment of BCC borrowing including interest and reimbursement of any repayable alternative sources applied. |

**END**