

Birmingham City Council

Report to Cabinet

6th September 2022



Subject: Enterprise Zone Investment Plan 2022 update

Report of: Strategic Director of Place, Prosperity and Sustainability

Relevant Cabinet Member: Councillor Ian Ward – Leader
Councillor Yvonne Mosquito – Cabinet Member for Finance and Resources`

Relevant O &S Chair(s): Councillor Akhlaq Ahmed, Resources
Councillor Saima Suleman, Economy and Skills

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Are specific wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s): Bordesley & Highgate, Ladywood, Soho & Jewellery Quarter and Nechells.		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 009407/2022		
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, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

- 1.1 The Birmingham City Centre Enterprise Zone (EZ) is one of the Council's and 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.

- 1.2 The Enterprise Zone area covers 39 sites with 113 hectares of new and existing development space.
- 1.3 The Enterprise Zone Investment Plan 2019 (EZIP 2019) set out a £1.023bn programme of infrastructure investment up to 2045/46. Within the Programme it defined a phased implementation period up to 2028 along with the financial principles, governance and reporting requirements that will support delivery.
- 1.4 A review of the EZIP 2019 has taken place considering both progress to date and the impact and economic changes that have taken place over the last few years. The Programme includes funding for public realm, transport improvements and site improvements and site development and enabling. The EZ is predicated on the growth in business rates and BCC utilising its prudential borrowing powers to fund investment. To maximise the benefits from the Enterprise Zone investment, maintaining a balance between investment, borrowing and accelerating business rates growth through the pipeline of projects will be key to ensuring that the £2 billion business rates income opportunity is realised, and the city centre fully benefits. This report provides a summary of this work and associated financial implications, of pipeline projects which may progress for delivery and require financing through prudential borrowing.

2 Recommendations

- 2.1 Approves the Enterprise Zone Investment Strategy set out in the Enterprise Zone Investment Plan 2022 update Appendix 1.
- 2.2 Approves subject to individual business cases being accepted for funding, an increase to the total lifetime EZ revenue funding requirement to cover the City Council's prudential borrowing and other costs of £0.140bn to £1.439 bn, noting this includes the prioritised project pipeline as outlined in Appendix 1.
- 2.3 Notes that further reviews by the GBSLEP and Council, of the EZIP and prioritised pipeline will take place at least once a year.
- 2.4 Notes that business cases for projects will come forward for approval for EZ funding by GBSLEP and Birmingham City Council where it is the budget sponsor, subject to their affordability and alignment with the strategy for the EZ and meeting the requirements of the HM Treasury's Green Book guidance, which is in line with the Council's process for developing Capital projects.
- 2.5 Notes the updated Financial Principles as set out in Appendix 4 of this report, and delegates authority to the Director of Council Management (or their Delegate) to continue to regularly review the Enterprise Zone borrowing requirement in order to optimise the Revenue position and cost of borrowing for ongoing EZ Capital investment.

- 2.6 Notes the updated Memorandum of Understanding (MoU) between the Greater Birmingham and Solihull Local Enterprise Partnership's (GBSLEP) and Birmingham City Council (Appendix 3), awaiting final sign-off by GBSLEP.
- 2.7 Authorises the City Solicitor to prepare, negotiate, execute and complete all relevant legal documentation to give effect to the above recommendations.

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.
- 3.2 In 2019 an Enterprise Zone Investment plan (EZIP 2019) superseded the 2014 Plan and the 2016 Curzon Investment Plan and set out a £1.023bn programme of infrastructure investment up to 2045/46. The EZIP 2019 was approved by Cabinet on 30th July 2019.
- 3.3 Decisions relating to the EZ are taken by the GBSLEP under the systems and processes set out in its Assurance Framework. Projects are sponsored through the City Council and are funded by BCC prudential borrowing, which is supported by an annual revenue grant from the EZ calculated to fully reimburse the associated borrowing costs. 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

- 3.4 Since the launch of the EZ in 2011 considerable progress has been made in delivering investment and development in the City Centre. In total 394,641sqm of new floorspace has been created. To date the EZ has invested £214.8m for infrastructure investment which has leveraged £107m of public sector and £969m of private sector investment.
- 3.5 The EZ investment has been instrumental in unlocking and accelerating key strategic sites, in key areas including; Paradise, Smithfield, Curzon Station Public Realm, Curzon Metro Stop, Snow Hill, Digbeth High Street and Southside Public Realm. These projects are improving public spaces and providing much needed support to complement transport infrastructure.

4 Enterprise Zone Key Sites

Paradise

- 4.1 Paradise is a transformative project for the city centre generating investment of £700m and delivering 170,000 sq. m of premium office accommodation, Paradise is one of the UK's most significant commercial development projects outside of London. The Paradise scheme enables the whole area to be pedestrianised, reconnecting the city's civic and cultural centres and providing new high-quality commercial accommodation in the heart of the city. Development is planned over three phases.
- 4.2 Paradise phase one and two is receiving Enterprise Zone investment of £139m. Phase one is complete and phase two is underway.
- 4.3 Development work is now underway for Phase Three. In total, across three phases the project will deliver: 140,000sqm of new Grade A commercial floorspace across nine buildings; 300 private rented sector (PRS) residential units; two new car parks with 550 spaces; a new 4* hotel with 250 rooms including a Sky Bar; and public realm squares including two new and one redeveloped, generating employment and opportunity for people right across the GBSLEP geography. To date the following space has been committed to/occupied.
- 4.4 Table 1 – A positive uptake of space within Paradise Phase 1 and 2 is outlined below:

	Leased	Available	Total
Phase 1	27,574 sqm	4,426 sqm	32,000 sqm
Phase 2	6,300 sqm	47,106 sqm	52,406 sqm

Birmingham Smithfield

- 4.5 Birmingham Smithfield (Development Support and Enabling Works). A flagship development to the south of the city centre, Smithfield is an ambitious £1 billion project that will have a significant impact on the people of Birmingham. It will provide offices, homes, leisure, infrastructure, and open spaces. The Enterprise Zone has already invested over £6.6 million into securing a development partner and clearing the site for both the Commonwealth Games in 2022 and the first phase of development works.

HS2

- 4.6 HS2 presents an excellent opportunity to secure fast access to London and to the North. To maximise the potential of HS2, the Enterprise Zone programme is investing in transports links, key infrastructure, and public space enhancements. The aim is to develop inclusive and positive economic growth, ensure local people can fully access HS2 opportunities and deliver an improved experience to passengers.

- 4.7 The Curzon Station Public Realm project, approved by Cabinet on 26 April 2022, will support improvements to the public space in the area around the HS2 Curzon Station. To maximise the station's potential, the Enterprise Zone is looking to; create more than a hectare of improved public space next to the station, including Paternoster Place, Curzon Promenade, Curzon Square as well as providing a pedestrian route into Digbeth and repairs to Park Street Bridge. The enhanced public space will facilitate the development of new commercial, retail and residential developments and create over 1,900 net additional jobs.
- 4.8 The HS2 Curzon Metro Stop is another key project for the Enterprise Zone who are providing nearly £9 million of funding towards the project. This is a partnership project with BCC, HS2 Ltd and WMCA and it will result in an integrated multi-modal interchange linking the Birmingham East side Metro Extension (BEE) stop and the HS2 Curzon Street Station with a new 1,700sqm public space underneath the HS2 station viaduct.

Infrastructure, Transportation and Public Realm

- 4.9 Southside Public Realm is a new gateway to the city that offers better access to the city centre's rich cultural venues, from the Hippodrome to the world-renowned Symphony Hall. The Enterprise Zone is funding the £8 million public space project which will play a critical role in creating a cohesive area for everyone to enjoy.
- 4.10 Digbeth High Street Public Realm project recognises the positive impact that high-quality public spaces and infrastructure have on the growth of the city. The £16 million Enterprise Zone investment in this project is the first step in transforming the area into a world-class district.
- 4.11 Metro Extension to Centenary Square makes it easier for companies to access more customers, reduce travel times and supporting the city to achieve its goal of net zero carbon by 2030. The service will supply a direct link to Birmingham New Street station, via Birmingham Town Hall creating a direct connection between Centenary Square, two central rail interchanges and the Metro network. The £20.4m of Enterprise Zone investment matched funding of £54m from partners Department for Transport (DfT), WMCA, BCC and GBSLEP.
- 4.12 Snow Hill is a series of new public spaces to improve the setting and appearance of Snow Hill railway station - another gateway into the city centre and the Colmore Business District. Work is also underway to improve the road layout, reduce traffic congestion and improve air quality. Nearly £2 million has been invested from the EZ programme and £7.4m of funding has been leveraged from the Local Growth Fund, BCC, Business Improvement District grant and the private sector. The project will create 2,300 sqm. of new roads and 550 sqm. of space for pedestrians and cyclists.

Martineau Galleries

- 4.13 The Martineau Galleries area has declined in recent years. This project will transform the area with up to 105,000 sqm of residential space, up to 157,500 sqm

of workspace area for businesses and up to 20,000 sqm of retail, restaurant, and leisure space including a new hotel, a cycle hub, car park and improvements to the public space. An Enterprise Zone investment of £70 million towards enabling costs will kickstart this £1 billion development.

5. The Enterprise Zone Investment Plan 2022 update

- 5.1 A review of the Enterprise Zone Investment plan (EZIP) has taken place to ensure the programme continues to maximise the opportunities that HS2 brings to the city.
- 5.2 In order to develop the investment strategy and create a strong pipeline of projects, the programme held an open call for potential projects to help deliver the Enterprise Zone investment strategy. Initially one page project proposals were considered for the pipeline by a Panel, which consists of both GBSLEP and BCC officers.
- 5.3 All projects within the pipeline fall into one of four categories.
 - Newly identified EZ projects.
 - EZIP 2019 projects not yet committed/approved;
 - EZIP 2019 committed projects and/or approved projects; and
 - Completed EZIP 2019 project or projects in delivery.
- 5.4 All projects seeking EZ funding are initially considered based on their economic impact on the EZ programme, against four economic impact appraisal criteria as outlined.
 - Will the project generate direct business rates income growth? Is the project in one of the 39 EZ sites and does the classification allow business rates income growth to be retained?
 - Will the project generate indirect business rates income growth, and will the project contribute to or directly support business rates income growth in the EZ sites?
 - Will the project create high economic impact on the city? Whilst not in the 39 EZ sites, could the project be transformational, generate significant GVA or create jobs?
 - Will the project only have minimal, or low, impact on the city? It is not in the 39 EZ sites, and will unlikely generate significant GVA, job creation or general economic impact on the city.

Projects assessed as meeting one or more of the above will be invited to submit an Expression of Interest which will again be assessed for its strategic fit for EZ funding. If approved by the Panel, the project will be invited to submit an Outline or Full Business case subject to their affordability and alignment with the strategy and meeting the requirements of HM Treasury's Green Book guidance.

- 5.5 In accordance with the Enterprise Zone financial principles, all Enterprise Zone investment decisions are subject to affordability testing by the Council as the Accountable Body.

6. Options considered and Recommended Proposal

6.1 Alternative options would be.

6.1.1 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 up to 1,096,000 sqm new floorspace, and £3.9bn of private sector investment.

6.1.2 To scale back future investments and not maximise the opportunities coming forward in the next decade, including HS2 and Commonwealth Games. This is not considered an option given the need to build on these opportunities of growth to meet the challenge of levelling up.

6.1.3 Or 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 Birmingham 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.

6.2 Recommended proposal is to maximise the opportunities that HS2 brings to the city, with Enterprise Zone investment through the pipeline of projects, and the acceleration of business rates growth.

7. Consultation

External

7.1 Members of the GBSLEP Programme Delivery Board approved the EZIP 2022 update on 14 June 2022 Appendix 1.

8 Risk Management

8.1 A programme risk register is maintained through reporting to the EZ and Curzon Project Delivery Board. Risks are managed through financial modelling, financial principles detailed in section 9.3.3 and Appendix 4, and project applications.

8.2 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.

8.3 Financial 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, with delivery risks through detailed individual Business Cases for project spend.

8.4 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.

- 8.5 Should any development take place outside of Birmingham City Centre then the development and cost risks of EZ funded projects will be the responsibility of the relevant local authority. 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.

9 Compliance Issues:

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

9.1.1 The EZIP 2022 supports the Council's Business Plan and Budget 2022, 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 emerging Our Future City Plan, Curzon Masterplan, Birmingham Development Plan, Birmingham Transport Plan and Birmingham's Route to Zero.

9.2 Legal Implications

9.2.1 Investment in economic development is made pursuant to the general power of competence contained in Section 1 of the Localism Act 2011 which is circumscribed only to the extent of any applicable pre-commencement restrictions and any specific post-commencement statutory restriction of the power. Section 111 of the Local Government Act 1972 contains the Council's ancillary powers to do anything which is calculated to facilitate or is conducive or incidental to the discharge of any its functions whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights.

9.2.2 The Local Government Finance Act 2012 supports the development of Enterprise Zones by enabling Local Authorities to borrow for capital schemes against projected growth in business rates income. The Act allows the City Council, on behalf of the GBSLEP, to retain 100% of business rates income from within the Enterprise Zone.

9.2.3 Subsidy control measures are in force in the UK. To prevent market distortion through the granting of an unfair economic advantage the Enterprise Zone programme will assess each project to determine if its funding will fall into the definition of Subsidy.

9.3 Financial Implications

9.3.1 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 in partnership with the Council 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.

9.3.2 In its Accountable Body role, the City Council has and will undertake prudential borrowing, subject to financial and treasury limitations, to support 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.

9.3.3 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 latest forecast financial position, including prioritised pipeline projects, for the EZ based upon the modelling as at the end of 2021/22 is included in the following table.

Enterprise Zone Programme 6 Year Medium Term and Whole Programme Forecast with Prioritised Project Pipeline	22/23 Forecast	23/24 Forecast	24/25 Forecast	25/26 Forecast	26/27 Forecast	27/28 Forecast	Whole Programme To 2045/56
	£m	£m	£m	£m	£m	£m	£m
Capital Impact							
Capital Expenditure	39.1	64.1	49.3	58.0	42.7	15.7	1,103.6
Capitalised Interest	2.9	4.3	5.8	3.6	4.5	5.4	47.5
Total Capital	42.0	68.4	55.1	61.6	47.2	21.1	1,151.1
Revenue Impact							
Prudential Borrowing (Capital Funding)	9.3	10.2	12.9	16.9	17.5	18.8	1,358.0
Other Revenue costs	0.7	0.6	0.0	0.0	0.0	0.0	80.9
Total Revenue	10.0	10.8	12.9	16.9	17.5	18.8	1,439.0
Business Rates Income (Secured or Committed)	(12.2)	(13.7)	(19.1)	(18.2)	(26.9)	(30.1)	(1,352.4)
Net Revenue Position (Surplus)/Deficit – Excl. Unsecured Income	(2.3)	(3.0)	(6.3)	(1.4)	(9.4)	(11.3)	86.5
Income not yet secured**	0.0	0.0	(2.8)	(10.8)	(10.5)	(12.5)	(690.2)
Net Revenue Position (Surplus)/Deficit - Including All Income	(2.3)	(3.0)	(9.0)	(12.2)	(19.9)	(23.8)	(603.7)

** For planning purposes, the Whole Programme position includes forecast Capital Spend and associated borrowing costs but excludes c.£690m of anticipated uplift in Business Rates income to be generated that is not yet fully secured within the EZ but is expected to be realised by the end of the programme. This is considered a more prudent approach to planning in the medium term.

9.3.4 Should any development take place outside of Birmingham City Centre then the development and cost risks of EZ funded projects 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.

9.3.5 In 2012 Birmingham City Council and the GBSLEP established a set of financial principles for the EZ. The financial principles continue to be reviewed to ensure they remain robust in approach to the consideration of business rate income has been taken to manage the financial risks associated with the EZ model. The financial principles will continue to be applied to the financial modelling and reviewed. The latest set of these are included at Appendix 4.

9.4 Procurement Implications

9.4.1 This report has no procurement implications with the recommendations of this report. The procurement implications for any project funded by the EZ will be undertaken in accordance with the Constitution and the Procurement Governance Arrangements including the incorporation of the requirements of the Birmingham Business Charter for Social Responsibility into tender exercises.

9.5 Human Resources Implications

9.5.1 This report has no Human Resource implications.

9.6 Public Sector Equality Duty

9.6.1 In overall terms the EZ has been assessed (Appendix 2). The finding of the equality analysis is that the EZIP update will not disproportionately disadvantage any protected group and will in fact contribute to equality of opportunity for all by providing investment in infrastructure and development sites, which will lead to greater employment opportunities. Each project funded by the EZ will also be subject to its own individual EA.

9.7 Environment and Sustainability

9.7.1 An environment and sustainability assessment (Appendix 5) has been completed and approved by the ESA team. The reports overall conclusion is that the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) and Birmingham City Council (BCC) in the delivery of Net Zero across the city centre Enterprise Zone (EZ), have set out its aims and objectives across the EZ's opportunity areas. The EZ will focus on bringing forward its strengths and funding assets in order to deliver holistic Net Zero potential across a number of

specific sectors within its investment remit, and where required these interventions will be borne through the mechanism of a Net Zero Gateway.

10 Appendices

- Enterprise Zone Investment Plan 2022 update (Appendix 1)
- Equality Assessment (Appendix 2)
- Memorandum of Understanding (Appendix 3)
- Latest agreed Financial Principles (Appendix 4)
- Environment and Sustainability Assessment (Appendix 5)

11 Background Documents

- Enterprise Zone Investment Plan 2012
- Enterprise Zone Revised Investment Plan 2014
- Curzon Investment Plan 2016
- Enterprise Zone Investment Plan 2019