



Greater Birmingham and Solihull LEP  
Birmingham City Centre Enterprise Zone  
Governance and financial strategy

September 2016

## Contact

Economy Directorate  
Birmingham City Council

### Click:

#### Email:

[planningandregenerationenquiries@birmingham.gov.uk](mailto:planningandregenerationenquiries@birmingham.gov.uk)

#### Web:

[www.birminghamenterprisezone.org](http://www.birminghamenterprisezone.org)

### Call:

#### Telephone:

(0121) 303 3075

### Visit:

#### Office:

1 Lancaster Circus  
Birmingham  
B4 7DJ

#### Post:

PO Box 28  
Birmingham  
B1 1TU

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Call (0121) 303 3075

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# Contents



Introduction 2

Governance 4

Financial strategy 8

# Introduction

The Birmingham City Centre Enterprise Zone was founded in 2011 to encourage business growth, investment and the creation of jobs. It will provide uplift in business rate income which the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) can use to invest in further EZ projects and wider economic priorities.

The original City Centre EZ comprises 26 sites across the city centre, in seven clusters including those identified in the Big City Plan - the city's strategic vision for the future of the City Centre - as offering the greatest opportunities for growth.

Investment totalling £275m is planned for these sites up until March 2023, as set out in the EZ Investment Plan (EZIP 2014). As part of this £275m, the EZIP also includes £50m for projects outside the city centre.



In 2015 the government approved an extension of the EZ to include the Curzon Masterplan Area. The extension comprises 13 further sites across the Curzon/High Speed 2 growth area. The extended EZ now covers an area of 113.5ha and the time period for the retention of business rate growth for the whole EZ has been extended to 31st March 2046. A separate Investment Plan has been produced for the Curzon area which allocates £556.8m of EZ resources to maximising the economic impact of HS2 across the Curzon area. A further £183m of EZ resources are ringfenced for the East Birmingham North Solihull Midland Metro Extension.


Over its lifetime the Birmingham City Centre EZ, including the Curzon extension, will have invested over £900m for capital infrastructure, delivered 2.3m sq.m of new floorspace, created over 76,000 new jobs, contributed nearly £4bn to the economy in GVA per annum and generated in excess of £2bn in additional business rates.

In order to manage the new extended EZ an updated financial model and strategy is required, as well as a strong governance framework by which the EZ and its investment decisions will be managed. The governance framework sets out the structure and hierarchy of decisions that will be required by the various boards governing investment and decision making. The financial strategy provides the parameters by which the EZ will be financially managed. It reflects both expected business rates income (revenue) and expenditure associated with the delivery of the investment programmes. The strategy is complemented by a set of financial principles which govern its management.



**KEY**

-  EZ sites
-  Curzon extension sites

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The Birmingham City Centre Enterprise Zone

# Governance framework

## Purpose of the Governance Framework

The first part of this document sets out the governance framework for the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) in respect of the Enterprise Zone (EZ). This governance regime will facilitate better decision making and assist in the effective use of and stewardship of finite resources.

The document provides a framework within which the GBSLEP approves and monitors the programme of projects, which have been confirmed for funding allocation in the Enterprise Zone Investment Plan (EZIP) (2014) and the Curzon Investment Plan (EZCIP) (2016).

The document is to be used by the GBSLEP and Birmingham City Council (BCC) when approving funding requests and monitoring project progress. This includes consideration of any business rates uplift and how investment of EZ funding is managed.

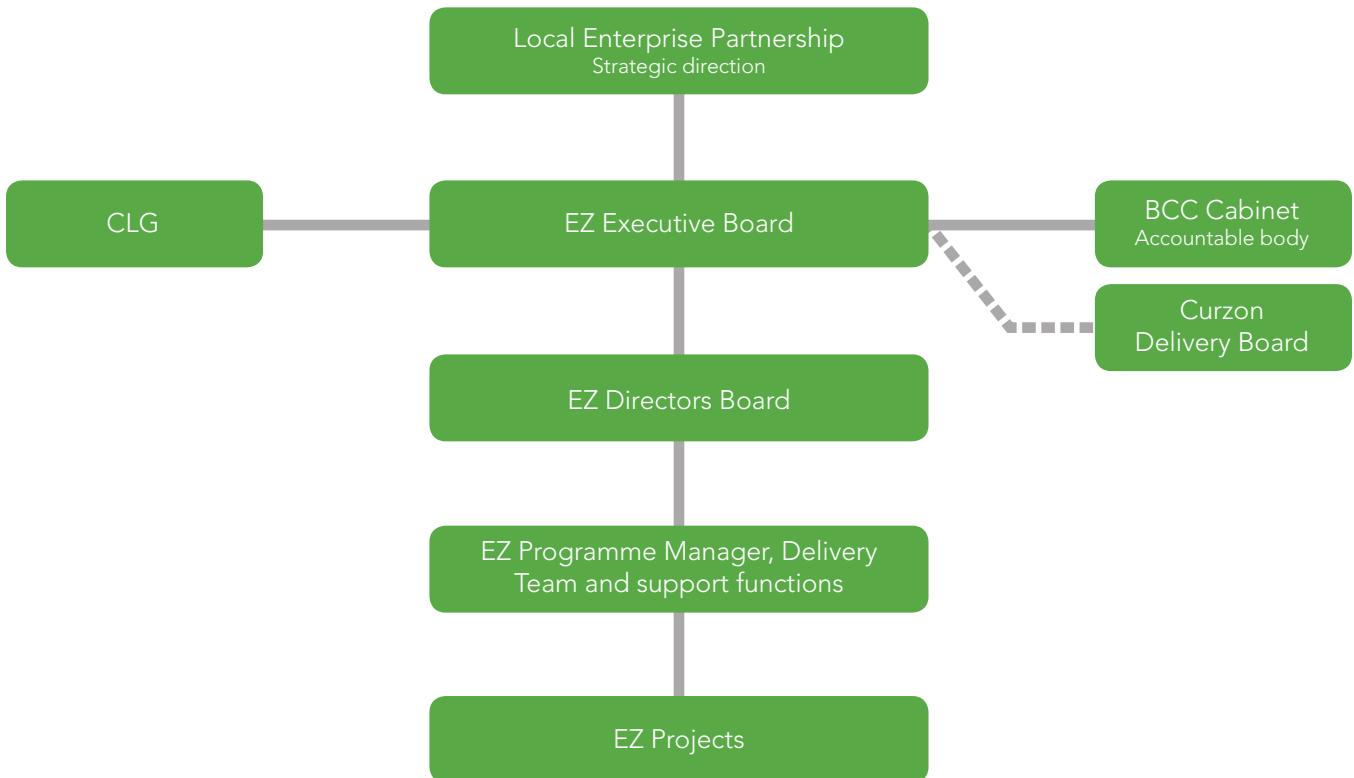
## Roles and responsibilities

### Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) Board

The GBSLEP Board takes overall responsibility for the delivery of the EZ investment plans. It does this by setting an overarching investment strategy and ensuring that there are clear governance, management and delivery arrangements in place.

Specifically the Board will ensure that:

- There is an approved Investment Plan (2014) in place for the period up to 2022/2023 that will help unlock sites for development and enable the delivery of growth, jobs and uplift in business rates.
- There is an approved Investment Plan for the Curzon area (2016) in place for the period up to 2037/38 that will maximise the economic impact of HS2, unlock sites for development and enable the delivery of growth, jobs and uplift in business rates.



**Figure 1** Enterprise Zone Governance Structure

- It receives and considers regular reports (from the EZ Executive Board (EZ/EB) on the financial position and performance of the Investment Plans.
- It nominates a Board Member to be the 'EZ Champion' for GBSLEP. The EZ Champion will keep the LEP Board informed of progress on a regular basis and will escalate any significant risks and issues related to the delivery of the Investment Plan(s) as recommended by the EZEB.

### **Birmingham City Council as the Accountable Body**

Management and redistribution of the business rate growth from the EZ requires a single statutory body from the GBSLEP Partnership to take on the role of 'Accountable Body'. This Body must be a legal entity, nominated to act on behalf of the GBSLEP for the receipt and investment of business rate growth and uplift within the EZ designation. Birmingham City Council (BCC) accepted this role in respect of the Birmingham City Centre EZ with BCC Cabinet approval on 30 July 2012.

BCC as the Accountable Body is obliged to manage any investments and their financing.

### **Enterprise Zone Executive Board (EZEB)**

The EZEB is made up of members and officers from GBSLEP and BCC. Both GBSLEP and BCC are decision makers, on the basis of strategic ownership (GBSLEP) and Accountable Body (BCC). It is an appropriately constituted decision making board for which evidence is provided through minutes, quorum and declarations of interest to support its decision making procedures.

The board meets every 6-8 weeks or by exception if required.

The EZEB has powers delegated from the GBSLEP to approve projects and will make decisions on the priority order for the additional pipeline projects, allocated in the 2014 EZIP and the 2016 Curzon EZIP. The EZEB will oversee delivery and implementation of the Investment Plans, the associated Governance Strategy and EZ project performance reporting.

The GBSLEP will be represented on the EZEB by at least two nominated GBSLEP Board Directors with one acting as Chair and 'EZ Champion'. A further GBSLEP officer will also be represented on the Board. These are voting roles with the chairperson having the casting vote.

BCC will be represented on the EZEB by a maximum of 3 senior officers who have overall responsibility for the day to day delivery of the EZ Investment Plan. These are voting roles.

The quorum for the meeting is 2 from GBSLEP and 1 from BCC.

This representation of officers will be added to from other LEP's and local authority partners based on a commensurate basis to be agreed if investment in undertaken outside of the City Centre EZ boundaries.

Specifically the EZEB will oversee that:

- The Investment Strategy/Plans are delivered in accordance with agreed milestones and targets.
- Regular reports are received on the Governance Strategy including performance against the Financial Plan and key risks or issues with implementation.

- Monitoring arrangements are in place that allow a review of performance of Delivery/ Implementation Strategy including on both quantitative and qualitative aspects of performance.
- Key issues and risks are either addressed or escalated to the LEP Board.
- It approves/rejects/makes recommendations on applications for funding from the Enterprise Zone in accordance with the existing 2014 EZIP and the 2016 Curzon IP.
- A financial limit on the financial model for EZ funding purposes is set.
- Any decision made by EZEB in the knowledge that the decision does not compromise compliance with BCC's own Financial Regulations and any financial decisions that BCC as the Accountable Body may require. Variations to projects submitted for a funding request (for example spend profile, amount awarded) may be set out in the funding agreement or in the conditions of any decision is given by the EZEB.
- Monitoring arrangements and subsequent performance reports are adequate and appropriate, considering both quantitative and qualitative aspects of project performance and programme delivery.
- Appropriate resources are available to manage the EZ and enable delivery of the Investment Plans.

### EZ Directors' Board (EZDB)

A separate Directors' Board has been established in order to provide coordinated management of the EZ, linked to the provision of resources and wider project delivery. It is Chaired by BCC's nominated officer and includes representation from senior level BCC officers responsible for delivering the EZEB approved projects through their teams and officer from GBSLEP. The approved projects will be managed and monitored through the Directors Board, with regular reporting to the EZEB as required.

When EZ funding becomes available for other GBSLEP projects outside the Birmingham City Centre EZ then the Local Authorities affected will form their own EZDB (or use an equivalent existing structure such as the Growth Team, if appropriate) with the GBSLEP for decision making in their locality. BCC, as the Accountable Body, should also have a role on any board to ensure that all investments are in accordance with the EZ financial model and to discharge accountable body functions.

The quorum for the meeting is 3, in addition to the Chair. The Chairperson will have the casting vote.

Specifically the Director's Board will oversee that:

- The Investment Plans are effectively implemented in terms of delivery and resource.
- Regular reports are received on the financial position and performance of the Investment Plans.
- Any key issues on EZ project delivery are either addressed and/or escalated to the EZEB.
- It manages the EZ financial position in accordance with the EZ financial management principles.
- It endorses and/or rejects applications for funding for the use of EZ Resources based on the relevant defined EZ Investment Plans. Recommendations to approve or reject an application are then made to the EZEB.

- Key issues and risks are either managed or escalated to the EZEB.

### GBSLEP approval process

The EZEB and EZDB will work on behalf of the GBSLEP Board and ensure that the release of EZ funds for projects contained within the Investment Plans are authorised through an approved process which aligns to the stages in BCC governance process.

In order to gain EZEB approval project sponsors are required to complete:

- Either: An EZ project Development Application form.

Or: An EZ project Full Application Form (with associated Annex) (Which application is required is dependent on the stage of the project, a flow chart and guidance notes are provided with the application process).

### Applicant approval process

Following the granting of approval from GBSLEP, scheme promoters will be required to seek full approval through their own governance process.

Once this has been authorised a funding agreement can be entered into.

### EZ Delivery Team

#### Enterprise Zone Programme Manager

The EZ Programme Manager will oversee the general management of the EZ and any programme of projects within the approved allocation of EZ funding.

The EZ Programme Manager will receive financial and delivery information as part of regular monitoring reports from each project manager. The information contained in these reports will support financial management and performance.



Eastside development



The Project Manager reports will include:

- Overall financial progress for the month, quarter and year.
- Project update.
- Overall position on key milestones.
- Milestones and actions for the next three months.
- Key risks and issues.
- Any decisions required by the Board.

Programme management decisions will be designed to maximise the benefits of and minimise the impact of risk to the EZ, and to ensure that the per annum allocation can be spent and the key outputs delivered.

EZ project managers who are BCC officers are required to adhere to a guidance note entitled 'Birmingham City Council Accountability Responsibilities for Enterprise Zone Funded Projects'.

All EZ project managers (BCC and non-BCC) will be required to adhere to a Performance Management Framework, which is provided as a separate document.



103 Colmore Row

# Financial strategy

The Financial Strategy for the EZ is predicated on a Programme which contains projections for major capital investment, revenue project support and the capital financing implications arising from debt repayment and also projections for an uplift in Business Rate income across the Programme's lifetime.

Key to this strategy is the development of a detailed financial model which is updated on a monthly basis. The detailed financial model for the EZ has been updated to include the extended geography for the Curzon area and extended programme timeframe through to 2045/46. It reflects both expected business rates income (revenue) and expenditure associated with the delivery of the investment programmes. The strategy is complemented by a set of financial principles which govern its management.

## Financial principles

High level risks associated with the management of EZ resources have been identified, and modelled out through sensitivity testing. The assumed level of business rates income for the EZ is highly sensitive to anticipated levels of development activity especially if developments fail to materialise in line with projections. Similarly, increased project costs or increases in interest rates on the cost of borrowing would be detrimental to affordability and impact on the overall programme. As such, robust principles for financial and project management are required.

The capital investment set out in the 2014 EZIP and 2016 EZCIP will be funded through Local Authority Prudential Borrowing. The financial implications of this borrowing, as well as the costs of administering the EZ, and other revenue based projects, will be funded through the revenue income stream generated through the additional 'uplift' in business rates.

Within the EZ, where capital expenditure is to be financed, Birmingham City Council (BCC) as the Accountable Body, will facilitate the borrowing. BCC will calculate the borrowing costs using its existing arrangements for recharging costs (i.e. interest and the statutory requirements for debt repayment). These borrowing costs will be funded from EZ revenue

resources generated from the additional business rates.

To ensure that the financial management of the EZ is robust, and that projected expenditure including borrowing and other revenue based programme expenditure is affordable, a series of financial principles have been developed:



Paradise development

### 1. Income safety margins

For reasons of affordability, particularly during the early years of EZ, only a prudent proportion of net business rate income will be taken into account in determining expenditure commitments, including borrowing and operating costs. The intention is to provide a safety margin due to the risk of business rate income not matching the profiled income levels contained in the financial model.

In order to ensure that there are sufficient reserves to meet short term falls in income or increased costs, a sum equivalent to 15% of the annual EZ income will be set aside on a cumulative basis to meet uncertainties. Having already allowed for 15% contingency sum based on the amount of anticipated Business Rate income as a financial principle 'test', financial commitments through borrowing will be monitored to ensure they are no greater than 65% of the Business Rates income anticipated in any given year, effectively 65% of 85% Business Rates. New investment decisions will need to 'Pass' before approval will be sanctioned. A test 'Fail' will require a financial risk review to determine the precise impact and risk on overall affordability of the proposed project, acknowledging contingency sums held on account, before approval is awarded. Once EZ business rate income levels start to materialise in line with their forecasts, then consideration will be given to releasing the surplus reserve generated from the application of this approach to support further LEP investment proposals. On-going management of the EZ will continually review the cumulative contingency sum held

with any decision to release such funding to fund new investment being done so only with the BCC's Director of Finance's approval.

### 2. Borrowing repaid within life of the Enterprise Zone

Following the extension of the EZ funding term, the business rates income stream will now cease after 31st March 2046 (previously by 31st March 2038). This allows for new borrowing on the existing EZ sites to have their borrowing extended to 2045/46. All associated borrowing must therefore be repaid within this EZ term. The later capital expenditure is incurred in the programme the lesser the repayment term for borrowing. Capital projects commencing in 2016/17 of the Programme will be borrowed using an annuity which allows the capital sum borrowed to be repaid over a 30 year term, whilst projects commencing in 2017/18 will effectively be borrowed and repaid over a 29 year term and so on.

This means that capital intensive investments which are approved and borrowed over a longer time frame will have a smaller annual repayment sum and therefore less financial impact in terms of affordability against the annual EZ Programme than if they were undertaken over a shorter period (i.e. the longer the borrowing term the smaller the annuity charge to the revenue account). On-going monitoring of the EZ Programme resources and the financial implications resulting from approved projects in the investment programme will provide a valuable tool against which an assessment can be made as to the

level of future capital investments that the EZ can support in later Investment Plan periods. All EZ investment decisions are considered and only endorsed by the Accountable Body/EZ Boards subject to them being affordable.

### 3. Utilising Assets under Construction Policy

In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) who regulate Local Authority accounting guidelines.

Local Authorities can roll up interest charges for assets under construction. For infrastructure and other capital projects this offers the advantage to smooth out cost and income cashflows so that income from business rates arises in the same financial period as the revenue costs of the project which BCC has to account for.

### 4. Site-by-site and infrastructure business cases as well as LEP-wide business cases

Proposed expenditure commitments for individual developments will be financially appraised against the expected business rates impact arising from that development through individual business cases. Proposed commitments will also be financially appraised in a LEP-wide appraisal to ensure the proposal is affordable for the EZ or LEP as a whole on a year by year basis, including reporting on the financial tests in section 1 above. Where wider infrastructure investments are being proposed individual/programme based business cases will be required.

## 5. Financial commitments aligned to development commitments

For EZ developments and wherever feasible, financial commitments will only be made following legal agreement with the developer/landowner once development projects have been committed to. This will provide assurance that the business rates income stream is reasonably secure.

## 6. Prudential borrowing

In borrowing for EZ funded projects, BCC is subject to legal constraints and statutory guidance in relation to the borrowing. This includes compliance with the Authority's accounting and debt repayment policies. BCC will consider the financial implications of any LEP EZ proposals, as part of its overall budget (for example, in setting its Prudential Borrowing indicators and limits) and in complying with the CIPFA Prudential Code.

## 7. Income provided to support wider LEP Investments

Whilst BCC will support and fund approved EZ investment decisions made by the LEP, both BCC and other Local Authority partners will ultimately be responsible for their own projects, associated cost control and other financial risks. In the event that project costs exceed those approved by the LEP, then any additional costs incurred or to be incurred above those supported through the EZ income will become the financial responsibility of the delivery partner and not the EZ or Birmingham City Council in its Accountable Body role. This is particularly relevant for the LEP Investment Fund and HS2 Growth Strategy investments which could fund projects outside of the EZ area and which would not be sponsored or directly project managed by Birmingham City Council.

## 8. Management and monitoring of resources

The delivery of the Investment Programmes will depend on having robust processes in place to manage and monitor income and expenditure for the EZ. This will be undertaken as part of the regular reporting to the LEP through the Governance arrangements to provide ongoing updates to the financial model and to ensure risks to delivery are highlighted.

Whilst the LEP approves individual capital investment and revenue proposals for EZ support, the Accountable Body will ultimately endorse these projects going forward subject to the viability of the investment proposal in terms of overall affordability based on the future availability of secured business rate income. All projects to deliver the EZ are subject to BCC Governance structures. This requires a Project Definition Document (PDD) for approval to authorise project development and feasibility. Once PDD approval has been reached, activity can

commence to formulate Full Business Case to authorise the release of funds and formal project approval. Consequently it may be necessary for BCC, in its Accountable Body role:

- a) To seek a re-profiling of proposed expenditure levels so that they accord with available resources, or;
- b) To defer endorsing projects for EZ funding until such time that there is sufficient secured levels of business rate income in place which ensure affordability.

## Income

The delivery of new business accommodation on EZ sites is expected to result in a significant increase in business rates income for the LEP to invest. The phasing and delivery of new developments, and consequently the business rates uplift, has been projected in the updated financial model. The business rates uplift income will be retained locally until 31 March 2046.



Masshouse

The business rates income from the combined EZ, including the expanded area to cover Curzon, will fund both the original £275m investment programme (capital and revenue projects) and the additional £740m Curzon investment (£669m capital and £71.6m revenue projects). This includes the £183m for East Birmingham North Solihull Metro Extension.

The Curzon Area extension to the EZ is anticipated to generate £1.1bn over the lifetime of the Programme. This is in addition to the £1.5bn from the existing EZ Programme providing a total projected £2.6bn over the lifetime of the EZ. These figures are anticipated levels based upon current projections but are subject to future market and economic conditions. As such robust financial management principles are required to manage risk and affordability.

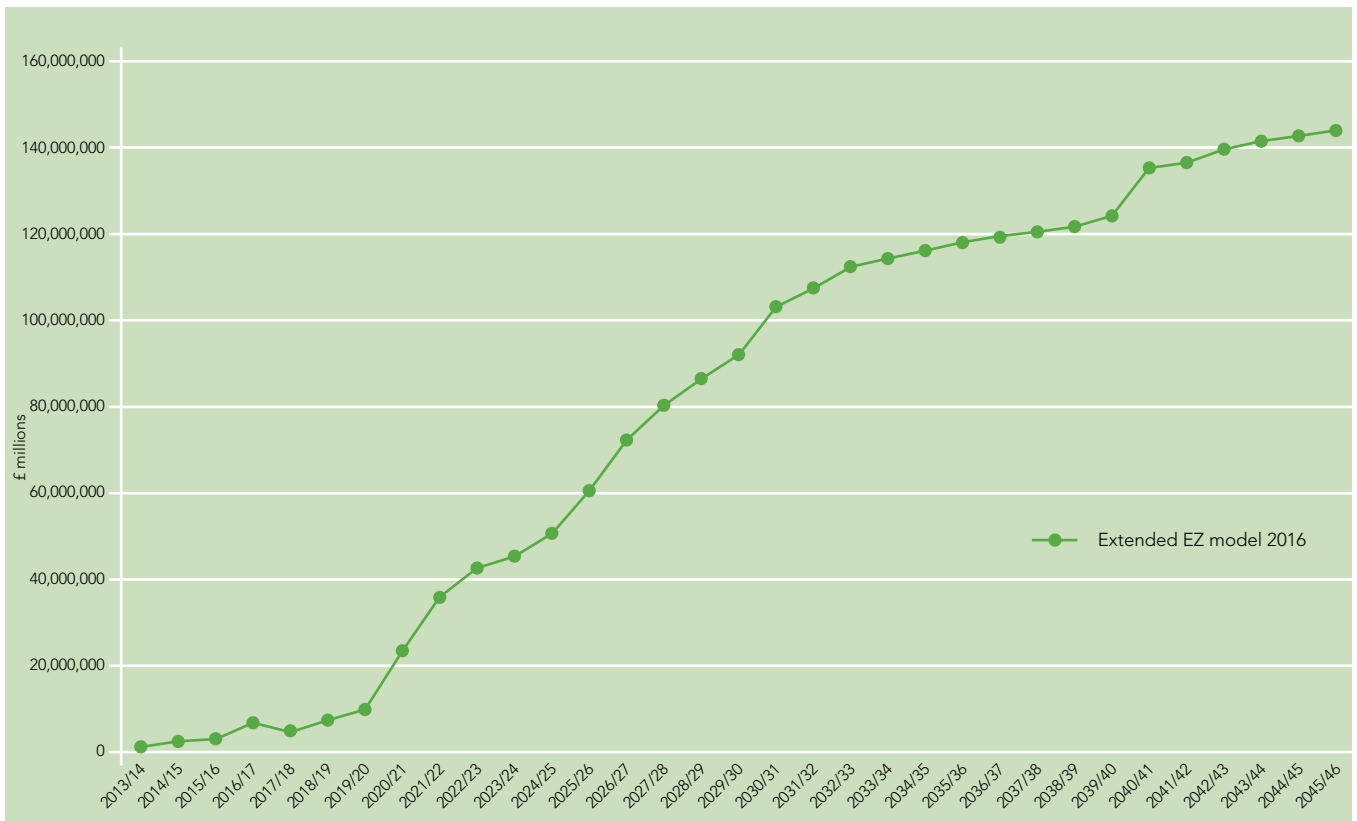
The income has been categorised by its degree of certainty, linked

to the proposed phasing of the development (including losses of business rates income as sites are demolished and cleared for future investment), to allow for prudence around making decisions on the affordability of future investment decisions and the associated costs arising from prudential borrowing charges. The income is analysed according to the following categories, which help to ensure decisions on the investment programme are affordable:

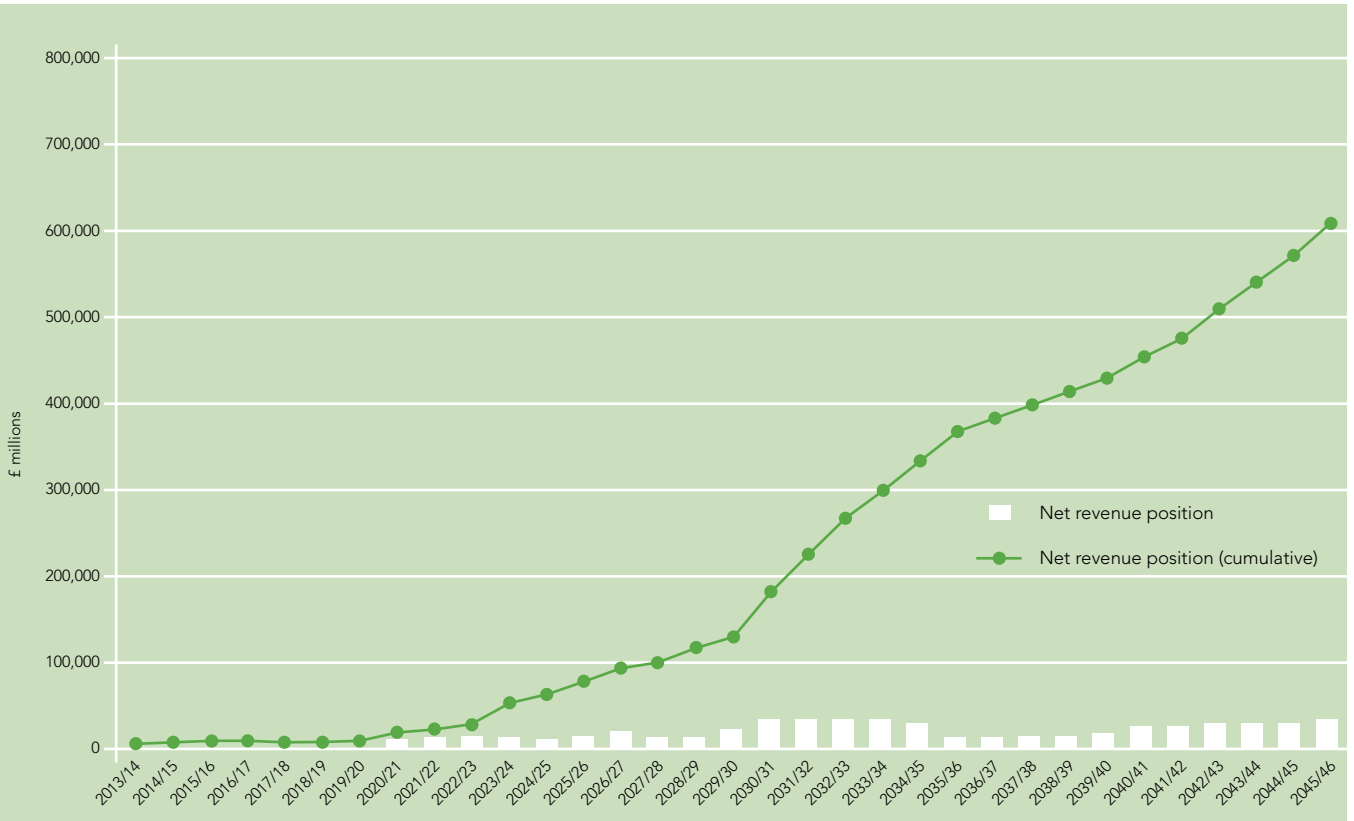
- **Secured** - Business rates paid or legally due.
- **Committed** - Construction on site or guaranteed via legal agreement therefore business rates income reasonably secure.
- **Other Committed** - Paradise Circus Phase 1 and 2 business rates income committed via Joint Venture agreement.
- **Not Committed** - Development not yet started therefore business rates income not yet secured.

**Expenditure**

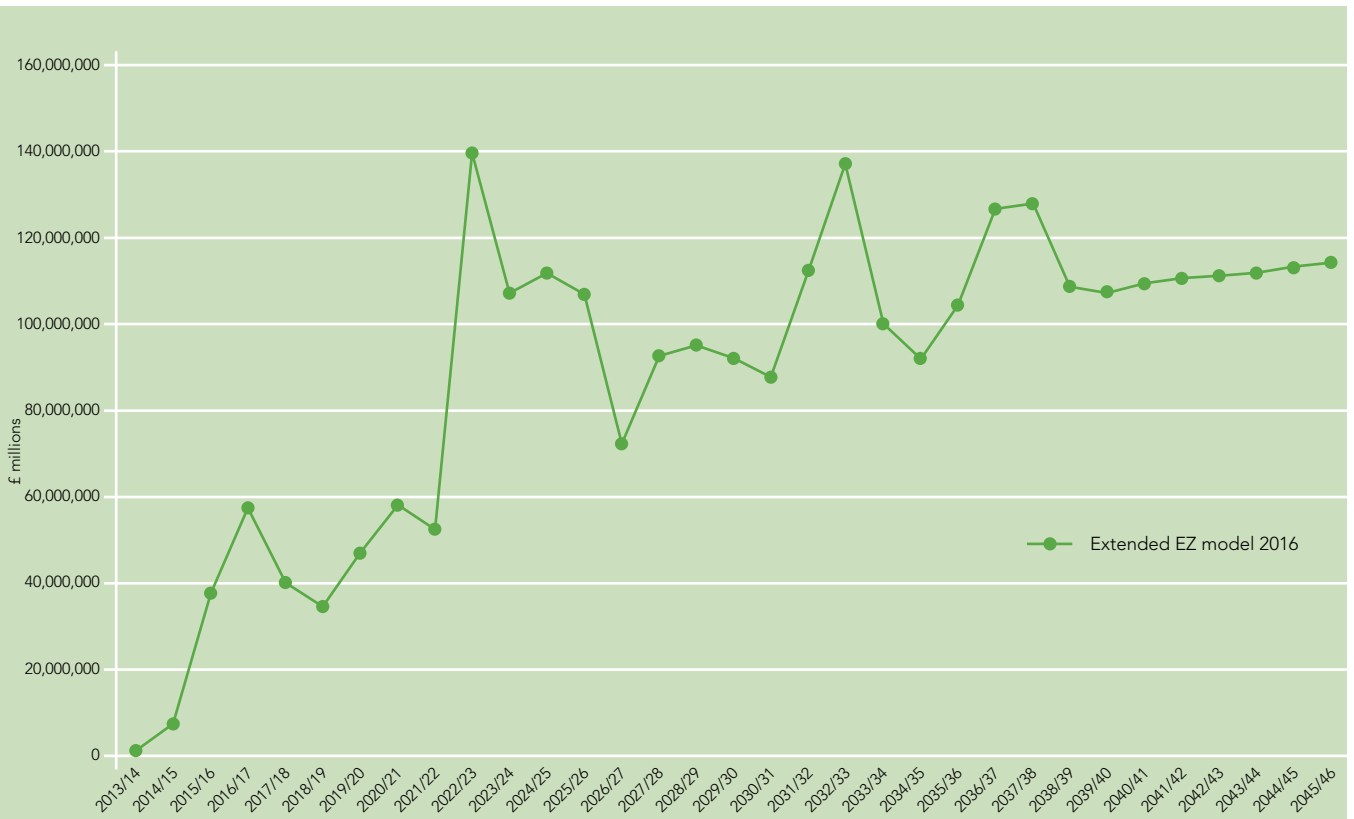
The EZ Programme has a planned capital investment programme value of £929m and a revenue programme of £89m to support delivery over the remaining 30 year time frame of the EZ. Included within these proposals is support to other key LEP priorities such as the HS2 Midlands Growth Strategy and the Strategic Economic Plan.



**Graph 1** Projected business rate uplift income (£m)



**Graph 2** Affordability net revenue position - annual and cumulative



**Graph 3** Total capital and revenue expenditure profile (including infrastructure financing costs and contingency sums)



