

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

<b>Report to:</b>	<b>CABINET</b>
<b>Report of:</b> <b>Date of Decision:</b>	<b>Strategic Director - Economy</b> <b>20<sup>th</sup> September 2016</b>
<b>SUBJECT:</b>	<b>CITY CENTRE ENTERPRISE ZONE EXTENSION AND CURZON INVESTMENT PLAN</b>
<b>Key Decision: Yes</b>	<b>Relevant Forward Plan Ref: 001414/2016</b>
<b>If not in the Forward Plan:</b> <b>(please "X" box)</b>	<b>Chief Executive approved</b> <input type="checkbox"/> <b>O&amp;S Chairman approved</b> <input type="checkbox"/>
<b>Relevant Cabinet Member(s):</b>	<b>Councillor John Clancy (Leader)</b>
<b>Relevant O&amp;S Chairman:</b>	<b>Councillor Zafar Iqbal (Economy, Skills &amp; Transport)</b>
<b>Wards affected:</b>	<b>Ladywood &amp; Nechells</b>

<b>1. Purpose of report:</b>
1.1 To inform Cabinet of the extension of the City Centre Enterprise Zone (EZ) as secured through the Devolution Deal, which includes funding for the Curzon Investment Plan along with an extended programme through to 2045/46
1.2 To approve the contents of the Curzon Investment Plan, which sets out the framework for investment priorities and programme for the period 2016/17 to 2045/46, with a total funding package of £724m. This includes EZ funded capital and revenue investment of £556.8m supported through the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) as funded through the uplift in business rates generated by the EZ.
1.3 To note the allocation of £183.3m of EZ resources by the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) as a contribution towards the delivery of the Midland Metro from Birmingham City Centre to the HS2 Interchange, which will be directly funded through the uplift in business rates generated by the EZ, subject to a Full Business Case and availability of match funding.
1.4 To set out the role and functions of the Accountable Body for the EZ, undertaken by the City Council, to ensure that governance arrangements are appropriate to support the delivery of the Curzon Investment Plan.
1.5 To seek approval to enter into a tripartite agreement, BCC as the Accountable Body with the Greater Birmingham and Solihull LEP (LEP), and the Department of Communities and Local Government (DCLG), as set out in the memorandum of understanding. This sets out the terms and conditions between all parties for the extension to the EZ.
1.6 To seek Cabinet approval to the updated EZ Governance Structure and Financial Strategy, which underpins the investment decisions for the EZ.

## **2. Decision(s) recommended:**

That Cabinet:-

- 2.1 Approves that the City Council's role as Accountable Body for the EZ will be extended to include the Curzon Investment Plan and an extended timeline from 2037/38 to 2045/46.

And that acting in its role as accountable body for the GBSLEP:

- 2.2 Approves the content of the Curzon Investment Plan, attached in Appendix 1, which sets out the framework for investment priorities and programme for the period 2016/17 to 2045/46, with a total indicative funding package of £724m. This includes EZ funded capital and revenue investment of £556.8m supported through the Greater Birmingham and Solihull Local Enterprise Partnership (LEP).
- 2.3 Notes that, subject to approval to the recommendations in this report, the total EZ funding is now £1,015.1m (Appendix 3).
- 2.4 Approves the content of the EZ Governance Structure and Financial Strategy, as set out in Appendix 4.
- 2.5 Approves a programme of further prudential borrowing to meet the additional EZ capital investment of £668.6m, which includes City Council sponsored projects that are contained in the Curzon Investment Plan (£485.3m), and the £183.3m contribution to Metro, subject to the approval of individual Business Cases and subject to regular review and updates to the Enterprise Zone Investment Plan.
- 2.6 Notes an overall budget totalling £71.5m for new revenue investment, Accountable Body and programme delivery costs contained in the Curzon Investment Plan. These costs will be wholly funded by the uplift in EZ business rates.
- 2.7 Notes the ring fencing of £183.3m of EZ resources by the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) to the delivery of the Midland Metro from Birmingham City Centre to the HS2 Interchange, which will be directly funded through the uplift in business rates generated by the EZ, subject to Project Definition Documents and Full Business Cases and availability of match funding.
- 2.8 Notes that future business rates revaluations may reduce EZ income and affect the ability to approve business cases. A positive dialogue is in progress with Government officials which seeks to address the issue.
- 2.9 Subject to satisfactory resolution of the business rate revaluation issue in recommendation 2.8, authorises the City Council to enter into the Memorandum of Understanding (MOU) attached in Appendix 5, which sets out the terms and conditions, between the LEP, DCLG and the City Council, for the extension to the EZ.
- 2.10 Authorises the City Solicitor to negotiate, execute, seal and complete all necessary agreements and documentation to give effect to the above recommendations.

- 2.11 Approves the recruitment of posts for the Curzon Delivery Team, as set out in the Curzon Investment Plan. The posts will be fixed-term for 4 years from 2016/17 to 2020/21 funded through the EZ.
- 2.12 Notes the extension of the EZ area from 69.8 ha to 113.5 ha and the extended time period for the retention of the uplift in business rates income from 31 March 2038 to 31 March 2046.

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### **3. Consultation:**

#### **3.1 Internal**

- 3.1.1 The Leader has been consulted on the report and supports its recommendations. Officers from Planning and Regeneration, City Finance, Legal Services have been involved in producing this report and the Curzon Investment Plan to ensure it is a deliverable and affordable proposition.

#### **3.2 External**

- 3.2.1 The Chair and Deputy Chair of the LEP Board, the Chair of the EZ Executive Board, and the Chair of the Shadow Board of the Curzon Regeneration Company have guided the development of the Curzon Investment Plan, and support the recommendations of this report. The GBSLEP Local Authority Leaders have also been briefed on the Curzon Investment Plan support the approach to investment. The objectives and priorities set out in the Curzon Investment Plan were developed based upon consultation meetings during the preparation of the Curzon Master Plan, which was approved by Cabinet on February 2014, and the Midlands HS2 Growth Strategy launched in April 2015. Additional consultation, where appropriate, will be undertaken as part of the development of individual business cases for projects.

### **4. Compliance Issues:**

#### **4.1 Are the recommended decisions consistent with the Council's policies, plans and strategies?**

- 4.1.1 The development within the EZ supports the Council Business Plan and Budget 2016+, and promotes transformational change in the City Centre in line with the Big City Plan, Curzon Masterplan and Birmingham Development Plan. In particular, the Curzon Investment Plan will contribute towards the City Council's high level outcome to deliver a strong economy by supporting development activity, job creation and delivering transport and other improvements. The EZ, along with the resources available through the EZ Curzon Investment Plan is key to the delivery of the LEP Strategic Economic Plan (SEP), and the Midlands HS2 Growth Strategy which is a priority for the LEP and Combined Authority to maximise economic impact of HS2.

## 4.2 Financial Implications

- 4.2.1 Within the EZ all business rates are collected by the City Council with any net uplift in the business rates collected within the Zone allocated to the GBSLEP for a period 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.
- 4.2.2 In its Accountable Body role, the City Council has and will undertake prudential borrowing 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 the Council's governance process. 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, 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.
- 4.2.3 The Curzon Investment Plan sets out proposals that amount to £724m of investment between 2016/17 to 2045/46. This includes £515.3m of capital and £71.5m of revenue expenditure funded through the EZ, and £137.2m for the Metro Extension to Digbeth, to be funded by the Department for Transport. In addition the EZ Programme includes an additional £183.3m contribution towards the cost of the Metro extension from Birmingham to the HS2 Interchange, subject to a full business case and availability of match funding (see Appendix 3). The prudential borrowing costs arising from these investments will be funded through the uplift in business rates income. The revised EZ programme, inclusive of current commitments, the Curzon programme and the Metro Interchange extension contribution, totals £1,015.1m and is considered affordable based on the expected and additional income levels that the EZ will generate.
- 4.2.4 The Curzon Investment Plan has been informed by an update to the EZ financial model. Business rates uplift income has now been categorised by its degree of certainty, linked to the proposed phasing of new development, to ensure that investment and prudential borrowing is sustainable prior to each commitment phase.
- 4.2.5 In 2012 Birmingham City Council and the LEP 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 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. Borrowing costs will also be kept within 65% of forecast income. Monitoring of the Investment Plan including Curzon as set out in this report shows that the 65% limit is currently forecast to be breached in 2018/19. This will need to be addressed in the intervening period to ensure that the limit is not breached. It should be noted that sufficient funds are forecast to be held in the 'safety margin' reserve described above, to cover the shortfall in 2018/19. Details of these principles are set out in the EZ Governance Structure and Financial Strategy (Appendix 4).

4.2.6 An additional £668.6m of City Council prudential borrowing is proposed to fund the greater part of the additional EZ capital investment for the Curzon Programme (£485.3m) and the contribution towards the cost of the Metro extension from Birmingham to the HS2 Interchange (£183.3m). This will be spread over a period of years, and the revenue costs of the borrowing will be financed through business rate uplift. This represents a significant increase in the Council's total loan debt forecast at £3,490m at the end of 2016/17, and will require an increase in the Council's prudential limit in future years. This additional borrowing will be subject to consideration of its affordability as part of each individual project Business Case. This means decisions to commit funding by approving capital projects will only be made when sufficient business rate income has been secured to cover the prudential borrowing implications arising. In particular, the EZ financial principles outlined above are intended to keep borrowing costs to a prudent proportion of forecast EZ income from business rates. Nevertheless the loan payments will be the liability of the Council to meet, whatever business rate income is actually achieved. Whilst there is currently no indication that the Government has any intention to use its power to impose a statutory limit on Local Authority borrowing, it should be noted that a Government borrowing limit could affect implementation of the Curzon Investment Plan.

4.2.7 Individual Business Cases will be required for EZ projects and will follow the City Council's normal 'gateway' procedures for capital and revenue project approval and will also need to seek specific approval by the EZ Executive Board. The ongoing revenue costs arising from EZ funded capital projects will be met by EZ resources. The financial strategy is focussed upon delivering a programme that will support business growth in order to provide an investment source for wider LEP investment. The City Council's Accountable Body costs, as well as other costs associated with programme delivery, will be reimbursed by the EZ. This revenue investment will be funded as the first call against EZ business rate resources.

4.2.8 It should also be noted that the Government will be revaluing business rates with effect from 1 April 2017. The rateable value of individual properties may go up or down, but the national total of business rates will remain fixed, as the rate multiplier is adjusted accordingly. This means that in some areas, business rates income increases, and in others it decreases. At a local level, adjustments will be made to Government grants to ensure that each local authority will be no better and no worse off as a result of the revaluation. Discussions with Government officials are ongoing as to whether such adjustment would be made for EZ's.

At the last (2010) revaluation, average business rates income in the EZ reduced by an estimated 5.6%. Without an adjustment as described above, a significant reduction in EZ income might occur at every five year revaluation. Discussions have taken place with Government officials to find a way forward. These are progressing positively and the outcome of the decision is awaited. Pending satisfactory resolution of the issue, the impact of business rates revaluation will need to be taken into account in considering the affordability of individual business cases which come forward for approval, in accordance with the EZ Financial Principles.

4.2.9 The Curzon Investment Plan, set out in this report, represents the current best estimate of future resources and priorities, and these may be subject to change as spending priorities and resource availability are reviewed. Updates to the EZ Investment Plan (including Curzon and the Midland Metro Extension) will be brought to the LEP and the City Council as appropriate.

4.2.10 The Curzon Investment Plan forms part of the West Midlands Combined Authority's (WMCA) overall HS2 Delivery Programme. The financial mechanisms for the WMCA investment programmes have not yet been finalised, and it is possible that the WMCA might carry out the prudential borrowing instead of Birmingham City Council. Either way, the LEP would approve the revenue support from its business rates income to meet the revenue cost of the agreed borrowing.

#### 4.3 Legal Implications

4.3.1 The Local Government Finance Act 2012 supports the development of EZ 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 LEP, to retain 100% of business rates income from within the EZ.

4.3.2 Section 1 of the Local Government Act 2003 gives the City Council the power to borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. The City Council, as Accountable Body, has responsibility through the LEP to manage the Investment Plan funding.

#### 4.4 Public Sector Equality Duty

4.4.1 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. Since the original Investment Plan was approved in 2012, no equality issues have been raised on the broad approach taken. The Curzon Investment Plan forms part of the delivery of the EZ initiative and as such will help secure the delivery of the objectives and contribute to the positive impacts. Individual projects have and will be subject to equality analysis.

#### 4.5 Memorandum of Understanding

4.5.1 The MOU (Appendix 5) sets out the Terms and Conditions of an agreement between DCLG and BCC, acting as the Accountable Body. The document sets out the responsibilities and requirements the organisations have in agreeing to the extended EZ. This includes, business rate retention, business rate discount (existing EZ only), having suitable governance processes in place, providing a Curzon Investment Plan, marketing requirements and the monitoring requirements of DCLG.

### **5. Relevant background/chronology of key events:**

5.1 HS2 is a once in a century opportunity for the City to enhance its national rail connectivity and accelerate its economic growth potential. It arrives in Birmingham City Centre in 2026 with a new terminus station, Birmingham Curzon. The new high speed rail service will provide radically improved connectivity linking the city with both the north and south of the country, bringing upward of 25,000 passengers per day to the city. Alongside the significant improvements in connectivity HS2 will provide a catalyst for economic development and regeneration in the city centre and beyond. The growth opportunity at Birmingham Curzon was first established in the Curzon Masterplan.

- 5.2 Launched in February 2014, the Masterplan set out how the arrival of HS2 can be maximised and the growth and regeneration opportunities around the terminus station unlocked. Covering 141 hectares of the City Centre, with the area centred on the HS2 City Centre Terminus Station, the strategy of the Masterplan is:
- For the delivery of an integrated world class station
  - A series of big moves to achieve this integration and support wider growth and regeneration for the area. The big moves include:
    - Station design to create a landmark building and arrival experience
    - Creation of a high quality setting for the station with public squares and spaces including;
    - Paternoster Place
    - Curzon Promenade and Curzon Square
    - Station Square and Moor Street Queensway
    - Midland Metro Tram connecting the station with the wider city centre network and continuing the line into Digbeth. This will be the first phase of the eastern extension that will see the line go out through East Birmingham – HS2 Interchange
  - Wider network of public transport and public realm improvements promoting walking and cycling to integrate the station and surroundings into the wider city centre and beyond
  - The growth potential across the Curzon area identifying opportunities for development linking into the wider city centre growth agenda set out in the Big City Plan and city agenda of the Birmingham Development Plan.
- 5.3 Key to unlocking the Masterplan growth is the delivery of a £724 million local infrastructure investment package. The Curzon infrastructure investment package is based upon detailed evidence of the local infrastructure needs for the area. The programme covers a 20 year period and the value accounts for impacts of inflation and contingencies in line with standard practice for the development of a programme. It consists of two phases:
- Phase One - upfront investment in the infrastructure required to unlock growth immediately around the station including HS2 Station Environment (Big Moves), Metro Extension to Digbeth, Site Enabling works and public realm and local transport improvements
  - Phase Two - further investment over wider area including area wide public realm and local transport/highway improvements, social Infrastructure to support new residential neighbourhoods
- 5.4 The economic impact across the Curzon area is estimated as 36,000 jobs, 600,000sqm of commercial floorspace, over 4000 new homes and £1.7bn private sector investment. A priority for the work will be targeting the jobs to local people through a range of measures in line with the Birmingham Skills Investment Plan, using tools such as Apprenticeships, the Youth Employment Initiative and COG platform.
- 5.5 The plans for Curzon sit within a region wide strategy that will ultimately deliver investment of £4.4bn, including new transport infrastructure and major new economic growth. This region wide plan, the HS2 Midlands Growth Strategy, was published in April 2015. The strategy has seen partners across the Midlands collaborating on HS2 to secure the best outcomes for the region. This work has been overseen by the Greater Birmingham and Solihull LEP (GBSLEP) and approved by Government in November 2015 as part of the

Devolution Deal. It will be incorporated into the West Midlands Combined Authority (WMCA) when it is established in Summer 2016.

- 5.6 To facilitate the funding for the Curzon infrastructure programme, a case, as part of the Midlands Growth Strategy was set out for the EZ to be extended. As part of the WMCA Devolution Deal, an extension of the City Centre Enterprise Zone both in terms of geography (from 69.8ha to 113.5 ha) and time for retention of business rate growth for the whole EZ extended to 31st March 2046 was proposed. This was agreed on the principle basis that the available funding would be prioritised to support the delivery of the Curzon infrastructure programme and a contribution made toward the extension of the Midland Metro through East Birmingham and North Solihull. In addition the Devolution Deal also provided Government commitment to capital funding, subject to the business case, for the Midland Metro Tram from the city centre core to Digbeth.
- 5.7 The City Centre EZ was first established in 2011 to facilitate the delivery of development and long term growth utilising the net uplift in business rates that supports the prudential borrowing costs required to enable the development. An Investment Plan worth £275m to support growth in the existing EZ was approved by Cabinet in 2014.
- 5.8 The Curzon Investment Plan is now proposed to maximise the impact of HS2 at Curzon. It sets out the £724m package of investment and incorporates the £556.8m that will be supported by the expanded EZ. In recognition of the expansion of the EZ, the governance and financial principles have been updated to reflect that the EZ financial model now incorporates the Curzon capital programme and its contribution to the delivery of the Metro extension to the HS2 Interchange. This is set out in the Governance Structure and Financial Strategy (Appendix 4) to ensure consistent and robust approvals are made across the now extended EZ and sufficient risk management is in place to safeguard the Council, as the Accountable Body, against financial commitments that may not be affordable.

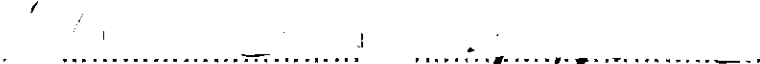
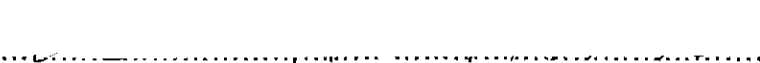
## **6. Evaluation of alternative option(s):**

- 6.1 Do not deliver the Curzon Investment Plan and updated financial principles – failure to deliver the priorities set out in the Plan will mean that the City Council and LEP cannot access the opportunity for additional funds to deliver and support local economic growth. As a result the outputs will not be realised or will take longer to deliver in terms of job creation, floorspace and Gross Value Added to the economy.
- 6.2 Explore alternative approaches – the Curzon Investment Plan identifies the necessary investment projects needed to support those developments necessary to maximise the benefits of HS2 and unlock the associated uplift in Business Rates. Exploring alternatives would undermine the principles and projects set out in the Plan and will delay the delivery of additional investment. In arriving at the programme presented, many alternatives and options within the plan have been considered.

## **7. Reasons for Decision(s):**

- 7.1 To allow officers to continue to implement the EZ and progress individual business cases for projects identified within the Curzon Investment Plan
- 7.2 To ensure that the financial principles and role of the Accountable Body remains up to date and supports the delivery of the Curzon Investment Plan.



Signatures	<u>Date</u>
John Clancy Leader of the Council	
Waheed Nazir Strategic Director - Economy	

List of Background Documents used to compile this Report:
Enterprise Zone Investment Plan – June 2012 Enterprise Zone Revised Investment Plan Cabinet report July 2014 Enterprise Zone Financial Model Curzon Master Plan

List of Appendices accompanying this Report (if any):
<ol style="list-style-type: none"> <li>1. Curzon Investment Plan</li> <li>2. Equality Report</li> <li>3. Curzon Investment Plan and EZ Programme Spend Summary</li> <li>4. Enterprise Zone Governance Structure and Financial Strategy</li> <li>5. Memorandum of Understanding</li> </ol>

