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Introduction

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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.

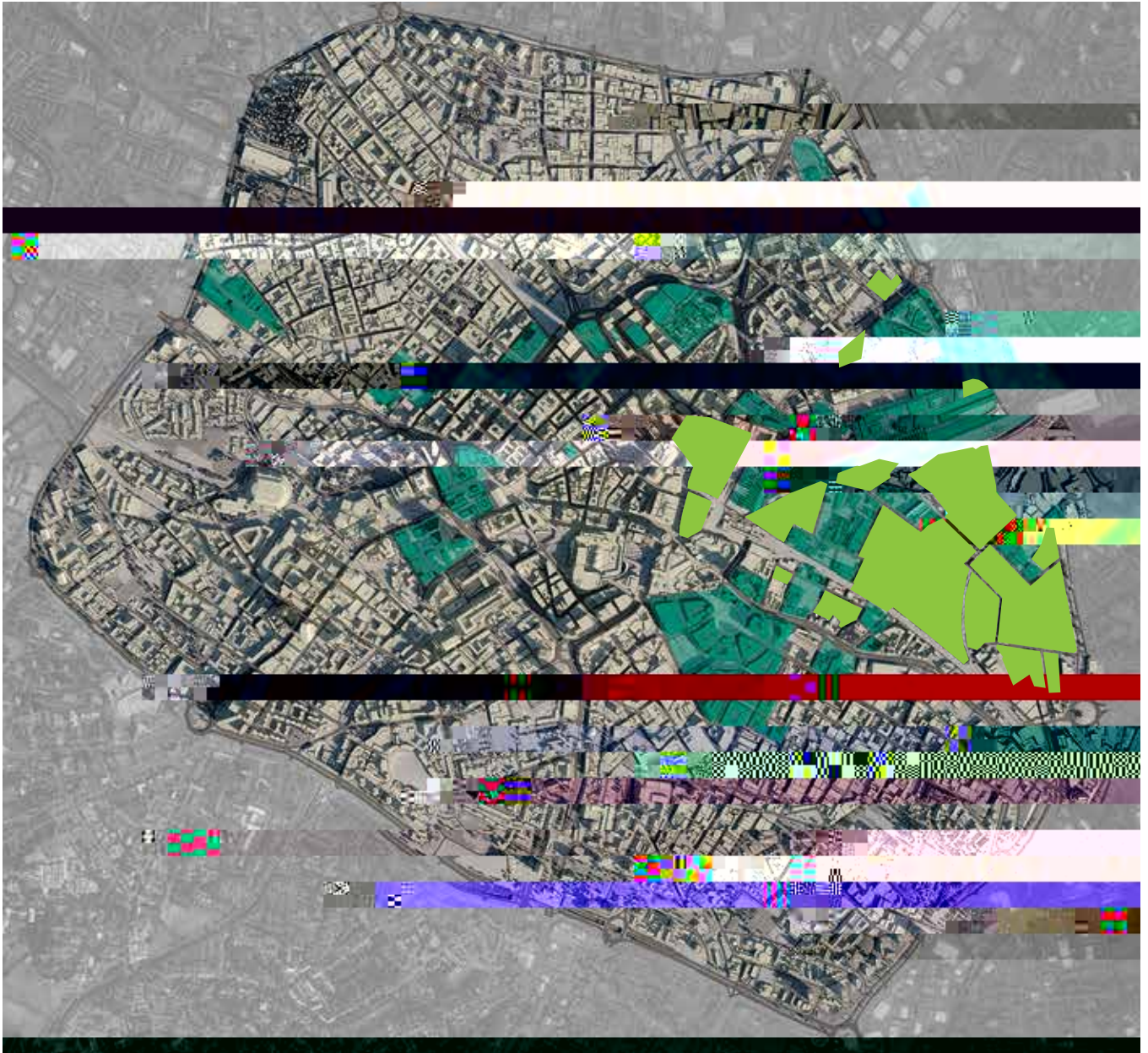
The original City Centre EZ comprises 26 sites across the city centre, in seven clusters including those identified in the Big City Plan - the city's strategic vision for the future of the City Centre - as offering the greatest opportunities for growth.

Investment totalling £275m is available 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



**Purpose of the Governance
Framework**



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 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

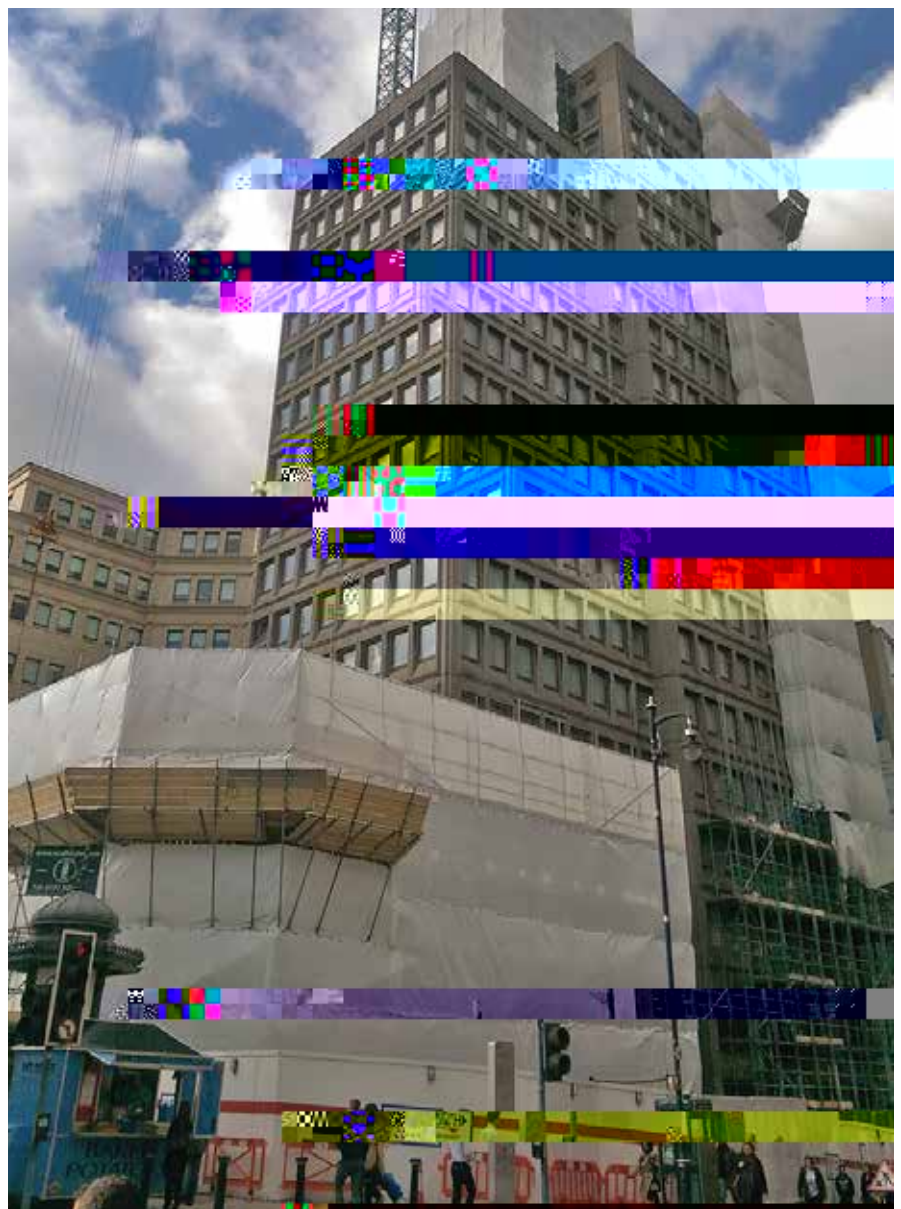
The Project Manager reports will include:

- 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.

A key principle underpinning this model is known as rolled up and capitalised interest. This allows for deferral of interest payable until the asset becomes operational. As a result interest is capitalised and added to the outstanding principal amount of the loan (hence the phrase 'rolled up'). Interest will then accrue on the total amount of outstanding loan and rolled-up interest to give a higher capital sum borrowed. Under Local Authority accounting regulations this principle can only

be applied to projects which are assets in BCC's ownership (i.e. not grants to 3rd parties). The 'rolling up' concept has been undertaken in order to alleviate the revenue consequences that would require repayment on capital projects incurred during the early years of the programme (i.e. so as to make the programme affordable). Capitalisation of interest ceases at the point the asset becomes operational and functional. At that stage the compounded capital cost, inclusive of capitalised interest then becomes subject to annual repayment in the usual way over the remaining term of the EZ programme.

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

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.

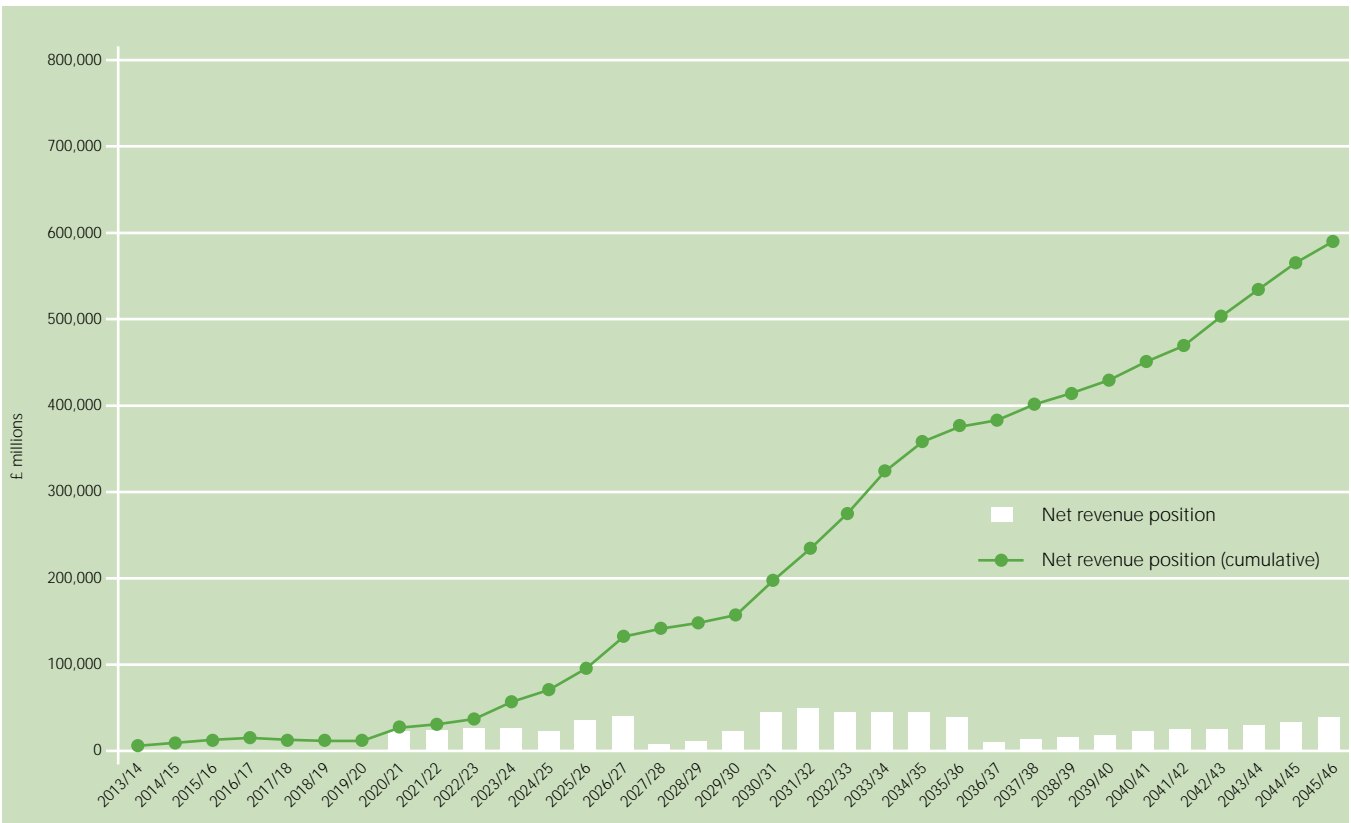
6. Prudential borrowing

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.

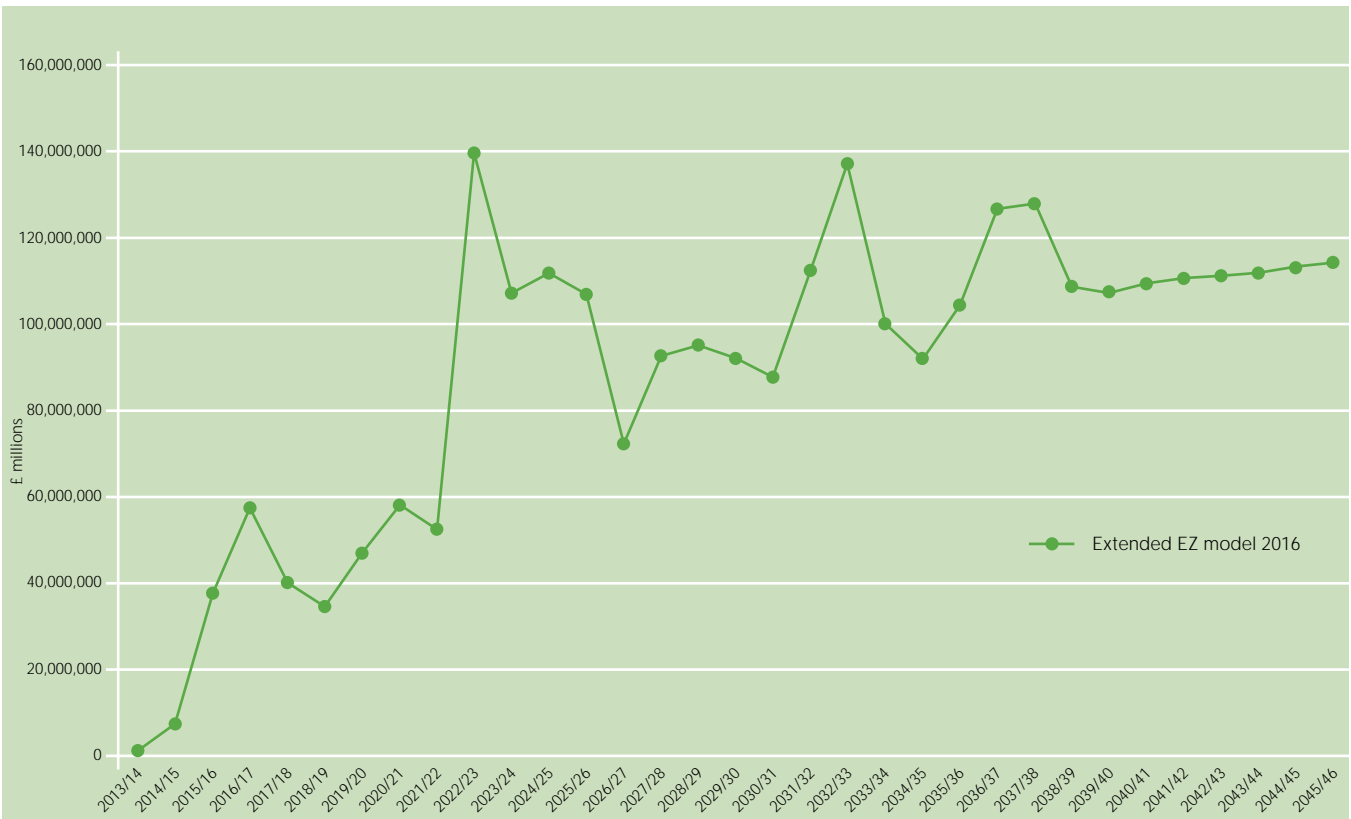
7. Income provided to support wider LEP Investments

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 Gultimate/g1(owing. epaw 5s fi Gultimate/s c0 0 0urwill bd7yojTB.ouncil in4 HS2 Gultimate/gmsnd



Graph 2 Affordability net revenue position - annual and cumulative



Graph 3 Total capital and revenue expenditure profile (including financial costs)

