

Report to the Greater Birmingham and Solihull Supervisory Board

6 October 2016

ENTERPRISE ZONE EXTENSION AND CURZON INVESTMENT PLAN

1. Purpose of the Report

- 1.1. To endorse the decisions of GBSLEP and Birmingham City Council regarding the Enterprise Zone Extension and Curzon Investment Plan.

2. Recommendations

That Members are asked to:

- 2.1. Note the extension of the Enterprise Zone (EZ) area from 69.8 hectares to 113.5 hectares, and the extended time period for the retention of business rates income uplift from 31 March 2038 to 31 March 2046.
- 2.2. Note the current EZ Investment Plan (2014) of £275m, which includes a £30m allocation towards the Curzon Investment Package and £40m towards wider LEP priorities.
- 2.3. Note the allocation of additional EZ funding of £556.8m for the Curzon Investment Package
- 2.4. Note the ring-fencing of a further £183.3m of EZ funding towards the cost of the Metro extension from Adderley Street, Birmingham to the HS2 Interchange Solihull, subject to a full business case and securing additional match funding.
- 2.5. Note the total EZ funding for the EZ Investment Plan (2014) and Curzon Investment Plan is now £1015.1m.
- 2.6. Note 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 funding package of £724m. This is comprised of the following funding contributions;
 - £30m – EZ Investment Plan Curzon Contribution (2014)
 - £556.8m – Extended EZ resources
 - £137.2m - West Midlands Combined Authority (WMCA) for the Metro extension to Adderley Street.
- 2.7. Note the content of the Enterprise Zone Governance and Financial Strategy (Appendix 2).
- 2.8. Note the Memorandum of Understanding (MOU) (Appendix 3), which sets out the terms and conditions, between the Department for Communities and Local Government (DCLG) and Birmingham City Council (BCC), for the extension to the EZ.
- 2.9. Note the delegation of authority for the management of the total EZ funding, including its associated investment plans and the approval of related business cases and applications for funding, to the LEP EZ Executive Board.
- 2.10. Note a revised EZ Investment Plan will be produced in 2017 which will bring together both the existing EZ and the extension into one plan

- 2.11 Note that the Government will be revaluing business rates with effect from 1 April 2017 and the LEP Board will be updated once the impact on the EZ is known.
- 2.12 Note that Birmingham City Council approved the Enterprise Zone Extension and Curzon Investment Plan at its Cabinet meeting on the 20th September 2016.

3. Background

- 3.1 The EZ was established in 2011 with 26 designated sites based on the economic growth strategy of the Big City Plan. Following work with partners, developers and landowners an Investment Plan was launched in June 2012, which set out a £128m programme to kick start development over a five year period up to 2017.
- 3.2 In July 2014 the Investment Plan was updated to reflect a longer term approach to development and the emerging plans for HS2. The delivery period was also extended to 2022/2023 and the investment programme increased to £275m, including an allocation of £30m to support the delivery of the HS2 Curzon Station within Birmingham and £40m for wider LEP priorities, including £20m for UK Central.
- 3.3 As the Accountable Body for the EZ, Birmingham City Council has undertaken prudential borrowing on behalf of the LEP for approved capital projects and ensures that individual business cases for capital and revenue investments are sound. Prudential borrowing costs will be financed by the revenue resources provided by the uplift in business rates within the EZ.

4. Key Issues

- 4.1 On the 21st March 2014 the Government commissioned High Speed 2 (HS2) Growth Task Force published its “High Speed 2: Get ready” report, which set out recommendations for maximising the impact of HS2. One of the key recommendations was for Growth Strategies to be produced for each station location. Since this announcement the Government have been working closely with local areas in receipt of HS2 stations on their growth strategies and mechanisms to maximise the economic impact of HS2. In Birmingham this work resulted in the Curzon Masterplan, which was launched in February 2014.
- 4.2 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
 - 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
 - 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 - Solihull to UK Central/Airport.

- 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 wide Birmingham Development Plan.

4.3 In order to unlock the full growth potential across the Curzon area and beyond and so maximising the local economic impact a programme of local infrastructure is required.

4.4 The proposals within the Masterplan were incorporated into the region wide HS2 Growth Strategy, which has seen partners across the midlands collaborating on HS2 to secure the best outcomes for the region that will ultimately deliver investment of £4.4bn, including new transport infrastructure and major new economic growth. This work has been led by the LEP. The opportunity at the Curzon station, which lies at the heart of the HS2 network, represents a game changing opportunity for the LEP to accelerate its economic growth and is an integral part of the HS2 Growth Strategy. 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.

4.5 In November 2015 the Government agreed a Devolution Deal with the West Midlands Combined Authority (WMCA). This set out the Government's support for the HS2 Growth Strategy and a commitment to fund the Curzon investment programme through the extension to the LEP's EZ, with an extension in the time period for the retention of business rate uplift increased from 2022/23 to 2045/46. In addition the boundary of the EZ was also extended to cover an extra 43ha of land (69.8 to 113.5ha) and include an additional 13 sites. The Devolution Deal also included funding for the extension of the Metro from Bull Street to Adderley Street in Birmingham City Centre.

4.6 Key to unlocking the Curzon Masterplan growth is the delivery of a £724m local infrastructure investment package as set out in the Curzon Investment Plan (Appendix 1). The investment package is based upon detailed evidence of the local infrastructure needs for the area.

- 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.

4.7 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.

5. Financial Implications

5.1 The funding of £724m for the Curzon Investment Plan will consist of an EZ contribution of £586.8m and £137.2m made through the Devolution Deal to deliver the Metro extension to Adderley Street in Digbeth.

5.2 In addition to supporting the Curzon programme, it is proposed that a contribution of £183.3m is ring-fenced from the EZ for the extension of the Midland Metro from Adderley

Street through East Birmingham to the HS2 Interchange, Solihull, subject to the preparation of a full business case and additional match funding.

- 5.3 To ensure the EZ maintains stringent financial practices, Birmingham City Council, as the Accountable Body, established a set of financial principles for the Enterprise Zone in 2012. To reflect the extension of the EZ and the Curzon Investment Programme these principles have been updated to ensure that the financial management is robust, and that projected expenditure, including borrowing and establishment costs, is affordable. 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. In addition total expenditure by the EZ will be capped at 65% of the unreserved 85% of business rate income. Projects will only be brought forward when the cost implications can be contained within the committed business rate revenue resources. Details of these principles are set out in the Enterprise Zone Governance and Financial Strategy (Appendix 2). This was approved by Birmingham City Council at its Cabinet meeting on the 20th September 2016.
- 5.4 The Enterprise Zone Executive Board will have delegated powers from the LEP to approve projects and will make decisions on the priority order for the Curzon investment. The Terms of Reference for the Enterprise Zone Boards will be updated following the approval of the Enterprise Zone Governance and Financial Strategy. Individual projects requiring funding from the Enterprise Zone will follow Birmingham City Council governance processes, being managed and monitored through the Directors Board, with regular reporting to the LEP Board by the LEP Champion.
- 5.5 Capital projects contained within the Curzon Investment Plan will be resourced by Birmingham City Council (in its Accountable Body role for the Enterprise Zone). The costs associated with this, along with revenue project costs, will be funded by the resources raised through the projected uplift in business rates that the EZ will generate.
- 5.6 To support the EZ's operational arrangements an agreement between DCLG and BCC is proposed. This MOU (Appendix 3) sets out the responsibilities and requirements the three 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, marketing requirements and the monitoring requirements of DCLG.
- 5.7 Within the Enterprise Zone all business rates are collected by the City Council. However, any net uplift in the business rates collected within the Zone is allocated to the LEP for a period of 30 years to 2045/46. It is the LEP who may decide how and where these funds are deployed and will make the investment decisions over the resource. It was agreed that the City Council should be the Accountable Body for the EZ, along with other LEP funds, and so the Council has taken on the responsibility for financial governance over the EZ.
- 5.8 The proposed prudential borrowing can be accommodated within the City Council's prudential limit. 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.
- 5.9 The LEP should note that the Government will be revaluing business rates with effect from 1 April 2017.
- 5.10 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 are ongoing as to whether such adjustment would be made for EZ's

5.11 The revaluation is identified in the risk register and is kept under review. The impact of any revaluation will need to be assessed in terms of affordability of the programme and individual business cases.

5.12 As the Accountable Body, Birmingham City Council will require individual full business cases for Enterprise Zone projects, which will follow the City Council's normal gateway procedures for capital, and revenue projects, as well as requiring approval by the Enterprise Zone Executive Board. The ongoing revenue impacts of Enterprise Zone funded capital projects will be met by Enterprise Zone resources through this process. The investment 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 Enterprise Zone. This revenue investment will be funded as the first call against Enterprise Zone business rate resources.

5.13 Delivery of the EZ and the Curzon Investment Plan will be supported by a robust risk management strategy that will form an integral part of the performance management arrangements. The key risk for the Curzon programme is that the HS2 Hybrid Bill does not receive Royal Assent. Other principle risks within the programme are;

- Business rate collection is not sufficient to meet the borrowing commitments.
- The costs of projects increase and become unviable.
- The need for up-front investment to unlock the future uplift in business rate income.

Both the GBSLEP and BCC will be responsible for monitoring and managing these, and all other risks, through continued assessment of their probability and impact. A programme risk register will be maintained and monitored on a monthly basis, with regular reporting at each EZ Executive meeting.

6. Legal Implications

6.1. In compliance with the powers of general competence set out in Section 1 of the Localism Act 2011, Birmingham City Council has agreed to act as the Accountable Body for the funds.

7. Equalities

7.1. There are no particular considerations arising from this report.

7.2. However, the EZ has been assessed as leading to a positive effect 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 2014 Investment Plan was approved, 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.

8. Consultation

8.1 The Curzon Investment Plan was approved by the GBSLEP Board on the 15th July 2016. On the 14th September, the Prime Minister announced the launch of the Curzon

Investment Plan, which was approved by Birmingham City Council's Cabinet on the 20th September 2016. Due to the need to keep the Curzon Investment Plan confidential prior to approval by the Council, it was not possible to present this report to the Supervisory Board until its meeting in October. However, all GBSLEP Leaders were briefed on the contents of this report at a meeting on 30th June 2016.

9. Conclusion

9.1 The GBSLEP Supervisory Board are asked to approve the recommendations within this report, which represent the first financial commitment by a city to invest in the benefits that HS2 will bring to a city. It will enable the delivery of significant infrastructure across the Curzon area, which will help drive major regeneration and realise our aspiration for utilising HS2 as a catalyst for growth.

Prepared by:

Waheed Nazir Strategic Director of Economy, Birmingham City Council
0121 464 7735/Waheed.nazir@birmingham.gov.uk

Richard Cowell Assistant Director of Development
Planning and Regeneration, Birmingham City Council
0121 303 9880 / richard.cowell@birmingham.gov.uk

Date Created: 27 September 2016

Appendices

- A. EZ Boundary
- B. Curzon Investment Plan 2016/17 to 2045/46
- C. EZ Governance and Financial Strategy
- D. Memorandum of Understanding