

**GREATER BIRMINGHAM AND SOLIHULL LOCAL ENTERPRISE PARTNERSHIP  
JOINT SCRUTINY COMMITTEE**

<b>Report to:</b>	Greater Birmingham and Solihull Local Enterprise Partnership Joint Scrutiny Committee
<b>Meeting Date:</b>	Friday, 9 July 2021
<b>Subject/Report Title:</b>	Enterprise Zone (EZ) 2020/21 Q4 Update
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<b>Area Affected:</b>	The Joint Scrutiny Committee is constituted by Members from District / Borough Councils in Staffordshire and Worcestershire, together with one Member each from Birmingham City Council and Solihull Metropolitan Borough Council.
<b>Public/Private Report:</b>	This report is to be considered in the public session of the GBSLEP Joint Scrutiny Committee.
<b>Exempt by Virtue of Paragraph:</b>	Not applicable, the report is to be considered in the public session of the meeting.
<b>1. Purpose of Report</b>	
1.1	To inform Members of the 2020/21 Enterprise Zone (EZ) Programme Financial Outturn position.
1.2	To provide an update on the Enterprise Zone Programme and progress on the Enterprise Zone Investment Plan.
<b>2. Recommendation</b>	
2.1	Members are asked to note the outturn financial position 2020/21.
2.2	Note the impact of the COVID-19 virus.
2.3	Note the progress on the Enterprise Zone Investment Plan 2021/22

### 3. Background of the Report

- 3.1 Enterprise Zone activity is funded by prudential borrowing on behalf of the GBSLEP which is repaid from the uplift in business rates generated by new commercial development.
- 3.2 The latest Q4 financial model was updated in May 2021 and is now presenting a cumulative surplus of £5.57m (Table 1.0) to the end of March 2021; this is an increase of £1.22m on the previous Q3 forecast of £4.35m. The overall position has improved primarily due to a significant positive impact of the year-end assessment of provisions for appeals and to a lesser extent provisions for bad debts. Latest Valuation Office data on appeals has reduced the actual losses anticipated in-year due to the removal of appeals presented on the grounds of material changes in circumstances due to COVID-19. Central Government has ruled this out as a reason for a reduction in rateable values and will instead use compensatory measures for businesses struggling because of COVID-19. Additionally, the assessment of provision for bad debts has been lower than previously anticipated, further improving the Net BRI.

	Actual	Forecast		
20/21 Annual Forecast / Actual	2019/20	2020/21		Q3 & Q4 Variance
Note: Deficit/(Surplus)		Q3	Q4	
Capital Spend to March 20: <b>£154.25m</b>	£m			
<b>Capital Project Spend (inc. Capitalised Int.)</b>	<b>25.51</b>	<b>24.87</b>	<b>21.63</b>	<b>(3.23)</b>
Expenditure (Capital borrowing/interest, Revenue & Contingency)	4.14	6.24	6.22	(0.02)
Net Income (BRI Net of Provisions)	(4.33)	(5.77)	(6.93)	(1.16)
<b>In-Year Deficit/(Surplus) Sub-Total</b>	<b>(0.19)</b>	<b>0.48</b>	<b>(0.71)</b>	<b>(1.19)</b>
Total Brought Forward Balances	(3.28)	(3.47)	(3.47)	0.00
In-year Contingency	0.00	(1.36)	(1.39)	(0.03)
<b>Total Cumulative Deficit/(Surplus)</b>	<b>(3.47)</b>	<b>(4.35)</b>	<b>(5.57)</b>	<b>(1.22)</b>

Table 1.0 2020/21 Annual Forecast / Actual

- 3.3 The model is currently forecasting a cumulative surplus of £6.20m for 2021/22, £11.77m for 2022/23 and £19.98m for 2023/24 and increases to £46.80m in 2025/26. It is anticipated that the surplus will rise further than previously advised in 2023/24 as key developments complete and are occupied by tenants.
- 3.4 The forecast capital and revenue spend is shown in Appendix C and D and includes an annual forecast to 2025/26 with the inclusion of the total investment as specified in the Enterprise Zone Investment Plan May 2019.
- 3.5 Capital project expenditure up to March 2020 was £154.2m and has increased by £21.6m to £175.8m in 2020/21. Capitalised interest and capitalised project delivery costs account for £4.99m of these costs for 2020/21.

Annual Forecast - 5 years	ONLY Secured and Committed BRI					
Note: Deficit/(Surplus)	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Capital Spend to March 20: <b>£154.25m</b>	£m					
<b>Capital Project Spend (inc. Capitalised Interest)</b>	<b>21.63</b>	<b>44.59</b>	<b>25.24</b>	<b>12.82</b>	<b>26.61</b>	<b>8.85</b>
Expenditure (Capital borrowing/ interest, Revenue & Contingency)	6.22	11.34	13.58	14.47	20.03	21.07
Net Income (BRI Net of Provisions)	(6.93)	(9.62)	(15.28)	(18.11)	(25.74)	(25.39)
<b>In-Year Deficit/(Surplus) Sub-Total</b>	<b>(0.71)</b>	<b>1.72</b>	<b>(1.70)</b>	<b>(3.64)</b>	<b>(5.71)</b>	<b>(4.32)</b>
Total Brought Forward Balances	(3.47)	(5.57)	(6.20)	(11.77)	(19.98)	(35.34)
In-year Contingency	(1.39)	(2.35)	(3.87)	(4.57)	(9.65)	(7.13)
<b>Total Cumulative Deficit/(Surplus)</b>	<b>(5.57)</b>	<b>(6.20)</b>	<b>(11.77)</b>	<b>(19.98)</b>	<b>(35.34)</b>	<b>(46.80)</b>

Table 2.0 Five Year Annual Forecast

- 3.6 In accordance with the new EZ Financial Principles, the financial model has been updated to account for Financial Principle 16. This states that only projects that have received a conditional allocation (OBC approval) will be profiled in the EZ model. Projects that do not have a conditional allocation (OBC approval) will have all potential capital expenditure included in the last year of the programme (2045/46). Therefore, by moving the expenditure to the last year of the programme this removes all potential capital financing costs in the EZ model and projects that have not yet had OBC approval cannot impact on affordability calculations for those seeking an investment decision. However, once the projects receive a capital allocation (OBC approval) the capital investment costs plus financing costs are reintroduced accordingly.
- 3.7 As a result, this has reduced the expenditure in the financial model by £84.47m (reducing from £1.54bn to £1.45bn) and will therefore offer a more accurate position when considering a project OBC, and potential borrowing costs, for projects when presented for an investment decision. Table 4.0 below provides a summary of the changes resulting from the above.

2045/46 Cumulative Forecast	ONLY Secured and Committed BRI			ALL BRI including Anticipated		
Note: Deficit/(Surplus)	Q3	Q4	Variance	Q3	Q4	Variance
Total Capital Spend to March 20: <b>£154.25m</b>	£m					
<b>Capital Project Spend (inc. Capitalised Interest)</b>	<b>1,019.17</b>	<b>1,020.25</b>	<b>1.08</b>	<b>1,019.17</b>	<b>1,020.25</b>	<b>1.08</b>
Expenditure (Capital borrowing, Revenue, Interest & Contingency)	1,535.32	<b>1,450.85</b>	(84.47)	1,535.32	<b>1,450.85</b>	(84.47)
Net Income (BRI Net of Provisions)	(531.33)	<b>(534.95)</b>	(3.62)	(1,824.09)	<b>(1,827.71)</b>	(3.62)
<b>Cumulative Deficit / (Surplus)</b>	<b>1,003.99</b>	<b>915.90</b>	<b>(88.08)</b>	<b>(288.78)</b>	<b>(376.86)</b>	<b>(88.08)</b>
Cumulative Contingency	(255.86)	<b>(256.48)</b>	(0.62)	(255.86)	<b>(256.48)</b>	(0.62)
<b>Total Cumulative Deficit/(Surplus)</b>	<b>748.12</b>	<b>659.42</b>	<b>(88.70)</b>	<b>(544.64)</b>	<b>(633.34)</b>	<b>(88.70)</b>

Table 3.0 2045/46 Cumulative Forecast

- 3.8 The 2045/46 forecast outturn has improved by £88.70m compared to the Q3 2020/21 model from a £748.12m deficit to a £659.42m deficit. This deficit will remain significant until the BRI for the programme becomes secured or committed in line with the approved financial principles. As noted in the ALL BRI table (above), this ultimately does forecast a significant surplus, but this will be subject to additional capital borrowing costs when each project is approved and costs profiled.
- 3.9 The Enterprise Zone Net Business Rates Income (BRI) for 2020/21 has now been confirmed as £6.93m. This has increased from £5.77m in the Q3 forecast and the primary reasons are highlighted above. It should be noted that whilst there is an improved position for Q4 compared to the Q3 forecast, the BRI will remain volatile due to the on-going, and unknown, future impacts of COVID-19. Any differences will likely come from delays in occupations and project completions but will be monitored closely over the next few years as the programme matures.
- 3.10 The previously advised GBSLEP EZ Management Sub-Group has now been concluded. The group was established to review and assess whether the existing governance models (financial modelling, financial principles, Memorandum of Understanding etc.) were fit for purpose and to examine the funding model to ensure that projects in delivery and new projects coming forward for delivery are affordable. An action plan was established and has now been completed. The only outstanding action was the review of the Enterprise Zone Investment Plan which is being monitored by Programme Delivery Board.
- 3.11 Key projects, such as Birmingham Smithfield and Paradise Phase Three are also progressing. Approvals have been given to support the development of business cases and early enabling works to Birmingham Smithfield. A project, currently outside of the Enterprise Zone Investment Plan, Martineau Galleries has also submitted an Outline Business Case for consideration of Enterprise Zone funding. Early indication is that the project could contribute over £500m in Business Rates Income to the Enterprise Zone programme, this is higher than previously forecast without public funding. Consideration is being given by GBSLEP and BCC to support the project to Full Business Case. All three projects are being monitored and tested in the financial model for affordability.
- 3.12 Public infrastructure projects have received Enterprise Zone support in the last six months, Digbeth High Street and Southside Public Realm securing £15.7m and £8.7m respectively are two projects supporting economic growth in the city.
- 3.13 GBSLEP, in partnership with BCC, is continuing to develop the framework for the new Enterprise Zone Investment Plan (EZIP). The revised EZIP will be more closely aligned to the GBSLEP Delivery Plan, and the emerging BCC “Our Future City Plan”, developing key themes around place making, innovation/5G, carbon reduction, culture and creative sectors, skills and workforce development etc. A working group has been established between GBSLEP and BCC to review and consider the Enterprise Zone project pipeline,

once suitably progressed this will include more senior members from each organisation. Established Investment Plan projects remain under review in accordance with the financial principles (referred to in this report). The Investment Plan also retains a regional contribution to projects, earmarked for 2045/25 onwards, the process for evaluating and prioritising projects has not yet been established. The intention is to establish processes as part of the revised Investment Plan.

#### **4. Evaluation of Alternative Option(s)**

- 4.1 The option to review the Investment Plan has resulted from the need to review and refresh the project pipeline, reconsider the investment plan in accordance with the GBSLEP Delivery Plan and BCC Our Future City Plan and respond to the on-going impact of the current pandemic.
- 4.2 The alternative option would be to consider revising processes and procedures to accommodate potentially new projects and emerging delivery plans, together with individual reviews of business rates income, demand forecasts etc.

#### **5. Reasons for Recommending Preferred Option**

- 5.1 The existing Enterprise Zone Investment Plan, whilst robust, has some weaknesses in terms of the project pipeline detail (as a result of being a long-term delivery plan of 25 years), the on-going impact of the pandemic on both project viability and business rates income forecast for the period.

#### **6. Scrutiny**

- 6.1 Birmingham City Council provides the financial scrutiny for the EZ programme in the role as the GBSLEP Accountable Body. BCC is also the body responsible for the prudential capital borrowing which is made available for investment by the GBSLEP Enterprise Zone programme. BCC scrutinises the programme at both project and programme levels, and both organisations have an established reporting protocol for projects and the overall programme.
- 6.2 BCC provides quarterly narrative of the funding model, with variances noted to GBSLEP for the internal team to independently verify. This facilitates joint scrutiny of the model and verifies the affordability of new and existing projects by running scenarios through the model. Further written assurance of affordability to GBSLEP for each new project coming forward to PDB or GBSLEP Board for approval continues to deliver economic resilience and growth to the region.
- 6.3 BCC and GBSLEP jointly procured PwC to conduct an audit of the Paradise Phase One and Phase Two projects. The review of Phase One was completed and presented to BCC and GBSLEP Boards. The audit included an on-going evaluation of Phase Two funding conditions, which was also presented alongside Phase One. Phase One being noted, and Phase Two receiving positive assurance from PwC.

6.4 Scrutiny of the EZ programme and consideration of investment proposals is undertaken by the Programme Delivery Board and GBSLEP Board on a regular basis. Both PDB and GBSLEP Boards receive a project and programme update at all meetings. There is a specialist group to support and scrutinise the Paradise project. Partners meet before and after every Board meeting to consider progress, risks and budgets etc. All activity is in accordance with the GBSLEP Assurance Framework.

## **7. Implications**

7.1 There are no implications arising that will affect the future delivery, monitoring and evaluation of the EZ Programme.

## **8. List of Appendices**

8.1 None

## **9. Background Papers Used to Compile this Report**

9.1 EZ Investment Plan May 2019

9.2 EZ (Revised) Financial Principles

## **10. List of Other Relevant Documents**

10.1 None.