Sandwell
Metropolitan Borough Council

10 Year Business Rates Retention Agreement Report
Appendix 1

2017-2023 Pilot Arrangements

1. The pilot of 100% business rates retention represented a fundamental change to the pre-2017 arrangements, where 50% of business rates were retained locally and the remainder was remitted centrally to Government; whilst RSG was also received from DLUHC by each West Midlands authority. The pilot arrangements essentially meant RSG was foregone, in exchange for the remaining 50% central share of business rates now being retained locally, rather than remitted to Central Government.

2. Given this fundamental shift in the local authority financing mechanism, DLUHC provided a "no detriment guarantee" which would be triggered if the resources generated for West Midlands authorities under the national business rates retention arrangements in effect at the time (50% retention) would have yielded a higher value of funding at pilot level (being all seven constituent local authorities as a collective) compared with the 100% retention arrangements under the pilot. In the event of a collective-level detriment, DLUHC agreed it would directly reimburse the pilot as a whole.

3. If, however, there were instances of isolated detriment (i.e. some local authorities worse off), the collective no detriment clause would not be triggered, and so no compensating funding from DLUHC would be received. However, the arrangement agreed with DLUHC stipulated that those authorities in a gain position would directly reimburse those in a detriment position.

4. The pilot also contained an enhanced "safety net" level for each West Midlands authority of 97% of its baseline funding level, compared with 92.5% nationally, to reflect the increased exposure to business rates risk by way of 100% retention. The safety net is the level below which DLUHC guarantees an authority's income from business rates will not fall.

5. The 2016 Devolution Deal with DLUHC (which was effectively the catalyst for the WMCA and the associated Investment Programme) included an

arrangement whereby the Combined Authority would benefit from a share of business rates growth in the region.

6. At the time of the 2016 Devolution Deal, local authorities were in the national retention system (50% retained, 50% remitted centrally) and Central Government agreed to remit back to the Combined Authority any growth within the 50% Central Share that was due from the region to Central Government under the national arrangements in effect at that time.

7. The Combined Authority was initially expected to generate £3bn of income to fund the regional Investment Programme. This would facilitate £2bn of investment (with the remainder used for capital financing) and would be funded from Gainshare (a 30-year DLUHC Grant), Mayoral Precept, Mayoral Business Rates Supplement and business rates growth.

8. The move from the national 50% arrangements to the 100% retention arrangements complicated the calculations of business rates growth and hence the amount due to the Combined Authority. Nevertheless, local authorities agreed to fund from business rates gains, the Combined Authority Investment Programme income profile in line with the original financial modelling expectations; that being £1.5m in year one growing incrementally by £1.5m each year. This arrangement, which is subject to annual agreement, remains intact and the sum due to the Combined Authority for 2023/24 totals £12.0m. Sandwell MBC’s contribution is £1.264m in 2023/24.

9. To note, the WMCA share is deducted in the gain/detriment calculations before the “no detriment” assessment is carried out.