10 Year Business Rates Retention Agreement Report
Appendix 2

10 Year 100% Business Rates Retention Offer
Memorandum of Understanding (MoU) Key Considerations

1. **Term**: The 10-year arrangement should allow authorities to assemble financial plans with more confidence and where enhanced incomes are projected, authorities may be enabled to make longer term investment decisions given the arrangements have a degree of longevity.

2. **Safety Net**: The safety net is a protection within the system for local authorities which guarantees that reductions in business rates income is limited to a minimum percentage of the baseline funding level. Under the pilot arrangements, each authority had an enhanced safety net level of 97%, compared with 92.5% nationally. WMCA and Solihull MBC have successfully negotiated for this enhanced level of protection to remain unchanged, at an individual authority level, under the proposed 10-year arrangements.

3. **Grants Rolled In:** There is no change to the grants rolled in compared with the pilot arrangements. West Midlands authorities will continue to forgo RSG only in exchange for increased business rates retention.

4. **Additional Levy:** The levy for the pool will remain at nil, unchanged from the pilot arrangements.

5. **WMCA Share:** A share of regional business rates due to the Combined Authority is required to remain in place. Under the 10 year deal, in 2024-25, the Combined Authority share of retained business rates from constituent authorities will total £13.5m, with this expected to increase by a maximum of £1.5m per annum. Sandwell MBC's contribution in 2024/25 is likely to be £1.422m, which is an increase of £0.158m compared with 2023/24. The annual increase is in line with agreements made with the seven local authorities under the first devolution deal.

6. **Impact of a Reset**: The 10 year arrangement will be affected by national resets to business rates baselines. At the point of a reset, at a national level, the resources available to local authorities are unchanged in aggregate. However, a reset changes how DLUHC distributes these resources nationally and as such, some local authorities could benefit from a reset whilst the reverse will be true for other authorities. All core funding systems underpinned by business rates (the pilot, the national 50% scheme and the ten-year arrangements) are exposed to this issue but the MoU describes how WMCA and the local authorities ensure protection from adverse outcomes associated with the reset, as far as is possible given the detail of how a reset will be undertaken has yet to be determined.

7. It is important to note that DLUHC has indicated that there will not be a reset until 2025/26 at the earliest. Additionally, it is as yet unclear what form a reset will take – for example whether it will be a full or partial reset, whether baseline funding levels will be updated in addition to business rates baselines (and if so on what basis) and which year(s) will be used to set the new baselines. These technical details are likely to have a significant influence on the outcome / impact of this national event. Nevertheless, the negotiating team have sought to agree appropriate protections which are acceptable to both sides.

8. A reset presents particular risks for the size of the WMCA share because in the year(s) immediately following a reset when business rates baselines are higher, the likelihood of there being insufficient business rates growth from which to fund the expected contribution is increased. Local authorities were concerned that in that scenario they might be expected to mitigate this risk from core resources, in which case they could be financially better off (particularly in the immediate year/s post re-set) in the national 50% scheme.

9. Through the negotiations with DLUHC steps have been taken to mitigate the loss of the no detriment protection. Firstly, the MoU includes a commitment from DLUHC that, in the event a reset has adverse, unintended consequences on the West Midlands authorities' ability to fund the WMCA share at the level expected, DLUHC will work with the region

to protect the substance of the WMCA share and secondly; it provides a means of reviewing and modifying the arrangements throughout the ten-year term with the agreement of all parties.

10. **No Detriment:** DLUHC is not willing to retain the "no detriment" protection that existed under the pilot arrangements, whereby DLUHC will reimburse the West Midlands authorities where they are collectively in a net deficit position.

11. The no detriment protection has not been called upon under the pilot arrangements, indicating it may be unlikely that the pool encounters a net detriment, however, the region is yet to experience the impact of a baseline reset which could make the overall position more marginal, particularly in the early years following a reset.

12. Outside of the MOU, locally-agreed no detriment protections (i.e. where authorities in a gain position may compensate authorities in a detriment position) will remain in place. The work regarding agreeing specific conditions for local no detriment has been delegated by West Midlands Finance Directors to the local authorities' technical group to suggest a proposal. This is expected to be presented to Finance Directors and refined accordingly, and once the specifics are agreed, the expectation is that a MoU (rather than contract) would be signed by each Finance Director. Whilst not legally binding, this will ensure that clear expectations are agreed and set from the outset of the arrangements.

13. The following principles have been initially suggested:
    - The no detriment clause is applied on a cumulative basis. Annual results are heavily influenced by matters of judgement (appeals and bad debt provisions being key examples), which often have an impact on following years (for example, a loss due to a prudent provision in one year is likely to yield a higher gain the next year as the provision is unwound, etc).

    - At national resets, the cumulative gain/detriment position is reset to £nil.

- Any payments due under local no detriment must be supported by certified NNDR3 data, and any payments are conditional upon the relevant authority providing all evidence reasonably requested by the other members.

14. It should be noted that, during the existing pilot arrangements, no inter-local authority no detriment reimbursement has been requested or actioned to date.