

Report to Cabinet

6 December 2023

Subject:	10 Year Business Rates Retention Agreement
Cabinet Member:	Deputy Leader and Cabinet Member for Finance and Resources Councillor Bob Piper
Director:	Director of Finance Brendan Arnold
Key Decision:	Yes
Contact Officer:	Acting Assistant Director – Finance Claire Spencer Claire_spencer@sandwell.gov.uk

1 Recommendations

Cabinet recommends to Full Council that:

- 1.1 Approval be granted for the Council to enter into a 10-year business rates retention arrangement with the Department for Levelling Up, Homes and Communities (DLUHC), the West Midlands Combined Authority (WMCA) and the six other West Midlands metropolitan local authorities.
- 1.2 That the Director of Finance in consultation with the Monitoring Officer, be authorised to complete any necessary agreements for the retention arrangement referred to in 1.1 above.
- 1.3 That the Director of Finance be authorised to make an annual payment to the West Midlands Combined Authority of £1.264m in 2023/24, which constitutes the Council's proportion of the "WMCA Share" of regional business rates income collected in the current year under the existing 100% business rates retention pilot arrangements.
- 1.4 That subject to approval of recommendation 1.1, the Director of Finance be authorised to make an annual payment to the West Midlands



Combined Authority in each year throughout the 10-year period commencing on 1st April 2024, comprising of the Council's proportion of the "WMCA Share" of regional business rates income collected in that year.

2 Reasons for Recommendations

Summary

- 2.1 This report outlines proposals for a new agreement with Department for Levelling Up, Homes and Communities (DLUHC) which would allow the seven West Midlands metropolitan local authorities to retain 100% of their business rates income for the ten years from 2024/25, with a share payable each year to the West Midlands Combined Authority (WMCA) (and 1% payable to the West Midlands Fire and Rescue Authority).
- 2.2 This agreement is in accordance with the "West Midlands Trailblazer Deeper Devolution Deal", which was set out in a paper to Cabinet on 13th September 2023. Cabinet resolved to approve the Deeper Devolution Deal, as set out in the report, and resolved that further reports would be received by Cabinet on specific issues relating to the detail of the Deeper Devolution Deal. This report relates specifically to the proposed 10 year business rates retention agreement.

Background

- 2.3 In 2017, the seven constituent local authorities of the WMCA entered into a pilot agreement with DLUHC allowing them to benefit from retaining 100% of the business rates generated within their respective local authority areas, compared with 50% nationally, in exchange for forgoing Revenue Support Grant ('RSG'). 1% of local business rates income under both the national and pilot schemes is retained by the West Midlands Fire and Rescue Authority.
- 2.4 Whilst initially expected to be a short-term pilot in advance of national roll-out of 100% business rates retention, the arrangement has been rolled forward under the same terms and conditions annually and remains in effect during 2023/24.
- 2.5 As part of the West Midlands Deeper Devolution Trailblazer Deal, DLUHC has offered to local authorities forming both West Midlands and Greater Manchester Combined Authorities only, the opportunity to extend the






arrangement on a more permanent basis; for 10 years commencing in April 2024.




The Proposed Agreement

- 2.6 The proposed agreement is similar in many respects to the existing pilot arrangements and is therefore not expected to have any impact on projected business rates income in the short term. The Government may at some point in the future contemplate a reset of the business rates base nationally; however, that is a separate issue from the scheme discussed in this report and it is not expected that such a policy will emerge for consultation in the short or near medium term.
- 2.7 The new 10-year arrangement offers greater certainty for the West Midlands local authorities, which will improve medium term financial planning, and the arrangement is expected to be financially more advantageous than reverting to the national scheme of 50% retention. Broadly, the Council would expect to be financially better off under the new 100% retention deal than it would be in the national 50% scheme by the value of the following:
- 50% of any forecast growth above the baseline (expected to be relatively low in the years immediately following the reset), less the WMCA’s share, and
 - the levy on any growth that the authority would be liable to pay to government under the 50% scheme.

3 How does this deliver objectives of the Corporate Plan?

	<p>The Best Start in Life for Children and Young People The proposals in this report are part of the wider devolution deal which is expected to have a positive impact on the region and to deliver financial benefits which will support the delivery of the priorities in the Corporate Plan.</p>
	<p>People Live Well and Age Well The proposals in this report are part of the wider devolution deal which is expected to have a positive impact on the region and to deliver financial benefits which will support the delivery of the priorities in the Corporate Plan.</p>
	<p>Strong Resilient Communities The proposals in this report are part of the wider devolution deal which is expected to have a positive impact on the</p>



	region and to deliver financial benefits which will support the delivery of the priorities in the Corporate Plan.
	Quality Homes in Thriving Neighbourhoods The proposals in this report are part of the wider devolution deal which is expected to have a positive impact on the region and to deliver financial benefits which will support the delivery of the priorities in the Corporate Plan.
	A Strong and Inclusive Economy The proposals in this report are part of the wider devolution deal which is expected to have a positive impact on the region and to deliver financial benefits which will support the delivery of the priorities in the Corporate Plan.
	A Connected and Accessible Sandwell The proposals in this report are part of the wider devolution deal which is expected to have a positive impact on the region and to deliver financial benefits which will support the delivery of the priorities in the Corporate Plan.

4 Context and Key Issues

2017-2023 Pilot Arrangements

- 4.1 Details of the existing 100% business rates retention pilot arrangements are set out in appendix 1 of this report.

10 Year 100% Business Rates Retention Offer

- 4.2 The process for entering into the new 10-year arrangement will require agreement to a new Memorandum of Understanding (MoU) which has been drafted by DLUHC. Technically, the MoU is not a legally binding document, but it will set firm parameters for how the 100% business rates retention arrangement will be managed over the period for which it is effective.
- 4.3 If the region is not able to reach a timely agreement with DLUHC on the contents of the MoU, then DLUHC have confirmed that the existing pilot arrangements will continue for a further year (2024/25) with the opportunity to enter into a 9-year arrangement from April 2025. Whilst there may be no financial implications in 2024/25 for not agreeing the MoU, there is a risk that if DLUHC policy does change in the next 12 months, the region could lose the opportunity to continue with 100% business rates retention in the medium and long term.



4.4 WMCA, West Midlands local authorities and DLUHC have been negotiating the content of the MoU over recent months. WMCA officers have been supported in all discussions by officers from Solihull Metropolitan Borough Council, who were nominated by the West Midlands Finance Director Group to represent the interests of local authorities in the negotiations.

4.5 The key considerations within the MoU are set out in appendix 2 of this report.

“WMCA Share”

4.6 At the outset of the pilot of 100% business rates retention, the West Midlands local authorities agreed to fund from business rates gains, the Combined Authority Investment Programme income profile in line with WMCA’s 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.

4.7 A share of regional business rates being 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.

5 Alternative Options

5.1 The Council could choose to opt out of the proposed 100% business rates retention “Devolution Deal” offer proposed by DLUHC and would return to 50% business rates retention, in line with the arrangements of the majority of local authorities across England.



5.2 If the WMCA and West Midlands authorities do not agree to enter into a new ten-year business rates retention arrangement in time for 2024/25 or 2025/26, then it is assumed that the pilot would come to an end and the member authorities would revert to the national 50% scheme. This would mean that that the council was again liable to pay a levy on business rates growth above the baseline and would lose the enhanced safety net protection offered under the pilot, as described in appendices 1 and 2. In the absence of the additional regional share of business rates growth from which to fund the WMCA contribution, the WMCA would need to either seek financial contributions from the West Midlands authorities outside of the business rates scheme (which would then create a funding pressure for the individual authorities) or seek government support to ensure its ongoing sustainability.

6 Implications

<p>Resources:</p>	<p>According to modelling carried out by WMCA, the pilot of 100% business rates retention has resulted in an average gain in business rates income of £7.1m per annum to Sandwell MBC over the term of the pilot scheme. For context, retained business rates for the Council are forecast to be £109.6m in 2023/34.</p> <p>Whilst the 100% business rates retention pilot has meant that the Council has been in a gain position due to business rates growth compared with prior 50% retention arrangements, there is no guarantee that there will be any gain over the 10 year period of the revised arrangement and it is not possible at this point to quantify any potential gains or risks relating to the new agreement.</p> <p>A payment of £1.264m to WMCA in 2023/24 will require a virement of £0.328m from Contingency to Central items to top-up the budget within Central Items that is available to fund the “WMCA Share” payment that the council is obliged to make.</p> <p>The Council’s “WMCA Share” payment is forecast to increase by £0.158m per annum from 2024/25 and provision for this will be made within the Medium Term Financial Strategy.</p>
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Legal and Governance:	The MoU whilst not legally binding is a formal document which sets out the expectations of the West Midlands local authorities, WMCA and DLUHC and provides clarity for all parties in relation to the operation, review and limitations of the 10 year agreement.
Risk:	There is a risk that a business rates reset or downturn in business rates could potentially put the council or business rates pool into a detriment position due to business rates income potentially falling below the baseline position. However the MoU does provide some protection against this via discussions with DLUHC through a review of the arrangements, safety net and a local “no detriment” agreement.
Equality:	There are no inequalities implications arising from the proposals in this report.
Health and Wellbeing:	There are no health and wellbeing implications from the proposals in this report.
Social Value:	There are no social value implications arising from the proposals in this report.
Climate Change:	There are no climate change implications arising from proposals in this report.
Corporate Parenting:	There are no corporate parenting implications arising from proposals in this report.

7. Appendices

Appendix 1: 2017-2023 Pilot Arrangements

Appendix 2: 10 Year Agreement - Memorandum of Understanding Key Considerations

8. Background Papers

West Midlands Combined Authority Devolution Deal

West Midlands Combined Authority Trailblazer Deeper Devolution Deal

