



WMCA Board Meeting

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| Date | 12 January 2018 |
| Report title | Progress Update on the West Midlands Combined Authority Investment Programme |
| Portfolio Lead | Councillor Izzi Seccombe - Finance & Investments |
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| Report to be/has been considered by | WM Finance Directors – 12 October 2017 WMCA Leadership Team – 29 November 2017 WMCA Programme Board – 15 December 2017 |

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

- (1) Note the progress update in relation to the £8.0 billion Investment Programme agreed by the West Midlands Combined Authority on November 2015 and funded by:
 - (a) £2.0 billion of funding generated by the West Midlands Combined Authority; and
 - (b) £6.0 billion of other funding sources including Constituent Members internally generated funds, Central Government grants and 3rd party contributions.
- (2) Note the current funding position of the Investment Programme 18 months after the establishment of the West Midlands Combined Authority.

- (3) In relation to the £2.0 billion funding intended to be generated by the West Midlands Combined Authority:
 - (a) Note the inclusion of the intended Mayoral Precept for 2018/19 included within the West Midlands Combined Authority Draft Budget and Mayoral Council Tax Precept.
 - (b) Note the continued work with Central Government on providing the power to introduce a Business Rates supplement as envisaged in the first Devolution Deal;
 - (c) Endorse the work planned in the final Quarter of the 2017/18 Financial Year for Finance Directors to agree an approach that confirms the contribution of locally generated Business Rates to fund the Investment Programme;
 - (d) Endorse an approach whereby the West Midlands Combined Authority are consulted with prior to any future changes to Business Rates income forecasts, such as the development of Enterprise Zones; and
 - (e) Endorse the delivery of a process with Leaders of Constituent Authorities, Chief Executives and Finance Directors to rank and sequence the Investment Programme based on the current assessment of when funding streams aligning specific project approvals only where funding has been or is likely to be secured.
- (4) Delegates authority, in relation to the wider Funding of the Investment Programme, to the Director of Finance to work with Constituent Authority Finance Directors to confirm and establish Accountable Leads for each element of the Investment Programme together with plans and dates by which funding will be secured.
- (5) Endorses a Governance Review to confirm the appropriate Programme Governance to be implemented to provide assurance to the West Midlands Combined Authority Board based on the updated review of Programme delivery and funding.

1 Purpose

- 1.1 The West Midlands Combined Authority Investment Programme (the 'Investment Programme') was established as part of the first Devolution Deal in November 2015. The West Midlands Combined Authority was formally established in June 2016.
- 1.2 In the 18 months since its establishment the West Midlands Combined Authority have worked with Constituent Authorities and Non Constituent Authorities to develop Investment Plans and confirm funding packages across all areas of the Investment Programme. This report provides a progress update 18 months after the establishment of the West Midlands Combined Authority and following the appointment of a permanent Chief Executive and their Director team and sets out:

A summary of the original Investment Programme funding at establishment of the West Midlands Combined Authority;

A progress update of work undertaken to secure those funding streams by the West Midlands Combined Authority and by Constituent Authority partners;

In respect of funding intended to be developed by the West Midlands Combined Authority, progress achieved together with further work required to secure remaining significant elements of funding together with the associated potential implications for project ranking and scheduling should the funding not be achieved in line with those timelines originally envisaged;

Potential key risks regarding the £6.0 billion of matched funding elements making up the overall Investment Programme investment that are intended to be secured through the West Midlands Combined Authority and through the Constituent Authorities;

Intended next steps to be undertaken by alongside Constituent Authorities including a process to establish a revised Governance Process that supports the West Midlands Combined Authority Board to provide regular updates and assurance on progress being made on securing funding and the impact on Investment Programme projects.

2 Background: Summary of Investment Programme Funding Starting Position

- 2.1 In November 2015 the Chancellor of the Exchequer signed the first West Midlands Combined Authority Devolution Deal (the 'Devolution Deal') agreement. The agreement contained a unique package of infrastructure measures (largely targeted at maximising value from HS2) alongside intentions to agree funding through specific Central Government Grants and securing 3rd party income from other parts of the Public Sector and Private Sector.
- 2.2 The original package of measures agreed by Central Government, the West Midlands Combined Authority, Constituent and Non Constituent Authorities provided for investment in the West Midlands totalling £8.0 billion. The targeted funding mechanisms envisaged within the first Devolution Deal included £6.0 billion of funding received from sources external to the West Midlands Combined Authority and £2.0 billion to be generated from a range of new sources of finance including a new Central Government Direct Revenue Grant (referred to as 'Gain Share') as well as potential new fiscal freedoms for the West Midlands Combined Authority area that included:

- a. Application of new Business Rates Growth in addition to the 2014 national scheme,
- b. An ability to raise a Business Rates Supplements; and
- c. A Mayoral Precept within the Combined Authority Constituent Members geography.

2.3 The overall term of the first West Midlands Devolution Deal is 30 years, with most of the investment occurring during years 1 to 10 with the remaining years involving the repayment of borrowing required across those early years.

2.4 Set out in the table below is how the new funding mechanisms intended use by the West Midlands Combined Authority Board were planned to contribute to the overall funding of the Investment Programme. In a number of cases the securing of these income streams are based on the West Midlands Combined Authority working together with Constituent Authorities to obtain or exercise new powers. These mechanisms are intended to cover:

- a. £2 billion of funding to cover the investment costs incurred; and
- b. £1 billion of funding to cover the interest costs of the debt financing used to fund investment costs ahead of the funding being received.

Table 1: A breakdown of the £2 billion West Midlands Combined Authority funding

| Funding Source (£ billions) | Investment | Interest | Total | Share |
|-----------------------------|------------|------------|------------|-------------|
| Devolution Deal | 0.7 | 0.4 | 1.1 | 37% |
| Business Rates Supplement | 0.6 | 0.3 | 0.9 | 30% |
| Business Rates Growth | 0.5 | 0.3 | 0.8 | 26% |
| Mayoral Precept | 0.2 | 0.1 | 0.2 | 7% |
| Total | 2.0 | 1.0 | 3.0 | 100% |

2.5 The following table sets out how the funding for the remaining £6.0 billion was intended to be secured.

Table 2: A breakdown of the £6 billion funding secured through other sources

| Funding Source (£ billions) | Investment | Share |
|--|------------|-------------|
| Department for Transport Grants | 2.6 | 43% |
| Revenues from Investment Funds | 1.8 | 30% |
| Other Public or Private Sector Contributions | 0.9 | 15% |
| Increased Business Rates from Enterprise Zones | 0.7 | 12% |
| Total | 6.0 | 100% |

2.6 The responsibility for securing the income summarised in Table 2 is through a mix of West Midlands Combined Authority work where the income relates to Transport for West Midlands schemes and Constituent Authorities where the agreements are locally secured.

2.7 The West Midlands Combined Authority received a report in February 2016 that was also considered by Constituent Authority Cabinets. This established 'best estimates', at the time, of funding sources that would be available. This report set out the 'starting position' for funding and noted that these assumptions were subject to political decisions before funding could be finalised (paragraph 48). The report also noted that income assumptions were dependent on the planned reform of local government funding and, in particular, the arrangements for the retention of business rates growth (paragraph 186). Set out below is a summary of the Risk Ratings included in that report.

Table 3: Status of Funding for the overall Investment Programme in 2016

| | £ billion | % |
|--------------|------------|-------------|
| Red | 1.0 | 13% |
| Amber | 6.5 | 81% |
| Green | 0.5 | 6% |
| Total | 8.0 | 100% |

2.8 The report indicated that at its starting point, only 6% of the funding across the overall programme was secured and that further work was required across 84% of the proposed funding streams to ensure the entire Investment Programme could be delivered as envisaged at the costs budgeted at that time. The report indicated that whilst risk existed in securing funding against the intended Investment Programme that this profile of this risk could change based on delivery work to secure each income stream as well as political changes.

2.9 This report provides an update on the funding position as set out above. Work has commenced across the Investment Programme to confirm whether the budgets as set out across the Investment Programme remain appropriate for planning purposes and this will be considered at a future West Midlands Combined Authority Board.

3 Progress update on the current overall funding position of the Investment Programme

3.1 Set out in the table below is a summary of how the risk profile has moved since the PwC Report supported by a more detailed summary in Appendix 1. The RAG (Red / Amber / Green) status refers to the degree of risk perceived to be associated with the funding at the time of the PwC report compared with the latest view at December 2017.

Table 4: Status of Funding for the overall Investment Programme

| | PwC Report February 2016 | | WMCA review December 2017 | |
|--------------|--------------------------|-------------|---------------------------|-------------|
| | £ billion | % | £ billion | % |
| Green | 0.5 | 6% | 2.4 | 30% |
| Amber | 6.5 | 81% | 3.6 | 45% |
| Red | 1.0 | 13% | 2.0 | 25% |
| Total | 8.0 | 100% | 8.0 | 100% |

3.2 The table above illustrates that the level of 'Green' funding has increased by 5 fold.

3.3 The following table provides a breakdown of those income streams currently assessed as Green Rated split by funding mechanisms being developed by the West Midlands Combined Authority and Other Funding Sources. This represents good process since agreement of the Devolution Deal particularly across Other Funding Sources in accordance with project timescales as those business cases are developed.

Table 5: Breakdown of the Green Rated Investment Programme funding streams

| £ billion | WMCA Funding Mechanisms | Other Funding Sources | Total |
|-----------------------------------|-------------------------|-----------------------|------------|
| Investment Funds | - | 1.0 | 1.0 |
| Other Public Sector Contributions | - | 0.6 | 0.6 |
| Central Government Grants | - | 0.4 | 0.4 |
| Hs2 Funding | - | 0.1 | 0.1 |
| Metro Capital Funding | - | 0.2 | 0.2 |
| Gain Share (Years 1 -5) | 0.1 | - | 0.1 |
| Total | 0.1 | 2.3 | 2.4 |

3.4 The table below provides a breakdown of those income streams currently assessed as Amber Rated split by funding mechanisms being developed by the West Midlands Combined Authority and Other Funding Sources.

Table 6: Breakdown of the Amber Rated Investment Programme funding streams

| £ billion | WMCA Funding Mechanisms | Other Funding Sources | Total |
|--|-------------------------|-----------------------|------------|
| Other Public Sector and Local Contributions | - | 1.0 | 1.0 |
| Increased Business Rates from Enterprise Zones | - | 0.7 | 0.7 |
| HS2 Funding | - | 0.6 | 0.6 |
| Gain Share (Years 6 - 30) | 0.6 | - | 0.6 |
| Business Rates Growth | 0.5 | - | 0.5 |
| Mayoral Precept | 0.2 | - | 0.2 |
| Total | 1.3 | 2.3 | 3.6 |

3.5 Set out below are the current plans and intentions that are intended to move these funding sources to Amber and then to Green:

- Other Public Sector and Local Contributions
These relate to a range of agreements that need to be secured by Constituent Authorities and the West Midlands Combined Authority on a project specific basis as the planning for these projects progress. The risk assessment reflects a dependency that these funding streams have on future processes. In addition, a smaller element relates to forecast cost profiles for projects that are subject to review to bring costs within the original budget intention or the identification of alternative income streams.
- Increased Business Rates from Enterprise Zones
The achievement of the original forecasts are being managed by the host Local Authority, in this case, Birmingham City Council and are being confirmed as part of the normal project assurance process based on the latest available information.
- HS 2 Funding
The achievement of the original forecasts are being managed by the host Local Authority, in this case, Birmingham City Council and are being confirmed as part of the normal project assurance process based on the latest available information.
- Gain Share – Years 6 to 30
The current RAG rating of Amber is due a 5 yearly gateway review undertaken by Central Government to review the use of the Gain Share Funds. The scope of this work is currently being worked through with Central Government and the risk assessment of this funding stream will be reviewed once this scoping is concluded.
- Business Rate Growth

- Colleagues from Birmingham City Council have been leading the process by which this income stream is secured prior to this report and are now currently handing this over to the permanently appointed West Midlands Combined Authority Team. Confirmation is anticipated from the Department for Communities and Local Government on the income in relation to 2016/17 shortly. Agreement is being secured amongst Constituent Authorities Governance processes with regard to income receivable in respect of 2017/18 and Finance Directors will shortly commence work to finalise an agreement for 2018/19 onwards to at least deliver the anticipated income as set out in the Investment Programme. Further detail is provided in Appendix 2.
- Mayoral Precept
The draft Budget and Mayoral Precept report being considered by the West Midlands Combined Authority Board in January 2018 and includes a proposal to secure this funding stream and the RAG rating will be reviewed following the February 2018 meeting of the West Midlands Combined Authority Board

3.6 The table below provides a breakdown of those income streams currently assessed as Red Rated split by funding mechanisms being developed by the West Midlands Combined Authority and Other Funding Sources.

Table 7: Breakdown of the Red Rated Investment Programme funding streams

| £ billion | WMCA Funding Mechanisms | Other Funding Sources | Total |
|---------------------------|-------------------------|-----------------------|------------|
| Central Government Grants | - | 0.9 | 0.9 |
| Business Rates Supplement | 0.6 | - | 0.6 |
| Metro Capital Funding | - | 0.5 | 0.5 |
| Total | 0.6 | 1.4 | 2.0 |

3.7 Set out below are the current plans and intentions that are intended to move these funding sources to Amber and then to Green:

- Central Government Grants
These relate to assumptions on income to be received through the Local Growth Fund, Local Sustainable Transport Fund, Office for Low Emission Vehicles and Cycling and Walking awards. Following this review, officers will work with Constituent Authorities to confirm owners for each income stream together with timings of potential agreements to support a meeting to take stock on progress with the Department for Transport in the final Quarter of the 2017/18 Financial Year. A progress update and risks assessment will be reviewed following these meetings.
- Business Rates Supplement
The original intention for the West Midlands Combined Authority to raise this income from April 2017 from new powers fell with the withdrawal by Central Government following the 2016 General Election. Central Government announced within the West Midlands Combined Authority proposed second Devolution Deal an intention to provide the West Midlands Combined a new power to raise a Business Rate Supplement based on existing powers only available at this point to Local Authorities. Central Government has recently contacted the West Midlands Combined Authority to set out its intentions and timetable for this and this will be reported to the February 2018 West Midlands Combined Authority Board.
- Metro Capital Funding
Confirmation of this funding will be secured upon the agreement of a Full Business Case with the Department for Transport for the proposed Metro extensions.

4 Current Commitments against Investment Programme Funding generated through the West Midlands Combined Authority

- 4.1 Funding intended to be generated by the West Midlands Combined Authority that support investment is £2 billion. Table 5 confirmed that the only source of funding confirmed at this stage as Green relates to the first 5 years of the first Devolution Deal grant Gain Share. This will provide an annual revenue grant of £36.5 million for the 5 years to 31st March 2021 that, net of the interest required to fund the necessary borrowing over the 30 year term, generates a net capital investment of £126 million.
- 4.2 Whilst the remaining years (6–30) are currently scored amber in the risk status report, the spirit of the Devolution Deal is that a 30 year income stream will be provided to the West Midlands and Government recognise that this income supports an investment plan over the next 10 years. The gross income from the grant over the full 30 year period is £1.1 billion which will support net investment of £748 million.
- 4.3 The West Midlands Combined Authority are proceeding with the delivery of the Investment Programme based on the 30 year Devolution Deal Gain Share Grant being received. Expenditure commitments totalling £298 million have been made to date on this basis and approved through the West Midlands Combined Authority Board or delegated through the Investment Board in accordance with the approved Governance process. The table below sets out those approvals that have been made to date.

Table 8: Approved commitments to date against the £2.0 billion WMCA Funding

| £m | Funding | Ongoing Revenue |
|---|--------------|-----------------|
| Coventry City Centre South | 98.8 | 5.3 |
| Land Remediation Fund | 53.0 | 2.9 |
| Solihull MBC Growth and Infrastructure Plan | 4.5 | 0.3 |
| Sprint Network | 3.6 | 0.2 |
| Coventry Friargate | 0.5 | <0.1 |
| Edgbaston Metro Extension | 58.9 | 3.2 |
| WMCA Support | 4.7 | 0.3 |
| HS2 Governance Team | 4.0 | 0.2 |
| Wolverhampton Interchange | 27.0 | 2.0 |
| Commonwealth Games contribution | 25.0 | 1.9 |
| Wednesbury Brierley Hill Metro | 5.6 | 0.3 |
| Coventry UK Central (inc. Very Light Rail) | 13.0 | 0.6 |
| Total | 298.6 | 17.2 |

- 4.4 Given approvals provided to-date of £298.6 million, this leaves a further £400 million available from confirmed income sources internally generated through the West Midlands Combined Authority. The following table sets out those schemes contained within the Investment Programme that are dependent on funding generated through the West Midlands Combined Authority subject to progression through the WMCA Assurance Process.

Table 9: Provision Investment Programme Contributions not yet approved

| £ millions | Funding Required | Ongoing Revenue Committed |
|---|-------------------------|----------------------------------|
| From Table 3 | 298.6 | 17.2 |
| Business Innovation | 50.0 | 2.5 |
| Coventry Friargate | 50.7 | 2.9 |
| Coventry UKC Plus (uncommitted) | 234.0 | 11.2 |
| Employment Education and Skills | 20.0 | 1.5 |
| HS2 Connectivity Package | 471.4 | 21.8 |
| Land Remediation Fund (uncommitted) | 147.0 | 7.9 |
| SMBC Growth and Infrastructure Plan | 629.0 | 27.5 |
| Sprint Birmingham to Sutton (uncommitted) | 24.1 | 1.2 |
| Wednesbury to Brierley Hill | 97.4 | 6.3 |
| Total | 2,022.2 | 100.0 |

- 4.5 From the table above it should be noted that approximately £400 million of additional commitments can be made from this list before the £1.1 billion Gain Share Funding is fully utilised. The West Midlands Combined Authority is not considering commitments at this stage against the other elements of income comprising the £2.0 billion until such time as these income streams turn to Green.
- 4.6 Whilst that approach is sufficient given progress on Investment Programme Business Cases to this point, a key part of the Governance process will be to establish a process of ranking and scheduling to ensure planned project approvals are managed in line with funding security and are taken on board in programme planning process. This will ensure that schemes are approved in line with the decisions of the West Midlands Combined Authority Board as opposed to readiness of Business Case where funding has not yet been confirmed.
- 4.7 The West Midlands Combined Authority Board agreed at its September 2017 meeting to commence a process of project prioritisation to take account of the current progress made on securing funding from those new Funding mechanisms. An outline of the process has been shared amongst officers with an agreement to commence work in Quarter 4 of the 2017/18 Financial Year with Constituent Authority Leaders, Chief Executives, and Finance Directors.
- 4.8 The intention is to establish a series of additional meetings incorporating these key stakeholders to develop and confirm a ranking and scheduling process that best achieves the outcomes of the first Devolution Deal whilst aligned to Income Streams as they become more certain and incorporate emerging work from the West Midlands Combined Authority Funding for Growth Programme.
- 4.9 The aim is to return to the West Midlands Combined Authority Board in Quarter 1 of the 2018/19 Financial Year to seek endorsement of the approach developed prior to the commitments outlined in Table 8 exceeding the West Midlands Combined Authority funding marked as ‘Green’.

- 4.10 This will ensure that the West Midlands Combined Authority Investment Programme process is consistent with how the Local Enterprise Partnerships commit funding to schemes. It also ensures that the risk is managed and mitigated whereby investment approvals may be provided prior to a reasonable degree of certainty regarding the ongoing revenues to support the financing costs. This is important given that the financing impact of any shortfall in the West Midlands Combined Authority funds generated from new flexibilities will need to be considered against forecast funding contributions from Constituent Authorities.

5 Funding Opportunities

- 5.1 It is recognised that flexibility and innovation needs to be used around the financial requirements of the Investment Programme. It is vital for the West Midlands Combined Authority to continue to work closely with Local Authorities and other organisations to explore the potential for other funding streams such as land value capture and private/commercial finance to offset any potential shortfalls in the original income sources which were initially assumed to fund the programme. This is captured through the Funding for Growth Programme.
- 5.2 However, it should be noted that funding commitments will need to be managed within a 'cap' based on firm income forecasts, unless the West Midlands Combined Authority and the seven constituent local authorities are prepared to underwrite the borrowing requirement from their own resources. It is therefore critical that investigation and agreement to future funding streams is progressed at the earliest opportunity to allow investment plans to continue in accordance with current timelines. This includes the Ranking and Scheduling work set out for endorsement in this report.

6 Investment Programme Implications

- 6.1 Section 3 above is essentially a summary of risks and issues relating to the assumed West Midlands Combined Authority funding underpinning the Investment Programme. It was recognised that certainty and risk on these funding streams work change over time since the original Devolution Deal and establishment of the West Midlands Combined Authority. This reports sets out a Progress update and future planned work based on the currently anticipated timing of funding of income streams which the Investment Programme will need to react to.
- 6.2 There are implications however, particularly where potential funding streams have a long lead time to establish, for West Midlands Combined Authority Board being able to commit funding to projects at final business case stage if ongoing revenues to service the debt are uncertain. Currently, as projects progress through the Assurance Framework, the Devolution Deal grant funding has been essentially earmarked on a first come first served basis when full business case stage is reached and a formal grant agreement is put in place. Whilst this approach was right for the last 18 months it is essential to consider the potential that the overall revenues are lower than the financial model assumed at any point in the investment authorisation process and to be clear on the impact in proposed schemes and intended timelines for delivery.
- 6.3 In order to manage this situation, this report recommends that in order to ensure West Midlands Combined Authority investments realise the greatest economic impact, a process of 'Ranking and Scheduling' within the Investment Programme is established to assist with investment decisions where certainty over the funding of debt is still to be confirmed. This report seeks endorsement for this approach and notes the intention to report back to the West Midlands Combined Authority Board in Quarter 1 of the 2018/19 Financial Year.

7 Financial implications

- 7.1 The financial implications associated with the Investment Programme financing are set out within the report.

8 Legal implications

- 8.1 The legal implications associated with the Investment Programme financing are set out within the report. A key point in relation to the powers of the West Midlands Combined Authority and funding risk relates to the provision of a new power to raise a Business Rate Precept through existing powers available to Local Authorities rather than new flexibilities that were anticipated to be available at the inception of the West Midlands Combined Authority. This will be considered in a separate report to the West Midlands Combined Authority Board in February 2018 following receipt of a letter for the Department for Communities and Local Government at the end of December 2018.

9 Next Steps

- 9.1 Key funding risks and actions across the overall programme are summarised in Appendix 1. Set out below is a summary of key actions and timescales set out within this report to develop further certainty of existing and potential new or alternative income streams:
- a. Completion of an Investment Programme Governance and Resourcing review that commenced in Quarter 3 of the 2017/18 Financial Year to establish regular reporting for the West Midlands Combined Authority Board or delegated Committee on a periodic basis documenting the Investment Funding status and risks.
 - b. To inform the work identified in a), establishing a process for Local Authorities to assign a RAG (Red Amber Green) status within the grant claim process to project funding components, to ensure a full and up to date picture is regularly obtained regarding the level of funding risk in the Investment Programme.
 - c. The review and confirmation of named accountable leads/sponsors to secure each funding source across all sources of funding. Those leads will be given the responsibility to actively deliver specific outcomes to help ensure the overall programme is funded with regular updating to the West Midlands Combined Authority.
 - d. Through a working group led by the Portfolio Holder for Finance and Constituent Authority Leaders and consisting of relevant stakeholders to establish a ranking and scheduling process across the Investment Programme that will be used to inform decision making on investments based on confirmed (Green) funding.
 - e. With regard to locally generated Business Rate Income that the Finance Directors from the West Midlands Combined Authority and Constituent Authorities reach an agreement in Quarter 1 of the 2018/19 Financial Year to:
 - Share up to date business rates growth forecasts on a regular basis to enable a shared understanding of the impact of this variable and potentially volatile income stream on the Investment Programme;
 - Reach and formally document agreement on how Business Rates Income will be shared between parties; and
 - Clarify the process by which the West Midlands Combined Authority are consulted upon and involved in planning within Constituent Authorities on Enterprise Zones or other initiatives that may vary forecast Business Rates income that is intended to support the Investment Programme.

10 Equalities implications

- 10.1 None

11 Other implications

11.1 None

APPENDICES

APPENDIX 1: Investment Programme Funding - Risk Summary

APPENDIX 2: Business Rates Growth – background & key risks

APPENDIX 3: Supplementary Business Rates – background & key risks

APPENDIX 2 - Business Rates Growth (BRG) – background & key risks

At this point, no cash has been received by WMCA for BRG. WMCA and Local Authority finance colleagues have been working closely to establish a formula to allow BRG to be received by WMCA with the support and liaison working through Birmingham City Council (BCC) to date. Officers have commenced the process of handover to WMCA from BCC.

Progress can be broken down into 3 ways as follows:

1 2016 / 2017

There is an agreement between WMCA and DCLG that once a value has been placed on growth for 2016/17, DCLG will reimburse WMCA the corresponding amount as a one off payment. Subsequent BRG receipts by WMCA will be claimed direct from Districts. BCC and DCLG are finalising this and it is anticipated that income will exceed the modelled value in 2016.

2 2017 / 2018

The issue of extracting a value which represents growth from Business Rates, with added complications such as back dated appeals, has proved difficult to finalise but meetings with DCLG have allowed insight into how formulas in other regions have worked.

Due to difficulties in agreeing the formula locally, an allocation of £3m is proposed by the Constituent Local Authorities to cover the 2017/18 financial year, which would be consistent with the financial plans underpinning the initial investment programme.

Birmingham City Council have led on this work stream to date but it is proposed to bring the responsibility for determining the formula within the Combined Authority.

3 2018 / 2019 Onwards

The value of the Business Rates Growth income stream beyond April 2018 is subject to further review. The initial financial model assumed growth of 0.3% each year over the 30 year period (i.e. £1.5m year 1, £3.0m year 2 etc) and works out to be £21.8m on average over the 30 year funding period and as such is a significant contributor to the overall financial position.

Values calculated to date by the Business Rates Growth Working Group suggest that, subject to approval of the formula, it is possible that Business Rates Growth will be realised at the expected levels for the duration of the Business Rates Pilot, but there is a risk that any scheme which supersedes the pilot, as directed by Central Government, could reduce the amount available. Once confirmed, the Red / Amber / Green status will be updated.

Rates Growth does not apply to rates levered in from within Enterprise Zones which were established at the time the deal was signed. The creation of Enterprise Zones following the Devolution Deal, theoretically, has the potential to reduce the overall take to WMCA. Whilst further Enterprise Zones have been agreed, (i.e. Dudley) this is not at this point anticipated to put the Investment Programme plan at risk.

Accurate forecasting of Business Rates growth will be fundamental to WMCA's ability to commit funding to programmes. The current absence of any long term, detailed forecasts for Business Rates growth will introduce an element of risk and uncertainty into commitments made by WMCA Board to fund schemes once the Devolution Deal 1 grant is fully utilised.

It is therefore the intention of WMCA to work with Local Authority Finance Directors to:

- Agree a plan for 2018 / 2019
- Formalise an agreement
- Present back to WMCA Board at the end of quarter one

APPENDIX 3 - Supplementary Business Rates – background & key risks

Newly elected mayors of combined authorities were to be given the ability to raise business rates within their areas, up to a cap of 2%. Powers to introduce this levy, known as an 'infrastructure supplement', can be found in part 3 of the Local Government Finance Bill 2016-17. This bill fell following the 2017 general election meaning the necessary powers were not obtained but delays to obtaining this funding would have been expected anyway due to the Finance Bill delay.

The power was intended to deliver c.£500m of direct investment into the plan from April 2018.

Central Government subsequently announced as part of Devolution Deal Two that Combined Authorities would be provided with powers to raise a Supplementary Business Rate as per the existing powers held by the Greater London Authority which was used to fund Crossrail.

The powers will be conferred onto the Combined Authority following consent to the powers being received from WMCA Board, all seven constituent Local Authorities and the Mayor. WMCA are currently in the process of obtaining consents and are in dialogue with the respective Finance Directors / Chief Executives regarding process.

Given the changes versus the initial assumptions underpinning the Investment Programme, the following factors are relevant:

- The profile and totals achievable under the Supplementary Business Rate scheme may change and not deliver the income set out in the original plan.
- Any approval is likely to require a ballot of business rather than a consultation as set out in the draft Local Government Finance Bill.
- The timetable for implementation may be extended but it is intended to develop a plan for implementation earlier than April 2018.
- Existing regulations have only been used at the scale intended once in England and that was with regard to the Crossrail project.

The Business Rate Supplement assumption within the initial financial model was calculated on the entire Metropolitan area rateable value (properties over £50k) of £1.708bn with a 2% increase yielding £34m per annum. If it is possible to levy a supplement over the constituent geography (i.e. rather than project specific), it is possible that articulating the direct / tangible benefits to the business community may need to be proven with evidence during any consultation and ballot where those businesses are not located near to the physical investments but benefits are gained across the West Midlands region.