

WMCA Board

Date	9 February 2018
Report title	WMCA Powers – Supplementary Business Rates
Portfolio Lead	Councillor Izzi Seccombe – Finance & Investments
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Report to be/has been considered by	Finance Directors - 18 January 2018 WMCA Programme Board - 26 January 2018

The WMCA Board is recommended to:

- (1) Give delegated authority to the West Midlands Combined Authority Section 151 officer together with the Monitoring Officer to approve the amendment to statutory regulations which amend the West Midlands Combined Authority powers as set out in this report, subject to:
 - (a) Each of the seven Constituent Authorities approving a complementary paper through their Cabinet or Full Council to provide the approval to the West Midlands Combined Authority.
 - (b) Consent towards the proposals being obtained specifically from the West Midlands Combined Authority Mayor.

1 Purpose

1.1 The report is required to ensure WMCA is able to raise income via a Supplementary Business Rate scheme to assist in funding the Investment Programme.

2 Background

2.1 The Combined Authority is focused across four broad areas, transport capital / revenue, Combined Authority operational revenue regarding directors' portfolios, the West Midlands Mayor and the Investment Programme. This paper is solely concerned with Investment Programme related matters.

2.2 In order to deliver the £8 billion Investment Programme, the West Midlands Combined Authority is required to develop funding plans through new financial mechanisms to the value of £3 billion to support £2 billion of investment and associated debt finance costs agreed as part of the first Devolution Deal for the West Midlands.

2.3 Towards the end of 2016, each of the WMCA Constituent Authorities provided consent towards the implement of the first West Midlands Devolution Agreement which essentially uses the Combined Authority to facilitate the delivery of an £8 billion Investment Programme to:

- Secure the delivery of a comprehensive Metro and Sprint network.
- Kick-start economic growth through Land Remediation programmes
- Unlock development potential within the UK Central site, realising currently untapped opportunities to deliver a substantial number of new homes, jobs and facilities
- Investment in the Coventry UK Central Plus area which include important junction enhancements to improve resilience and reliability, a programme to unlock University and Friargate growth access in addition to initiatives to unlock the further expansion of housing, employment and higher education.

2.4 The consent provided for the Devolution Agreement carried the intention to support the programme outcomes through a number of locally generated income streams which are a component of the £8 billion Programme, as set out in the table below.

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 Whilst the Devolution Deal grant is expected to provide a long term funding stream into the Combined Authority (£36.5 million over 30 years), the remaining sources need to be actively raised by the Combined Authority in partnership with Local Authorities and local businesses.

- 2.6 This funding is to be applied against the schemes listed in the table below. Each scheme has not been allocated to a specific source of income and so all projects are to some degree exposed to risks around the West Midlands Combined Authority not being able to generate the required level of income. This has been discussed further in the 'Progress Update on the West Midlands Combined Authority Investment Programme' reported to the January 2018 West Midlands Combined Authority Board.

Table 2: Provision Investment Programme Contributions not yet approved

£ millions	Funding Required	Ongoing Revenue Committed
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
Sub Total Approved Commitments	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
Sub Total Pending Commitments	1,723.6	82.8
GRAND TOTAL	2,022.2	100.0

- 2.7 The 'Business Rates Supplements' income itemised above in Table 1 and totalling £900 million was initially intended by Central Government to be obtained through powers extended to elected Mayors of Combined Authorities to raise funding of up to an additional 2p in the £1 of rateable value on businesses to fund infrastructure investment through a new power contained in the draft Local Government Finance Bill of 2016/17.

- 2.8 Set out in the first Devolution Deal was a planned implementation date of 1 April 2018. Due to the lead time to implement the charge, this date can no longer be achieved and work is being undertaken to confirm the impact that this delay may have on the Investment Programme's Funding Position if a replacement scheme cannot be put into place for a 30 year period as envisaged in the original modelling.

- 2.9 The Local Government Finance Bill 2016/17 was drafted to provide Mayoral Combined Authorities with two potential routes to generate this funding, the first of which being a Supplementary Business Rate (i.e. a scheme which is equivalent to existing powers which Local Authorities possess) and a Mayoral Infrastructure Supplement. The Mayoral Infrastructure Supplement was essentially similar to a Business Rates Supplement but with a small number of key differences as outlined in this report.
- 2.10 It was intended for these new powers to be provided to Mayors following the passing through Parliament of the Local Government Finance Bill 2016/17. Around the time of the General Election in 2017, however, the Bill fell. This presented a potential issue for Combined Authorities across England who were to rely on business rates to raise income to support investment.
- 2.11 As part of the second regional Devolution Deal supported by all Constituent Authorities, the West Midlands Combined Authority set out to Central Government the potential impact that the withdrawal of the Local Government Finance Bill would have on the West Midlands Combined Authority's ability to fund and deliver the Investment Programme. During these discussions, it was suggested that a possible solution would be to simply extend to the West Midlands Combined Authority the equivalent and current powers that Local Authorities, including the seven Constituent Authorities and the Greater London Authority already have to raise a Supplementary Business Rate.
- 2.12 The current powers available to Local Authorities and the Greater London Authority are similar to those proposed in the Local Government Finance Bill that has now fallen but differ in two key respects as set out in the table below.

Table 3: Summarised comparison of Business Rates Supplement Schemes

	Proposals within the Local Government Finance Bill	Existing Powers that may now be granted to the WMCA
Approval	Approval could be sought through the publication of a draft and final prospectus and consultation with affected businesses	Approval required through a ballot of businesses deemed to be affected
Rateable Value of Businesses captured	Subject to agreement on a scheme by scheme basis	Rateable Value over £50,000 (where undertaken to date)

- 2.13 It should be noted that the calculations underpinning the Investment Programme that were developed as part of the first Devolution Deal Investment Programme assumed a business rates scheme generating income of 2p in the £1 of rateable value on businesses with a rateable value of over £50,000. The financial modelling captured all businesses at that time across the whole region. The Business Rates Supplement Scheme has been used successfully in London to part fund the Crossrail project. In this case, the requirement for a ballot was waived by Central Government.
- 2.14 Following the regions second Devolution Deal it has now been confirmed by Central Government late in December 2017 that it intends to apply the equivalent powers to Mayoral Combined Authorities to allow a Supplementary Business Rate to be raised under the existing scheme available to Local Authorities and the Greater London Authority. The Department for Local Government and Communities has contacted West Midlands Combined Authority and the respective Chief Executives of the constituent Local Authorities to agree a process that would see legislation amended in during March 2018.

- 2.15 In a consistent approach to that required by Central Government with regard to Borrowing Powers, the guidance and requirement from Department for Local Government and Communities regarding the West Midlands Combined Authority acquiring the relevant powers is that Central Government will require all Constituent Local Authorities to consent to the powers being applied to the West Midlands Combined Authority.
- 2.16 This paper sets out therefore the requirement for each Constituent Authority to approve an equivalent paper to this by the end of February 2018. The Department for Local Government and Communities consider the provision of consent from each Constituent Authority, from a technical perspective, to be an Executive function. However, in discussions with Constituent Authorities it is recognised that this may be a local decision for each organisation and consideration will need to be given to how each Constituent Authorities Constitution provides for this or similar requirements.
- 2.17 The West Midlands Combined Authority accept that the necessary local processes will need to be followed and will only enter into an agreement with Central Government once all seven consents have been received from the respective Local Authorities in addition to the necessary approval being obtained from the Mayor. The Portfolio Lead for Finance recommends that the West Midlands Combined Authority Board provide delegated power to the Section 151 Officer together with the WMCA Monitoring Officer, in consultation with the Portfolio Lead for Finance to finalise with Central Government on all necessary work to allow the provision of the powers to raise a Business Rates Supplement on the condition that all seven consents are received from Constituent Authorities and appropriate consent by the Mayor.
- 2.18 The West Midlands Combined Authority Board should note that should this delegation not be provided then a significant risk may exist to the funding and delivery of schemes contained within the Investment Programme that are dependent on funding generated by the West Midlands Combined Authority.
- 2.19 It is important to note that approval of this report will assist the Combined Authority in obtaining the powers it requires to raise a Supplementary Business Rate as originally envisaged by the Constituent Authorities, and not to introduce a Supplementary Business Rate scheme at this point. A further paper will be considered by the Combined Authority Board should a potential scheme be considered for implementation.
- 2.20 All Mayoral Combined Authorities across the UK are being offered equivalent powers as part of Governments support of the devolution agenda.

3 Next Steps

- 3.1 Following the receipt of the necessary consents, the Department for Local Government and Communities intend to seek Parliamentary approval to make an order under the Local Democracy, Economic Development and Construction Act 2009 as amended by the Cities and Local Government Devolution Act 2016. This order will provide for the power to raise funding through a business rates supplement (currently exercised by the Greater London Authority) under the Business Rates Supplement Act 2009 to be conferred on the Combined Authority. The order will also provide that the power when conferred will be exercised by the Mayor only.

- 3.2 Following the necessary powers being acquired, the Combined Authority will need to decide how to best implement the Supplementary Business Rate scheme. This will be subject to a further paper to the West Midlands Combined Authority Board later in 2018 along with intensive and detailed work with Constituent Authority Members and local Businesses.