

Cabinet

13th February 2018

Name of Cabinet Member:

Cabinet Member for Policy and Leadership - Councillor Duggins

Director Approving Submission of the report:

Chief Executive

Ward(s) affected:

All

Title:

WMCA Powers – Supplementary Business Rates

Is this a key decision?

Yes

These decisions have an impact on more than one ward across the City and provide agreements to enable Government to amend existing statute relating to the West Midlands Combined Authority (WMCA).

Executive Summary:

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

Recommendations:

The Cabinet is requested to:

Approve the proposal that the WMCA is given the authority to raise income via supplementary business rates and to give delegated authority to the Chief Executive, following consultation with the 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.

List of Appendices included:

None

Background papers:

None.

Other useful documents

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

Report title:

1. Context (or background)

- 1.1. 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 within the £8 billion Investment Programme agreed as part of the first Devolution Deal for the West Midlands.
- 1.2. 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.

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%

- 1.3. This funding is to be applied against the schemes listed in the table below. Specific sources of income have not been allocated to each scheme and so all projects are to some degree exposed to risks around the West Midland Combined Authority not being able to generate the required level of income.

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

£ millions	Funding Required	Ongoing Revenue Committed
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

- 1.4. 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 2% on businesses to fund infrastructure investment through a new power contained in the draft Local Government Finance Bill of 2016/17.
- 1.5. 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.
- 1.6. 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.
- 1.7. 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.
- 1.8. As part of the discussions relating to the proposed second regional Devolution Deal, 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.

- 1.9. 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)

- 1.10. 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 2% income 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.
- 1.11. Following the region's 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 during March 2018.
- 1.12. Central Government will require all Constituent Local Authorities to consent to the powers being applied to the West Midlands Combined Authority by the end of February 2018.

2. Options considered and recommended proposal

- 2.1. Cabinet could refuse to consent to the proposals to amend statute to enable the WMCA to raise income from supplemental borrowing powers. This option is not recommended as it will impact on the WMCA ability to undertake and develop some of the key priorities for the region.
- 2.2. Delegations are proposed to be given to the Council's Chief Executive so that the City Council retains oversight of the final amended orders produced from the Government.

3. Results of consultation undertaken

- 3.1. The principle of the Combined Authority being able to raise income from supplemental business rates was included in the Mayoral Powers approved by Council in May 2016. Following approval of the scheme a period of public consultation was carried out from 4th July – 21st August 2016 to seek views from the public and stakeholders on the additional functions proposed to be conferred on the WMCA.
- 3.2. The responses to the consultation were submitted to DCLG.

4. Timetable for implementing this decision

- 4.1. Approval from the constituent authorities and WMCA is being sought by the end of February 2018 with a view to legislation being laid to enable the order to be made.

5. Comments from the Director of Finance and Corporate Services

5.1. Financial implications

Table 2 above sets out the approved and pending commitments included within the WMCA's overall investment programme which include several very significant investments within and affecting Coventry outlined as part of the WMCA Devolution Deal. These schemes are fundamental to the plans that the Council has for the wider regeneration of the city. The Devolution Deal was approved on the basis of the mix of funding outlined in Table 1 and the recommendations in this report are required to enable a Business Rates Supplement to be levied in future.

The first year for which a supplement can be levied is 2019/20.

5.2. Legal implications

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.

6. Other implications

6.1. How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?

The ability of the Combined Authority to raise supplementary business rates will support the delivery of a number of strategic projects (including City Centre South) which in turn will enable the delivery of the CA investment programme.

6.2. How is risk being managed?

The current funding arrangements are unsatisfactory and these amendments will improve the ability of the WMCA to deliver. The City Council retains oversight by delegations being made to the Chief Executive to oversee the final orders that are produced to affect the legislative changes.

6.3. What is the impact on the organisation?

None.

6.4. Equalities / EIA

There are no direct equalities implications as a result of this report

6.5. Implications for (or impact on) the environment

None

6.6. Implications for partner organisations?

The Council has and will continue to engage with its public and third sector partner. Approval is required by the seven constituent authorities and the WMCA board.

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