

GMCA OVERVIEW AND SCRUTINY COMMITTEE

Date: 22 March 2023

Subject: Retained Business Rates Pilot Update

Report of: Cllr David Molyneux, GM Portfolio Holder for Resources and Steve Wilson,
GMCA Treasurer

Purpose of Report

The report provides members with an update on the position in respect of the 100% retained business rate pilot including the current GM business rates funded schemes, the latest forecasts for 2022/23 and 2023/24 income and seeks support for proposed 2023/24 schemes funded from the income expected to be received in 2022/23.

Recommendations:

The Overview and Scrutiny Committee is asked to endorse and comment on the following recommendations to the GMCA:

1. Note the forecast, as at the end of quarter 3, for 2022/23 business rates income including the 75:25 split between districts and GM investment.
2. Note the planned income for 2023/24.
3. Approve the proposed 2023/24 GM use of the 2022/23 business rates income (set at 25% of total benefit).
4. Approve the proposal to bring back any further in-year commitments should the year end income exceed that forecast at quarter 3.
5. Note the position in respect of the devolution trailblazer deal for Greater Manchester.

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Equalities Impact, Carbon and Sustainability Assessment:

[Sustainability Decision Support Tool](#)

Risk Management

An assessment of the major risks faced by the authority is carried out quarterly as part of the reporting process. Specific risks are identified in the report.

Legal Considerations

There are no specific legal implications with regards to this report

Financial Consequences – Revenue

The revenue finance implications are set out in detail in the report.

Financial Consequences – Capital

There are no capital expenditure implications of the issues contained in the report.

Number of attachments to the report: 0

Comments/recommendations from Overview & Scrutiny Committee

TBC

Background Papers

- GMCA 29th July 2022 “Retained Business Rates Update”

Tracking/ Process

Does this report relate to a major strategic decision, as set out in the GMCA Constitution.

No

Exemption from call in.

Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?

No

GM Transport Committee

N/A

Overview and Scrutiny Committee

March 2023

Retained Business Rates Update

1. Introduction

- 1.1 The report provides members with an update on the position in respect of the 100% retained business rate pilot including the current GM business rates funded schemes and the latest forecasts for 2022/23 and 2023/24 income. It seeks support for proposed 2023/24 schemes funded from the income expected to be received in 2022/23.

2. Background

- 2.1 The 100% business rates retention pilot was part of the Greater Manchester Devolution Deal and was introduced in 2017/18 with the stated intention of:
- Giving GM authorities an incentive to grow local tax bases by ensuring they see long term rewards from growth.
 - Maintaining a predictable income stream against which authorities can take long term investment decisions; and
 - Ensuring that GM authorities can continue to provide a full range of local services, whilst recognising that decisions about spending priorities should be made locally by locally elected representatives accountable to local taxpayers.
- 2.2 Under the scheme GMCA and the ten GM local authorities retain 100% of business rates growth from the base year (2015/16). The benefits are calculated on the basis of a no detriment formula. This is calculated by comparing the difference between the authorities retained business rates under the 50% scheme (including Section 31 payments and grant which would have been payable) to the retained business rates actually retained, (including Section 31 grants). If the former is higher at GM level the government will reimburse the difference. If the latter is higher this is retained within GM and recorded as the benefit of the pilot participation.
- 2.3 The agreement between GM partners was that the benefits of the scheme, to the extent that there should be any, would be shared for investment both at individual district level and for GM wide initiatives. Under the original agreement districts would receive at least 50% of the benefit with up to 50% being invested in GM schemes.

- 2.4 The initial operation of the scheme saw 50% of the income transferred to the combined authority for potential investment in GM wide schemes with subsequent decisions made to return some of that funding back to districts. In 2020/21 during the peak of the financial impact from the coronavirus pandemic, the full 100% benefit of the pilot was retained by districts to support their response to Covid-19.
- 2.5 In 2022/23, as part of the consideration of proposed GM investments utilising the income derived from the 2021/22 financial year, it was agreed that the benefits of the pilot would be split on a 75:25 basis in favour of the ten GM local authorities.
- 2.6 Prior to 2020/21 funding decisions were effectively taken two years in arrears, allowing for the income for any individual year to be confirmed following the end of the financial year in questions and the conclusion of audit processes. Following the retention of 100% of the funding by districts in 2020/21 we moved to considering GM proposals one year in arrears. The income received in 2021/22 was committed to GM schemes at the GMCA meeting of 29th July 2022 following the confirmation of the year end outturn income figures.
- 2.7 Whilst we continue to operate a year in arrears the confirmation of a further extension to the current scheme to the end of 2023/24 now allows GMCA to commit funding based on the quarter three district forecasts. Whilst there remains a risk the final outturn could be lower than this forecast, in this unlikely event, any overcommitment would become the first call on the 2023/24 income.
- 2.8 By taking decisions ahead of the start of the 2023/24 financial year, programmes where funding is currently only confirmed to the end of the 2022/23 financial year or ends in the first half of 2023/24 can gain certainty of funding at an earlier stage than in the previous year.

3. Existing Commitments

- 3.1 Following approval of GM funding commitments from the 25% of 2021/22 income retained by the Combined Authority made at the GMCA meeting on the 29th of July 2022, all income accrued through the 100% retention pilot until the 31st March 2022 was fully committed.

3.2 The table below combines the original commitments plus the allocation of the 21/22 income into a single table (Schemes funded from 21/22 income are shown in red)

Description	Planned Spend 2021/22	Planned Spend 2022/23	Planned Spend 2023/24	Total Planned Spend
	£'000s	£'000s	£'000s	£'000s
Funding				
Funding Carried Forward	(36,465)	(20,302)	(11,319)	(36,465)
Audit Adjustment	(1,243)			(1,243)
2022/23 Income @25%		(16,317)		(16,317)
Annual Funding Available	(37,708)	(36,619)	(11,319)	(54,025)
Commitments				
Greener				
Districts low carbon - Renewables and Retrofitting		1,600		1,600
Support for Net zero		400		400
Journey to Net Zero		484		484
Net Zero Social Homes		80		80
Flood Risk Management		80		80
5 Year Environment Plan	958	515		1,473
GM Resilience Officer	120			120
Fairer				
Election	3,800		4,200	8,000
Employment Charter	274	587		862
Employment Charter - New		400		400
Full Fibre Revenue Costs	158			158
GM Digital Strategy	551	250		801
Unified Architecture	990	1,190	523	2,703
Good Landlord Charter		150		150
Employment legal advice service		100		100
Skills & Work / Apprenticeships		1,200		1,200
Skills & Work / Apprenticeships		600		600
Youth Combined Authority	50	13		63
Cricket Strategy	200	200	200	600
GMHSCP		480		480
More Prosperous				
GM Productivity programme	4,748	4,220	3,231	12,199
Industrial Strategy	793	2,727	602	4,122
Marketing Manchester and MIDAS	750	750	750	2,250
Support for Growth and International Engagement		1,170		1,170
Development of Growth Locations		1,200		1,200
Business Angels		1,000		1,000
International Rebound Programme		150		150
International Partnerships		150		150
Enterprising You		650		650
Growth Company Other		350		350
Place Based				
Cultural and Social Impact Fund	1,000	1,100		2,100
Places for Everyone	264	2,425		2,689
Reform Investment Fund - Youth Homelessness Prevention	750	750	1,000	2,500
One Public Estate - OPE Support Officer		56		56
Residents' Insight survey		250		250
Other				
Cheshire Business Rates for Bus Reform	2,000	23		2,023
Total Income	17,406	25,300	10,506	53,212
Closing Position	(20,302)	(11,319)	(813)	(813)

4. 2022/23 Retained Business Rates Income

4.1 The table above shows how the income up to the end of the 2021/22 financial year has been largely committed with a small residual income of £813k.

- 4.2 In the 2021 spending review the chancellor announced the 100% retention scheme would continue for a further year (2022/23) with the subsequent announcement in the November 2022 financial statement extending the scheme by a further year to the end of 2023/24.
- 4.3 Given there are now two confirmed further years of income it is proposed that commitments for 2023/24 expenditure can be made based on the Quarter 3 forecast income.
- 4.4 The forecast benefit of the pilot for 2022/23, as at quarter 3, broken down by district, is shown below and totals £74.8m with the 25% retained by GMCA standing at £18.7m

Authority	100% Pilot Benefit	75% Retained by Authority	25% Retained by GMCA
	£000	£000	£000
Manchester	13,372	10,029	3,343
Bolton	5,039	3,779	1,260
Bury	3,228	2,421	807
Oldham	5,160	3,870	1,290
Rochdale	7,672	5,754	1,918
Salford	12,638	9,478	3,159
Stockport	3,769	2,826	942
Tameside	4,615	3,461	1,154
Trafford	10,885	8,164	2,721
Wigan	8,440	6,330	2,110
GM	74,816	56,112	18,704

4.5 The planned income for 2023/24 currently stands at £84.2m with GMCA retaining £21m. This is only a planning figure at this stage and no commitments will be made from this income until 2024/25.

Authority	100% Pilot Benefit	75% Retained by Authority	25% Retained by GMCA
	£000	£000	£000
Manchester	18,539	13,904	4,635
Bolton	6,835	5,127	1,709
Bury	1,837	1,378	459
Oldham	4,835	3,626	1,209
Rochdale	6,668	5,001	1,667
Salford	14,391	10,793	3,598
Stockport	8,358	6,269	2,090
Tameside	4,290	3,217	1,072
Trafford	6,853	5,139	1,713
Wigan	11,547	8,661	2,887
GM	84,154	63,115	21,038

5. Proposed 2023/24 Schemes

5.1 With the 100% retention schemes confirmed to be in place until the end of the 2023/24 financial year it is proposed the full forecast income for 2022/23 be made available for schemes in 2023/24. In the unlikely event that the income at year end is lower than the current forecast of £18.7m then the overcommitment becomes the first call on the income for 2023/24, currently forecast to be £21m.

5.2 Schemes totalling £19.5m have been identified and are shown in the table below. With carry forward of £813k available from the income received up to the end of 2021/22 funding these schemes would leave £19k uncommitted ahead of further income in 2023/24.

Description	2023/24
	(£000's)
2022/23 Q3 Income Forecast	(18,704)
2021/22 Carry Forward	(813)
Total Income	(19,517)
<u>Greener</u>	
5 Year Environment Plan	628
Districts low carbon - Renewables and Retrofitting	1,600
Support for net zero	800
Net Zero Social Homes	300
Flood Risk Management	250
<u>Fairer</u>	
Employment Charter	545
GM Digital Transformation	900
GM Digital Inclusion, Growth and Places	650
GM Information Strategy	280
Skills and Work	500
<u>More Prosperous</u>	
GM Productivity programme	6,050
GM Frontier sector FDI Attraction and Promotion	1,750
Trailblazer Implementation - NEW	1,000
Support for Growth and International Engagement	930
<u>Place Based</u>	
Development of Growth Locations	1,800
GM Culture Fund	1,125
GM Evidence & Insight Hub	70
Places for Everyone	250
Night Time Economy - NEW	70
Total Potential Costs	19,498
Residual position	(19)

- 5.3 The majority of the proposed commitments are a continuation of existing schemes including some, such as the GM Productivity Programme that were provided with multi-year funding at the start of the pilot period which is coming to an end in 2023/24. In the case of the productivity programme current funding, made up of business rates allocations and ERDF match funding will be exhausted by the end of September 2023.
- 5.4 Ongoing funding to support the GM cultural fund has already been approved at the GMCA meeting in February 2023 and is included within the table above for completeness.

5.5 There are two entirely new schemes proposed in addition to the extension of the existing schemes noted above.

5.6 These are:

(i) Trailblazer Implementation - £1m

It is proposed £1m is earmarked for supporting the work to implement the potential outcome from the current devolution trailblazer including developing the approach to a single settlement funding agreement and updated governance arrangements.

Further detail will be developed on this proposal if and when the trailblazer negotiations reach a successful conclusion.

(ii) Night-Time Economy - £70k

This budget would be used to bring in match funding from local and national partners and increase the investment in this policy area. The majority of the funding would be used to deliver night-time economy interventions relating to safety, diversity, regeneration and the workforce.

In addition to supporting safety, diversity and town centre events, the night time economy sector is struggling due to a lack of skills in the sector and business advice. With this funding, the Night time economy team would develop two interventions – a targeted campaign, working with CA colleagues in the education, work and skills team, promoting the night time economy as a viable career, and developing skills pathways and career development opportunities within the sector (a real issue post pandemic and crucially, post-Brexit) and delivering night surgeries across Greater Manchester with partner organisations to provide business advice and signposting as well as support in relation to local authority functions such as licensing and environmental health etc.

6. Additional commitments for 2023/24

- 6.1 We propose to fully commit the quarter three forecast income for 2022/23 with any over commitment underwritten by the 2023/24 income should there be a reduced lower final outturn income than that forecast at Q3. However, should the final year end outturn income figure show an increase on the Q3 forecast it is proposed these funds are made available for in year commitments through 2023/24, should they require funding, rather than wait for a subsequent decision on the 2023/24 income for commitment in 2024/25.

7. Future of Retained Business Rates and Associated Schemes

- 7.1 As described above the Government has agreed to extend the 100% business rates retention scheme pilot for a further year (20223/24).
- 7.2 There are many current business rates funded schemes across GM that have been, and continue to, be critical to GM delivery. This includes areas such as the Mayoral election for which there are currently no other sources of funding.
- 7.3 The long-term sustainability of GM programmes will be linked to the future approach to business rates as well as a number of other key areas of funding that are currently delivered through one off grants or funding which is time limited in nature.
- 7.4 These issues are at the heart of the current devolution trailblazer negotiations with HM Government in particular in the developing proposals for a single settlement for GM.
- 7.5 The benefits of a single settlement, potentially including a long-term commitment to the current arrangements in respect of business rates, cover three main elements:
- (i) Longer terms settlements to allow certainty of funding, long term strategic decision making and to facilitate the development of local capacity to deliver programmes.
 - (ii) Flexibility to use different strands of funding to maximum effect. Removing contradictory grant conditions, misaligned objectives, and perverse time horizons

(iii) Reduced requirement to commit resources to bidding for national monies, competing against other areas.

- 7.6 We expect detailed proposals for the trailblazer outcomes to be available in coming days and the future of the business rates pilot will be a critical element of this.
- 7.7 Any new arrangements which are put in place through the trailblazer will need to reflect the unique arrangements agreed with GM by HMG at the start of the pilot in relation to any future reset of the baseline by which growth is assessed against. National resets were always part of the plan for the pilot, although none have happened since the introduction of the scheme, and this is likely to continue to be the case for any new deal. However, the “partial reset” mechanism agreed with GM and set out in our original Memorandum of Understanding (MoU) will allow GM authorities to retain part of the achieved growth and maintain the growth incentive principle which is fundamental to the rates retention system.

8. Future use of funds

- 8.1 An initial assessment has been undertaken on future funding requirements beyond 2023/24 which would be funded from the income received in the final confirmed year of the scheme, the current year, 2022/23.
- 8.2 As referred to earlier, the level of growth included within planned NNDR 1 business rates, equates to £84.2m. GMCA would expect to receive 25% of this value for investment in GM schemes with 75% being retained by the ten GM local authorities. The GMCA share would therefore be around £21m.
- 8.3 No commitments against the 2023/24 funding will be made at this stage and the timing of decisions relating to that income will be dependent on the outcome of the trailblazer discussions and the likely position on business rates income for 2024/25.

9. Exit Plans

- 9.1 A number of schemes have been identified in section 8 above as potentially requiring funding beyond the current proposals for CA agreement in 2023/24.

- 9.2 Should funding not be available in 2024/25 those schemes would either need to seek an alternative funding source or would cease once the current funding agreements are exhausted.
- 9.3 This would clearly have significant consequences to the specific benefits expected to be delivered by the schemes, much of these are described in the details of the schemes in the appendix.
- 9.4 Whilst the cost of ceasing the schemes might be significant in output terms, the direct financial impact in terms of exit costs such as redundancies are not expected to be as significant. Most schemes are delivered by external agencies who would manage the staffing impact. However, there would be a very small number of directly employed GMCA staff and it is therefore prudent, at this stage, to set aside, £1m of the 2023/24 for exit costs.
- 9.5 It is expected, however, that the future approach to business rates will be clear early in 2023 allowing the schemes currently funded through the pilot to be considered as long-term proposals against a more certain long term funding stream.

10. Recommendations

- 10.1 The Overview and Scrutiny Committee is asked to endorse and comment on the following recommendations to the GMCA:
- Note the forecast, as at the end of quarter 3, for 2022/23 business rates income including the 75:25 split between districts and GM investment.
 - Note the planned income for 2023/24.
 - Approve the proposed 2023/24 GM use of the 2022/23 business rates income (set at 25% of total benefit).
 - Approve the proposal to bring back any further in-year commitments should the year end income exceed that forecast at quarter 3.
 - Note the position in respect of the devolution trailblazer deal for Greater Manchester.