

Greater Manchester Combined Authority

Date: 29th July 2022
Subject: Retained Business Rates Update
Report of: Cllr David Molyneux, Portfolio Holder – Resources & Investment
Steve Wilson, Treasurer to GMCA

PURPOSE OF REPORT

The report provides an update for GMCA on the latest position in relation to the 100% Business Rates Retention Pilot. The report describes the background to the pilot; the latest position in relation to previously agreed GM commitments; the use of the income generated in 2021/22 and the future of the scheme including both the final confirmed year of extension, 2022/23 and any potential future arrangements.

RECOMMENDATIONS:

The GMCA is recommended to:

1. Note a planning assumption for 25% of the 2021/22 retained business rates income to be invested in GM wide initiatives;
2. Approve the proposed schemes set out in the table at paragraph 5.5 totalling £17.4m;
3. Note this is funded in full from a 25% share of the confirmed 2021/22 income of £16.3m and £1.1m of slippage against previously agreed schemes;
4. Note the issues concerning the potential future of the scheme and the potential further GM wide commitments.

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Equalities Impact, Carbon and Sustainability Assessment:

N/A

Risk Management

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

Financial Consequences – Capital

There are no specific capital considerations contained within the report.

Number of attachments to the report: None

Comments/recommendations from Overview & Scrutiny Committee

N/A

Background Papers

Reports to Greater Manchester Combined Authority:

GMCA 20th November 2020 – 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 - N/A

1. Introduction

- 1.1 This report provides an update for GMCA on the latest position in relation to the 100% Business Rates Retention Pilot. The report describes the background to the pilot; the latest position in relation to previously agreed GM commitments; the use of the income generated in 2021/22 and the future of the scheme including both the final confirmed year of extension, 2022/23 and any potential future arrangements.

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 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 The table below shows the income received across GM since the beginning of the scheme in 2017/18 and the split between GM commitments and the return to districts:

Year	2017/18	2018/19	2019/20	2020/21	Total
	£000	£000	£000	£000	£000
50% retained by Districts	36,460	35,013	36,625	25,577	133,675
50% retained by GM					
-Funding returned to districts	25,000	20,000	16,700	25,577	87,277
-Funding allocated to GM schemes	11,210	15,014	19,926	0	46,150
	36,210	35,014	36,626	25,577	133,427
Total	72,670	70,027	73,251	51,153	267,102

- 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 are effectively now operating one year in arrears. We are therefore now considering the use of the 2021/22 income for commitments in the 2022/23 financial year.

3. Existing Commitments

- 3.1 At the GMCA meeting on 27th November 2020 the allocation of the remaining funding in the GM business rates reserve was approved. This funding had been accumulated following the allocation of 50% for GM programmes, including income received to the end of 2019/20.
- 3.2 This agreement confirmed funding commitments against an additional seven GM schemes costing a total of £15.9m with the remaining funds of £16.7m being returned to the ten districts. The additional agreed schemes of £15.9m represented a reduction of £28.5m against the original proposals which totalled £44.4m.

3.3 The 2020/21 income (£51.2m) was retained in full by the GM districts including the 50% (£25.6m) which would, in previous years, have been available for GM schemes. There have been no further commitments agreed for GM business rates investment since the prioritised schemes were approved in November 2020.

3.4 The latest forecast of spend against agreed commitments is shown in the table below which highlights a small underspend (£1.1m) against the overall GM funding. The table also shows the profile of the existing commitments up to the end of 2023/24 when all funding is expected to be spent.

Existing Commitments	2021/22	2022/23	2023/24	Total Planned Spend
	£000	£000	£000	£000
Funding				
Funding Carried Forward	(36,465)	(19,059)	(7,400)	(36,465)
Annual Funding Available	(36,465)	(19,059)	(7,400)	(36,465)
Commitments				
GM Resilience Officer	120	0	0	120
Cultural and Social Impact Fund	1,000	0	0	1,000
Places for Everyone	264	0	0	264
Youth Combined Authority	50	13	0	63
Cricket Strategy	200	200	200	600
Employment Charter	274	587	0	862
GM Productivity programme	4,748	4,220	3,231	12,199
Industrial Strategy	793	2,727	602	4,122
5 Year Environment Plan	958	0	0	958
Full Fibre Revenue Costs	158	0	0	158
GM Digital Strategy	551	0	0	551
Unified Architecture	990	1,190	523	2,703
Election	3,800	0	0	3,800
Marketing Manchester and MIDAS	750	750	750	2,250
Skills & Work / Apprenticeships	0	1,200	0	1,200
Reform Investment Fund - Youth Homelessness Prevention	750	750	1,000	2,500
Cheshire Business Rates for Bus Reform	2,000	23	0	2,023
Total	17,406	11,660	6,307	35,372
Closing Position	(19,059)	(7,400)	(1,093)	(1,093)

4. 2021/22 Retained Business Rates Income

4.1 Section three above describes the commitments against the scheme so far which are funded from income received by the GM districts up to the end of 2020/21,

although the commitments to be funded in some cases go into the 2023/24 financial year.

- 4.2 In the 2021 Spending Review the Government confirmed that the pilot scheme would be extended for at least one further year in 2022/23. The OBR costing provided an analysis of the extension of the scheme for 2022/23 and 2023/24 but no extension beyond 2022/23 has yet been confirmed.
- 4.3 GM therefore has at least two years of funding for which there have been no confirmed GM wide expenditure commitments. This is income for 2021/22 which is now known although not confirmed by audit, and 2022/23 which has been included in plans and will be monitored during the current year.
- 4.4 The benefit from the 100% pilot in 2021/22 (subject to audit) is £65.3m as shown in the breakdown below:

Authority	100% Pilot Benefit
	£000
Manchester	14,453
Bolton	5,667
Bury	1,429
Oldham	2,388
Rochdale	6,690
Salford	10,069
Stockport	6,810
Tameside	4,064
Trafford	7,374
Wigan	6,325
Total GM	65,268

- 4.5 The planned income for 2022/23 for the 100% pilot is £59.2m as shown below:

Authority	100% Pilot Benefit
	£000
Manchester	12,147
Bolton	5,506
Bury	2,807
Oldham	3,811
Rochdale	6,863

Salford	11,055
Stockport	1,019
Tameside	2,766
Trafford	4,759
Wigan	8,449
Total GM	59,180

5. Proposed 2022/23 Schemes

- 5.1 Following the identification of a number of proposed schemes for 2022/23, most of which are the continuation of existing schemes in one form or other, it was agreed with GM local authorities that for planning purposes it should be assumed districts would retain 75% of the growth funding benefit rather than 50%.
- 5.2 Given the uncertainty in relation to income from the scheme in 2022/23, the proposals have, at this stage, been limited to those requiring funding in 2022/23 plus the funding required to deliver the GM mayoral election in 2024.
- 5.3 The schemes identified total £17.3m and are shown in the table below. The proposed level of funding for GM schemes is broadly equal to the planning assumption of 25% of the income from 2021/22 combined with the carry forward underspend of £1.1m.
- 5.4 Members of the CA are asked to approve the schemes identified, and the funding agreed of 25% of the 2021/22 retained business rates income. This will allow 75% of the benefit of the scheme (£50m) to be retained by GM districts in line with planning assumptions.
- 5.5 A summary of the proposed commitments funded from the 25% income in 2021/22 is shown in the table below:

Proposed Commitments	2022/23	2023/24	Total Planned Spend
	£000	£000	£000
<u>Funding</u>			
Funding Carried Forward	(1,093)	(4,250)	(1,093)
2021/22 Income @ 25% (Draft accounts)	(16,317)		(16,317)
Annual Funding Available	(17,410)	(4,250)	(17,410)
<u>Proposed New Schemes</u>			
<u>Greener</u>			
5 Year Environment Plan	515		515
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
<u>Fairer</u>			
Good Landlord Charter	150		150
GM Digital Strategy	250		250
Skills & Work / Apprenticeships	600		600
Employment Charter	400		400
GM Election costs	0	4,200	4,200
Employment legal advice service	100		100
<u>More Prosperous</u>			
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
<u>Place Based</u>			
Places for Everyone	2,425		2,425
Cultural and Social Impact Fund	1,100		1,100
One Public Estate - OPE Support Officer	56		56
Residents insight survey	250		250
Total Proposed New Spend	13,160	4,200	17,360
Net Position	(4,250)	(50)	(50)

6. Future of Scheme

- 6.1 As described above the Government has agreed to extend the 100% business rates retention scheme pilot for a further year (2022/23). There are a number of schemes that are funded through retained business rates that have been critical to GM delivery

over the past 5 years. This includes areas such as the Mayoral election for which there are currently no other sources of funding.

6.2 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.

6.3 This is a complex area with links to a number of different areas of work and engagement with Government. The key areas of discussion are summarised below:

(i) Future of 100% Retained business Rates Pilot

The future of the 100% business rates retention pilot is itself linked to the Government's next steps in levelling up and devolution (see below); the future of local authority funding and the "fair funding review"; and the review of the overall approach to business rates in light of the changing economy and growth of non-traditional sectors such as internet shopping and delivery.

The Office for Budget Responsibility (OBR) report published alongside the 2020 spending review set out the cost of extending the current scheme by two years (2022/23 and 2023/24) however the decision from DLUHC was to agree a one-year extension pending further work. It is therefore possible that the scheme will see a further one-year extension on current terms offering a further year's growth income to GM providing the overall income levels continue at least at the current levels.

Any approach beyond 2023/24 is likely to be linked to the wider work on funding and business rates and is less predictable at this stage.

(ii) GM Partial Business Rates Reset

When any new arrangements are put in place following the eventual end of the current pilot, any scheme which is based on an assessment of growth is likely to commence with a reset of the baseline income levels current used.

The partial reset agreed with Government and set out in our original Memorandum of Understanding (MoU) will allow GM authorities to retain all, or at least part, of achieved growth and maintain the growth incentive principle which is fundamental to the rates retention system. The nature and extent of the reset is still to be confirmed by Government.

The 2017 MoU which was between the ten GM authorities and Government included the provision for growth in rates delivered by GM authorities' own investment be discounted from the baseline calculation at a system reset. This would therefore form a minimum growth retention element in a system reset.

The MoU between the GM authorities and Government states:

“The Government commits that the whole or part of the growth that the Greater Manchester authorities have secured as a result of their investment programme will be kept by them and will be disregarded for the purpose of calculating tariffs and top-ups at the outset of 100% rates retention. There will be further discussions between Government and the Greater Manchester authorities about the extent of the ‘disregard’, the detail of the scheme and the calculation of growth.”

A methodology for measuring and capturing the benefits from the partial reset had been agreed with MHCLG in 2020 and at that point stood at approximately £32m as the amount which could be excluded from the system reset and passed to GMCA through either S31 or a baseline adjustment for GM authorities.

(iii) Shared Prosperity Fund

The UK Shared Prosperity Fund (UKSPF) is the UK Government's domestic replacement for the European Structural and Investment Programme (ESIF). A number of the previous schemes that have received support from retained business rates have been the subject of match funding from ESIF, for example the GM Productivity programme which has received the largest single allocation of funding from retained business rates at £7.4m has received match funding from ESIF of £7.9m.

The GMCA is the “lead authority” for Greater Manchester's allocation of UKSPF funding, with some flexibility in the programmes which can be supported but set within a framework of priorities determined by Government, and an investment plan which requires Government approval.

This provides a different context to the local decision making around retained business rates from 2022/23 onwards. The GM productivity programme is currently funded up the middle of 2023/24 at which point both the retained business rates and ESIF funding ceases.

(iv) Trailblazer Devolution Negotiations

The current “Trailblazer” discussions with Government on the future of devolution under the levelling up agenda are seeking to address some of the uncertain and short-term funding sources which GM is been reliant on.

Proposals include a single multi-year funding stream for GM which could, in the future replace multiple, non-recurrent or one-year allocations and put retained business rates funding on a permanent footing.

Any decision on the approach to a single funding pot for GM would be likely to take effect after the current spending review period from 2024/25.

7. Future use of funds

- 7.1 An initial assessment has been undertaken on future funding requirements beyond 2022/23 which would be funded from the income received in the final confirmed year of the scheme, the current year, 2022/23.
- 7.2 As referred to earlier, the level of growth included within planned NNDR 1 business rates, equates to £59.2m. As a planning assumption 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 £15m.

8 Recommendations

- 8.1 Recommendations are included at the front of the report.