Appendix 1

Key Factors of the Memorandum of Understanding - Ten Year, 100% Business Rates Retention

1. Ten Year Retention Offer Details

1.1 The West Midlands Combined Authority (WMCA), West Midlands authorities and the Department for Levelling Up Housing and Communities (DLUHC) have been negotiating the content of the Memorandum of Understanding (MoU) over recent weeks.

1.2 Some of the key factors of the MoU are highlight below:

- **Term**: The ten-year arrangement represents a fundamental improvement over the rolling one-year term of the pilot. This should allow Authorities to assemble financial plans with more confidence and where enhanced incomes are projected, Authorities may be enabled to make longer term investment decisions given the arrangements have a degree of longevity.

- **No Detriment**: In discussions with DLUHC, they have been clear that the existence of the "no detriment" protection will not carry over to the ten-year arrangement. Details about how we will mitigate the impact of the removal of this protection are detailed in the section 2 below.

- **Impact of a Reset**: The ten-year arrangement will be affected by national resets to Business Rates baselines. At the point of a re-set, at a national level, the resources available to local authorities are unchanged in aggregate. However, a reset changes how Government distributes these resources nationally and as such, some local authorities could benefit from a reset whilst the reverse will be true for other authorities. All core funding systems underpinned by Business Rates (the pilot, the national 50% scheme and the ten-year arrangements) are exposed to this issue but the MoU describes how WMCA and the local authorities ensure protection from adverse outcomes associated with the reset, as far as is possible given the detail of how a reset will be undertaken has yet to be determined.

- **Safety Net**: The safety net is a protection within the system for local authorities which guarantees that reductions in Business Rates income is limited to a minimum percentage of the Baseline Funding Level. Under the pilot arrangements, each authority had an enhanced safety net level of 97%, compared with 92.5% nationally. This enhanced level will be maintained at an individual authority level, under the proposed ten-year arrangements.

- **Grants Rolled In:** There is no change to the grants rolled in compared with the pilot arrangements. West Midlands authorities will continue to forgo

Revenue Support Grant only in exchange for increased business rates retention.

- **Additional Levy:** The levy for the pool will remain at nil, unchanged from the pilot arrangements.

- **WMCA Share:** A share of regional business rates due to the Combined Authority is required to remain in place.

2.0 No Detriment

2.1 As detailed above, DLUHC are not willing to retain the "no detriment" protection that existed under the pilot arrangements, whereby Government will reimburse the West Midlands authorities where they are collectively in a net deficit position. DLUHC's view is the removal of this protection creates a more equitable balance of risk and reward for both Local and National Government.

2.2 Under the current 2017 arrangement, the no detriment protection has not been called upon since 2016 indicating it may be unlikely that the pool encounters a net detriment, however, the region is yet to experience the impact of a baseline re-set which could make the overall position more marginal, particularly in the early years following a re-set.

2.3 It is important to note that DLUHC have indicated there will not be a re-set until 2025-2026 at the earliest. Additionally, it is as yet unclear what form a reset will take – for example whether it will be a full or partial reset, whether baseline funding levels will be updated in addition to business rates baselines (and if so on what basis) and which year(s) will be used to set the new baselines. These technical details are likely to have a significant influence on the outcome / impact of this national event. Nevertheless, negotiates have sought to agree appropriate protections which are acceptable to both sides.

2.4 A reset presents particular risks for the size of the WMCA share because in the year(s) immediately following a reset when business rates baselines are higher, the likelihood of there being insufficient business rates growth from which to fund the expected contribution is increased. Local authorities were concerned that in that scenario they might be expected to mitigate this risk from core resources, in which case they could be financially better off (particularly in the immediate year/s post re-set) in the national 50% scheme.

2.5 Through the negotiations with DLUHC steps have been taken to mitigate the loss of the no detriment protection. Firstly, the MoU includes a commitment from Government that, in the event a reset has adverse, unintended consequences on the West Midlands authorities' ability to fund the WMCA share at the level expected, Government will work with the region to protect the substance of the WMCA share and secondly; it provides a means of reviewing and modifying the arrangements throughout the ten-year term with the agreement of all parties.

2.6 Outside of the MoU, locally-agreed no detriment protections (i.e. where Authorities in a gain position may compensate Authorities in a detriment position) are able to remain in place and it is recommended that these principles are maintained.

3.0 Post Reset

3.1 Following a national re-set, the region will need to assess how best to use the financial tools at its disposal to ensure that an appropriate share of business rates continues to be provided to assist with the sustainability of the Combined Authority in the most effective and equitable manner. The MoU is clear in stating that these decisions can be made locally.