

To	Resources O&S Committee
Date	8 April 2019
Report from	Guy Olivant – Finance & Governance Directorate
Subject	Funding of the Commonwealth Games – Update on Alternative Funding Sources

1 Purpose of Report

- 1.1 This report sets out work undertaken to date to explore alternative options for the funding of the Council's share of the costs of the Commonwealth Games, including consideration of Supplementary Business Rates, Workplace Parking Levy, Hotels Tax or Airport Levy.
- 1.2 Members will be aware that the Council Plan 2019+ identified the revenue contribution needed to fund the games supported by the creation of a reserve at a net nil cost to smooth cashflows. This is the backstop position if alternative funds are not identified.
- 1.3 However, the aim is to identify other sources of funding as the primary source to either mitigate any under-delivery of assumed partner contributions or reduce the identified Council revenue contribution.

2 Background

- 2.1 The Financial Plan approved at the Council Meeting on 26 February 2019, includes details of the Council's share of the overall costs of the Commonwealth Games, based on the total costs identified in the Host City Contract as a part of the approved bid for the Games.
- 2.2 This set out total costs to be met by the Council, including Partner Contributions, of £184.7million, broken down as follows:
 - Partner Contributions - £75million
 - Existing Capital Resources - £19.7million
 - Council Borrowing - £50million
 - Council Revenue Contributions - £40million
- 2.3 A number of alternative funding sources were also identified for investigation, to either mitigate under-delivery of the assumed Partner Contributions, or to reduce the Council contribution. These options include a number of potential measures that may need legislation to allow their implementation, and were therefore not considered appropriate to be included as a part of the baseline funding of the Games.
- 2.4 The remainder of this report considers the key alternative funding sources under consideration – being

2.4.1 Supplementary Business Rates,

2.4.2 Workplace Parking Levy,

2.4.3 Hotels Tax or

2.4.4 Airport Levy

3 Supplementary Business Rates

3.1 As a part of the Devolution Deal, it was intended that the Combined Authority would have the ability to levy Supplementary Business Rates (SBR) without the need for a ballot of affected businesses, and that a proportion of the additional income raised in this way could potentially be made available to fund the Commonwealth Games.

3.2 Unfortunately the legislation necessary to allow this to take place was not put into place, and so the only way that it would currently be possible to levy SBR would be if this was supported by a ballot.

3.3 It is understood that some soft market testing of a number of the key businesses that would be affected by the introduction of SBR has been undertaken, and that this indicates that it is extremely unlikely that support would be forthcoming.

3.4 Given the outcome of the soft market testing (undertaken by the Combined Authority), and our understanding that even if legislation is amended to allow the introduction without a ballot, the Combined Authority would still only introduce SBR if supported by a ballot, it is now considered highly unlikely that there is any scope for any financial support for the cost of the Commonwealth Games from this source.

4 Workplace Parking Levy

4.1 Independently of the Commonwealth Games, work is under way within the Inclusive Growth Directorate to develop an implementation plan for the potential implementation of a Workplace Parking Levy. Work is still in its early stages, and at this point it is difficult to establish a clear timeline for implementation, or to provide any certainty as to the level of income that might be secured from such a scheme.

4.2 A Workplace Parking Levy has already been successfully introduced elsewhere (most notably in Nottingham), and based on the work undertaken for that scheme, it is likely that once approved, it would be likely to take 3-5 years for

implementation of a scheme in Birmingham.

- 4.3 Depending on the precise form that any Workplace Parking Levy takes, it is possible that there may be restrictions on the use of income generated from the levy (potentially to only be used for transport measures), which may limit (but not totally preclude) the use of this funding for costs associated with the Commonwealth Games.
- 4.4 Given the likely timescales for implementation, and potential limited ability to apply the funding for Commonwealth Games costs, it is unlikely that a Workplace Parking Levy would be a material source of funding for the Commonwealth Games.

5 Hotels Tax

- 5.1 The debate over the introduction of a Hotels (or Tourism) Tax has been receiving increased scrutiny over recent months, with Edinburgh having recently reported the outcome of extensive public consultation on proposals to increase such a tax (and the Council subsequently giving approval to implementation subject to the necessary legislation in Scotland). In England the Core Cities have recently been explicitly exploring options for a joined up national approach to this approach.
- 5.2 Initial work has been undertaken to identify the potential level of additional income that could be generated through the introduction of a Hotels Tax, either limited to Birmingham, or on a wider geography that covers the whole WMCA region. Until details of charging models are settled, there is clearly a wide range of potential impacts, but it has been estimated that a levy of £1 per room per night could generate in the region of £3million per annum for Birmingham, or £12million per annum across the region.
- 5.3 Given the substantial clustering of major hotels outside of Birmingham (including, but not limited to, the hotels around the Airport and the NEC), it would seem that there are strong arguments that any Hotels Tax should be implemented consistently across the WMCA region, to ensure that the costs and benefits are consistently applied rather than being limited so that costs are borne by one group of hotels, with the benefits being more widely captured by a far greater number. Any proposals will need substantial work before any proposed implementation however, and one approach that may be attractive would be for charging to be tiered across different geographical zones rather than being at a fixed rate across the entire region.
- 5.4 Previous consultation with the hotels industry relating to the potential introduction of a hotels BID was met with substantial resistance from the major hotel chains in particular, and this is likely to be repeated in response to any

proposals for a more comprehensive Hotels Tax. The main argument previously made is that whilst there are Hotels Taxes in many other parts of the world, these are not generally accompanied by other taxes (such as VAT) being levied in relation to the same services at as high a rate as in the UK, and that it is the overall taxation burden that should be considered, rather than restricting any debate to the Hotels Tax in isolation.

- 5.5 In order to implement a Hotels Tax it is understood that primary legislation would be required. Initial indications are that the political appetite and capacity for such measures may be limited (though this may change depending on the particular case being made, especially if proposals are linked to specific outcomes), and it is unclear when it might be possible for parliamentary time to be identified for such legislation.
- 5.6 Given the likely high levels of industry resistance, and the need for legislation, it is unlikely to be possible to introduce any Hotels Tax substantially prior to the Commonwealth Games, so that the scope for this to be a significant funding source for the Games is limited.

6. Airport Levy

- 6.1 Birmingham International Airport is jointly owned between the Ontario Teachers' Pension Plan (48.25%), the 7 West Midlands Councils (49% - of which Birmingham is the largest single shareholder with 18.7% of the total shares) and Employees (2.75%). It currently operates as a profitable business, and the various shareholders all benefit from substantial dividend payments each year.
- 6.2 Any levy that would be introduced would reduce the profitability of the Airport as a whole, and therefore reduce the level of dividends payable to its shareholders, unless the levy was passed on (including all administration costs) to airport users / passengers.
- 6.3 Unless imposed by legislation (which is likely to incur the same difficulties as any Hotels Tax), the introduction of an Airport Levy would need to be agreed by the Directors of the Airport as being in the interests of their business. This could be challenging to achieve, given that any Airport Levy would either increase the costs to the business, or to their customers (without any immediately obvious direct resultant benefit). It would also be necessary to obtain agreement for some sort of a top-slice or contribution directly to the Council for the funding of the Commonwealth Games before the calculation of any dividends, which would also appear to be a difficult agreement to achieve given the competing interests of the other shareholders. The key to achieving such agreements would be in making the case that the Games is contributing to making the region a more popular visitor destination, resulting in increased passenger

numbers and therefore increasing the Airport's profitability.

- 6.4 Notwithstanding the challenges with obtaining Board support for the introduction of an Airport Levy, indicative modelling of the potential value of an Airport Levy based on a flat rate charge for each departing passenger (excluding administration costs and any exemptions for particular categories of passenger) suggests that a charge of £1 per passenger could generate in the region of £6.5million per annum.