LOCAL AUTHORITY BUSINESS GROWTH INCENTIVE SCHEME (LABGI) - CONSULTATION

1 SUMMARY

1.1 This reports sets out to summarise the consultation document received from Department of Communities and Local Government: *Building Better Incentives for Local Economic Growth – Reforms to the Local Authority Business Growth Incentives Scheme* which is available in the Members' Library. The Questions posed in the consultation are included in this report with suggested responses for Members' consideration.

2 BACKGROUND

2.1 The Government introduced a 3 year LABGI scheme in 2005 and is now consulting on how to reform the scheme to deliver their objectives to:-

- Empower every council to take a lead role in encouraging economic development by strengthening the link between growth in a local area and its local business tax base;
- Strengthen the fairness of the incentive so that all authorities – particularly the most deprived – make a greater contribution to local economic well being by sharpening the link between financial rewards and local growth, recognising the scale of the challenge in low-income areas and delivering opportunity to all;
- Support the plans each authority makes for the future of its local area by delivering greater certainty, simplicity and transparency in the value of LABGI; and
- Deliver long-lasting reform by creating a permanent incentive to reward economic development that s fully integrated with the local government finance system.

3 INTRODUCTION

3.1 The paper seeks views on reform of the LABGI Scheme, which provides an incentive for Local Authorities to encourage local business growth. LABGI was introduced in 2005 and is set to end in its current form in 2008.

3.2 The Government will publish, in the spring of 2008, a consultation paper drawing up the responses to this paper with firm proposals and options, and with exemplifications of how a future scheme would operate.

3.3 The current three-year LABGI scheme rewards Local Authorities where the rateable Value (RV) of local commercial property increases beyond a target floor, set in relation to their historic trend growth rate.

3.4 LABGI was originally introduced to address a mismatch that can occur between the costs of economic development and the benefits that accrue from it at local level. Growth and regeneration can impose a short-term burden on Local Authorities both directly, through costs of regeneration or infrastructure investment, or indirectly, through greater strain on existing local housing stocks or environmental management.

4 CURRENT LABGI ALLOCATIONS

4.1 We received a total of £343,468 in 2006/07 (comprising £15,400 for year 1 and £328,068 for year 2 of the 3-year LABGI Scheme). A further £40,445 was received inn September 2007 as an adjustment to our years 1 and 2 allocations. We do not know what our allocation for year 3 will be.

5 CONSULTATION QUESTIONS AND ANSWERS

5.1 The consultation now being undertaken by the government is in a question and answer format. Officers suggested responses to the prescribed questions are outlined in italics.

5.2 Q1. Do you agree with the need for an incentive?

Response – Yes, as it certainly helps the Authority to focus on and resource economic regeneration issues and to communicate with the local business community on possible priorities.

5.3 Q2. Should it become a permanent part of the local government finance system?

Yes as it enables improved medium term planning and therefore allows a degree of certainty, which is important in any dialogue with the business community.

5.4 Q3. Taking account of the lessons learnt from the current LABGI scheme, how do we achieve an incentive scheme that achieves a good balance between:

(a) Stronger, simpler and more predictable incentive structures with fairer mechanisms for every authority; and

(b) The stability of funding and timeliness or rewards.

Response: The current scheme is difficult to understand and explain to stakeholders. It is difficult to predict how much will be received and the announcement of the awards is too late in the budget setting process. This makes it difficult to use the grants in long term financial planning. Increasing the complexity of the scheme should be avoided to enable local authorities to more accurately forecast their likely gains. The aim of the scheme should be to make it clearer to each authority how the scheme works, what is available and introduce an element of certainty around the process.

5.5 Q4. What do you consider to be the relative importance of the objectives and the balance to be struck?

Response: The current scheme with the annual announcement of each year's award limits its ability to motivate long-term changes or influence long-term decisions. The stability and predictability of funding should be given the highest importance.

5.6 Q5. Are there any other objectives that you would like the scheme to take into account?

Response: No, but it should be used to encourage dialogue with the local business community and strengthen the local economic base.

5.7 Q6. Do you agree that a reformed LABGI scheme should continue to use 'business rates' as the basis for rewarding growth?

Response - Yes. The current system of distributing business rates through formula grant based on social and economic need means that, where the business rates base of a local area increases as a consequence of successful economic and business growth, that local area does not receive a direct benefit from the additional business rates.

Allowing Local Authorities to receive back a proportion of the business rates arising from growth, would act as a reward for successful effort and a compensation for the wider costs resulting from growth. Importantly, this process would not involve a higher tax burden on local businesses; the same amount of rates would be raised in each area, but part of the growth in rates yield would be shared with local communities rather than being redistributed across all authorities.

5.8 Q7. If not, what alternative measure would you suggest?

Response – N/A

5.9 Q8. Which measure for business rates should we use?

Response – The current LABGI uses 'business rates' growth for the scheme and the recent change to take account of increases in RV as a result of the expansion of existing premises is welcomed.

5.10 Q9. What if any adjustments should be made?

Response. The suggested adjustments in relation to appeals, costs of collection or discretionary reliefs would add to the complexity and may delay payments.

5.11 Q10. Is there any other basis that we might use for measuring business rates growth?

The alternative for using RV might be to use changes business rates yield as the basis for measuring growth. Using a 'cash figure' for example the 'net contribution to the pool' line from National Non-Domestic Rates returns (NNDR 3) is a more immediate and readily comprehensible figure for measuring growth than RV. This would still be as simple as using RV.

5.12 Q11. Do you have a preference for any of the three options, and if so, why?

The 3 options proposed are:

OPTION 1 – Distribution based on a portion of the total business rates raised locally.

OPTION 2 – Distribution based on a portion of growth in business rates, rather than the total.

OPTION 3 – The hybrid model - a combination of base and growth which could see Local Authorities receiving a small portion of the base revenue and a larger portion of in-year growth.

Response: Option 3. The hybrid, because it provides some certainty and a strong incentive for growth with predictability and stability because it retains the base component. This would ensure that even in years where there is no growth, authorities would receive some payment, allowing them to plan with greater certainty. It also reduces the risk of unfair benefit to larger/wealthier authorities who would start with a higher base component.

5.13 Q12. Do you think the hybrid approach can combine the advantages of the two other approaches, while mitigating some of the risks?

Response: Yes – as above response

5.14 Q13. If so, do you have a view on the relative weighting between growth and total?

Response: Weighted in favour of growth as there needs to be an incentive.

5.15 Q14 – 18 relate to adjustments to the payment rate and baseline and there is no suggested response.

5.16 Q19. Do you believe a ceiling should be used to cap payments?

Yes. A limited pot of money is available for distribution and there needs to be a mechanism that ensures that the authorities do not receive payments for little marginal effort.

5.17 Q20. If so, in isolation or with other adjustments?

In isolation to avoid complexity.

5.18 Q21. Should the ceiling be absolute or relative?

Response: Absolute benefits smaller authorities. Relative based on a maximum amount per capita – has the advantage of being relatively simple, and accounts for different sizes and therefore expenditure requirements of authorities. The alternatives of a percentage of net revenue expenditure or council tax requirement would penalise those authorities who have achieved lower operating costs.

5.19 Q22. Do you have views on appropriate measures to use as a ceiling?

Response: A maximum amount per capita has the advantage of being relatively simple, and accounts for different sizes and therefore expenditure requirements of authorities. The alternatives of a percentage of net revenue expenditure or council tax requirement would penalise those authorities who have achieved lower operating costs.

5.20 Q23. Do you have views on where to set the ceiling to maintain the balance between the incentive effect and equity?

Response - No – the aim should be to fairly distribute the limited funds made available by the Government for the scheme.

5.21 Q24 – Which approach – year on year payments or lagged payments given as part of three-year settlements – do you prefer?

Response: Lagged payments given as part of three year settlements embed it within the Revenue Support Grant itself and enable medium term planning. This would mean that when authorities were considering policies to improve business growth they would need to factor in that the authority would not be rewarded for several years after their performance was improved, this could also drive long term planning as local authorities would then be looking to improve their position for more than 3 years hence.

5.22 Q25 – is there an alternative approach that you would prefer?

Response - no

5.23 Q26. Currently, the payments from the LABGI scheme are split approximately 65%:35% between lower tier Districts and Shire Counties. How do you think that business growth incentives should be split between different tiers?

Response: One of the key motives of the scheme should be to encourage a relationship between the local Authority and its ratepayers and the key linkage is between businesses and districts. It would therefore seem appropriate that the incentive go to the authority that collects rates. Infrastructure costs should be borne by S106 grants from developers.

5.24 Q27. What should be the guiding principle for deciding this split?

Response: Retain the current split.

5.25 Q28 What are your views on ring-fencing LABGI revenues, and what are your views on aligning or committing LABGI funds within the Local Area Agreement structure?

Response – This funding should not be pooled as part of the LAA. Any alignment would depend on the targets in the LAA around business growth and investment in infrastructure.

6 RECOMMENDATION

6.1 It is proposed that the Board **RESOLVES**, subject to comments, to agree the responses to the Government's consultation as set out in the report.

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Background Papers:-

Department of Communities and Local Government: *Building Better Incentives for Local Economic Growth – Reforms to the Local Authority Business Growth Incentives Scheme.*

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