

AGENDA MANAGEMENT SHEET

Name of Committee Economic Development Overview and Scrutiny Committee

Date of Committee 18 September 2007

Report Title Local Authorities Business Growth Incentive

Summary The Economic Development Overview and Scrutiny Committee called for a report on the use made by the Council of the Local Authorities Business Growth Incentive. This is covered in the report which also comments on government intentions for the scheme and their proposals for it to be reformed.

For further information please contact

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| David S Williams County Economic Development Officer Tel. 01926 412401 davidswilliams@warwickshire.gov.uk | Virginia Rennie Resources Directorate Tel. 01926 412239 virginia.ennie@warwickshire.gov.uk |
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Would the recommended decision be contrary to the Budget and Policy Framework? Yes/No

Background Papers

Lyons Inquiry into Local Government: Stationery Office: March 2007.
Review of Sub National Economic Development and Regeneration: HM Treasury: July 2007.
Chapter 6, 2007 Budget report. HMG, 2007.
Communities and Local Government Committee – Seventh Report: House of Commons, July 2007.

CONSULTATION ALREADY UNDERTAKEN:- *Details to be specified*

Other Committees

Local Member(s)
(With brief comments, if appropriate)

Other Elected Members Councillor P Barnes)
Councillor Mrs A Forwood) For information
Councillor M Jones)
Councillor P Morris-Jones)

Cabinet Member Councillor C Saint – for information
(Reports to The Cabinet, to be cleared with appropriate Cabinet Member)

Chief Executive

Legal I Marriott – comments incorporated

Finance D Clarke, M Furness – comments incorporated

Other Chief Officers

District Councils

Health Authority

Police

Other Bodies/Individuals

FINAL DECISION **YES/NO** *(If 'No' complete Suggested Next Steps)*

SUGGESTED NEXT STEPS :

Details to be specified

Further consideration by this Committee

To Council

To Cabinet For consideration of the Committee's recommendations.

To an O & S Committee

To an Area Committee

Further Consultation

**Economic Development Overview and Scrutiny Committee -
18 September 2007**

Local Authorities Business Growth Incentive

**Joint Report of the Strategic Directors for
Environment and Economy and Resources**

Recommendation

That the Committee's comments and recommendations on the use made of the scheme by the County Council be communicated to Cabinet for further consideration.

1. Introduction

1.1 Local Authorities Business Growth Initiative (LABGI) was introduced in April 2005 as "a direct financial incentive for local authorities to promote local business growth" through growing their business rate tax base. The level of "reward" for local authorities under this scheme is planned to be £1 billion over the period 2005 to 2008. In 2006 and 2007 the County Council and most of the Warwickshire District Councils benefited from the scheme and Table 1 shows the level of LABGI rewards distributed in Warwickshire in 2006 and 2007.

| Table 1: LABGI Rewards Within Warwickshire in 2006 and 2007 | | |
|--|-------------------------------|-------------------------------|
| Authority | February 2006 £000 | February 2007 £000 |
| North Warwickshire | 0 | 0 |
| Nuneaton & Bedworth | 478 | 1,406 |
| Rugby | 348 | 742 |
| Stratford on Avon | 50 | 145 |
| Warwick | 74 | 946 |
| District Total | 950 | 3,239 |
| Warwickshire County Council | 531 | 1,808 |

1.2 This report outlines the scheme and its operation and follows discussion at the June meeting of the Economic Development Overview and Scrutiny Committee when members wanted to know more about how the LABGI money was spent and it was proposed that this should be scrutinized at a future meeting.

- 1.3 To assist and inform members the report will consider the following:-
- (i) An outline of the scheme.
 - (ii) What the government expects local authorities to do with the resources.
 - (iii) Recent policy developments in respect of reforming LABGI.
 - (iv) How an authority benefits from LABGI and what it means for Warwickshire.
 - (v) How has Warwickshire used the LABGI reward grant received to date?
 - (vi) How other authorities are investing their LABGI reward grant.
 - (vii) What is Warwickshire's position in terms of investing in economic development?

2. An Outline of the LABGI Scheme

- 2.1 When the scheme was launched in April 2005 the Government expressed its aim for LABGI to contribute to their central economic objective, i.e. "to achieve high and stable levels of growth and employment." and to improve "the economic performance of every locality in England". LABGI sets out to "allow local authorities to retain some of the revenue from business rates."
- 2.2 In order to benefit from LABGI an authority must experience a growth in the business rate tax base in excess of a minimum level of growth determined by the Government.
- 2.3 Each district is set its own target level of growth. If this is exceeded LABGI grant is received. If the target is not met no grant is received. The target is based on historic performance of achieving growth in the business rate tax base. The LABGI reward grant within each district area is then split, in two tier areas, between the District/Borough and the County Council roughly 2/3 to 1/3 respectively. When the current LABGI scheme was being formulated officers made representations about the apparent unfairness of this split which does little to reflect the relative spend of the different tiers. In Warwickshire the County Council investment in economic development outweighs that of the districts by a factor of 4:1.
- 2.4 The rate of growth is measured over a calendar year and the award is paid as a one-off grant in the final quarter of the financial year. Currently the scheme has only been set up to run for three years and the final grants under the scheme in its present form will be made in February 2008.

3. Reforming LABGI

- 3.1 The introduction of LABGI was “generally welcomed”¹ by business and local authorities and the Lyons Inquiry into Local Government recognised the importance of incentive schemes such as LABGI “to provide local authorities with general financial gains from a growing business tax base.” However, there have been serious criticism from both business and local authority sectors about the scheme, and Lyons was critical of the complexities of the way LABGI operates, as these reduce the incentive effect of the award.
- 3.2 A commitment to reform which would “continue to provide strong incentives for local authorities to act to increase economic prosperity.” was also made in the “Review of Sub-National Economic Development” (SNR)² published in July. This referred to the need to ensure there is a clear focus and incentive for local authorities to support economic growth” – which LABGI was intended to provide and a commitment was given to publish reforms to LABGI by the end of this Summer.
- 3.3 Suggested options for reform include measures to:-
- (i) “strengthen the incentive by linking reward more closely to growth and by examining whether mainstream resources can be more strongly associated with performance in relation to economic development.”
 - (ii) “simplify the structure of LABGI and give local authorities greater certainty over rewards taking into account the volatility of year-on-year growth and the need for long-term planning.”
- 3.4 The incentive currently provided, quite intentionally, by LABGI is receipt of an unringfenced grant “for local authorities to decide how this additional money is spent – whether to provide even better services for local communities or to reduce council tax” - showing a recognition that the differing circumstances of different local authorities require a range of solutions to generate economic prosperity.
- 3.5 A consistent message in the three reports listed as background papers³ make it clear that Government see LABGI as an important incentive to encourage local authorities to “act to increase economic prosperity”. The importance that government places on this role for a local authority is reflected in one of the key proposals of the SNR - the commitment to make support for the local economy a statutory duty of a local authority.

¹ 2007 Budget report

² The review is the subject of a meeting of the Economic Development O&S committee in August and a report is being submitted to Cabinet.

³ Lyons Inquiry into Local Government: Stationery Office: March 2007, Review of Sub National Economic Development and Regeneration: HM Treasury: July 2007, Chapter 6, 2007 Budget report. HMG, 2007

4. Funding of LABGI Awards

- 4.1 The LABGI reward grant in principle allows local authorities to retain, as a reward, a proportion of the benefit from the increase in the local business rate tax base above a government target. Throughout the life of the scheme HM Treasury refers to LABGI money as “genuinely additional” (most recently in the Budget Report 2007).⁴ However, under the Local Government Finance Act 1988 business rates collected locally are paid to the Secretary of State who is then required to redistribute them to local authorities. The £1 billion LABGI grant is therefore a redistribution of money the Government is required, by law, to pay to local authorities. At this stage the nature of the “genuinely additional” funding for LABGI has not been clarified by the Treasury.
- 4.2 As things currently stand, authorities will only receive LABGI grants if the growth in Business Rates achieves the pre-set targets set by the Treasury under the terms of the scheme.⁵
- 4.3 The County Council is at the grant floor. It could be argued, therefore, that any LABGI grant we receive is genuinely additional funding. However, if the RSG/NNDR pot was bigger, the logical choice for the Government to make in using the extra resource would be to increase the floor (as the authorities at the floor are facing the most significant budget constraints). If this were done, then if the LABGI monies were not top-sliced from the RSG/NNDR pool, Warwickshire would receive a higher level of grant.

5. Government Expectations About the Use of LABGI Awards

- 5.1 LABGI is administered under Section 31 of the Local Government Act 2003 meaning local authorities are free to spend the LABGI grant on their own priorities and in their own areas. Reflecting this Local Government Minister Phil Woolas stated in a press release in July 2005 when the scheme was introduced “It will be for local authorities to decide how this additional money is spent – whether to provide even better services for local communities or to reduce council tax”.
- 5.2 However, in the same press release he then went on to say “This is an exciting opportunity and incentive to councils to build partnerships with local business and promote long-term economic sustainability in their areas”. It is these different aspects of the scheme, quoted by Government ministers that have driven some of the differences in interpretation as to the purpose of the scheme

⁴ Para 3.81 on Local Authorities Business Growth Initiative in the 2007 Budget Report. The same comment is made in the report of the House of Commons Communities and Local government Committee published on 25 July 2007.

⁵ The operation of the Pool is governed by Schedule 8 of the Act and subsequent regulations. This requires that, taking one year with another, all business rates received are to be redistributed to receiving authorities. On this basis the £1 billion LABGI grant is therefore a redistribution of money the Government is required, by law, to pay to local authorities. As a consequence, in net terms, a local authority only benefits from LABGI grant if the level of the reward grant is greater than the amount the authority would have received from additional business rates distributed in the traditional way through the annual Revenue Support Grant Settlement.

over the last two years but the content and intention of both the Lyons Report and the Sub National Review leaves us in no doubt as to the expectations of Government that local authorities should act to support their local economies and that they see LABGI as an incentive to do so.

6. Other Local Authorities Use of LABGI Awards

6.1 At this stage, though we are aware that the Treasury is looking into the way local authorities use their LABGI awards, no information has been published on this. In February 2007, however, the Society of County Treasurers surveyed its members to assess how County Councils were treating LABGI grant. Table 2 below shows how 32 shire counties intend to spend their LABGI grant and it shows that currently 47% of shire counties use LABGI grant to help fund the budget generally, and only 9% allocate the whole of the grant to economic development.

6.2 31% intend to spend a proportion on economic development projects with the balance to be used to support the budget/other projects. 13% used their grant for other projects only, including as a provision for the costs of equal pay.

6.3

| Table 2: Shire Counties Use of LABGI Grant | | |
|---|-----------------------|------------|
| | Number of Authorities | Percentage |
| Budget only | 15 | 47% |
| Budget, other projects and economic development | 10 | 31% |
| Other projects only | 4 | 13% |
| Economic development only | 3 | 9% |

6.4 In Warwickshire the four districts that receive LABGI have allocated some or all of their LABGI awards to activities related to economic development and regeneration.

6.5 The use that local authorities make of LABGI funding is certainly of interest to business tax payers and both the Federation of Small Business and the Chamber movement have expressed concerns about the use made by local authorities of the rewards they receive through LABGI. In its annual report for 2006 the British Chamber of Commerce referred to LABGI, welcoming the principle of incentivising Local Authorities to promote economic development but expressed the wish to see “the benefits ring fenced to projects that will promote economic development.”

7. Warwickshire’s Use of LABGI Grant

7.1 Warwickshire’s “overt” use of LABGI grant has varied between the two years the scheme has been in existence. The 2006 grant of £0.531 million was used as part of the generally available resources to support the 2006/7 budget. However, the 2007 grant of £1.808 million was not used in 2007/8. All three political groups agreed to keep the money in a reserve as part of the provision to

meet the one-off back-pay/equal pay claims resulting from the pay and conditions review.

- 7.2 In the meantime the authority has invested additional resources in economic development. Over and above inflation the Council invested £0.775 million in 2006/07 and £0.696 million in 2007/08 in economic development. The projects are listed in Table 3 below. Both capital and revenue investment have been included in Table 3 in order to show all expenditure. Because LABGI has to be treated as one-off funding, with no guarantee of continuity, it is more suited to capital schemes or limited life projects.
- 7.3 Overall the use of LABGI grant by the Council could be viewed as a matter of presentation and the case could be made that in practice the County Council has invested at least a significant proportion of their LABGI grant in economic development in the last two years. However, the decisions to allocate extra resources for economic development were taken by Council as part of the normal budget process.

| Table 3: Additional Economic Development Spending in 2006/7 and 2007/8 | | | |
|--|---------------|---------------|--------------|
| | Revenue £m | Capital £m | Total £m |
| 2006/7 | | | |
| Business Improvement Districts – town centres and industrial estates | 0.100 | | 0.100 |
| Building sustainable communities and regeneration feasibility studies | 0.125 | | 0.125 |
| Town centre regeneration, town centre master plan delivery and two-tier Camp Hill | | 0.450 | 0.450 |
| Community environmental improvements in priority neighbourhoods | | 0.100 | 0.100 |
| Total | 0.225 | 0.550 | 0.775 |
| 2007/8 | | | |
| Warwickshire Education Business Partnership | 0.100 | | 0.100 |
| Building Sustainable Neighbourhoods | 0.100 | | 0.100 |
| Support for the running costs of the Opportunities Centres in Warwickshire | 0.050 | | 0.050 |
| Contribution to the running costs of Eliot Park Innovation Centre | 0.050 | | 0.050 |
| Deprived communities environmental improvements | | 0.110 | 0.110 |
| Centenary Business Centre Phase 3 | | 0.186 | 0.186 |
| Masterplanning and feasibility, small scale improvements | | 0.100 | 0.100 |
| Total | 0.300 | 0.396 | 0.696 |
| WCC Revenue budget for its Skills, Tourism and Economy Service (economic development and regeneration) in 2006/7 was £3,586,001 and in 2007/8 was £4,567,780. | | | |

8. Investing to Increase the Business Rate Tax Base

- 8.1 Increasing the business rate tax base requires individuals/companies to invest in businesses within Warwickshire – which, in turn, result in a growth in the business tax base. The contribution local authorities can make to incentivise such investment is to invest their resources so as to create and maintain economic prosperity and provide the necessary services and infrastructure to support a good quality of life.
- 8.2 To achieve this requires investment across a wide range of services and such investment could include transport infrastructure, skills development, education, housing and the social infrastructure of the community as well as investment in economic development. On this basis the case for the use of LABGI grant as a general one-off resource available for allocation to overall priorities is that Warwickshire's economy benefits from the council's investments in a wide range of services, including economic development.

9. Summary

- 9.1 LABGI was launched to contribute to the government economic objective, "to achieve high and stable levels of growth and employment." and as "a direct financial incentive for local authorities to promote local business growth."
- 9.2 LABGI was "generally welcomed" by local authorities and business but reform of LABGI was announced in the 2007 Budget to make it more transparent and more predictable. The reforms would be designed to ensure that the scheme would "continue to provide strong incentives for local authorities to act to increase economic prosperity."
- 9.3 The Government has a strong commitment to the future of LABGI and it is quoted in the Budget Report for 2007 and the Sub National Review as a key incentive for local authorities to act to increase economic prosperity.
- 9.4 LABGI is funding that the authority will receive only if the growth in Business Rates achieves pre-set targets and in 2006 the County Council received around £0.531 million from this source and £1.808 million in 2007. This was used in 2006/7 to balance the Council's budget and in 2007/8 it has been put into reserves to help fund Single Status.
- 9.5 Although the Council has not used its LABGI grant specifically for economic development, the Council has allocated significant new funding for this purpose in the two years during which LABGI has been in existence.
- 9.6 Only around 9% of shire counties currently allocate the whole of the LABGI grant to economic development. In Warwickshire the districts appear to allocate at least part of their LABGI grant to economic development and regeneration.

- 9.7 It could be argued that the LABGI grant should be used as a resource available for allocation to overall priorities because the contribution local authorities make to support the economy includes investment of resources across a wide range of services. On the other hand there is a strong indication from government that LABGI is intended as an incentive for local authorities to do more in this area.
- 9.8 There is an expectation on the part of business tax payers that LABGI should be used more specifically in support of the principles the government has set out for the scheme. However, the incentive, quite intentionally, is an unringfenced grant “for local authorities to decide how this additional money is spent – whether to provide even better services for local communities or to reduce council tax.” allowing local authorities to invest across the range of its services to benefit the local economy as a whole.
- 9.9 The Government is expected to incentivise local authority performance in economic development by bringing forward “proposals to reform the LABGI Scheme...” and will “...continue to provide strong incentives for local authorities to act to increase economic prosperity”.

JOHN DEEGAN
Strategic Director for Environment and Economy
Shire Hall
Warwick

DAVID CLARKE
Strategic Director of Resources
Shire Hall
Warwick

5 September 2007