

### **Drawbacks of the Local Authority Business Growth Incentives (LABGI) scheme**

The Local Authority Business Growth Incentives (LABGI) scheme was announced in 2003 and introduced in 2005 in the hope that it would encourage such authorities to take a more active role in the development of their local economies and even in the economy as a whole. However, it is clear after year one of the scheme that LABGI is not a suitable incentive for such development.

There are four reasons why the scheme fails to act as a proper incentive to local authorities:

1. The reward is not predictable.
2. The reward comes as a one-off lump sum.
3. The scheme is too historically based.
4. The scheme does not encourage dialogue with the business community.

#### **Lack of Predictability**

A proper financial incentive would act in such a way that an authority could predict how much additional resources it would receive for carrying out a particular action or implementing a specific policy. The LABGI reward, however, does not follow automatically from such actions or policies. Indeed, it is largely unpredictable because the sum total of rateable values within a local authority's boundaries varies for a variety of reasons that are beyond local authority control.

In year one of the scheme a major source of this unpredictability was the rateable value (RV) data itself, and the DCLG itself was forced in July 2006 to issue a third LABGI grant determination to correct errors in the data. Needless to say, no local authority could have predicted its own reward. Leeds City Council's reward best reflects this absolute uncertainty, with £1.9m being awarded to Leeds in February, a further £0.5m being awarded some 3 weeks later, and a further £1.2m being awarded in July – all of which related to the calendar year 2005.

For year two it perhaps can be assumed that such wrinkles in the data will have been ironed out, but this does not mean that an authority can plan for such reward. An authority that is making a positive attempt to improve the local economy is likely to concentrate its efforts in one part of its area, but natural changes (stemming from the economic cycle) in another part can quite easily undermine any resultant RV growth.

Alternatively, to give Derby as an example, massive growth in the retail centre of the city is leading to shrinkage in rateable values, as some large shops temporarily close to allow for expansion or relocation. This means that the City Council is being penalised while this work is underway, and that future reward is heavily dependent on the timing of business properties coming on

line (which is dependent on the timing of Valuation Office assessments). Furthermore, due to the inability of the VOA systems to correctly distinguish between business expansions and appeals, it is likely that some of this retail expansion will not be included in the City Council's reward calculation. This is clearly an absurd and inequitable situation that should be avoided if at all possible.

For information, the lack of correspondence between local economic development activity and actual changes in rateable values is shown in table 1 (attached). The very poor correlation factor of **-0.08** highlights the overall low impact that economic development (undertaken by any public sector organisation) expenditure at the regional level has on rateable values on a year-by-year basis. This is not to suggest that such expenditure is ineffective; rather that changes in rateable values are too volatile a measure of economic growth and should not be used as a basis for rewarding local authorities.

### One-off Lump Sum

The one-off nature of the LABGI reward is also one of its drawbacks, as it means that no local authority can use it to finance ongoing activities (even ones that encourage business growth). A large year 1 reward in no way implies any year 2 reward, and so an authority which commits itself to reinvesting its reward must be prepared to finance future years from council tax receipts – which is doubtful under the current capping regime.

It must be borne in mind that, despite government announcements to the contrary, LABGI is not “new money”; it is cash that otherwise would have fed into the national NDR pool and would thereby have supported mainstream government grant. If this had been the case then all authorities would have received some of this resource and – more importantly – it would have been a reliable annual source, varying within the limits set by the Revenue Support Grant floor and scaling mechanism. Distributed in this traditional manner it would in fact permit local authorities to set up ongoing activities to boost the local economy, and table 2 (attached) provides an estimate of the amounts that upper tier authorities would have gained from this method. The irony of LABGI, therefore, is that it undermines local authorities' ongoing attempts to improve business growth.

### Too Historically Based

By its nature an incentive should encourage local authorities to be forward-looking. However, the LABGI scheme is so heavily reliant on past historic trends that this is weighing down any future prospect of reward (at least for Derby). Derby City Council's threshold is based on a period in which a lot of regeneration work in a specific area of Derby was carried out. The result of this work was the creation of Pride Park, a business park to the east of the city centre.

Although the bulk of the Pride Park regeneration happened some time ago, the LABGI scheme is based on the assumption that Derby will still be able to

match the kind of growth it experienced then. In other words, the schemes vision of the future is simply an extrapolation of the past. Any true incentive scheme would recognise that past developments affect the potential for future development in more complex ways.

Therefore, despite the growth that Derby has experienced since the LABGI scheme was launched, it still finds itself in a position of receiving no reward.

### Lack of Dialogue

The ultimate reason for the failure of the LABGI scheme to provide an incentive for economic development is that it does not encourage dialogue to open up between local authorities and the business community. The reward scheme operates in such a way as to encourage authorities only to monitor changes in RVs (received in the form of reports from the Valuation Office), not to actively engage with business ratepayers in an effort to find out their concerns. Local authorities are thereby forced into a passive role, which does not sit well alongside the community leadership and 'place-shaping' roles expected of them.

It is generally accepted that the business community has concerns about a relocalisation of the non-domestic rate. However, it is our belief that these concerns – far from being reasons to avoid the issue of relocalisation - could form the basis of an active relationship between local authorities and local businesses. Such concerns would feed into the budget-setting process of a local authority, and the lobbying around them could help reinvigorate the democratic climate in which an authority operates. It is only once a proper *quid pro quo* discussion opens up between local government and business that local government will be able to provide the environment required of business to bloom.

### Conclusion

Authorities already have an incentive to encourage business growth in their areas, and a number undoubtedly undertook expenditure to further encourage this prior to the conception of the LABGI scheme. Any central Government funding in support of this should naturally be welcomed.

It is therefore unfortunate that the LABGI scheme complicates matters by reallocating a portion of the national non-domestic rates pot (which could be used to fund ongoing economic development) along such arbitrary lines. It is also unfortunate that local authorities have been reduced to tracking changes in Valuation Office reports instead of being actively encouraged to engage with their own business communities.

It is clear that the only basis for such engagement would be the relocalisation of the non-domestic rate. The concerns that exist surrounding such a move are the very reason for undertaking it.

Table 1: Regional analysis of the relationship between increase in RV and expenditure on economic development

	Starting RV 31.12.04 £	End year RV 31.12.05, £	Gross increase in RV £	Expenditure on enterprise and economic development £m
East Midlands	2,974,717,652	3,010,494,572	35,776,920	286
East	4,348,095,456	4,409,209,298	61,113,842	139
London	11,515,273,950	11,690,560,747	175,286,797	209
North East	1,573,135,616	1,624,676,633	51,541,017	352
North West	5,008,802,000	5,090,411,319	81,609,319	566
South East	7,026,418,551	7,123,406,142	96,987,591	215
South West	3,434,601,556	3,486,288,583	51,687,027	177
West Midlands	3,930,089,636	3,998,561,210	68,471,574	338
Yorkshire	3,578,144,300	3,658,604,314	80,460,014	533
Correlation between increase in RV and expenditure on economic development				-0.08

Source:

RV Data – DCLG

Expenditure Data – Public Expenditure Statistical Analysis 2006 (ONS)

Table 2: LABGI reward (after 2<sup>nd</sup> grant determination) compared with RSG that would have been received in 2006/07 had LABGI scheme not been introduced.

Local Authority	LABGI Reward £	Forgone RSG £	'True' LABGI Gain £
Barking and Dagenham	0.00	511,382.71	-511,382.71
Barnet	1,932,346.56	0.00	1,932,346.56
Barnsley	426,257.08	0.00	426,257.08
Bath & North East Somerset	713,848.08	699,412.53	14,435.55
Bedfordshire	295,917.60	0.00	295,917.60
Bexley	0.00	0.00	0.00
Birmingham	0.00	5,450,109.97	-5,450,109.97
Blackburn with Darwen	893,630.89	905,214.21	-11,583.32
Blackpool	342,408.35	707,648.97	-365,240.62
Bolton	487,224.28	426,863.51	60,360.77
Bournemouth	0.00	0.00	0.00
Bracknell Forest	688,461.83	0.00	688,461.83
Bradford	1,626,748.02	865,865.18	760,882.84
Brent	475,087.75	0.00	475,087.75
Brighton & Hove	988,324.22	0.00	988,324.22
Bristol	0.00	2,223,963.97	-2,223,963.97
Bromley	0.00	0.00	0.00
Buckinghamshire	443,078.66	0.00	443,078.66
Bury	515,470.85	0.00	515,470.85
Calderdale	0.00	370,432.40	-370,432.40
Cambridgeshire	439,673.03	266,508.50	173,164.53
Camden	0.00	2,990,336.44	-2,990,336.44
Cheshire	771,495.38	0.00	771,495.38
City of London	0.00	0.00	0.00
Cornwall	253,468.29	1,293,531.91	-1,040,063.62
Coventry	1,004,315.67	621,466.52	382,849.15
Croydon	901,080.29	0.00	901,080.29
Cumbria	508,564.71	1,375,668.67	-867,103.96
Darlington	653,322.16	298,661.12	354,661.04
Derby	0.00	729,259.49	-729,259.49
Derbyshire	923,146.70	1,691,134.39	-767,987.69
Devon	745,645.11	583,015.23	162,629.88
Doncaster	825,957.09	0.00	825,957.09
Dorset	11,778.76	1,361,878.56	-1,350,099.80
Dudley	394,752.93	994,682.81	-599,929.88
Durham	343,284.03	1,163,445.79	-820,161.76
Ealing	2,400,451.74	0.00	2,400,451.74
East Riding of Yorkshire	409,496.66	571,582.31	-162,085.65
East Sussex	276,968.88	0.00	276,968.88
Enfield	0.00	993,360.83	-993,360.83
Essex	1,146,938.52	0.00	1,146,938.52
Gateshead	1,352,209.98	128,045.34	1,224,164.64
Gloucestershire	508,137.52	519,855.56	-11,718.04

Greenwich	0.00	705,342.07	-705,342.07
Hackney	0.00	756,061.22	-756,061.22
Halton	0.00	0.00	0.00
Hammersmith and Fulham	0.00	576,580.43	-576,580.43
Hampshire	719,831.40	0.00	719,831.40
Haringey	796,053.75	26,590.70	769,463.05
Harrow	0.00	0.00	0.00
Hartlepool	0.00	308,503.48	-308,503.48
Havering	36,918.38	0.00	36,918.38
Herefordshire	601,949.18	0.00	601,949.18
Hertfordshire	458,766.17	0.00	458,766.17
Hillingdon	0.00	558,580.27	-558,580.27
Hounslow	0.00	0.00	0.00
Isle of Wight Council	387,551.55	677,863.07	-290,311.52
Isles of Scilly	15,954.71	93,284.21	-77,329.50
Islington	0.00	59,791.34	-59,791.34
Kensington and Chelsea	2,182,264.94	1,440,805.11	741,459.83
Kent	1,118,649.93	0.00	1,118,649.93
Kingston upon Hull	832,827.22	201,264.22	631,563.00
Kingston upon Thames	0.00	0.00	0.00
Kirklees	1,651,229.22	0.00	1,651,229.22
Knowsley	965,410.11	0.00	965,410.11
Lambeth	104,991.05	0.00	104,991.05
Lancashire	832,694.95	2,490,204.40	-1,657,509.45
Leeds	2,382,221.68	779,444.84	1,602,776.84
Leicester	0.00	1,253,552.60	-1,253,552.60
Leicestershire	570,647.13	0.00	570,647.13
Lewisham	310,865.52	545,238.59	-234,373.07
Lincolnshire	863,743.55	2,083,471.42	-1,219,727.87
Liverpool	0.00	0.00	0.00
Luton	0.00	716,054.93	-716,054.93
Manchester	3,724,391.02	2,808,221.77	916,169.25
Medway	0.00	1,002,354.78	-1,002,354.78
Merton	415,760.17	0.00	415,760.17
Middlesbrough	0.00	152,655.92	-152,655.92
Milton Keynes	0.00	843,998.39	-843,998.39
Newcastle upon Tyne	1,670,918.66	1,363.33	1,669,555.33
Newham	640,635.90	1,875,024.41	-1,234,388.51
Norfolk	333,982.73	4,919,551.03	-4,585,568.30
North East Lincolnshire	1,061,392.19	676,417.02	384,975.17
North Lincolnshire	878,272.94	318,539.66	559,733.28
North Somerset	0.00	342,315.69	-342,315.69
North Tyneside	185,693.42	0.00	185,693.42
North Yorkshire	631,219.03	1,472,594.81	-841,375.78
Northamptonshire	486,567.54	181,300.70	305,266.84
Northumberland	283,816.35	0.00	283,816.35
Nottingham	494,627.42	1,809,980.36	-1,315,352.94
Nottinghamshire	1,007,385.80	1,339,644.23	-332,258.43
Oldham	336,568.97	773,407.92	-436,838.95
Oxfordshire	337,996.45	0.00	337,996.45
Peterborough	1,047,180.38	705,798.18	341,382.20

Plymouth	944,536.16	0.00	944,536.16
Poole	372,363.67	0.00	372,363.67
Portsmouth	0.00	0.00	0.00
Reading	0.00	39,739.66	-39,739.66
Redbridge	39,548.09	0.00	39,548.09
Redcar and Cleveland	0.00	374,862.55	-374,862.55
Richmond upon Thames	424,993.07	0.00	424,993.07
Rochdale	55,174.10	513,551.70	-458,377.60
Rotherham	546,928.76	1,005,740.49	-458,811.73
Rutland	0.00	206,502.93	-206,502.93
Salford	994,615.51	1,003,103.55	-8,488.04
Sandwell	0.00	857,354.09	-857,354.09
Sefton	0.00	0.00	0.00
Sheffield	1,680,846.21	409,138.92	1,271,707.29
Shropshire	204,430.90	226,478.92	-22,048.02
Slough	0.00	0.00	0.00
Solihull	0.00	0.00	0.00
Somerset	535,258.87	1,394,700.89	-859,442.02
South Gloucestershire	0.00	35,854.36	-35,854.36
South Tyneside	299,906.43	248,184.18	51,722.25
Southampton	0.00	0.00	0.00
Southend-on-Sea	0.00	0.00	0.00
Southwark	1,468,956.69	563,273.23	905,683.46
St Helens	292,697.98	0.00	292,697.98
Staffordshire	1,091,655.54	551,671.40	539,984.14
Stockport	1,329,142.48	330,099.20	999,043.28
Stockton-on-Tees	601,580.57	245,224.70	356,355.87
Stoke-on-Trent	922,553.67	1,195,160.02	-272,606.35
Suffolk	386,682.04	1,675,856.39	-1,289,174.35
Sunderland	208,119.75	0.00	208,119.75
Surrey	825,077.23	0.00	825,077.23
Sutton	0.00	0.00	0.00
Swindon	194,264.45	0.00	194,264.45
Tameside	1,428,487.60	533,368.39	895,119.21
Telford and the Wrekin	276,358.01	614,241.27	-337,883.26
Thurrock	0.00	426,349.54	-426,349.54
Torbay	217,415.32	781,552.84	-564,137.52
Tower Hamlets	0.00	2,276,759.50	-2,276,759.50
Trafford	0.00	0.00	0.00
Wakefield	1,167,455.04	0.00	1,167,455.04
Walsall	1,609,580.60	638,952.78	970,627.82
Waltham Forest	116,823.36	0.00	116,823.36
Wandsworth	1,208,698.54	0.00	1,208,698.54
Warrington	0.00	56,904.30	-56,904.30
Warwickshire	464,139.05	0.00	464,139.05
West Berkshire	0.00	0.00	0.00
West Sussex	579,150.04	0.00	579,150.04
Westminster	3,805,298.65	1,724,606.83	2,080,691.82
Wigan	0.00	493,341.63	-493,341.63
Wiltshire	438,375.34	0.00	438,375.34
Windsor and Maidenhead	0.00	0.00	0.00

Wirral	919,351.69	0.00	919,351.69
Wokingham	0.00	0.00	0.00
Wolverhampton	876,508.40	0.00	876,508.40
Worcestershire	397,288.18	0.00	397,288.18
York	0.00	331,030.70	-331,030.70
Total Upper Tier	78,992,733.02	78,992,733.02	0.00