

LOCAL AUTHORITY BUSINESS GROWTH INCENTIVES SCHEME – SURVEY OF CEDOS MEMBERS: AUGUST/SEPTEMBER 2006

Introduction

1. In January 2006 CEDOS carried out its first LABGI survey. Although this was in advance of the first reward under LABGI being paid to local authorities, the CEDOS Executive had decided to carry out the survey to get an early indication of anticipated LABGI revenue and how member authorities intended to use it. The survey proved useful to members and was also sent, at their request, to the teams leading the Government's review of sub-national economic development and the Lyons Inquiry into local government. The CEDOS Executive agreed to carry out a second survey later in the year when members would be clearer on the additional rewards actually received by their authorities and the use being made of them.

The August/September 2006 Survey

2. To enable comparison with the first 2006 survey, the original questions were repeated, with additional questions covering:

- the use made of LABGI by District Councils in member areas;
- the extent to which the availability of LABGI has influenced the wider economic development agenda on things like planning, infrastructure provision etc [added at the request of the Lyons Inquiry team];
- member views on how LABGI might be developed/improved in the future.

The full set of questions is set out in Annex A.

3. The survey was carried out in August/September 2006. Responses have been received from 19 CEDOS members [a 46% response rate]: Cambridgeshire, Cheshire, Cornwall, Derbyshire, Devon, Dorset, East Riding, Essex, Hampshire, Hull, Lincolnshire, Luton, Northamptonshire, Northumberland, Oxfordshire, Somerset, Stoke on Trent, Warwickshire, West Sussex.

4. The timing of the survey was not ideal but was considered necessary to enable the report of the survey to be submitted to the Lyons and sub-national economic development & regeneration review teams by the beginning of October. Considering that, for some members, the survey coincided with their main holiday period, the response rate achieved was a good one.

5. In providing information and views, members were asked to indicate whether they were prepared for them to be attributable or whether they would wish them to remain confidential. A majority were content for them to be attributable. Where appropriate, reference to individual member authorities is made in relation to the information and views put forward. However, where this is the case, it must be borne in mind that the references are to CEDOS member [i.e. officer] input and it should not be assumed that they necessarily equate to the views of the authorities they represent.

The Survey Results

How much additional revenue has your authority received from LABGI for this financial year?

6. In the January survey, 10 members made an attempt at calculating likely extra revenue ranging from 0 to £800,000. Amongst the 19 responding to the new survey, actual LABGI income ranged from zero in the case of Luton to £976,165 in Stoke on

Trent. The highest County Council figures reported were Derbyshire [£962,822] and Lincolnshire [£911,000]. Full details can be found on <http://www.local.communities.gov.uk/finance/labgi.htm>

How is your authority using/intending to use the additional revenue resulting from LABGI?

7. In the January 06 survey, the majority of members responding reported that no firm decisions had been made because of the uncertainty about the level of additional funds likely to be available. However, most expected that, as LABGI is not ring-fenced, any additional income would go into the general 'pot' either to offset cuts that would otherwise be necessary or to keep down Council Tax.

8. In the new survey, 18 members responded to this question. In a majority of cases [10] LABGI funding has gone wholly or largely into general council funding or to meet costs in other service areas other than economic development. Examples of 'other service areas' are:

- to meet "significant additional financial costs associated with implementing new Government initiatives relating to children's services and care of the elderly, which have taken priority";
- "to cover Government Grant shortfalls and an overspend in statutory services".

9. 5 members reported that LABGI income was being used specifically for economic development purposes:

- Dorset [£11,779] - to support economic development, possibly to be used in respect of the 4th block of the Local Area Agreements relating to economy and enterprise.
- Devon [£760,000] - all ring fenced for contributing to the Economic Development and Enterprise block of the LAA.
- Hull [£700,000] - LABGI money aligned to its economic development budget.
- Northumberland [£283,816] - The first year's revenue has been fully allocated to economic regeneration activity through replenishment of the Council's Regeneration Fund and a contribution of £70,000 towards budget savings in 2005-06. In subsequent years, it is proposed to contribute £200,000 LABGI revenue to the regeneration function, with the use of any balance determined in accordance with Medium Term Plan priorities.
- Somerset [£560,000] – Fully allocated to economic development for 2005/06. The County Council has also made provisional allocations to economic development for years 2 and 3 of LABGI in accordance with 3 principles:
 - the need to develop the capacity of the County Council's economic development service;
 - the importance of ensuring that a strategic impact is achieved through the use of LABGI funds;
 - the contribution LABGI can make to assisting the Council to deliver with its partners the economic development and enterprise actions of the Somerset Local Area Agreement.

10. A further 3 members reported part of their LABGI funds being used to support economic development activity and part for general funds or other purposes:

- Cheshire [£840,000] - £630,000 into main funds, £210,000 for specific regeneration schemes including economic development.
- Derbyshire [£962,822] - LABGI money has been reserved outside departmental budgets until it is decided what to use it for. £180,000 has been allocated to support a programme of improvements on County Council industrial estates. An offer has been made to district councils to pool LABGI money for regeneration projects in their areas where these are agreed as a mutual priority. So far it has been agreed to put £67,000 to meet a funding shortfall for an innovation centre in one district.
- Northamptonshire [£486,567] - Some LABGI money is being invested in one-off economic development activity with the remainder being offset against overall expenditure across the council.

Has the introduction of LABGI influenced your economic development budget and services for 2006/07 and if so how?

11. In the January 2006 survey, although one or two members retained a hope that economic development budgets might benefit, the overwhelming majority did not expect the introduction of LABGI to influence their economic development budgets and services during 2005/06. In the new survey, 18 members responded to this question. 6 members reported LABGI as having a positive influence on their economic development budgets and services; 1 saw the potential for it doing so, whilst 11 said it had had no influence, even where cases had been made for enhancing economic development activities.

12. Examples of positive influence are:

- Devon: LABGI money represents around 50% of the economic development operational budget for 2005/06.
- Northamptonshire: LABGI has provided sufficient budget [£171,000] to support the transitional costs of establishing a new countywide economic development agency that includes the Council's own economic development service. It has levered in the same amount from the East Midlands Development Agency to support this, which would not otherwise have been the case.
- Northumberland: The topping up of the Regeneration Fund is enabling projects to be supported in 2006-07 which might not otherwise have proceeded because of the need to hold back expenditure to meet demands in future years.
- Somerset: LABGI funds have been allocated to a range of economic development priorities: inward investment, broadband utilisation, tourism marketing, business incubation schemes, employment and enterprise creation in less advantaged areas.
- Stoke on Trent: Although there has been no influence on the economic development budget for 2006/07, the use of LABGI funding has been recommended to help make improvements to the Council's economic

development services from 2007/2008 onwards. Subject to ratification during the budget setting process, it is proposed that LABGI funding will be used to promote new initiatives around developing a youth enterprise service and in providing business advisors in enterprise centres.

13. Amongst those members reporting no influence on economic development budgets and services, the prime reason was budgetary pressures in other service areas being given priority and uncertainty over LABGI's long-term future. Other reasons given include low level of LABGI income [Dorset] and LABGI funding announcements coming too late to influence budgets [Cheshire, Warwickshire].

In the light of LABGI and the Government's intentions, has your Authority introduced and/or is it looking at new initiatives to encourage enterprise in your area?

14. CEDOS member authorities continue to be at the forefront of operating and developing new initiatives to encourage enterprise in their areas. Northumberland stated that the Council is making use of LABGI revenue to support new as well as ongoing initiatives to encourage enterprise. Stoke on Trent referred to proposed new initiatives in 2007/08. Although LABGI has been helpful to some other member authorities as a means of supporting or even enhancing existing initiatives, for the majority of members LABGI has not resulted so far in new initiatives being introduced.

Is your authority using/looking at using LABGI revenue in Local Area Agreements [LAAs] in terms of the 4th Block?

15. In the January 2006 survey, a clear majority of members who took part in the survey reported that their authorities were not or were not likely to use LABGI for LAA 4th block purposes. This overall picture is repeated in the latest CEDOS survey. Of the 15 members responding to the question, only 5 stated that their authorities were using or looking at using LABGI revenue in LAAs in terms of the 4th Block:

- Devon: All ring fenced for contributing to the Economic Development and Enterprise block of the LAA;
- Dorset: LABGI funding being allocated to support economic development will possibly be used in respect of the 4th block of the Local Area Agreements relating to economy and enterprise;
- Northamptonshire: It is identified within the block as pooled funding from the County Council, but not yet by lower tier authorities;
- Somerset: Most LABGI funding is linked to delivery of 4th block outcome;
- Northumberland - is in the first year of its LAA, and LABGI revenue is a significant component of the resources the Council is using to contribute to the achievement of the objectives of the fourth block;
- Stoke on Trent: At this stage it is likely that LABGI funding will be aligned under the recently approved LAA rather than pooled and will be used to help meet specific LAA targets relating to improving business survival rates and to increasing business floorspace.

How have district councils in your area used LABGI money?

16. 11 members answered this question, which was aimed at those in 2-tier areas. 8 agreed for their responses to be attributable:

- Cornwall: 4 of 6 district councils received LABGI money, with 1 allocating all the additional funds to business initiatives and another setting a portion aside for economic development projects
- Derbyshire: In 1 district LABGI money has been pooled with the County Council to meet a funding shortfall for a new innovation centre [see paragraph 11 above]. In other districts the money seems to have been used to support their general budgetary position.
- Devon: Districts are spending money on variety of activities including some economic development but not on LAA.
- Essex: Information has been received from five districts, 4 of whom have received LABGI money. 2 of these have allocated some of the funds for economic development purposes.
- Hampshire: 6 of the 11 districts received LABGI money. 4 are investing funding in economic development projects.
- Northamptonshire: Not all received it. From discussions with those that have, it appears that they have used it as a miscellaneous income to offset their overall council budget, thereby keeping council tax lower.
- Northumberland: Most Northumberland district councils are using all or some of their first year LABGI revenue for economic development purposes.
- Somerset: 4 out of 5 district councils have received LABGI. Each is using it differently. Initial tentative discussions at CEO level about pooling the money were unsuccessful. Likely to be some pooling at the level of individual actions from the LAA e.g. inward investment services
- Warwickshire: 4 out of 5 districts received LABGI payments. 2 will use a portion of the LABGI money to support new economic development initiatives, which would otherwise have struggled for funding.

Has the introduction of potential financial rewards through LABGI influenced the approach of officers and elected members to wider economic development related issues e.g. housing, planning, transport or infrastructure and if so, in what ways?

17. 17 members answered this question, which was included at the request of the team supporting Sir Michael Lyons' review of local government. Northumberland stated "The council's regeneration division leads corporate action to promote economic development and regeneration. The availability of additional resources is helping the council support projects [e.g. development of sites and premises] which require input from other parts of the authority". Hampshire referred to the fact that some district funding will help planning and infrastructure indirectly [such as the Eastleigh town centre regeneration scheme], although no LABGI money has been earmarked directly to these wider issues.

18. Apart from these mentions, the answer to the question was 'No' or 'Not yet'. 2 members suggested reasons:

- "this would be more likely if there was certainty that LABGI will continue";
- "its novelty, unpredictability and the comparatively small amounts of money involved mean that it is not currently a major factor in decision making"

What are your suggestions for improving LABGI in the future?

19. 19 members put forward suggestions, which relate in particular to the need:

- for greater certainty of funding over the longer term;
- to make the funding easier to estimate;
- to do more to focus funding on economic development activity.

Individual comments on these issues are set out below.

Greater long-term certainty of funding

20. Specific views put forward, included the following:

- "Reforming the current, statistically driven and annualised settlement to a three year "smoothed" level of funding for authorities will encourage medium term planning of the resources".
- "If it is to act as a true incentive then there needs to be certainty that it will continue for a long enough period of time. Given the lead-in time on physical development projects, a one-year or even three-year timescale will have little effect".
- "The uncertainty about the future of the scheme and the amounts involved make it difficult to plan more than a year ahead".
- "At present LABGI is a three year pilot programme which restricts its applicability to one-off or short term projects. To make it a long term programme will bring greater certainty and will enable it to be used for a wider range of projects [e.g. revenue costs or subsidies] and/or those with a long lifespan".
- "Ideally, flexibility in the way that we as a Council allocate the fund would be beneficial i.e. this year's allocation spread over three years would enable us to allocate resources to specified need".

Making the funding easier to estimate

21. Specific views put forward, included the following:

- "It would be better if it were simpler to estimate the likely reward. Since the original notification we have had two subsequent recalculations each time increasing the amount of LABGI funding. This is good news but it does nothing to remove the perceived confusion and uncertainty about the scheme".

- “There should be a mechanism to ensure that authorities can have an indication of what the LABGI budget will be before it is received, otherwise it is impossible to plan for and will continue to be looked at as a windfall”.
- “The calculation of the grant should be made much clearer so that there is an obvious and transparent relationship between business growth in a District and the resulting grant awarded”.

Focusing funding on economic development

22. The need to do more to focus funding on economic development was referred to by 11 members. A number considered that LABGI should be ring-fenced for economic development:

- “Formally hypothecate the fund for economic development”.
- “Restrict the use of LABGI proceeds for economic development related uses only; don’t allow their use to fund deficits in other services”.
- “The Government should return to the original principles of LABGI and make it a requirement that the funding should be used explicitly to address economic development [in its widest sense] rather than allow authorities to use it to offset general council expenditure or be put in non-specific reserves”.
- “Only use LABGI monies as additional economic resources, not mainstream”.
- “Ring fence the money for economic development activity”.
- “Needs to be specifically ring fenced for economic development”.
- “To allow flexibility LABGI at present is not ring fenced, this has obvious drawbacks as well as benefits. To ring fence it for economic development purposes only will allow it to be more targeted”.

23. One member considered there should be no ring fencing of LABGI, whilst others stopped short of calling for ring fencing but called for more direction/persuasion by Government:

- “DCLG need to reinforce the presumption that LABGI will be spent on economic development/regeneration projects”.
- “More direction from the Treasury about how the resource should be used. Also, treasury should make a bigger fuss of the rebate. If it is not publicised the LA treasurers can make it disappear without trace. Make it obligatory for Treasurers to report to their Cabinets the grants and how they are to be used – and what the Treasury suggests the purpose of the grant is”
- “We consider that a requirement to notify the Treasury on what the money has been spent would add to the incentives to use it for economic development. Also a letter and press release to local agencies and media would help. The inclusion of questions on a Local Authority’s support for business in the CPA would focus attention”.

24. The issue of publicity was also raised by another member:

- “Overall the programme deserves to be more widely promoted in the public, private and voluntary sectors to generate greater awareness. This is important as the guidance recommends that proposals to spend LABGI funding should be drawn up in consultation with partners .In this context Chambers of Commerce in particular could play a greater role if they were more aware of it”.

Other concerns

25. Other points/concerns raised by individual members were:

- “Re-look at how realistic it is to base LABGI on historic growth levels” .
- “Through the LAA process the Government should set a requirement to ensure dialogue between authorities in lower tier areas about joint planning of LABGI expenditure”.
- “Flexible split of resources between county and district councils to acknowledge that in some areas county councils account for more than one third of local authority expenditure on economic development in their areas”.
- “The need for greater definition of where the money comes from. There is a need for a clearer explanation by the Treasury as to whether this is top-sliced money or whether it really is new, additional and unencumbered money for local authorities”.

**ANNEX A: LOCAL AUTHORITY BUSINESS GROWTH INCENTIVES SCHEME
[LABGI] – CEDOS MEMBER SURVEY: AUGUST/SEPTEMBER 2006**

The survey covered the following questions:

1. How much additional revenue has your authority received from LABGI for this financial year?
2. How is your authority using/intending to use the additional revenue resulting from LABGI?
3. Has the introduction of LABGI influenced your economic development budget and services for 2006/07 and if so how?
4. Have you been able to use the introduction of LABGI as an argument for enhancing your economic development activities and if so, how successful have you been?
5. In the light of LABGI and the Government's intentions, has your Authority introduced and/or is it looking at new initiatives to encourage enterprise in your area?
6. Is your authority using/looking at using LABGI revenue in Local Area Agreements in terms of the 4th Block?
7. [For members in 2 – tier areas] How have District Councils in your area used LABGI money?
8. Has the introduction of potential financial rewards through LABGI influenced the approach of officers and elected members to wider economic development related issues e.g. housing, planning, transport or infrastructure and if so, in what ways?
9. What are your suggestions for improving LABGI in the future?