



City of Westminster

Councillor Colin Barrow CBE
Deputy Leader

Barrow

20 September, 2005

Sir Michael Lyons
Inquiry into Local Government Funding,
Room 3/12,
1 Horse Guards Road,
London,
SW1A 2HQ.

Dear Sir Michael

LOCAL AUTHORITY BUSINESS GROWTH INCENTIVE SCHEME (LABGI)

I welcomed the fact that the ODPM finally announced, at the end of July, the operational details the Local Authority Business Growth Incentive scheme (LABGI) for 2005. The City Council had commented at some length on the Government's proposals as outlined in the two consultation papers and I was disappointed that the scheme remained essentially unaltered from that set out in the second consultation paper.

The City Council has always supported the underlying principles and objectives of LABGI. We welcomed the recognition by the Government, of the importance of a direct financial relationship between local authorities and businesses. The introduction of LABGI was a small step towards re-establishing the link between local government and local businesses. However, as the scheme currently stands, it does not fulfil the Government's aim of providing local authorities with a financial incentive to work in partnership with local businesses to maximise economic growth and economic regeneration. Greater transparency and simplicity would assist greatly in achieving the government's aim.

At the LGA conference held on 11th October 2004 to discuss the Local Authority Business Growth Incentive scheme, the then Minister for Local Government and the Regions, Nick Raynsford, said that the future of LABGI would form part of your review of local government finance. In the July 2005 ODPM's Local Authority Business Growth Incentive scheme press

release, Phil Woolas, the Local Government Minister is quoted as saying "following the first year, the Government will review the scheme in the light of any recommendations by the Lyons Inquiry".

There are issues about the operation of LABGI that I wish to draw to your attention.

I consider LABGI to be too complex with its system of historic growth rates, baselines, floors, multipliers, scaling factors, ceilings and re-basing. Given the complexity of the scheme and the lack of transparency, it is unlikely to be understood by stakeholders and other interested parties. There are too many variables in the scheme and there are too many subjective elements in the system. I believe that a simpler and more transparent system is desirable.

Many features of LABGI are difficult to understand. For example, there is no logical link between the Environmental, Protective and Cultural Services Formula Spending Share and the rateable value of non-domestic property. Formula Spending Shares is the mechanism for distributing Revenue Support Grant and has no connection with business rates or rateable value. If ceilings are deemed essential to LABGI, then they should have been linked to rateable value.

It is also difficult to understand why historic growth rates have not been calculated using the most recent rateable value data. Historic growth rates could have been calculated using 2003/04 and 2004/05 data. LABGI is still based on data for the period 1995/96 to 2003 as set out in the original 2003 Consultation Paper. Even if eight-year averages were deemed essential, I consider that it would have been preferable to use data for the period 1997/98 to 2004/05. If 1995/96 was considered the essential starting point, LABGI could have been based on a ten-year average. Using the latest information up to 2004/05, rather than up to 2002/03, would have resulted in a better and fairer starting point for measuring historical growth.

In our case, these choices address a quite accidental distortion. The ODPM's background data shows that Westminster's RV growth rate in 1995/96 was 12.1%. For the seven succeeding years Westminster's RV growth only ranges between 0.2%, (2002/03) and 2.9% (1998/99). The 1995/96 figure distorts Westminster's historic growth rate as calculated by the ODPM. If the 1995/96 figure is excluded, then Westminster's historical growth rate over the seven-year period 1996/97 to 2002/03 is only 1.6% and Westminster would have been allocated to a different and lower historical group.

I also find it difficult to understand why all the background data has not been published by the ODPM. Publication of the data would have allowed local authorities to verify the ODPM's critical historic growth rate and "starting" rateable value figure calculations. The City Council only obtained the information after writing to the ODPM. Most local authorities, I am sure, do not know that this important information is available. It is important that authorities are able to identify and agree the key parameters for LABGI.

Also, there should be a clear and unambiguous approach to calculating the benefits from LABGI. Too many aspects of LABGI are random and thus uncontrollable. Further, the targets are not achievable for all local authorities; therefore, they are not meaningful or fair. It is not possible to budget against anticipated revenue. LABGI has been described as a "Christmas bonus", very nice but not predictable.

There are other aspects of LAGBI that we consider unsatisfactory. As these points were covered, in detail, in the City Council's formal responses to the Government's LABGI Consultation Papers (October 2003 and October 2004) and in the recent correspondence between Westminster officers and ODPM officials, I do not propose to repeat them. Instead, I append all the relevant documents for your consideration. I hope that when you come to review the future of Local Authority Business Growth Incentive scheme, the points that Westminster has raised with the ODPM over the last two years will be taken into account.

LABGI needs to be intelligible, transparent and fair if it is to create the incentives that the Government clearly wishes. There is work to do to achieve this.

I and my officers are available to give evidence to you on these matters should you so wish.

With my best personal regards

Yours Sincerely



Councillor Colin Barrow CBE

