CABINET **2ND FEBRUARY 2006**

THE LOCAL AUTHORITY BUSINESS GROWTH INCENTIVE

(Report by the Head of Policy)

1. INTRODUCTION

1.1 The purpose of this report is to inform Cabinet about the introduction of the Local Authority Business Growth Incentive (LABGI) scheme.

2. BACKGROUND INFORMATION

2.1 In February 2006 the Council will receive the first payment under the LABGI. The scheme is designed to allow local authorities to retain a share of increased business rates revenue generated in their area.

2.2 The Government recognises that local authorities have a strategic role to play in local economic development and in supporting the Government's commitment to raise the prosperity of all communities and release the economic potential of every area. However, the current local government finance structure does not fully recognise or reward local authorities' contribution to economic growth. Local authorities bear many of the costs of economic development although they do not benefit directly from the increased revenue it generates. Since 1990 business rate revenue has been paid into a central pool so local authorities get no direct individual local benefit. The LABGI scheme is intended to provide a direct financial incentive to local authorities to encourage business in their areas by allowing them to retain a proportion of revenues created by increasing business growth above a predetermined level.

2.3 Following the announcement of the scheme in the Chancellors' 2002 Pre-Budget Report, two rounds of consultation and a dry-run exercise have taken place to test the administration of the scheme. The scheme is intended to provide an opportunity for all local authorities to benefit and tries to balance the need to maintain a strong incentive for existing high growth authorities with the need to provide greater incentives and benefits for deprived and low growth areas. In particular, the Government hope that the scheme will provide authorities with a clear opportunity to tackle the enterprise gap in their areas and to integrate enterprise with the regeneration of communities. It is the Government's desire that the incentive scheme should both reward and facilitate growth. Revenue from the scheme is not ring-fenced and the Council is free to decide whether to or how to maximise local economic growth so as to further benefit from the scheme. The Government believes that this scheme puts in place the right incentives for local government to work towards and promote economic growth, which will build effective partnerships with local business to deliver increased prosperity and long-term economic sustainability of an area. In an earlier version of the scheme there was a requirement for local authorities to consult with their business community on how the money should be invested. At the Council's consultation meeting with the business community in January 2005 there was broad support for the suggestion in the consultative draft of the scheme for a sequential approach which invested the revenues from the scheme —

- to fund economic development/business growth schemes that would otherwise not be funded (particularly in parts of the District which were not experiencing appropriate levels of growth);
- to fund schemes to mitigate the impact of business development; or
- to fund other Council priorities.

3. OPERATION OF THE SCHEME

3.1 Business growth would be measured in terms of the increase in a local authority's rateable value during the calendar year. A single payment will be made to each eligible local authority in the final quarter of the financial year. The scheme operates as a grant (not ring-fenced) under Section 31 of the Local Government Act: authorities are free to spend the revenue on their own priorities in their own areas. The starting point for measuring growth is the rateable value at 31st December 2004. Each authority will have a "floor" – the target level of rateable value growth must be reached to gain from the scheme - calculated using national historic growth models. There is also a scaling factor and a ceiling, which calculate the maximum revenue an authority can keep.

3.2 In two-tier areas the revenue will shared between County and District Councils – in a roughly ⅓ County, $^{2}/_{3}$ District distribution.

3.3 Any authorities that fail to receive money under the scheme will be re-assessed to give them a fair opportunity in the following year. Initially the scheme will operate for three years but will be reviewed following the first year of operation in the light of any recommendations made by the Lyons' inquiry into local government finance and the scheme's success in meeting its objectives.

4. CONCLUSIONS

4.1 The LABGI scheme should give all local authorities an incentive to maximise local economic growth and provide additional revenue to spend on their own priorities. Given the historic growth of business in parts of the District – a medium growth area – the Council should be in a good position to benefit from this scheme which will provide added revenue to fund priorities or reduce the need to make spending reductions. However, given the number of factors which will affect the final sum, both the Government and Local Government Association advisers recommend against budgeting for this income. The actual amount received will be reported to Cabinet, together with options on how it could be used.

5. RECOMMENDATION

5.1 Cabinet are invited to note the introduction of the Local Authority Business Growth Incentive scheme and that a further report will be prepared when the actual amount the Council will receive is known.

Background Paper:
A note for local authorities on the Local Authority Business Growth Incentive scheme, Office of the Deputy Prime Minister

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