

**WYRE FOREST DISTRICT COUNCIL**

**CABINET**  
**20<sup>th</sup> NOVEMBER 2008**

**Reforming the Local Authority Business Growth Incentive (LABGI)**  
**Communities & Local Government Consultation**

<b>OPEN</b>	
<b>SUSTAINABLE COMMUNITY STRATEGY THEME</b>	Economic Success Shared by All
<b>CORPORATE PLAN AIM</b>	A Vibrant Local Economy
<b>CABINET MEMBER</b>	Cllr Stephen Clee
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<b>APPENDICES</b>	Appendix 1 – Proposed Response to Consultation

**1. PURPOSE OF REPORT**

- 1.1 To agree a response to the Communities & Local Government (CLG) consultation on reforming the Local Authority Business Growth Incentive Scheme (LABGI) Consultation Paper.

**2. RECOMMENDATION**

The Cabinet is asked to **DECIDE:**

- 2.1 **To agree the proposed responses set out in Appendix 1 to this report as the Council's response to the consultation.**

**3. BACKGROUND**

- 3.1 The original LABGI scheme was first announced by the Chancellor in the 2002 pre Budget Report and ran for three years from 2005-2006 to 2007-08. During the three years LABGI has been operating, Wyre Forest District Council received no allocation in year 1, just under £187,000 in year 2 and just over £130,000 in year 3. A recent report to 24<sup>th</sup> July 2008 Cabinet set out how the Council intended to commit the LABGI grant through to 2010-11.
- 3.2 Although the principle of the LABGI scheme was widely welcomed, it has not been without problems
- Calculations are difficult to understand and not transparent.
  - It has been difficult to provide incentives applicable to all Local Authorities and create a fair distribution of resources.

- The timing of the LABGI award was not aligned with budget setting process.
- 3.3 In October 2007, the Government published an Issues Paper, '*Building Better Incentives for Local Economic Growth*', which set out the lessons learned from the first three years of the LABGI Scheme and sought views on reform to further improve the Scheme in the future. This current consultation takes the findings of the Issues Paper and sets out a proposed way forward for the future distribution of LABGI monies.

#### **4. THE NEW SCHEME**

- 4.1 The Government still believes that Local Authorities play a key role in developing the economies of their areas (in this context Local Authorities includes upper and lower tier authorities) and that they should continue to focus on sustainable economic development and regeneration. Members will, no doubt, be aware of the current Sub National Review of Economic Development, which this Council has responded to by way of two recent consultations, and is aimed at transforming economic development and regeneration at a sub regional level, with special emphasis on the role of the upper tier authorities and a possible economic duty.

The new LABGI scheme is based on the continuing framework in which local authorities can work with businesses so that businesses can play an essential role in creating wealth. The Government believes that economic development can be best pursued by authorities working across boundaries on a sub regional economic basis.

- 4.2 In short, the new LABGI Scheme is intended to:
- Be simple and transparent
  - Focus on business growth
  - Use published data that is generally understood and accepted by authorities
  - Use business rates yield as the basis of any allocation
  - No longer use historical growth as a baseline
  - Align the timing of allocations announcements with the budget setting process
- 4.3 The essence of the new scheme proposed for 2009-10 and 2010-11 is that:
- a. Local authorities will be grouped into sub regions
  - b. Performance will be based on the growth in yield of non domestic rates in each sub region.
  - c. If a sub region qualifies for a reward, this will be distributed to the local authorities in the sub region pro rata to their population.
  - d. In a two tier local government area, the allocation will be split two thirds to the County Council and one third to the Distinct Council.
  - e. The reward will be assessed by reference to the comparative performance of sub regions, measured in terms of the growth achieved

over a rolling period of three years, ending in the year before that in which the reward is calculated.

- f. The data on which yield will be calculated will be drawn from the National Non Domestic Rates 3 (NNDR3) returns submitted each year by billing authorities.

- 4.4 Clearly there are a number of new elements to the scheme and particular questions raised by the consultation are addressed in Annex 1 to this report; however, it is worth noting two important aspects of the proposal.

Firstly, at the moment the consultation invites local authorities to propose the sub regional grouping which will be most appropriate for them but the government is strongly suggesting the use of level 2 of the Nomenclature of Units for Territorial Statistics (NUTS2), categories used by the European Union. On this basis, Wyre Forest would find itself grouped with authorities in the sub region including Worcestershire, Herefordshire and Warwickshire. Part of the consultation process offers an option that a final list of sub regions be compiled following this consultation and indicative provisional allocations for 2009-10 published alongside, which would enable an announcement in time for budget setting or, following this consultation, to issue a provisional list of sub regions and invite further comment, in which case it is unlikely that the 2009-10 final allocations would be announced in time for budget setting.

- 4.5 The other main change is the proportional split between the upper and lower tier authorities. Previous LABGI awards have been made in favour of district councils who have received two thirds of the reward and counties one third of the reward, whereas the new scheme would reverse this to one third for the districts and two thirds for the Counties. This was a matter raised in the 2007 Issues Paper and, not surprisingly, responses were sharply divided with all counties seeking an increase on their previous share and practically all of the districts arguing for the existing split to be retained.

- 4.6 Based on the concept of the NUTS2 area, Annex C to the consultation sets out how a hypothetical fund would be distributed to the constituent local authorities on a per capita basis, reflecting a per capita amount, which is the same for all billing authorities in the sub region and subject to the split between the shire districts and counties of which they are part. On this basis, the Herefordshire, Worcestershire and Warwickshire sub region would receive a sub regional award of £2,028,008, which would be distributed on an award per capita of £1.61. On this basis in the proposed sub region, Herefordshire unitary authority would receive £286,958, Warwickshire, £564,908 and Worcestershire £595,792. Within the Worcestershire area, the district councils would receive as follows:

Bromsgrove - £49,488      Redditch - £42,679      Wychavon - £62,785

Worcester City - £50,239      Malvern Hills - £39,837      Wyre Forest - £52,866

It must be emphasised that these are not actual allocations but hypothetical indications, based on the NUTS2 sub regions.

**5. FINANCIAL IMPLICATIONS**

- 5.1 There are no financial implications arising directly from this report, although clearly the future allocation of the LABGI grant is discussed throughout the report and it appears would be significantly reduced from previous awards if the new scheme for distributing the LAGBI grant proceeds on the basis set out in the consultation.

**6. LEGAL & POLICY IMPLICATIONS**

- 6.1 There are no legal and policy implications arising directly as a result of this report.

**7. RISK MANAGEMENT**

- 7.1 Hitherto, LABGI grant money has been made available principally for supporting the Council's regeneration and economic development functions and clearly any reduction in a future award would provide a financial constraint on the extent of the Council's Regeneration & Economic Development function.

**8. CONCLUSION**

- 8.1 Whilst a review of the method for allocating LABGI awards in the future to make it simpler and more transparent is to be welcomed, the Council's full response to the consultation document is set out at Appendix 1 to this report.

**9. CONSULTEES**

Head of Financial Services

**10. BACKGROUND PAPERS**

Reforming the Local Authority Business Growth Incentive Scheme –  
Consultation Paper.

MP/JHL  
21<sup>st</sup> October 2008

## APPENDIX 1

Question	Response
1 Which other authorities, if any, do you regard as being in the same sub region as yours for the purposes of co-operation in economic development?	Wyre Forest District Council is logically part of the Worcestershire Sub Region and would propose that any LABGI grant distribution is based only on the Worcestershire administrative area which provides logical synergy with the developing proposals for the role of the County Council through the Sub National Review of Economic Development and ties in with the priorities set out in the Local Area Agreement and within the Worcestershire Partnership.
2 Do you agree that London should be regarded as a single sub region for the purposes of the Scheme?	This would seem appropriate.
3 Do you agree that where local authorities outside London cannot agree on a sub regional grouping which meets the above criteria, the scheme should be broadly based on the NUTS2 groupings, with the possibility of variation where the case for doing so can be made?	The Council does not agree that sub regional groupings based on the NUTS2 criteria should be imposed by central government. If agreement cannot be reached, it is suggested that the Government Office for the region, through the Regional Assembly, should facilitate an agreed way forward for that area.
4 Would you prefer the government to proceed directly to publish a final list of sub regions, following discussion after this consultation; or to publish a provisional list for comment first?	The Council would prefer to consider a provisional list for comment first and accepts the consequence may be that final allocations for 21009-190 may not be announced in time for budget setting.
5 Do you agree with the calculation process as outlined above?	No, the rewards should be based upon the performance of the individual authorities and not the sub-region. This calculation methodology does not reward the performance of districts. The proposed split between Counties and Districts is not supported.
6 Do you have any comments on the calculation process?	The purpose of the scheme is to encourage local economic and business growth and the reward should reflect the efforts of local authorities to promote growth in the local areas.
7 Do you agree that there should be no minimum or maximum awards?	The Council considers that, without a minimum award, those authorities with pockets of significant deprivation within their area may be

Question	Response
	disadvantaged and that there should be some incentive for authorities with such areas to continue to work towards greater economic wellbeing and local growth. Failure to achieve any form of reward for working towards this will only act as disincentive. Therefore, a minimum award should be made available.
8 Do you agree that the reward period should be set at three years' growth?	This would seem appropriate.
9 If not, what other reward period should be adopted in the new scheme?	See 8 above.
10 Do you agree with the proposed division on reward between district and County Councils?	No, the Council would strongly urge the retention of the existing split in favour of the District Councils as that is where currently direct assistance to business growth and regeneration takes place.
11 Do you agree that the scheme should be based on the contribution to the Pool without any adjustments for reliefs?	Yes, Adjusting for reliefs moves the scheme towards the overly complicated regime that existed for the initial LABGI scheme
12 If not, which factors do you think should be reflected by adjusting the contribution to the Pool?	N/a
13 Do you agree that, in calculating NNDR contributions for the purposes of this scheme, we should take actual yield as shown in line 14 of part 1 of the NNDR 3 form (i.e. after the application of the transitional relief)?	Yes, We see no reason for complicating the scheme by including any adjustments to the basic 'actual yield' figure.
14 If not, what would you propose?	N/a
15 Do you agree that we should not seek, for the purposes of the scheme, to neutralise the impact of appeals on local authorities contributions to the NNDR Pool?	Yes, the original scheme was over complicated and this should improve the situation.
16 If not, what would you propose?	N/a
17 What are your views on the handling revaluations?	It is considered that no account should be taken of revaluations.
18 Do you agree that we should not make adjustments across	Yes, but no strong view

Question	Response
boundary transfers or for transfers between central and local lists?	
19 If not, what would you propose?	N/a
20 Do you have any comments on the approach we propose where an unaudited NNDR3 form is not available?	No

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