Report to the Cabinet

Report reference: C/093/2005-06.
Date of meeting: 19 December 2005.

Epping Forest District Council

Portfolio: Finance and Performance Management.

Subject: Local Authority Business Growth Incentive Scheme.

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Recommendations/Decisions Required:

(1) To note the content of this report and confirm that the income arising from the scheme be credited to the District Development Fund; and

(2) That the Planning and Economic Development Portfolio Holder be requested to submit a report to Cabinet containing detailed proposals for the expenditure of this income on measures to promote economic development within the District.

Report:

1. Officers reported to Members in 2003 the proposals for the Government introducing a scheme for the introduction of a Local Authority Business Growth Incentives (LABGI) Scheme. The scheme has come into force in 2005 and this report will briefly remind Members of the policy context of the scheme and how it will work. In addition, as we approach the end of the calendar year estimates can be made of the revenue the Council may receive as a result of the scheme.

Policy context of the scheme:

2. 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 from the increased revenues it generates. Since 1990, business rates revenues have been paid into a central pool so that local authorities get no direct individual or local benefit.

3. LABGI gives local authorities a direct financial incentive to encourage business in their areas, by allowing them to retain a proportion of revenues created by increasing business growth above a predetermined floor.

How the scheme will work:

4. Business growth is measured in terms of the increase in a local authority's rateable value during a calendar year. LABGI revenue will be paid as a single payment to each local authority in the final quarter of each financial year so the first payment will be made around February 2006. This will be based on actual changes to rateable values in the previous calendar year, provided to the ODPM by the Valuation Office Agency (VOA). An authority's rateable value figure will not be reduced by appeals, whilst empty reliefs are netted off.

5. Each authority has a target level of growth in rateable value that must be reached to benefit from LABGI, known as the floor. The floor level is calculated using historic growth figures.

6. At the end of the first year the VOA provides the ODPM with a new list of rateable values as at 31 December 2005 (gross of appeals, and net of empty property reliefs). These will be compared to the starting list (from 31 December 2004) to calculate growth rates. Growth above the floor is then multiplied by the business rate multiplier.

7. A scaling factor is applied to all revenues above the floor to calculate the amount eligible locally. The non-eligible portion after scaling is passed to the central business rates pool to be shared amongst all local authorities in the usual way.

8. Each authority has a ceiling, the maximum revenue that can be kept in any year, with money above the ceiling being passed back to the business rates pool for distribution amongst all authorities. This money is not lost to the authority though as gains in excess of the ceiling will count towards the following year's target. The ceiling is based on a modified version of part of the Environmental, Protective and Cultural Services (EPCS) part of the Formula Spending Share (FSS) from local authorities' Revenue Support Grant calculation.

9. The ceilings in the first three years of the scheme will be 3%, 6% and 9% of the modified EPCS FSS, respectively. In two-tier authorities, LABGI revenues will be shared out with approximately two-thirds to the lower tier and one-third to the upper tier.

Estimated LABGI revenue for EFDC:

10. Based on estimated calculations, officers are anticipating a sum of approximately £400,000 in LABGI revenue for 2005/06 and a lower amount of £200,000 for 2006/07. As this funding is being considered as part of the Lyons Review its future level is uncertain and so it is appropriate for this income to be credited to the District Development Fund.

11. LABGI is intended to reward local authorities for fostering economic development in their areas. As explained above, the greater the growth in business, measured by increases in the list of rateable values, the greater the rewards that arise. In view of this, Members are asked to consider what proportion, if any, of the income arising should be re-invested in schemes to assist economic development.

Statement in support of recommended action:

12. Given the uncertainty over the amounts to be received and the lifetime of the scheme it would be inappropriate to treat the income as CSB and rely on it to support future spending. Therefore any amounts arising from LABGI should be credited to the DDF.

13. It may be possible to increase future income from the scheme by supporting schemes to promote economic development. However, it should be noted that the substantial levels of income currently anticipated have not come as a result of additional spending.

Option for action:

14. Any proportion of the income arising could be ring fenced for schemes to support economic development. However, by ring fencing these funds they could be left unspent if there is a lack of appropriate schemes. Allocating DDF funding to economic development schemes as they arise could retain greater flexibility.

Consultation undertaken:

15. The Portfolio Holder for Finance and Performance Management has been consulted and asked that a recommendation to consider allocating some of the income to economic development be added to the report.

Resource implications:

Budget provision: £400,000 of DDF income for 2005/06 and £200,000 for 2006/07, income beyond 2006/07 cannot yet be predicted.
Personnel: Nil.
Land: Nil.

Community Plan/BVPP reference: N/A.
Relevant statutory powers: N/A.

Background papers: None.
Environmental/Human Rights Act/Crime and Disorder Act Implications: None.
Key Decision reference (if required): None.