LABGI
Local Authority Business Growth Incentive

Update - 2006/7

Hewdon Consulting

LABGI – 2006/07 Update

"LABGI delivers financial rewards directly to local authorities that promote the greatest levels of continued economic growth in their local areas by allowing them to retain increases in revenue derived from business rates. The money is genuinely additional and the scheme encourages local authorities to build partnerships with local business and promote long-term economic sustainability in their areas."[1]

1. This is an update to our paper "LABGI – Does it do what it says on the can?" which looked at the first year's LABGI awards.
2. 2006/07 is the second year of a three-year trial of LABGI. This year, automatic rebasing of floor targets ensured that 328 LAs received some grant compared with 278 last year. The total paid out under LABGI has increased from £126m to £316m. LABGI was designed with a budget of £1bn over three years so, in theory, the pot for the next year should be more than £550m. The awards are, however provisional because both Slough and Corby have mounted legal challenges over the way LABGI is calculated.

The winners

3. The top ten winners by total grant received are:

Receiving authority area	£ RV	£ Change in RV	% Increase	£ LABGI payment
Manchester	662,398,787	61,734,034	9.3	17,692,616
Westminster	2,550,211,824	66,457,702	2.6	10,189,165
Ealing	280,838,647	25,494,226	9.1	7,602,378
Leeds	718,359,285	29,649,518	4.1	7,403,873
Kensington & Chelsea	492,238,320	19,179,304	3.8	6,706,732
Gateshead	178,685,138	21,215,687	11.9	6,655,220
Bradford	308,272,930	20,001,799	6.5	6,566,274
Doncaster	177,069,593	15,862,774	8.9	4,537,992
Stockport	200,771,549	13,986,017	7.0	3,947,832
Tameside	125,276,783	12,556,534	10.0	3,609,906

4. **Manchester** (9.3% growth in RV) is rewarded for overall economic growth – although part of this is due to consumer spending. It has about 1/3 of its RV in offices and 1/3 in retail and distribution, both of which have grown strongly. Retail growth is a mix of city centre and suburban foodstores.
5. **Ealing** (9.1%) fits the intended profile for a LABGI winner. Its prosperity is based on Park Royal, the largest industrial estate in Europe, which has benefited from the general upswing in the London economy and is continually being redeveloped. £4.4m uplift – 17.5% comes from four retail units – Homebase, B&Q, Morrisons and Waitrose,

[1] Communities and Local Government, Press Release, 27 February 2007

but this is not out of the ordinary nationally. The largest part of the increase comes from redevelopment of business space at Park Royal and is clearly driven by economic growth to which LB Ealing has contributed. Ealing deserves its reward.

6. **Westminster** (2.6%), **Kensington and Chelsea** (3.8%) and **Leeds** (4.1%) are very large authorities with small percentage uplifts that benefit from undemanding floor targets – because of sluggish performance in the late 1990s. Westminster has also benefited from the increase in government spending with £8.1m of its increase down to the refurbishment of the Treasury and £3.1m due to TfL's new offices in Victoria Street.

7. **Doncaster** (8.9%), **Tameside** (10.0%) and **Gateshead** (11.9%) achieved some of the highest percentage increases in RV among the winners despite not normally being thought of as major employment centres. They did it with a combination of retail and distribution. Doncaster is, of course, a noted distribution centre - last year a new Ikea distribution warehouse contributed to its good performance. Tameside managed a new Ikea retail warehouse at Ashton-under-Lyme, a shopping centre extension and a new civic centre - which together accounted for 41% of its £12.5m increase.

8. Gateshead, home of the Metrocentre, is worth a special mention because retail and distribution accounted for 59% of its total RV in 2005, compared with 16% industrial and 7% offices. Last year's contributors to increased RV read like a roll-call of out of town shopping brands – Somerfield, Sainsbury, Lidl, CWS, WH Smith, Snow and Rock, KFC and Mecca Bingo. There was also a new retail park - and three new schools.

The Losers

9. There are 57 local authorities on the other end of the scale, which did not get a penny. We have found that 21 of them have some kind of growth designation – in other words they are designated to deliver the government's housing and jobs targets under the Sustainable Communities Plan. They are:

	£ End RV	£ Change in RV	£ LABGI payment	Growth Designation
Ashford	93,524,895	995,052	0	Ashford Growth Area
South Cambridgeshire	137,295,698	3,046,567	0	LSCP Growth Area
North Hertfordshire	80,723,594	336,473	0	MKSM Growth Area
East Cambridgeshire	34,766,570	298,239	0	LSCP Growth Area
Islington	363,778,474	6,468,721	0	London Opportunity Borough
South Gloucestershire	245,631,615	4,536,206	0	New Growth Point
Solihull	222,236,870	2,190,293	0	New Growth Point
Shrewsbury & Atcham	77,607,999	1,451,622	0	New Growth Point
Reigate & Banstead	114,633,441	1,061,799	0	New Growth Point
Basingstoke & Deane	154,525,499	1,058,293	0	New Growth Point
Reading	220,901,891	725,725	0	New Growth Point
Derby	176,461,286	752	0	New Growth Point
Havant	57,425,952	-239,411	0	New Growth Point
Eastleigh	105,357,718	-664,531	0	New Growth Point
Southampton	215,153,957	-1,983,175	0	New Growth Point
Tower Hamlets	647,604,718	9,700,506	0	Thames Gateway
Dartford	168,555,268	1,764,217	0	Thames Gateway
Greenwich	130,001,769	-209,864	0	Thames Gateway
Basildon	166,721,442	-748,784	0	Thames Gateway
Havering	143,022,119	-1,255,812	0	Thames Gateway
Thurrock	210,891,452	-2,144,205	0	Thames Gateway

The Extremes

10. Special mention goes to Copeland, whose RV went down by 13% thus depriving it of any LABGI. 77% of the authority's RV is accounted for by Sellafield so it is effectively being penalised for something beyond its control.
11. Special mention also to Easington, which achieved the greatest percentage increase in RV – 22% - albeit from a starting figure of £28.5m RV. This is almost entirely caused by the Bracken Hill and White House Business Parks, a former enterprise zone promoted by the local authority– and a successful employment generator in an area of high unemployment. This is what most people thought LABGI was intended to reward. Unfortunately, the way the system works, Gateshead is awarded 31% of its increased RV but Easington only gets 18%.

The Future

12. LABGI was originally set up to run for three years and its future will be reviewed as part of CSR 2007 and the Lyons proposals for reform of local government finance. It seems clear that more effective incentives ought to be designed to reward local authorities. In our previous paper we argued that a housing-related incentive would be more effective for suburban and rural authorities. This still seems appropriate. We also argued for a business rates incentive more directly related to employment and improvement in GDP – perhaps by disregarding elements of business rates relating to national infrastructure like power stations, and scaling back the proportion related to retail.
13. However, any new system also ought to take into account that economic markets do not follow local authority boundaries. If you are considering a sub-region or city region like Tyneside, local authority areas contain very different economic functions. Gateshead has the retail, Easington has the new employment, Newcastle has the administrative centre. But they are all part of the same city region economy. It is therefore quite difficult to devise a fair system to reward or punish individual authorities for growing different parts of the same economy. That, ultimately, may be the biggest lesson to learn from LABGI.