

**LOCAL AUTHORITY BUSINESS GROWTH INCENTIVES
SCHEME
(LABGI)**

**A note for local authorities on additional payments
for Years 1 and 2 of the scheme, and on
payments for Year 3 of the scheme**

**April 2008
Department for Communities and Local Government**

Introduction

The Local Authority Business Growth Incentives scheme (LABGI) is designed to give local authorities an incentive to encourage local economic and business growth. The increase in a local authority's business rateable value, as measured through a number of Valuation Office Agency rateable value "change codes" (described below), is used as a proxy for business growth. The original scheme, first announced by the Chancellor in the 2002 Pre-Budget Report, runs for three years (2005-06 to 2007-08). Since the start of the scheme, many groups - including the CBI, the Local Government Association and hundreds of local authorities - have welcomed its aim.

On 7 January 2008, the Government announced that, following further consideration of the new legal challenges that have been made against the scheme, and the inherent uncertainty that these had caused, it intended to re-consider all aspects of the approach used to distribute the remaining resources available for Year 3. As part of this, the Government has also re-considered payments for Years 1 and 2 of the scheme (2005-06 and 2006-07). The Statement can be found at:

<http://www.local.communities.gov.uk/finance/labgi/statemtyr3pay.pdf>

This technical note sets out the outcome of the Government's re-consideration, including details of how it intends to allocate further LABGI funding. In a Written Ministerial Statement on 4 February 2008, John Healey, Minister for Local Government, indicated that the Government intended to reward authorities under LABGI (for all years) on the basis of a wider set of change codes than has so far been the case for Years 1 and 2. He also made clear that it would be necessary to retain a portion of the Year 3 funding as a contingency as a result of the greater complexity, uncertainty and delay caused by legal action against the scheme. This Statement can be found at:

<http://www.local.communities.gov.uk/finance/labgi/statement080204.pdf>

This note provides details of the basis on which we intend to make additional payments to authorities for Years 1 and 2 of the scheme (to reflect the wider set of change codes the Government now intends to use) and payments for Year 3 of the scheme. A Written Ministerial Statement laid by John Healey on 2 April 2008 summarises these proposals – and can be found at:

<http://www.local.communities.gov.uk/finance/labgi/statement080402.pdf>.

Provisional Allocations

To give local authorities the opportunity to raise any queries about their grant allocations, whether in relation to the data and methodology used or otherwise, the Government considers it prudent to publish provisional allocations before payments are actually made. Provisional allocations by authority are set out in the draft grant determination at

<http://www.local.communities.gov.uk/finance/labgi/draftdtmn0708v2.pdf>, and

the underlying calculations on an authority-by-authority basis can be found on a spreadsheet at

<http://www.local.communities.gov.uk/finance/labgi/endyr3data.xls>. It should be

noted that the spreadsheet illustrates the sum of payments already made under LABGI for Years 1 and 2, plus new payments now proposed in the draft grant determination. If authorities have any queries or issues about their allocation or the way in which it has been calculated, these should be raised by 16 May 2008 at the latest.

The Valuation Office Agency (VOA) is responsible for providing Communities and Local Government (CLG) with data concerning changes to Rateable Value (RV) in accordance with the Department's requirements - details can be found below. Questions of fact concerning the RV data should be addressed to the VOA:

Tim Hutchin - tim.hutchin@voa.gsi.gov.uk
Graham Fawn - graham.fawn@voa.gsi.gov.uk

The VOA will ensure that a reply is given. Every endeavour will be made to do so promptly but the time taken to respond will inevitably depend on the complexity and volume of queries. If a material delay is likely, the authority concerned will be alerted, and given as clear an indication of timescale for response as practicable.

The VOA is not able to comment on any aspects of the calculation and amount of the LABGI payment itself - any such questions must be directed to Communities and Local Government at:

LABGI.CONSULTATION@communities.gsi.gov.uk .

Communities and Local Government will aim to make an announcement confirming payments as soon as possible after 16 May 2008, once queries have been resolved. It is important to note that the provisional allocations may be adjusted in the light of issues raised by other authorities.

Additional Year 1 and 2 payments

Details of previous payments for Years 1 and 2 of the scheme, and how these were calculated, can be found on the LABGI section of the Communities and Local Government website at:

<http://www.local.communities.gov.uk/finance/labgi.htm>.

Use of codes to measure growth

Under the original LABGI methodology, a proxy for business growth gross of appeals was calculated on the basis of four Valuation Office Agency (VOA) rateable value change codes (which are used by the VOA to identify why an assessment of rateable value has changed):

VOA Change Code	Explanation	Equivalent codes used on rating list update
--------------------------------	--------------------	--

		schedules
1	“Demolished” – the hereditament has been demolished or substantially demolished so that it can no longer be considered a hereditament and this is not part of a refurbishment scheme	B, D
2	“Reconstituted” (deleted assessment) – for example, when one property is split, meaning that it should be classified as two properties, the rateable value of the original property will be deleted from the list.	E, F
10	“New hereditament” – where a property has been newly-built.	G, N
11	“Reconstituted” (new assessment) - for example, when one property is split, meaning that it should be classified as two properties, the rateable values of the two new properties will be added to the list.	E, F

The above table shows how the VOA’s change codes correspond to the codes used on the rating list update schedules received by local authorities (a summary of these codes can be found at Annex A to this technical note).

As a result of a court ruling on 31 July 2007, following Judicial Review proceedings that had been brought against the Department, additional payments for Years 1 and 2 of the scheme were made on 20 September 2007. Payments were made to reflect positive changes under an additional Valuation Office Agency change code:

VOA Change Code	Explanation	Equivalent codes used on rating list update schedules
20	Alteration of non-deleted Assessment – for example, changes to the rateable value of existing premises as a result of their expansion.	A, C

The Government has now decided to make additional payments for Years 1 and 2 of the scheme to eligible local authorities calculated against all VOA rateable value change codes that have not previously been used and which record an increase in Rateable Value. This will ensure that all codes that could contain elements of business growth are taken into account. This approach is consistent with that used for making code 20 payments – in other words business growth is reflected, but figures are not reduced to reflect business contractions. Just as with the treatment of code 20s, the inclusion of new codes will not affect re-basing (the process of setting starting Rateable Values (RVs) in Years 2 and 3). Only the original codes (1, 2, 10, 11) are taken into account when setting starting RVs.

All relevant remaining codes were considered, and the following have been included:

VOA Change Code	Explanation	Equivalent codes used on rating list update schedules
6	“Address change and review” (deleted assessment) – where there has been a change in address (which might also result in a change in rateable value). This code is paired with code 14.	L, M
12	“Ceased to be exempt” – where a hereditament is no longer exempt from being subject to business rates.	G, N
14	“Address change and review” (new assessment) – where there has been a change in address. This code is paired with code 6.	L, M
19	“New – other” – for example when a formerly domestic property is moving onto the National Non Domestic Rating list.	G, N
29	“Alteration – other” – for use in unusual situations, where the use of code 20 is felt to be inappropriate and further explanation is required.	A, C

This approach ensures that we have included all instances where an increase in rateable value has been recorded. Most codes work by recording the net change in rateable value. However, of the new codes now being included, code 6 and 14 work as a pair. Where codes are paired, the first code records the original value of the hereditament as a negative entry, as this is removed from the list. The second code records the new value of the hereditament, as a positive, as this is added to the list. Therefore, for any given property, the sum of these two codes represents the net change in rateable value. Only instances where the sum of the two partner codes is positive have been included in the growth calculations.

The following codes have not been included:

VOA Change Code	Explanation	Equivalent codes used on rating list update schedules
3	“Exempt from rating” – where a hereditament becomes exempt	B, D
4	“Ceased (to be relevant)” – for example, where a Non Domestic property moves into the Council Tax list as it is now in domestic use	B, D
5	“Boundary change” (deleted assessment) – used when local authority boundaries change – will be mirrored with a code 13	-
9	“Deletion – other” – might apply, for example, to a property undergoing major refurbishment	B, D
13	“Boundary change” (new assessment) – used when	-

	local authority boundaries change – will be mirrored with a code 5	
21	“Alteration of effective date” – relating to a change in the date that an assessment of rateable value becomes effective	-
31	“Alteration of deleted assessment” – relating to a change in the date that a deletion of an assessment becomes effective.	J, R

As there have been no boundary changes since LABGI was launched, codes 5 and 13 have not been included in the assessment. Codes 21 and 31 relate only to a change in date that an assessment becomes effective, and so have also not been included as the actual changes in rateable value will have been measured under other codes. Codes used to record instances where rateable values have fallen (“negative codes”) have also not been included – i.e. codes 3, 4 and 9.

Additional payments under these new codes are calculated using the same methodology as was used to calculate additional payments under code 20 last year. This includes applying the same scaling factors for Years 1 and 2, and the use of a ceiling for payments relating to Year 1 (an explanation of ceilings can be found in the technical Frequently Asked Questions for Year 1 at: <http://www.local.communities.gov.uk/finance/labgi/techfaq.pdf>).

The use of these additional codes means that the Government is proposing to pay out approximately an additional £50.9m in total for Years 1 and 2 – approximately £13.5m for Year 1 and £37.3m for Year 2. A breakdown of these payments on an authority-by-authority basis can be found in the draft grant determination at <http://www.local.communities.gov.uk/finance/labgi/draftdtmn0708v2.pdf>.

Year 3 payments

We propose to carry forward the revised methodology used to calculate payments in Years 1 and 2 of the scheme into Year 3 – this includes the treatment of the original four change codes, and the methodology used to calculate growth under code 20 and codes 6, 12, 14, 19 and 29.

Once additional Year 1 and 2 payments have been made, this leaves approximately £346.1m in the LABGI pot. However, the Government has decided that it is necessary at this stage to retain £100m as a contingency.

The Government, therefore, is able to allocate approximately £246.1m for distribution to authorities at this stage. To ensure that payments do not exceed this total, it will be necessary to scale back Year 3 payments to 28% of their value.

A breakdown of the proposed payments to local authorities in Year 3 of the scheme can be found in the draft grant determination at <http://www.local.communities.gov.uk/finance/labgi/draftdtmn0708v2.pdf>.

A further announcement about the distribution of the remaining funding will be made in due course. This funding will be allocated to local authorities in full, in line with the policy purposes for which LABGI was designed. The exact methodology will be confirmed once any uncertainty associated with legal challenges has been resolved.

In a small number of cases, specific errors have been identified in the information used to calculate the proposed Year 3 payments for particular authorities, and these have been corrected manually by the Department. The authorities concerned have been individually contacted.

Annex A to the Technical Note

Summary of codes used on the rating list update schedules received by local authorities (*equivalent VOA change codes shown in italics*)

Code	Description
A	AMENDMENT to HISTORICAL Assessment (Single hereditament) <i>Code 20 or 29</i>
B	DELETION of HISTORICAL Assessment <i>Code 01 or 03 or 04 or 09</i>
C	AMENDMENT of CURRENT Assessment (Single assessment) <i>Code 20 or 29</i>
D	DELETION of CURRENT Assessment <i>Code 01 or 03 or 04 or 09</i>
E	AMENDMENT of CURRENT Assessment (splits, mergers) reconstituted <i>Codes 02 and 11</i>
F	AMENDMENT to HISTORICAL Assessment (split/mergers) reconstituted. <i>Codes 02 and 11</i>
G	NEW HISTORICAL Assessment <i>Codes 10 or 12 or 19</i>
H	RATING LIST ENDORSEMENTS, Current (minor changes to the rating list) Entries that do not change the CURRENT rating assessment e.g. code to indicate a Valuation Tribunal's confirmation of the existing current rating assessment, agreements confirming existing current assessment details ('duplicate' agreements), confirmation of rating assessment by the Lands Tribunal (LT) or LT dismissed. <i>Not applicable- no change in RV</i>
I	RATING LIST ENDORSEMENTS, Historical (minor changes to the rating list) Entries that do not change the Historical rating assessment. Examples as for 'H' above except in relation only to historical assessments. <i>Not applicable - no change in RV</i>
J	AMENDMENT of the deletion of an Historical assessment <i>Code 31</i>
K	MINOR LIST UPDATES. (Correction of minor errors, no change to CURRENT rating assessment) e.g. spelling error corrections in Number/Name address field, description, individual postcode and BA reference number corrections/changes. <i>Not applicable - no change in RV</i>
L	Significant ADDRESS CHANGE ONLY and ADDRESS CHANGE WITH ALTERATION/CORRECTION of CURRENT rating assessment (single assessment).

	<i>Code 06 and 14 (must be both)</i>
M	Significant ADDRESS CHANGE ONLY and ADDRESS CHANGE WITH ALTERATION/CORRECTION of HISTORIC rating assessment (single assessment). <i>Code 06 and 14 (must be both)</i>
N	NEW CURRENT Assessment <i>Code 10 or 12 or 19</i>
R	AMENDMENT of the deletion of a CURRENT assessment <i>Code 31</i>