

To: All Consultees

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**Local Authority Business Growth Incentives Scheme (LABGI) - Clarification of ceilings based on the Environmental Protection and Cultural Services (EPCS) model**

The second consultation paper on the Local Authority Business Growth Incentives Scheme was published on 11 August 04.

Following a number of enquiries from consultees, the Government is now issuing the following clarification of the proposed methodology for calculating the ceilings for the scheme using the Environmental Protection and Cultural Services (EPCS) part of the Formula Spending Share (FSS).

**Clarification**

In the first consultation, the Government proposed that ceilings would be based upon the total Formula Spending Share (FSS). Further analysis since the first consultation has convinced the Government that ceilings based on a modified form of the Environmental Protection and Cultural Services (EPCS) element of FSS would give more equitable ceilings, especially in two tier areas. The modified EPCS FSS would include only the two main elements of the standard EPCS FSS - that is just the upper and lower tier elements.

For unitary billing authorities (ie London boroughs, metropolitan districts and shire unitaries) the modified EPCS FSS would be calculated in the same way as for RSG purposes.

For two tier areas the modified EPCS would be calculated only for shire districts and would include the upper tier formula as well as the lower tier formula. This modified EPCS FSS calculation would give a total EPCS amount for upper and lower tier EPCS services for the area of the shire district. There would be no modified EPCS FSS for shire counties in two tier areas.

The ceiling for each billing authority would be based on the modified EPCS FSS for that authority.

In two tier areas the amounts of the upper and lower tier modified EPCS FSS elements for the shire district would be used to split any payment to the district between the shire district and the shire county (see example below).

## **Example**

For authority X as a billing authority, 3% of their modified EPCS in 2005-06 is £900,000. Therefore the ceiling for authority X's area is £900,000. After scaling, authority X had an increase in revenue of £638,400, so they do not exceed their ceiling. Had they exceeded the ceiling, the amount eligible would have been capped at £900,000 with the remaining money being submitted back to the business rate pool to be distributed in the usual manner.

If authority X is in a two-tier shire area then any LABGI revenue would be split between the district and the county. If the modified EPCS FSS of £900,000 consists of £600,000 for lower tier services and £300,000 for upper tier services then the district would get two thirds of the LABGI revenue with the remaining one third going to the county. So in this case authority X would receive £425,600 while the county would receive the remaining £212,800.

We look forward to receiving responses to the second consultation paper. Consultees are reminded that this second consultation period closes on 29 October 2004. The Government would like to take this opportunity to thank all local authorities and business groups involved in the development of LABGI.

Yours faithfully

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