2017

# Central Government's hand in the local government till

UNISON
the public service union

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# A UNISON Report: November 2017

Local councils have borne the brunt of austerity as the government has slashed the support it provides for local services in England. In its budget submission, the LGA says that *‘Between 2010 and 2020, local authorities will have seen reductions of £16 billion to core Government funding’.* Under current plans around £9bn of that £16bn will be stripped out of council budgets between 2015/16 and 2020/21 and revenue support grant – the way central government contributes to the cost of local services - will have disappeared completely. It is these changes that are the driving force behind cuts to the services provided by local councils.

**The government also has a hidden agenda.** It is using a growing surplus on the element of business rate income which councils pay directly to the Secretary of State – the central share of business rates - to pay for things that the Treasury used to pick up the tab for. This releases money for the Treasury to use elsewhere.

This year (2017/18) the surplus grew by £2.4bn and UNISON argued it should all be invested in Social Care. At the last minute the government announced an extra £1bn for social care in the March 2017 budget. It did not say how it would be paid for, but the money was probably found from the business rates surplus.

Next year (2018/19) the business rates surplus is due to grow by £1.8bn (from £6.6bn to £8.4bn). This is equivalent to slightly more than the 2018/19 cost (£1.6bn) of cutting Corporation Tax from 20% to 19% and contributes a third of the cost of increasing inheritance tax allowances.  The extract from the summer 2015 budget is shown below.

| | | Head | £ million | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| 3 | Inheritance Tax: £1m couples allowance from 2020 through new main residence nil-rate band phased in from 2017 | Tax | 0 | 0 | -270 | -630 | -790 | -940 |
| 9 | Corporation Tax: reduce to 19% from 2017-18, and 18% from 2020-21 | Tax | 0 | -10 | -605 | -1,600 | -1,870 | -2,475 |

The LGA says that *'Local services face a funding gap of at least £5.8 billion by 2019/20 and that 'there is an immediate £1.3 billion pressure to stabilise the adult social care provider market today*.' UNISON argues that all the growth in the government's business rate surpluses must be re-invested in local government, including social care.

## The original case for business rate retention

The original case for business rate retention was presented as part of an agenda of 'localism', local 'financial control' and 'economic growth', as the quotes below demonstrate:

> *"This Government is determined to repatriate business rates. No more should proud cities be forced to come to national government with a begging bowl. Councils should have greater control over cash, helping them plan for the longer term. And they should see a direct link between the success of local businesses and their own cash flow. Any council that grows its local economy will be better off under the new system. This will create the right incentives for them to work closely with local businesses, helping to create the conditions for growth, and giving local leaders reasons to celebrate their successes, not conceal them."*
>
> Eric Pickles MP; Ministerial Foreward:Local Government Resource Review: Proposals for Business Rates Retention: Consultation; July 2011
>
> *"Business rates retention is at the heart of the Government's reform agenda and will help achieve two of its key priorities: economic growth and localism."*
>
> Business rates retention; Policy statement; November 2012
>
> *"The central share of business rates will be paid by each billing authority to the Secretary of State. It will be used by central government in its entirety to fund the local government sector."*
>
> Business rates retention scheme: The central and local shares of business rates: A Statement of Intent; (revised) June 2012

## The hidden agenda

The Coalition government inherited a local government finance system called Formula Grant.

Under this system each local authority received a share of revenue support grant and a share of **all** non domestic rates redistributed to local authorities using a formula based on their relative needs, their relative resources and a central amount. Police authorities also received a share of the Police Grant.

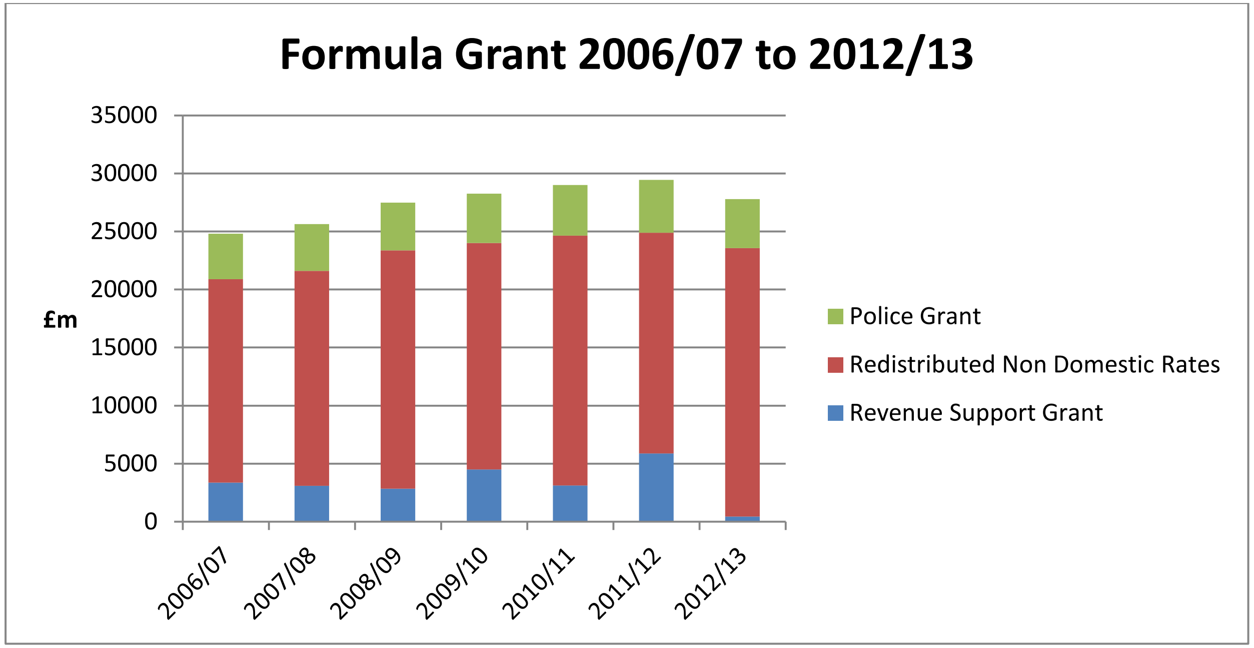
Spending Review 2010 set in train a programme that would reduce formula grant by £6.1bn by 2014/15.

**Table 2.8: Split of LG Resource DEL**

| | £ billion | | | | |
|---|---|---|---|---|---|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Resource DEL[1] | 28.5 | 26.1 | 24.4 | 24.2 | 22.9 |
| o/w funding for formula grant | 28.0 | 25.0 | 23.4 | 23.2 | 21.9 |
| o/w council tax freeze | 0.0 | 0.7 | 0.7 | 0.7 | 0.7 |
| o/w other | **0.5** | **0.5** | **0.4** | **0.4** | **0.4** |

*1 In this table, Resource DEL excludes depreciation*

The Treasury could see that if the system of redistributing business rates from a national pool – the system that had operated since 1990 – was continued, a point would be reached where revenue support grant disappeared and by 2012/13 only £448m was distributed to local authorities and police authorities through revenue support grant.




The Treasury set out to capture some of the growth in business rates and to use those resources to finance other government objectives such as the cut to Corporation Tax.

The system was changed. 50% of the non-domestic rates now goes into a central account controlled by the Secretary of State.

As business rates grew, revenue support grant was cut. The 50% of business rates that was now paid directly to the government soon exceeded the amount paid to local authorities in revenue support grant. Central government had a surplus created by forcing councils to cut services.

The government could use the surplus to meet the costs of other grants paid to local government. Initially they would be other grants paid by DCLG but subsequently grants paid by other government departments could be replaced by the surplus from business rates.

This process of fiscal substitution would release resources for the Treasury to deploy for other purposes such as reductions in Corporation Tax, cuts to capital gains tax and increases in inheritance tax allowance.

In the period 2010/11 to 2015/16 central government funding for local government fell by 37%. But this is only part of the picture. The cash cut happened at the same time as councils faced inflation that added another £7bn to their costs. Add to that the cost of providing services for a growing population that by 2015 increased by 2.3m, the cost of providing social care to more older people who are living longer, the extra costs of commitments like pension contributions and landfill tax, as well as the cost of extra responsibilities such as council tax support - but without the funds to pay for them.

In the Autumn Statement and Spending Review 2015 the Chancellor cut the funding for local government from central government for a further five years, as demonstrated in the table below:.

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Settlement Funding Assessment | 20758.538 | 18601.462 | 16623.891 | 15558.856 | 14652.578 |
| of which: | | | | | |
| Revenue Support Grant | 9435.365 | 7183.929 | 4981.7937 | 3573.3083 | 2283.9503 |
| Baseline Funding Level (Local share of business rates – 50% retained by councils) | 11323.173 | 11417.533 | 11642.097 | 11985.548 | 12368.627 |

As can be seen from the table above, Revenue Support Grant is set to fall by £7.151bn over the period, while the local share of business rates increases by just £1.045bn, producing a net reduction of £6.1bn by 2019/20.

Since 2013/14 local councils have retained 50% of the business rates and pay the remaining 50% - the central share – into an account controlled by the Secretary of State.

As the next section on the Main Non Domestic rate account shows, 2015/16 was the first year that the central share paid into the account controlled by the Secretary of State was bigger than the amount paid out to councils in Revenue Support Grant (RSG).

| | 2013/14 | 2014/15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Central share of Business Rates | 10898.554 | 11110.864 | 11323.173 | 11417.533 | 11642.097 | 11985.548 | 12368.627 |
| Revenue Support Grant | 15175.402 | 12674.555 | 9435.365 | 7183.929 | 4981.794 | 3573.308 | 2283.950 |
| Central Share Surplus | -4276.848 | -1563.691 | 1887.808 | 4233.604 | 6660.303 | 8412.239 | 10084.677 |

In 2015/16 the ‘surplus’ from the central share alone was £1.888bn rising further to £4.234bn this year (2016/17) as revenue support grant is cut. The ‘surplus’ is scheduled to reach £10.085bn in 2019/20. In fact the surplus is even bigger because the Secretary also gets a share of any business rates growth and benefits from a levy that the government has placed on that growth.

In summary this is what is happening – the Chancellor decides that the government will keep half the business rates – at the start it isn’t enough to cover revenue support grant.  Revenue support grant is cut.  Council services are cut or disappear as a consequence.

Now keeping half the business rates can pay for all revenue support grant and leave a (growing) surplus. The Chancellor then uses that surplus to pay for things that central government currently pays for.

This frees up money for the Treasury which the government then spends in other ways such as handing large private companies cuts to their corporation tax, cutting capital gains tax or increasing the allowances for inheritance tax.

**Government consults**

In July 2016 the Government published *Self-sufficient local government: 100% Business Rates Retention: A Consultation Document.*

*1.1. By the end of this Parliament, local government will retain 100% of taxes raised locally. This will give local councils in England control of around an additional £12.5 billion of revenue from business rates to spend on local services. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some Whitehall grants will be phased out.*

The claim that it 'will give local councils control of around an additional £12.5bn' is rather misleading as it fails to explain that this is the surplus largely created by cutting £9.435bn in revenue support grant in the period 2015/16 to 2020/21.

The list of grants that the business rates surplus could be used to pay for included:

- Revenue Support Grant (DCLG - £2.28bn – 2019/20)
- Rural Services Delivery Grant (DCLG - £0.065bn – 2019/20)
- GLA Transport Capital Investment Grant (DoT - £1.010bn – 2020/21)
- Public Health Grant (DoH - £3.304bn – indicative 2017/18)
- Improved Better Care Fund (DoH - up to £1.5bn by 2019/20 or if the original £3.9bn Better Care Fund included by up to £5.4bn)
- Former Independent Living Fund Recipients Grant (DWP - £0.171bn – 2017/18)
- Early Years (DfE - £2.717bn – 2016/17 - Early Years block within Dedicated Schools Grant (DSG))
- Youth Justice (Ministry of Justice)
- Local Council Tax Support Administration Subsidy and Housing Benefit Pensioner Administration Subsidy (DWP)
- Attendance Allowance (DWP)

The consultation paper also raises the prospect of an even bigger cash grab by the Treasury, suggesting that the costs of providing grants for the investment funds for devolution deals, and the adult education funds, transport capital grants and local growth funds within those deals could be met instead from retained business rates.

*3.17. There is therefore an opportunity to consider funding some or all of the commitments in existing and future deals through retained business rates, i.e. transferring them from grant commitments to being paid for through retained rates.*

2017/18 saw £1.272bn of business rate surpluses used to fund aspects of these proposals and releasing resources for the Treasury (notably the GLA Transport Capital Investment Grant) but the Attendance Allowance proposal has been dropped.

UNISON supports the view of the Local Government Association that:

- the extra income should go towards meeting the local government funding gap of £5.8 billion by 2019/20
- in addition the immediate £1.3 billion pressure to stabilise the adult social care provider market must be met today, either through further business rates retention or grant funding
- further retained income from business rates should come without any additional responsibilities

**Main Non Domestic rate account (See Appendix 1 for details)**

From 2013/14 local authorities retained 50% of the business rates and paid the remaining 50% (the central share) into the main non domestic rate account which is controlled by the Secretary of State for Local Government.

In 2013/14 the central share amounted to £10.860bn (see Appendix 1). In addition the business rates from the ratepayers on the central non-domestic rating list are also paid into the main non-domestic rate account – another £1.294bn.

The note to the main non domestic rating account for the year ended 31 March 2014 (the first year) records

> *2.1 The debit to the account is the amount that the Government retains from the main rating account. In accordance with the governing legislation, this amount is used for the purposes of Local Government in England. In 2013-14, the full amount was used to finance Revenue Support Grant (RSG) to local authorities. "*

So that year, all the central share (£10.860bn) and almost all the income from the central list went towards the £15.175bn paid to local authorities in revenue support grant.

In the second year of operation (2014//15) the main non domestic rate account received the central share (now £11.187bn) and the income from the central list (£1.287bn) as well as the Secretary of State's share of the business rates growth – initially another £0.039bn.

The note to the main non domestic rating account for the year ended 31 March 2015 records

> *2.1. The debit to the account is the amount that the Government retains from the Main Non-Domestic Rating Account. In accordance with the governing legislation, this amount is used for the purposes of Local Government in England. In 2014-15, the full amount was used to finance Revenue Support Grant (RSG) to local authorities. The debit to the account for 2014-15 is £12,225 million (£12,038 million in 2013-14).*

So that year, all the central share (£11.187bn) and almost all the income from the central list went towards the £12.624bn paid to local authorities in revenue support grant in 2014/15.

In the third year of operation (2015//16) the main non domestic rate account received the central share (£11.554bn) and the income from the central list (£1.299bn) as well as the Secretary of State's share of the business rates growth – now £0.231bn in 2015/16 plus another £0.052bn from 2013/14.

The note to the main non domestic rating account for the year ended 31 March 2016 records a different picture.

> *2.1 The debit to the account is the amount that the Government retains from the Main Non-Domestic Rating Account. In accordance with the governing legislation, this amount is used for the purposes of Local Government in England. In 2015-16, it was used to finance Revenue Support Grant (RSG)* ***and other local authority grants.*** *The debit to the account for 2015-16 is £12,642 million (£12,225 million in 2014-15).*

In 2015/16 only £9.435bn was paid to local authorities in revenue support grant. This only accounts for some of the central share (£11.554bn) and leaves the balance and all the income from the central list (£1.299bn) and all the income from the Secretary of State's share of business rate growth (£0.283bn) to be used for other purposes.

In the fourth year of operation (2016//17) the main non domestic rate account received the central share (now £11.741bn) and the income from the central list (£1.343bn) as well as the Secretary of State's share of the business rates growth – now £0.135bn in 2016/17 plus another £0.070bn from previous years.

> *2.1. The debit to the account is the amount that the Government retains from the Main Non-Domestic Rating Account. In accordance with the governing legislation, this amount is used for the purposes of Local Government in England. In 2016-17, it was used to finance Revenue Support Grant (RSG) and other local authority grants. The debit to the account for 2016-17 is £12,464 million (£12,642 million in 2015-16).*

In 2016/17 only £7.184bn was paid to local authorities in revenue support grant. This only accounts for just over half the central share (£11.741bn) and leaves the balance and all the income from the central list (£1.343bn) and all the income from the Secretary of State's share of business rate growth (£0.205bn) to be used for other purposes. £5.28bn of other local government grants were financed by using business rate surpluses.

**<u>Conclusion</u>**

Though complex, this report in stages shows how the UK government and the Treasury have steadily and systematically reduced funding for local government in England on a dramatic scale. The rhetoric has been about local empowerment but the reality has been one of central government diverting an increasing amount of the business rates collected by local authorities to meet costs that were previously, or are currently, met by DCLG and other government departments.

UNISON can therefore say plainly that "Central government's hand is in the Local Government till". It should stop and the funds must be made available for our local services.

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**Appendix 1: Main Non Domestic rating account 2013/14 to 2016/17**

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|
| Credits | £m | £m | £m | £m |
| Balance at 1 April | | | 65.975 | 248.051 |
| Amounts received from rate payers on the central non domestic rating list | 1293.745 | 1287.077 | 1298.732 | 1342.547 |
| Amounts received in respect of contributions in aid of visiting forces exempt properties | 11.678 | 10.187 | 15.960 | 16.642 |
| Amounts received in respect of surplus on collection fund (Secretary of State share) | 0 | 38.788 | 230.613 | 134.732 |
| Amounts received in respect of surplus on collection fund 2015/16 and 2014/15 (Secretary of State share) | | | | 70.240 |
| Amounts received in respect of surplus on collection fund 2013/14 (Secretary of State share) | 0 | 0 | 52.029 | |
| Amounts received from authorities in respect of the central share | 10860.485 | 11187.155 | 11554.197 | 11741.094 |
| Amounts received from authorities in respect of tariffs | 3281.901 | 3155.487 | 2554.834 | 2442.056 |
| Amounts received from authorities in respect of transitional protection | 23.185 | 9.046 | 0 | |
| Amounts received from authorities in respect of transitional protection outturn adjustments | 0 | 173.259 | 217.766 | 186.220 |
| Amounts received in respect of reconciliation of disregarded amounts (Enterprise Zones etc) | 0 | 2.109 | 1.139 | 0.881 |
| Total Credits | 15470.994 | 15863.108 | 15991.245 | 16182.463 |
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| Debits | £m | £m | £m | £m |
| Sums paid to authorities in respect of deficit on collection fund | 0 | 298.162 | 120.476 | 326.453 |
| Sums paid to authorities in respect of final deficit on collection fund 2015/16 and 2014/15 | | | | 513.287 |
| Sums paid to authorities in respect of deficit on collection fund 2013/14 | 0 | 0 | 386.184 | |
| Sums paid to authorities in respect of top ups | 3292.439 | 3166.230 | 2565.783 | 2453.096 |
| Sums paid to authorities in respect of transitional protection | 140.149 | 82.920 | 0 | |
| Sums paid to authorities in respect of transitional protection outturn adjustments | 0 | 22.667 | 24.742 | 21.601 |
| Sums paid to authorities in respect of reconciliation of disregarded amounts (Enterprise Zones etc) | 0 | 2.527 | 4.006 | 2.604 |
| Debit to the account in accordance with Schedule 7B paragraph 2(3) of the local government finance act 1988 | 12038.406 | 12224.627 | 12642.003 | 12463.793 |
| End of year debit item as per Schedule 7B para 21(2) of LGFA 1988 | 0 | 65.975 | 248.051 | 401.629 |
| Total Debits | 15470.994 | 15863.108 | 15991.245 | 16182.463 |