

SECTION 6

6. RESOURCES

Introduction

6.1 This section sets out the extent of external support available to finance the council's expenditure, the requirements of the Greater London Authority, items in the Collection Fund and finally the calculation of council tax for 2006/07.

External Support

6.2 The Local Government Finance Settlement was published on 31st January 2006 and debated in Parliament on 6th February 2006.

Changes to the grant system

6.3 The government has introduced fundamental changes to the grant regime for 2006/07. The former system of calculating grant by assessing need to spend using Formula Spending Shares and deducting an assumed level of council tax to determine Revenue Support Grant/Non-Domestic Rates¹ received has been replaced by a so-called Four Block Model. In addition, the introduction of the Dedicated Schools Grant means there has been a significant shift of resources away from Formula Grant funding (RSG and NNDR) to special grant funding. The government has also announced for the first time a two year settlement, and plans to move to three year settlements from 2008/09.

6.4 The Four Block Model consists of the following elements:

- A Relative Needs Block (RNB) calculated using Relative Needs Formulae (RNF) – unlike Formula Spending Share, this does not provide an assessment of total need to spend. It is simply a way of equalising for differences in need;
- A Relative Resource Amount (RRA) - again, unlike the former system in which the resource adjustment was based on an Assumed National Council Tax (ANCT), this adjustment is based on relative resource need and not the amount a council might be expected to raise in council tax if it set its council tax at the ANCT;
- A Central Allocation (CA) – this is an amount that is distributed on a per population basis and is used to distribute the balance of Revenue Support Grant and National Non-Domestic Rate income left after the calculations of the RNB and RRA allocations;

¹ National Non-Domestic Rates are collected by the council on behalf of central government. The NNDR multiplier has increased by 2.7% in line with the September 2005 Retail Prices Index. The multiplier in 2006/07 will be 43.3p for each £1 rateable value compared to 42.2p in 2005/06. A lower multiplier applies to small businesses.

- A Floor Damping Block (FDB) – this is a self-financing block which is used to provide a minimum level of increase in grant for all authorities (although this varies between type of authority) by scaling back gains by authorities that have grant increases above the floor.
- 6.5 The introduction of the Four Block Model does not by itself lead to authorities gaining or losing from the grant system. But it does mean that it is no longer possible to assess total need to spend by an authority or the increase in council tax that the government has assumed in the grant settlement.
- 6.6 A guide produced by the Office of the Deputy Prime Minister to the Local Government Finance Settlement, which explains the new system in more detail, is attached as Appendix G.

The national position

- 6.7 Total external funding for local government is £62.1bn in 2006/07. Total Formula Grant is approximately one third of total local government funding – ie £20.9bn out of £62.1m. The remainder is made up of Dedicated Schools Grant, police grant, and other special grants.
- 6.8 The £20.9bn of Formula Grant is made up of National Non-Domestic Rates - £17.5bn - and Revenue Support Grant (RSG) - £3.4bn. RSG used to form a much greater proportion of local council funding but is much less now as a result of the introduction of Dedicated Schools Grant. Now most Formula Grant comes through redistributed National Non-Domestic Rates.
- 6.9 The increase in external funding is as follows:
- Overall - 4.5% in 2006/07 and 5.0% in 2007/08;
 - of which:
 - o Schools - 6.2% in 2006/07 and 6.0% in 2007/08;
 - o Other local government functions - 3.1% in 2006/07 and 3.8% in 2007/08.

- 6.10 The grant 'floor' system means all authorities get a minimum percentage increase. For London authorities, the 'floor' increase has been set at 2% in 2006/07 and 2.7% in 2007/08.

Brent's external funding

- 6.11 Brent's Formula Grant increase for 2006/07 and 2007/08 is at the 'floor'. The reason for this is that a number of changes in the settlement were unfavourable to Brent. These include:
- Introduction of the Dedicated Schools Grant. In 2005/06, Brent spent £8.2m less on schools than its Formula Spending Share (FSS). Although FSS has been abolished, the transfer from Formula Grant to DSG was based on Formula Spending Share. As a result the council's underlying grant has fallen by £8.2m (although Members should note that there has been a compensatory increase in the Dedicated Schools Grant which

means Brent schools have the second highest funding increase in the country in 2006/07 and 2007/08);

- Change to use of population projections from population estimates. In the past, grant was based on the latest population estimates produced by the Office for National Statistics (ONS) which were always two years out of date. So, for example, for the 2005/06 grant settlement, the mid-year population estimate for 2003 was used. However, from 2006/07 ONS population projections will be used. This means the 2006/07 settlement uses 2006 mid-year population projections and the 2007/08 settlement uses 2007 mid-year projections. Both the ONS estimates and projections show Brent's population decreasing, but the projections show it decreasing further than the estimates. The council disputes both the estimates and the projections and is continuing to press the Office of the Deputy Prime Minister and the ONS, with some success, to review the methodology. Whilst the approach is being reviewed, this has not yet been reflected in 2006/07 and 2007/08 grant calculations.
- Changes to the basis for assessing relative needs. The replacement of Formula Spending Shares (FSS) by Relative Needs Formulae (RNF) has not by itself had an impact on grant. But changes to the way FSS/RNF for children's and adults' social care are calculated have. Brent along with most other London boroughs has lost out as a result of these changes. There have been other changes which have had a broadly neutral impact, with Brent losing as a result of a change to the interest receipt calculation but gaining as a result of what is known as resource equalisation targeted at councils with a relatively low council tax base relative to need.

6.12 As a result of being at the 'floor', Brent's Formula Grant in 2006/07 of £147.334m is a 2% increase compared to the adjusted 2005/06 base.²

6.13 Details of the make-up of Formula Grant are in Table 6.1 below. This shows that, were it not for the application of the 'floor', Brent's grant would be £13.552m less in 2006/07 and £14.636m less in 2007/08.

Table 6.1 Make-up of Brent's Formula Grant in 2006/07 and 2007/08

	2006/07 £m	2007/08 (provisional) £m
Relative Needs Amount	119.394	123.048
Relative Resources Amount	(29.210)	(31.475)
Central Allocation	43.598	44.347
Floor Damping	13.552	14.636
Total Formula Grant³	147.334	150.556

² The adjusted 2005/06 base takes out actual spend on schools, adds back losses incurred as a result of 2004/05 and 2005/06 grant amending reports, adds an amount for concessionary fares following the Chancellors' decision in the 2005 budget to agree free concessionary travel, and makes other adjustments for changes in function.

³ In 2006/07, NNDR accounts for £123.495m of Formula Grant and RSG accounts for £23.839. Equivalent figures are not available for 2007/08.

The Capping Rules

6.14 The Local Government Act 1999 allows the Deputy Prime Minister to limit the budget requirement of authorities if he considers increases in council tax excessive. A number of options are open to him to limit councils' budgets including requiring them to re-set their budgets in the current year – with resulting re-billing costs, disruption to council tax collection, and uncertainty for service delivery – or limiting the budget requirement in the following year. The Deputy Prime Minister used his reserve powers in both 2004/05 and 2005/06 and Ministers have made it clear that they will use their capping powers again in 2006/07 if they need to. The Minister for Local Government, when introducing the 2006/07 provisional settlement, said:

“Therefore we expect to see average council tax increases in each of the next two years of less than 5%. There is, following today’s announcement, no excuse for excessive increases.

“Local government should be under no illusions; if there are excessive increases, we will take capping action - as we have done over the last two years.”

6.15 It is the Director of Finance and Corporate Resources' view that the Deputy Prime Minister is highly unlikely to cap Brent if the council sets a revenue budget at the level of spending set out in this report. This is because:

- (i) Brent's Council Tax at Band D is below the average for London and the country as a whole;
- (ii) The proposed increase in the Brent Council Tax is 2.2%, which is below the 5% average increase referred to in the Minister's statement.
- (iii) It is expected that a significant number of authorities – at both a national and London level - will agree a council tax increase higher than Brent's.

6.16 However, the risk of capping would increase if the council tax rise was 5% or above.

6.17 Members will need to weigh up carefully the risks associated with capping (such as costs and disruption of re-billing and the likely need for in-year cuts) against the consequences for services of not making adequate provision to meet all of the council's needs if they wish to spend at such levels.

The Collection Fund

6.18 The Collection Fund accounts for all monies relating to the council tax for Brent in 2006/07, the Greater London Authority (GLA) precept in 2006/07, and arrears of both council tax and community charge.

6.19 Whatever balance remains on the fund in respect of the under/over recovery of council tax or community charge must be added to or subtracted from the following year's council tax bills. Adjustments in respect of community

charges are added to the council's part of the bill only, while council tax adjustments are shared with the GLA.

- 6.20 The Executive meeting on 16th January 2006 approved an estimated council tax deficit of £1.5m in 2006/07. The council needs to budget to collect £1.178m of this through the council tax in 2006/07, with the balance being met through the GLA precept. The community charge account is estimated to be in balance, so no adjustments need to be made for this.

The Council Tax Base

- 6.21 Council tax is a property based tax with classification of properties into 8 bands depending on the value of the property (see Appendix H(i)). Different rates of tax apply to each band so that properties in Band A will pay one-third of the tax of properties in Band H, the highest level. There are various reductions to the standard charge, for example where there is a single householder in residence in the property. Band D is the middle band and Band D equivalents are used to express the tax base of the authority.
- 6.22 A tax base of 94,047 equivalent Band D properties in 2006/07 (compared to 92,879 in 2005/06) was agreed by General Purposes Committee on 13th December 2005. This assumes a collection rate of 97.5% will be achieved in respect of charges raised for 2006/07 (unchanged from 2005/06).

Calculating the Council Tax Level

- 6.23 The calculation of the council tax for Brent services is set out in Table 6.2 below. The calculation involves deducting Formula Grant from Brent's budget, adding the deficit on the Collection Fund, and dividing by the tax base.

Table 6.2 Calculation of Brent's Council Tax for 2006/07

	£'000
Proposed Brent budget	235,513
Less: Formula Grant	(147,334)
Plus: Net Deficit on Collection Fund	1,178
Total to be met from Council Tax for Brent Budget	89,357
Taxbase (Band D equivalents)	94,047
Band D Council Tax (£)	£950.13

Greater London Authority (GLA)

- 6.24 The GLA came into existence on 3rd July 2000. Before 2000/01 the London Fire and Civil Defence Authority (LFCDA), now the London Fire and Emergency Planning Authority (LFEPA), and Metropolitan Police had set budgets which acted as precepts on the Collection Fund and were reflected in the overall council tax payable by residents. These two bodies, and several other London wide bodies, such as Transport for London and the London Research Centre (to which Brent has historically paid subscriptions), are now absorbed into the GLA which issues one overall precept.
- 6.25 Each financial year, the Mayor and Assembly must prepare and approve a budget for each of the constituent bodies and a consolidated budget for the authority as a whole.
- 6.26 The GLA's budget setting process is as follows:
- (a) The Mayor must prepare for each financial year a budget for each of the constituent bodies and a consolidated budget for the Authority as a whole.
 - (b) The Mayor will then prepare a preliminary draft of his proposed consolidated budget for consultation with the Assembly.
 - (c) After such and any other consultation, the Mayor determines the draft consolidated budget and presents it to the Assembly. The Assembly must approve this budget with or without amendment.
 - (d) After the draft consolidated budget has been approved, with or without amendment, the Mayor shall prepare a final draft of his proposed consolidated budget for the next financial year. If at the time he presents the final draft budget to the Assembly, that final draft is different to the original draft, with or without amendments, the Mayor must present a written statement to the Assembly of his reasons for the changes. This final draft must be presented and agreed before the end of February.
 - (e) After considering the final draft, the Assembly must approve it with or without amendments. Any amendment must at this stage be agreed by two thirds of the members voting. The resulting budget will be the approved consolidated budget for the financial year.
- 6.27 The Mayor published his initial proposed budget for 2006/07 on 14th December 2005. A revised budget was presented to the Assembly on 25th January 2006. His final proposals are due to be agreed by the Assembly on 15th February 2006.
- 6.28 Table 6.3 below shows the proposed budget for the GLA itself and each of its functional bodies in 2006/07. The budget allows for the full roll-out of neighbourhood policing teams to all wards in London during 2006/07. It also includes a £20 per Band D council tax payer Olympic levy in line with the agreement on funding of the Olympics between the Mayor and the Secretary of State for Culture, Media, and Sport.

Table 6.3 Breakdown of Proposed 2006/07 Budget for GLA

	2005/06 £m	2006/07 £m	Proportion of GLA Budget Requirement %
GLA – excluding Olympics	60.9	64.8	2.2%
GLA - Olympics	N/A	57.2	1.9%
Transport for London	20.0	21.0	0.7%
Met. Police	2,488.3	2,425.7	82.3%
LFEP A	403.4	379.5	12.9%
TOTAL	2,972.6	2,948.2	100.0%

Note: Total spending figures in 2005/06 and 2006/07 are not directly comparable because of changes to financial arrangements for police and fire officer pensions, changes in grant funding arrangements, and the introduction of the Olympic levy. On a like for like basis, spending has increased by £117m, or 4.2%.

- 6.29 The proposals put forward by the Mayor would increase the Band D precept by 7.6%, excluding the Olympic levy, and 15.4% including the Olympic levy. This would take the precept from £254.62 in 2005/06 to £293.91 in 2006/07. The GLA is subject to the same capping regime as Brent. The Minister for Local Government has written to the Mayor saying he will not take into account the Olympic levy in determining whether or not the GLA precept is capped. However, the proposed increase of 7.6% for the remainder of the GLA functions, excluding the Olympics, could leave the GLA open to the risk of capping action. If the GLA were to be required to re-set their budget, there would need to be re-billing across London. The final decision will be taken at the GLA meeting on 15th February 2006 when it is expected that the precept increase will be less than in the latest proposals from the Mayor.

Setting the Tax

- 6.30 The council is required to make certain calculations under sections 30, 33, 34 and 36 of the Local Government Act Finance 1992. These calculations are:
- The basic amount of council tax for both Brent Council and the GLA;
 - The basic amount of council tax for each valuation band for both Brent and the GLA;
 - The aggregate amount of council tax for each valuation band, which includes the basic amount for Brent and the GLA.

- 6.31 In accordance with these requirements, Members are asked to agree the calculations set out in the recommendations. The combined effect of a 2.2% increase in Brent Council's Band D council tax, from £929.52 to £950.13, and a GLA increase of 15.4%, from £254.62 to £293.91, would be an overall increase of 5.0%, from £1,184.14 to £1,244.04. The full calculation for each Band is included within the recommendations.
- 6.32 Any amendments agreed to the budget will require a recalculation to be undertaken.

Council Tax and NNDR Instalment Dates and Recovery Policy for Council Tax

- 6.33 Appendix H(ii) sets out the council tax and NNDR instalment dates and the recovery policy for council tax which Members are asked to endorse.
- 6.34 The council has continued to promote payment by direct debit to improve overall collection. Brent has improved the level of tax collected by direct debit. About 46% of council tax payers now pay by direct debit compared to 41% a year ago. We intend to continue to promote direct debit payments. The instalment date for non-direct debit payers remains as it was in 2005/06 at the 1st of the month (apart from April when the instalment is due on the 7th (8th in 2005/06), whilst direct debit payers can pay on the 1st, 12th, 17th or 28th of the month. In addition, direct debit payers can pay over 12 months whereas non-direct debit payers have to make payments over a maximum of 10 instalments.
- 6.35 Council tax collection rates have been improving. At the end of January 2006, 82.11% of council tax due in 2005/06 had been collected compared to 81.34% at the same time in 2004/05. The council is therefore set to achieve target collection of 93.5% of council tax due for 2005/06 by 31st March 2006. The council will collect arrears in subsequent years in order to achieve the overall 97.5% collection rate for 2005/06. Measures are in place to ensure this improvement continues.