

## **SECTION 5**

### **5. RESOURCES**

#### **Introduction**

- 5.1 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 2011/12.

#### **External Support**

- 5.2 The Local Government Finance Settlement was published on 31<sup>st</sup> January and there was a statement in Parliament on 9<sup>th</sup> February 2011 followed by a Parliamentary debate on the same day.

#### *Spending Review*

Previous to the settlement the Government had announced its Spending Review on 20<sup>th</sup> October 2010, covering the four years from 2011/12 to 2014/15. It revealed that total contributions to local government (excluding schools, police and fire) would be reduced by 26% in real terms over this period, with cuts being front loaded and delivered mainly through a reduction in formula grant.

#### *The grant system*

- 5.3 The current system of distributing Formula Grant known as the Four Block Model was introduced in 2006/07 and has run over two settlement periods from 2006/07 to 2007/08 and from 2008/09 to 2010/11. The current system (detailed below) will continue broadly in its current format for the next two years 2011/12 and 2012/13 though the CLG are shortly to begin a review reporting in July 2011 which could see significant changes to the system from 2013/14.

- 5.4 The Four Block Model consists of the following elements:
- A Relative Needs Block (RNB) calculated using Relative Needs Formulae (RNF) – unlike Formula Spending Shares which were used under the previous system, 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 per head of population 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;
- A Floor Damping Block (FDB) – this is a self-financing block which is used to provide a limit to the level of decrease/increase in grant for all authorities (although this varies between types of authority) by scaling back gains by authorities that have grant increases above the floor.

5.5 The current settlement made a number of changes to the Four Block Model.

Banded Floors – the government recognised that some areas of the country are much more reliant on central government grant than others. These tend to be more deprived communities, with more significant social challenges and less ability to raise council tax receipts and so have a greater reliance on central government for their funding. Local authorities vary considerably in the proportion of their budget requirement that is financed by formula grant or council tax. So for social services authorities and shire district councils, the government set four floors. Authorities within these groups would be divided into four bands according to the extent to which they relied on formula grant to finance their budget requirement in 2010-11. The highest floor – representing the smallest reduction – would apply to the most dependent band of authorities and the lowest floor to the least dependent. The table below details band applicable to social service authorities for 2011/12 and 2012/13. Brent has been included in band 1

Band	2011/12	2012/13
1 - Most Dependent	11.3%	7.4%
2	12.3%	8.4%
3	13.3%	9.4%
4 – Least Dependent	14.3%	10.4%

Transitional Grant - concerns were raised in the run up to the settlement that the reductions might be too heavily 'front loaded' so they would hit disproportionately hard in the first year. To tackle this the government has added an additional layer to formula funding by introducing the concept of spending power which is an extension of the funding formula. Spending power includes formula grant, other government grants, NHS support for health and social care, and council tax receipts. The government has provided additional monies in the form of a transitional grant to ensure that no authority will see their spending power fall by more than 8.8 % in either 2011-12 or 2012-13. Within London only Newham, Tower Hamlets and Hackney will receive this in 2011/12.

5.6 As part of the settlement there has been a rationalisation of the grants that local authorities receive. The number of grant has been reduced from over a hundred down to around a dozen with in most areas the ring-fencing restrictions on their use being removed. As result of the rationalisation area based grants have disappeared entirely with only non specific grants

remaining. Many of these grants have either been rolled into formula or included within other specific grants. Though a fair proportion have been deleted altogether. Details of these changes and the remaining grants are included in appendix D(iv).

- 5.7 A guide produced by the Department of Communities and Local Government to the Local Government Finance Settlement, which explains the system is available on their website at:

<http://www.local.odpm.gov.uk/finance/1112/simpguide.pdf>

*The national position*

- 5.8 Total external funding for local government is £72.6bn in 2011/12. Total Formula Grant is just over 40% of total local government funding – i.e. £29.4bn. The remainder is made up of Dedicated Schools Grant, and other special grants.
- 5.9 The £29.4bn of Formula Grant in 2011/12 is made up of National Non-Domestic Rates - £19.0bn (£21.5bn for 2010/11) - The Revenue Support Grant (RSG) - £5.9bn (£3.1bn for 2010/11) – and Police Grant - £4.5 bn. As can be seen most Formula Grant comes through redistributed National Non-Domestic Rates.
- 5.10 The overall national reduction in formula grant for 2011/12 against the adjusted 2010/11 total is 9.9% with 7.3% in 2012/13.

*Brent's external funding*

- 5.11 The reductions in Brent's Formula Grant for 2011/12 and 2012/13 are at the 'band 1 floors' of 11.3% and 7.4% respectively. Brent's formula grant for 2010/11 was £164.489m with the rolling in of various specific and area based grants and with adjustments to the baseline the adjusted formula grant for 2010/11 was £187.047m with the floor reduction of 11.3% Brent's formula grant is £165.911m. Without the protection of the floor this would have fallen by a further £12.671m to £153.240m. Below are detailed the baseline adjustments to 2010/11 and 2011/12 formula grants.

<b>Formula Grant/Adjustments</b>	<b>2010/11 £m</b>	<b>2011/12 £m</b>
Formula Grant	164.489	165.911
Concessionary Fares	1.594	
Child Death Review Processes	0.078	
Care Matters White Paper	0.485	
Adult Social Services	5.061	
Personal Social Services	1.596	
Private Sewers	(0.103)	(0.096)
Academies	(0.957)	(0.755)
Supporting People	12.807	
Housing Strategy for Older People	0.110	
LSC Staff Transfer	0.244	
HIV/AIDS	0.377	
Preserved Rights	1.206	
Other	0.060	
<b>Adjusted Formula Grant</b>	<b>187.047</b>	<b>165.060</b>

5.12 Population projections form a very significant element of the relative needs and central allocation blocks. The 2010/11 settlement was based upon revised 2004 based population projections carried out by the Office of National Statistics (ONS) and used the population projection for 2010 of 271,639. This was significantly lower than a study of Brent's population by Professor Les Mayhew which calculated that Brent's population was 289,000 in 2007. Furthermore the Greater London Authority's own calculation of Brent's population is slightly lower than Professor Mayhew's – 281,800 at mid-2007 – but still significantly higher than the ONS. During 2010 the ONS introduced revised 2008 based population projections and revised population estimates 2002 – 2008 which saw Brent's population fall significantly. The 2011 population projection used in the 2011/12 settlement is 252,268 which more than 18,000 less than the 2010/11 population projection and indeed more than 11,000 lower than the 2001 census figure of 263,500. This has without doubt had a significant impact on Brent's raw formula grant and increasing the level of damping from £7.5m in 2010/11 to £12.7m in 2011/12.

Details of the make-up of Brent's Formula Grant are in Table 5.1 below.

**Table 5.1 Make-up of Brent's Formula Grant**

	2010/11 £m	2011/12 £m	2012/13 £m
Grants Rolled In		16.573	16.695
Relative Needs Amount	134.396	140.171	122.928
Relative Resources Amount	(30.749)	(38.608)	(35.871)
Central Allocation	53.305	34.924	31.019
Floor Damping	7.537	12.671	18.075
<b>Total Formula Grant<sup>1</sup></b>	<b>164.489</b>	<b>165.911</b>	<b>152.845</b>

### The Capping Rules

- 5.13 The Local Government Act 1999 allows the government to limit the budget requirement of authorities if it considers increases in council tax excessive. A number of options are open to it to limit the amount councils increase their budgets by 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.
- 5.14 For 2011/12 the government has set aside £650m so that every council can freeze their council tax in 2011/12 and receive a grant equivalent to a 2.5% increase in funding. In the case of Brent this would be £2.585m. This grant would be received for each year of the spending review and would not preclude Councils from increasing their council tax in future years. The government want to protect council tax payers from authorities who reject their offer and impose excessive increases. Through the Localism Bill the government want to introduce powers which allow residents to veto excessive increases through a referendum. Though in the interim the government can take action.
- 5.15 It is the Director of Finance and Corporate Services' view that the government will not cap Brent if the council sets a revenue budget at the level of spending set out in this report.
- 5.16 However, given the introduction of the council tax grant and the new government it is difficult to say at what level of council tax increase capping would apply. Due to the conditions of the council tax grant any council rise lower than 2.5% would actually reduce the resources available to the Council therefore only increases above 2.5% would a realistic option and this might incur capping
- 5.17 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

<sup>1</sup> In 2011/12, NNDR accounts for £126.786m (£143.632m for 2010/11) of Formula Grant and RSG accounts for £39.125m (£20.857m for 2010/11).

meet all of the council's needs if they wish to spend at such levels. Members need to be mindful of the advice of the Director of Legal and Procurement in appendix M.

### **The Collection Fund**

- 5.18 The Collection Fund accounts for all monies relating to the council tax for Brent in 2011/12, the Greater London Authority (GLA) precept in 2011/12, and arrears of both council tax and community charge.
- 5.19 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.
- 5.20 The Executive meeting on 13th December 2010 approved an estimated council tax deficit of £1.3m in 2010/11. The council needs to budget to collect £1.006m of this through the council tax in 2011/12, 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**

- 5.21 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.
- 5.22 A tax base of 97,252 equivalent Band D properties in 2011/12 (compared to 96,457 in 2010/11) was agreed by the General Purposes Committee on 25<sup>th</sup> January 2011. This assumes a collection rate of 97.5% will be achieved in respect of charges raised for 2011/12 (unchanged from 2010/11).

### **Calculating the Council Tax Level**

- 5.23 The calculation of the council tax for Brent services is set out in Table 5.2 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 5.2 Calculation of Brent's Council Tax for 2011/12**

	£'000
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<b>Proposed Brent budget</b>	<b>267,889</b>
Less:	
Formula Grant	(165,911)
Plus:	
Net Deficit on Collection Fund	1,006
<b>Total to be met from Council Tax for Brent Budget</b>	<b>102,984</b>
<b>Taxbase (Band D equivalents)</b>	<b>97,252</b>
<b>Band D Council Tax (£)</b>	<b>£1,058.94</b>

### **Greater London Authority (GLA)**

- 5.24 The GLA came into existence on 3<sup>rd</sup> 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 historically paid subscriptions), are now absorbed into the GLA which issues one overall precept.
- 5.25 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.
- 5.26 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.

- 5.27 The Mayor published details of 2011/12 budget for consultation on 22nd December 2010. The Mayor's draft consolidated budget proposals were published on 2<sup>nd</sup> February 2011 and were considered by the Assembly on 10<sup>th</sup> February 2011. The final budget was published on 14<sup>th</sup> February and will be considered by the Assembly on 23rd February 2011.
- 5.28 Table 5.3 below shows the budget for the GLA itself and each of its functional bodies in 2010/11. The budget 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 then Secretary of State for Culture, Media, and Sport.

**Table 5.3 Breakdown of Proposed 2011/12 Budget for GLA**

	2010/11 £m	2011/12 £m	Proportion of GLA Budget Requirement %
Mayor of London	131.8	137.1	4.2
London Assembly	8.6	8.0	0.2
Transport for London	12.0	12.0	0.4
Met. Police	2,673.3	2,701.1	82.7
LFEPA	437.3	409.4	12.5
<b>TOTAL</b>	<b>3,263.0</b>	<b>3,267.6</b>	<b>100.0</b>

LFEPA = London Fire and Emergency Planning Authority

- 5.29 The precept at Band D is £309.82 for 2011/12. This represents a 0% increase (the Olympic levy also remains at £20 at Band D). This precept is set to be confirmed at the Assembly meeting on 23rd February 2011.

### **Setting the Tax**

- 5.30 The council is required to make certain calculations under sections 30, 33, 34 and 36 of the Local Government Finance Act 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.
- 5.31 In accordance with these requirements, Members are asked to agree the calculations set out in the recommendations. The effect of a 0% increase in Brent Council's Band D council tax, which leaves council tax at the 2010/11 level of £1058.94, combined with the GLA precept remaining at £309.82, would be an overall increase of 0%. The full calculation for each Band is included within the recommendations.
- 5.32 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**

- 5.33 Appendix G (ii) sets out the council tax and NNDR instalment dates and the recovery policy for council tax which Members are asked to endorse.
- 5.34 The council has continued to promote payment by direct debit to improve overall collection. The instalment date for non-direct debit payers will be : at the 1<sup>st</sup> of the each month starting in April until the 1<sup>st</sup> January 2012, whilst direct debit payers can pay on the 1<sup>st</sup>, 12<sup>th</sup>, 17<sup>th</sup>, or 28<sup>th</sup> of the month. Both direct debit payers and non-direct debit payers will have to make payments over a maximum of 10 instalments.
- 5.35 Council tax collection rates have been improving and are now favourably comparable to other similar London Boroughs. At the end of December 2010, 84.4% of council tax due in 2010/11 was collected, up slightly from 83.6% in December 2009 despite the current economic conditions. The council is set to achieve or slightly outperform its target in-year collection of 95% of council tax due for 2010/11 by 31<sup>st</sup> March 2011, although it will have to collect arrears in future years to achieve the overall target set of 97.5%.