

# LONDON BOROUGH OF BRENT

**FULL COUNCIL**  
**17<sup>th</sup> November 2003**

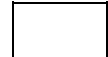
**FROM THE DIRECTOR OF FINANCE**

**REPORT TITLE: 1<sup>st</sup> Reading of 2004/5 Budget**

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## **1. Summary**

- 1.1 This report sets out the main parameters surrounding the setting of the budget and Council Tax for 2004/5 and subsequent years. The report forms the background to the Executive's report to Council as required under Standing Order 25(a).

## **2. Recommendations**

- 2.1 Full Council is recommended to consider the issues set out in this report when it holds its debate for the purposes of Standing Order 25(a).
- 2.2 This report, the report from the Executive on the same subject, and the minutes of this meeting are submitted to Overview Committee who are asked to consider the issues, undertake such consultation as they see fit and report their views to the Executive before the end of January 2004.

## **3. Financial Implications**

- 3.1 The report is entirely concerned with financial implications

## **4. Legal Implications**

- 4.1 The Council's Standing Orders contain detailed rules on the development of the Council's budget. These rules follow the requirements of the Local Authorities (Standing Orders) (England) Regulations 2001. The procedures also include a 'First Reading Debate' which although consistent with the legislation is not required by it.
- 4.2 In the case of the Council's annual budget, including the capital programme, the Executive is required under the Constitution to present a report to Full Council setting out the financial position of the Council, financial forecasts for the following year and expenditure priorities. This report sets out the required information. There will then follow a debate on the issues raised herein, which will be conducted in accordance with Standing Order 45.

- 4.3 Following the First Reading Debate the Executive will meet on 8<sup>th</sup> December to consider draft service plans and budgets and will then produce general proposals for the budget.
- 4.5 Following the debate on this report, the report and minutes of the debate will be referred for consultation to the Overview Committee. During this consultation period the Overview Committee will consider the proposals and undertake any consultation it considers appropriate although being careful not to duplicate any consultation already undertaken. It can then provide comments back to the Executive. In order for these to be taken into account before the Executive produces its final budget proposals, Overview Committee needs to report its findings by the end of January 2004.
- 4.6 The final proposals of the Executive shall be submitted by the Leader to a special meeting of Full Council for consideration and determination which meeting will be held by no later than 10<sup>th</sup> March in accordance with Standing Order 35. There is a dispute procedure set out in Standing Order 25 to deal with circumstances where there is a disagreement between the Council and Executive on the budget proposals.
- 4.7 The Standing Orders do not require the Executive or Full Council to consult the Performance and Finance Select Committee on the preparation of the budget since this is the role of the Overview Committee. However, there is no reason why the Executive or Full Council should not refer the proposals to the Performance and Finance Select Committee. It is intended that the final Expenditure proposals published in February be referred to Performance and Finance Select Committee before Full Council is asked to agree them.

## **5. Staffing Implications**

- 5.1 A number of options for change set out in the report have significant implications for the terms and conditions of staff, and for the numbers of type of staff employed. Full implications will be set out in due course once detailed reports on the options have been prepared for consideration and decision by the Executive or Full Council as appropriate.

## **6. Framework of Report**

- 6.1 It is intended to set out a budget framework for 2004/5 and the following three years. In order to do this a wide range of parameters need to be considered. Each of the following sections and associated appendices considers one area at a time.

The sections covered are:

- |     |            |   |  |
|-----|------------|---|--|
| (a) | Section 7  | - | External Funding                                   |
| (b) | Section 8  | - | Budget Matrices and savings                        |
| (c) | Section 9  | - | Growth bids  |
| (e) | Section 10 | - | Schools budget                                     |
| (f) | Section 11 | - | Central Items and risks                            |
| (g) | Section 12 | - | LGA 2003: The prudential code and capital spending |
| (h) | Section 13 | - | LGA 2003: Robust budgets and adequate balances     |

- (i) Section 14 - LGA 2003: Council Tax Discounts
- (j) Section 15 - Implications for Council Tax
- (k) Section 16 - Corporate Strategy update and Community Plan
- (l) Section 17 - Timetable

6.2 It should be emphasised that this report represents a summary of the parameters and options that Members need to consider when setting the budget. It has been prepared by Officers taking into account statutory responsibilities, service pressures, government exhortations and the Corporate Strategy. In particular indicative Council Tax levels are only a mechanical adding up of all the numbers, and do not assume any policy choices or prioritisation. However, it does not at this stage represent the views of the Executive or any other group of Members including Full Council.

## **7. External Funding**

7.1 The future levels of general government support and of targeted and ear-marked grants is uncertain at the present time. It is expected that the Government during the week beginning November 17th will provide information on the provisional settlement. At present, however, there are a wide range of factors to take into account including:

- (a) The Spending Review 2002
- (b) Changes to the Funding formula and the impact of floors and ceilings
- (c) Changes to the regime of specific grants including transfers to and from general grant
- (d) Changes to the functions of Local Authorities and other adjustments
- (e) Data changes

7.2 Appendix 1 sets out the estimated increases in planned central government support to local authorities as set out in the Spending Review 2002. These have been used as the basis for the assessment of future grant. However, these totals are subject to changes such as outlined in (b) to (d) in paragraph 7.1.

7.3 Following the major changes in the funding formula (now known as Formula Spending Shares or FSS) last year, we are not anticipating any major changes for the 2004/5 financial year. There are however changes to data and some other changes discussed below.

7.4 The government has reaffirmed its commitment to continuing the current regime of limits to annual grant changes both upwards and downwards, called ceilings and floors respectively. They have not yet said what the level of floors and ceilings will be in 2004/5. However, based on past experience we have assumed that Brent will receive at least a 3% per annum increase in grant, but no more than 8% per annum.

7.5 Floors and ceilings will themselves be modified by changes to specific grant regime, changes to Local Authority funding and other adjustments. At this stage we have some limited information available about what these changes will be in detail. Our main assumptions are:

- (a) The ending of the Quality Protects specific grant will lead to an increase of £5.679m in general grant, which will be needed to compensate social services. It is assumed that the calculation of floors and ceilings will be after this change is allowed for.
- (b) The Council will lose around £1.376m grant as a result of the Willesden City Academy being funded directly by DfES. It is assumed that this change will also be deducted before calculation of floors and ceilings.
- (c) All other shifts between general grant and specific grants will be cost neutral.

7.6 Another uncertainty facing the Council is the impact of data changes on the Authority. The Council usually loses around £1.5m per annum as a result of changes in data – driven principally by demographic change. We have continued to make that assumption. There are some changes that suggest that we may do better than this:

- (a) The revised 2001 mid-year population estimates have increased Brent's population from 263,805 to 270,434, with the estimate for 2002 being 272,448. If this were the only change to the grant system, Brent would gain £1.8m in grant.
- (b) The Government intend to produce a revised 2003/4 settlement in 2004/5 with grant changes being paid in 2005/6. At present this would give Brent an additional £100k. The reason this figure is so small despite the large population change is because the Council was close to the grant ceiling in 2003/4.
- (c) The revised factors for the calculation of the Area Cost Adjustment will give Brent an additional £1.7m (again subject to no other changes).

7.7 Against these positive factors are a number of issues that work against the Borough. The first of these is that the minimum grant guarantee that Government have given in respect of education (i.e. that every authority will get a grant increase at least as large as its increase in Education FSS) has to be paid for by other local authorities as a whole. Depending on the option that the Government adopts, Brent will lose between £0.5m and £1.3m.

7.8 The second threat comes from the use of the social and economic data from the 2001 census within the current formula. The Government has exemplified the effect of using this new data within the current funding formula, and Brent would lose £4.5m grant. However, there are good technical reasons why such a change is statistically invalid, and the Government will not be making it for the 2004/5 settlement. It is their intention however to make the changes for 2005/6, although they will also fix the statistical methodological problems at that time as well, and that may well reduce the losses to Brent.

7.9 Appendix 1 sets out the range of possible levels of grant that Brent Council may receive in 2003/4 and subsequent years. There are three figures given:

- (a) Grant based on the floor increase in grant.

- (b) Grant based on the assumption that the Council gets the average increase in FSS for each service block, subject to the adjustments referred to in 7.5 and a £1.5m data loss.
- (c) Grant based on the ceiling increase in grant.

7.10 Members will notice that the difference between the floor and ceiling grant is £12.8m in 2004/5 rising to £59.3m in 2007/8. These are very significant differences and clearly make decisions at this stage about the overall budget very difficult. Members will also note that the difference between the central forecast and the ceiling is only £2.8m.

## **8. Budget Matrices and savings**

8.1 Each Service Area has been asked to produce base budgets for the four year period based on a range of standard assumptions. These include:

- (a) An allowance for pay inflation of 3.5% per annum and for prices inflation of 2.0% per annum;
- (b) Inclusion of all previously agreed and committed growth and savings as set out in the Budget Report agreed by Council on 3<sup>rd</sup> March 2003;
- (c) Identifying 2% savings (excluding the schools budget).

8.2 A summary of the resulting cash limits is set out in Appendix 2. It should be noted that at this stage Members have not agreed the 2% savings options. They will be presented as part of the Service Development Plans, which will be agreed by the Executive on 8<sup>th</sup> December before consideration by Overview Committee. A summary of the savings proposals is set out in Appendix 3. This report assumes these savings will be agreed in their entirety.

8.3 In addition to the 2% savings that each service area has been asked to make, there are a number of exercises being undertaken to attempt to identify other savings. In particular, it is hoped that the Best Value Review of Fees and Charges may identify opportunities for raising further income, and that the tendering exercise for supplies of agency staff may also generate savings. A number of other reviews and exercises are also underway. At this stage it is not possible to say how much if anything may be generated by way of further savings from these reviews.

8.4 As will become clear later (see in particular section 15), the overall budget position is potentially very tight. Therefore the Director of Finance has asked service areas to identify further savings options. These will be considered by the Executive alongside the growth bids prior to the Executive producing its final budget proposals in February 2004. At this stage no proposals have been produced and no allowance has been made for this exercise in this report.

## 9. Growth Bids

- 9.1 Service areas have prepared a set of growth bids to address a number of different issues including the priorities of the Corporate Strategy and the Community Plan, new statutory and regulatory requirements, government exhortations, and service pressures (such as growth in client numbers, volume of service or unit costs). These are set out in Appendix 4. All of these bids need to be thoroughly evaluated to ensure that they represent the correct amounts to achieve their objectives. Members will still need to agree whether or not to accept these bids, and in which year they should be implemented. These growth bids include those growth items previously considered and included in the indicative cash limits for 2004/5 when the Council set the budget for 2003/4 on 3<sup>rd</sup> March this year.
- 9.2 Total growth bids on these schedules amount to £22.4 million in 2004/5, an additional £6.9m in 2005/6, £2.1m in 2006/7 but a saving of £0.4m in 2007/8. These are significant sums and Members will need to consider them very carefully before agreeing to them, given the implications they will have for either the level of Council Tax or the extent of additional savings required.
- 9.3 There are a number of other items of growth included in the overall budget proposals. These are in the main dealt with in section 11. The remaining key growth area is the Council's remuneration strategy. During 2003/4 significant additional sums have been allocated to Service Areas to tackle issues of recruitment and retention. Further growth (estimated to be £1.4m in 2004/5 and a further £550k in 2005/6) is required to deal with the implementation of single status and certain pay anomalies. This has been included in the overall budget estimates.
- 9.4 The schedule of growth bids set out in Appendix 4 include the growth bids arising from the work of Overview's Waste Task Force and bids from Education Arts and Libraries in respect of the schools block. Within the overall summary (Appendix 5) the total bids within the schools block have been split. Part is included in the line called "passporting requirement" and the residual within the "total growth bids line". The "passporting requirement" figure is our estimate of the amount needed above that included in the Service Area cash limit for schools to meet the Government's passporting requirements (see next section).
- 9.5 The final point to note about the presentation is the treatment of "agreed growth". Growth included in cash limits at the time the 2004/5 budget was set is included in the Service Area cash limits. However this growth is also included in the growth schedules in Appendix 4 and therefore in the "total growth bids" line of the summary table (Appendix 5). To remove this double counting a line called "Agreed Growth Reversal" has been added to the summary table.

## 10. Schools Budget

- 10.3 Under the Education Act 2002 as amended by the Local Government Act 2003, Councils are required to submit their proposed budget for schools to the Secretary of State for Education and Skills by the end of December preceding the start of the financial year. The Secretary of State has the power to question these proposals and ultimately impose a higher minimum budget than that proposed by the Council. The schools budget includes the devolved schools budget, out-borough SEN placements, devolved Students fund, Nursery Schools and other SEN and early years provision.
- 10.4 The Secretary of State for Education made an announcement on 29<sup>th</sup> October setting out the arrangements for schools budgets in 2004/5. The key elements are:
- (a) Each school with no change in pupil numbers would be guaranteed a 4% increase per pupil in its budget (with slightly more per pupil where numbers were dropping and slightly less where they were increasing);
  - (b) The schools block FSS would increase by a minimum of 5% per pupil and a maximum of 6.5% per pupil for every authority, and the Government would expect an increase in the schools budget of at least this amount with a threat to intervene if this did not happen;
  - (c) The cuts planned to the Standards Fund have been reversed and each school should get a minimum increase of 4% in this source of funding, subject to the special treatment of a number of items. In particular there will be a re-distribution of the EMAG grant which will lead to a grant gain for Brent;
  - (d) Each authority will receive an increase in general grant at least equal to its increase in schools block FSS, to be paid for by reductions in grant to other local authorities – of which one will be Brent;
  - (e) The transitional and other support arrangements introduced in 2003/4 will continue (Brent did not gain anything through these arrangements);
  - (f) The funding rules will be changed so that no authority can increase its non-delegated part of its schools budget (mainly provision for SEN) by a greater percentage than it increased its delegated schools budget. Authorities can ask for an exception to this by application to the Secretary of State by 8<sup>th</sup> December 2003, providing that they have consulted the Schools Forum.
- 10.5 In preparing this report, Officers have taken account of these requirements and have included growth for schools sufficient to ensure that the increase is equivalent to the estimated increase in FSS. The level of growth for schools may vary according to the level of grant if the cause of the grant change is a change in the schools block FSS. However, we have made no attempt to adjust the estimated schools growth for this. Once the settlement is known the estimated growth required for schools will be revised to meet the requirements of the Secretary of State's announcement. The figures shown as a separate line in the summary (Appendix 5) represent growth in schools budget needed to meet these requirements above that included in the budget matrices.

10.6 The Council may want to increase its non-delegated schools budget by a higher percentage than its delegated schools budget (see 10.4 (f) above). However it will not know this until the settlement is known, although that should be sometime this week. The time available to do the calculations, consult the Schools Forum and make an application for an exception is very short.

## **11. Central Items and Risks**

11.1 There are a number of adjustments that have been made to non-service area budgets and central items since the indicative figures for 2004/5 were published in March. Some of these are set out in the overall summary table (Appendix 5) and others in Appendix 6. Appendix 6 sets out the necessary level of expenditure for other budgets and central items.

11.2 There is additional expenditure needed to compensate for one-off savings included in the 2003/4 budget, and for increases in provisions and contributions to meet the Council's liabilities and responsibilities. The main points to note are:

- (a) A requirement to fund some £3.6m of capital expenditure from revenue implicit in the decisions made in setting the 2003/4 budget has been removed – it is now assumed that this can be met by prudential code borrowings;
- (b) Revenue growth has been included to meet assumed increased borrowing that is needed to fund (a) above and all of the current capital bids;
- (c) Growth is needed to reverse the effects of the one off decisions to defer making PRC contributions to the pension fund and contributions for Middlesex House liabilities;
- (d) Although no decision has yet been taken a provision has been made for the potential financing costs of a new Civic Centre;
- (e) The provision made for decanting costs associated with the redevelopment of South Kilburn has been deferred for a year, as it is clear that this will not be needed in 2004/5;
- (f) Provision has been made for the estimated increase in employer's pension contributions that will be needed from 2005/6;
- (g) Growth has been included for the estimated increase in levies and other payments to outside organisations (e.g. West London Waste Authority and auditors);
- (h) The overall budget for debt charges has been reduced by £1m compared to earlier estimates to account for the savings made by the debt restructuring activity undertaken by the Treasury Management team in BFS.



- 11.3 The overall budget estimates also contain a contingency provision for the years after 2004/5. This is essential, as it is inevitable that additional demands will arise that cannot yet be forecast. Experience over the past few years has demonstrated the practical need for such a contingency.
- 11.4 Until Members have taken provisional views about growth, savings and Council Tax levels, it will not be possible to assess all the financial risks included in the budget. Areas of the budget may give rise to pressures not fully covered by the base budget or growth. There are challenges associated with achieving all the savings identified and if the budget is built on the assumption that they will be, then risk of failure rises.
- 11.5 In addition to risks in the budget, the Council also faces a range of other financial risks. These include a number of legal challenges (e.g. over the use of the Quaintain Street S106 contribution, from Marjess/Whitewater over the Vale Farm contract, and from Wiggins over the Kingsbury pool contract) which remain unresolved. In addition the Council faces potentially significant claims for restoration of charges made in respect of aftercare provided under S117 of the Mental Health Act 1983. The potential liability remains unquantified at present but is unlikely to be less than £2 million. There remain risks around the adequacy of the insurance fund and provision for bad debts, particularly in respect of housing benefit overpayments.
- 11.6 Section 13 deals with the Director of Finance's responsibility for giving the Council advice on the need for balances to cover risks.

## **12. LGA 2003: The prudential code and capital spending**

- 12.1 One of the most significant changes affecting local government finance is the introduction in the Local Government Act 2003 (LGA 2003) of the new "prudential" capital control regime. The principles of the proposal are set out in a report to the Executive on 21<sup>st</sup> June 2003. It is now certain that the prudential code regime will be implemented and unlikely that the Government will impose limits on individual authorities.
- 12.2 The new regime permits local authorities to borrow as they see fit for capital purposes, subject to fulfilling the requirements of the Prudential Code published by CIPFA. The essential requirements of the code are that borrowing and the associated capital spending must be affordable, prudent and sustainable, value for money, linked to the Council's service objectives, and capable of practical delivery. The Director of Finance is required to provide advice on what the local prudential limit on borrowing and in particular the limit for the capital financing requirement should be. This report does not represent that formal advice, but the Director of Finance's current view is that, subject to paragraph 12.3 below, the capital expenditure included in this report is consistent with the application of the prudential code.

- 12.3 The key test is affordability. The code requires that the incremental cost of the increase in capital expenditure over that previously agreed, for the next financial year and the following two, measured in terms of Band D Council Tax is presented as part of the decision making process. This is shown at the bottom of Appendix 5. It is the view of the Director of Finance that this is insufficient information to be able to judge the affordability of the capital programme. Firstly, incremental levels of change in Council Tax are meaningless unless considered as part of the overall budget and the implications for council tax as a whole. Secondly the cost of any level of capital expenditure has to be seen over a longer period than three years, as borrowing places a liability over a longer period. To deal with this issue an indicative “30 year business plan” has been developed and is included as Appendix 7. Thirdly, the key test of affordability is ultimately what elected members consider is an acceptable level of Council Tax. To reach that acceptable level Members have a number of choices, and additional capital spending can be met by reductions in other parts of the budget.
- 12.4 Appendix 8 sets out the existing capital programme and list of capital bids submitted. The summary budget (Appendix 5) sets out the revenue consequences of the increase in the capital programme consistent with funding all of this expenditure. These revenue costs can be reduced by not agreeing the capital bids.
- 12.5 It will be still be possible to look to a range of alternative funding arrangements in order to fund many of the capital bids. This will include options such as PFI, making use of other bidding regimes, and deals with partners such as the PCT to use schemes such as “Lift”.
- 12.6 Members are invited to consider what their main priorities are.
- 13. LGA 2003: Robust budgets and adequate balances**
- 13.1 The Local Government Act 2003 requires the Chief Financial Officer to report to Council at the time it makes decisions about the budget and Council Tax on the “adequacy” of reserves or balances and the “robustness” of the budget calculations. It is implicit that this obligation already exists and budget reports have always been prepared with these issues in mind. However, the statutory obligation may change how the Council considers motions to amend the budget.
- 13.2 This issue was also covered in the report to the Executive of 23<sup>rd</sup> June 2003. The Director of Finance is of the same opinion as to the implications of this change as he was at that time, and repeats that advice here.
- 13.3 In the past, the Director of Finance and his staff have assisted the different Groups prepare motions for the Council meeting. That help has included an evaluation of the robustness of budget proposals as well as consideration of the level of balances. All sides have implicitly assumed that motions tabled on the night of the Council Tax setting meeting have been properly appraised in this manner, but there has been no explicit assessment.

- 13.4 The Director of Finance's view is that such an informal approach will be inadequate under the new law. He believes that as a minimum, he will need to prepare a statement to accompany each motion. In order to do this he will need to see the final version of proposed motions at least three working days before the Council Meeting on the assumption that it will be in order to table such statements at the Council Meeting. He would want an opportunity to discuss these statements with the proposer of any motion before the meeting so as to give each side an opportunity to make amendments before the meeting itself. The Director of Finance will discuss this issue further with Group Leaders prior to the final preparation of budgets.
- 13.5 The budget proposals before the Council today do not constitute a complete budget as has already been explained. They are a list of growth bids, which need to be considered and prioritised by Members. Additionally Officers still need to ensure that the value placed against each bid is just sufficient to meet the need described. Once that process has been undertaken it will be possible to estimate what risks remain in the budget and together with the other financial risks facing the Council estimate a minimum level of revenue reserves required. On the basis of the information that is currently available, the Director of Finance is of the view that the required minimum level of balances is unlikely to be less than the £4 million that the Council currently holds.

#### **14. LGA 2003: Discounts and other issues**

- 14.1 Section 75 of the Local Government Act 2003 enables the Secretary of State to specify by regulation certain classes of property where the local authority can reduce the Council Tax discount to no less than 10%. Draft regulations indicate that this power will be provided to authorities in relation to "second homes" and long term empty properties. In addition, section 76 of the Act gives billing authorities (i.e. including Brent Council) the power to reduce Council Tax bills both for individuals and for classes of cases as it so defines. In exercising these new powers there is a range of considerations that Members need to take account of in setting the budget for next year.
- 14.2 "Second homes" as defined in the draft regulations are chargeable dwellings that are not the sole or main residence of any individual and are furnished. (The regulations allow for the separate treatment of "holiday" homes and they exempt certain classes from this power – e.g. job related second homes). This definition will therefore include any unoccupied furnished private rented property as well as what is generally considered to be second homes. The number of "classic" second homes in Brent is very small (estimated to be only 24), but the number of properties that are furnished and empty is likely to be relatively substantial at any point in time. Last year's CTB1 return classified 3,096 properties as "empty homes" which will include both furnished and unfurnished properties.

- 14.3 Members will need to consider the policy implications of any decision to reduce the discount on “second homes”. In more rural parts of the country this includes the impact that significant numbers of second homes have on local house prices and the ability of local people to buy homes. This is unlikely to be a consideration in Brent, but there may be arguments in relation to the Council’s housing policy in respect of the private rented sector and empty homes strategy. Should the Council agree to reduce the discount on “second homes” any additional income would be shared with the precepting authority, but would not be clawed back by Government. The potential additional income that can be raised may be significant depending on how many of the empty homes are furnished (and subject to being able to collect it). The administrative consequences of reducing the discount would be minimal.
- 14.4 “Empty” properties are defined in the regulations as those that are unoccupied and substantially unfurnished. Such properties are exempt from Council Tax for six months and then get a 50% discount. Last year’s CTB1 return classified 271 properties as “exempt” as unoccupied and unfurnished, but this will not include properties liable to a 50% Council Tax because they have been empty for more than six months (they will be included within the 3,096 figure quoted above). In addition a further 1,484 properties are exempt because they are uninhabitable. The power to reduce discounts does not extend to change the liability on exempt properties.
- 14.5 There may be good policy reasons for reducing the discount on empty properties (for example encouraging owners to bring them back into use). Members will need to consider these before taking a decision on whether to reduce discounts. However, unlike the second homes discount, any changes to the empty property discount will be taken into account in setting grant entitlements. In effect the Government assume Council Tax at the level of the ANCT (Assumed National Council Tax) which was £1,037 in 2003/4 and 100% collection. This compares with our Council Tax for 2003/4 discounted for average collection rates of £1,043. If Brent reduced the empty homes discount then we ought to just about break even. In the end this would turn on our ability to collect the new bills (which may be harder from empty properties than from properties in general) and the actual number of properties compared to the number estimated. There is therefore a potential if small financial risk associated with reducing this discount. The administrative costs associated with this change are also likely to be small.
- 14.6 Members may want to consider the option of having a reduced discount for second homes and empty furnished properties and not changing the discount for empty unfurnished properties. This may have the undesirable side effect of encouraging owners to remove furniture from empty properties in order to gain the higher discount. Any move to increase Council Tax on empty properties may also lead to owners rendering property uninhabitable in order to gain exemption from the Tax. There is therefore a range of complex issues to consider before decisions are made on second home and empty property discounts.

- 14.7 The other wide-ranging power that billing authorities have been given is that to “invent” new discounts for classes of cases, and to reduce bills in individual cases. This power came to national prominence through the proposal from Kent County Council that pensioner households should be given a discount such that their bills rose by no more than inflation. (In practice this was not a power that could be exercised by Kent County Council, but only by the district councils in Kent who have not agreed to it.) The power is much wider than that, and its application is really only limited by imagination.
- 14.8 Any additional discount granted reduces the overall taxbase. Therefore the cost of any scheme falls on the collection fund rather than the general fund. There are two principal aspects to bear in mind therefore. The cost of any discount is paid for by a general increase in the tax rate, or in other words by taxpayers not in receipt of the discount. Secondly, any over or under estimate of the cost adds to or reduces the deficit on the collection fund rather than being a call on general fund balances.
- 14.9 The table below illustrates the impact of a discount to all pensioner households from the tax figures shown in Appendix 5 to the rate of inflation. It shows the cost of the discount in £ million and the additional percentage increase that other taxpayers would have to meet cumulatively over the period of the medium term financial plan.

	2004/5	2005/6	2006/7	2007/8
<b>Cost of discount in £m</b>				
Grant at ceiling	£5.9m	£9.9m	£10.5m	£10.7m
Grant between floor & ceiling	£6.8m	£11.5m	£15.8m	£21.0m
Grant at floor	£9.8m	£18.1m	£23.4m	£28.9m
<b>Cumulative % increase for non discount tax payers</b>				
Grant at ceiling	8.8%	14.6%	15.5%	15.8%
Grant between floor & ceiling	10.1%	17.1%	23.3%	31.1%
Grant at floor	14.6%	26.7%	34.6%	42.7%

- 14.10 The table shows that even in the first year the cost of the discount could be quite significant if the underlying tax rise is significantly above inflation. It also shows how rapidly the costs will rise if the discount is maintained over a sustained period and the very much higher costs that non discount tax payers would face if such a policy were to be adopted. The cost of the scheme could be reduced by changing the categories of eligible households – for example, restricting the discount to the over 75s, restricting it to the lower bands, or even including some form of income test.
- 14.11 There are however a range of formidable issues that would need to be tackled before such a scheme could be introduced:
- Defining eligibility – would only all pensioner households be eligible, and if not how would mixed households be treated?
  - Administrative difficulties – how would eligibility to the discount be established, what proof would be required and how many additional staff would be required to administer, monitor and enforce the scheme?

- (c) Software issues – the software that we use would require some change (the extent depending on the complexity of the scheme adopted) and for practical purposes Capita have indicated that they would need to know before the end of December what scheme if any was to be introduced. There would be costs associated with this change and risks that it might not work.
- (d) The loss of government grant – many pensioner households are in receipt of Council Tax benefit. This would be reduced by the extent of the discount and in effect other Council Tax payers would pick up a tab previously paid for out of general taxation through Council Tax benefit subsidy.
- (e) The views of the public – could such a change be introduced without extensive public consultation? What is likely to be the view of the majority of taxpayers to a proposition that pensioners not on benefit should receive a tax subsidy at their expense and that they pay part of the benefits bill of the others? It is also clear that the views of pensioners may well be mixed with at least one national group preferring to continue to argue for reform of Council Tax.
- (f) The cumulative cost – could a discount in these terms be sustained over the longer period? For example the table above suggests that non pensioner households could be paying up to 43% more than pensioner households after only four years.

14.12 If Members are to introduce a scheme using these powers in 2004/5 the time available for decision is very short. Capita have indicated that they could not guarantee to implement a scheme if not told its parameters by the end of December, which in effect means that the Executive on 8<sup>th</sup> December would have to make the decision. The level of the discount would probably have to be decided at the time the tax base was agreed before the end of January and therefore before the final Council Tax level was set. No allowance for administrative costs or the costs of the software changes has been made in the papers before Members tonight. It is estimated that the costs are likely to be somewhere in the range £300k to £500k per annum.

14.13 The additional powers do give local authorities some considerable flexibility. Originally they were motivated by the impact of floods in certain parts of the country and the difficulty in providing householders affected with material help with their Council Tax. It would make sense for Officers and Members to give some thought to the kind of uses that the discount power could be put. A general permanent and widespread discount looks expensive and difficult to implement in 2004/5.

## **15. Implications for Council Tax**

15.1 Appendix 5 summarises the overall financial situation set out above. It represents merely an arithmetic calculation of the base budgets plus all the growth less all the savings currently identified. It also assumes a rise in the Greater London Authority (GLA) precept of 25% each year. Ranges of possible Council Tax levels reflect differences in the levels of external funding. Provision has also been made to reflect the need to eliminate the deficit on the collection fund.

15.2 The large increases for 2004/5 largely reflect the front loading of the growth bids. The actual level of Council Tax that Members set will depend not only on the level of grant the Council receives, but also on decisions Members have still to make about the level of growth and savings.

## **16. Corporate Strategy update and Community Plan**

16.1 Attached at Appendix 9 is a progress report on the implementation of the Corporate Strategy. All of the growth proposals set out in this report have taken account of the requirements of the Corporate Strategy and that of the Community Plan, and where appropriate have been devised to meet the objectives of the strategy and plan.

## **17. Timetable and Next Steps**

17.1 Appendix 10 sets out the key dates over the next few months in the budget setting process. This is explained more in the legal implications section of this report.

17.2 The Appendix shows how both Overview and Performance and Finance Select Committee will have the opportunity to influence the proposals finally put to Council for decision in March.

17.3 The Executive will receive the Service Development Plans at its meeting on 8<sup>th</sup> December 2003 and will have the opportunity then to give further instructions to officers on the preparation of budget options. It will also agree then the proposed budget for schools as required under the Education Act 2002 as amended by the Local Government Act 2003. The Executive will publish its final budget proposals after its meeting in early February after considering the views of Overview Committee. The Council will make final decisions on the budget and Council tax at its meeting on 1<sup>st</sup> March 2004.

**Stephen Hughes**

**DIRECTOR OF FINANCE**

### **Background Information**

**Council Tax and Budget Report – Full Council 3<sup>rd</sup> March 2003**

**Budget Processes for 2004/2005 – Executive 23<sup>rd</sup> June 2003**

**The Prudential Code for Capital Finance in Local Authorities – CIPFA publication**

**Local Government Act 2003 and associated regulations**

**Corporate Strategy**

**Community Plan**

**Revenue Monitoring Report – Executive 12<sup>th</sup> November**

**Capital Monitoring Report – Executive 12<sup>th</sup> November**