

SECTION 10

10. RESOURCES

Introduction

- 10.1 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 the Council Tax for 2004/2005.

External Support and Formula Spending Shares (FSSs)

- 10.2 The Local Government Finance Settlement was published on 29th January 2004 and debated in Parliament on 5th February 2004.

The National Position

- 10.3 Local Authority Total Assumed Spending is £60.6bn. This represents a £2.9bn (4.9%) increase over the 2003/2004 figure.
- 10.4 The amount of actual funding provided to local authorities by Central Government is £46.1bn, a £2.4bn (5.5%) increase over last year's figure.

Brent's Position

- 10.5 To calculate the amount of actual funding the Council will receive in 2004/2005 the Government firstly calculate Brent's Total Formula Spending Share (TFSS) and then reduce it by a 'notional' amount to reflect the fact that Brent is able to raise additional revenue through council tax. One of the major principles governing the system is that if every local authority in England set a budget at the level of its TFSS, then all council taxes, across the Country, would be the same. However, the Government has also explicitly stated that Formula Spending Shares (FSS's) should not be seen to be spending targets. Rather, they are solely a mechanism for distributing a finite level of resources amongst local authorities in England.
- 10.6 Brent's 2004/2005 Total Formula Spending Share (TFSS) is £353.235m. This represents a £21.194m or a 6.4% increase on last year's figure, on a like-for-like basis. This can be compared with a national TFSS increase of 4.9% and an average London Borough TFSS increase of 5.5%.
- 10.7 For the purposes of distributing funding the Government have assumed LB Brent will set a local council tax (i.e. excluding the GLA precept) at £929.46 in 2004/2005. The level of Brent's actual local council tax in 2003/2004 is £850.65 with a proposed increase in 2004/2005 to £899.83. This reflects the fact that Brent is spending below FSS.

- 10.8 A further complication is that the Government continue to impose ‘floors and ceilings’ on the Local Government Finance system. ‘Floors and ceilings’ operate by ensuring no local authority with responsibility for Education or Social Services can receive less than a 4.0% increase, or more than a 7.5% increase, in funding between 2003/2004 and 2004/2005.
- 10.9 Consequently, it can be seen in the table below that Brent’s level of Government funding in 2004/2005 will be £265.239m. This represents a £18.540m increase (7.5%) over 2003/2004 on a like-for-like basis.

<u>LB Brent</u>	£m
Total Formula Spending Share 2004/2005	353.235
Less: Amount assumed to be raised locally from Council Tax (£926.46 at Band D)	87.129
Less: Adjustment to pay for Local Authority ‘Floor’	<u>0.867</u>
Equals: Actual Level of Government Funding in 2004/2005	<u>265.239</u>

This if “*floors and ceilings*” were not in operation Brent would receive an extra £867k of grant.

Breakdown for Brent by FSS Service Block (Adjusted)

- 10.10 The following table sets out the breakdown and the comparison with 2003/2004 of the 2004/2005 FSS.

	FSS 2003/04 Comparator (1) £m	FSS 2004/05 Actual (2) £m	FSS Change (2)-(1) £m	Percentage Change On 2003/04 %
Education	147.245	158.391	11.146	7.57
Personal Social Services	89.808	95.957	6.149	6.85
Highway Maintenance	8.006	8.138	0.132	1.65
Environmental, Protective and Cultural Services	73.163	77.216	4.053	5.54
Capital Financing	13.818	13.533	(0.285)	(2.06)
Total FSS	332.040	353.235	21.195	6.38

- 10.11 Due to the changes made to the LGF system, it is not possible to simply make like-for-like comparisons between an authority’s 2003/2004 FSS and its 2004/2005 FSS. Instead the Government make a number of “*adjustments*” to the Council’s 2003/2004 FSS in an attempt to facilitate more accurate comparisons. The adjustments to Brent’s 2003/2004 base-line reflect:

- (i) Services which were funded through FSS in 2003/2004 but will be funded through Specific Grants in 2004/2005 (e.g. Rent Allowance and Council Tax Benefit Subsidy).

- (ii) Services which were funded through Specific Grants in 2003/2004 but will be funded through FSS in 2004/2005 (e.g. Quality Protect Grants).
- (iii) Loss of responsibilities for Brent in 2004/2005 (e.g. the transfer of the Willesden High School to City Academy status and Flood Defence payments).

10.12 There are two components to the amount of Government funding a local authority receives: Revenue Support Grant and National Non Domestic Rates.

National Non Domestic Rates (NNDR): Those occupying non-domestic properties (such as shops, factories, offices and warehouses) do not pay Council Tax instead they pay business rates – otherwise known as NNDR.

Each year the Government sets a national rate, based on a non-domestic properties rental value, which all businesses must pay. The rate for 2004/2005 is 45.6p in the £ (2003/2004 44.4p). Once the rate has been set local authorities collect all NNDR monies and pay it into a central pool. The Government then shares out the pool amongst all local authorities in proportion to their 'Resident Populations'.

Revenue Support Grant (RSG): The RSG is in effect a 'balancing grant'. The amount of RSG each local authority receives is calculated as:

- Its Formula Spending Share (FSS); less
- The amount it will receive from the NNDR Pool; less
- The amount it would receive if it set its Council Tax at a standard rate.

Funding in Future Years

10.13 On 15 July 2002 the Chancellor of the Exchequer announced details of the Government's three year spending plans in the 'Spending Review 2002'. Alongside setting cash limits for all Government departments, from 2003/04 to 2005/06, the Chancellor of the Exchequer also provided information as to the amount of Total Formula Spending Share (FSS) local authorities can expect to receive in each of these years.

The table below shows the percentage the Government expected to increase FSSs by nationally between 2002/03 and 2005/06.

	2002/03 £m	2003/04 %	2004/05 %	2005/06 %
Education	22,503	6.3	5.7	6.1
Personal Social Services	9,231	8.6	6.9	10.7
Highway Maintenance	1,955	2.6	2.5	2.4
Environmental, Protective and Cultural Services	8,961	5.3	2.8	3.3
Capital Financing *	2,224	19.1	7.2	17.1
TOTAL FSS	44,874	7.1	5.3	7.0

* Note the Capital Financing increases include resources for Local Authority PFI Schemes.

10.14 If Government expenditure remains in line with the Spending Review 2002 the Council can expect year on year increases in its level of direct Government funding.

Members should be aware that:

- The 2005/2006 figures, in particular, are only estimates. They were decided upon over three years in advance. When the Spending Review 2004 is published it is expected these figures will change significantly.
- The Chancellor is not bound by the figures. Therefore he is able to make any adjustments he feels appropriate in the future. For example an additional £340m was added to the 2004/2005 Settlement with the stated aim of reducing Council Tax increase.
- The figures reflect local authority funding as a whole. It does not necessarily follow that Brent will receive such generous increases in the future.
- It is not clear what if any additional responsibilities the Government expects local authorities to undertake from the increased funding.
- The Government's figures do not anticipate any changes in function. Therefore if changes, such as the transfer of Post-16 Education from local authorities to the Learning and Skills Council in 2002, occur the figures will be adjusted to reflect this.
- The next Spending Review, detailing the Government's spending plans for 2005/2006 to 2008/2009, is due to be announced in July/August 2004. The Association of London Government (ALG) has prepared a report 'Investing in a better future: meeting London's needs through the Spending Review 2004' which it is circulating to key Government decision-makers with the intention of influencing the Spending Review 2004 in London's favour. The ALG set out 4 key recommendations in the report stating the Government consider the following when deciding on funding allocations in the next Spending Review:

- (i) A clearer understanding of the wider benefits of public sector investment.
- (ii) Support local solutions to local needs.
- (iii) A greater commitment to sustainable funding for key priorities and an end to short-term funding decisions.
- (iv) A greater commitment to joined up funding.

The ALG have also made further specific recommendations corresponding to its report's four main themes: children, social inclusion, quality of life and better services

The Expenditure Capping Rules

10.15 As for 2003/2004 there are no pre-announced capping limits. The Deputy Prime Minister has reserve powers to cap the budgets of those authorities which are judged to have excessive budget increases and/or excessive increases in council tax. Members will be aware from the spate of recent publicity that Ministers were concerned at the level of Council Tax rises in 2003/2004. The additional injection of £340m in the 2004/2005 Settlement was accompanied with the following in the Minister for Local Government and the Regions Statement.

“Given the scale of the investment in local services and the scope for efficiency improvements in local government, the Government believe next year local authorities must aim to deliver council tax increases in low single figures. Unreasonably large council tax increases will neither be justified or acceptable.

“So the Government are prepared to use targeted capping powers next year if that proves necessary.

“When considering whether to cap authorities, the Government will look at a range of factors including the level and increase in the council tax and the level of the budget.”

10.16 Section 52 of The Local Government Act 1999 allows the Deputy Prime Minister to reduce the budget requirement in the following year, as well as in the current financial year. The 1999 Act states that a ‘set of principles’ must be used to determine whether a local authority is to be capped. These principles must include a comparison with a previous year’s budget requirement and council tax levels. The Deputy Prime Minister has not exercised the reserve powers on any local authority in England since 1998/99.

10.17 It is the Director of Finance’s view that the Deputy Prime Minister is unlikely to exercise his discretion if Brent sets a revenue budget at the level of spending set out in this report. This is because:

- (i) 0.84% of the increase in Council Tax relates to the additional growth of £663k in the Schools Budget because the DfES has not accepted Brent’s full application for a higher limit on the non-devolved schools

budget (see Section 5). If agreed this would have limited the rise to below 5%.

- (ii) Brent is spending at £5.820m below its FSS.
- (iii) Brent has lost £867k of grant because it is at the ceiling.
- (iv) A significant number of authorities will agree a budget and Council Tax with a higher increase than Brent and the ODPM will not have the capacity to cap a large number of Councils.

However, the risk of capping will increase for spending levels near or above Brent's Total FSS (£353.235m). Members will need to carefully weigh up 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 the Council's needs if they wish to spend at such levels.

The Collection Fund

- 10.18 The Collection Fund accounts for all monies relating to the receipt of Council Tax and the old Community Charge, and for payments made to the precepting authority, the Greater London Authority (GLA), and to fund the Council's own demand to meet its budget requirement.
- 10.19 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.
- 10.20 In setting the 2004/2005 Council Tax, the Council must therefore separately estimate any deficits/surpluses on the Collection Fund for 2003/2004 for both Council Tax and Community Charge.
- 10.21 The Executive approved the estimate for Council Tax on 7th January 2004. This amounted to a deficit of £1,500k. The Council is required to fund £1,187k of this, with the balance being met by the GLA. The Council therefore needs to add £1,187k to the budget when calculating the Council Tax for 2004/2005. There is a need for continued pro-active initiatives with the new contractor to ensure the maximum amount of Council Tax is collected.

Provision For Community Charge Write-Offs

- 10.22 In setting the 2004/2005 budget, members are legally required to make full provision for any arrears of Community Charge which are considered to be eventually irrecoverable, and are not covered by existing write-off provisions. If the reverse applies, and collection is anticipated to exceed that required, a surplus can be declared. Under the provisions of the Local Government and Finance Act 1992, the Council is required to determine any surplus or deficit on the Community Charge as part of the budget process.

10.23 At March 2002, all remaining arrears were covered by existing provisions, and a surplus of £50,000 had already been achieved. As part of the budget for 2002/2003, a surplus of £120,000 was declared, being the estimate at that time of the additional arrears which would eventually be collected after that date (£70,000), plus the aforementioned £50,000. As at 31st December 2003, £50,000 of this remaining sum had been collected. It is anticipated that the £70,000 figure will be achieved, but is unlikely to be exceeded to any significant degree. Therefore no further surplus can be declared.

The Council Tax Base

10.24 Council Tax is a property based tax with classification of properties into 8 bands depending on the value of the property (see Appendix K). 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.

10.25 On the 26th January 2004 a tax base of 92,643 equivalent Band D properties was agreed by the Full Council for 2004/2005. This compares with a tax base of 90,748 in 2003/2004. It assumes a collection rate of 97.5% will be achieved in respect of charges raised for 2004/2005. (97.5% for 2003/2004). The total taxbase has therefore increased by 1,895, of which changes in the number and banding of properties account for 650. The remaining 1,245 increase is the effect of reducing the discount for second homes and long-term empty homes from 50% to 10% (per Section 75 of the Local Government Act 2003).

Calculating the Council Tax Level

10.26 The calculation of Brent's share of the Council Tax (the preceptor making its own calculation see below) is relatively straightforward. Brent's budget less RSG, NNDR plus the deficit on the collection fund is divided by the tax base to give the tax per Band D property. This is illustrated below using these figures shown in Appendix B.

	£'000
Brent Budget	347,415
Less:	
RSG	189,131
NNDR	76,108
Plus:	
Net Deficit on Collection Fund	1,187
Total to be met from Council Tax for Brent Budget	83,363
Taxbase	92,643
Band D Council Tax (£)	899.83

Greater London Authority (GLA)

- 10.27 The GLA came into existence on 3rd July 2000. Before 2000/2001 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 was 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.
- 10.28 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.
- 10.29 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.

10.30 On 15th December 2003, the Mayor published his proposed budget for consultation proposing budget increases for 2004/2005. These were revised in a document published on 23rd January 2004 and further revised on 9th February. These latest proposals were agreed on 18th February and are shown below::

	2003/04 £m	2004/05 £m	Proportion of Total GLA Budget %	Proposed Increase £m	Proposed Increase %
GLA	55.9	56.3	2.0	0.4	0.7
Transport for London	57.8	25.8	0.9	(32.0)	(55.4)
Met. Police	2,207.8	2,343.3	83.3	135.5	6.1
LFEPA	369.0	388.4	13.8	19.4	5.3
TOTAL	2,690.5	2,813.8	100.0	123.3	4.6

10.31 The main changes within the Mayor's agreed budget are as follows:

- Increased resources to begin the implementation of Community based policing with the introduction of dedicated neighbourhood teams.
- Funding for an extra 200 fire fighters to improve the capacity to respond to major emergencies.

10.32 The overall effect of this decision is an increase of 7.5% in the precept between 2003/2004 and 2004/2005 giving a figure of £241.33 at Band D (£224.40 in 2003/2004). Because so much of the GLA's overall expenditure is funded by Government grant any expenditure over and above any increase in this grant leads to a significant increase in the precept. As a guideline, a 1% increase in expenditure above grant requires a 6% increase in the overall precept.

10.33 The Mayor's final draft budget was considered and agreed by the Greater London Assembly on 18th February 2004.

10.34 The GLA precept needs to be added to Brent's Council Tax to give an overall tax at Band D.

10.35 Due to the GLA being subject to the same capping regime as Brent, it is possible given the size of the increase that the GLA's budget could be capped. This would result in a re-billing across London.

Setting the Tax

10.36 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 and the preceptor.

- The basic amount of Council Tax for each valuation band for both Brent and the preceptor.
- The aggregate amount of Council Tax for each valuation band, which includes the basic amount for Brent Council and the basic amount for the preceptor.

10.37 In accordance with these requirements, Members are asked to agree the calculations set out in the recommendations. The Council Tax for a Band D property under these calculations is £1,141.16 (2003/2004 £1,075.05). The full calculation for each Band is included within the recommendations.

Any amendments proposed to the budget will require a recalculation to be undertaken for the revised figures within the statutory framework.

Council Tax Discount

10.38 Since the advent of Council Tax in 1993/1994 the Council has offered a discount for those taxpayers who pay the full sum before the first instalment date becomes due. The rate was initially 8%, reduced to 5% in 1997/98 and 3% in 2000/2001. The numbers of households taking up the discount has fallen steadily in recent years, from 20,800 in 1999/2000, to 17,300 in 2000/2001, 17,000 in 2001/2002, 12,200 in 2002/2003, and to 10,600 in 2003/04. Therefore the numbers taking up the discount fell by almost a half over five years.

10.39 With the recent history of low interest rates, the financial benefit to the Council of collecting money earlier has reduced, and indeed the discount granted now exceeds the cash flow benefits. In 2003/04 approximately £11m was collected under the prompt payment discount scheme. The cost of the discount granted was £330,000. If the amounts were not paid under the scheme, they would substantially be paid monthly throughout the year. Therefore in effect the amounts paid were collected on average six months earlier than they would have been otherwise. The following calculation shows that on purely financial grounds, the discount scheme is no longer self financing to the Council.

Amount collected through PPD scheme	£11,000,000
Interest currently received on lending balances	3.75%
Amount of interest receivable on £11.0m for 6 months	£206,250
Cost of discount granted	£330,000

For the scheme to be financially viable, the discount offered would have to be below 2%, but at this level is doubtful that many payers would consider it worthwhile to pay their full year's bill up-front. It is therefore proposed that no prompt payment discount will be offered in 2004/2005 and the appropriate savings has been included within the budget.

Direct Debit Promotion

10.40 The Council has continued to promote payment by direct debit to improve overall collection. Brent has a relatively low level of direct debit take up compared with other London Boroughs. About 25,000 Council Tax payers now pay by direct debit but this is expected to increase in 2004/05 as payers who previously took advantage of the prompt payment scheme switch to direct debit. It is therefore proposed that a further drive is undertaken in 2004/2005 based on continuing with the prize draw for those on direct debit. This will be a one off prize draw for a £5,000 cash prize in June 2004. Local Taxation will fund this from its budget. The instalment date for non-direct debit payers has been moved from 12th to the 1st of the month (apart from April when the instalment is due on the 8th) which offers an additional incentive to switch to Direct Debit as there are 4 possible instalment dates under that payment scheme.

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

10.41 Appendix J sets out the above which Members are asked to endorse. The recovery policy reflects how recovery has operated in 2003/2004 and includes the new amount of summons costs £45.00 (2002/2003 £30.60) and liability order costs £20 (£12.20) that will be charged from 1st April 2004.

Council Tax Benefit Restriction

10.42 Council Tax Benefit was restricted to Band E level for Council Taxpayers in Band F, G and H up to 31st March 2004. The Government is lifting this restriction from 1st April and benefit will be calculated on the actual band.

Council Tax Discounts

10.43 The Local Government Act 2003, and subsequent regulations, has inserted a new Section 13A into the Local Government Finance Act 1992. This new Section gives the Council power to grant special local discounts to Council Taxpayers either by class (to be defined by the Council) or on an individual basis. The intention of this new power is to enable Councils to grant a discount where Council Tax Benefit does not apply but hardship is suffered. An example quoted by the ODPM is where a ground floor of a house is flooded and the family have to live upstairs or elsewhere for a certain period. This power came into force on 18 November 2003 and the Council will need to consider a policy around special local discounts, how applications will be processed, and at which level decisions will be made. This is an executive function and a report on this will go to the Executive on 29th March.