

## 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 2005/2006.

#### External Support and Formula Spending Shares (FSSs)

6.2 The Local Government Finance Settlement was published on 27<sup>th</sup> January 2005 and debated in Parliament on 2<sup>nd</sup> February 2005.

##### The national position

6.3 Local authority total assumed spending is £64.2bn. This represents a £3.3bn (5.4%) increase over the 2004/2005 figure.

6.4 The amount of actual funding provided to local authorities by central government is £49.0bn, a £2.6bn (5.6%) increase over last year's figure.

##### Brent's overall level of funding

6.5 To calculate the amount of actual funding the council will receive in 2005/2006, 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 sets a budget at the level of its TFSS, 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.

6.6 Brent's 2005/2006 TFSS is £374.249m. This represents a £19.437m or 5.5% increase on last year's figure, on a like-for-like basis. This can be compared with a national TFSS increase of 5.4% and an average London Borough TFSS increase of 6.0%.

6.7 Table 6.1 below sets out the breakdown and the comparison with 2004/2005 of the 2005/2006 FSS.

**Table 6.1 Change in FSS between 2004/05 and 2005/06**

	FSS 2004/05 (adjusted) (1) £m	FSS 2005/06 actual (2) £m	FSS change (2)-(1) £m	Percentage change – 2004/05 to 2005/06 %
Schools	139.168	149.975	10.807	7.8%
LEA	19.223	20.175	0.952	5.0%
Personal Social Services	97.789	103.440	5.651	5.8%
Highway Maintenance	8.138	8.367	0.229	2.8%
Environmental, Protective and Cultural Services	76.963	77.403	0.440	0.6%
Capital Financing	13.532	14.890	1.358	10.0%
<b>Total FSS</b>	<b>354.812</b>	<b>374.249</b>	<b>19.437</b>	<b>5.5%</b>

6.8 The figures in Table 6.1 above include a number of adjustments made by government to councils' base FSS figures in an attempt to facilitate more accurate comparisons. The adjustments to 2004/2005 figures are as follows:

- (i) Changes to the treatment of residential allowance, preserved rights and the training support programme grants within Social Services FSS;
- (ii) The abolition of emergency planning specific grant and its incorporation within EPCS FSS; and
- (iii) The impact on EPCS FSS of removal of the magistrates' courts levy.

6.9 The amount Brent is assumed to raise in council tax in 2005/2006 is £91.570m. This is based on the London boroughs' share of the Assumed National Council Tax (ANCT) of £967.38 at Band D and our assumed council tax base for grant purposes of 94,658. The ANCT of £967.38 is a 4.1% increase on the equivalent figure for 2004/2005 of £929.46.

6.10 In addition, prior to 2005/2006, the government applied a system of floors and ceilings, in which no authority's grant increase could be less or more than a specified percentage. This has now changed. The floor still exists and has been set at 4% for all single tier councils, including London boroughs. The ceiling has however been abolished and replaced by a system of scaling which is used to fund the floor. Under the scaling system, each local authority loses 11% of its grant increase above the 4% floor. For Brent this equates to £595k.

6.11 Table 6.2 below shows the calculation of Brent's government funding in 2005/2006. The total of £282.084m represents a £14.400m increase (5.4%) over 2004/2005 on a like-for-like basis.

**Table 6.2 Calculation of government funding for Brent in 2005/06**

	£m
Total Formula Spending Share 2005/2006	374.249
<b>Less:</b> Amount assumed to be raised locally from council tax (£967.38 at Band D)	(91.570)
<b>Less:</b> Scaling adjustment	(0.595)
<b>Equals: Actual level of government funding in 2005/2006</b>	<b>282.084</b>

Components of Brent's funding

6.12 There are two components of government funding for a local authority: National Non Domestic Rates (NNDR) and Revenue Support Grant (RSG).

6.13 NNDR (otherwise known as business rates) is paid by those occupying non-domestic properties (such as shops, factories, offices and warehouses) who pay business rates rather than council tax. Central government sets the local business rate. Local authorities then collect NNDR on behalf of central government and pay it into a central pool. The pool is shared out amongst local authorities in proportion to their resident populations.

6.14 The basis on which business rates are calculated is changing in 2005/2006. First, there has been a revaluation of rateable values on which business rates are based. This has led to an average increase at a national level of 17.7% in 2005/2006, although this has been offset by reductions in the multiplier applied to business rateable values. Second, the government has replaced the previous single multiplier with two separate multipliers, one for small businesses (in London, businesses with a rateable value under £21,500) and the other for all other businesses.

6.15 The combined effect of differential increases in rateable values and introducing two multipliers is that some businesses gain and others lose. To deal with this, transitional arrangements have been introduced that cap the losses and gains individual businesses make.

6.16 The result of the revaluation and the introduction of two national multipliers is that the multipliers for 2005/2006 are not directly comparable with 2004/2005. The multipliers that have been set for 2005/2006 are 41.5 pence per pound of rateable value for the small business multiplier and 42.2 pence for the remainder. This compares with a multiplier of 45.6 pence in 2004/2005.

6.17 RSG is the residual amount of grant paid to the council. It equals total government funding less NNDR. Table 6.3 below shows the totals of NNDR and RSG in 2005/2006.

**Table 6.3 Components of government funding for Brent in 2005/2006**

	<b>2005/06 £m</b>
National non-domestic rate income	89.231
Revenue support grant	192.853
<b>Total external funding</b>	<b>282.084</b>

## **The Capping Rules**

6.18 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 for the first time in 2004/2005 when six authorities (including one fire authority) had to recalculate their budget and re-bill in 2004/2005, and a further eight authorities (mainly police and fire authorities) had a notional budget set for 2004/2005 which will be the basis for capping decisions for these authorities in 2005/2006.

6.19 Ministers have made it clear that they will use their capping powers again in 2005/2006 if they need to. The Minister for Local Government and the Regions, when confirming the 2005/2006 settlement, said:

*"... we expect all authorities to budget prudently and minimise demands on their council taxpayers. We expect the average council tax increase in England to be less than 5% in 05/06.*

*"Authorities should be in no doubt that we will again use our capping powers to protect council taxpayers from excessive increases. Indeed, we are prepared to take even tougher action than we did in 04/05 if that proves necessary. There is no excuse for excessive council tax increases - we will not tolerate these either next year or in years to come."*

6.20 It is the Director of Finance's 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) The proposed Band D Council Tax for 2005/2006 – £929.52 - is below the government's assumed national council tax (ANCT) for London boroughs. The ANCT for London boroughs in 2005/2006 is £967.38.
- (ii) The proposed increase in the Brent Council Tax is 3.3%, which is below the 3.8% increase in ANCT at a national level, the 4.1% for London boroughs, and 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.

- 6.21 However, the risk of capping would increase if the council tax rise was 5% or above.
- 6.22 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**

- 6.23 The Collection Fund accounts for all monies relating to the council tax for Brent in 2005/2006, the Greater London Authority (GLA) precept in 2005/2006, and arrears of both council tax and community charge.
- 6.24 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.
- 6.25 The Executive meeting on 17<sup>th</sup> January 2005 approved an estimated council tax deficit of £1.5m in 2004/2005. The council needs to budget to collect £1.183m of this through the council tax in 2005/2006, 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**

- 6.26 Council tax is a property based tax with classification of properties into 8 bands depending on the value of the property (see Appendix J). 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.
- 6.27 A tax base of 92,879 equivalent Band D properties in 2005/2006 (compared to 92,643 in 2004/2005) was agreed by Full Council on 31<sup>st</sup> January 2005. It assumes a collection rate of 97.5% will be achieved in respect of charges raised for 2005/2006 (unchanged from 2004/2005).

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

- 6.28 The calculation of the council tax for Brent services is set out in Table 6.4 below. The calculation involves deducting RSG and NNDR from Brent's budget, adding the deficit on the Collection Fund, and dividing by the tax base.

**Table 6.4 Calculation of Brent's Council Tax for 2005/2006**

	<b>£'000</b>
Proposed Brent budget	367,234
Less:	
RSG	(192,853)
NNDR	(89,231)
Plus:	
Net Deficit on Collection Fund	1,183
<b>Total to be met from Council Tax for Brent Budget</b>	<b>86,333</b>
<b>Taxbase (Band D equivalents</b>	<b>92,879</b>
<b>Band D Council Tax (£)</b>	<b>£929.52</b>

**Greater London Authority (GLA)**

- 6.29 The GLA came into existence on 3<sup>rd</sup> 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 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.
- 6.30 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.
- 6.31 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.

6.32 The Mayor published his initial proposed budget for 2005/2006 on 14th December 2004. A revised budget was presented to the Assembly on 26th January 2005. His final proposals were agreed by the Assembly on 14th February 2005.

6.33 Table 6.5 below shows the budget for the GLA itself and each of its functional bodies in 2005/2006. The principal priority in the budget is to use additional police grant to fund increases in the resources for neighbourhood policing teams, with a further 5 planned for each borough in 2005/2006.

**Table 6.5 Breakdown of 2005/2006 Budget for GLA**

	2004/05 £m	2005/06 £m	Proportion of Total GLA Budget %	Increase £m	Increase %
GLA	56.3	60.9	2.0%	4.6	+8.2%
Transport for London	25.8	20.0	0.7%	-5.8	-22.5%
Met. Police	2,343.3	2,488.3	83.7%	145.0	+6.2%
LFEPA	388.4	403.4	13.6%	15.0	+3.9%
<b>TOTAL</b>	<b>2,813.8</b>	<b>2,972.6</b>	<b>100.0%</b>	<b>158.8</b>	<b>+5.6%</b>

6.34 The increase in the Band D precept is 5.5%, from £241.33 in 2004/2005 to £254.62 in 2005/2006. The GLA is subject to the same capping regime as Brent and the increase is bordering on the level at which the Minister might cap. If the GLA budget were to be capped, there would need to be re-billing across London.

### Setting the Tax

6.35 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.

6.36 In accordance with these requirements, Members are asked to agree the calculations set out in the recommendations. The combined effect of a 3.3% increase in Brent Council's Band D council tax, from £899.83 to £929.52, and

a GLA increase of 5.5%, from £241.33 to £254.62, is an overall increase of 3.8%, from £1,141.16 to £1,184.14. The full calculation for each Band is included within the recommendations.

- 6.37 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**

- 6.38 Appendix I sets out the council tax and NNDR instalment dates and the recovery policy for council tax which Members are asked to endorse.
- 6.39 The council has continued to promote payment by direct debit to improve overall collection. Brent still has a relatively low level of direct debit take up compared with other London Boroughs. However, about 30% of council tax payers now pay by direct debit compared to 24% a year ago. Many who previously took advantage of the prompt payment scheme switched to direct debit. We intend to continue to promote direct debit payments. The instalment date for non-direct debit payers moved in 2004/2005 from the 12th to the 1st of the month (apart from April when the instalment is due on the 8th), 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.
- 6.40 Council tax collection rates have been improving. At the end of January 2005, 81.53% of council tax due in 2004/2005 had been collected compared to 79.54% at the same time in 2003/2004. The council has a target of 93% collection of council tax due for 2004/2005 by 31<sup>st</sup> March 2005. The council will collect arrears in subsequent years in order to achieve the overall 97.5% collection rate for 2004/2005. Measures are in place to ensure this improvement continues.