

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 2007/08.

External Support

6.2 The Local Government Finance Settlement was published on 18th January 2007 and debated in Parliament on 31st January 2007.

Changes to the grant system

6.3 The government introduced fundamental changes to the grant regime for 2006/07. The former system of calculating grant by assessing need to spend using Formula Spending Shares and deducting an assumed level of council tax to determine Revenue Support Grant/Non-Domestic Rates¹ received was replaced by a Four Block Model (see below). In addition, the introduction of the Dedicated Schools Grant meant there was a significant shift of resources away from Formula Grant funding (RSG and NNDR) to special grant funding. The government also announced for the first time a two year settlement – which applied to 2006/07 and 2007/08 - and plans to move to three year settlements from 2008/09.

6.4 The Four Block Model consists of the following elements:

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

¹ National Non-Domestic Rates are collected by the council on behalf of central government. The NNDR multiplied has increased by 2.5%. The multiplier in 2007/08 will be 44.4p for each £1 rateable value compared to 43.3p in 2006/07. A lower multiplier applies to small businesses.

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

The national position

- 6.7 Total external funding for local government is £65.8bn in 2007/08. Total Formula Grant is approximately one third of total local government funding – i.e. £21.7bn out of £65.8m. The remainder is made up of Dedicated Schools Grant, police grant, and other special grants.
- 6.8 The £21.7bn of Formula Grant is made up of National Non-Domestic Rates - £18.5bn (£17.5bn for 2006/07) - and Revenue Support Grant (RSG) - £3.2bn (£3.4bn for 2006/07). RSG used to form a much greater proportion of local council funding but is much less now as a result of the introduction of Dedicated Schools Grant. Now most Formula Grant comes through redistributed National Non-Domestic Rates.
- 6.9 The increase in external funding is as follows:
- Overall - 4.5% in 2006/07 and 5.0% in 2007/08;
 - of which:
 - o Schools - 6.2% in 2006/07 and 6.0% in 2007/08;
 - o Other local government functions - 3.1% in 2006/07 and 3.8% in 2007/08.
- 6.10 The grant ‘floor’ system means all authorities get a minimum percentage increase. For London authorities, the ‘floor’ increase was set at 2% in 2006/07 and 2.7% in 2007/08, though so-called base-line adjustments means that in practice the increase for Brent is 2.2% in 2007/08.

Brent’s external funding

- 6.11 Brent’s Formula Grant increase for 2007/08 is at the ‘floor’, as it was in 2006/07. The reason for this is that a number of changes in the 2006/07 settlement were unfavourable to Brent. These include:
- Introduction of the Dedicated Schools Grant. In 2005/06, Brent spent £8.2m less on schools than its Formula Spending Share (FSS). Although FSS was abolished in 2006/07, the transfer from Formula Grant to DSG in 2006/07 was based on Formula Spending Share. As a result the council’s

underlying grant fell by £8.2m (although Members should note that there was a compensatory increase in the Dedicated Schools Grant which means Brent schools have the second highest funding increase in the country in 2007/08 as they did in 2006/07);

- Change to use of population projections from population estimates. Prior to 2006/07, grant was based on the latest population estimates produced by the Office for National Statistics (ONS) which were always two years out of date. So, for example, for the 2005/06 grant settlement, the mid-year population estimate for 2003 was used. However, for the grant calculations in 2006/07 and 2007/08, ONS projections for 2006 and 2007, based on the 2003 population estimates, were used. These projections purported to show Brent's population to be falling. More recent estimates from ONS show Brent's population levelling out but the projections used in the grant calculation have not been amended to reflect this. In practice, Brent's population is growing and this is reflected in neither ONS estimates nor projections. There is a difference of 24,300 between what the Greater London Authority project Brent's population to be in mid-2007 – 281,800 – and the figure the government has used in the 2007/08 grant settlement – 257,500. The existence of the 'floor' mechanism to protect grant means that the cost to the council from undercounting population is limited in the short term. However, unless the figures for population used by the government are revised to properly reflect levels of population in Brent, increases in the council's grant will remain at the 'grant floor' for several years to come.
- Changes to the basis for assessing relative needs. The replacement of Formula Spending Shares (FSS) by Relative Needs Formulae (RNF) has not by itself had an impact on grant. But changes to the way FSS/RNF for children's and adults' social care were calculated for 2006/07 – and continue to be in 2007/08 - have. Brent along with most other London boroughs lost out as a result of these changes.

6.12 As noted in paragraph 6.10, the 'floor' grant increase for 2007/08 was meant to be 2.7% but the government adjusted the baseline to reflect transfers it planned from supported borrowing to capital grant. In practice no funding has been transferred from supported borrowing to grant. The reduction in grant increase from 2.7% to 2.2% costs the council £756k in 2007/08. The council has made representations to government on this adjustment but no changes were made to the previously announced figures. The council will continue to make representations on this issue, the inaccuracy of population projections, and the need to reverse changes made in 2006/07 to the basis for assessing relative needs, in the lead up to announcement of 2008/09 to 2010/11 grant figures.

6.13 Details of the make-up of Formula Grant are in Table 6.1 below.

Table 6.1 Make-up of Brent's Formula Grant

	2006/07 £m	2007/08 £m
Relative Needs Amount	119.394	123.048
Relative Resources Amount	(29.210)	(31.475)
Central Allocation	43.598	44.347
Floor Damping	13.552	14.636
Total Formula Grant²	147.334	150.556

The Capping Rules

6.14 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. The government used its reserve powers in 2004/05, 2005/06 and 2006/07 and Ministers have made it clear that they will use their capping powers again in 2007/08 if they need to. The Minister for Local Government, when introducing the 2007/08 provisional settlement, said:

“Therefore we expect to see an average council tax increase in England in 2007/08 of less than 5%. We will not allow excessive council tax increases.

We have used our reserve capping powers in previous years to deal with excessive increases and won't hesitate to do so again if that proves necessary.”

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

- (i) Brent's Council Tax at Band D is below the average for London and the country as a whole;
- (ii) The proposed increase in the Brent Council Tax is 4.8%, which is below the 5% average increase referred to in the Minister's statement.
- (iii) It is expected that a number of authorities – at both a national and London level - will agree a council tax increase in line with or above Brent's.

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

² In 2007/08, NNDR accounts for £128.920m (£123.495m for 2006/07) of Formula Grant and RSG accounts for £21.635m (£23.839m for 2006/07).

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

The Collection Fund

- 6.18 The Collection Fund accounts for all monies relating to the council tax for Brent in 2007/08, the Greater London Authority (GLA) precept in 2007/08, and arrears of both council tax and community charge.
- 6.19 Whatever balance remains on the fund in respect of the under/over recovery of council tax or community charge must be added to, or subtracted from, the following year's council tax bills. Adjustments in respect of community charges are added to the council's part of the bill only, while council tax adjustments are shared with the GLA.
- 6.20 The Executive meeting on 15th January 2007 approved an estimated council tax deficit of £1.5m in 2007/08. The council needs to budget to collect £1.151m of this through the council tax in 2007/08, with the balance being met through the GLA precept. The community charge account is estimated to be in balance, so no adjustments need to be made for this.

The Council Tax Base

- 6.21 Council tax is a property based tax with classification of properties into 8 bands depending on the value of the property (see Appendix H(i)). Different rates of tax apply to each band so that properties in Band A will pay one-third of the tax of properties in Band H, the highest level. There are various reductions to the standard charge, for example where there is a single householder in residence in the property. Band D is the middle band and Band D equivalents are used to express the tax base of the authority.
- 6.22 A tax base of 93,900 equivalent Band D properties in 2007/08 (compared to 94,047 in 2006/07) was agreed by General Purposes Committee on 16th January 2007. This assumes a collection rate of 97.5% will be achieved in respect of charges raised for 2007/08 (unchanged from 2006/07).

Calculating the Council Tax Level

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

Table 6.2 Calculation of Brent's Council Tax for 2007/08

	£'000
Proposed Brent budget	242,890
Less: Formula Grant	(150,556)
Plus: Net Deficit on Collection Fund	1,151
Total to be met from Council Tax for Brent Budget	93,485
Taxbase (Band D equivalents)	93,900
Band D Council Tax (£)	£995.58

Greater London Authority (GLA)

- 6.24 The GLA came into existence on 3rd July 2000. Before 2000/01 the London Fire and Civil Defence Authority (LFCDA), now the London Fire and Emergency Planning Authority (LFEPA), and Metropolitan Police had set budgets which acted as precepts on the Collection Fund and were reflected in the overall council tax payable by residents. These two bodies, and several other London wide bodies, such as Transport for London and the London Research Centre (to which Brent historically paid subscriptions), are now absorbed into the GLA which issues one overall precept.
- 6.25 Each financial year, the Mayor and Assembly must prepare and approve a budget for each of the constituent bodies and a consolidated budget for the authority as a whole.
- 6.26 The GLA's budget setting process is as follows:
- (a) The Mayor must prepare for each financial year a budget for each of the constituent bodies and a consolidated budget for the Authority as a whole.
 - (b) The Mayor will then prepare a preliminary draft of his proposed consolidated budget for consultation with the Assembly.
 - (c) After such and any other consultation, the Mayor determines the draft consolidated budget and presents it to the Assembly. The Assembly must approve this budget with or without amendment.
 - (d) After the draft consolidated budget has been approved, with or without amendment, the Mayor shall prepare a final draft of his proposed consolidated budget for the next financial year. If at the time he presents the final draft budget to the Assembly, that final draft is different to the original draft, with or without amendments, the Mayor must present a written statement to the Assembly of his reasons for the changes. This final draft must be presented and agreed before the end of February.
 - (e) After considering the final draft, the Assembly must approve it with or without amendments. Any amendment must at this stage be agreed by

two thirds of the members voting. The resulting budget will be the approved consolidated budget for the financial year.

- 6.27 The Mayor published his initial proposed budget for 2007/08 on 15th December 2006. A revised budget was presented to the Assembly on 30th January 2007. His final proposals were agreed by the Assembly on 14th February 2007.
- 6.28 The Mayor has set out that his 2007/08 budget proposals are to provide for:
- (a) The full year cost of 630 safer neighbourhoods teams across London;
 - (b) An unchanged contribution to the funding package for the 2012 Olympic and Paralympic Games and maximising the economic, social, health and environmental benefits of the Games to London and Londoners;
 - (c) Measures to reduce carbon dioxide and other emissions, and non-renewable energy consumption;
 - (d) Measures to minimise waste and increase recycling, minimise water consumption and promote water efficiency;
 - (e) More transport investment in local areas, sustainable travel, road safety, walking and cycling; and
 - (f) Continued delivery of investment in London's transport infrastructure.
- 6.29 Table 6.3 below shows the budget for the GLA itself and each of its functional bodies in 2007/08. 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 Secretary of State for Culture, Media, and Sport.

Table 6.3 Breakdown of Proposed 2007/08 Budget for GLA

	2006/07 £m	2007/08 £m	Proportion of GLA Budget Requirement %
GLA – excluding Olympics	64.8	67.5	2.2
GLA - Olympics	57.7	58.1	1.9
Transport for London	12.0	12.0	0.4
Met. Police	2,425.7	2,532.7	82.7
LFEPA	379.5	391.5	12.8
TOTAL	2,939.7	3,061.8	100.0

- 6.30 The precept at Band D has been set at £303.88 for 2007/08. This represents a 5.7% increase, excluding the Olympic levy, or a 5.3% increase, including the Olympic levy. The GLA is subject to the same capping regime as Brent. However, the proposed increase of 5.7% for GLA functions, excluding the Olympics, could leave the GLA open to the risk of capping action. If the GLA

were to be required to re-set their budget, there would need to be re-billing across London.

Setting the Tax

- 6.31 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.
- 6.32 In accordance with these requirements, Members are asked to agree the calculations set out in the recommendations. The combined effect of a 4.8% increase in Brent Council's Band D council tax, from £950.13 to £995.58, and a GLA increase of 5.3%, from £288.61 to £303.88, would be an overall increase of 4.9%, from £1,238.74 to £1,299.46. The full calculation for each Band is included within the recommendations.
- 6.33 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

- 6.34 Appendix H (ii) sets out the council tax and NNDR instalment dates and the recovery policy for council tax which Members are asked to endorse.
- 6.35 The council has continued to promote payment by direct debit to improve overall collection. Brent has improved the level of tax collected by direct debit. About 48% of council tax payers now pay by direct debit compared to 46% a year ago. We intend to continue to promote direct debit payments. The instalment date for non-direct debit payers remains as it was in 2006/07 at the 1st of the month (apart from April when the instalment is due on the 10th (7th in 2006/07), whilst direct debit payers can pay on the 1st, 12th, 17th or 28th of the month. For 2007/08 both direct debit payers and non-direct debit payers will have to make payments over a maximum of 10 instalments; previously direct debit payers have paid over 12 months.
- 6.36 Council tax collection rates have been improving but are still below many of Brent's comparable London Boroughs. At the end of January 2007, 82.05% of council tax due in 2006/07 had been collected. The council is set to achieve its target collection of 94.0% of council tax due for 2006/07 by 31st March 2007. Performance and Finance Select Committee are monitoring collection rates at each meeting and are seeking to drive improvements on a year by year basis.