

## 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 2008/09.

#### External Support

6.2 The Local Government Finance Settlement was published on 24th January 2008 and was debated in Parliament on 4th February 2008.

##### *The grant system*

6.3 From 2006/07 the government introduced a new system to distribute Formula Grant known as the Four Block Model (see below) with a two year settlement – which applied to 2006/07 and 2007/08. During 2007, a number of options for changes to the way in which grant is distributed were considered by the technical Settlement Working Group, which consists of representatives from both central and local government. The options were mainly looking at updating and fine tuning the existing system used over the following three years. Following this technical work, a full consultation exercise was carried out during the summer of 2007. The main outcome in the settlement was the removal of both children's and adult's social care damping which provided protection to boroughs affected by changes announced to the funding formula in 2006/07. The removal of the damping protection has been particularly pronounced in London where it has resulted in a loss of £418.3m in undamped grant to London boroughs with the result that 29 out of 33 London boroughs will be on the grant floor in 2008/09, 24 in 2009/10 and 24 in 2010/11.

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 Shares which were used under the previous system, this does not provide an assessment of total need to spend. It is simply a way of equalising for differences in need;
- A Relative Resource Amount (RRA) - again, unlike the former system in which the resource adjustment was based on an Assumed National Council Tax (ANCT), this adjustment is based on relative resource need and not the amount a council might be expected to raise in council tax if it set its council tax at the ANCT;
- A Central Allocation (CA) – this is an amount that is distributed 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;

- 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 was no longer possible to assess total need to spend by an authority or the increase in council tax that the government had 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 £70.4bn in 2008/09. Total Formula Grant is approximately one third of total local government funding – i.e. £23.4bn (excluding PFI) out of £70.4m. The remainder is made up of Area Based Grant, Dedicated Schools Grant, police grant, and other special grants. For 2009/10 and 2010/11, total external funding is £73.5bn and £76.7bn, with formula grant (excluding PFI) making up £24.1bn and £24.7bn respectively.

6.8 The £23.4bn of Formula Grant in 2008/09 is made up of National Non-Domestic Rates - £20.5bn (£18.5bn for 2007/08) - and Revenue Support Grant (RSG) - £2.9bn (£3.2bn for 2007/08). RSG used to form a much greater proportion of local council funding but is much less since the introduction of Dedicated Schools Grant in 2006/07. Most Formula Grant now comes through redistributed National Non-Domestic Rates.

6.9 The increase in external funding is as follows:

- Overall - 4.0% in 2008/09, 4.4% in 2009/10 and 4.3% in 2010/11; of which:
  - o Schools - 4.1% in 2008/09, 3.3% in 2009/10 and 4.1% in 2010/11;
  - o Other local government functions - 3.7% in 2008/09, 2.8% in 2009/10 and 2.6% in 2010/11.

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 2008/09, 1.75% in 2009/10 and 1.5% in 2010/11.

#### *Brent's external funding*

6.11 Brent's Formula Grant increase for 2008/09 is at the 'floor', as it was in 2007/08, and will remain at the floor in 2009/10 and 2010/11. The reason for

this is a mixture of changes, some that date back to the 2006/07 settlement and others that result from the most recent settlement. 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 has been a compensatory increase in the Dedicated Schools Grant. During 2006/07 and 2007/08 Brent schools had the second highest funding increase in the country and favourable increases will continue over the period 2008/09 to 2010/11, with Brent schools having the third highest increase in the country).
- Population projections. Population projections form a very significant element of the relative needs block and central allocation block. 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 with the 2007/08 grant settlement based on a population of 257,500, 12,100 less than the 2001 Census figure of 269,600. The 2008/09 settlement is based upon revised 2004 population estimates which to some extent have corrected the problems with the previous projections. The population projection for 2008, used in the 2008/09 grant settlement, is 271,000 which suggests a stable as opposed to declining population. However, a recent study of Brent's population by Professor Les Mayhew calculated that Brent's population was 289,000 in 2007. The Greater London Authority calculation of the population is slightly lower than Professor Mayhew's – 281,800 at mid-2007 – but still significantly higher than the ONS. In practice, Brent's population is growing significantly faster than the ONS's estimates and if the figures for population used by the government were revised to properly reflect levels of population in Brent, it is likely that council's grant would climb above the 'grant floor'.
- Removal of the Social Care Sub Block Damping. Changes to the way Relative Needs Formulae for children's and adults' social care were calculated for 2006/07 and 2007/08 saw Brent along with most other London boroughs lose out. Protection was provided in the form of RNF damping which mitigated against these losses. However the 2008/09 settlement saw the removal of this damping. In 2007/08 Brent received protection of £7.0m from this damping mechanism which has now been removed in 2008/09 and future years.

6.12 Details of the make-up of Brent's Formula Grant are in Table 6.1 below.

**Table 6.1 Make-up of Brent's Formula Grant**

	2008/09 £m	2009/10 £m	2010/11 £m
Relative Needs Amount	128.003	131.272	134.396
Relative Resources Amount	(29.704)	(30.273)	(30.749)
Central Allocation	50.481	51.915	53.305
Floor Damping	10.624	9.181	7.537
<b>Total Formula Grant<sup>1</sup></b>	<b>159.404</b>	<b>162.095</b>	<b>164.489</b>

### The Capping Rules

6.13 The Local Government Act 1999 allows the government to limit the budget requirement of authorities if it considers increases in council tax excessive. A number of options are open to it to limit the amount councils increase their budgets by including requiring them to re-set their budgets in the current year – with resulting re-billing costs, disruption to council tax collection, and uncertainty for service delivery – or limiting the budget requirement in the following year. The government has taken capping action against 25 authorities since 2004/05 and Ministers have made it clear that they will use their capping powers again in 2008/09 if they need to. The Minister for Local Government, when introducing the 2008/09 provisional settlement, said:

*“We expect the average council tax increase in England to be substantially below 5%. We will not hesitate to use our capping powers as necessary to protect council tax payers from excessive increases.*

If anything this message is somewhat stronger than in recent years from the Minister.

6.14 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 will be below the average for Outer London and the country as a whole;
- (ii) The proposed increase in the Brent Council Tax is 3.8%, which is substantially 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.

<sup>1</sup> In 2008/09, NNDR accounts for £139.925m (£128.920m for 2007/08) of Formula Grant and RSG accounts for £19.479m (£21.635m for 2007/08).

- 6.15 However, the risk of capping would increase if the council tax rise was over 4% and more so the closer to 5% it reached.
- 6.16 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**

- 6.17 The Collection Fund accounts for all monies relating to the council tax for Brent in 2008/09, the Greater London Authority (GLA) precept in 2008/09, and arrears of both council tax and community charge.
- 6.18 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.
- 6.19 The Executive meeting on 14<sup>th</sup> January 2008 approved an estimated council tax deficit of £1.5m in 2008/09. The council needs to budget to collect £1.149m of this through the council tax in 2008/09, 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**

- 6.20 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.
- 6.21 A tax base of 94,585 equivalent Band D properties in 2008/09 (compared to 93,900 in 2007/08) was agreed by Full Council on 21st January 2008. This assumes a collection rate of 97.5% will be achieved in respect of charges raised for 2008/09 (unchanged from 2007/08).

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

- 6.22 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 2008/09**

	<b>£'000</b>
Proposed Brent budget	255,972
Less: Formula Grant	(159,404)
Plus: Net Deficit on Collection Fund	1,149
<b>Total to be met from Council Tax for Brent Budget</b>	<b>97,717</b>
<b>Taxbase (Band D equivalents)</b>	<b>94,585</b>
<b>Band D Council Tax (£)</b>	<b>£1,033.11</b>

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

- 6.23 The GLA came into existence on 3<sup>rd</sup> July 2000. Before 2000/01 the London Fire and Civil Defence Authority (LFCDA), now the London Fire and Emergency Planning Authority (LFEPA), and Metropolitan Police had set budgets which acted as precepts on the Collection Fund and were reflected in the overall council tax payable by residents. These two bodies, and several other London wide bodies, such as Transport for London and the London Research Centre (to which Brent historically paid subscriptions), are now absorbed into the GLA which issues one overall precept.
- 6.24 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.
- 6.25 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.

- 6.26 The Mayor published his initial proposed budget for 2008/09 on 13<sup>th</sup> December 2007. A revised budget was presented to the Assembly on 30<sup>th</sup> January 2008 and his final proposals were agreed by the Assembly on 13<sup>th</sup> February 2008.
- 6.27 The Mayor has set out that his 2008/09 budget proposals provide for the following major areas of spending:
- (a) Continuing to develop police Safer Neighbourhood Teams and deliver the Estates Strategy to support them to provide effective front-line policing, public reassurance and public confidence and direct resources to reduce serious violence and protect young people.
  - (b) Enhance counter terrorism capability and capacity
  - (c) 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.
  - (d) Mayor's Youth Office to provide more activities and services for young Londoners by providing across all London Boroughs more places to go and things to do, developmental and diversionary support and Innovations and Development Fund to improve the quality of and access to services.
  - (e) Delivering the Mayor's Climate Change Action Plan through measures to reduce carbon dioxide and other emissions, and non-renewable energy consumption and measures to minimise waste and increase recycling, minimise water consumption and promote water efficiency;
  - (f) Transport measures towards reducing excess journey times by 13 per cent by 2020 and increasing capacity by 25 per cent by improvements to the underground and overground services
  - (g) Improve the accessibility of transport services by continuing the expansion of stations which are step free from platform to street level, providing visual displays and audio announcements on all buses and introducing free travel on the Dial-A-Ride service from January 2008.
  - (h) Improving Londoner's Health by introducing the London-wide Low Emission Zone and continuing to deliver the road safety programme to reduce the number of people killed or seriously injured.
  - (i) Maintain the current levels of emergency cover and continuing to deliver and maintain the dramatic increase in capacity to improve resilience to respond to the new risks facing London.
  - (j) Delivering the Mayor's housing strategy, in particular working with partners to deliver the programme of 50,000 more affordable homes over the period 2008-11.

6.28 Table 6.3 below shows the budget for the GLA itself and each of its functional bodies in 2008/09. 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 2008/09 Budget for GLA**

	2007/08 £m	2008/09 £m	Proportion of GLA Budget Requirement %
Mayor of London	117.0	127.8	4.0
London Assembly	8.6	8.7	0.3
Transport for London	12.0	12.0	0.4
Met. Police	2,532.7	2,595.0	82.4
LFEPa	391.5	405.1	12.9
<b>TOTAL</b>	<b>3,061.8</b>	<b>3,148.6</b>	<b>100.0</b>

6.29 The precept at Band D has been set at £309.82 for 2008/09. This represents a 2.0% increase (excluding the Olympic levy, which remains at £20 at Band D, the overall increase is 2.1%). This precept was agreed at the Assembly meeting on 13<sup>th</sup> February 2008.

### **Setting the Tax**

6.30 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.

6.31 In accordance with these requirements, Members are asked to agree the calculations set out in the recommendations. The combined effect of a 3.8% increase in Brent Council's Band D council tax, from £995.58 to £1,033.11, and a GLA increase of 2.0%, from £303.88 to £309.82, would be an overall increase of 3.3%, from £1,299.46 to £1,342.93. The full calculation for each Band is included within the recommendations.

6.32 Any amendments agreed to the budget will require a recalculation to be undertaken.

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

6.33 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.



- 6.34 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 49% of council tax payers now pay by direct debit compared to 48% 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 2007/08 at the 1<sup>st</sup> of the month (apart from April when the instalment is due on the 7<sup>th</sup> (10<sup>th</sup> in 2007/08), whilst direct debit payers can pay on the 1st, 12th, 17th or 28th of the month. Both direct debit payers and non-direct debit payers will have to make payments over a maximum of 10 instalments.
- 6.35 Council tax collection rates have been improving but are still below many of Brent's comparable London Boroughs. At the end of January 2008, 90.77% of council tax due in 2007/08 had been collected. The council is set to achieve its target collection of 94.5% of council tax due for 2007/08 by 31<sup>st</sup> March 2008. Performance and Finance Select Committee are monitoring collection rates at each meeting and are seeking to drive improvements on a year by year basis.