

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

MEETING: 19th JANUARY 2015

**SUBJECT: PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT
2015/2016**

JOINT REPORT OF THE CHIEF FIRE OFFICER AND FINANCE OFFICER

1. PURPOSE OF THE REPORT

- 1.1 To provide Members with information on the Provisional Local Government Finance Settlement for 2015/2016 announced on 18th December 2014, the main details of which are set out in Appendix 1 of this report for information; and for Members to note that an updated Medium Term Financial Strategy (MTFS) will be presented in February when the final Revenue Budget 2015/2016 is to be approved.
- 1.2 To note the comments made on the Authority's behalf by the Chief Fire Officer and Finance Officer in respect of the Government's consultation on the Provisional Grant settlement for 2015/2016 as the deadline for responses to the CLG were required by the 15th January 2015.

**2. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT
2015/2016**

- 2.1 The Local Government Minister for Communities and Local Government, Kris Hopkins, provided details of the provisional local government finance settlement for 2015/2016 on 18th December 2014. Summary key headline figures for the Authority are set out in Appendix 1a.
- 2.2 The main conclusions, from the settlement in overall terms, are that the funding implications are marginally worse than those forecast in the Budget Planning Framework 2015/2016 reported in December and that the funding allocations continue to be distributed unfairly. The analysis set out in Appendix 1b shows that, in summary, the more deprived areas of the country, mainly the Metropolitan Fire Authorities, continue to see the highest level of overall cuts in funding.

- 2.3 A continued risk to this is that the Authority is reliant on business rate income from all of its district councils within Tyne and Wear. Any reduction in business rates because of failing businesses and/or the impact of backdated business rating appeals are now met equally by the government and local authorities. As a consequence, the Authority will not know its business rates income position until February once councils have determined their estimated business rates income for 2015/2016, as the statutory deadline for such determinations is 31st January 2015.
- 2.4 The Authority will see a reduction to its Revenue Spending Power of £2.487m (4.72%) in 2015/2016 taking into account all funding resources, including an assumption by the government that the authority takes up the council tax freeze grant. These reductions can be compared to other categories of the fire service as follows:
- All Fire Authorities -3.50%
 - Metropolitan Fire Authorities -4.77%
 - All Combined Fire Authorities -2.92%
 - Shire Counties with Fire +0.88%
 - Shire Unitaries with fire -0.92%
- 2.5 The Settlement Funding Assessment (SFA) allocation, which makes up a large part of the Revenue Spending Power measure, is considered broadly comparable to the previous formula grant allocation. Analysis shows a much worse position for the Authority, in that general revenue grant funding is being cut more deeply than the overall funding settlement implies.
- 2.6 The SFA for the Authority has reduced by £2.798m (8.78%) in 2015/2016. This element of the funding reduction mirrors the national position across most fire authorities in terms of percentages (Appendix 1c), however for those most reliant on government funding such as this Authority, the cut in this funding element in cash terms is much higher than those of other more affluent Authorities (where government grant is a much lower proportion of their total income). This helps to explain the variation in Revenue Spending Power between fire authorities across the country.
- 2.6 In summary, the Settlement has confirmed that it will be necessary for the Authority to continue to implement its planned IRMP actions and also to consider the precept position as the Authority seeks to address the funding shortfall in its 2015/2016 budget.

3. BUDGET 2015/16 POSITION

- 3.1 The impact of the Settlement on the anticipated budget position is considered minimal with the anticipated gap in funding remaining at around £1.4m. This position does not, however, take into account the notified council tax base and estimated business rates income for 2015/16 from the Authority's district councils or any surplus / deficit on the Collection Fund at 31st March 2015 (this data will be notified by 31st January 2015).
- 3.2 The precept position, also needs to be considered by members in February, in terms of the relative impact of accepting the council tax freeze grant (c£243K) or considering an increase (for example a 1.99% increase without the need to hold a referendum would generate an additional £149K).

4. RECOMMENDATIONS

- 4.1 The Fire Authority is requested to note:
- a) the implications of the provisional local government finance settlement for 2015/2016;
 - b) the comments made on the Authority's behalf to the government's consultation on the Provisional Grant Settlement for 2015/2016;
 - c) that the Precept position for 2015/2016 is yet to be agreed;
 - d) that the final Revenue Budget for 2015/2016 will be presented to the Authority at its meeting in February together with an updated MTFS.

APPENDIX 1

1. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2015/2016

- 1.1 On 18th December 2014 the Local Government Minister for Communities and Local Government, Kris Hopkins, announced the local government finance settlement for 2015/2016 and launched a consultation on the proposed settlement ending on 15th January 2015.
- 1.2 The Provisional Settlement continues to follow the funding format introduced for 2013/2014. The Government Revenue Spending Power (a combination of grant and other income) for 2015/2016 will see a reduction overall nationally of 1.85% with no authority incurring more than a 6.4% reduction in funding using this measure.
- 1.3 Under the Retained Business Rates funding arrangements for Local Government implemented from April 2013, 50% of the Business Rates collected will be retained by local authorities. As indicated in the Autumn Statement the government has again capped business rates at a 2% increase rather than using RPI of 2.3% (as it did in 2014/15 when RPI was 3.2%).
- 1.4 The Government has retained the safety net threshold for each authority to limit the losses on Business Rates income collected in any one year. However, this has been increased to £13.051m, so it is very unlikely that this threshold will ever be reached by the Authority. As such it has very little purpose.
- 1.5 The Localism Act provides for the provision of referendums to veto excessive council tax increases. This effectively places a limit on council tax increases and if authorities exceed Government limits then the public must be able to vote to agree or veto any considered 'excessive' increase.
- 1.6 The Government has retained the threshold council tax limit to hold a referendum at 2% in 2015/2016 and has confirmed that Council Tax Freeze grant funding (based on a 1% council tax increase) will be made available for authorities that freeze council tax. The settlement also confirms inclusion of previous years' Council Tax Freeze grant in the funding base. Members are to consider the precept position of the Authority in light of the fact that a precept increase in line with the 2% cap

would generate approximately £392k of additional income which is £149k more than the 1% freeze grant available for 2015/2016.

Impact on Tyne and Wear Fire and Rescue Authority

- 1.7 The Government's view of the Authority's total Revenue Spending Power for Tyne and Wear Fire and Rescue Authority will reduce by £2.486m or 4.72% in 2015/2016 to £50.194m compared to an adjusted £52.680m in 2014/2015.
- 1.8 The breakdown of the total Revenue Spending Power is shown in Appendix 1a. This is the overall funding available to the Authority including Council Tax, locally retained business rates and other government grants. This may have to be reviewed once the final Local Government Settlement has been announced in late January or early February.

Changes in Revenue Spending Power in 2015/2016

- 1.9 The changes include:
- Revenue grants have been reduced by 7% (£80,922) to a total of £1,062,888. This funding relates to New Dimensions and Fire Link initiatives.
 - Council Tax Freeze Grant for 2014/2015 has been built in to the funding base for 2015/2016, but now forms part of the SFA allocation in line with proposals set out in the July technical consultation.
 - The government figures assume a council tax freeze in 2015/2016 for the Authority worth £243,132 (based on a 1% increase).
 - The Settlement Funding Assessment (SFA) has been reduced by 8.78% which is a cash reduction of £2.798m. These cuts are slightly worse than those forecast in the Budget Planning Framework 2015/2016 reported in December by £0.098m in total.
 - The Government has allocated the Authority an additional grant of £0.206m to fund both the 2014/15 gap of 1.2% and the 2015/16 gap of 0.3% between the capped business rates and the applicable actual RPI. This is referred to as the SFA Adjustment by the government and helps offset the SFA cut each year.

Settlement Funding Assessment (SFA) for 2015/2016

- 1.10 The Settlement Funding Assessment (SFA) is made up of three elements as indicated below:

Retained Business Rates - reliant on a 2% share of each district council's local share

Revenue Support Grant - determined by central government and the funding reductions are routed through this allocation

Top Up Grant - fixed and uprated by RPI until 2020 (however it has again been capped by the government at 2% for 2015/2016 as it was in 2014/2015)

- 1.11 The SFA total of £29.054m is, in summary, made up of:

Retained Business Rates (Govt. assessment)	£4.129m
Revenue Support Grant	£14.945m
Top Up Grant	£9.980m

Retained Business Rates

- 1.12 According to the government's SFA calculation, the forecast income from Business Rates for 2015/2016 for the Fire Authority is £4.129m. This represents the amount of business rates the Authority can expect, according to the government, in total from the five constituent councils in Tyne and Wear. Any variation to this figure has to be met by the Authority if it is short, but will gain proportionately from any additional income above the level assessed. The risk, however, is that with business rates appeals, both backdated and current year, government business rate projections could be optimistic. The Authority will not be notified of its business rates income until each district council has determined its total business rates for 2015/2016, which it must do by no later than 31st January 2015.
- 1.13 Consequently, the Authority's local share of business rates will be reported in February when the final budget is set; this may incur a risk to the Authority if their actual share is significantly different from the government assessed amount, as indicated above.
- 1.14 There is a risk to the Authority that each district council may not collect the level of income indicated. Any increase or decrease in the actual collection will be shared with the Authority and mid year collection returns from each council projected at that stage a broadly neutral position, indicating business rates were on target as estimated for 2014/2015. Final figures for 2014/2015 and projected income for 2015/2016 will be notified to the Authority by 31st January 2015 and will be built in to the final revenue budget reported in February.
- 1.15 Furthermore, there is an added budget risk with this system in that the Authority will have to bear a share of the financial consequence of any business rates appeals. The Authority has no influence over this and

cannot budget for this risk. It is considered unfair that the government who has benefited in the past with higher business rates income should now be sharing the cost of appeals with local authorities under the new system. The Authority, in common with local government, generally has supported the fact that the government should be meeting the full cost of back dated appeals.

Revenue Support Grant

- 1.16 The amount of Revenue Support grant to be received by the Authority is £14.945m. This includes core revenue grant funding allocations of Formula Grant and Council Tax Freeze Grant. The Authority, as expected, is seeing this level of funding being scaled back to achieve the Government's funding reduction requirements in future years as this element is totally under the control of Central Government.

Top Up Grant

- 1.17 The amount of Top Up Grant to be received as part of the Local Government Finance Settlement is £9.980m. As this element of the funding is fixed until 2020 and increases by RPI each year, this is one of the more certain elements within the funding regime. The level of fixed funding at just under £10m, however, is very low in comparison to the total funding the Authority will receive. The cap of 2% has again been applied to the grant which is less than the RPI increase for the second successive year.

Other Core Grant and Revenue Funding not in SFA

- 1.18 The core and revenue grants of £1.063m included in the finance settlement for 2015/2016 include New Dimensions Grant and Fire Link Grant. At this stage the PFI funding has not been released but the allocation for the Authority is not expected to change from previous year's grant allocations.

Council Tax Income (Precept)

- 1.19 The Authority continues to set its precept each year and relies on each district council within Tyne and Wear to collect the council tax income on its behalf. The Authority is awaiting the council tax base information from each council to be able to assess if this will have an impact on the precept collectable in 2015/2016.

- 1.20 The localisation of council tax arrangements introduced from 2013/2014 poses an additional risk each year for the Authority as the individual council tax schemes determined annually by each district council could impact on the Authority's collectable income. The extent of this will be clarified by the end of January 2015 and will be reported as part of the final revenue budget in February.

Council Tax Freeze Grant

- 1.21 The settlement confirms that the 2014/2015 Council Tax Freeze of £0.241m has, as expected, been built into the baseline funding position for 2015/2016.
- 1.22 The Government has announced further Council Tax Freeze grant funding for 2015/2016 for local authorities who freeze council tax (based on a 1% council tax increase). This grant for the Authority is worth approximately £0.243m and the funding is to be baselined into future grant settlements.
- 1.23 The Authority is to consider this position further as IRMP actions alone can not address the projected funding gap identified and reported in December and that it may be necessary to consider dovetailing precept increases with IRMP actions in order to meet the challenging funding gap identified in this and future years.
- 1.24 A 1.99% increase in the precept for example would bring in an additional income of £149k and would have the advantage of being permanently included in the tax baseline of the Authority in future years.

Summary of Resources Position for 2015/2016

- 1.25 The table below summarizes the 2015/2016 provisional estimated resources position for Tyne and Wear Fire and Rescue Authority:

Summary of resources position 2015/2016	Amount £m
Projected Income from Council Tax Precepts	19.628
Top Up Grant	9.980
Revenue Support Grant	14.945
Business Rates (government assessed)	4.129
SFA Adjustment	0.206
Other Revenue Grants	1.063
Total Estimated Resources	49.951#
Potential Resources (Net Budget Requirement *)	48.888

**The Net Budget Requirement excludes other revenue grants which are used to meet specific service related revenue expenditure in the budget which effectively produces a net budget cost. Costs are matched to the grant allocated.*

the total excludes Freeze grant (£243k) or Precept increase (£392k) at this stage.

Capital Grant Funding

- 1.26 Capital Funding for 2015/16 has yet to be clarified by the government as this information was not released as part of the local government finance settlement.

Comments on the Settlement which will form the basis of the Authority's response to government

- 1.27 In summary the Authority's concerns with the present funding system, have not been accepted by the government. The way in which Authorities are funded shows that significant financial risk has shifted away from central to local authorities, which is starting to have an adverse impact on authority budgets and front line services. This was highlighted by the Authority in previous Settlements and now means that most authorities are having to earmark reserves. This is dependent, to a large degree, upon the actual out-turn position for business rates collection in 2014/2015 and the likely position in respect of the adverse impact of back dated business rate appeals in future years on an ongoing basis. These appeals, which are significant across the country, in the Authority's view should be met wholly from central government. This view is however not shared by this government.

Specific comments are as follows:

The lateness of the settlement data which was released just before Christmas, on 18th December 2014, has yet again given very little time to fully analyse the settlement and is unfortunately becoming an unwelcome feature of the way government communicates important funding decisions to local Authorities. The lateness of the settlement continues to be particularly unhelpful to Authorities and an earlier announcement should be programmed by the government in future to allow more time to analyse and respond to the Settlement.

Analysis work is still ongoing but the main points to note at the time of writing this report are set out below.

- **Fairness of the Settlement**

The primary concern for the Authority is the cumulative impact of some of the formula and system changes which are hitting deprived areas hardest. The fact the Authority responded to last year's settlement pointing out that the starting point for the new system and that the Authority was also facing the highest proportionate loss in grant funding from 2010/11 to 2014/15 was considered unfair went unanswered. This settlement unfortunately does nothing to address the inherent unfairness in the system and this is manifested in the fact the Authority continues to be faced with significantly higher Revenue Spending Power reductions compared to most other Fire Authorities. Appendix 1b shows the summary position for information.

The settlement is following an unwelcome trend of targeting and hitting the Metropolitan Fire Authorities the hardest with average cuts well above the average for England in 2015/16 once more and these are significantly above most other fire authorities where information has been provided.

From this position it is difficult to see how the Authority has been given a fair settlement which takes on even greater significance as the basis of the system is fixed until 2020 at the earliest, if not addressed and funding reductions of this magnitude are set to continue throughout the life of the next parliament.

○ **Resource Equalisation and Needs Based funding**

The way in which the new system and other funding streams are designed means that the new system is gradually eroding away the main components of resource equalisation and needs based spending indicators (particularly deprivation measures), which were the cornerstones of the previous formula grant mechanism, and are being replaced by rewarding authorities that can grow their economy. This position is reflected in the provisional settlement for the more deprived areas of the country that will not be able to benefit from stronger growth which they need to generate to make good their higher Revenue Support Grant reductions each year. It is very sobering to note that in 2015/2016 shire counties with fire services are actually shown to see their resources grow by almost 1% compared to the 4.72% cut that this Authority is facing in the same year. We are clearly not all in this together can be the only response to this very disappointing component of the settlement announced. The Authority therefore calls on the government to review the resource equalization elements within the system and update the funding allocations accordingly to reflect or protect the position so that no erosion to this important factor is made in any future years. We are happy to work with government to find an alternative approach for the Fire Service.

○ **Increase in Rural 'Sparsity' Funding**

The fact the government has found a further £2m to bolster this funding to £15.5m in total for 2015/16, is helping to address the additional perceived costs of rural areas and is a good example of the government listening to local government and showing that it is possible to deal with cost pressures by providing funding for specific issues. It is thus even disappointing that resource equalization, or targeting funding to where it is most needed, which would have a more profound impact, has not been addressed in a similar way. We would urge the government to address this issue as a matter of urgency in the same way as it has responded to rural areas.

○ **Business Rates – Baseline Funding Assessment and Safety Net Threshold**

The government's mechanism for calculating the baseline funding assessment continues to use a national apportionment which takes no account of the billing authority's actual business rates collection, which results in a baseline funding assessment lower than the business rates collectable. This means that the safety net threshold calculation is too low and increases the risk of income loss before government intervention is made, thus passing on this real risk to local authorities.

- **Business Rate Revaluations**

The amount of funding included by the government in the national settlement for businesses who appeal their rating valuations to the (independent) Valuation Office, may not be sufficient to fully address the implications of these appeals if successful and means that local government will be carrying a significant risk to the amount of business rates they will be able to collect in future years and are decisions they have no control over. As Fire Authorities continue to be reliant on a share of each billing authorities business rate income this issue also impacts on fire service funding although they have no control over this area. A fair modification to the system is suggested whereby the government reviews the cost of appeals annually to ensure that the full costs incurred by local government are fully funded by central government and that this risk is effectively transferred back to the government who determines national policy. It is considered a new burden that should be funded centrally.

- **Impact of cuts on front line services**

A provisional cut to RSG of 8.78% for 2015/2016 represents a further significant funding reduction to this Authority, which since 2011/12 has now seen the RSG element of its funding reduce by 36.70% and is 7.22% higher than the Fire Service average funding reductions over this period. As the Authority has in the past embraced the efficiency agenda and already made significant savings (most of those areas suggested in the Sir Ken Knight review had already been carried out), this inevitably means that cuts to front line services are now being implemented. These include the Authority having agreed a new fire cover response model that will lead to significant cuts across the service by reducing the number of fire stations, appliances and the number of fire fighters, which it is now implementing in stages from July of this year. The gap in the Authority's resources is such, however, that this action alone can not bridge its funding gap and the Authority is also having to look at other actions it can take to maintain services which will inevitably increase the risk to the public. This is not scaremongering this is fact. If the prognosis of further sustained funding reductions continues at the pace already met, over the next parliament, then front line services will have to be compromised further. We would therefore urge the government to address the inherent unfairness of the current funding model that is not considered fit for purpose.

- **Settlement Funding Assessment and Top Up Grant funding**
The Authority would also seek clarity on the Top Up Grant increase which has only been increased by 1.91% rather than the expected increase of 2.3% (RPI). Can the government provide an analysis and explanation that shows that the potential lost funding has been properly compensated for within the SFA Adjustment grant allocation for both 2014/15 and 2015/16.

Also, can the government explain why the amount of the SFA Adjustment in 2014/15 has not been uprated by RPI in 2015/2016 of 2.3%. If this is not addressed properly then the net worth of the Adjustment grant in each year it is awarded is effectively being eroded year on year.