

Proposed Response to the Provisional Settlement

Comments on the Settlement which formed the basis of the Authority's response to government are set out below:

Although the government previously agreed to issue the Provisional Finance Settlement on or around 5th December each year, which was welcomed by the Authority, the reality this year, mainly due to the General Election, is that the Settlement data was not released until 20th December 2019. This is the latest it has ever been published and has consequently, yet again, given very little time to fully analyse the Settlement, and as such analysis work is still ongoing. It is also very disappointing that a key specific grant for the Fire Service (Fire Pensions Grant) was not included as part of the Settlement and depending on allocations could impact upon the resources of the Authority. The main points to note at the time of writing this report are set out below.

Continued Unfairness of the Settlement

The primary concern for the Authority remains the continued unfairness of the distribution of resources and the cumulative adverse impact of some of the formula and funding system changes, which since 2010/11 have hit this Authority disproportionately worse than most of the other Fire and Rescue Authorities (FRA's) across the country. To date we have seen a 16.3% reduction in our Core Spending Power (CSP) since 2010/11 which is the third worst of all Fire Authorities and is consistent with the poor settlements experienced by all of the Metropolitan Fire and Rescue Authorities over this period but were especially disadvantaged in the period 2011/12 to 2015/16.

This position is very difficult to accept when other FRA's in different, often much less deprived areas of the country than Tyne and Wear have actually seen a growth in their resources or where reductions are significantly lower than ours and this clearly shows that the current funding system is not fit for purpose and has been in need of reform for some considerable time. I attach the analysis that compares Tyne and Wear's CSP to other fire authorities that shows the variation in resources since 2010/11 to date for your information (Appendix 1).

It is also disappointing that the Spending Round for 2020/21 has merely perpetuated the unfair allocation of resources which means the Authority is only seeing a 2.8% growth in its Core Spending Power (the lowest of all fire authorities) and is a full 1% below the highest increase for a Fire and Rescue Authority in 2020/21.

It is also noteworthy to point out that most of the additional funding made available for 2020/21 by the government of over £1.248bn has been allocated to local government, none of which has been provided to the Fire Service.

The Authority, as you may be aware, is having to take quite drastic actions to review its response model, in order to balance risk with its limited resources, which is proving unpopular with both its workforce and communities as a result of the continued funding reductions coupled with the increase in costs it is also having to manage. Although the Authority has saved more than £25m since austerity began it still has significant budget issues to address, some of which are beyond its control (eg pay awards, firefighter pensions remedies, impact of Brexit , inflation).

Resource Equalisation and Needs based funding

The way in which the current business rates retention system and other funding streams are designed means that this system has gradually eroded away the main components of resource equalisation and needs based spending indicators (particularly deprivation measures) which were the key element of the previous formula grant system. The impact of these changes mean that there has been a significant redistribution of grant to less deprived areas and this has continued as part of the 4 Year Settlement and latterly in the latest Spending Round for 2020/21. The Authority, therefore, is looking forward to a fairer distribution of resources when the long awaited Fair Funding Review and the Business Rates Retention Reform are finally implemented in April 2021 and the Authority hopes these will address some of the anomalies in the current system and help to deliver a fairer and more sustainable funding system for this Authority and for the wider fire service.

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 authorities 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. For this Authority it means that business rates would have to fall by £1.166m before any government funding would be triggered. This is a potential financial risk that the Authority simply cannot afford and a more realistic and meaningful measure needs to be put in place.

Business Rates Levy 2019/20 Rebate

The Authority welcomed the government's move last year to distribute any surplus on the Business Rates Levy Account monies back to local government based on need (2013/14). It is right that this funding is re-allocated back to local government however this was not included within the Settlement this year. It would be helpful for budget purposes if this information could be made a permanent feature of future funding Settlements. Although this is one-off funding it is still helpful to the Authority.

Council Tax Flexibility

Despite the Authority submitting a detailed argument and response to government requesting more flexibility to increase Council Tax (up to a maximum of a flat £10 at Band D increase) there are no plans to change the limit for the Authority or the fire service for 2020/21. This continues to be an area of disappointment as such flexibility (even if it was a one-off measure) would have helped to alleviate some of the funding issues identified by the Authority and thereby help to reduce and moderate some of the IRMP actions previously implemented. The Authority would prefer additional government funding but in its absence a one-off, one-year boost to Council Tax would have helped the finances of the Authority significantly as it strives to balance risk with its limited resources. It is also very important that any revised funding system also fully and properly recognises the different local abilities by authorities to be able to generate income from both business rates and council tax to ensure resources are adequate to meet their statutory duties.

Firefighter Increased Pension Costs

The Authority remains concerned that the government is not meeting the full cost of the changes necessary to the firefighters pension schemes, where approximately 90% of the additional cost is being met by the Fire Pensions Grant. The Authority welcomes the fact this funding totalling £115m has been secured for 2020/21 but the allocations of this grant would have been very helpful as they were missing from the Finance Settlement.

There is also the added uncertainty that this funding is not permanent and is subject to review when the Comprehensive Spending Review 2020 (CSR20) takes place in this summer / autumn of this year. The Authority would ask that the government considers providing full grant coverage for this change in future years rather than the 90% contribution approach adopted for 2019/20 and 2020/21.

It is also of concern that the FBU won its case against the government at the Court of Appeal in respect of changes made to the firefighters pension scheme which were found to be discriminatory. The remedy recently issued on 18th December 2019 will have a significant impact on the fire service both in terms of administering the changes required and the additional costs involved which the Authority is expecting the government to meet. This major cost will need to be recognised by the government when it conducts its CSR20.

Rural Service Delivery Grant Funding

The government has maintained this funding stream totalling £81m for 2020/21 to help address the 'perceived' additional cost of sparsity for rural areas and this

is an example of the government dealing with cost pressures by providing funding for a specific issue.

It is disappointing that resources can be found for this particular area when resources measured by the Core Spending Power vary so significantly across the country and yet no grant funding is provided to compensate those currently disadvantaged by the current CSP measure, such as Tyne and Wear.

The Authority has seen its CSP increase marginally by 0.26% over the last 5 years compared to a 10.02% average increase across all Authorities in England. This is a 9.76% shift away from the national average position and again shows the unfairness in the way resources are being allocated to both the Authority and to the fire service. The Authority would ask the government to address this issue as a matter of urgency in the same way as it has responded to rural areas by allocating grant for those adrift from the national average CSP level.