

**TYNE & WEAR FIRE AND RESCUE AUTHORITY****Item 5****MEETING 19<sup>TH</sup> DECEMBER 2011**

---

**PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2012/2013**

---

**REPORT OF THE CHIEF FIRE OFFICER AND FINANCE OFFICER**

---

**1. INTRODUCTION**

- 1.1 The report provides Members with information arising from the Provisional Local Government Finance Settlement 2012/13, which was announced on 8th December 2011. This follows on from the Indicative Settlement for 2012/13 provided by the government on 7<sup>th</sup> February 2011.

**2. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT**

- 2.1 The Parliamentary Under Secretary of State for Communities and Local Government, Bob Neill MP, provided details of his provisional local government finance settlement for 2012/2013 which set out the proposed allocation of formula grant and other revenue grants for 2012/13. A second two year settlement (2013/14 to 2014/15) is expected to follow shortly, for which the Government intends to adopt a new distributional system based on the retention of local business rates. It is, however, not clear at the time of writing this report when details of the new system will be made available or whether in fact the Fire Service will be excluded from the first two years of the new system which was included as an option in the consultation papers.
- 2.2 Written responses to the provisional settlement 2012/13 are required by 16<sup>th</sup> January 2012.
- 2.3 The main features from the settlement include:
- There were no major changes to the details set out in the Indicative Settlement 2012/13.
  - National Formula Grant funding for all authorities in England is to fall by 7.3% on average in 2012/13.
  - The Fire Service funding in comparison is to fall by an average of 0.7% for 2012/13 which is in keeping with the government's intention to back load most of the 25% funding cuts for the 2 later years of the Spending Review 2010.
  - A further transitional grant of £20m, increased from the previously announced figure of £14m, for 2012/13 was announced to protect the 'revenue spending power' (broadly government grants plus council tax precept income) of authorities where funding would fall by more than 8.8% in order to help minimise reductions for authorities facing

exceptional decreases in their overall revenue funding position. This funding helps 12 shire district authorities.

- Damping will continue in 2012/13 with floors remaining unchanged:

Social services authorities	-7.4% to -10.4%
Shire districts	-11.2% to -14.2%
Police authorities	-6.703%
<b>Fire authorities</b>	<b>-3.4%</b>

The different damping figures for social services authorities and shire districts are based on a new banded system which means the most grant dependent authorities have the least reductions.

- The Government has also transferred the separate core revenue ongoing Council Tax Freeze Grant for 2011/12 (£652m nationally) into Formula Grant as Business rates is expected to increase in 2012/13 to £23.119 billion in total.
- The Government has also issued its capping criteria for 2012/13 for those councils that do not take advantage of the one-off Council Tax Freeze Grant for 2012/13 as follows:

3.50% for most principal authorities,  
3.75% for the City of London and,  
4.00% for the Greater London Authority, Police authorities,  
and single purpose Fire and Rescue authorities,

They have also indicated that any increase in excess of the increases set out above will be the subject of a local referendum.

### **3. IMPACT ON TYNE AND WEAR FIRE AUTHORITY**

- 3.1 The Authority's 'revenue spending power' will reduce by £1.095m or 1.94% in 2012/13 to £55.441m compared to the 2011/12 position of £56.536m. The Authority's formula grant reduction makes up most of this figure, which was to reduce by £1.095m or 3.4% in 2012/13 from £32.191m to £31.096m on a comparable basis. The fact the government has included the council tax freeze core grant in to the formula grant figures has blurred the position but in essence the total overall grant allocations are as they were set out in the Indicative Settlement. The table below sets out these changes:

	<b>2011/12 Final</b>	2012/13 Indicative	<b>2012/13 Provisional</b>	<b>Change</b>	
	<b>£m</b>	£m	<b>£m</b>	<b>£m</b>	<b>%</b>
Council Tax Requirement	23.749	23.749	23.749	<b>0.000</b>	
Formula Grant	32.191	31.096	31.692	<b>-0.499</b>	
Council Tax Freeze Grant	0.596	0.596	0.000	<b>-0.596</b>	
<b>Total Revenue Spending Power</b>	<b>56.536</b>	55.441	<b>55.441</b>	<b>-1.095</b>	<b>-1.94</b>

- 3.2 The overall formula grant reduction of 3.4% in the provisional settlement remains unchanged although the Government has included the ongoing Council Tax Freeze Grant for 2011/12 into the formula grant totals (by increasing the Business Rates allocation). This would indicate that the government has benefitted from the increase in Business rates income by funding the ongoing Council Tax Freeze Grant for 2011/12 from this increase rather than passing the increase in Business Rates on to local government. The 3.4% grant reduction was assumed in the MTFS reported to the Authority on 21st November.
- 3.3 It should be noted that the 3.4% formula grant loss of £1.095m is after floor damping of £2.763m has been taken into account. As noted in the table in paragraph 2.3 above, the loss of formula grant for Fire Authorities is limited to a 3.4% reduction in grant (known as the 'floor'). This Authority's formula grant for 2012/13 is confirmed to be £31.096m (excluding Council Tax Freeze grant) after application of the floor. Without the floor, the grant reduction calculated would have been greater at £28.332m, a reduction of £3.859m or 12.0%, which is the largest percentage grant reduction of all of the Fire Authorities in the country, as shown in Appendix 1.
- 3.4 The amount of floor damping reduced from £3.489m in 2011/12 to £2.763m in 2012/13, a reduction of £0.726m. If floor damping continues to reduce annually at the same rate it is expected to be eliminated in another 3 to 4 years i.e. around 2016/17. However, the Government intend to adopt a new distributional system for grant funding system from 2013/14 so it is not clear how the Authority will fare in the last two years of the Spending Review period, although any recognition of floor protection will mean lower formula grant allocations for the Authority.
- 3.5 It is well documented that the main losers in the formula grant changes introduced last year were the metropolitan fire authorities whose formula grant losses for 2011/2012 averaged 9.45% and for 2012/2013 again top the averages at 2.99%.
- 3.6 The scale of these losses, even with floor protection, is still of great concern for the Authority, which has already received a loss of Formula Grant of 9.5% in 2011/12 (the highest possible) and a further 3.4% (again the highest possible) as confirmed in the provisional settlement for 2012/13, which means that over the 2 year period the Authority has suffered a grant loss of 12.9% compared to the overall funding reductions for the Fire Service of 6.5%, (i.e. double the reduction).
- 3.7 If the remaining Fire Service national grant reductions of 18.5% (making up the overall 25% decrease set out in the Spending Review) is implemented then grant could reduce further by possibly 9.25% nationally in both 2013/14 and 2014/15. If this is the case then the Authority continues to face further more significant grant reductions primarily because of the adverse impact of the formula grant changes made to the Fire Service formula. This was well documented in the recent MTFS report presented to members in November. It is noted that a new system of grant distribution may be introduced from

2013/14 and it is hoped that the current anomalous position is corrected in any new distribution system. If it is not then the Fire Authority is potentially facing further significant grant reductions of at least 9.25% but probably greater reductions in these last two years of the Spending Review. This position is very difficult to accept when the Authority has already embraced the modernisation agenda by achieving greater efficiency savings than required but is now facing greater grant reductions as a result of the government's failure to recognise this position in the formula grant review despite lobbying from this and the other metropolitan fire authorities. Indeed if the government's proposed new system applies to Fire Authorities from 2013/14 then this will have the effect of perpetuating the current unfairness as it is proposing to use formula grant as the basis for its starting point. This means that the potential scale of the cuts that will arise through the use of the existing formula grant distribution mechanism will be such that there will undoubtedly be a detrimental impact on the front line service provided by this Authority even with a change in the grant system.

- 3.8 Members may recall that a number of options were consulted on by the Government to change the formulae used to allocate formula grant. It was noted that there was a consensus of views across all of the metropolitan fire authorities that the options for change were detrimental to the grant allocations to metropolitan fire authorities and that grant allocations should not be changed at a time of sweeping cuts in formula grant over the Spending Review period 2011/12 to 2014/15.

These representations, made by all metropolitan fire authorities were not accepted, and the changes set out below were implemented which has had a significant and adverse impact on Tyne and Wear's grant entitlement. The changes made included:

- Data change - the regression expenditure base for the formula was updated (FIR1);
  - Data change - the Government did not agree that annual cashable efficiency savings should be added to the updated expenditure data used to determine the coefficients;
  - Formula change - an updated fire risk index and a separate positively weighted population density indicator was implemented (FIR4);
  - Formula change - they increased the Relative Needs block by 10% with a consequent reduction of 10% in the size of the Central Allocation
- 3.9 The 6 Metropolitan Fire Authorities' Chairs and Chief Fire Officers met a group of 24 cross party MP's, chaired by John Healy MP, in Westminster on 22nd November. This meeting allowed the Chairmen and Chief Fire Officers to explain the inherent unfairness of the grant allocation formula and to request the support of the MP's in developing a plan of action aimed at influencing the government's spending cut decisions for 2013/14 to 2014/15, which was likely

to be finalised some time around April / May 2012. This would include addressing the current unfairness in the formula grant funding system.

- 3.10 Separately the 6 Metropolitan Fire and Rescue Authorities also wrote to the Parliamentary Under Secretary of State for Communities and Local Government, Bob Neill MP, to address concerns about the unfairness of the present grant distribution system and the fact that he was consistently and incorrectly stating that the formula changes, implemented from 2011/12 had benefitted the Metropolitan Fire and Rescue Authorities. Although the formula changes did have a positive impact these were by far and significantly outweighed by the data changes.

#### **4. CONCLUSIONS**

- 4.1 The above report is an initial summary of the impact of the Provisional Local Government Finance Settlement for the Fire Service.

In common with previous years, a more detailed report will be presented to this Committee on 23<sup>rd</sup> January 2012 as part of the Draft Revenue Budget for 2012/13 which will also include comments made on the Provisional Finance Settlement 2012/13.

- 4.2 As the next meeting of the Authority is 23<sup>rd</sup> January 2012, this report also seeks members' approval to allow comments on the Provisional Finance Settlement 2012/13 to be delegated to the Chief Fire Officer and Finance Officer as these must be made by 16<sup>th</sup> January 2012. These comments will however be reported to this Committee at its next meeting.

#### **5. RECOMMENDATION**

- 5.1 Members are requested to note the report and approve the necessary delegation to the Chief Fire Officer and Finance Officer.

**Appendix 1**

**Grant Settlement – Floor Protection in 2012/2013**

Fire Authority	2011/2012	2012/2013					
	Adjusted Formula Grant	Raw Grant	Change	Formula Grant Change Before Floor Damping	Total Grant	Formula Grant Change After Floor Damping	Floor Amount
	£m	£m	£m		£m		£m
<b>Tyne and Wear Fire</b>	<b>32.19</b>	<b>28.33</b>	<b>-3.86</b>	<b>-11.99%</b>	<b>31.10</b>	<b>-3.40%</b>	<b>2.76</b>
Merseyside Fire	41.91	37.95	-3.96	-9.44%	40.48	-3.40%	2.53
West Midlands Fire	73.14	67.06	-6.07	-8.31%	70.65	-3.40%	3.59
South Yorkshire Fire	33.28	30.54	-2.74	-8.23%	32.15	-3.40%	1.61
Shropshire Fire	7.48	6.87	-0.62	-8.25%	7.23	-3.40%	0.36
Cleveland Fire	20.26	18.66	-1.60	-7.88%	19.57	-3.40%	0.91
Nottinghamshire Fire	22.63	21.14	-1.49	-6.58%	21.86	-3.40%	0.72
Cambridgeshire Fire	13.07	12.42	-0.65	-4.96%	12.63	-3.40%	0.20
Greater Manchester Fire	68.18	66.11	-2.07	-3.03%	66.03	-3.15%	-0.08
Durham Fire	13.15	12.92	-0.23	-1.72%	12.85	-2.26%	-0.07
West Yorkshire Fire	52.21	52.01	-0.20	-0.39%	51.50	-1.35%	-0.50
Avon Fire	22.54	22.69	0.15	0.66%	22.40	-0.64%	-0.29
Derbyshire Fire	18.03	18.15	0.12	0.66%	17.91	-0.64%	-0.23
Humberside Fire	25.62	25.93	0.30	1.19%	25.55	-0.28%	-0.38
Buckinghamshire Fire	10.47	10.62	0.14	1.36%	10.46	-0.17%	-0.16
GLA - non-police	251.64	256.29	4.65	1.85%	252.05	0.17%	-4.24
Lancashire Fire	31.25	31.88	0.63	2.01%	31.34	0.27%	-0.54
East Sussex Fire	13.84	14.13	0.29	2.11%	13.88	0.34%	-0.24
North Yorkshire Fire	12.21	12.53	0.32	2.66%	12.29	0.71%	-0.24
Bedfordshire Fire	10.88	11.22	0.34	3.11%	10.99	1.02%	-0.23
Kent Fire	28.42	29.32	0.90	3.16%	28.72	1.06%	-0.60
Leicestershire Fire	18.21	18.84	0.63	3.47%	18.44	1.26%	-0.40
Berkshire Fire	14.78	15.28	0.50	3.35%	14.96	1.19%	-0.32
Wiltshire Fire	9.11	9.43	0.32	3.49%	9.23	1.28%	-0.20
Hereford and Worcester Fire	10.41	10.83	0.42	4.06%	10.58	1.67%	-0.25
Devon and Somerset Fire	30.90	32.26	1.36	4.41%	31.48	1.90%	-0.77
Staffordshire Fire	18.54	19.37	0.83	4.46%	18.90	1.94%	-0.47
Cheshire Fire	18.67	19.51	0.84	4.50%	19.04	1.97%	-0.47
Dorset Fire	10.89	11.36	0.48	4.37%	11.09	1.88%	-0.27
Essex Fire	32.32	33.99	1.68	5.18%	33.10	2.43%	-0.89
Hampshire Fire	29.33	30.91	1.58	5.39%	30.09	2.57%	-0.83
<b>Total Fire</b>	<b>995.55</b>	<b>988.55</b>	<b>-7.00</b>	<b>-0.70%</b>	<b>988.55</b>	<b>-0.70%</b>	<b>0.00</b>