

**TYNE AND WEAR FIRE AND RESCUE AUTHORITY**

**Item 8**

**MEETING: 15<sup>th</sup> JANUARY 2018**

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**SUBJECT: PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT  
2018/2019**

**JOINT REPORT OF THE CHIEF FIRE OFFICER AND CHIEF EXECUTIVE  
(CLERK TO THE AUTHORITY) AND THE STRATEGIC FINANCE MANAGER**

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**1. INTRODUCTION**

- 1.1 To provide Members with information on the key aspects of the Provisional Local Government Finance Settlement for 2018/2019 announced on 19<sup>th</sup> December 2017 and the financial implications to the Authority.
- 1.2 Although the Medium Term Financial Strategy will be updated and presented to members in February along with the finalised Revenue Budget 2018/2019 and the agreed Council Tax (Precept) level 2018/2019, a revised and summarised position is included in the report for information.

**2. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT  
2018/2019**

- 2.1 The Local Government Minister for Communities and Local Government, Sajid Javid MP, provided details of the provisional local government finance settlement for 2018/2019 on 19<sup>th</sup> December 2017 and Authorities have until 16<sup>th</sup> January 2018 to make any responses to the Settlement.
- 2.2 The main headlines from the settlement are as follows:
  - Increased Council Tax Referendum limits from 2% to 3% for all Authorities in both 2018/2019 and 2019/2020 and additional flexibility for Police and Crime Commissioners to increase Council Tax by a flat rate £12 at Band D. Councils with Social Care responsibilities will retain their existing special arrangements and will benefit from the revised 3% limit.
  - Announcement of the Government's "aim" to localise 75% of business rates from 2020/2021 (the original aim was 100% by 2019/2020) and to implement a new needs assessment.

- Consultation in the Spring on “fair and affordable options” to tackle negative Revenue Support Grant (RSG) in 2019/2020, however this does not apply to this Authority.
- In addition to those already announced, ten new 100% business rates retention pilots have been accepted by the government for 2018/2019.
- Transition Grant has ended for those that benefitted from this funding in 2018/2019. The Authority is not impacted by this change.
- A national increase in the 2018/2019 Core Spending Power (CSP) of 1.5% nationally compared to 2017/2018. However, this measure now additionally includes Compensation funding from the government for further under-indexing the Business Rates Multiplier (from RPI to the lower measure of CPI). This funding for 2014/15 and 2015/16, when Business Rates were capped at 2% despite inflation being higher, has always sat outside of the CSP measure, but has been brought into the CSP from 2018/2019 to reflect the higher funding amounts that relate to 2018/2019 and 2019/2020 which were trailed in the Autumn Budget. The increase also reflects the higher income resulting from the relaxation of Council Tax Referendum Limits that have been announced and also a small (£15m) increase nationally to the Rural Service Delivery Grant.

(Note that this does not include the effects of pilot authorities forgoing their Revenue Support Grant (RSG) and Rural Service Delivery Grant allocations).

- Overall the CSP measure over the 4 Year Settlement has improved from 0.4% at the previous settlement and now shows an overall average increase of 2.1% for all authorities across England. This position reflects all of the adjustments and additional council Tax flexibility referred to above.
- In line with the 4 Year Settlement RSG figures have been confirmed in the 2018/2019 Settlement. It should be noted that Revenue Support Grant is no longer a comparable measure of funding, as those authorities taking part in the 100% Business Rates Retention pilots will not receive RSG as the funding will be reflected in an increased baseline funding position instead.
- Very little new money has been included in the 2018/2019 Settlement which mainly accords with the detail set out the 4 Year Settlement.

- New Homes Bonus Grant allocations have been revised to reflect actual housing growth. This does not impact on the fire service.
- Capital receipts flexibilities will be extended for a further 3 years.

### **3. DETAILS OF THE SETTLEMENT FOR THE AUTHORITY**

- 3.1 The Authority will see an increase to its Core Spending Power (CSP) of £0.458m (0.8%) in 2018/2019 taking into account the revised revenue funding resources used by the government. The government has not properly adjusted the CSP measure for 2017/2018 to reflect the fact the Authority was already receiving part of the grant for under-indexation of Business Rates in previous years. Once this has been taken into account the real increase reduces to £0.371m. The government's figures also continue to include optimistic growth for both Business Rates and Council Tax. These increases, which have the effect of boosting the CSP measure each year, are considered overly optimistic by the Authority and, as such, in our planning forecasts we use lower but more realistic growth forecasts. With these caveats the Core Spending Power for the Authority in 2018/2019 and the revised 2017/2018 CSP can be compared to other categories of the fire service and the national position as follows:

All Local Authorities (England) +1.5%

All Single tier stand alone Fire Authorities +3.2%

All NFCC members (including counties and unitaries) +2.5%

All Metropolitan Fire Authorities +0.8%

**Tyne and Wear +0.8%**

- 3.2 The CSP over the 4 Year Settlement (2016/2017 to 2019/2020) also shows that the Authority continues to receive one of the poorest Finance Settlement's within the local government sector. The CSP revised position (using the government's revised criteria in 2018/2019) indicates an overall CSP reduction of -1.99% over the 4 year term compared to a national position where there is an average increase of 2.1%. This indicates a significant funding disparity across local government and for individual authorities (such as this Authority). The gap between the Authority is more than 4% adrift from the national average settlement across the local government sector.

- 3.3 The Settlement Funding Assessment (SFA) allocation, which makes up a large part of the Core Spending Power measure, is considered broadly comparable to the previous formula grant allocation.

The SFA for the Authority is expected to reduce by £0.841m (-3.31%) in 2018/2019 compared to 2017/2018. This is predominantly due to the reduction in the Authority's Revenue Support Grant reduction of £1.277m, although this reduction is offset by the Top Up Grant it receives and the amount of Business Rates Share the government projects it will receive. The cut in this funding element in cash terms is much higher for this Authority compared to other more affluent Authorities (because government grant is a much lower proportion of their total income). The cut in SFA in percentage terms is actually higher in other fire authorities because of the revised methodology introduced by the government in last year's Settlement, but in cash terms the reduction to funding is actually significantly lower than this Authority's cut because of our over reliance on grant funding. This explains why the variation in Core Spending Power between fire authorities across the country differs so widely. The other important factor to note is that the amount of local income that an Authority can generate also forms part of an Authority's CSP and income from Council Tax / Business Rates (locally generated income) varies significantly between regions as well as for individual Authorities within a region.

- 3.4 The government, in the Autumn Budget on 25<sup>th</sup> November 2017, announced that business rates would be increased by CPI rather than the higher measure of RPI meaning it would take effect two years earlier than planned, from 1<sup>st</sup> April 2018. They also stated that they would fully compensate local authorities for this change in policy. In the Settlement the government have set out the amounts of funding in respect of 'compensation for under-indexing the business rates multiplier' applicable across each year of the 4 year settlement. Whilst this measure is welcomed so that local government does not lose out financially, it should be noted that Authorities were already receiving similar compensation for the period the government capped business rates increases to 2% for 2014/2015 and 2015/2016. This funding was not included in the CSP measure until this Settlement and is worth around £200k to the Authority per annum. The allocations for 2018/2019 of £311k and 2019/2020 of £468k therefore also include the prior years funding so the benefit to the Authority is diluted, but is nevertheless welcome.

- 3.5 A continued risk to the funding position of the Authority is its reliance on its business rates income share from all of its district councils within Tyne and Wear. Any reduction in business rates because of failing businesses and/or the impact of business rating appeals are met equally by the government and local authorities. This is a factor outside the control of the Authority which also brings further uncertainty to the levels of funding it can expect to receive each year. This position is not helped by the government, when they regularly change their national policies on business rates at Budget time.
- 3.6 The government has increased the referendum limit for council tax for the Fire service from 2% to 3% for both 2018/2019 and 2019/2020. This is worth additional income of almost £0.450m in total up to 2019/2020 based upon current tax base projections of 1% growth in each year. This added flexibility is welcomed, however this falls significantly short of the Authority's £10 flat rate Band D increase request, which it needs to address its revenue budget gap issues.
- 3.7 As referred to previously, the government has provided very little new money in the Settlement and the Authority's request for the government to provide additional funding to meet pay awards above 1% and any new financial burdens its faces (eg Grenfell Inquiry, Employer pension liabilities in 2019/2020) have not been addressed. This will mean these cost pressures will have to be dealt with from within existing resources. To put this into context a 2% pay award for firefighters in 2018/2019 and 2019/2020 would add approximately £300k in each year to the revenue budget (£600k in total). The additional Council Tax income of £450k therefore will not cover a potential pay award of this level (which is based on the recently announced proposed final offer by the employers for non-firefighters pay award for the next 2 years).

#### **4. IMPACT OF THE SETTLEMENT ON THE AUTHORITY'S CURRENT MTFS 2017/2018 TO 2020/2021**

- 4.1 The impact of the Settlement on the current MTFS is set out in the table below in section 4.3. The revised position is a snapshot at this stage and takes into account the revised IRMP action of riding 4, which members agreed at its last meeting, and will save £1.030m in a full year. All other IRMP actions have been removed as they will now not be achieved. A report on part II of the agenda deals with this in more detail. A more detailed and fully finalised version of the MTFS will be presented to members in February once all budget information has been notified.

- 4.2 The revised position before the Provisional Finance Settlement 2018/2019 was announced and taking the revised IRMP savings position into account from the meeting held on 11<sup>th</sup> December, means that the Revenue Budget Gap for 2019/2020 increased by approximately £1m from £1.8m to £2.8m and the 2020/2021 position increased from £2.8m to £3.7m. For information the revised positions reflect the IRMP actions that are considered now to be not achievable and the implementation of riding 4 on all appliances.
- 4.3 The revised MTFS taking into account the Provisional Finance Settlement 2018/2019 (but currently only including pay award for fire fighters at 1%) is set out below. This shows that the Settlement has helped to reduce the Budget gap in total by almost £650k up to 2019/2020 and almost £850k by 2020/2021.

	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>
Government Cuts	1.961	1.344	0.460	0.337
Spending Pressures	2.695	1.544	1.694	1.258
<b>Total</b>	<b>4.656</b>	<b>2.888</b>	<b>2.154</b>	<b>1.595</b>
Less IRMP estimated savings	(2.238)	(0.924)	(0.106)	0
Less Council Tax and Business Rate growth	(0.977)	(0.738)	(0.911)	(0.708)
Less budget efficiencies	(1.441)	(0.126)	(0.125)	(0.130)
<b>Funding Gap in year</b>	<b>0.000</b>	<b>1.100</b>	<b>1.012</b>	<b>0.757</b>
<b>Cumulative Funding Gap</b>	<b>0.000</b>	<b>1.100</b>	<b>2.112</b>	<b>2.869</b>

However, from the table, at this point in time, there is a real prospect of having to use reserves temporarily in 2018/2019 to balance the budget until more IRMP actions are implemented. This position has been factored into the reserves projections although clearly constant use of reserves is not sustainable in meeting a continuous and unaddressed revenue budget gap.

The projected revenue budget gap for 2019/2020 is now £2.1m increasing to £2.9m by 2020/2021, although more work is required to finalise the revenue budget, which could see more changes to the figures presented.

- 4.4 In summary, the Settlement has not been as helpful to the Authority as we had hoped and also confirms that it will still be necessary for the Authority to continue to implement its planned IRMP actions as the revised revenue

budget funding gap of around £2.1m up to 2019/2020 and £2.9m at 2020/2021 shows.

## **5. COMMENTS ON THE SETTLEMENT**

- 5.1 The 4 year settlement runs out in 2019/2020 and the Authority is concerned that there is no real funding clarity beyond this timeframe, both at a national level and also at a local level, especially at a time when a revised funding mechanism / funding system will be introduced from 2020/2021. This makes service and financial planning very difficult, made more complex by a continuous requirement to match resources with the need to carry out the Authority's fire service statutory requirements and addressing public risk.
- 5.2 Autumn Budgets need to be announced earlier than late November in order to ensure the Provisional Local Government Finance Settlement can be brought forward. The practice of providing the Settlements close to Christmas does not give the appropriate time to fully consider the implications and would help Authorities to make even more robust and informed Medium Term Financial Plans.
- 5.3 The fact the Settlement continues to be late was not helped this year by errors in some of the key tables, which further hampered the understanding of the Settlement.
- 5.4 It is extremely disappointing that the government has not provided any additional resources to the fire service, the rationale of which was set out in the Authority's response to the Technical Consultation on the 2018/2019 Settlement. The Authority's Budget is already fully stretched with a revenue gap of £2.1m to 2019/2020 without any budget cover for firefighter pay awards above 1%. The prospect of additional burdens from Grenfell, the fact the service should be costed on risk not demand, and any pay awards in excess of 1% will fall directly on the Authority to find from within its projected and inadequate resources. Additional income from Council Tax which, although welcomed, will generate only £450k over the next two years because of the Authority's very low tax base. This funding increase is significantly short of the amount required.
- 5.5 No other national tax is subject to referendum. The additional council tax flexibility provided in the settlement is nowhere near enough to meet the revenue budget gap of the authority. To assist the Authority to address the financial challenges it faces, the council tax referendum cap on the fire and rescue service precept should be removed.
- 5.6 Alongside the local government finance settlement, the Government confirmed that it plans to implement the Fair Funding Review in April 2020.

The consultation focuses on a number of potential approaches to measure the relative needs of local authorities. This remains a concern to the Authority, but it is promising that the content of the consultation implies that the Government has listened to suggestions to simplify the needs assessment without a disproportionate cost to fairness.

## **6. RECOMMENDATIONS**

### **6.1 The Fire Authority is requested to:**

- a) Note the implications of the provisional local government finance settlement for 2018/2019 on the Revenue Budget;
- b) Approve the comments as the basis for the Authority's formal response to the Settlement along with any additional points members may wish to raise. The response must be lodged with government by 5pm on 16<sup>th</sup> January 2018;
- c) Note that the final Revenue Budget for 2018/2019 will be presented to the Authority at its meeting in February together with an updated and finalised Medium Term Financial Strategy, (2018/2019 to 2021/2022) once all financial data has been received.