

Draft Response to the Provisional Settlement

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

Although the government planned to issue the Provisional Finance Settlement for 2019/20 around 5th December 2018 and this will apply to future Settlements, which was welcomed, the reality is that the Settlement data was not released until 13th December 2018. This has yet again given very little time to fully analyse the Settlement and as such analysis work is still ongoing. 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. We have seen an 18.4% 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.

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 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 to help show the variation in resources for your information (Appendix 1).

It is also very disappointing that the final year of the 4 Year Finance Settlement has merely confirmed the projected resources from last year despite over £1.5bn of additional funding being allocated to local government, of which very little of this extra funding has been provided to the Fire Authority.

The Authority, as you are aware, is having to take quite drastic actions to review its response model once again in order to balance risk with its limited resources, which is proving unpopular with its workforce and communities as a result of the continued funding reductions coupled with the increase in costs it is also having to manage. The Authority has saved more than £25m since austerity began and yet it still has a budget gap of £3.7m to find.

The Authority welcomes the opportunity to discuss this position directly with Nick Hurd MP – the Fire Service Minister as mentioned in the recent parliamentary debate on this matter.

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 mechanisms. The impact of the change means that there is a redistribution of grant to less deprived areas and this has continued as part of the 4 Year Settlement. The Authority therefore is looking forward to contributing towards the government's two consultation papers 'Review of local authorities' relative needs and resources' and 'Business Rates Retention Reform' and hopes that these two reforms, once implemented will address some of the anomalies in the current system and helps 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 £1.147m 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 2018/19 Rebate

The Authority welcomes the government's move to distribute the surplus monies to local government based on need (2013/14). It is right that this funding is re-allocated back to local government and the Authority will receive £234k as a result. This is one-off funding however which will not help address the ongoing Budget gap identified by the Authority but is nevertheless welcomed.

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 2019/20. This is very disappointing as such flexibility would have helped to alleviate some of the funding gap currently identified by the Authority and thereby help to reduce and moderate some the proposed IRMP actions the Authority is currently consulting upon. 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 is concerned that the government is not meeting the additional full cost of the changes necessary to the firefighters pension schemes, where approximately 90% of the additional cost is being met. The Authority welcomes the new grant funding of £98.5m of which this Authority will receive £2.2m. However the Authority is facing an increased cost because of the changes to pension discount factor which it has no control over, of approximately £2.6m per annum, which leaves a shortfall in resources of £0.4m it will have to find from its revenue budget. This is at a time when all costs are increasing across the Authority's budget especially inflation and 'unfunded' pay awards that were not fully covered by the current 4 Year Grant Settlement.

There is also the added uncertainty that this funding is not secure and may change when the Spending Review 2019 has been finalised. The Authority would ask that the government provides full grant cover for this change in future years rather than the 90% contribution approach adopted for 2019/20.

It is also of concern that the FBU has recently 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. This may have a significant cost that the authority is expecting the government to meet.

Rural Service Delivery Grant Funding

The government has found an extra £16m to increase this funding stream to £81m for 2019/20 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 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 reduce by 2.3% over the last 4 years compared to a 3.8% average increase across all Authorities in England. This is a 6.1% shift away from the national position and again shows the unfairness in the way resources are being allocated. 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.