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**Fire funding: implications of the Retained Business Rate Scheme and other changes**

**Purpose**

For discussion and direction.

**Summary**

This paper sets out brief changes in the method of fire funding as a result of the introduction of the Retained Business Rate Scheme. It also looks at the implications of the localisation of the Council Tax Benefit scheme. This paper supports the presentation that will be given at the Commission on these matters by Kieran Timmins, Deputy Chief Executive, Merseyside FRA.

**Recommendation**

Members are asked to consider and discuss the issues outlined in the paper and presentation.

**Action**

Officers to action as directed.

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## **Fire funding: implications of the Retained Business Rate Scheme and other changes**

### **Background**

1. The LGA was successful in lobbying government for the inclusion of all fire authorities in the retained business rate scheme. On 17 July 2012 the Government launched a consultation on a range of technical issues concerning the transition from the current formula grant system and the implementation of the new business rates retention scheme in April 2013.
2. FSMC considered the issue at its meeting on 16 September and responded to the consultation which ended on 24th September 2012. A copy of the consultation response is at **Appendix A**.
3. FSMC also noted the issues raised in the consultation were extremely complex and asked for the matter to be the subject of a presentation at the Fire Commission. The presentation will be given by Kieran Timmins, Deputy Chief Executive, Merseyside FRA.
4. The introduction of the retained business rate scheme coincides with a number of other changes which will impact significantly on fire authority funding. These include:
  - 4.1. council tax benefit localisation;
  - 4.2. increasing pressure for pay increases;
  - 4.3. the impact of all pension changes and revaluations on the cost of pensions schemes; and
  - 4.4. the potential need to plan for further cuts in the next spending review period.
5. These factors make it challenging for FRA's to assess and plan for the overall impact on community safety, firefighter safety, and the continuing ability to contribute to national resilience.

### **Retained business rate scheme start-up funding and baseline for fire**

6. The new retained business rate scheme will come into effect in April 2013. The settlement that fire authorities receive in the remainder of this spending period will form the baseline for the new scheme. The government announced the control total for fire, to cover the period from 2011-12 to 2014-15 at the last spending review. However, subsequent changes have reduced the control total. These changes are:
  - 6.1. The decision to take out the amount paid for New Dimensions, the maintenance of equipment used for national resilience, which is around £50 million per year in 2013/2014 and 2014/2015 out of the business rates scheme and retain it as a separate grant.

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- 6.2. The decision to hold back £7 million of fire funding to support the safety net in the early stages of the schemes implementation.
- 6.3. The assumption that public sector pay will increase by 1%.
7. As a result changes to the control total for fire will be -9.1% in 2013/14 and -5.5% 2014/15. The changes are summarised in Table 1 below.

Table 1

		Spending Control Totals for fire				
		2010/11	2011/12	2012/13	2013/14	2014/15
		£'m	£'m	£'m	£'m	£'m
Original Spending Control Totals		1057	996	988	911	866
Chancellor Pay assumption					- 5	- 9
Less Safety Net/Capitalisation Deduction					- 7	- 7
Final Spending Control Totals for Fire		1057	996	989	899	850
Percentage Reduction	%		- 5.8	- 0.7	- 9.1	- 5.5
Cumulative Cash Cut	£'m		61	68	158	207
Cumulative Percentage Cut	%		-5.8	-6.4	-14.9	-19.6

8. The total cash cut for the fire and rescues service is £207m or 19.6%. In cash terms this is approximately the same as general local government cuts. In the first two years the spread of the cuts/increases around the country was very varied between fire and rescue services.

**Other key elements of the scheme as they affect fire authorities**

*Changes to the relative needs and relative resource blocks*

9. The government is proposing changes to the relative needs formulae, including a variety of changes to the weightings for sparsity in various relative needs blocks and a new judgemental sparsity top-up for the Fire and Rescue Relative Needs Formula at 1% — this is intended to provide support towards the additional costs of providing a fire and rescue service in a rural area, for example, the greater distance covered by appliances to fire incidents and road traffic collisions, which results in additional fuel costs.
10. The government also proposes changes to the Relative Resources block, returning the amount to its 2010/11 level to take account of the fact that the amount of council tax raised by authorities (and the ability to raise council tax) has remained roughly constant while grant has decreased.
11. The combined effects of these proposed changes to the relative needs formula are neutral across fire authorities as a whole (excluding county and unitary fire authorities

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which are not accounted for separately), but will have different impacts on individual fire authorities. The government has performed some exemplifications of the impacts. In essence:

11.1 If judgemental sparsity factor is included then this would see resources move towards more rural areas.

11.2 If the amount in the Relative Resources block is increased resources would move towards those authorities with weaker council tax bases. In general these are the more deprived/urban areas.

12. In addition the government proposes updating all data sets used within the formula as they establish a baseline for the resource review system. In particular population figures will be updated to reflect latest census data.

*All fire authorities will be top-up authorities*

13. The design of the business rates retention scheme will ensure that fire and rescue authorities are top-up authorities. This will mean that a proportion of fire and rescue authorities funding will be protected, and will be updated by RPI each year. However for the next two years the RPI increase will not be applied since the government intends sticking to its spending control totals.

**Next Steps**

14. The impact of the settlement, the introduction of the retained business rate scheme will be ongoing and FSMC and the Fire Commission might want to revisit the issue both in terms of understanding and seeking to address common issues as they emerge, but also in terms of preparing for the next spending review.

15. Any specific issues that arise from the discussion at the fire commission and any requests for further information will be taken forward by officers.