

Local Government Resource Review

Purpose of the Report

To update the Fire Services Management Committee on the Local Government Resource Review (LGRR) and the implications for FRSs.

Summary

This paper briefly describes the two phases of the Local Government Resource Review. It provides information on the sector's response to the LG Group's own consultation on the re-localisation of business rates. In addition, it sets out a number of specific issues for Fire and Rescue Services that arise from the two phases of the Local Government Resource Review.

Recommendation

Members are asked to:

1. Consider the issues set out in the paper in relation to the two phases of the Local Government Resource Review
2. Identify any additional issues raised by the proposals
3. Consider whether the FSMC should make representations to government on any of the issues raised, either directly or through the LG Group.

Action

Officers to take forward actions agreed by the Committee

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Local Government Resource Review

Background

1. The Local Government Resource Review was announced in March 2011. The first phase of the review has focused on the re-localisation of business rates and the potential for:

“giving local authorities greater financial autonomy and strengthening the incentives to support growth in the private sector and regeneration of local economies”.

Phase 2 of the Local Government Resource Review was announced on 29th June and it will look, through the establishment of a number of pilots, at the potential for community budgets.

Phase 1

2. On 29 June Nick Clegg, MP, Deputy Prime Minister announced at the LG Group conference that business rates would be localised. He also announced that the new funding system will ensure that no authorities receive less than it did under the old system and also the introduction of tax increment finance to help authorities deliver local infrastructure projects.
3. The changes will have implications for all local authorities and the Minister Bob Neill, MP has noted the importance of the Local Government Resource Review for Fire and Rescue Services:

“We will use the local government resource review and development of the next National Framework for the Fire and Rescue Service as a context for further work to create the right structure to enable you to deliver...”
Government Response to Fire Futures

4. The LG group has welcomed the announcement on business rates, but has stressed that the new system must “recognise the current imbalance in local economies and ensures that there is a fair system that allows every community in the country to benefit from the nation's and their local area's economic growth”.
5. In advance of the decision, the LG Group consulted widely with local authorities both on the general principles and technical issues associated with the localisation of business rates. The Fire Commission discussed

this matter at its meeting in January. There has been broad agreement throughout the sector for the five principles, as set out by the LG Group, that should guide the reform of the local business rates system:

- Making authorities less dependent on central government and its decisions about their funding
 - Restoring the link between councils' finances and the prosperity of businesses in their local economies by allowing authorities to retain business rates income
 - Ensuring that resources available to each authority keep pace with the costs it incurs in providing the services
 - Establishing a mechanism to assist authorities in managing risks of fluctuation in business rate yields
 - Taking an approach which allows for a manageable and practical transition from the present system
6. We have set out ten principles for the resource review which were endorsed by the LG Group Executive and published in the pamphlet 'Balance Transfer' at the Birmingham conference. The key elements of fairness set out there are:
- Starting the new system with each council/FRA having as much to spend as the formula grant system would have given it;
 - Ensuring councils whose rate income grows faster than spending make a contribution to redistribution.
7. Following the announcement that business rates are to be localised a government consultation paper on the approach is anticipated.

Phase 2

8. The terms of reference for the second phase of the resource review were published on 29th June. The Government's stated aim is that this phase will test how community budgets can be used to:
- give communities and local people more power and control over local services and budgets

- develop outcomes, service solutions and a single budget, or options for pooling and aligning resources, comprising all spending on public services in an area/neighbourhood.
9. Two areas of focus for the review will be the development of neighbourhood and community budgets in two tier areas and secondly the development of a single budget involving two areas, comprising local authorities and their partners, working with Whitehall to co-design how a Community Budget comprising all spending on public services in an area might be implemented.
10. The expectation is that Phase 2 will be completed by March 2013.

Issues: Phase 1

11. In responding to the LG Group's Local Government Resource Review consultation, local authorities have also expressed some anxiety about the reform. Many of the issues that have been raised in connection with the re-localisation of the business rates will also be of concern to Fire and Rescue Authorities.
12. Stability and predictability of funding has been raised as a key concern. Under the current funding system, changes to grant allocation are limited through a damping mechanism. It is also the case that under the current system central government manages the risks of forecasting error on business rates, which can be substantial. As a relocalised business-rate system is developed, local authorities will need to understand the risks and collectively put in place mechanisms for mitigation. These risks and potential mitigations are discussed in more detail in the LG Group's detailed consultation on local retention of business rates.
13. Local authorities are also keen to ensure that there is a continuing redistributive mechanism. There is broad agreement on the need for a distributive element in any new system. It is significant that the London Councils' proposals for localised business rates recognise both the need for a redistributive system in London and the need for London to contribute to a national distributive model.

Specific Issues for Fire and Rescue Services

14. Fire and Rescue Authorities continue to have concerns about the overall funding for the service. The Fire and Rescue Service has argued that the

current financial provision has not been based on an effective assessment of the cost of resourcing local patterns of risk. The localisation of business rates will not automatically address these issues, but there will be a need to ensure that they are not aggravated by a new system.

15. The introduction of any new re-localised business rates system is likely to have a differential impact across Fire and Rescue Services. The evolutionary nature of the development of the governance arrangements for Fire and Rescue Services has led to four distinct structures (the arrangements in London, Metropolitan Fire Authorities, Combined Fire Authorities, County Council Fire Authorities) but an underlying principle that there will be enough redistribution to ensure councils with a weak business rate base should still be able to fund services adequately might help maintain consensus across the fire sector.

Potential transfer of risk to local authorities

16. Under the current arrangements the proportion of FRS funding that comes from the formula grant varies from 30% to 70%. On average, the Metropolitan Fire authorities receive a higher proportion of funding from the formula grant, because of the higher level of assessed need. As a result, the potential transfer of risk to local authorities, related to potential fluctuations in business rate receipts, will impact differently on different types of Fire and Rescue Services across the sector.
17. In addition, in a re-localised model with a redistributive element, some authorities (both billing and preceptors) will be paying into a redistributive pool, while others (potential a much larger group) will receive payments from the pool. There is a broad expectation that a relocalised system would use current funding levels as a base-line (this would meet the Deputy Prime Minister's commitment that no authority will be worse off as a result of the relocalisation of business rates).

Local needs assessments

18. The LG Group's consultation paper notes that "in order to identify the level of resources required to be pooled and redistributed, a system of identifying local needs and resources is required". The consultation paper also notes that there has been a lot of concern about how this is done under the current system. The re-localised business rate system will need to be accompanied by a regular review of local needs, and in the case of the Fire Service the cost of resourcing local risk, to ensure that the introduction of the new system does not compound existing concerns.

There is a good deal of consensus about the need for greater transparency in the system of assessing local needs and for a regular process of updating the assessment of local need to be built into any re-localised system.

Fire and Rescue Services and Collecting Authorities

19. Fire Authorities are not collecting authorities for business rates and the new system will need to be clear on the process by which Fire and Rescue Authorities receive funding through the system, particularly in cases where the FRAs encompass more than one collecting authority. Currently combined FRSs receive council tax funding from more than one collecting authority so there is a precedent for this type of arrangement.

National resilience

20. The Fire and Rescue Service provides a local service, but it also operates across local authority borders, nationally (particularly in terms of resilience issues) and also internationally. This aspect of the work of the Fire and Rescue Service is recognised in the current funding system. It will be important to ensure that a localised system of funding recognises these wider responsibilities.

Issues: Phase 2

21. The announcement on community budgets is new and the issues relating to Fire and Rescue Services will develop through discussion over the next few months.
22. Geography is again an issue in relation to the development of single area budgets. As stated above, Fire Authorities can encompass a number of local authorities and there will be a need to ensure that Fire and Rescue Services maintain the flexibility to manage the service across the whole FRA area while still gaining benefits from integrated models of budget development.
23. Fire and Rescue Services develop local needs based on risk. This is quite distinct from other public services. The development of single area and neighbourhood and community budgets will need to reflect this difference.

Conclusions and Recommendations

24. The localism embodied in the local government resource review proposals have been welcomed by the LG Group. However, the detail of the implementation of the proposals will be very important and will need to take into account the issues raised above.

Recommendation

25. Members are asked to:
- Consider the issues set out in the paper in relation to the two phases of the Local Government Resource Review
 - Identify any additional issues raised by the proposals
 - Consider whether the FSMC should make representations to government on any of the issues raised, either directly or through the LG Group.