

REPORT REFERENCE NO.	DSFRA/19/7
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)
DATE OF MEETING	19 FEBRUARY 2019
SUBJECT OF REPORT	REVIEW OF LOCAL AUTHORITIES' RELATIVE NEEDS AND RESOURCES: TECHNICAL CONSULTATION
LEAD OFFICER	Director of Finance (Treasurer)
RECOMMENDATIONS	<i>That the proposed Consultation response as outlined in this report be considered with a view to approving its submission to the Ministry of Housing, Communities and Local Government.</i>
EXECUTIVE SUMMARY	<p>The Ministry of Housing, Communities and Local Government has issued a consultation (the Consultation) on its proposals to review local authorities' relative needs and resources. The deadline for responding to the Consultation is 21 February 2019.</p> <p>The Consultation covers several questions which are addressed in this paper. The Authority is asked to review the questions and proposed responses and form a view on the draft response. The Authority can then agree a response to be submitted.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Nil.
LIST OF BACKGROUND PAPERS	<p>A review of local authorities' relative needs and resources (Consultation Document)</p> <p>NOTE: a copy of this consultation document and a summary presentation may be found by following the link below:</p> <p>https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources</p>

1. INTRODUCTION

1.1. The Ministry of Housing, Communities and Local Government (MHCLG) has issued a consultation (the Consultation) on a review of local authorities' relative needs and resources which asks for responses to be submitted by 21 February 2019. A copy of the full Consultation document can be found by following the link below:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764487/Review_of_Local_Authorities_Relative_Needs_and_Resource_s_consultation_document.pdf

1.2. The consultation discusses several topics regarding the review of the funding formulae. Given that fire authorities' funding calculations are limited to specific elements, it is not considered necessary to respond to other elements of the proposed funding reform. The Authority is asked to review the questions and proposed responses prior to submission.

Table 1: Relative need formulas by class of authority

RELATIVE NEED FORMULAS		SHIRE AREAS			METROPOLITAN AREAS	LONDON	OTHER
		Unitaries	Counties	Districts	Metropolitan Districts	London boroughs	Fire authorities ⁴
Foundation Formula	Upper tier	●	●		●	●	
	Lower tier	●		●	●	●	
1) Adult Social Care		●	●		●	●	
2) Children and Young People's Services		●	●		●	●	
3) Public Health		●	●		●	●	
4) Highways Maintenance		●	●		●	●	
5) Fire & Rescue ⁵		●	●				●
6) Legacy Capital Finance		●	●	●	●	●	●
7) Flood Defence and Coastal Protection		●		●	●	●	

1.3. The methodology behind the current relative needs assessment was first introduced over ten years ago and has not been updated since the introduction of the 50% business rates retention system in 2013-14. There are concerns in the fire and local government sectors that the current formula is unfair, out of date and overly complex which has prompted a review.

1.4. The review has the underlying guiding principles:

- Simplicity
- Transparency
- Contemporary
- Sustainability
- Robustness
- Stability

1.5. Consultation commenced in December 2017 with a series of interactive workshops which were attended by officers. Representatives from each authority were able to put forward their views on the elements which should determine the proportion of funding for each specialist service, which included fire and rescue services. A series of “cost drivers” have been developed and are included in the Consultation document for consideration.

2. RELATIVE NEEDS ASSESSMENT

2.1. Section 2 of the Consultation document discusses the methods of establishing a new funding formula based on the “relative needs” of each authority and makes various proposals. For fire authorities, in section 2.2.67 on pages 31 to 33, there are three approaches suggested:

- Develop a formula based on cost drivers with the greatest explanatory power for fire and rescue services’ spending
- Update the existing ‘Fire’ funding formula as far as possible
- Develop a multi-level model using fire incident data as a proxy for relative risk

Upper or lower tier formula:	Upper tier
Cost drivers included:	– To be confirmed. This will depend on which option is identified as most appropriate
Analytical technique used:	To be confirmed
Will an Area Cost Adjustment apply?:	Yes
Example service areas included in formula:	<ul style="list-style-type: none"> • Fire fighting and rescue operations • Community fire safety • Fire and rescue service emergency planning and civil defence

Question 1: Do you have views at this stage, or evidence not previously shared with us, relating to the proposed structure of the relative needs assessment set out in this section?

Suggested response: *We support the maintenance of a Fire funding formula*

Question 2: What are your views on the best approach to a Fire and Rescue Services funding formula and why?

Suggested response: *There is insufficient information available in the consultation to choose a preferred method for establishing the Fire and Rescue funding formula. However we do have the following comments:*

- ***An approach based on regressive analysis based on past expenditure does not appear to support the aims of reforming the formula as it is based on existing budgets***
- ***Maintaining the current fire formula would have the benefit of stability for the sector but is lacking in transparency***

- ***A multi-level modelling approach would be welcomed. However, using incident volumes as a proxy for risk does not appear to support appropriate behavioural change. Prevention activity, based on risk and which reduces incidents, must be the key to Fire and Rescue activity.***

Question 3: What are your views on the best approach to Home to School Transport and Concessionary Travel?

Suggested response: *No comment*

2.2. The proposed formula includes an “Area Cost Adjustment” which accounts for the impact of local pricing on the expenditure of each authority. Page 38 of the Consultation proposes that the following elements are included in the Area Cost Adjustment:

- A rates cost adjustment
- A labour cost adjustment
- A remoteness adjustment

Question 4: What are your views on the proposed approach to the area cost adjustment

Suggested response: *We support the area cost adjustment and particularly recognise that a remoteness adjustment would reflect the cost drivers experienced by authorities*

3. RELATIVE RESOURCES

3.1. The final funding for each local authority is determined using the following formula:

$$\text{Final funding position} = (\text{relative needs share} - \text{relative resources adjustment}) \pm \text{possible transitional arrangements} + \text{actual resources income}$$

3.2. The relative resources adjustment takes in to account any reductions/additions to Council Tax and Business Rates income. As the adjustments are made to the income of each billing authority and a share of the net proceeds is then passed on to the Fire Authority it is not considered relevant to comment on this element of the consultation:

Question 5: Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemptions) and the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?

Question 6: Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?

Question 7: Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?

Question 8: Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?

Question 9: What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?

Suggested response to questions 5 - 9: *No comment*

3.3. Council Tax is collected by a billing authority and in multi-tier areas the income is split between each tier and/or fire and rescue authorities. Section 3.2.39 – 3.2.41 outlines two approaches to determining the authorities' share of council tax:

- Calculate the average share in council tax receipts in multi-tier areas and apply that percentage uniformly to the measure of council tax in the resources adjustment for relevant areas
- Use actual council tax tier splits in each area

Question 10: Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?

Suggested response: *Any approach that simplifies the calculation and increases transparency is welcomed. On the basis of the information provided in the Consultation, the average share approach would be supported.*

3.4. The consultation seeks views on whether, in the case of a multi-year financial settlement, the deemed council tax resources available to each authority should remain fixed over the settlement period or be based on a forecast of tax base and tax levels.

Question 11: Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?

Suggested response: *Yes, any approach that simplifies the calculation and increases transparency is welcomed. In such uncertain times any improvement to the ability to effectively plan is likely to improve the financial stability of local government and enable better decision making.*

4. SALES, FEES AND CHARGES

4.1. Because sales, fees and charges can vary by authority, the Consultation pages 61-64 seeks views on whether these elements should be considered as part of the relative resources adjustment.

Question 12: Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities' relative resources adjustment?

Suggested response: *Yes*

Question 13: If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken in to account?

Suggested response: *No comment*

5. TRANSITIONAL ARRANGEMENTS

- 5.1. The consultation (pages 65-66) discusses possible transitional arrangements to protect authorities from a sudden swing in funding.
- 5.2. The Government intends to use the following underlying principles in designing transition arrangements:
- Stability
 - Transparency
 - Time-limited
 - Flexibility

Question 15: Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements.

Suggested response: *Supportive of the proposed transition principles and do not have anything further to add*

6. EQUALITIES IMPACT

- 6.1. The Consultation document poses the following question, the proposed response to which is also indicated:

Question 16: Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comment

Suggested response: *No Comment*

**AMY WEBB
Director of Finance (Treasurer)**