

WYFRA	EXECUTIVE COMMITTEE	13 JUNE 2012	ITEM No 5
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REPORT OF: CHIEF FINANCE OFFICER

PURPOSE OF REPORT: TO APPROVE A LETTER TO THE FIRE MINISTER REGARDING THE IMPACT OF THE RESOURCE EQUALISATION ADJUSTMENT ON METROPOLITAN FIRE AUTHORITY FUNDING.

RECOMMENDATION: IT IS THEREFORE RECOMMENDED THAT THE AUTHORITY WRITE TO THE FIRE MINISTER REQUESTING THAT HE ADDRESS THE UNINTENDED CONSEQUENCES OF THE CHANGE TO THE RESOURCES BLOCK.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT DETAILS

Exemption Category: None

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Background Papers:

Summary

The working group, looking into establishing the baseline expenditure prior to the implementation of the redistribution of business rates, has identified that a change to the 'resource equalisation' element of the revenue support grant formula has had the unintended consequence of moving significant amounts of money away from the Metropolitan areas. It is estimated that this adjustment has cost the metropolitan Fire Authorities £8m before damping.

This report requests approval for the Authority to submit representations asking the Fire Minister to address this issue.

1. INTRODUCTION

- 1.1 As part of the transition to allow local authorities to retain their own business rates in future, the government have established a working party to establish the base level of grant (starting point) for each authority. The fire service is represented by the Deputy Chief Executive of Merseyside Fire Authority.

The purpose of this baseline is two-fold :-

Firstly, to make sure local authority expenditure is contained within the current spending review limits and secondly, to ensure there are no major winners and losers on transition.

- 1.2 The working party has been collecting evidence and has been asking for representations from authorities on some of the proposed changes. We have recently responded against a proposal to increase the amount of grant allocated on the basis of sparsity.
- 1.3 Following a recent meeting it has become apparent that there may be potential for a change in the 'relative resources element' which would benefit the metropolitan fire and rescue authorities.

2 INFORMATION

- 2.1 The Revenue Support Grant formula is made up of four blocks

- Relative needs
- Relative resources
- Central allocation
- Floor damping

- 2.2 The relative resources element is a negative adjustment to the formula which is intended to reflect the ability of each authority to raise council tax.

- 2.3 Government acknowledge that the ability to collect council tax varies throughout the country dependent upon the wealth of the area. The purpose of this adjustment is to allow councils to charge a similar Band d council tax throughout the country to provide similar services.

- 2.4 The adjustment is made by setting the authority with the lowest tax base as zero with authorities with increasingly larger tax bases being given increasingly larger negative adjustments.

- 2.5 When the government made cuts in the Needs block in 2010/2011 to reflect the revised spending review total it did not adjust the percentage adjustment made for the resources block. Put simply, this meant that the wealthy authorities had their cuts offset by a reduction in the resources block with the poorer authorities receiving increasingly reduced benefit. As an example it was calculated that the adjustment has cost Hull £19 per head whilst the City of London saw a gain of over £174 per person.

2.6 The Government have acknowledged that this is an unintended consequence of the way the cuts were treated and there appears to be some recognition that it was unfair and that something ought to be done about it.

2.7 AMFRA is therefore asking that all authorities submit a letter to the minister to address this issue and a draft letter is attached at Appendix 1.

3 FINANCIAL IMPLICATIONS

3.1 Whilst the overall impact of this adjustment is not known, it is estimated that this adjustment has cost the Metropolitan FRAs over £8m in total before damping.

4. EQUALITIES AND FAIRNESS IMPLICATIONS

4.1 None

5 RECOMMENDATION

5.1 It is therefore recommended that the Authority write to the Fire Minister requesting that he address the unintended consequences of the change to the resources block.

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Dear Minister

Resource Equalisation in the Grant Formula

The Authority recognises the work you and your team at CLG have been putting in to ensure that the starting point for the new grant regime is fair and equitable for all authorities.

One issue we understand that the Baseline Sub Group has considered has been around the impact of moving resources between the blocks in the funding model and, in particular, the disproportionate impact of taking money from the resource equalisation block and the related matter of the unintended consequence of the underfunding of student council tax exemption.

At the time of the 2011/12 settlement many people (including council officers, members, MPs, Government officials and Ministers) were unaware of the extent to which council tax resource equalisation had been reduced or of the scale of the impact of the reduction on funding levels for individual councils. This is partly due to the way in which resource equalisation is shown in the 4-Block Formula Grant model as a proportion which appears unchanged at -26.6%, whereas the cash figure is much less visible. Reports considered by the baseline working group highlight the scale of the impact of the very significant change.

Analysis indicates that the lost income for Metropolitan Fire Authorities before damping is in the region of £8m or 3% of grant.

This unintended consequence of the change has, in part, given rise to the disproportionate and varied distribution of grant allocations within the Fire Service in the first year of the spending review.

We are pleased that you and the CLG officials have recognised this unfair impact and are considering how best to deal with that. We would therefore request that you ensure that action is taken when the baseline is established for the Resource Review to address this issue more fairly.

Yours sincerely

Councillor Mehboob Khan

Chair of the Authority