

Group Leaders meeting – 6th September 2010

CLG Grant Consultation

PURPOSE

- To give Group Leaders the information to be able to discuss their consultation on CLG Grant at their meeting with the CFO and other Officers on the 6th September 2010.

BACKGROUND

1. The formula grant allocation was last reviewed for the 2008/09 to 2010/11 grant settlements under the current CSR, and in accordance with normal practice is reviewed for the next CSR round (or whatever may now replace it)
2. CLG has had a Fire & Rescue Formula Working Group for the last 2 years and H&W Director of Finance is one of 3 representatives of CFAs on the group.
3. There is a general direction from CLG that the formula should be risk led, and should be robust and predictable, (although the latter has been interpreted by some FRA as meaning status quo – which was not the intention)
4. As a result of the work undertaken by the group a small number of potential changes to the funding formula are exemplified and consulted upon by CLG, prior to recommendations being made to Ministers.
5. There are 4 options specific to Fire and Rescue Authorities and a number of overall changes which have an impact, as well as changes which have no exemplified impact on the FRA (and so are not considered).
6. The changes are exemplified against the “raw” grant actually calculated for 2010/11 and do not take account of either:
 - a. The probable overall grant reductions from 2011/12
 - b. The effect of damping. In 2010/11 H&W receives only 99% of the “raw” allocation losing £0.115m to support grant to other FRA. One FRA received 126% of its “raw” grant
7. There is a specific consultation question on Damping arrangements, but it does not cover a specific issue relevant to the diverse nature of FRA governance arrangements which needs to be addressed. (see 11-12 below).
8. Appendix 1 shows the “raw” grant impact of each proposed change and the overall implications for classes of Authority. The latter point is important for 2 reasons
 - a. The different damping classes (see 11-12 below).
 - b. The political influence of Metropolitan Authorities
9. Appendix 2 shows the relevant individual consultation questions, and a suggested response.

10. Some of the exemplified changes would involve significant transfer of resources from Met Authorities (London in particular) to shire areas. Previous governments have not shown any enthusiasm to support such changes.
11. Under current arrangements grant changes are damped, ostensibly to ensure that no FRA loses grant, but this has the effect of maintaining the status quo. The major problem is that County Fire Authorities sit in a different damping group to Mets/CFAs and damping has previously been cost neutral within each group.
12. As an example, option FIR1 (see 13-16 below) gives £1.0m to H&W and £17.7m to CFAs, but takes £26.1m from Mets. This is net reduction of £8.4m in this damping group, going to County Authorities in another damping group. Unless the damping issue is resolved it could mean that:
 - a. Mets – grant loss is rescued by floors
 - b. CFA – grant gain is potentially more than lost to fund Mets losses
 - c. County – may get their grant increase – at least at county grant level

FIRE SPECIFIC INDICATORS

13. There are 2 groups of exemplified change that specifically effect the Fire element of the settlement and each of these has 2 variants, giving a total of 4 exemplifications.
14. The formula uses a statistical technique to match risk-based prediction against actual expenditure to provide an adjustment factor. Changes to this technique are shown in **FIR1** and **FIR2**.
15. In deriving the risk-based prediction a series of different statistical indicators are used, changes to these are shown in **FIR3** and **FIR4**. But as inclusion of data is mainly on a technical statistical basis (rather than a definitive agreed cause and effect) the benefit can only be judged by the outcome.

FIR1:

16. The expenditure data currently used is the average of 1998-99 to 2000-01 and is clearly out of date, specifically as it is before the advent of the 2004 Act and duties therein.
17. FIR1 proposes to change this data to use a more recent period ie 2006-07 to 2008-09
18. This is a logical change (and there is no rational defence for using a regression analysis based on 10 year old expenditure) and should be supported.
19. It should be noted however that CLG officials exemplified a similar update for the last CSR, which was rejected by Ministers following pressure from some Mets regarding the grant distribution consequences arising.

FIR2:

20. FIR2 starts off from the same point as FIR1 but I adjusted for efficiency savings. The principal of this is to “force” efficiency savings onto those who are perceived to have failed to perform satisfactorily.

21. It was thought that this option had been rejected by the Fire & Rescue Formula Working Group and this change ostensibly gives H&W an extra £0.9m, this is less than the £1.0m of FIR1 and it is suggested should be rejected on technical grounds:
- a. The data set is not robust – Annual Efficiency Statements are not subject to audit and are known to include some very dubious efficiencies
 - b. The AES does not measure relative efficiency or the balance between costs based on risk and activity based on demand.

FIR3 and FIR4:

22. FIR4 is clearly more favourable to H&W than FIR3 giving an extra £1.5m instead of an extra £0.2m, there is significantly different impact on Met Authorities, but as there is a London/Other polarisation it is difficult to predict which is likely to have the biggest leverage. If, as is usual the London effect is paramount then FIR4 (which is of greater benefit to H&W) might prevail.
23. Caution should be exercised over this option however as it would give one FRA an additional £5.1m (27% more grant) which would cast doubt on the statistical robustness of this approach.

NON-SPECIFIC INDICATORS

24. **ACA1 (Area Cost Adjustment)** : Although the radical proposals for change appear to have been rejected the small technical change proposed is beneficial to H&W.
25. **CAS1/CAS2: Allocation of the Central Block:** These are largely technical questions of how this block is allocated, and there are proposed changes to the Ministerial judgement on Relative Need (**CAS1**) and Relative Resources (**CAS2**). H&W has suffered particularly badly from Ministerial judgement about the relative resources of the areas council tax-payers and would so it would be preferable for H&W to have no further interference and therefore support CAS1.
26. **DATA2** : in some ways this is a non-question as it is a data change forced by the fact that the existing data source has not been available and updated since 2000-2002. As this data set also features in the fire risk indicator (FIR3/FIR4) it is not clear if this additional change is in addition to or already factored into FIR3/FIR4.

CAVEATS

27. In previous years exemplified data has appeared favourable to H&W in individual cases, but paradoxically and in an unexplained way the combination of 2 favourable options has resulted in an overall unfavourable outcome, or another adjustment has been introduced that has not been exemplified which has a detrimental effect.
28. The exemplifications do not take account of the overall grant reductions expected for 2011/12 beyond nor the distributional impact of those change.

RECOMMENDATION

29. Group Leaders are asked to discuss and advise if this is a matter for the full FRA (given that Budget Committee meets after the 6th October submission

deadline) and that a report based on the above, recommending a response along the lines outlined in Appendix 2 be produced.

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