

Fire Authority Funding

Report of the Chief Fire Officer

For further information about this report please contact Paul Raymond, Chief Fire Officer, on 01743 260205 or Joanne Coadey, Head of Finance on 01743 260215.

1 Purpose of Report

This report informs the Committee of work undertaken to explain the large reductions in Government grant faced by the Authority from 2011/12.

2 Recommendations

The Committee is asked to note the report and the papers appended.

3 Background

The Comprehensive Spending Review 2010 has seen the Fire Authority facing unprecedented grant reductions from 2011/12 and experiencing the highest grant percentage cuts of all fire authorities. The Chief Fire Officer has commissioned Pauline Mack, formerly of the Audit Commission and well known to the Authority, to carry out research into the reasons for these grant reductions, and present findings to this Committee.

The report is attached at Appendix A.

4 Letter to the Fire Minister

Following the findings of the research, the Chair of the Fire Authority has written to Brandon Lewis MP, the Fire Minister. A copy of the Chair's letter is attached at Appendix B.

This letter asks the Minister to clarify the main points of the report, in particular the justification of changes to the indicators within the risk index, and the membership of the groups, who discussed and agreed the new measures.

5 Financial Implications

There are no financial implications arising directly from this report other than those discussed within the report.

6 Legal Comment

There are no legal implications arising from this report.

7 Equality Impact Assessment

This report is purely an update on Authority resources and so the recommendations within the report have no impact on specific groups of people. An Initial Equality Impact Assessment has not, therefore, been completed.

8 Appendices

Appendix A

Report of Pauline Mack – Fire Authority Funding

Appendix B

Letter, dated 22 February 2013, from the Chair of the Fire Authority to Brandon Lewis MP, Fire Minister

9 Background Papers

There are no background papers associated with this report.

Fire Authority Funding

Outline Brief – “Less than Enough”

Grant funding

What is this?

This is an explanation of how flawed mechanisms in place for allocating public funding has impacted the grant settlement for Shropshire and Wrekin Fire and Rescue Authority (SWFRA) over the last 8 years.

Executive Summary

Over the last 8 years there have been 4 changes to the formula used to distribute public funding. Three of these changes have brought relative improvement to SWFRA, however the formula change in 2011/12 was significantly worse for Shropshire. This came right at the start of the austerity budgets. Nevertheless, floor damping protected Shropshire and the overall reduction in settlement was 9.5%, along with 9 other FRAs, who bore the same reduction.

In July 2011 the National Audit Office produced a detailed study of grant funding. It concluded that the four block model used to provide a fair means of distributing funding to local authorities

“had become increasingly complex as it has incorporated multiple objectives.

Although relative needs and resources are assessed in a complex way, the connection between those assessments and funding allocations has been obscured.

Some design elements of the model have distributive effects that cannot be reconciled back to objectives. Allocations are significantly influenced by judgements about key parameters.”

It is in the judgement of these key parameters that SWFRA’s relative need reduced by 83.5% from the formula calculation in 2010/11 to the formula calculation in 2011/12. In 2011/12 these key parameters moved from a focus on the deprivation of children to the adult unemployment levels. While there was coincidentally a small reduction in population, it was the political judgement of how deprivation was assessed that caused Shropshire to experience such a swing in relative need.

Shropshire and Wrekin Fire and Rescue Authority has the smallest relative needs formula of any Shire authorities. The only county FRA with a lower relative need is Northumberland. Over the last 8 years, the funding formula changes have swung Shropshire’s settlement from the largest increase to the greatest decrease. However, the impact of these swings has been significantly limited by the floor damping mechanism which seeks to protect those FRAs, who fall well below the floor.

For instance, the formula changes in the Spending Review for 2011/12 and 2012/13 reduced the calculation of Shropshire's relative need by an astounding 83.5% from £1,939k to £320k. However, floor damping of £634k and small changes in the other blocks reduced the settlement reduction to £786k. This resulted in an overall grant reduction of 9.5%. A similar overall reduction was experienced by 4 other Shire FRAs (Nottinghamshire, Durham, Cleveland and Cambridgeshire) and 5 Metropolitan Authorities.

The timing of this formula change was all the more keenly felt because it came at the start of the Coalition Government's austerity budgets. The Coalition Government sought to remove 25% grant funding from the public sector, however it recognised the importance of the emergency services and the need to plan well for these drastic changes in funding. Therefore, the overall settlement for Fire and Rescue Authorities has been cut less at the start of their term in government and more at the end.

Approach

1. Literacy research
2. Recalculating Shropshire position
3. Comparison with other FRAs
4. Explanation

Four Block Funding

Approximately 25% of public spending in England takes the form of spending by local authorities on services they provide. Most of this money is distributed as grant from the Government, with the balance being raised locally via council tax. The Formula Grant Distribution System is concerned with the distribution of a large part of this grant from the Government to local authorities, known as Formula Grant.

The Formula Grant Distribution System has been reviewed four times over the last eight years. Before the Local Government Finance Settlements of:

1. 2006-07
2. 2008-09
3. 2011-12
4. 2013-14

This paper provides an explanation of how the inherent flaws in the system have worked together to result in anomalous reductions in grant funding for Shropshire and Wrekin FRA just at the time when the Coalition Government introduced their austerity budgets in 2011-12.

The system divides up the finite pot of available grant (which is determined in the spending reviews) between all local authorities in England. The system considers local authorities' individual circumstances, their needs and their potential to raise resources locally, relative to all other authorities, which provide the same services, by reference to a number of mathematical formulae. The Relative Needs Formulae take account of an authority's relative need by considering a number of factors, which appear to explain variations in the cost of providing services.

The system also takes account of the fact that areas that can raise more income locally require less support from the Government to provide services, and looks at authorities' potential to raise resources through Council Tax relative to other authorities.

To ensure stability in the financing of local services, the Government then sets a "floor" or lower limit to any authority's change in their Formula Grant allocation year-on-year. For 2010/11, 23 Fire and Rescue Authorities (FRAs), set to receive a grant increase above the level of the floor, had their grant scaled back to pay for the costs of those 8 authorities below the floor. The floor for FRAs in 2010/11 was 0.5%. Shropshire's formula grant was reduced by £366k through this process. This was the equivalent of a 1.9% increase in Council Tax.

Four Blocks

- 1. Relative Needs**
Allocates a share of funding on the basis of relative needs
- 2. Relative Resource**
Deducts a share of funding on the basis of relative resources
- 3. Central Allocation**
Allocates a share of funding on a per capita basis; and
- 4. Floor Damping**
Adjusts the settlement to provide funding stability

Grants calculated under the four-block model, and its predecessors, depend on the exercising of policy and political judgment in the following areas:

- Setting the national control totals for each service block;
- Some of the relative needs formulae; and
- Setting the level of the damping floors.

Why the changes to Relative Needs Formula in 2011/12 had such an impact on Shropshire

The Relative Needs Formula is based upon a range of indices, which determines a fraction that is used to distribute the total amount, which the Government has allocated to Local Authorities through its Spending Review. In 2011-12, that amount for all Local Authorities was £72.7bn, of which £29.4bn was distributed in Formula Grant.

| Indices | 2008/09 – 2010/11 | 2011/12 – 2012/13 | 2013/14 |
|--|--|---|--|
| Projected population | | | |
| Coastline | N/a | N/a | N/a |
| Risk Index | Dominated by child poverty (6 indices used) 0.0002399 | Emphasis changed to adult unemployment (4 indices used) 0.000215 | Emphasis continues to be adult unemployment |
| Community fire safety | Similar | Similar | Similar |
| Property & societal risk | Similar | Similar | Similar |
| COMAH sites (major accident hazards like oil refineries) | Nil | Nil | Nil |
| Population density | | Introduced | |
| Population sparsity | | | Introduced |

In the comprehensive spending review for 2008/09 to 2010/11, the risk index for fire and rescue authorities was the unweighted sum of six standardised indicators as follows:

- i. Children of Income Support / Income Based Jobseekers Allowance claimants
- ii. Households not containing a couple with no children
- iii. People in rented accommodation
- iv. Absences in pupils of primary school age
- v. Average number of rooms per household resident
- vi. Single elderly people in council and high rise flats

In 2011/12 the risk index was simplified to be the sum of four standardised indicators as follows:

- i. Working age adults with no qualifications
- ii. Working age population not in employment
- iii. Adults receiving Income Support / Income Based Jobseekers Allowance / Guarantee element of Pension Credit claimants
- iv. Standardised Mortality Ratio

You can see that this change in judgement of deprivation makes for a completely different perspective on deprivation and, arguably, one might ask:

‘How do these changes represent the risk of fire?’

It is these changes to the risk index, which explain the massive 83.5% reduction in relative needs assessment that SWFRA experienced from 2010/11 to 2011/12. Telford & Wrekin has a high proportion of children compared with other authorities, yet a relatively average rate of unemployment. Also, the number of rental properties is likely to be relatively higher in Telford & Wrekin. Mortality rates are good in Shropshire.

Hope for the Future

Partnership working

Discussions with lead consultants in the Fire and Rescue sector indicate that the only feasible way to maintain the reduction of risk amidst these harsh settlements is to work very closely with the community to ensure that home fire safety is well understood and practiced.

References

- National Audit Office – July 2011
- Extract from Ministerial question time in October 2011
- Four block Funding Muddle – Analysis of fundamental flaws / London Councils
- Lyons Inquiry – Annex A / March 2007
- 2011-12 FBU Briefing
- Local Government Funding Settlements 2010-11 to 2013-14 and their appendices

Annex

Table showing the four elements of the grant determined by the funding formula

Shropshire and Wrekin Fire and Rescue Authority

The table below shows the four elements of the grant determined by the funding formula. The Fire Authority's calculation of relative need has decreased by 83.5% in 2011/12. It shows the greatest swing of all fire and rescue authorities between 2010/11 and 2011/12, although the impact was partially protected by floor damping. However, in previous settlements this floor damping had prevented Shropshire from receiving the full benefits of changes in the relative needs formula in 2008/09.

| Funding Block | 2010/11 £000 | 2011/12 £000 | Change £000 | Change % |
|--|-------------------------|-------------------------|------------------------|---------------------|
| Relative Needs Block Factors including coastline, risk, deprivation, area etc. | 1,939 | 320 | (1,619) | 83 |
| Relative Resource Amount Negative figure to reflect the ability of an authority to collect funding through Council Tax | (1,037) | (760) | 277 | 27 |
| Central Allocation Population based funding | 7,732 | 7,288 | (444) | 5.7 |
| Floor Damping Amount to fund floor increases for other authorities | (366) | 634 | 1,000 | 273 |
| | | | | |
| Total funding | 8,268 | 7,482 | (786) | 9.5 |

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22 February 2013

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Let03-13jt

Dear Brandon

Many thanks for your recent letter which brings us a little closer to understanding that the principal reason that Shropshire and Wrekin Fire Authority was cut harder than most fire authorities is a combination of both the austerity measures; which we always stated we would do our full part to support; and a significant change to the risk factors that drive fire and rescue authority 'relative needs'.

You will be aware that according to research undertaken by the Department for Communities and Local Government in 2008, the socio-demographic factors that correlate most significantly to the rate of dwelling fires are those shown below (the percentage figures quoted relate to the amount of variance that each factor accounts for in dwelling fires, with 100% equating to a perfect match):

Single parent families - 57%;
Sick disabled - 42% ,
Single person households - 37%;
Socially rented - 31%
Privately rented accommodation - 5%
Lone pensioners – 2%;

It is perhaps also worth noting that the same research looked at the use of population density as a factor on its own and, although this could account for 17% of the variance in the number of dwelling fires, once the other factors were taken into account, it was not a strong factor by itself.

The research went on to look at various 'models', which involved combining relevant risk factors, and then rating them in order of their ability to predict the risk from fire. Table 1 (over page) was taken from the research report and summarises the 'most powerful' models, with the best models at the top of the table.

In considering the 'Relative Needs' element of the formula, used to inform the Comprehensive Spending Review for 2008/09 - 2010/11, it would appear that the 'Standardised Indicators' (listed below), had taken account of this research, with the focus on families with children, rented accommodation and the elderly being very evident, and rightly so.

- Children of Income Support/ Income Based Jobseekers Allowance claimants
- Households not containing a couple with no children
- People in rented accommodation
- Absences in pupils of primary school age
- Average number of rooms per household resident
- Single elderly people in council and high rise flats

In contrast to this logical connection with the proven high risk factors, the 'Standardised Indicators' that are now used, following the 2011/12 Review appear to have adopted risk factors that are more akin to the less provable end of the models listed in Figure 1.

- Working age adults with no qualifications
- Working age population not in employment
- Adults receiving income support/ Income based Jobseekers Allowance/Guarantee element of Pension Credit claimants
- Standardised Mortality Ratio

Whilst this focus on unemployment, especially during times of austerity, may be logical when determining the 'Relative Needs' of some Public Services, the research undertaken on behalf of the Government itself, would indicate that this is not the most relevant approach in determining the needs of Fire and Rescue Services.

| Table 1: Percentage of variance in dwelling fires per million population (pmp) explained by each set of socio-demographic indicators | | | |
|--|---|--------------------------------|------------------------|
| Model | Socio-demographic model (factors ranked in order of influence in the model) | % of variance accounted for in | |
| | | rate of dwelling fires | dwelling fire injuries |
| Census combined with IMD data | Lone parent with dependent child(ren); Caribbean/African and other black; Never worked; Single adult household; IMD score | 69% | 54% |
| Census exploratory analysis | Lone parent with dependent child(ren); Caribbean/African and other black; Never worked; Single adult household; Age 70+ | 69% | 54% |
| Census – previously identified variables | Selection of previously identified census variables (single adult households, sick disabled, single person families) | 63% | 50% |
| IMD – analysis of 353 unitary and local authorities | IMD overall score | 60% | 48% |
| IMD – analysis of >32,000 LSOA | Employment score; Crime and disorder score; Education skills and training score; Living environment score. | 46% | 20% |

Figure 1 - taken from page 8 of DCLG's Fire Research Series 9/2008

Most recent fire statistics published by DCLG in December 2012 also tend to support the previous risk analysis:

- Page 10 of the document states:
 - *Three quarters (76%) of fire-related fatalities occurred in dwelling fires (para 1.11). Fire fatality rates are notably higher for people aged 80+ and for males, and in Scotland (para 1.14 & 1.25).*
- Page 22 of the same document states:
 - *In 2011-12 the fatality rate for ages under thirty year old is much below average, and higher than average for ages between 65 and 79, and by far the highest in the age group 80 and over (27 per million population).*

This at first glance suggests that the new concentration on working age people and unemployment completely misses the point of identifying those most at risk as a means to distribute government 'needs' funding for fire and rescue authorities.

These changes, on top of the grant reductions as part of the deficit reduction strategy, have resulted in a significant reduction to our funding from Government. We have done our part, making over £3.5 million of efficiencies from our £20 million budget with minimum impact on the front line. *We are now however, faced with a further £1.2 to £1.6 million shortfall that can only be managed with cuts to front line service provision.* We fully explained this; and the fact that we feel that we are already at the minimum acceptable standard of response; to Sir Ken Knight who visited us recently.

Elected members of the Fire Authority are about to begin discussions and consultations with staff and members of the public about these cuts to front line services. In order to provide a balanced argument for those consultations, it would be useful to understand the rationale behind the changes made in the formula that proved so catastrophic for Shropshire Fire and Rescue, in particular;

- What were the reasons for the changes to the standardised indicators when the previous ones had such a provable link with domestic fires and fire deaths?

I would also be interested to know:

- Who was directly involved in the groups who discussed and agreed these new measures?
- Which Fire Authorities and Departments did they represent and why were they chosen to sit on this group?
- Can you point me to the evidence that shows these new indicators have a better correlation to risk than the previous ones used?

I am sure that you understand that with locally elected members making such difficult decisions with an essential emergency service the more facts we have at our disposal the better chance we have of achieving the changes that we need to make as a result of the reduction in government funding.

I look forward to your reply.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stuart West', with a long horizontal flourish underneath.

Stuart West
Chair of Shropshire and Wrekin Fire and Rescue Authority

CC: CFO Paul Raymond