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This circular is	Request for information	Respond by	20 July 2009
This circular is	Relevant to the National Framework		
Status	This circular requests views from fire and rescue authorities on what should be considered in the Fire and Rescue Relative Needs Formula used in the formula grant distribution system.		

Formula Grant Review

Issued by:

Robert Flynn

FRS Finance and Performance Division

Addressed to:

**The Chair of the Fire and Rescue Authority
The Chief Executive of the County Council
The Clerk to the Fire and Rescue Authority
The Clerk to the Combined Fire and Rescue Authority
The Commissioner of the London Fire and Emergency Planning Authority
The Chief Fire Officer**

Please forward to:

**Treasurers
Directors of Finance**

Summary

This circular requests views from fire and rescue authorities on what factors should be considered in the Fire and Rescue Relative Needs Formula used in the formula grant distribution system. The review on the formula is on-going with the view to consult on options before the 2011-12 Local Government Finance Settlement in 2010.

For further information, contact:

Robert Flynn
FRS Finance and Performance Division
Communities and Local Government
Zone 1/F2 Ashdown House
123 Victoria Street
London SW1E 6DE

Direct line **020 7944 4183**
Fax **020 7944 8319**
E-mail robert.flynn@communities.gsi.gov.uk

Website www.communities.gov.uk

1.0 Background

- 1.1 In his announcement on the Local Government Finance Settlement in February 2008, John Healey proposed a review of the fire and rescue relative needs formula. A working sub-group (the Fire and Rescue Formula Working Group) has since been set up under the auspices of the CLG Settlement Working Group (SWG) to carry out the review in co-operation with representatives from fire and rescue authorities (FRAs).
- 1.2 There are representatives on the Working Group of finance officers from all types of FRA, together with the LGA and officials from both Local Government Finance and Fire and Resilience Directorate within CLG. Work on the review is currently underway and **we are keen to have participation in this work from across the Fire and Rescue Service (FRS)**. If FRAs need a contact on the Working Group, they can speak to Kieran Timmins of Merseyside FRA, (0151 296 4202, Kierantimmins@merseyfire.gov.uk).
- 1.3 The Working Group will discuss the development of a variety of options that could change the current relative needs formula. CLG will formally consult on options during 2010 before decisions are taken on the final proposals to be used in the three-year settlement from 2011-12. All previous papers relating to the work of the Fire and Rescue Formula Working Group can be found at: <http://www.local.communities.gov.uk/finance/1011/grant.htm#fire>.

2.0 Formula Grant Distribution System

- 2.1 An overview of the Formula Grant distribution system for the FRS is at **Annex A**. The main elements are: a Relative Needs Amount (RNA) which is calculated from the results of Relative Needs Formula (RNF); a Relative Resource Amount (RRA); a central allocation; and the floor damping mechanism to ensure FRAs receive a guaranteed minimum increase.

3.0 Reviewing the Fire and Rescue Relative Needs Formula

- 3.1 It is important that the formula reflects both the demands made upon a modern FRS and FRAs' ability to provide an effective and efficient service.
- 3.2 The current RNF has been developed over a number of years and is derived using a mix of statistical (regression) based analysis and judgement. Details of the current RNF and indicators are described in **Annex A**.
- 3.3 The review has the scope to consider whether the current RNF and indicators reflect the factors driving the differences in relative costs in providing fire and rescue services by authorities. The review will also consider whether the formula should be purely based on statistical analysis, ie using regression analysis on either past spend or activity to determine which factors could be used and the weights that should be applied, or purely on a judgement basis, ie where factors and their weights are chosen on the basis of importance, qualitative or anecdotal evidence with no direct statistical link to past spend or activity; or a mixture of both.
- 3.4 To assist in the evidence required to develop options, particularly for a judgement based formula, we would like to know what the FRS considers are the key factors driving the services that they provide, and what is the relative importance of these factors.

- 3.5** If, as a result of this survey, common factors become apparent, further work can be undertaken on how they can be measured and consideration given to including them in the formula. These will be developed through the Working Group. However, the formula has to be based on consistent data for all authorities and should not include factors that could be perceived to be creating perverse incentives – for example, directly using the number of calls to incidents as a measure is unlikely to act as an incentive to reduce incident numbers through fire prevention work.

4.0 Replying

- 4.1** A short questionnaire is attached at Annex B which can be used for responses or alternatively you can respond by letter or email to the address below. We would also be interested in hearing about any research FRAs may have commissioned themselves on these issues.
- 4.2** This is an opportunity for all FRAs to have a say in a fundamental review of the relative needs formula used in the resource allocation process for the FRS. Ministers are keen that FRAs take part in this review.
- 4.3** Replies need to be sent to us by **20 July 2009** and should be emailed or posted to Robert Flynn at CLG (see below for details).

5.0 Further information

- 5.1** If you have any questions or you would like further information please contact Robert Flynn at Communities and Local Government, Zone 1/F2, Ashdown House, 123 Victoria Street, London SW1E 6DE, telephone 020 7944 4183 or e-mail Robert.flynn@communities.gsi.gov.uk

Robert Flynn
FRS Finance and Performance Division

THE CURRENT FORMULA GRANT DISTRIBUTION SYSTEM FOR THE FIRE AND RESCUE SERVICE

The formula grant distribution system combines the following components

- **Relative Needs Amount**
- **Relative Resources Amount**
- **Central Allocation**
- **Floor damping**

Relative Needs Amount

The Relative Needs Amount is determined by Relative Needs Formulae (RNF). For single service FRAs, the Relative Needs Amount is determined from the Fire and Rescue RNF and the Capital Finance RNF. For councils with the responsibility for Fire and Rescue services, the Amount determined also reflects formulae for the other services that they provide.

Fire and Rescue RNF

The fire and rescue RNF used to calculate the Relative Needs Amount in the 2008-09 to 2010-11 settlements consists of the following elements

- Population
- Coastline
- Risk Index
- COMAH sites
- Property and Societal Risk
- Community Fire Safety

The results from the above are then adjusted by the Area Cost Adjustment. This reflects the varying costs of service delivery around the country. Even though there are national pay scales in the fire and rescue service, the actual costs of employing staff include additional non salary costs. (We are currently reviewing the ACA in time for the 2011-12 settlement and papers arising from this review can be found on the CLG Settlement Working Group website <http://www.local.communities.gov.uk/finance/1011/swg/090325.htm>.)

The underlying weights attributed to the coastline, COMAH sites and risk index indicators (and the basic amount) are based on regression against past expenditure. The fixed elements given to the property and societal risk and community fire safety indicators are based on judgement.

Population

The resident population of the authority is used as the main client group for fire and rescue services. For three-year settlements, population projections relating the settlement year being calculated are used for this measure rather than fixing with the same mid-year estimate for all three years.

Coastline

This factor is included to recognise that not all authorities have neighbouring authorities along their entire boundary to call upon in the provision of fire and rescue services.

The coastline factor is measured by the length of coastline to the nearest 1000 metres at low water per head. Data on the length of coastline has remained unchanged since the introduction of this indicator in the 1995-96 settlement.

Risk index

The risk index was first introduced into the formula for the 2003-04 settlement. This indicator replaced an indicator based on the number of fire calls (including false alarms and special incidents) per head. The fire calls indicator gave a perverse incentive to FRAs as successful efforts to prevent fires through education and other measures would reduce the funding an authority received.

The risk index combines six standardised factors – 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 and ACORN types 50 and 53 (single elderly people, council flats and old people, many high rise flats).

The risk index was created by considering around 225 potential indicators. Qualitative evidence was used to identify factors that could be linked to incidents (ie from the 1996 Home Office report *'Elaboration of a Risk Assessment Toolkit for the UK Fire Service'* and the 2000 British Crime Survey (BCS) report on *'Fires in the Home'*). Evidence showed that the main link was to deprivation, so a variety of deprivation indicators were considered taking into account variables included in the *The Indices of Deprivation 2000* and in previous deprivation work. Data to cover non-domestic properties was also considered.

In order to recognise that FRAs respond to a variety of incidents and not just fires, all the potential indicators were tested for a positive significant relationship to all types of incidents. These incidents included road traffic accidents.

Statistical techniques that would identify the most significant indicators as well as judgemental decisions were used in this research in order to create an index that contained a relatively small number of indicators.

COMAH sites

The number of top tier COMAH sites per head is used as a measure of high risk. This indicator was introduced for the 2006-07 settlement to replace an indicator based on the area in hectares that which were classified as 'A' risk in terms of fire cover per head.

The 'A' risk based indicator needed to be replaced because national standards of fire cover had been abolished and therefore this measure was obsolete. A number of options were considered but the COMAH sites measure was found to be the most statistically significant replacement.

Property and Societal Risk

The property and societal risk indicator is constructed using the number of different types of property covered by each FRA multiplied by the risk frequency factors relating to both property loss and societal risk. It is then used on a per head basis. Societal risk frequency relates to the likelihood of a large number of people who would require assistance by the fire and rescue service to escape from a fire. The risk frequencies are taken from the FSEC Toolkit.

The fixed percentage distributed by this indicator is currently 6% of the fire and rescue control total.

Community Fire Safety

This element recognises that FRAs are involved in community fire safety work. Prior to the 2006-07 settlement, this factor was based on information on ACORN types representing residents in areas with a greater need for fire safety education and the number of pupils of primary school age. The fixed element was 3% of the control total.

Since the 2006-07 settlement, this factor has also contained the resident population aged 65 and over. The fixed element was also increased to 6% of the control total. The indicator is also expressed on a per head basis.

Relative Resources Amount

The Relative Resource Amount (RRA) is a negative figure. It takes account of the fact that areas that can raise more income locally require less support from Government to provide services. The negative RRA is balanced against the positive proportion calculated for each authority by the RNA.

The RRA recognises the differences in the amount of local income which individual authorities have the potential to raise. This is done by using projections of the number of properties equivalent to Band D for council tax in an area (this is referred to as the taxbase). The greater an authority's taxbase the more income it can raise from a standard increase in band D council tax.

This element therefore does not use information on the council tax precept or the actual amount of council tax collected. Nor does it use any assumption of what council tax should be.

In a similar method as the relative needs amount, the Relative Resource Amounts are generated using the amounts above the minimum taxbase per head for each group.

Central Allocation

Once the RNA and RRAs are calculated for each authority, there is still an amount of money left in the overall grant pot for distribution to local authorities.

This is shared out on a per head basis; the per head amounts are based on the appropriate minimums for each authority already calculated for the needs and resources blocks.

Floor damping mechanism

Following the calculations described above, each authority will have a grant amount allocated to it. However, Government ensures that all individual authorities receive at least a guaranteed minimum level in grant year-on-year. This is known as the floor, and it ensures that authorities are protected from detrimental grant changes

The first step is to calculate the difference in grant from one year to the next. To do this it is important that the amounts should be compared on a like for like basis. Consequently the previous year's grant (the base) is notionally adjusted to represent any changes either in funding or function that will apply to the current year's grant.

The Minister decides on the floor level and has to consider what level gives the fairest distribution of the money available, and ensure that all authorities receive a Formula Grant increase. As all the Formula Grant to be paid to authorities must come from within the finite overall pot, the cost of providing the guaranteed floor must also be met from this pot. Grant increases above the floor are therefore scaled back and used to pay for the floor guarantee.

The closer the floor is to the average increase across fire and rescue authorities, the smaller the range of increases will be (the difference between the lowest and highest increase after floor damping) and the greater the influence the floor has over the distribution of grant. As a consequence, this would also mean that distribution is less influenced by the underlying formulae.

ANNEX B

OPTIONS FOR A NEW RELATIVE NEEDS FORMULA FOR FIRE AND RESCUE (responses by 20 July 2009)

Fire and Rescue Authority

Contact (Name)

Telephone

E-mail

Address

- **What comments or suggestions do you have on the current formula or suggestions for changes/alternatives?**
- **Do you have a view on whether the formula ought to be based on statistical analysis, on judgement, or on a mixture of the two? What is the reasoning behind your view?**
- **What are the main factors that drive your fire and rescue authority revenue expenditure and how would you rank them in importance (%)?**
- **What are the main activities of your fire and rescue service and approximately how much time and resources are dedicated to the activity?**
- **If a new formula were to be created on the basis of judgement, what are the main factors that we should seek to reflect? How important is each, and why?**