



HAMPSHIRE  
& ISLE OF WIGHT  
**FIRE AND  
RESCUE**  
AUTHORITY



## **Shadow Authority**

Purpose: Approval

Date: **22 July 2020**

Title: **APPROVAL OF ALTERNATIVE NOTIONAL AMOUNT FOR COUNCIL TAX SETTING**

Report of: Chief Financial Officer

## EXECUTIVE SUMMARY

1. Members will be fully aware that the creation of a new Combined Fire Authority (CFA) has been approved by Government following the submission of a business case by HFRA and the Isle of Wight Council (IWC) last year and will come into being on 1 April 2021.
2. As part of the preparations for the new CFA, there are technical financial issues that need to be worked through by the Government in respect of grants and business rates and in particular the setting of an Alternative Notional Amount (ANA) that will enable both the new CFA and the IWC to set a new council tax for 2021/22 without potentially falling foul of the referendum principles that are set each year. This process is linked to council tax harmonisation that was covered within the business case.
3. ANAs must be agreed by both the IWC and the Shadow Authority and be notified to the Ministry of Housing, Communities and Local Government (MHCLG) before September this year. The ANAs will need to be agreed by the Secretary of State and will then feed into the provisional grant settlement calculations that are normally released in December.
4. This report sets out the proposed ANA for the new CFA, the basis of its calculation and the implications for both the IWC and new CFA in setting it at this level and re-visits the option appraisal that was submitted as part of the business case.

## BACKGROUND

5. The business case that was submitted to Government last year was based on the budgets and council tax levels for IWC and HFRA for 2019/20. Part of the process was to calculate a notional council tax relating to the IWC Fire and Rescue Service (IWCFRS). In essence, this produced a figure that represented how much of the IWC council tax that residents paid related to the provision of the Fire and Rescue Service on the island.
6. The notional council tax figure calculated for the IWCFRS was £66.91, which was only 80 pence less than the HFRA actual council tax figure of £67.71 set for the year. However, the business case did highlight to Government that the assumed budget for the IWCFRS included an allowance for a pay award of 5% (compared to 2.5% for HFRA) in anticipation of a potential increase relating to the changing role of a firefighter that was being discussed nationally at the time. It was pointed out that should the pay award be less than this, the differential between the two council taxes would increase.
7. There were different options put forward for council tax harmonisation within the business case. The preferred option was to harmonise at the level of the HFRA council tax in the first year of coming into being since the differential was so small and the financial implications of the other options on the finances of the new CFA were not considered to be favourable.
8. Before an ANA can be proposed to Government, it must be updated to reflect the budget and council tax setting position for each Authority for 2020/21, which is considered in the next section.

## UPDATED POSITION FOR 2020/21

9. For Hampshire, the updated position is simple to identify as the actual council tax set for the year was £69.06, an increase of 1.99% or £1.35 on the previous year.
10. For the IWCFRS, the Chief Financial Officer for the IWC used the same methodology that was applied to the original business case calculations to produce a notional council tax figure for 2020/21. This worked out to be £62.18, some £4.73 less than the figure for the previous year and £6.88 lower than the equivalent HFRA figure above.
11. The key difference in the figures is that the actual pay award granted in 2019/20 was only 2% compared to the 5% that had been allowed for in the budget. This has reduced the cost of the service going forward by £238,000 and is equivalent to a reduction in the notional council tax of £4.45 on its own.
12. Further adjustments have also been made to the IWCFRS budget to reflect the fact that some expenditure relates to non-fire functions that would need to continue to be carried out by the IWC, together with other minor budget adjustments. This accounts for a further 69 pence of the variance.
13. The balance of the difference is explained by the fact grants have increased by a greater percentage than spend and by the fact that the IWC council tax base has increased between the two years which has the effect of lowering the notional council tax (whereas for HFRA the applied increase of 1.99% allows for the fact that the council tax base has increased, i.e. spend is increased to offset this).

14. Clearly the differential in council taxes at £6.88 is now much greater than the £0.80 included within the business case and based on the previous recommendation to harmonise at the HFRA council tax in a single year, would mean that IWC residents would pay an extra £6.88 for their Fire and Rescue Services in addition to any other increases applied for the remainder of the IWC budget. A £6.88 increase represents a 0.37% increase in the current level of Council Tax for the Isle of Wight Taxpayer (including the police and crime commissioner precept). Given this position, the next section re-visits the three options included within the business case for council tax harmonisation and considers the impact of these.

### COUNCIL TAX HARMONISATION

15. The original business case submitted to Government included 3 options for council tax harmonisation:

- Option 1 - Harmonise in year 1 to the HFRA level
- Option 2 - Harmonise in year 1 to the IWCFRS level
- Option 3 - Harmonise in year 1 to an average of the two council tax levels

16. For each option, an assessment was made against the following criteria:

- Impact on the residents on the IOW
- Impact on the residents in Hampshire
- Financial impact on the new CFA
- Simplicity and understanding

17. Appendix 1 sets out the assessment for each option against each of the criteria using the revised amounts for 2020/21. This is summarised in the table below:

	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>
Impact on the residents on the IOW	£6.88 increased council tax	No change	£3.44 increased council tax
Impact on the residents in Hampshire	No change	£6.88 reduced council tax	£3.44 reduced council tax
Financial impact on the new CFA	£370,000 extra income per annum	£4.4m loss of income per annum	£2m loss of income per annum
Simplicity and understanding	Simple to understand with only 53,800 Band D equivalent households affected	Simple to understand but with 644,100 Band D equivalent households affected	Less simple to understand and with 698,000 Band D equivalent households affected

18. From the analysis Option 1, to harmonise at the current HFRA council tax level, is still the logical option and is in line with the recommendation contained in the final business case that was agreed by Government. It is simple to understand, it impacts on fewer households and avoids the negative financial impacts on the new CFA of the other two options which could lead to service reductions with consequential impacts on public safety in the long term contrary to the stated aims within the business case.
19. It does however, adversely impact council tax payers on the Isle of Wight. Against this, the £6.88 represents an increase of only 0.37% compared to the total Band D council tax currently being paid (including the Police and Crime Commissioner's council tax). Furthermore, 65% of chargeable households on the island pay less than the Band D charge, with 40% in the lowest bands A and B (50% of which also receive some other form of discount). All residents who experience financial hardship may be able to get further support through the local council tax support scheme, which will further mitigate the impact.
20. This report therefore recommends that option 1 is approved and that an ANA of £69.06 is recommended to the Secretary of State.

### CONSULTATION

21. No consultation is specifically required for this report but a full consultation exercise was carried out before the business case was submitted; although responses were low, there was general support for the creation of a new HIOW CFA. The consultation document included a council tax differential based on the 2018/19 budgets which was a difference of £3.74 rather than the 80 pence included in the final business case, which is obviously closer to the current differential of £6.88 now being recommended. The final decision will be made by the Secretary of State and the Alternative Notional Amount will be published as part of the provisional Local Government Finance Settlement expected in December 2020 and formal representations can be made by members of the public at this point if they wish.

### RESOURCE IMPLICATIONS

22. The key resource implications for the new CFA are set out in Appendix 1 and the table above. Under the recommended option, the new CFA would benefit from £370,000 additional income per year that could be used to enhance repair and maintenance budgets in respect of properties on the island which was an area that was flagged as a potential liability for the new CFA in the business case.
23. The calculation of the Alternative Notional Amount demonstrates the challenges faced by the Isle of Wight Council in supporting the Isle of Wight FRS to the same level as mainland comparators whilst at the same time being challenged to fund other key statutory services such as those for children, adult social care and homelessness.

## LEGAL IMPLICATIONS

24. The Hampshire and Isle of Wight Fire and Rescue Authority (Combination Scheme) Order 2020 was laid before parliament in February 2020 and came into partial effect on 1<sup>st</sup> April 2020. The shadow authority powers are currently limited to those actions necessary to bring the CFA into full effect from 1 April 2021. The setting of an ANA for the new CFA must be approved by the Secretary of State as part of the technical financial process leading up to its implementation.

## EQUALITY IMPACT ASSESSMENT

25. An equality impact assessment has been carried out and no medium or high impacts were identified. The main impact is a financial one, whereby the Band D council tax will increase by £6.88 for Isle of Wight residents. However, as identified above, 65% of chargeable households on the island pay less than the Band D charge, with 40% in the lowest bands A and B (50% of which also receive some other form of discount). All residents who experience financial hardship may be able to get further support through the local council tax support scheme, which will further mitigate the impact.

## OPTIONS

26. This report sets out three options for the harmonisation of council tax between the two existing Authorities an assessment of which is contained in Appendix 1.

## RISK ANALYSIS

27. The key risk identified in this report is the financial risk to the new CFA of options 2 and 3 which have a significant adverse impact on the level of council tax income that would be received in the first and subsequent years, requiring significant savings to be made to meet the deficit and the consequential implications for public safety in the longer term.
28. A further risk relates to the impact of the increase in council tax on the residents on the Isle of Wight of the recommended option, which may cause reputational damage to the new CFA. This can be mitigated through an effective communication plan which fully explains the additional investment and improvements that the additional £6.88 will bring to the new CFA.

## CONCLUSION

29. This report sets out the justification for keeping with the original proposal to harmonise council tax at the current HFRA level in a single year. It is unfortunate that the technical changes within the IWCFRS budget have increased the differential for council tax payers on the island although in percentage terms it still remains low, but at the same time this has also created a significant budget impact for the new CFA if either of the other two options are chosen.

## RECOMMENDATIONS

30. That the Shadow Authority agrees to calculate its proposal to the Secretary of State in respect of the ANA in accordance with Option 1, which assumes harmonisation of Council Tax at the existing HFRA Level, as per the business case approved by government.
31. That the Shadow Authority recommends to the Secretary of State that the Alternative Notional Amount be set at £69.06.

## APPENDICES ATTACHED

32. Appendix 1 – Council Tax Harmonisation Option Appraisal

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## **Council Tax Harmonisation Option Appraisal**

### **Option 1 - Harmonise in year 1 to the HFRA level**

In simple terms this would mean that residents on the Isle of Wight would be asked to pay an extra £6.88 for their Fire and Rescue Service following the creation of the new CFA.

**Impact on the residents on the IOW** – The increase of £6.88 represents an 11.1% increase on the re-stated notional council tax for the IWCFRS in 2019/20 (adjusting for the lower pay award and other changes). Whilst on its own this looks significant it represents an increase of only 0.37% on the current total band D council tax for the IWC.

In percentage terms, compared to the current overall council tax level, this is a small increase compared to the benefits of the new CFA particularly on the island which will see quicker and higher levels of investment in buildings, vehicles and equipment as a result of the combination.

**Impact on the residents in Hampshire** – In council tax harmonisation terms there would be no financial impact on the residents of Hampshire as a result of this option.

**Financial impact on the new CFA** – The additional council tax income that would accrue to the new CFA would equate to around £370,000. Whilst this is not a significant sum in the context of the overall budget of over £70m, it does offer some funding that will be available to offset any additional costs of the new CFA that are not currently covered by existing operational budgets (for example increased costs of the shared services arrangement currently in place for HFRA) and in particular the annual maintenance costs of the existing buildings on the island which do not have adequate budget provision at the moment as highlighted within the business case.

However, the current robust financial position of the HFRA means that the new CFA is not wholly reliant on additional council tax income in order to remain financially stable in the future. More significant financial risks around pensions and future pay awards are more relevant, but these would be issues that both services would need to deal with in any event.

**Simplicity and understanding** – Harmonisation in a single year with a relatively small impact on the overall council tax that residents pay is simple to explain and understand and can be combined with messages around the benefits that the combination brings. In relative terms, this change would impact on 53,800 Band D equivalent households on the island but would leave 644,100 Band D equivalent households in Hampshire unaffected.

**In summary, this represents the most straightforward and understandable option which has a minimal impact on a relatively smaller number of households and helps to improve the financial sustainability of the new CFA. This is therefore the recommended option.**

## Option 2 - Harmonise in year 1 to the IWCFRS level

In simple terms this would mean that residents in Hampshire would see a reduction in council tax of £6.88 for Fire and Rescue Services following the creation of the new CFA.

**Impact on the residents on the IOW** – In council tax harmonisation terms there would be no financial impact on the residents of the IOW as a result of this option, their IWC council tax will reduce by the same value as the new council tax for the HIOWFRA.

**Impact on the residents in Hampshire** – A reduction of £6.88 compared to the current HFRA council tax represents a 10% decrease on the 2020/21 level. In overall terms this would be a reduction of 0.44% against the combined council tax for HFRA, Hampshire County Council and the Police and Crime Commissioner (ignoring the impact of Districts and Parishes).

Clearly a reduction in council tax for residents would be welcomed compared to an increase, but the value of the reduction would not provide any meaningful additional income to households in the county.

**Financial impact on the new CFA** – There would be a reduction in council tax income to the new CFA of around £4.4m as the council tax reduction applies to a high number of properties. This represents a loss of council tax income of 9.3% against the combined total for 2020/21.

A deficit of this size in the first year of the new CFA could not be met through savings implemented for the year given the scale of the reduced income and the timeframes available in which to implement any changes. Reductions of this level would almost certainly require public consultation and potentially impact on public safety which was one of the main drivers behind the original business case.

It would also change the focus of the new CFA from improving services and exploiting new opportunities to concentrating on the need to find substantial savings on top of any potential future reductions that may arise following Government grant changes.

**Simplicity and understanding** – Harmonisation in a single year with a relatively small reduction in the overall council tax that residents pay is simple to explain and understand, albeit many Hampshire residents may be less familiar with the CFA proposals than those on the island. Residents may also not understand the logic of placing the new CFA in a financially worse position as a result of the reduction. In relative terms, this change would impact on 644,100 Band D equivalent households in Hampshire but would leave 53,800 Band D equivalent households on the island unaffected, making the communication process both larger and more complex.

**In summary, whilst this represents a straightforward and understandable option which benefits a high number of households, the household gain is for a low amount and has a significant adverse impact on the financial sustainability of the new CFA. This is therefore not a recommended option.**

### Option 3 - Harmonise in year 1 to an average of the two council tax levels

In simple terms this would mean that residents in Hampshire would see a reduction in council tax of £3.44 and residents on the IOW would see a £3.44 increase for Fire and Rescue Services following the creation of the new CFA.

**Impact on the residents on the IOW** – The increase of £3.44 represents a 5.50% increase on the adjusted notional council tax for the IWCFRS and an increase of only 0.2% on the current total band D council tax for the IWC.

In overall terms, this is a negligible increase compared to the benefits of the new CFA particularly on the island which will see quicker and higher levels of investment in buildings, vehicles and equipment as a result of the combination.

**Impact on the residents in Hampshire** – The reduction of £3.44 compared to the current HFRA council tax represents a 5.0% decrease on the 2019/20 level. In overall terms this would be a reduction of 0.22% against the combined council tax for HFRA, Hampshire County Council and the Police and Crime Commissioner (ignoring the impact of Districts and Parishes).

Clearly a reduction in council tax for residents would be welcomed compared to an increase, but the value of the reduction would not provide any meaningful additional income to households in the county.

**Financial impact on the new CFA** – There would be a net reduction in council tax income to the new CFA of just over £2m. This represents a loss of council tax income of 4.25% against the combined total for both authorities for 2020/21.

This loss of income is still very significant in the first year of the new CFA and could not be met through savings implemented for the year given the scale of the reduced income and the timeframes available in which to implement any changes. Reductions of this level would almost certainly require public consultation and potentially impact on public safety which was one of the main drivers behind the original business case.

It would also change the focus of the new CFA from improving services and exploiting new opportunities to concentrating on the need to find substantial savings on top of any potential future reductions that may arise following Government grant changes.

**Simplicity and understanding** – Harmonisation in a single year to an average rate with a relatively small change in the overall council tax that residents pay is simple to explain and understand, although not as straightforward as the previous options. Residents may not understand the logic of placing the new CFA in a financially worse position as a result of the reduction. This change would impact on nearly 698,000 Band D equivalent households making the communication process both larger and more complex.

Given the small amounts involved and the detrimental impact on the finances of the new CFA, communicating the reasons for choosing such an option may also be challenging.

**In summary, whilst this represents a straightforward and understandable option, it does impact on all of the households across Hampshire and the Isle of Wight, the majority of which will benefit. However, the financial impact on each household is for a small amount and does have a significant adverse impact on the financial sustainability of the new CFA. This is therefore not a recommended option.**