This is the response of the Rural Services Network/SPARSE-Rural to the Government's Consultation on the Local Government Provisional Settlement for 2017/18. The Rural Services Network represents Councils servicing rural areas across England

INTRODUCTORY COMMENTS

Before responding to the specific question we wish to make some introductory comments which demonstrate the depth of feeling there is on the various issues across Rural England.

Earlier this year a delegation from the Rural Services Network (RSN) met the Local Government Minister, Marcus Jones MP to discuss what were, from our perspective, disastrous proposals set out in the 2016/17 - Four Year Provisional Settlement. Following protests from a significant number of rural MPs, the Final Settlement was improved temporarily by the addition of Transitional Relief arrangements. However, Transitional Relief turned out to be no more than a sticking plaster. Once that funding comes to an end in 2017/18, the Settlement proposals will risk crippling public services in rural areas and force local authorities to raise council tax to a significantly higher level than their urban counterparts. The Government's plans are likely to make life for people across rural England extremely difficult, hitting hardest those most in need of public services.

Cuts in grants have been difficult for all local authorities to live with over the last five years. But at least - until now - the axe has fallen reasonably equitably across both rural and urban areas. Under the Four Year Final Local Government Settlement rural areas will lose over 31% of their central Government funding, whilst urban areas, will lose about 22%. The Provisional Settlement just announced seeks to implement the second year of the Four Year Settlement and, in addition, makes it even worse.

This comes after chronic underfunding of rural areas by successive governments, despite the acknowledged higher cost of providing services to remote communities and the lower than average incomes of people living in them.

The Government's Core Spending Power figures take for granted that that rural residents will have to pay even more in council tax than their urban counterparts. That is a cynical miscalculation which, has undoubtedly contributed to the present disaffection between rural residents and Westminster.

In a letter to Marcus Jones MP ahead of Provisional Settlement announcement, the RSN stated: "Once the Transitional Relief period has ended, rural councils at County, Unitary and District levels face an impossible task. Rural residents and businesses face a tsunami of swingeing cuts to essential front line services. There will be no alternative."

We pleaded with Government to extend the Transitional arrangements through to the end of the Four Year Settlement period - a plea which has clearly fallen on deaf ears.

Our concerns are set against the context that for decades, under successive governments, rural areas have received substantially less government funding per head of population for their local government services compared to urban areas. As a consequence rural local authorities have increasingly found it necessary to rely more heavily on Council Tax income than their urban counterparts, whilst still struggling with considerably less Spending Power overall. This has inevitably had an impact on the level of services they could provide.

Thus rural residents, who on average earn less than their urban counterparts, pay more in Council Tax but get less government grant and receive fewer services which cost those residents more to access. Rural areas also have significantly larger older populations. Over the next five years, the number of older residents in shire areas is projected to rise at an average annual rate of 2.0%, compared to an English average of 1.8%, London Boroughs 1.9%, and metropolitan boroughs 1.5%.

Since 2013/14 London Boroughs (£266M), together with Surrey (£44M) and Hertfordshire (£16M), have received some £326M per year (based on 2013/14 values) more than the existing formula shows they need. This, in large part, is at the expense of rural areas. This is grossly unfair, and illogical. In times of austerity it is more important than ever that the funding which is available nationally from a shrinking pot, is distributed fairly.

Whilst increased funding for Adult Social Care is much needed, the amounts proposed in the Provisional Settlement will hardly scratch the surface of the underlying funding crisis that these services face across England. Furthermore, the fact that much of this increase has to come from Council Tax is both wrong and blatantly unfair to rural residents. The parlous state of Adult Social Care finances is a national issue that needs to be tackled by coherent policies and realistic funding from Central Government. Council Tax is already higher in rural areas compared to urban and these proposals can only widen that gap further. In the Autumn Statement the Chancellor made much of the issues facing the so call JAMs (those families Just About Managing). All of us, including JAMS, do pay Council Tax and, especially in rural areas, these proposals will hit JAMS hard in their purses and wallets and will wipe out any small gains they might have derived from the Autumn Statement.

The Government's introduction of Improved Better Care Fund, whilst insufficient to meet the Adult Social Care crisis is, at least in principle, a step in the right direction. Yet again, however, the Government's policy to make rural residents pay for services through Council Tax rears its head again. The inclusion of the Council Tax flexibility in the IBCF calculations means that yet again rural residents are forced to contribute more to pressures which the Government is funding in urban areas. However, of deeper concern is the use of 2013 adult social care formulae which take no account of the very real greater demographic pressures in rural areas or indeed the greater costs of meeting those needs. **Taken together, it is not surprising that, yet again, more grant goes to urban areas per capita. In 2019/20, the average predominantly urban resident will attract £31.28 per head in Improved Better Care Funding, £7.89 per head more than rural residents per head (of £23.39). This difference is worth almost twice the amount which is being paid to rural authorities in Rural Services Delivery Grant.**

There is no relationship between the numbers of people requiring social care and Council Tax or Business Rates. It is obvious that the rising costs of caring for the growing elderly population cannot be met by local taxation and must be funded per capita by central government. In rural areas there are significantly more residents aged 65+, fewer businesses required to pay business rates and Council Tax levels are already much higher than in urban areas. Thus there is created a 'perfect storm' of rising costs and limited income in the rural areas across England.

The Government must think again on all these issues of fundamental unfairness and discrimination against rural residents".

RESPONSES TO CONSULTATION QUESTIONS

Question 1: Do you agree with the methodology of Revenue Support Grant in 2017- 18?

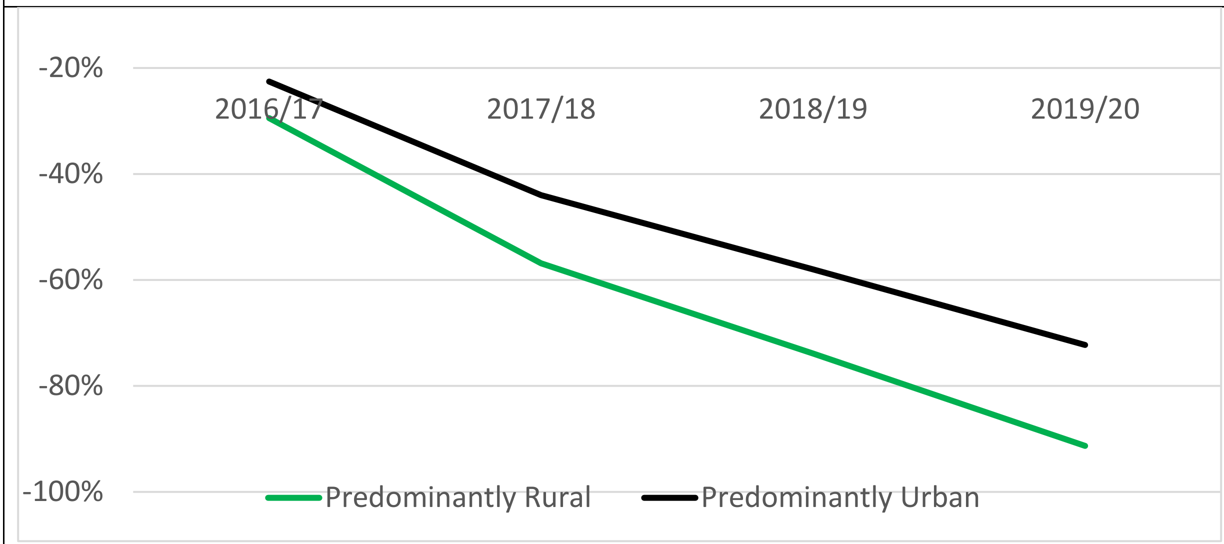
No

RSN fundamentally disagrees with the change to the methodology for calculating RSG which was introduced in the 2016/17 settlement and which has not been changed in this settlement.

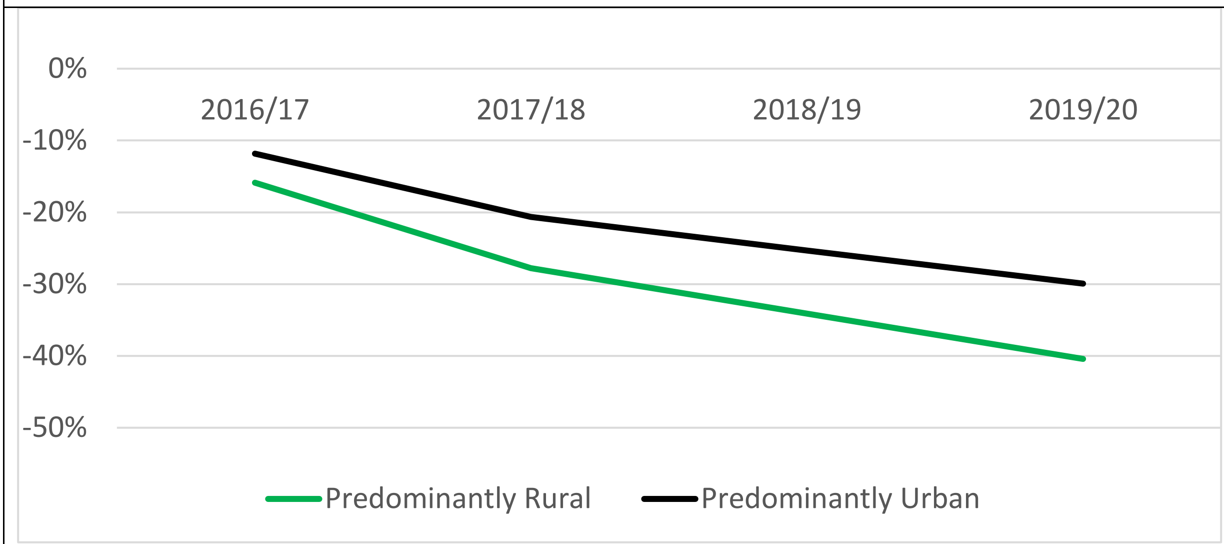
The inclusion of Council Tax in the calculation of RSG reductions has resulted in significantly higher reductions in RSG (and SFA) in rural areas than has and will occur in urban areas over the settlement period.

The relative reductions in both RSG and SFA are shown in the graphs below.

Reduction in RSG: 2015/16 to 2019/20



Reduction in SFA: 2015/16 to 2019/20



The reductions highlighted in the above graphs are made to a starting position which was already inequitable. In 2015/16, SFA per head of population in predominantly urban areas at £428 was already 43% higher than in predominantly rural areas (£299). By the end of the settlement period, SFA per head in predominantly urban areas will be 69% higher than in predominantly rural areas- this is grossly unfair.

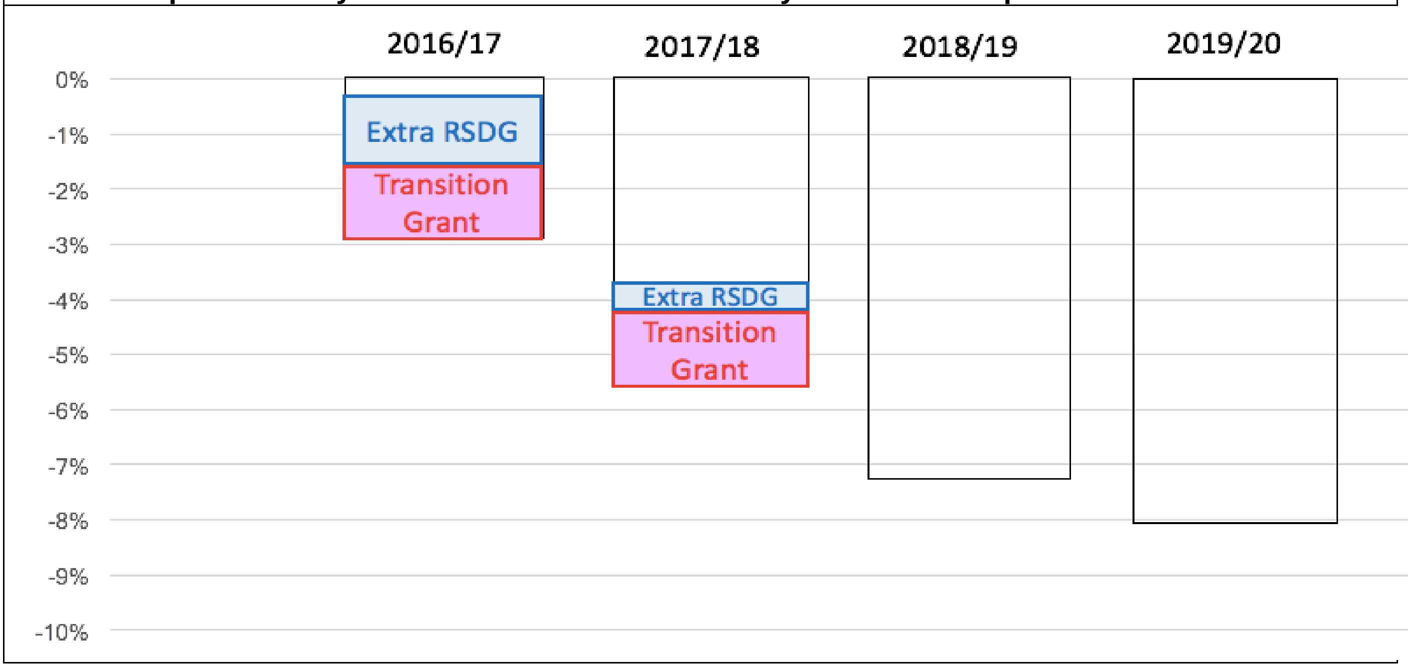
RSN believes that the change in methodology introduced in the 2016/17 settlement and retained in this year's settlement is fundamentally unfair and should be changed.

Indeed, the then Secretary of State, the Right Honourable Greg Clark, recognised the inequity of the formula changes and introduced the Transition Grant as well as a significant one-off increase in Rural Services Delivery Grant. This had the impact of almost equalling the reduction in 'Government Funded Spending Power' between predominantly urban and predominantly rural - but for 2016/17 only.

However, Transition Grant in 2017/18 remains at 2016/17 levels despite a growing gap in RSG/SFA reductions (as shown in the above graphs) before disappearing altogether in 2018/19 and beyond. Additionally, Rural Services Delivery Grant reduces by £15m in 2017/18 when compared with 2016/17. Taken together, this results in an unacceptable widening in the gap in Government Funded Spending Power between predominantly urban and predominantly rural areas.

The graph below shows the significantly diminishing impact of the Transition Grant on the Government Funded Spending Power over the four year settlement period. It clearly shows that the temporary measures introduced in the final settlement of 2016/17 were only sufficient to (almost) close the gap in Government funding in 2016/17.

The Widening Gap in change in Government Funded Spending Power between predominantly urban and predominatly rural authorities over the four year settlement period



The impact of these changes is seen in Council Tax levels which are already significantly higher in rural areas, and are set to increase at an even greater rate due to the Government funding shortfall highlighted above. Indeed, there appears to be a conscious policy decision by the Government that in rural areas Spending Power will be increasingly funded by taxpayers. **In other words, the Government is content for people in rural areas to pay more Council Tax from lower incomes to receive fewer services than their urban counterparts.** This is manifestly unreasonable and grossly unfair. The RSN cannot accept this position

The table below shows the relative gearing between Government Funded Spending Power and Council Tax between predominantly rural and predominantly urban areas over the four year settlement period as a result of the inequitable changes to RSG.

Percentage of Spending Power funded by Council Tax over the four year settlement period					
	2015/16	2016/17	2017/18	2018/19	2019/20
Predominantly Rural	58%	62%	66%	70%	71%
Predominantly Urban	45%	49%	53%	56%	57%

RSN believes that is inequitable that the taxpayer in rural areas, where earnings are, on average significantly lower, should shoulder an ever increasing Council Tax burden to fund local services. The current crisis in funding for Adult (and Children's) Social Care is a national problem which needs new government money – it is wrong to pass that burden on to local council tax payers.

There is some evidence to show a correlation between the relative generosity (or otherwise) of government funding on local council tax decisions. In 2016/17, of 11 upper tier authorities that restricted Council Tax increases to less than 2%, 10 were predominantly urban and none were predominantly rural. Six London Boroughs were able to freeze Council Tax and the Greater London Authority, which enjoys the most generous changes in SFA, reduced their Council Tax by 6%!

The RSN does not believe the Government policy of making greater reductions in Government Funded Spending Power in rural areas is either fair or sustainable and therefore calls on the Government to:

Either

- **Change the formula which calculates RSG reductions to remove Council Tax from the equation so that RSG reductions are at least equal between predominately urban and predominantly rural authorities**

Or

- **Increase Transition Grant and/or so that it fully counteracts against the Government formula for RSG reduction**

Question 2: Do you think the Government should consider transitional measures to limit the impact of reforms to the New Homes Bonus?

Question 3: Do you agree with the Government's proposal to fund the New Homes Bonus in 2017-18 with £1.16 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.5.8?

Question 4: Do you agree with the proposal to provide £240 million in 2017-18 from additional savings resulting from New Homes Bonus reforms to authorities with adult social care responsibilities allocated using the Relative Needs Formula?

RSN is seriously disappointed by the extent of the changes to New Homes Bonus and the variation in the provisional settlement figures compared with those released last year – so much for the four year settlements giving more certainty and clarity over future income streams!

On question 2, we note that the reduction in New Homes Bonus has had a significant impact on Spending Power for some small district authorities – we therefore feel that the Government should, at the very least, consider some form of transitional arrangements. We are also concerned that the changes may have an impact on house building – despite that being a government priority.

We have no firm views with respect to question 3.

On question 4, we feel that the Government should find additional resources to fund social care pressures as opposed to reducing New Homes Bonus and further burdening the taxpayer to fund social care. The issues we highlight below in respect of New Homes Bonus should be addressed through Government funding not re-allocations within the sums set out in the Provisional Settlement.

The changes to New Homes Bonus are a complete volte-face. Most Councils will have constructed their efficiency plans (upon which their acceptance of a four-year settlement was predicated) based on figures published in the February 2016 settlement, including indicative levels of New Homes Bonus. Those indicative levels were meant to reflect the impact of the proposed changes to New Homes Bonus on which DCLG consulted in December 2015. However, barely two months before Councils must set their Council Tax, the Government has announced potential new changes to the New Homes Bonus which are both financially significant for District Councils and substantially different from those reforms on which it had originally consulted. The lack of notice of these new changes would appear to run counter to the principles behind multi-year settlements, i.e. greater funding certainty and clarity over future income streams and sufficient warning to make sensible plans for changes. The original consultation on New Homes Bonus stated that a formal response document would be published within three months of the 10th March 2016 closing date.

The changes effectively redirect money that was intended to act as an incentive to delivering new homes towards propping up the massive pressures in adult social care which, whilst acknowledged, are nothing to do with new homes/delivering growth.

We are very concerned about two things:

1) The fact that the ‘deadweight’ has been increased from 0.25% to 0.4%. The consultation was on the basis of 2.5% and over 80 per cent of responses rejected the proposal. The 0.4% figure has never ever been discussed or consulted upon.
2) The fact that the application of the ‘deadweight’ and the reduction in the payment term from 6 to 5 to 4 years is being applied retrospectively.

It is a fundamental principal of English jurisprudence that new laws should not apply retrospectively. It seems quite iniquitous that local planning authorities were taking difficult decisions back in 2012 to deliver homes on the basis that they would receive six years’ NHB only to now lose a year and so on for each subsequent year. Surely the new arrangements should apply from 2017 – i.e. new homes built post April 2017 receive 5 years’ NHB (with the deadweight), then homes built from 2018 receive 4 years.

When the New Homes Bonus scheme was introduced, it was made clear that it would be a **powerful, transparent, predictable, simple** scheme as a written statement from the Minister introducing the made clear. When Councils were allocated their funding in 2011, 2012 etc. they were told that the sums would be payable for six years and budgeted accordingly. The six years is now being cut retrospectively and the deadweight applied retrospectively also.

Some very rural councils will find it difficult/impossible to grow their property base by more than 0.4% - from 2018/19 they will, under these proposals, get no NHB thereby increasing yet further the urban/rural funding divide.

Question 5: Do you agree with the Government’s proposal to hold back £25 million to fund the business rates safety net in 2017-18, on the basis of the methodology described in paragraph 2.8.2?

We have no firm views with respect to question 5.

Question 6: Do you agree with the methodology for allocating Transition Grant payments in 2017-18?

Yes with some qualification.

The methodology for allocating Transition Grant appears sound.

However, we reiterate the point in our response to question one - Transition Grant and the increase to RSDG was sufficient in 2016/17 to close the gap in changes to RSG opened by the inclusion of Council Tax in the calculation. We feel that this it is inequitable that this had a one year effect only and call on the Government to either change the RSG methodology so that reductions are equal across all authorities or increase Transition Grant to fully meet the shortfall bought about by the changes in RSG calculation.

Question 7: Do you agree with the Government's proposed approach in paragraph 2.10.1 of paying £65 million in 2017-18 to the upper quartile of local authorities based on the super-sparsity indicator?

Yes with some qualification.

Whilst we acknowledge that the Government has increased the value of RSDG since it was introduced, we make the following observations.

- The £65m proposed for 2017/18 is a £15.5m reduction when compared with 2016/17.
- The £65m is still only about half of the amount which was lost to rural authorities to damping in 2013/14. This loss followed changes to sparsity in 2013/14, the majority of which was damped. As 2013/14 was the last year that formula funding was calculated, this damping loss has been suffered in each year since.
- The reduction in Revenue Support Grant national control total between 2015/16 and 2017/18 was 47.6%. However, as the first graph in our response shows, the reduction for Predominantly Rural authorities was 56.9%. In cash terms, therefore, predominantly rural authorities have lost £167m more than they would have if they and urban authorities had suffered equal reductions to RSG. This is £102m greater loss than is being offered in RSDG in 2017/18.
- RSN has long campaigned for the RSDG to be tapered so that all rural authorities (as exemplified in the DCLG Summer 2012 Consultation) receive a contribution towards the additional cost of serving rural areas (the current system only provides funding for top quartile of super sparse authorities). We feel that an increase in RSDG to cover the losses outlined above would facilitate the extension of the grant to all authorities which should have benefitted from the (adopted by Government) 2012 Consultation proposals.

So whilst RSN acknowledges the importance of RSDG, we strongly feel that given the changes to other elements of the settlement, it is imperative that the level of RSDG is significantly increased and that the qualification criteria are changed to extend some level of support to all authorities with significant levels of sparsity.

Question 8: Do you have any comments on the impact of the 2017-18 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.

We have no firm view views with respect to question 8.