

Rural Service Network (RSN)

Needs Review

Introduction

1. The Government is reviewing the needs allocation within the overall local government finance system. It is not clear how any changes in needs allocations will be handled within the proposed fixed settlements, which are expected to last until at least 2018-19.
2. RSN's objective will be to increase the weighting of the sparsity elements within the current funding formulae, and to defend what is already there. Our judgement is that funding for super-sparsity is possibly most at risk – it is funded within the formula itself and now through the Rural Services Delivery Grant, which is very highly geared to super-sparsity.
3. The review itself is starting within the Department and it is important for rural authorities to get involved and to put the case for funding for sparsity.
4. Although RSG has almost disappeared by 2019-20, needs allocations still matter. Top-ups and tariffs are calculated using both funding and needs targets, and changes in one or both result in changes to top-ups and tariffs. This moves money between local authorities and around the country.
5. In this note we look at the background to funding for sparsity in the formulae, the changes that were made in 2013-14 (and not fully implemented), and the options that rural authorities could press for in the coming months.

Sparsity allocation prior to 2013-14

6. Sparsity has been used as a proxy for rurality and “need” in rural areas.
7. Prior to 2013-14, sparsity was used in the following parts of the settlement. These were:
 - Local authority central education functions. Sparsity factor applied only to resident pupils. The sparsity factor accounted for some 38% of the resident pupil element before ACA and fixed costs, and some 23% of the whole block (i.e. including both resident pupils and pupils).
 - Older people PSS. Sparsity applied to the whole block. It was one of the top-ups alongside age top-up, low income adjustment and deprivation top-up.
 - District Level EPCS. Sparsity is the largest top-up in the block, accounting for some 23% of the funding in the block.
8. Different measures of sparsity are used in the settlement:
 - Ward sparsity. This was used for local authority central education functions. Proportion of the resident population living in wards with less than 0.5 residents per hectare and between 0.5 and 4 per hectare. The former is given a weighting of 3.5 and the latter a weighting of 1.
 - Sparsity adjustment for people aged 65 and over. This was used in the older people PSS formula. Proportion of the population aged 65 and over living in super-output areas with

0.08 people per hectare and between 0.08 and 0.64 per hectare. The former was given a weighting of 2 and the latter a weighting of 1.

- Population sparsity. This was used in the District Level EPCS formula and in the Police formula. Proportion of the resident population living in output areas with less than 0.5 people per hectare and 0.5 to 4 people per hectare. The former had a weighting of 2 and the latter of 1.
9. The key difference between the measures is essentially at what level sparsity is measured: ward, output or super-output level. Super-output level, for instance, focuses only on those small areas that are the most sparsely populated, whereas ward sparsity is a more generalised measure of sparsity.
- 78 local authorities are above the threshold for sparsity based on wards.
 - 125 local authorities are above the threshold for sparsity based on super-output areas.
 - 421 local authorities and police authorities are above the threshold for the output based measure of sparsity. This includes shire districts as well as upper tier and police authorities.
10. Because of where the thresholds have been set on each measure, the super-output area measure has the fewest local authorities and the output area measure has the most (even including some inner London boroughs).

Changes to sparsity in 2013-14

11. Following on from technical consultation in July 2012, the Government made a number of changes in the 2013/14 settlement which increased the sparsity weighting in the needs formula. These changes redistributed significant levels of funding to rural authorities but the majority of this funding was subjected to the damping mechanism. Moreover, as the formula was frozen from this point, to allow for the new localised business rates system, the damping has not been unwound and the 2013/14 losses were repeated in subsequent years.
12. In 2013/14, damping redistributed £130m from shire authorities (and £50m from Met authorities) to London authorities. This meant that, in most cases, three quarters of the additional needs gains associated with increased sparsity weightings were lost to damping. In fact, due to other technical changes, the gap in Government funding per head between predominantly rural and predominantly urban authorities actually increased.

Funding for sparsity in the funding formulae

13. The main objective in the forthcoming needs review will be to make a strong technical case for the additional and higher costs for service provision. Much of the groundwork has already been done. The evidence for higher rural costs is broad rather than deep: in other words, there are lots of examples of higher costs in rural areas, but not a lot of robust financial data proving that those costs are significant.
14. The review of needs within the local government funding settlement was launched on 12 April 2016. A technical working group has been set up to review needs. It is likely to make an initial report in the Summer 2016, but it is likely to undertake considerably more work over the coming years.
15. We explored three ideas that RSN SPARSE could develop further in order to help make a strong technical case. These ideas are not mutually exclusive, although they will not necessarily have the same impact on overall funding levels or distribution between SPARSE members.
 - **Additional weighting for sparsity-related indicators within the formulae.** This is essentially building on the research that has been undertaken over recent years, and building up a stronger evidence base.
 - **Dispersal and peripherality.** There is scope to support indicators beyond the existing sparsity measures, which are based on population density (i.e. population per hectare). This could include population dispersal and peripherality. The danger for RSN is that these measures tend to favour the most sparsely populated areas. So there might be winners and losers from within the SPARSE membership from this approach.
 - **Further remove the link between past spending patterns and funding.** RSN can also challenge the overall structure of the funding system and how this could benefit rural authorities. Flat funding with top-ups, for instance, will tend to favour rural authorities.

Additional weighting for sparsity-related indicators within the formulae.

16. There is now a considerable weight of research on the additional and higher costs of providing services in rural authorities. LG Futures produced a comprehensive report on the research that is available:
(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388587/Rural_summary_report.pdf).
17. In addition in 2010 LG Futures carried out a study of rural premium costs on behalf of the RSN which formed the evidence base for DCLG to make the changes in sparsity weighting in 2013
18. Research has shown higher costs arise in rural areas from longer travel times, higher travel costs, diseconomies of scale, and lack of alternative services. Research has also shown that there is unmet need in rural areas, and that rural authorities have to put in place alternative service delivery models to overcome issues of rurality, rural deprivation and the impact of cost pressures. Evidence of higher costs has been found in the following services:
 - Waste collection and disposal.
 - Domiciliary care and residential care.
 - Parking and other income generating services.
 - Regulatory services, including trading standards, environmental protection and licensing.
 - Fire and rescue operations.
19. Work has been undertaken by RSN in three local authorities, West Devon and Torridge districts in Devon and Northumberland Unitary, on the relative costs of waste collection between rural and more urban settings within each authority. In all three authorities, RSN was able to show a statistically significant relationship between cost per dwelling and sparsity. In each authority, it was possible to calculate the significant additional cost to the authority of waste collection from its more sparsely populated areas.
20. There is scope for further work and research which could bolster the case for funding for sparsity:
 - Increased sample sizes in future research, including more participation from urban authorities. More opportunity with independent or government-led needs assessment. Will take time.
 - Detailed work at individual authorities, particularly case studies with specific costing and “time and motion”-type studies.
 - Activity levels at sub-authority level. E.g. lower-super output layer – comparing costs and activities for small areas. The idea is to eliminate the authority-level policy choices and see how resources are consumed within an authority area. Used to create the current personal social services formulae.

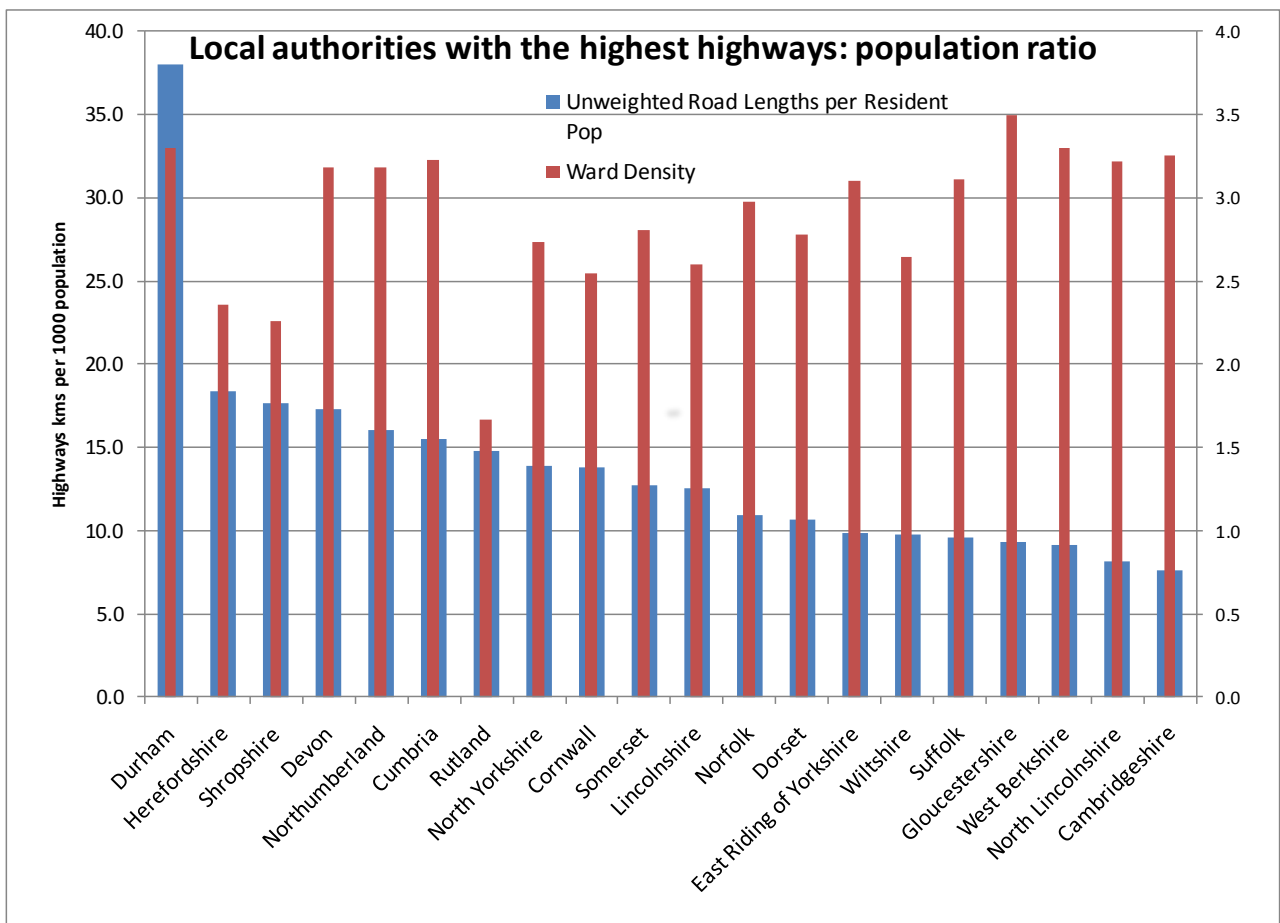
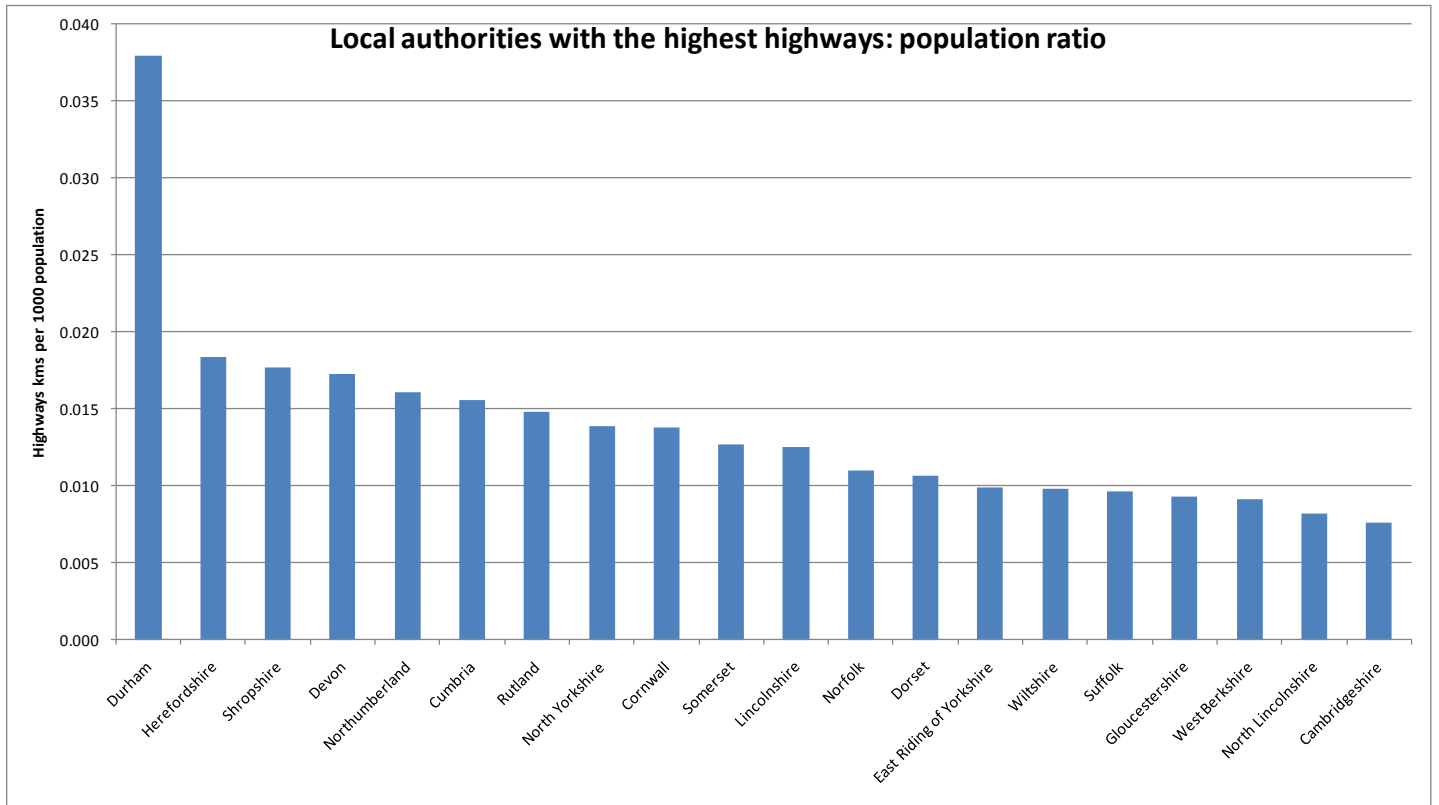
Dispersal and peripherality.

21. These two concepts are concerned with the distribution and remoteness of population rather than simply looking at the average density – or sparsity – of population in a local authority. Dispersal describes the distribution of population within an area, for instance whether the population is located in numerous small settlements. Peripherality describes the distance that people are from population centres. Peripherality is relevant both within a local authority area (distance of small settlement to a local population centre) and at a national level (distance of a local authority from major population centres or transport links).
22. There are threats and opportunities for rural authorities in pursuing these two concepts. The opportunity is that it helps to explain the additional rural costs because it clearly shows how distance from population centres can drive costs, rather than straightforward sparsity. The threat is that it distributes additional resources for rural authorities in a different way from the current sparsity measures.
23. The Scottish Executive’s “Fair Shares for All” report recommended using a rurality measure reflecting population dispersal to fund health services in Scotland. A number of measures of rurality were considered including arithmetic and geometric measures of population density (or sparsity) as well as other indicators of remoteness (e.g. the average number of road kilometres per head of population).
24. The average number of road kilometres per 1,000 population is potentially a viable alternative/complementary indicator of population dispersal. We have calculated the indicator for sparse English authorities and compared the score to those published for Scottish areas. (Road length data is not available for district councils.) Although the data indicates that rural Scottish areas are actually significantly more sparsely populated than their counterparts in England, the indicator is still viable in England. Almost all the most sparsely populated English local authorities are the in 10-20 kms per 1,000 population category.¹

	Scotland	England
> 40kms per 1,000 population	Islands Health Board	
30-40 kms per 1,000 population	Borders, Dumfries & Galloway, Highland	Durham
20-30 kms per 1,000 population		
10-20 kms per 1,000 population	Argyle & Clyde, Grampian, Tayside	Herefordshire, Shropshire, Devon, Northumberland, Cumbria, Rutland, North Yorkshire, Cornwall, Somerset, Lincolnshire, Norfolk, Dorset

¹ Data on road length for districts is not available. However, as an illustration, within Cumbria, Eden would be in the 30-40kms group (similar to Durham), and Allerdale, Carlisle and South Lakeland would be in the 10-20kms group.

25. The Scottish Fair Shares formula gives a maximum uplift of 25% to the Island authorities. The uplift for the next most sparsely populated areas – Borders, Dumfries & Galloway and Highland – ranges between 8% and 14%. However, the areas that have similar levels of sparsity to the most-sparse English local authorities receive very small uplifts. Argyle & Clyde receives an uplift of less than 1%, Grampian receives an uplift of some 3% and Tayside receives less than 1%. This suggests that although sparsity is a very important factor in the cost of providing public services, it is only material in areas that are much more sparsely populated than even the most-sparse parts of England. It will therefore be a challenge to argue and to prove that there are parts of England that have that intensity of need, although a generalised uplift of funding of 1-3% would still be welcome.
26. Durham appears to be an outlier with by far the highest length of road to population ratio, and this perhaps gives us an indication of how sparsity and this particular measure of sparsity could be used. Durham does not have a particularly high sparsity indicator based on population density. This might indicate that a county like Durham has very dispersed small populations that are difficult – and therefore – costly to serve, even if very few people live there.
27. The Scottish model distinguishes between rural and remote areas. The latter would include Cornwall, Cumbria, Northumberland, the Pennines, North Yorkshire and East Anglia. These places have similar issues of remoteness and peripherality in addition to those of rurality. The report also looked at the proportion of people living in communities of less than 500. It is the distribution of people rather than just averages which makes a difference.
28. The chart below shows the range of values for the road kms/ head and the ward population density measure used in the settlement. Road kms/ head is much more sensitive to remoteness than the population density measures, which tend to level up those counties with moderate sparsity and general rurality issues. For those with the greatest remoteness within their borders, it makes sense to focus on road kms/ head. There may be areas within counties which have the same issues of remoteness but where the county average shows a lower road kms/ head. An example of this is parts of East Anglia.



29. There are potentially alternative approaches to measuring peripheralality. Measures could show the distance from say motorway links or major urban population centres. There is no indicator that we are aware of that could readily show this, although one could be available. However, a proxy for this could be Overnight Visitors. The logic for using this measure is that visitors to peripheral areas of the country will stay overnight rather than making a day-trip. Day visitors are already included in the EPCS formula.
30. Those authorities gaining from the use of Overnight Visitors would include: Cornwall, Cumbria, Devon, Dorset, Isle of Wight, and the Isles of Scilly. Other gainers would be some seaside areas (Torbay, Blackpool) and some central London locations (Kensington & Chelsea).

Further remove the link between past spending patterns and funding.

31. Historically funding allocations have been linked to spending patterns. This tended to perpetuate higher levels of spending (often in urban and high-need areas) and to provide perverse incentives to increase spending.
32. The more recent changes to needs allocations have tried to break this link and to use funding allocations based on other assessments of need. Some elements of the formulae are based on judgement (e.g. EPCS formulae implemented in 2002) and multi-level modelling, which looks at spending patterns within an authority (e.g. Personal Social Services, 2005).
33. It benefits rural authorities to remove or weaken the link with past spending because urban authorities have historically spent more than rural authorities.
34. A radical way of breaking the link with past spending patterns is to base funding on a basic amount and then to have specific add-ons for needs. Sparsity could then be a specific top-up in addition to the basic rate. This is similar to the approach DfE is taking on schools funding (<http://www.theguardian.com/education/2015/nov/21/george-osborne-end-arbitrary-unfair-school-funding-formula>).