



AGENDA
SPARSE RURAL Sub SIG

Venue:- City of Westminster Archives Centre, 10 St Ann's Street, London SW1P 2DE

Date: Monday 29th January 2018

Time: 1.00 pm to 3.30 pm

Please note change of venue

The meeting is being held at the City of Westminster Archives, 10 St Ann's St, Westminster, London SW1P 2DE. Visitor information and a map for the venue can be found in the links below:

[City of Westminster Archives Centre Visitor Information](#)

[City of Westminster Archives Centre Map](#)

1. Apologies for absence
2. To confirm the minutes of the last meeting (Appendix A) held on the 20th November 2017 and to discuss any matters arising.
3. To receive the minutes of the Executive Meeting held on the 15th of January (Appendix B - to follow) and to discuss any matters arising.
4. PROVISIONAL FINANCE SETTLEMENT 2018/19: To receive (and discuss if required) the RSN response to the consultation (Appendix C) [Members were consulted on a draft response earlier this month]
5. FAIR FUNDING REVIEW: A Review of Relative Needs and Resources: DCLG Technical Consultation on Relative Need.

A link to the DCLG Consultation document is here

<https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources>

The Consultation Questions are attached (Appendix D)

Pixel Consulting have been asked to prepare an "initial thoughts paper" (Appendix E)

6. Any other business

Note of last SPARSE Rural Special Interest Group meeting

Title: Rural Services Network Special Interest Group

AGM Meetings:

- **SPARSE Rural Sub SIG**
- **Rural Services Partnership Limited**
- **Rural Services Network**

Date: Monday 20 November 2017

Venue: The Westminster Archives, London

Attendance

An attendance list is attached as **Appendix A** to this note.

Item	Decisions and actions
------	-----------------------

1 Apologies for absence

The Chair, Cllr Cecilia Motley welcomed members and noted apologies.

2 Minutes of the Previous meeting

The minutes from the last RSN AGM held on 21st November, 2016 were received and approved.

3 Appointment of Chairman for the ensuing year (to also be the Chair of the SPARSE-Rural sub-sig) [Present Chair Councillor Cecilia Motley]

Nominations for the existing Chair to continue in her position were accepted.

4 Appointment of Vice Chairmen for the ensuing year (to also be the Vice-Chairmen of the SPARSE-Rural sub-sig).

Nominations for the current, First Vice-Chair and all other Vice-Chairs to continue in position were supported. Members expressed their gratitude for all his work having noted that Cllr Strange had recently stood down from the Group. One vacancy was reported for a unitary council vice chair representative and Cllr Rob Waltham, North Lincolnshire volunteered for the position. This was agreed by members.

5 IF DEEMED NECESSARY AND BENEFICIAL. To appoint a Chair and Vice Chair(s) of the RURAL ASSEMBLY SUB-SIG

It was agreed that both would remain the same.

6 Next Meeting

Members noted the date for the next RSN AGM being 12th November, 2018.

7 Minutes of the last full meeting – 10th April 2017S

The Minutes of the last full meeting of the group were received and approved.

8 Minutes of the last Executive meeting – 25th September 2017

Members noted the minutes and the attached reports on (a) future fees levels (b) the Forward Budget and (c) Regional Meetings and Seminars.

Action:

The minutes and the recommendations in those Minutes and the reports referred to be approved.

The Chairman invited any members who had any concerns or issues to raise in respect of any of these matters to forward them to David Inman for consideration by the Executive at its January meeting.

9 Membership (Constitutional Requirement)

Members noted the membership report from David Inman.

He outlined difficulties in retention and recruitment saying that membership was falling. Referring members to the benefits of being part of the Group, he stated that without its existence, rural matters would be very exposed and under-discussed. It was vital in taking forward important rural issues and the group agreed to encourage others to join and stick together.

Members noted details of the constitutional notice (being the same as required by the LGA) – but they expressed their worries that authorities see it as a discretionary service and might therefore withdraw their membership. This of course would impact themselves and their residents and therefore it was vital to hold the SIG together.

Action:

Members spread benefits of membership to peer councils as they see fit.

10 Budget 2017/18 and 2018/19 (Constitutional Requirement)

Members noted the current budget report which showed a positive balance being carried forward, despite some subscriptions still outstanding. Estimates will be taken to the January meeting for the Executive to agree and to determine the budget for following year.

11 Brexit Rural Roundtable: Outcome from Meeting 2

Graham Biggs outlined short-term priorities as agreed by participants at the recent Brexit Rural Roundtable discussion. It was intended that a discussion would take place with the LGA and members noted that work around the review of the previous Rural White Paper had already been commissioned. Once priorities for discussion had been set, another meeting of the roundtable will be called.

12 RSN “So What Survey” agreed at the last meeting - Analysis Note

Members received a presentation from Brian Wilson on the Survey of RSN local authorities to test findings in the State of Rural Services 2016 report.

He outlined the work which covered nine different service areas. (Full info and the report are available on RSN's website). LAs had been asked to respond to the findings and he summarised the results of this consultation on the report. Overall, the general agreement was to headline key findings.

Members noted the conclusions of the survey. It was clear that the impact was the greatest concern for certain groups and they agreed that local community action needed support to enable and sustain it either via grants or direct funding.

Member comments included the following:

- Some problems are being created by not supporting current services and there needs to be alternative ways of accessing these – there is too much reliance on the same volunteers;
- Young adults and transport – does it include the fact that grants for disenfranchised young people had been taken away – subsidies have also been removed;
- If there are alternatives such as online banking – we should leave these out as it is vital to prioritise the work of RSN and instead, look at situations where there is no alternative available at all.
- Provision for 6th form students in rural areas is lacking - there is not enough demand to warrant 6th forms in many areas and so those that need it are having to travel much further.

Members noted the presentation and the Chairman thanked Mr Wilson for details of his study.

Action:

Presentation to be made available on RSN's website.

13 Presentation by Neil Parish MP, Chair of the EFRA Select Committee and Member of Parliament for Tiverton and Honiton on the work of the EFRA Select Committee

The Chair welcomed Neil Parish MP, Chair of EFRA Select Committee and MP for Tiverton and Honiton.

Mr Parish outlined the work of the Select Committee, including looking at issues around Europe and putting various scenarios together to try and predict what may happen post Brexit. He acknowledged differences between figures around urban and rural areas and in particular being conscious of different needs such as farming. Members were invited to provide input for him to take forward.

Comments included:

- Had the issue of rural-proofing and rural weighting been recognised – Mr Parish MP agreed that to look into what has happened to it.
- Were any thoughts being given to overseeing environment improvement and development? The Minister acknowledged the importance of encouraging engagement with farmers and he hoped that the 25 year environment plan would work alongside farming and food.
- It was important to keep RDPE Programme type activity continuing, although Members realised that its benefits must be justified in order for this to be assured. Mr Parish stated that nothing should be taken for granted but that he

would endeavour to ensure this;

- Many market towns are struggling and for a lot of rural areas their existence is very important. Members asked whether something might be done at a national level to help them survive. Mr Parish said that he would try and incorporate this into the Select Committee's activity;
- The group mentioned that they would like to see a wider agenda to include better planning on sustainability and ways of enlisting farmers to get involved. Certainty was needed in terms of agricultural payment bills and was affecting confidence to invest;
- Difficult issues around planning permission needs addressing as current rulings interfere with developments. Mr Parish responded that strict control of the number of sites must be met to allow building with restrictions.

Cllr Motley thanked him for his time and an interesting discussion.

Action:

Chair to write to Neil Parish MP asking him to look into the issues raised.

14 Urban and Rural Dementia Challenges and Solutions

Members then moved onto the affairs of the Rural Assembly beginning with item 14 and the Chair introduced Ian Sherriff, Academic Partnership Lead for Dementia Primary Care Group.

Members received a presentation which explored problems around dementia, noting current statistics.

Key points in the presentation included:

- Challenges around funding and increase in elderly population;
- Prevalent figures around abuse and neglect;
- Numbers of unpaid and under supported carers whose needs are not being met;
- Worrying evidence that diagnosis is occurring at a younger age;
- Research shows dementia is most severe in rural areas and that social isolation and loneliness can lead to the illness;
- Caring is key and involvement of the public.

Mr Sherriff outlined possible solutions, including the importance of integration. Members heard about how the Group collaborates with key organisations to encourage this and they noted existing systems which assist, for example using GPs and monitoring systems to ensure peoples safety.

Action:

Details of data and presentation are available on the RSN website.

15 Rural Conference 2017

Apologies were received from Kerry Booth.

Members noted the presentation which headlined the following information:

- 71 % of attendees were from member authorities – the rest from other organisations.

- 8% of attendees were from government departments.
- Feedback included support of the location, more informal networking and interaction opportunities and more workshops; less political content as it came across as having political agendas.

Mr Biggs agreed that these comments would be addressed in order to work out the format for the next conference. Members noted that the date would follow in due course.

Action:

Slides to be made available on RSN's website.

16 Sounding Board Survey

Mr Biggs stated that the next Sounding Board Survey would be in respect of Affordable Housing issues.

17 Meeting Dates for 2018

Members noted meeting dates for 2018 and were informed that most of these would take place back at the LGA, 18 Smith Square. The next meeting on 29 January however will take place at Westminster Archive, Centre.

The full list of dates and venues for 2018 is as follows:-

Schedule of RSN Executive Meeting Dates and Venues 2018

Date	Meeting	Venue
Monday 15th January	RSN Executive	Eaton Room, LGA, Smith Square, London
Monday 5th March	RSN Executive	Smith Square 1, LGA, Smith Square, London
Monday 11th June	RSN Executive	Eaton Room, LGA, Smith Square, London
Monday 24th September	RSN Executive (also RSP Ltd Board of Directors)	City of Westminster Archives Centre, London

Schedule of Main Meeting Dates and Venues 2018

Date	Meeting	Venue
Monday 29th January	SPARSE Rural Sub SIG	City of Westminster Archives Centre, London
Monday 9th April	Rural Social Care & Health Group & Rural Assembly Sub SIG	Smith Square 1 & 2, LGA, Smith Square, London
Monday 25th June	SPARSE Rural Sub SIG	Smith Square 1 & 2, LGA, Smith Square, London
Monday 12th November	AGM meetings	City of Westminster Archives Centre, London

18 Any Other Business

A member suggestion that the radio programme – the Archers - be approached to include reference to rural issues as a key platform attracting many listeners.

There was no other business.

Attendance:

Cecilia Motley – Chair RSN
Graham Biggs – Chief Executive, RSN
David Inman – Corporate Director, RSN
Andy Dean - RSN
Cllr Les Kew – Bath & NE Somerset Council
Cllr Peter Wilding – Chichester DC
Paul Over – Chichester DC
Cllr Paul Diviani – East Devon DC
Cllr Craig Leyland – East Lindsey DC
Cllr Wendy Bowkett – East Lindsey DC
Pam Howard – Housing Services, English Rural Housing
Cllr Rob Waltham – North Lincolnshire Council
Cllr Tom Fitzpatrick – North Norfolk DC
Cllr Robert Heseltine – North Yorkshire CC
Cllr Yvonne Peacock – Richmondshire DC
Jeremy Savage – South Norfolk DC
Cllr Peter Stevens – St Edmundsbury BC
Cllr Cameron Clark – Sevenoaks DC
Cllr Michael Hicks – South Hams DC
Cllr Gwilym Butler – Shropshire Council
Frances Bedding – Head of External Funding, Suffolk CC
Cllr Philip Sanders – West Devon BC
Cllr Owen Brierley – West Lindsey DC
Cllr Mrs Sheila Bibb – West Lindsey DC
Ian Knowles – West Lindsey DC
Ian Sherriff – Plymouth
Lee Chapman – Shropshire Council
Revd. Richard Kirlew – Chair RSP
Cllr Rupert Reichhold – ENDC
Peter Thornton – South Lakeland / Cumbria CC
Sue Sanderson – Cumbria CC
Malcolm Leading – Oxfordshire Association of Local Councils
Cllr Jane Mortimer – Scarborough BC
Cllr Lindsey Cawren – North Kesteven DC
Cllr Derrick Haley – Mid Suffolk DC

Apologies for Discussion on Rural Social Care and Health Group

Kerry Booth – Assistant Chief Executive, RSN
Cllr Cameron Clark – Sevenoaks District Council
Cllr Adam Paynter – Cornwall Council
Cllr Colin Morgan – Daventry District Council
Cllr Roy Miller – Barnsley MBC
Tom Crowley, Chief Executive – Horsham District Council
Ian Richardson, Chief Executive – Shropshire Rural Housing Association Ltd
Cllr Samantha Dixon – Cheshire West and Cheshire Council
Cllr Mrs Geraldine Carter – Calderdale MBC
Cllr Louise Gittins – Cheshire West and Cheshire Council
Cllr Kevin Beaty, Leader – Eden District Council
Georgina Fung, Head of National Programmes – UK Youth
Cllr Ian Hudspeth – Oxfordshire County Council
Cllr Julian German – Cornwall Council
Cllr Stephen Arnold – Ryedale District Council
Simon Riley, Head of Finance – Harborough District Council
Cllr Jean Wharmby, Cabinet Member for Adult Care – Derbyshire County Council
Cllr Carol Hart, Cabinet Member for Health & Communities – Derbyshire County Council
John Birtwistle – Head of Policy (UK Bus)
Cllr John Barrott – Warwick District Council
Cllr Sue Woolley, Executive Member NHS Liaison – Lincolnshire County Council
Cllr Polly Andrews, Chairman of Adults & Wellbeing Scrutiny Committee – Herefordshire Council
Cllr Adrian Davis, Lead Member for Adults – Council of Isles of Scilly
Cllr Adrian Hardman, Member for Adult Social Care – Worcestershire County Council
Cllr Sally Hawken, Portfolio Holder for Children & Wellbeing – Cornwall Council
Cllr Izzi Seccombe OBE, Health & Wellbeing Board Chair – Warwickshire County Council
Cllr Ernie White, Lead Member for Health - Leicestershire County Council
Cllr Les Caborn, Portfolio Holder for Adult Social Care & Health – Warwickshire County Council
Cllr Dawn Payne, Portfolio Holder for Adult Social Services – North Somerset Council
Cllr Sylvia Hughes, Cabinet Member for Public Health & Wellbeing – Northamptonshire County Council
Cllr Amanda Jupp, Cabinet Member for Adults & Health – West Sussex County Council
Cllr Shaun Turner, Cabinet Member for Health & Wellbeing – Lancashire County Council
Cllr Carol Hart, Cabinet Member for Health & Communities – Derbyshire County Council
Cllr Andrew Leadbetter, Cabinet Member Adult Social Care & Health Services – Devon County Council
Cllr Lawrie Stratford, Cabinet Member for Adult Social Care – Oxfordshire County Council
Cllr Paul Rone, Cabinet Member Health & Wellbeing – Herefordshire Council
Cllr John Spence CBE, Cabinet Member for Health & Adult Social Care – Essex County Council
Cllr Graham Gooch, Cabinet Member for Adult Services – Lancashire County Council
Cllr Liz Fairhurst, Health & Wellbeing Board Chair – Hampshire County Council
Elaine O’Leary, Chief Executive – Northamptonshire ACRE
Gary Powell, Community Projects Officer – Teignbridge District Council

Apologies for RSP AGM – 20th November 2017

Ian Richardson, Chief Executive – Shropshire Rural Housing Association Ltd
Georgina Fung, Head of National Programmes – UK Youth
Erin Mee, Policy & Research Officer – Age UK
Peter Shipp, Executive Chairman – EYMS Group Ltd
Helena Cox, Senior Advisor Democratic Services – West Sussex Fire & Rescue

Apologies List for RSN AGM – 20th November 2017

Kerry Booth – Assistant Chief Executive, RSN
Cllr Adam Paynter – Cornwall Council
Cllr Julian German – Cornwall Council
Cllr John Williams – Taunton Deane Borough Council
Cllr Dr Ken Pollock – Worcestershire County Council
Cllr Mrs Geraldine Carter – Calderdale MBC
Cllr Michael Cooper – Boston Borough Council
Cllr Colin Morgan – Daventry District Council
Cllr Roy Miller – Barnsley MBC
Tom Crowley, Chief Executive – Horsham District Council
Ian Richardson, Chief Executive – Shropshire Rural Housing Association Ltd
Cllr Samantha Dixon – Cheshire West and Cheshire Council
Cllr Louise Gittins – Cheshire West and Cheshire Council
Cllr Kevin Beaty, Leader – Eden District Council
Georgina Fung, Head of National Programmes – UK Youth
Cllr Ian Hudspeth – Oxfordshire County Council
Cllr Julian German – Cornwall Council
Cllr Stephen Arnold – Ryedale District Council
Simon Riley, Head of Finance – Harborough District Council
Erin Mee, Policy & Research Officer – Age UK
Peter Shipp, Executive Chairman – EYMS Group Ltd
Cllr John Clarke – Gedling Borough Council
Cllr Gonzalez De Savage – Northamptonshire County Council
Cllr John Barrott – Warwick District Council
Cllr Tony Miller – Worcestershire County Council
Cllr Brian Long – Borough Council of King's Lynn & West Norfolk
Cllr Mark Whittington – Lincolnshire County Council
Helena Cox, Senior Advisor Democratic Services – West Sussex Fire & Rescue
Martin Flitcroft, Finance Manager – Teignbridge District Council
Cllr Leigh Higgins – Melton Borough Council

This is the response of the Rural Services Network/SPARSE-Rural to the Government's Consultation on the Local Government Provisional Settlement for 2018/19. 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.

Early in 2016 a delegation from the Rural Services Network (RSN) met the then Local Government Minister, Marcus Jones MP to discuss what were, from our perspective, devastating proposals set out in the 2016/17 - Four Year Provisional Settlement. The government accepted the validity of our arguments as, following protests from a significant number of rural MPs, the Final Settlement was improved temporarily by the addition of Transition Grant. However, as we said in our discussions with the Minister in 2017 the Transition Grant was always going to be no more than a sticking plaster. The 2018/19 Provisional Settlement shows – just as we demonstrated last year - that with Transition Grant coming to an end from 2018/19, the 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 (with the Transition Grant in place) - the axe has fallen reasonably equitably across both rural and urban areas. Under the original Four-Year Final Local Government Settlement rural areas are set to lose over 31% of their central Government funding, whilst urban areas will lose just 22%. The Provisional Settlement just announced, seeks to implement the third year of the Four-Year Settlement and makes it even worse in 2018/19 than it was in 2017/18.

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 once again take for granted that rural residents will have to pay even more in council tax than their urban counterparts. That gross unfairness has undoubtedly contributed to the present clear disaffection between rural residents and Westminster.

In a letter to Marcus Jones MP ahead of the 2017/18 Provisional Settlement announcement, the RSN stated: "Once the Transition 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 remain of that view.

We pleaded then with government to extend the Transition Grant through to the end of the Four-Year Settlement period - a plea which has clearly fallen on deaf ears despite the delayed programme for introducing the Fairer Funding Review proposal. **Unfair, unjust and totally unacceptable sums up our feelings.**

As alluded to above, 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. In addition, according to recent research, rural residents pay some £3000 more per annum for essentials than their urban counterparts.

Rural areas also have significantly larger older populations. Over the next few 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 too 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.**

Any damping arrangements for the introduction of new formulae following the Fairer Funding Review must not perpetuate the unfairness by protecting those authorities at the levels of grant received but should be based on the funding they should have received had the present formula been introduced without damping.

Whilst increased funding for Adult Social Care is much needed, the amounts proposed in the Provisional Settlement will, once again, 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. Until this long term national issue is resolved nationally its immediate impact 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 past the Government made much of the issues facing the so call JAMs (those families Just About Managing). All of us, including JAMS, have to pay Council Tax and, especially in rural areas, these proposals will hit JAMS hard in their purses and wallets.

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. However, yet again the Government's policy to make rural residents pay for services through Council Tax rears its head. The inclusion of the Council Tax flexibility in the IBCF calculations means that once more rural residents are forced to contribute more to pressures which the Government is funding in urban areas. The use of the Social Care Relative Needs Formula, frozen in 2013/14, in the Better Care Fund means that social care authorities serving rural areas are not being recompensed for the significant growth in their older population -or indeed the greater costs of meeting those needs. Moreover, much of the funding raised through the social care precept has been absorbed by the introduction of the National Living Wage

Taking these things together, it is not surprising that, yet again, more government grant per head goes to urban areas per capita. In 2019/20, the average predominantly urban resident will attract £37.74 per head in Improved Better Care Funding, £8.20 per head more than rural residents per head (of £29.54). This difference is double the amount being paid to rural authorities in Rural Services Delivery Grant.

There is no relationship between the numbers of people requiring social care and either 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.

There appears to be a clear anomaly facing those Councils (urban and rural) having to meet the needs of Internal Drainage Boards. Those Councils have no control over that expenditure – which is increasing due to inflation. They therefore have to reduce their own service etc. costs to an even greater extent to compensate. This needs to be rectified.

The Government must think again on all these issues of fundamental unfairness and discrimination against rural residents. It must begin **now** to correct the current bias in funding allocations towards residents living in urban and built up areas at the expense of rural residents

RESPONSES TO CONSULTATION QUESTIONS

Question 1: Do you agree with the methodology for allocating Revenue Support Grant in 2018-- 19?

No

The RSN has always recognised the commitment and stability offered by a four-year finance deal. However, the RSN has also always made it clear that it would be the minimum level of funding. The funding in the 2018/19 Provisional Settlement is demonstrably insufficient to meet current and future demand for the essential services provided by local government in rural areas.

The 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 reductions highlighted in this response were made to a starting position which was already inequitable. In 2015/16, SFA per head of population in predominantly urban areas at circa £428 was already some 43% higher than in predominantly rural areas of circa £299). By the end of the settlement period, SFA per head in predominantly urban areas will reduce by just 30.79% compared to a reduction of 41.25% in predominantly rural areas- **this is grossly unfair.**

RSN continues to believe that the change in methodology introduced in the 2016/17 settlement and retained in the 2018/19 Provisional 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 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 areas - but for 2016/17 only.

In introducing Transitional Relief, the then Secretary of State told Parliament that its purpose was “to ease the change from a system based on central government grant to one in which local sources determine a council’s revenue”. Given the delays now announced in introducing a new Fairer Funding formula and Business Rates Retention (by the sector) now being 75% rather than 100% there is a clear need for the Government to consider **increasing and extending** transitional grant for the remaining two years of the four-year settlement

With Transition Grant disappearing in 2018/19 Government Funded Spending Power (which excludes Council Tax) in Predominantly Urban Areas will be £371.91 per head (down 5.76% on 2017/18). By comparison, in Predominantly Rural Areas, Government Funded Spending Power will be £249.03 per head (down 9.57% on 2017/18). Thus, there is, once again, an unacceptable widening in the gap in Government Funded Spending Power between predominantly urban and predominantly rural areas.

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.

Council Tax per head (as reflected in the Provisional Settlement) in 2018/19 is £541.46 for Predominantly Rural Areas compared to £450.58 in Predominantly Urban Areas. The gap is a completely unfair, and unacceptable, (circa) £91 per head.

The Provisional Settlement re-enforces the view that there appears to be a conscious policy decision by the Government that in rural areas Spending Power will be increasingly funded by council - taxpayers. **In other words, the Government is content for people in rural areas to pay more Council Tax from lower incomes and yet 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%	69%	71%
Predominantly Urban	45%	49%	53%	55%	57%

RSN believes that is inequitable that the taxpayer in rural areas, where earnings are, on average significantly lower and the costs of “essentials” significantly higher, 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, once again, 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

- **Re-introduce and extend Transition Grant so that it fully counteracts against the Government formula for RSG reduction in rural areas**

Question 2: Do you agree with the Government's proposal to fund the New Homes Bonus in 2018-19 with £900 million from Revenues Support Grant and any additional funding being secured from departmental budgets?

We have no firm views with respect to question 2. However, we continue to point out that 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.

The RSN supports the decision not to implement any of the further possible changes which the Government consulted on to the way that NHB is calculated

Question 3: Do you agree with the Government's proposal of paying £65 million in 2018 -19 to the upper quartile of local authorities based on the super-sparsity indicator?

RSN supports the decision to increase the funding allocated through RSDG, but in cash terms it is very small. It never made sense for RSDG to reduce by £15.5 million in 2018/19 only to increase by the same amount in 2019/20.

The extra £15.5M is still a lot less than the higher than average reductions in SFA experienced overall by Predominantly Rural authorities created by the 2015/16 decision to bring actual Council Tax into the "cuts equation"

The RSN is looking for higher weightings for sparsity to be introduced via the Fairer Funding Review. It welcomes the Government's recognition "that cost pressures associated with service delivery in rural sparse areas, such as lack of private sector providers and poor broadband coverage should be met with a more consistent package of funding over the course of this Parliament". The proposal for 2018/19 plays lip-service to this recognition.

We welcome the long-awaited recognition by the Government (as contained in the recent Technical Consultation on relative needs) "that it is possible that altering the weightings in 2013/14 may have only partially reflected the challenges faced in delivering some services in rural areas". The RSN considers this to be actual rather than possible.

To expect rural areas, and their elected representatives, to wait for a fairer allocation of national resources until the introduction of the Fairer Funding Review is a really big ask – especially given the damping, then freezing, in the changes to sparsity weightings and the consequentially increasing gap in government funded spending power and council tax between Predominantly Rural areas compared to Predominantly Urban.

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 2018/19 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 this 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 continue feel that an increase in RSDG to, at the very least, cover the losses outlined above is warranted so as to 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 4: Do you agree with the Government's proposal to hold back £35 million to fund the business rates safety net in 2018-19, on the basis of the methodology described in paragraph 2.6.2?

We have no firm views with respect to question 4.

Question 5: What are your views on the council tax referendum principles proposed by the Government for 2018 – 19?

Like others across local government the RSN believes that council tax setting is a matter for individual local authorities which are democratically elected and offer local accountability. The RSN therefore disagrees with any referendum principles being imposed on local government.

Again, we point out that residents in rural areas are already paying above-average amounts of council tax, despite receiving fewer services.

When calculating the gap between Rural and Urban authorities, our figures exclude parish precepts, if we were to include them then the gap would be much higher between Rural and Urban. Some rural parishes have increased their precept to take into account that they now deliver some discretionary services which the Local Authority has stopped providing due to funding pressures.

RSN supports giving local authorities the ability to generate more from council tax. Local budgets are under severe pressure, particularly in rural areas where pressures on adult social care is growing sharply, and the increase in council tax yield will make a welcome contribution to these pressures. The RSN agrees with the County Councils Network that county councils should be allowed to levy the social care precept on the entire tax base of their areas (rather than just the county precept element) as would be the case if they were unitary authorities

However, the Government is placing unfair pressure on the council tax payers in rural areas. Band D council tax is higher than in many other parts of the country, particularly Inner London. By allowing all areas the same percentage increase in Band D, the divergence will only grow over time, placing increasingly greater pressure on residents in county areas. An alternative is to allow low-tax authorities the opportunity to increase Band D by more than the 3% threshold (e.g. the higher of 3% or £50) to help to redress the balance.

The RSN is concerned about the impact Council Tax levels may have if included in the Resources Block under the Fairer Funding Review and will be monitoring this issue very closely.

The RSN supports the decision to defer introducing controls on Parish/Town Councils

Question 6: Do you agree with the methodology for calculating the revaluation adjustments to business rates tariff and top-up payments as outlined in paragraphs 3.5.1 to 3.5.6

We have no firm views with respect to question 6.

Question 7: Do you have any comments on the impact of the 2018-19 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 7

Annex A — Summary of questions

- Question 1): What are your views on the Government's proposals to simplify the relative needs assessment by focusing on the most important cost drivers and reducing the number of formulas involved?
- Question 2): Do you agree that the Government should use official population projections in order to reflect changing population size and structure in areas when assessing the relative needs of local authorities?
- Question 3): Do you agree that these population projections should not be updated until the relative needs assessment is refreshed?
- Question 4): Do you agree that rurality should be included in the relative needs assessment as a common cost driver?
- Question 5): How do you think we should measure the impact of rurality on local authorities' 'need to spend'? Should the relative needs assessment continue to use a measure of sparsity or are there alternative approaches that should be considered?
- Question 6): Do you agree that deprivation should be included in the relative needs assessment as a common cost driver?
- Question 7): How do you think we should measure the impact of deprivation on 'need to spend'? Should the relative needs assessment use the Index of Multiple Deprivation or are there alternative measures that should be considered?
- Question 8): Do you have views on other common cost drivers the Government should consider? What are the most suitable data sources to measure these cost drivers?
- Question 9): Do you have views on the approach the Government should take to Area Cost Adjustments?
- Question 10a): Do you have views on the approach that the Government should take when considering areas which represent a small amount of expenditure overall for local government, but which are significant for a small number of authorities?
- Question 10b): Which services do you think are most significant here?
- Question 1 la): Do you agree the cost drivers set out above are the key cost drivers affecting adult social care services?

- Question 11b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting adult social care services?
- Question 12a): Do you agree that these are the key cost drivers affecting children's services?
- Question 12b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting children's services?
- Question 13a): Do you agree that these are the key cost drivers affecting routine highways maintenance and concessionary travel services?
- Question 13b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting routine highways maintenance or concessionary travel services?
- Question 14a): Do you have views on what the most suitable cost drivers for local bus support are?
- Question 14b): Do you have views on what the most suitable data sets are to measure the cost drivers for local bus support?
- Question 15a): Do you agree that these are the key cost drivers affecting waste collection and disposal services?
- Question 15b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting waste collection and disposal services?
- Question 16a): Do you agree these remain the key drivers affecting the cost of delivering fire and rescue services?
- Question 16b): Do you have views on which other data sets might be more suitable to measure the cost drivers for fire and rescue services?
- Question 17a): Do you agree these are the key cost drivers affecting the cost of legacy capital financing?
- Question 17b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting legacy capital financing?
- Question 18a): Are there other service areas you think require a more specific funding formula?
- Question 18b): Do you have views on what the key cost drivers are for these areas, and what the most suitable data sets are to measure these cost drivers?

Question 19): How do you think the Government should decide on the weights of different funding formulas?

Question 20): Do you have views about which statistical techniques the Government should consider when deciding how to weight individual cost drivers?

Question 21): Do you have any comments at this stage on the potential impact of the options outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

BRIEFING NOTE FOR THE RURAL SERVICES NETWORK (RSN)

FAIR FUNDING REVIEW – CONSULTATION PAPER – DECEMBER 2017

1. The consultation paper can be seen as a very clear success for rural authorities and the Rural Services Network (RSN). Rurality (and sparsity) is referenced numerous times and it is proposed that rurality will be treated as one of the primary indicators, alongside population and deprivation. By giving rurality such prominence, ministers are showing the importance they attach to funding rural authorities, and this reflects recent ministerial statements.
2. In terms of overall structure, the Government's preference is for a Foundation Formula. It is envisaged that there will be a Foundation Formula to provide a simplified funding methodology, and for there to be separate funding formulae for specific services. A flatter formula will tend to help rural authorities, and so the greater weight that is placed on the Foundation Formula, the greater the rural share of funding.
3. Some specific indicators that are not favourable to rural authorities appear to have been left out, or receive very little prominence. Density, ethnicity and daytime population play a very important role in the current funding distribution, and are particularly strong for urban authorities. Their exclusion – or a lower weighting – will be very beneficial to rural authorities.
4. The paper also opens up discussion about continued ministerial discretion in determining future funding formulae. Generally, a simpler funding formula will require more ministerial judgement. Whilst there are technical concerns about the extent of ministerial judgement, rural authorities and RSN should expect to use their relationship with ministers to maximise their future share of funding.
5. **Overall, this gives rural authorities and RSN and very strong platform to build on.**
6. A note of caution, however: the development of the new formula is at a very early stage, and there is much that could happen that could adversely affect rural authorities. Developments in the formulae for the major needs blocks are not very far advanced, and there is no clear indication of how they will be developed, or even the broad direction of travel. It is likely that multi-level modelling will play a role in adult social care and Children's Services, and there is no guarantee that this will favour rural authorities.
7. Most importantly of all, this paper only deals with methods for assessing "needs", and does not yet propose options for dealing with resources (council tax) and damping. For many rural authorities, these will be potentially crucial issues, with resource in particular being a significant risk. These will be the subject of future consultation papers.

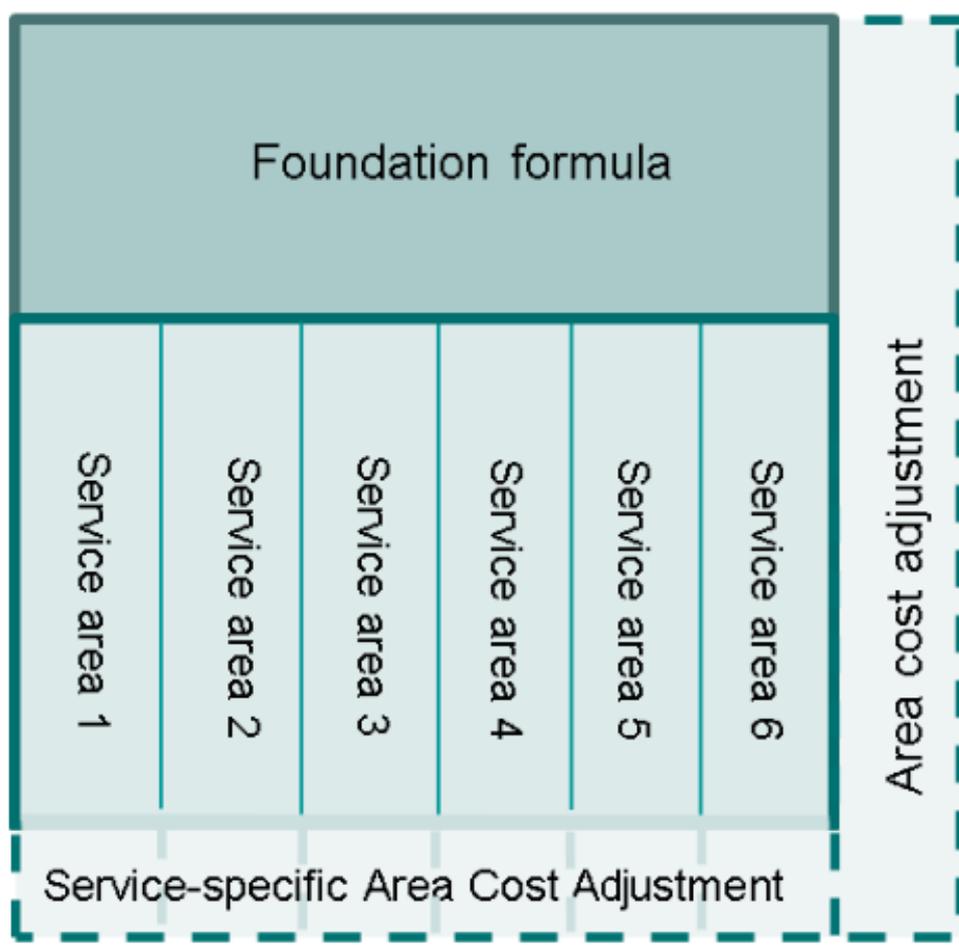
Commentary on principles

8. The consultation paper sets out a sensible list of principles.
 - Simplicity
 - Transparency
 - Contemporary
 - Sustainability
 - Robustness
 - Stability
9. Every review always starts off with a similar list of principles, but the crux of the review will be about the trade-offs between the principles.

Chapter 2 – Measuring Need

10. Most authorities want a “simpler approach” but many have argued that “simplification should not be achieved at the expense of accuracy”. Some level of complexity is inevitable in a funding formula that seeks to reflect “needs” across a diverse country. These statements do not really tell us anything new about the future formula. Government – and most of local government – will strive for a simpler formula, but will always realise that some level of complexity is essential to create something that is fair and credible.
11. In terms of structure, the approach that seems to be most favoured by DCLG is the Foundation Formula (**Figure 1**). This would be a single formula to allocate funding to each type of authority based on a number of cross-cutting or “common” cost drivers. Other specific services or “needs” could be added on top of the Foundation Formula, but the assumption must be that this approach is simpler and excludes some services that currently have their own formula.
12. An approach using the Foundation Formula would result in an increase in ministerial discretion. We assume this is because such a formula would not necessarily be correlated with any external variables (such as expenditure, service volumes). In our view, there are some serious problems with such an approach, if it is taken too far. Firstly, it would lack credibility because the Government could not show how it reflects the outside world, either in terms of local government spending or service volumes. Secondly, it would not form the basis of a robust, sustainable system: it is likely to reflect ministerial opinions too much, and could not easily be updated periodically to reflect new data. It would be less predictable and less stable as a result because it would be subject to the views of the ministers that are in power when the formula is updated.

Figure 1 – Proposed Foundation Formula and Specific Service Formulae



13. Rural authorities, however, might take the view that they will benefit from greater ministerial discretion, and that it will give them a higher share of funding in 2020-21. If so, a simpler formula with significant ministerial discretion will potentially be beneficial, if only for the next FFR. Rural authorities are certainly one group for whom ministers might want to show that they have used their discretion on their behalf. There is a risk in this approach but if you have the ear of the minister, then use it!

14. It is possible that district councils might find that most or even all their funding comes via the Foundation Formula. Lower-tier district services are likely to be within the Foundation Formula. The possible exceptions are waste collection and capital financing.

Question 1 – What are your views on the Government’s proposals to simplify the relative needs assessment by focusing on the most important cost drivers and reducing the number of formulas involved?

15. *On balance, rural authorities will tend to benefit from a simpler formula. More complex formulae tend to have a larger number of different indicators to measure different types of need, or to measure need in different ways.*

16. *We have expressed concerns about the amount of ministerial discretion that might be retained in the proposed Foundation Formula. But for rural authorities this could represent an opportunity to maximise funding and to ensure ministers deliver on the promises they are making to rural authorities.*
17. *For rural authorities, a Foundation Formula with a separate “rurality” top-up would represent a very good outcome, particularly if there is no density top-up.*

Chapter 3 – Common Cost Drivers

18. DCLG has worked with the technical working group and other Government departments to identify a “number of common cost drivers which there is good reason to believe have a significant effect on the cost of providing multiple services”. DCLG expects “these common cost drivers to be responsible for most of the variation in local authorities’ ‘need to spend’”.

i) Population

19. This is the single most important indicator in the funding system now, and will be in the future as well. Overall population can be used to distribute funding for universal services (e.g. waste collection, libraries) and segments of the population (e.g. older people eligible for adult social care).
20. A key consideration is whether population estimates or projections should be used. Mid-year estimates tend to be about two years out-of-date when they are used in funding formulae. Projections are able to project forward population trends, although they are not forecasts. Both datasets are produced by ONS.
21. This is likely to be a key battleground in the FFR. Population growth rates are highly divergent. Population growth was 0.9% for England as a whole, compared to 0.2% in the North East and 1.6% in London.¹ Growth in the number of older people is particularly important because this is the biggest area of expenditure (and funding) in local government. The difference between using backward-looking estimates and projections will be considerable.
22. We will provide some further evidence on the variation in population change for rural authorities. As can be seen, however, two of the authorities with the largest population reduction are authorities with very sparse populations.

¹ The City of London (+8.5%), Tower Hamlets (+4.0%) and Westminster (+3.9%) have the highest growth of any local authority. Blackpool (-0.7%), Copeland (-0.3%) and Richmondshire (-0.4%) have the highest population reduction. ONS Mid-Year Estimates 2015.

Question 2 - Do you agree that the Government should use official population projections in order to reflect changing population size and structure in areas when assessing the relative needs of local authorities?

23. Given the growth in population, particularly in over-65s, and the variation in growth rates, some form of projections are likely and probably desirable as well. For rural authorities, particularly those with low-growth or even population reductions, this might cause a significant problem. We will need to undertake more research to understand the effects more fully. One issue might be that overall population growth is below average in rural areas, but the growth in older populations (which receive more funding per head) is exceeding the national average.
24. There will be some rough justice caused by using projections because they are not forecasts. Authorities would want to see much greater transparency about how the projections are derived by the ONS, together with a reconciliation between mid-year estimates and projections so that there can be some learning about the accuracy of the projections. If RSN seeks to challenge this approach, then the technical shortcomings of the projections would be one form of attack.
25. A counter argument to using projections is that they simply project forward past growth trends, and would fund authorities for past growth and not necessarily future growth. This is a valid argument and one that could be used by authorities who have below average growth both overall and in the key client groups (especially over-65s). FAS members will get an analysis of population estimates and projections compared with relevant averages in the coming weeks.

Question 3 – Do you agree that these population projections should not be updated until the relative needs assessment is refreshed?

26. Local government received a four-year settlement in 2016-17 that was not updated for data or any other changes. Whilst this provided absolute certainty for authorities' financial planning, it did not reflect changes in demography or demand. There is a strong argument that it is better to update the key datasets (e.g. population) every year. Funding allocations would change, but the annual variation is unlikely to be very significant and could be predicted with some certainty at authority level. An annual update of population projections would solve, to some degree, the problem of authorities receiving funding based on "inaccurate" projections. Again, though, this might not be favourable to rural authorities.

ii) Rurality

27. It is notable that rurality is given such high billing in the consultation paper, and also in recent ministerial statements. Lobbying by rural authorities has been successful in recent years, and ministers are fully aware that they have to show that they are responding positively to this important lobbying group.

28. DCLG's summary of the research that was undertaken and the research that is available betrays some uncertainty, and this something that RSN will want to clear-up and address. There is full awareness from DCLG of the political importance of rurality in the current and future formulae, but the consultation paper refers to "limitations" in the research. It is not entirely clear whether the DCLG is calling for more research or only a rethink about the most appropriate indicators for the funding formula:

"The Government is therefore proposing to explore whether alternative data sources are available that measure or proxy the relative cost of providing services in rural areas, which could be drawn on in a needs assessment."

29. Sparsity-related funding was increased in the 2013-14 settlement (although a large portion of the increase in assessed "need" was damped away).² The weighting for sparsity was increased in the formula, particularly for super-sparse areas. The weightings at that time used judgement based on the evidence that had been produced.

Question 4 – Do you agree that rurality should be included in the relative needs assessment as a common cost driver?

Question 5 – How do you think we should measure the impact of rurality on local authorities' 'need to spend'? Should the relative needs assessment continue to use a measure of sparsity or are there alternative approaches that should be considered?

30. *Rural authorities will want to give very strong support to rurality being one of the core indicators in the Foundation Formula. Ministers are clearly minded to continue with funding for rurality (sparsity), and it appears very likely to remain as a common cost driver.*

31. *There was a suggestion that sparsity should be included in the Area Cost Adjustment because sparsity results in higher unit costs. Pixel argued – on behalf of SPARSE – that this approach would be inappropriate because sparsity results in both higher unit costs and higher service pressures and demand.³*

32. *DCLG has also asked about alternative methods of measuring the needs of rurality and sparsity. It is interesting that DCLG has tried to widen the measure to encompass rurality, which in theory has a wider scope. Finding alternative measures is not easy (there are maybe some in the Index of Multiple Deprivation in the "Access to Services" domain) and it is very likely that the indicator used will measure population sparsity/density in some way.*

33. *Other issues rural authorities might want to consider:*

² Rural Services Delivery Grant (RSDG) was introduced in 2013-14 to compensate rural authorities for the effect of the damping.

³ <https://www.local.gov.uk/sites/default/files/documents/NR%20TWG%2017-07%20Funding%20for%20higher%20unit%20costs%20associated%20with%20sparsity%20and%20rurality%20by%20the%20RSN.pdf>

- *The relative weighting of sparse and super-sparse populations. This would change the distribution of funding within the cohort of rural authorities.*
- *Funding for unmet needs. Rural authorities tend to provide fewer services in sparsely-populated areas, and residents have to travel further to access services.*

34. *A further point, not raised in the consultation paper, is that RSDG will be transferring in to the funding formula in 2020-21. RSDG uses a different methodology from any of the existing RNF blocks. We assume that the new distribution will be consistent across the new funding formula. One of the problems with the current RSDG distribution is that it does not provide the same level of funding per resident of a sparse area. Instead it takes into account the overall population sparsity across the whole area. This is an anomaly which ought to be ironed-out.*

iii) Deprivation

35. The deprivation top-ups are “intended to reflect the fact that deprived individuals, and particularly income deprived individuals, are more likely to access certain services than more prosperous individuals, leading to higher costs”.
36. The Government is also considering whether income-related benefits are the best way of measuring “deprivation”. The Index of Multiple Deprivation (IMD) is one possibility because it captures factors beyond income and employment. Any alternative measures would have to be consistently applied across the country and are likely to be very limited in number. Some formulae would need to be thoroughly reviewed anyway because they rely on benefits that either no longer exist or have changed radically (e.g. Disability Living Allowance).

Question 6 – Do you agree that deprivation should be included in the relative needs assessment as a common cost driver?

Question 7 – How do you think we should measure the impact of deprivation on ‘need to spend’? Should the relative needs assessment use the Index of Multiple Deprivation or are there alternative measures that should be considered?

37. *Rural authorities will generally prefer to reduce the weight given to deprivation within a future formula, although few will argue that it should disappear altogether. A flatter formula with less funding for deprivation will benefit most rural authorities. Rural authorities with below-average deprivation would actually benefit from reducing the funding that is distributed through a deprivation top-up (or even removing it altogether).*

iv) Other specific cost drivers

38. The Government intends that population, sparsity and deprivation will be the most important in a future Foundation Formula. Clearly, though, there are others that are either already in an RNF, or which reflect specific needs or service pressures.

Question 8 – Do you have views on other common cost drivers the Government should consider? What are the most suitable data sources to measure these cost drivers?

39. There are some very significant exclusions from the list of common cost drivers. Some of these are measures that very heavily favour urban authorities (density, additional population, ethnicity); others will provide significant funding to many rural authorities, and there will be concern that these top-ups or cost-drivers are not developed further in this paper.

- *Density. Density is a very significant top-up and is very important indeed for inner-city authorities, particularly those in London and in the major conurbations. There is very little research on the costs associated with density (in contrast to the research on sparsity).*
- *Additional population top-up (net in-commuters and day visitors). The purpose of this top-up is to compensate for the additional costs incurred by authorities receiving large numbers of in-commuters and/or visitors. It is sometimes referred to as “daytime population”. Those authorities with the highest top-ups are typically those in the very centre of conurbations (e.g. Manchester City Council within Greater Manchester; central London boroughs, particularly Westminster, within London).*
- *Ethnicity top-up. In previous funding reviews, ethnicity received a lot of attention, and was the subject of numerous research papers. Urban authorities tend to receive the majority to funding from the ethnicity top-up.*
- *Top-ups for Usage and Winter Maintenance (Highways Maintenance only). We assume that these top-ups or something similar will continue in a specific formula (see Appendix 1). Rural authorities will want to scrutinise this top-up because road length will be the most important factor. Some rural authorities – such as Cumbria, Northumberland and Durham – have very high levels of winter maintenance.*
- *Top-ups for Coastline, Property and Societal Risk, and Community Fire Safety (Fire only). Again we assume these top-ups or similar will continue (see Appendix 1). There is probably more scope, though, for fire authorities to review and determine the top-ups and indicators that are used. Many of these authorities are rural.*
- *Fixed Cost Amount. A fixed amount of funding is available for every authority to represent the fixed costs of operating an authority (e.g. corporate and democratic functions). It is of particular benefit to smaller authorities and to district councils. Again many of these are rural authorities.*
- *Concessionary Travel. This is a significant funding stream and is allied to actual bus usage and costs. For those currently incurring significant costs, there is a*

strong argument for this top-up to continue. Others might argue that the current funding simply perpetuates the current variations in bus services, and it would be better to allow every authority to decide how much it spends.

- *Flood defence. Important to authorities with recent flooding problems or high flood risk (e.g. Cumbria, Somerset).*
- *Coast Protection. As above.*
- *Continuing EA Levies. As above.*

iv) Area Cost Adjustments

40. The current Area Cost Adjustment (ACA) compensates authorities with higher labour costs and higher business rates.
- Labour costs. Measured by average hourly earnings excluding overtime, controlling for differences in the age, gender, occupation and industry of workers between local areas
 - Rateable value of office space. Adjusted for transitional relief.
41. The DCLG is considering whether the ACA should be widened to include other running costs, and whether rurality/ sparsity should be included (on the grounds that sparsity can lead to higher unit costs).

Question 9 – Do you have views on other common cost drivers the Government should consider? What are the most suitable data sources to measure these cost drivers?

42. *The consultation paper provides a very superficial view of how the ACA could work in future. It is sensible that the DCLG is looking at widening the ACA to cover other running costs, and possibly to include sparsity.*
43. *Our view on sparsity (provided on behalf of SPARSE) is that sparsity should remain outside ACA, although there is a case that the unit cost element of sparsity could be included within the ACA.*
44. *Again, some of the most important issues are left unmentioned. It is assumed that labour costs will be estimated based on what is known as the General Labour Market Approach (i.e. based on the prevailing wages in the private sector). The alternative – Specific Cost Approach – is not referenced but could be more beneficial for lower-cost areas, many of which are rural. Under the current methodology, Cornwall is deemed to have the lowest ACA.*

v) Treatment of small but locally significant duties

45. Specific funding would be provided for specific duties or costs. They would probably be very varied nationally and not necessarily well correlated with any top-ups or indicators used in the Foundation Formula. The example given here is of flood defence.

Question 10a – Do you have views on the approach that the Government should take when considering areas which represent a small amount of expenditure overall for local government, but which are significant for a small number of authorities?

Question 10b – Which services do you think are most significant here?

46. We would suggest that rural authorities are canvassed to identify any other specific rural services or duties that should be funded separately.

Chapter 4 – Service Specific Cost Drivers

47. Not all services can be properly funded through the Foundation Formula. Some services will need their own service block that uses specific indicators that reflect the specific distribution of need within that service. Whilst a reduction in the number of specific blocks is certain, it is apparent that the bulk of funding will continue to be distributed using specific service formulae.
48. In the consultation paper the DCLG suggests that specific service formulae will be required for children’s and adults’ social care (accounting for 45% of total local government spending in 2016-17), as well as highways maintenance and capital financing. Fire and rescue would also have its own specific block. We are really only left with some or all of EPCS once these services are removed.
49. The number of specific service blocks does matter. More blocks will allow for a more nuanced approach to specific services or small groups of services, and for the use of more indicators. Fewer blocks will tend towards a flatter distribution of services, and possibly also towards greater ministerial discretion.
50. A summary of the proposed indicators is shown in **Appendix 1**. It is evident that most of the proposed indicators would fall into the Foundation Formula groupings (population, sparsity and deprivation) but specific formulae would still be required. The Foundation Formula and specific formulae would use different weightings for common indicators. Some form of sparsity-related indicator is suggested for each major service block, although it is the weighting of those indicators in each block that will be important.

Question 11a): Do you agree that the cost drivers set out above are the key cost drivers affecting adult social care services?

Question 11b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting adult social care services?

Question 12a): Do you agree that these are the key cost drivers affecting children’s services?

Question 12b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting children's services?

Question 13a): Do you agree that these are the key cost drivers affecting routine highways maintenance and concessionary travel services?

Question 13b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting routine highways maintenance or concessionary travel services?

Question 14a): Do you have views on what the most suitable cost drivers for local bus support are?

Question 14b): Do you have views on what the most suitable data sets are to measure the cost drivers for local bus support?

Question 15a): Do you agree that these are the key cost drivers affecting waste collection and disposal services?

Question 15b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting waste collection and disposal services?

Question 16a): Do you agree these remain the key drivers affecting the cost of delivering fire and rescue services?

Question 16b): Do you have views on which other data sets might be more suitable to measure the cost drivers for fire and rescue services?

Question 17a): Do you agree these are the key cost drivers affecting the cost of legacy capital financing?

Question 17b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting legacy capital financing?

51. In response to these questions, the overall structure and proposals are reasonable and cover most of the indicators that we would expect. You may want to propose indicators that reflect service delivery in your authority.

Question 18a): Are there other service areas you think require a more specific funding formula?

Question 18b): Do you have views on what the key cost drivers are for these areas, and what the most suitable data sets are to measure these cost drivers?

52. The major exclusions are:

- Daytime visitors and in-commuters (daytime population). The costs associated with higher daytime population are specific to a relatively small number of authorities, and would not fit comfortably in a Foundation Formula. There are no reliable measures of visitor numbers and so the onus is going to be on previous beneficiaries to suggest reliable replacement measures.

- *Overnight visitors. Particularly important for holiday destinations where visitors tend to stay overnight (e.g. Cumbria, Cornwall, seaside towns, other tourist destinations). Again, though, there are no up-to-date and reliable datasets.*
- *Ethnicity. As we noted above, this is currently an important part of the formula but updated research is probably necessary to establish whether it is still a relevant indicator.*
- *Density. Again an important exclusion. It could be included in the Foundation Formula (note that it is currently only used in the two EPCS blocks, which in themselves would form the core of the new Foundation Formula). It would potentially be included in Waste Collection and Disposal because density can result in higher costs.*

53. *As previously discussed, urban authorities are the greatest beneficiaries from indicators for ethnicity, density and additional population. However, some rural authorities have the highest rates of overnight visitors (as a proportion of population). Cornwall, Devon, Norfolk and Cumbria all have very high rates of overnight visitors, and will want to make sure that relevant indicators are used in the new formula.*

Chapter 5 – Weighting Funding Formulas and Cost Drivers

54. The final chapter outlines the approaches that the Government could take in actually producing funding formulae. This chapter only goes as far as to outline the possible options and does not give a preference for any of them.
55. Decisions will have to be made about the resources that are distributed by the Foundation Formula and by each specific funding formula. One option is to weight each element according to the actual local government expenditure on that service. The other option is to allow ministerial judgement on the size of each block (or to have a blend between the two approaches).
- Question 19: How do you think the Government should decide on the weights of different funding formulas?**
56. *Principle and good practice strongly suggest that funding blocks should be set with reference to the actual local expenditure on the relevant services. To allow too much ministerial judgement would reduce the credibility of the new formulae, and would make it more difficult for authorities to predict how funding formulae would be updated after 2020-21. At this point, it is unclear whether using actual expenditure to weight formulae will benefit rural authorities; it is a technically sensible approach, however.*
57. The chapter then goes on to outline the different statistical approaches that could be used to inform the new formulae. Some form of statistical analysis is likely, and in some formulae is inevitable. Regression analysis will most likely be used, although there are

other techniques proposed. The main criticism of regression is that it simply perpetuates the past spending patterns which in themselves are the result of past funding decisions. As we will see, there are techniques to minimise the influence of past spending patterns, and which might make regression more palatable. The bulk of the current RNFs already use some form of modified regression, so this is nothing new.

58. If less reliance is placed on statistical analysis, though, the greater will be the role of ministerial judgement. Whether your authority favours more or less ministerial judgement probably depends on whether you think ministers are likely to favour your “type” of authority.

59. The main statistical techniques are:

- Regression analysis. There is a good description in the consultation paper about how regression works, and some of the disadvantages of the approach.
- Small Area Modelling/ Multi-level Modelling. These are similar and more advanced forms of regression analysis. Data is collected at a small area (such as Super Output Area, with a population of about 1500). The methodology can analyse the differences between authorities, and within authorities (i.e. between the SOAs). Its purpose is to capture those variations in cost that are caused by need, and those that are caused by local spending decisions or policies.
- Outcome-based Regression Models. Regression analysis is undertaken not against expenditure but looks at the relationship between cost drivers and an alternative proxy for relative need.
- Factor Analysis and Principal Component Analysis. Analytical techniques are used to identify the most important variables and their relationships to cost drivers. This is a complex process and requires judgements about relationships between variables and cost drivers.
- Unit Cost Functions. Similar to zero-based budgeting, the funding formula would be built up based on estimates of the known costs of delivering a service. This would require a lot of groundwork but it is not unfeasible. (Many school funding formulae were built-up successfully in this way.) It is more likely to favour lower-need authorities.

60. Regression is likely to be much more useful for the specific funding formulae (e.g. Children’s and Adult Social Care), whereas the Foundation Formula is likely to require much more judgement, albeit possibly informed by regression. Large and detailed datasets are required for small-area and multi-level modelling. This is a significant and costly exercise, and is only appropriate for the larger service blocks.

Question 20: Do you have views about which statistical techniques the Government should consider when deciding how to weight individual cost drivers?

61. *Rural authorities certainly want to avoid any statistical techniques that are based on past expenditure. Spending – and funding – is higher in urban areas and simple regression will only perpetuate these variances.*
62. *Multi-level and small-area techniques help to eliminate the effects of past spending or policy. In technical terms, rural authorities can support these techniques. The problem with them is that the outcomes from the modelling is almost impossible to determine in advance: it could favour some or all rural authorities, or it could do the opposite.*
63. *In general terms, rural authorities are most likely to receive a higher share of funding from: flatter formulae, simpler formulae, and those based on ministerial discretion and judgement rather than any statistical techniques.*

Adrian Jenkins/ Dan Bates

Funding Advisory Service (FAS)

10 January 2018

adrian@pixelfinancial.co.uk

Appendix 1 – Proposed indicators for specific formulae

	Adult Social Care	Children’s Services	Highways Maintenance	Waste Collection and Disposal	Fire and Rescue	Capital Financing
Population	Number of adults by age groups	Number of children (under 18 years of age)	Road length	Number of households	Projected population	
Sparsity	Longer travel distances, which reduces the number of visits that can be completed in a day	Distance to schools		Travel times	Population density, population sparsity	
Deprivation	Number of adults with income and wealth that meet the means test	(a) Number of children for whom parents receive Disability Living Allowance (b) proportion of families facing multiple challenges associated with deprivation		No indicators suggested but potential for additional costs is noted		
Other characteristics	(a) Number of people with higher levels of impairment, and (b) Number of people who live alone		(a) Traffic flow (b) Forecast snow days / predicted grit days and (c) Concessionary bus boardings	Types of property	(a) Coastline, (b) Risk index (c) Control of Major Accident Hazards (COMAH) sites, (d) Property and Societal Risk and (e) Community Fire Safety	Outstanding debt and interest rates