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NOT A STATEMENT OF GOVERNMENT POLICY

The Fairer Funding Formula Review and Rural Communities

In February 2016, alongside the 2016/17 local government finance settlement, DCLG announced a thorough review of the needs assessment formula used to allocate local authority funding. The review will determine the new baseline funding allocations for every authority in England once the new 100% business rates retention system is implemented in 2019-20. The review will reassess how much each individual authority needs to spend on services in its area by exploring a range of methodologies.

Different authorities have conflicting views on 'fairness' and how the new system should measure need. It has been ten years since the last substantial revision: there have been demographic changes and other pressure shifts in different ways for different areas. Key to establishing the new methodology by which funding is distributed to individual authorities will be the cost drivers or variables relating to one or more services delivered by local government, which will form a part of the new relative needs formulas. This paper attempts to set out some of the cost drivers in relation to delivering services in more rural areas of a local authority area and starts to consider how this could be factored into a new funding formula. However, the evidence isn't definitive and we would welcome further views on what the cost drivers are in local authorities delivering services in rural areas and also any additional evidence that exists in relation to these drivers.

Rural Context

Rural areas cover 85% of the landmass of the country.[1] They are home to over 9m people (roughly 17% of the population). The population of rural areas is growing and increased at a rate of 1.4% between 2011 and 2014. Some of this increase is the result of internal migration in England. Between 2004/05 and 2008/09 the general trend for internal migration in England was for net migration to predominantly rural areas and from predominantly urban areas. In 2014/15 predominantly rural areas saw net internal migration inwards of nearly 65k people. Within that, largely rural areas saw 35k new residents and mainly rural settlements saw nearly 30k new residents. In contrast, predominantly urban areas saw net internal migration outwards of nearly 95k.

The Rural Economy is an important part of the country's economy. In 2014 predominantly rural areas contributed 17% of England's GVA worth an estimated £229bn. The rural economy is more than just agriculture. 'Distribution; transport; accommodation and food' and 'public administration; education and health' each contributed one fifth of GVA in predominantly rural areas with only 2% of GVA coming from agriculture, forestry and fishing. There are more registered businesses per head of population in predominantly rural areas (430 per 10k people in 2014) than in predominantly urban areas (excluding London) (340k per 10k people in 2014). This reflects the fact that there are more small businesses in rural areas.

Nearly 60% of businesses in rural areas have between 1 and 9 employees, nearly 10% have 10-49 employees just over 1% have 10-249 employees and 0.1% have more than 250 employees. This compares to urban areas where nearly 75% have 1 – 9 employees, 13% have 10 – 49 employees, 3% have 50- 249 employees and 0.5% have more than 250 employees.

All of the above has an impact on the funding local authorities, with larger rural areas, will need in the future to ensure that their residents and businesses thrive. A larger population with more elderly residents will likely be a larger draw on local authority resources. Similarly

[1] The Rural-Urban Classification is used to distinguish rural and urban areas. The Classification defines areas as rural if they fall outside of settlements with more than 10,000 resident population.

a larger amount of smaller businesses will likely require greater intervention and support than fewer larger businesses. Against this backdrop it is important to remember that in the context of Business Rates Retention many rural businesses do not pay any business rates because their rateable value is below £6k. As such Local Authorities with a more rural geography are unlikely to see the scale of increase in business rates funding that more urban authorities may see.

Drivers of Costs in Rural Areas

Authorities with higher levels of rurality can face higher costs for service delivery. This is due to a variety of reasons. However, in the main the drivers for increased costs can be grouped into 3 categories:-

1. Lower population densities and the penalty of distance - lower economies of scale, higher per capita costs of service delivery, through higher travel costs and higher levels of unproductive staff time;

   Rural areas are by definition more sparsely populated than urban areas. For example an authority with a more rural population such as Cumbria has an average of x number of residents per square mile compared to an urban authority e.g. Liverpool which has x number of residents per square mile. Whilst this means that rural areas may have less individual services to provide e.g. fewer bins to collect it can mean that the cost of collecting each individual bin is higher because of the penalty of distance i.e. the higher fuel costs and higher amount of unproductive staff time in getting to more dispersed settlements to collect bins.

   Examples of the types of services that Local Authorities may find more expensive to deliver in a rural area than an urban one due to travelling distance and sparsity are: waste collection, bulky household waste collection, commercial waste collection, midwifery and maternity services, attending fires, demand responsive transport services.

2. The demographics of rural areas;

   Proportionally more people age 65+ live in rural areas than urban areas with 24% of the rural population being 65 or over compared to 18% in urban areas. As they age, older rural residents' requirements for costly and resource intensive services such as Health, Social Care and Transport are likely to increase. Currently, more than a third of rural residents aged 65+ have difficulties with the activities of daily living with the rates of people experiencing difficulty increasing with rurality from 34% in significantly rural areas to 37% in residents in the rural 80 area.[2]

Examples of the types of services that Local Authorities with a higher aged rural population may find they have to deliver more of compared to a more urban authority are: clinical household waste collection, incontinence laundry services, leaving hospital services, adult care plans, carers, residential care and hospice care.

3. Services which are specific or more prevalent in rural areas than they are in urban areas.

   There are also a number of services which local authorities provide that are either specific to or more prevalent in rural areas and vice versa, which may need to be factored into a new funding formula.

   Examples of the types of services that Local Authorities may have to deliver in a rural area that would not necessarily be delivered in a urban one are; Flytipping, septic tank and cesspit services, livestock licencing, countryside conservation education events, rangers, surveys, volunteers etc, drain and gully clearance, mobile libraries.

Next Steps

A clear way of weighting the funding formula, to ensure the needs of rural areas are taken into account, is needed. The present evidence base does not enable this to the extent required.

The best evidence we have on the drivers of need in rural areas relies on expenditure based regression i.e. rural authorities need this amount of money because they have had this amount of money and delivered the services. This is the model that underpins the current allocation to local authorities and is the model that the review is looking to move away from. We would be interested to hear from stakeholders what their views are on the drivers of cost in delivering services in rural areas and how this could be factored into the funding formula. We would also be interested in seeing any evidence that has been prepared locally to assess the costs of rurality and the drivers of that cost.

[2] rural-80: districts with at least 80% of their population in rural settlements and larger market towns