SPARSE MEETING
11^{TH} APRIL 2016

Finance Settlement 16/17 to 19/20 – a rural perspective

GRAHAM BIGGS

Headline Analysis

- Main focus on Government Funded Spending Power (GFSP) which is:
  - Settlement Funding Assessment
  - New Homes Bonus
  - Rural Services Delivery Grant
  - Transitional Grant (for 16/17 and 17/18)
  - Improved Better Care Fund (from 17/18)

Provisional Settlement Analysis

- On the day headline grabbing boost to Rural Services Delivery Grant - £65m by 19/20 more than 4 fold increase and exactly half of what RSN asked for
- Sting in tail – Council Tax included in the calculation for reduction in SFA – high taxbase/tax authorities took a higher cut in SFA
- Negative impact on rural overall outweighted RSDG gains!

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Rural / urban funding split

- General movement in funding away from rural to urban authorities
- Change in policy away from “flat cuts” disadvantages rural authorities’ funding
- 3.5% to 4.0% taken away from PR and SR and passed to PU in 2016-17
- Cash terms PR has lost £102m and SR £137m, compared to PU gain of £239m

Rural/ urban funding split - Provisional

Type Of Authority	Reduction in SFA	Reduction: SFA+NHB+RSDG
Mets	-28.0%	-19.4%
London Boroughs	-29.1%	-22.8%
Unitaries – no RSDG	-33.4%	-26.3%
Unitaries - RSDG	-38.9%	-27.1%
Counties – RSDG	-39.2%	-25.5%
Counties – no RSDG	-44.6%	-35.3%
Districts - RSDG	-42.7%	-34.4%
Districts – no RSDG	-45.0%	-39.3%
Predominantly Rural	-40.1%	-31.2%
Predominantly Urban	-27.3%	-21.6%
Newham	-22.5%	-16.8%
East Dorset	-82.6%	-64.2%

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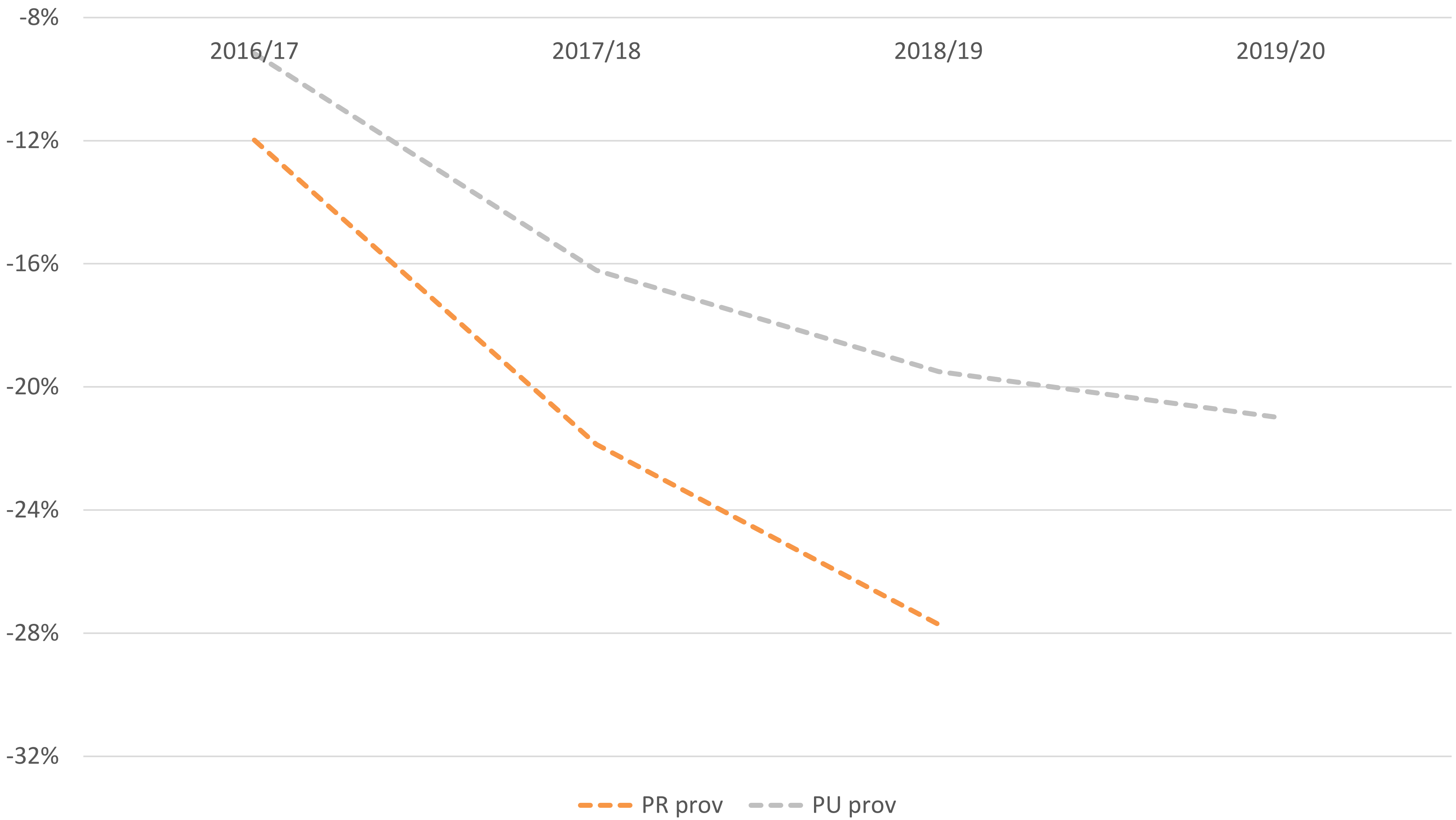
NHB redistribution

Type Of Authority	NHB as % of CSP 16/17	15/16	16/17	Change 15/16 to 16/17	19/20	Change 15/16 to 16/20
Mets	2.66%	192.9	234.4	22.9%	142.1	-26.3%
London Boroughs	4.73%	254.1	312.4	21.5%	189.3	-25.5%
Unitaries – with fire	3.76%	24.7	30.6	23.8%	18.5	-24.9%
Unitaries – no fire	3.63%	236.0	295.3	25.1%	179.0	-24.2%
Counties – with fire	0.96%	41.8	51.1	22.1%	31.0	-26.0%
Counties – no fire	0.99%	62.7	75.8	21.0%	46.0	-26.6%
Districts	18.93%	387.8	485.4	25.2%	294.2	-24.1%

Reduction in GFSP – England Average



RSN / Rural Fair Shares Campaign

- Slowly became clear that provisional settlement was very poor for rural
- RSN met with Minister to put forward points and RSN response shared with members
- Joint working with CCN – Counties had been particularly hard hit
- Real groundswell of rural MP outrage hit the press

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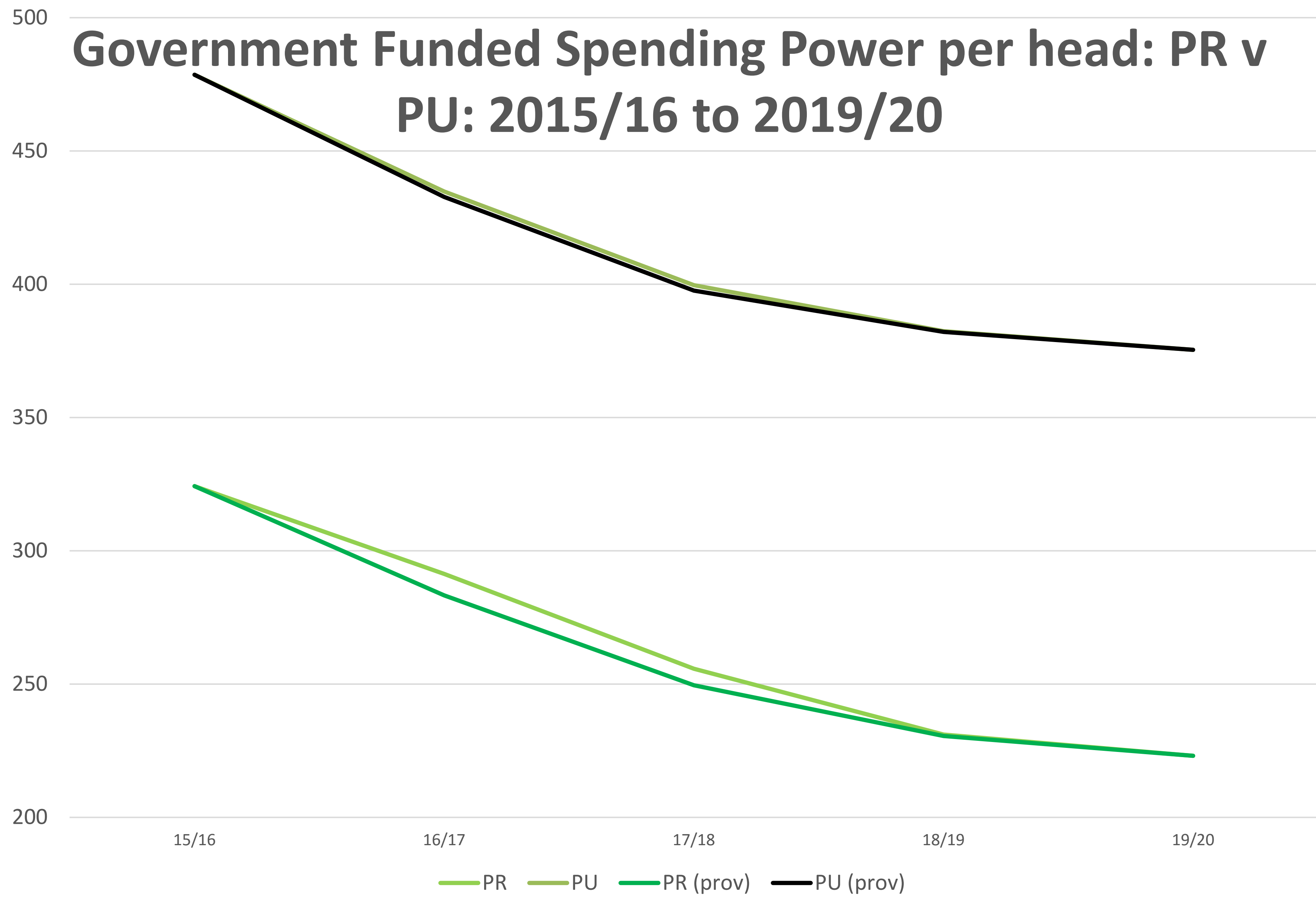
Final Settlement

- Unprecedented change in figures between provisional and final settlement
- £150m Transitional Grant for two years
- Additional £60.5m of Rural Services Delivery Grant in 16/17



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Rural Services Delivery Grant

- Increase from £20m to £80.5m in 16/17
- All existing recipient increased by just over four-fold (ie. no widening of entitlement)
- Increase from £35m to £65m in 17/18
- No change to 18/19 and 19/20 figures
- Positive impact on rural still smaller than negative impact of SFA changes

Transition Grant

- £150m Transitional Grant for two years
- Reduces (but does not remove) the impact of the SFA changes
- Reduced impact in year 2 – £150m as in 16/17 but 17/18 gap wider
- Disappears in 18/19 to leave significant impact on SFA

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Rural Opinion

- Provisional settlement would have been catastrophic for most rural authorities
- The additional resources have rectified the situation for 16/17 BUT …
- Even in 16/17 they only maintain the gap – it doesn’t close
- And from 17/18 it starts to widen
- Not all rural authorities are impacted in the same way

Looking forward

- Changes to settlement were JUST sufficient to buy rural MPs loyalty for settlement vote
- But they understand that more has to be done in the longer term
- Secretary of State open to further concessions
- Campaign must focus on Government Funded Spending Power Gap
- And additional costs of serving a rural area

Rural Services Delivery Grant

- Allocation process is complicated (calculations not released):
  - Take the percentage of population in super sparse SOAs for all 326 billing authorities
  - Work out the 75th percentile, i.e. the super sparsity percentage of the 82nd most sparse authority
  - Work out the population in each authority that is in excess of this level of super sparsity
  - Weight this population 74% upper tier, 20% lower tier, 6% fire
  - Divide the pot of funding among the recipients accordingly

Business Rates – A Rural Perspective

Adrian Jenkins

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Equalisation

- Where the business rates target is greater than the needs target, then the authority pays over a **tariff** into the national pool; and
- Where the needs target is greater than the business rates target, then the authority receives a **top-up** from the national pool.

- Top-ups and tariffs balance nationally

Levies and safety nets

- Levy payable on rates above target
- Max levy 50%; no levy payable by top-up authorities
- Safety net 92.% of baseline funding
- Levies should pay for safety net

- Targets frozen until 2019-20

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100% retention

- Fiscally neutral
- Transfer another £9bn of new burdens

Gross Rates Payable

- GRP much lower in rural than urban areas; amount per head in R50 is only 55% of MU
- Significant outliers: Westminster £8,669, London £777; LU lower per head than SR
- 1% increase in GRP for MU will generate c.£123m; only £20m for R80 authorities and £27m for R50 authorities
- Growth in GRP is highest in rural areas (percentage not cash terms)

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Composition of Rateable Value

- New businesses will attract more RV in urban than rural area
- More businesses in urban than rural areas (850,000 compared to 487,000)
- Average size of business heriditament is smallest in the most urban and the most rural authorities
- Rateable value per sqm is highest in Major Urban areas, and gets progressively lower in more rural areas. Average RV per sqm was £44 in Rural 80 authorities and £88 in Major Urban authorities.
- Average RV per hereditament is much lower in rural areas than rural areas. Average RV per hereditament is less than half that of a business in Major Urban authorities.

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RV – implications for rural authorities

- **Takes double the physical growth to generate same RV as in urban authorities**
- Higher percentage not cash growth in rural areas
- Distinguish between Large/ Other Urban and Major Urban
- Take into account in equalisation, setting target and levy

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Mandatory reliefs

- Includes: SBRR, charitable/ CASC, Rural Rate Relief
- Mixed picture – but represent much higher proportion of GRP in rural areas
- Fully funding in opening baseline – but not for subsequent changes
- Evidence mandatory reliefs falling more quickly in urban than rural areas (24% in MU; 9% in R80 and 13% in R50 – real terms)

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Gross Rates Payable and Mandatory Reliefs

	Cash figures. 2015-16		
	GRP (excl City)	**Mandatory Relief**	**%**
Major Urban	11,537,246,463	701,439,640	6.1%
Large Urban	3,076,301,401	255,960,070	8.3%
Other Urban	4,075,651,719	301,620,216	7.4%
Significant Rural	3,113,915,704	247,343,297	7.9%
Rural-50	2,721,193,561	265,046,873	9.7%
Rural-80	2,049,823,311	244,524,347	11.9%

Discretionary Reliefs

- Charitable relief and rural relief

- Higher in rural areas – but not clear why R50 so much higher than R80

- Much greater proportion of GRP (ranging from 0.5-0.7% in rural areas; 0.3-0.4% in urban areas)

Discretionary reliefs – arguments

- Urban case – discretionary relief is a choice; reduce it and get the benefit. Works in favour of rural authorities

- Rural case – rural businesses more likely to be marginal; need more support.

Rural relief

- Funded through combination of mandatory and discretionary reliefs
- With 100% retention, rural authorities will fully fund any increase in rural relief
- Options: central government to make direct funding available; central government continues to pay 50% contribution to increases

Net rates payable

	Net Rates Payable	Gross Rates Payable	NRP as % of GRP
Major Urban	594	666	89.2%
Large Urban	371	426	87.2%
Other Urban	438	498	88.0%
Average	445	506	87.8%
Significant Rural	377	432	87.3%
Rural-50	313	366	85.6%
Rural-80	313	374	83.8%

Appeals

- Local authorities fund 50% of losses – even backdated element prior to 2013-14
- Judgement and tactics play a part
- Largest losses in MU authorities

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Rates target

- Rural authorities more above target than urban authorities
- Possibilities: growth in retained rates higher in rural authorities; or rural authorities benefitted from way the original 2013-14 baseline was set
- The latter because DCLG over-funded losses on appeals and did not link to potential losses on appeals
- More of same in future!

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100% retention

- Is growth in business rates going to be greater or less than future Government funding would have been?

- Will growth in new burdens transferred in to local government be greater than the growth in business rates?

- What will be the relative impact on rural authorities?

Conclusions

- Levels of GRP and RV lower in rural areas but percentage growth has been higher
- Reliefs in rural areas offset much of growth in GRP/ RV
- MU areas very different from rest of country
- Reliefs important in rural authorities because support local economy (more marginal)
- Levy system disadvantages rural areas
- Needs element of the system needs to be updated

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Recommendations

- To ensure Major Urban authorities with the greatest opportunities to grow do not take home too high a share of "national growth". Including consideration of the following:
  - Levy on growth
  - Banded targets (deadweight?)

- To provide additional or alternative incentives for authorities with the least opportunity to grow

- More frequent review of needs and equalisation of resources

- To preserve the arrangements for the reliefs that are already included in the baseline, and to ask Government to continue to contribute to growth in reliefs above the baseline level once 100% retention is introduced

- For Government to continue to fund a share of any growth in reliefs in rural areas

- To increase the support for rural businesses through increased central support for Rural Reliefs

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100% retention

- 100% retention for local government by end of parliament (from 2020-21)
- Top-ups and tariffs likely to remain (quasi-grant still in place)
- Sector as a whole not individual authorities
- Fiscally neutral – new burdens to be transferred (c.£9bn):
  - Childcare offer
  - Public health
  - Housing benefit
  - Attendance allowance

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100% retention – questions

- Will all growth in yield be retained?
- Are LG services and business rates income compatible?
- Can new burdens be revenue or capital?
- How much transfer of resources across the country (tariffs/ top-ups; levies/ safety nets)?
- Frequency of equalisation (needs and resources)?
- Flexibility on local reliefs?

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Changes to business rates

- Small business rate relief
- Multiplier to increase with CPI not RPI
- To be funded by Section 31 grant
- Other changes in reliefs before/ after 100% retention?

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Review of retained rates system

- Review process within DCLG (including CIPFA and LGA)
- Practical and structural issues – not clear how far review will go
- Four-year settlements rules out significant changes
- Potential angles: nationalising appeal losses; operation of levies/ safety net; preparing for reset (in 2020-21)
- Likely to have hands full with revaluation and 100% retention

Review of “needs”

- RSG disappearing but “needs” still matter – they drive the top-ups and tariffs
- Another internal DCLG review (including CIPFA and LGA)
- Scope not clear – and four-year settlement appears to have ruled-out changes within system before 2020-21
- Issues for Government before then – repeat of 2016-17 final settlement

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Future Funding – the Rural "Ask"

Adrian Jenkins

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100% retention – new burdens

- Consider services/ new burdens that could be included:
  - Grow with demand/ clients (attendance allowance, social care)
  - Ability to cut (albeit with political pressure)
  - Reduce with economic growth (HB, other benefits)
  - Lower share (deprivation-linked services)
- Number of variables to take into account; difficult to predict future changes in circumstances
- Objective: risk averse? max relative position against urban?

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100% retention – rates

- To preserve the arrangements for the reliefs that are already included in the baseline, and to ask Government to continue to contribute to growth in reliefs above the baseline level once 100% retention is introduced
- For Government to continue to fund a share of any growth in reliefs in rural areas
- To increase the support for rural businesses through increased central support for Rural Reliefs
- To ensure growth in MU areas (especially in London) is shared – levies on growth in London to be used to fund national safety net

Changes to business rates

- Targets that reflect (a) ability to grow ratebase and (b) proportion offset by reliefs
- To provide additional or alternative incentives for authorities with the least opportunity to grow
- More frequent review of needs and equalisation of resources
- Levies for top-up authorities - £1 raised above target should be treated in same way anywhere in the country
- Continue safety net use (sensible feature of the system)

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