



Towards a greener Green Book Process

Delivering the promise of proportionate public funding for rural communities

Summary of Key Findings, Data and Recommendations for Change

December 2020



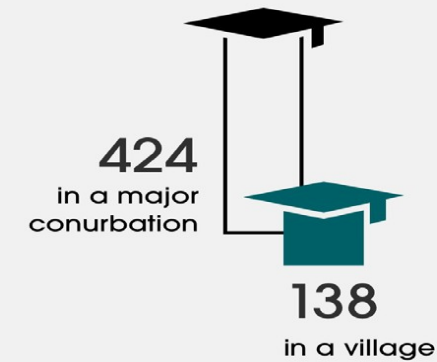
Level up

The rural challenge

Rural areas face a triple whammy

Higher costs

(rural areas lack economies of scale)
Average number of pupils per school



Lower funding

Local authority capital expenditure per person



Greater need

Median full-time wage per hour



The way in which government allocates spending spatially is placing rural communities at a disadvantage - and failing to unlock the opportunities they can offer to the nation as part of a digitised, decarbonised and decentralised modern economy.

The Green Book review is a missed opportunity

The Treasury's recent review of the Green Book was an opportunity to deliver a mechanism for proportionate funding as part of the commitment to levelling up and closing gaps between regions. But it has not been seized.

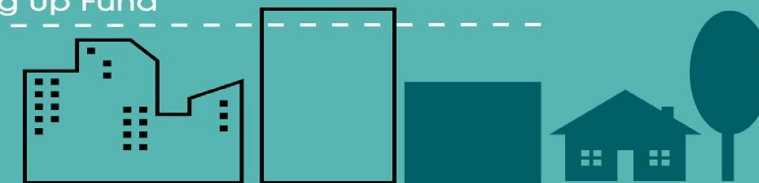


3.5%

The Green Book should recommend 'sparsity-normalised costs' in funding appraisals to redress the rural imbalance. Other options to improve the government funding process include a review of the overall discount rate used, and to consider the potential for a new lower rural-specific rate.

£4bn

Levelling Up Fund



Reducing rural disadvantage

The government's 'levelling up agenda' should encourage tangible progress in reducing rural disadvantage. Success must be measured in a way that reflects the inherent differences between country and city lives, and will require more granular public spending data at the local level.

BACKGROUND AND OVER-ARCHING COMMENTS

Rural areas face the triple whammy of higher costs, lower funding and greater need. Lack of economies of scale mean delivery of services in rural areas will likely cost more than in urban locations. But despite this, public sector spending per head is higher in regions with a greater share of the population living in urban areas. This urban-centric bias has a particularly acute impact on the rural regions with no major cities that make up Britain's Leading Edge.

The way in which **government allocates spending spatially is placing rural communities at a disadvantage** - and failing to unlock the opportunities they can offer to the nation as part of a digitised, decarbonised and decentralised modern economy.

The challenge of levelling up disadvantaged communities is one which is as much, if not more, about differences within regions as between regions. The gaps between rural and urban can be more acute than those between north and south.

THE RURAL CHALLENGE

Rural Funding

The available evidence points clearly to **rural areas receiving government funds at a lower per capita rate than elsewhere. The favouring of urban over rural is visible across not only investment but also all categories of current activity. Regional comparison can only go so far in helping understand or quantify any differences between sparsely and densely populated areas.**

Local authority data **show lower per capita spend in rural areas.** For example, capital expenditure by members of Britain's Leading Edge, was an average of £301 per head in 2019-20 compared to £434 in their equivalents elsewhere.

Evidence also points to national programmes funded and administered by central government **delivering fewer outputs in rural areas than urban.** For example, the rate at which new social and affordable homes were built in the most rural areas was 116 homes per 100,000 of population over 2016-17 to 2018-19 compared to 158 elsewhere.

Rural Costs

In general, **it costs more to deliver the same service or same capital project in a rural area** than it does elsewhere.

The unit cost of business activity in a given area will decrease as the population density of that location increases. **Towns and cities provide for economies of scale and scope that rural areas cannot match.** Moreover, rural areas are often most affected by a seasonal influx of visitors driving up demand for services, so analyses per resident population can understate the additional costs from hospitality. Government should expect to **spend more to achieve the same outcomes in a rural location than in an urban one.**

- Rural areas have **more fixed costs per pupil** due to lower numbers in each establishment.
- Fire and rescue are another good example of the issue. The most sparsely populated areas require double the number of full-time equivalent firefighters per incident to provide cover. Indeed, even with this level of staffing, **rural response times remain longer than urban ones.**

There is surprisingly **little usable research into rural-urban differences in costs.** Even the most recent government announcements **reinforce rural disadvantage.** The *National Infrastructure Strategy* acknowledges the important role of connectivity in levelling up rural areas, but despite government plans, gaps will remain.

With **reliable and speedy internet** now an essential service for many as demonstrated in the pandemic, the lack of provision in some rural areas will further widen the gap in productivity.

Rural Needs

Rural areas have some of the greatest need for government expenditure.

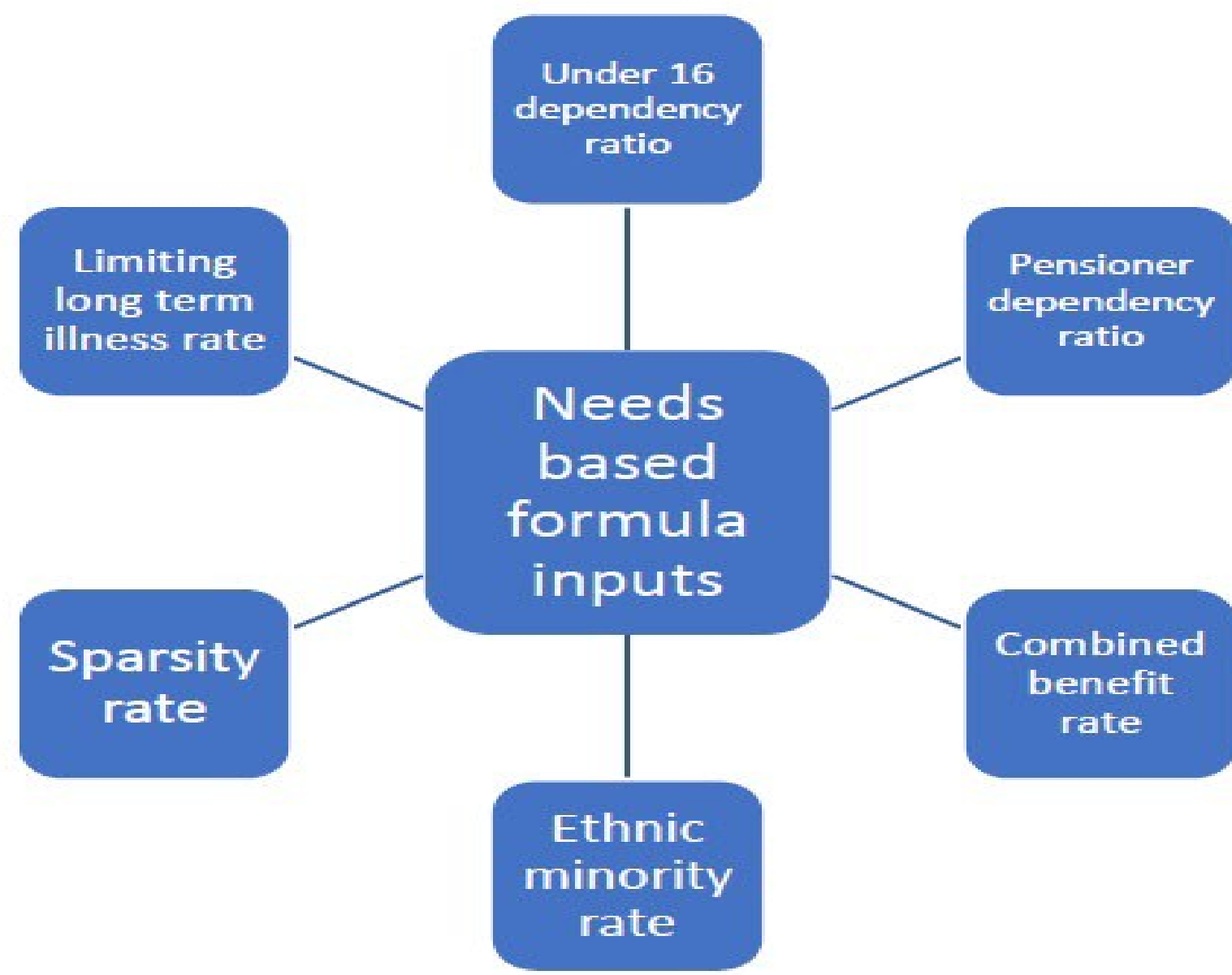
There are economic challenges, with **relatively low levels of prosperity among those who live and work in rural communities.**

Lower wages mean market-rate house prices and private rental costs are **unaffordable for many local people.** Excluding London, **the ratio of house prices to local wages is higher in rural or significantly rural areas** of England than in urban locations.

Demographic challenges, like the **aging population, are felt more acutely in rural areas** – with more sparsely populated areas having higher proportions of the population at retirement age.

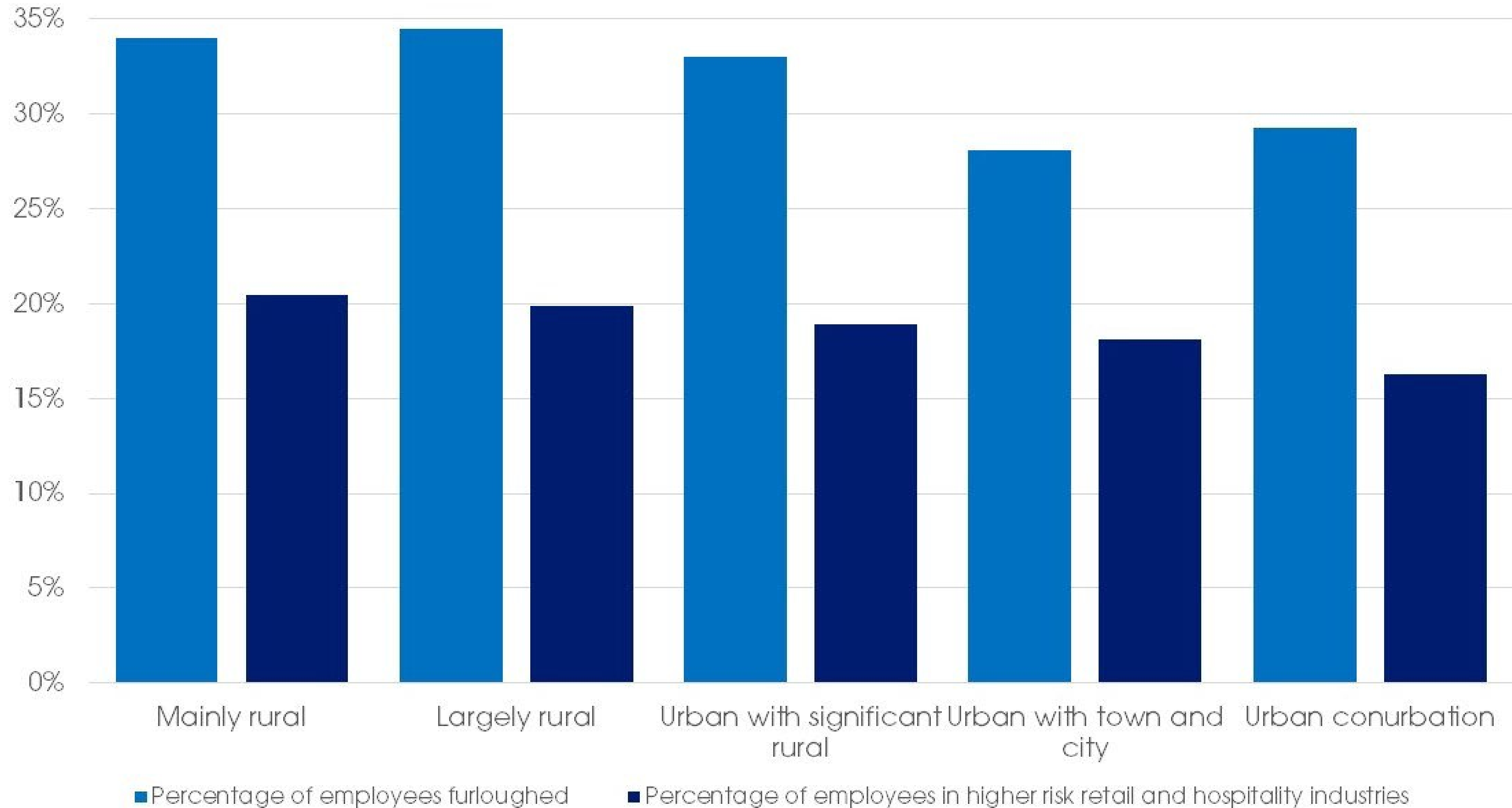
The higher costs and **greater need in rural areas are explicitly acknowledged in the United Kingdom government's funding settlement** for the devolved administration in Wales.

The Holtham Commission recognised that per capita government **spending should be fifteen per cent greater in the principality than in England**. The equation used to calculate the spending premium was based on six factors – which included a ‘sparsity rate’.



The coronavirus pandemic has **reinforced rural disadvantage** – given these areas’ share of jobs in badly-impacted sectors, such as tourism, retail and hospitality (See Exhibit 2-10).

Exhibit 2-10: Percentage of employees furloughed and employees in higher risk hospitality industries by rural or urban classification, England, August 2020



THE NOT SO GREEN BOOK

Unfinished Green Book Business

The *Green Book*'s place-based analysis **does not consider where previous funding has been allocated**, which signals a failure to view proposals in a broader context. This **reinforces the challenges facing rural areas in securing funding**.

There are, though, **at least five technical areas where further revision or improvement would be welcome from the rural perspective**. These issues potentially disadvantage the appraisal of rural interventions.

- **First**, the relative impact of a given monetised value of benefit to rural communities could be explicitly included in the guidance. **The argument here is that £1 of benefit in a rural community should have a higher-than-average weight in the *Green Book*** to reflect typically lower incomes locally. **Indeed, this would be consistent with the approach in the 2003 edition.**
- **Second**, the discount rate is unchanged since before the global financial crisis. A **higher discount rate makes it harder for rural projects to achieve** a positive net present social value.
- **Third**, there are **arguments for the use of a new lower rural-specific discount rate**.
- **Fourth**, the issue of higher unit costs in rural areas may be better addressed through adjustments in the social cost benefit appraisals rather than to the cost numbers themselves. The **use of 'sparsity-normalised costs'** – i.e., costs that have been adjusted to reflect the impact of the local density of population – would ensure that the appraisal of rural schemes would be like-for-like with urban ones.
- **Fifth**, the *Green Book* struggles to assess the value of **'transformative'** projects, which are interventions that deliver step changes in outcomes rather than incremental ones.

Interventions in sparsely populated areas can be more transformative for their communities. **The rollout of ultrafast broadband is a greater step change in digital connectivity for rural areas than urban.** The creation of an industrial estate with new engineering jobs will provide greater economic diversification and boost incomes more in a farming/tourism-only village than in a mixed-economy city.

Re-greening the Green Book Process

Regardless of the technical detail of the guidance, the greater challenge to **proportionate treatment of rural communities comes from how the appraisal guidance is implemented by government departments and agencies, including LEPs**. The Treasury is clear that the *Green Book* must sit within a broader and strategic policy development and decision-making framework, and this point is reinforced in the 2020 review. But, in practice, **the outcomes for rural areas demonstrate that this is not happening effectively – and the recent revisions to the guidance do not to change this.**

The *Green Book* reinforces incrementalism and inertia. Without a robust strategic framework, politicians and officials might reasonably consider each decision incrementally and opt for **those initiatives with the highest positive net present social value**. This may make sense on case-by-case basis but, when considering the process as a whole, **it can result in an unbalanced and distortive portfolio of interventions – and it will likely disadvantage rural communities.**

In a direct comparison between like-for-like interventions in rural and urban areas, a social cost benefit analysis will **typically favour the towns and cities.**

Although major revisions to the *Green Book* have been announced alongside the Chancellor's November 2020 spending review statement, **more will be needed to put rural communities on a proportionate footing with their urban counterparts.**

The criteria for the success of ‘**levelling up**’ need to be specified in a way that makes visible and encourages **progress in reducing rural disadvantage**. In turn, these criteria need to be embodied in the broader *Green Book* appraisal process.

Geographical Criteria

- Any criteria for the success of the government’s new policies must have a focus more granular than the nine regions of England – with levelling up assessed, addressed and monitored at a local level.
- There is **no explicit definition of levelling up given in the government’s new *National Infrastructure Strategy***. The objective of the new cross-departmental Levelling Up Fund, worth £4 billion in England, is to “invest in local infrastructure that has a visible impact on people and their communities and will support economic recovery”. It is stated that this is: “Open to all local areas with priority given to places in need, those facing particular challenges and areas that have received less government investment in recent years”. **On the face of it most rural areas meet the headline definitions. To be transparent, government needs to define these areas and the criteria for the decisions. Any framework developed to allocate funds for levelling up should assess local needs as a minimum for each of England’s 101 ‘Level 3’ areas of the Nomenclature of Territorial Units for Statistics.**

Metrics of Success

It remains unclear on what metrics the success of levelling up will be measured, although productivity, employment and educational attainment are mentioned in the *Green Book* review response. Whatever are chosen **need to properly reflect the nature of rural disadvantage**.

Practical Capacity

With the allocation of the Levelling Up Fund set to be the outcome of a bidding war between different local areas, **rural authorities are disadvantaged by their lack of resource and capacity to complete their applications to Whitehall. Expert resources need to be made available for rural authorities to produce businesses cases and advocate for their priorities**

