Counting The Real Cost of Rural Services

How the local government funding formula could better reflect the cost of rural delivery.

Position paper for the Ministry of Housing, Communities and Local Government

November 2026

Our Case In Brief

Around a quarter of England's councils are rural or predominantly rural, yet together they cover two thirds of England's land. They deliver services across longer distances, to more dispersed and older populations. Independent research commissioned by RSN, supported by Grant Thornton shows that some of these costs are real, measurable and not fully recognised by the current funding formula. Whilst no single pressure is large on its own, the cumulative impact, compounded over time has a real impact.

RSN is making a targeted case for change, asking Government to recognise the specific costs of **distance, scale of network infrastructure and limited competition in the provision of services** that the evidence shows are higher in rural areas. We ask MHCLG to commit to updating the funding formula at its next review so that it reflects the cost of delivering services where they are delivered, and treats similar services consistently. Where the evidence is clear, we ask for change now and where it is incomplete, including costs national data cannot yet see, we ask MHCLG to work with us to complete it in time for the next multi-year settlement.

What the evidence shows

1. **The Accessibility weighting in the Area Cost Adjustment is too low.** The weights are based on historic spend, which may reflect underfunding rather than actual costs or need. Accessibility is weighted at between 2% and 5% of the Labour Cost Adjustment. This equates to between 1% and 3% of the Area Cost Adjustment, which is lower than the modelled impact of rurality.
2. **Rural road, winter and bus networks cost more to keep running.** Rural councils spend 47% more per head on highways and transport, 3.4 times as much on winter service and 2.4 times as much supporting bus services. The Area Cost Adjustment barely changes these gaps, and rural minor roads are still in worse condition.
3. **Limited competition in the provision of services mean rural councils pay more for less choice.** One rural council pays £4.25 an hour above its regional average for home care, around £2.6m a year for that service alone. Another found 17% of its passenger transport contracts over five years attracted one bid or none.
4. **Similar services are treated differently.** The remoteness adjustment applies to adult social care but not to children's social care, even though both are personal, home-visit services delivered by similar staff across the same geography.
5. **Some rural costs are invisible to national data.** Running face-to-face services alongside digital ones, covering vacancies in thin labour markets and transporting children to distant specialist places do not appear as separate lines in national spending returns. A formula built on those returns cannot see them.

What we are asking MHCLG to do

	Our Ask	Type Of Ask
1	Apply the remoteness adjustment to children's social care, on the same basis as adult social care.	Specific change at the next formula update
2	Review the weighting of the accessibility adjustment, starting with waste, using evidence of cost rather than past spend alone.	Targeted formula review leading to change
3	Recognise thin provider markets as a distinct cost driver, alongside support for joint procurement and market shaping.	Further work on the formula and wider policy
4	Set up a joint evidence programme with RSN to collect consistent data on the rural costs national returns cannot currently see.	Evidence

1. Why this matters

The Rural Services Network believes that the funding formula for local government needed urgent changes to make it more transparent and fair, however the new model does not deliver fair, evidence-based treatment of rural cost pressures.

The RSN made representations to Government in response to their consultation, arguing that funding reforms redistributed funding towards more urban areas prioritising an urban model of deprivation and shifting the formula away from recognising the cost of delivering services in sparsely populated areas.

The reforms introduced through Fair Funding 2.0 moved the system to one that is simpler and more consistent. But for rural areas it also removed explicit recognition of rurality. The Rural Services Delivery Grant (£110m) and the sparsity indicators were removed. Need is now estimated mainly through deprivation and daytime population. Remoteness, which earlier versions of the proposals applied more widely, is now applied only to adult social care.

RSN was not alone in raising concerns. Of the respondents who commented on the Area Cost Adjustment in the 2025 consultation, 19% called for rurality and sparsity to be recognised and 18% called for remoteness.

RSN's own analysis of the settlement shows the effect. Between 2024/25 and 2028/29, Government Funded Spending Power in urban areas is set to grow by 20%, against only 2% in rural. Rural residents already pay 17% more per head in council tax than urban residents.

Government has said the new formula accounts for the costs of delivering services in rural communities. RSN commissioned independent research completed by Grant Thornton to test that claim against the evidence.

2. The evidence base

The Remoteness Review was carried out in four stages:

- **A national classification.** All 317 English councils were placed into four bands (rural, predominantly rural, predominantly urban and urban) using a Rurality Indicator that combines the ONS Rural-Urban Classification, the travel-time measures already used by MHCLG, and population density.
- **National spending and outcomes analysis.** Councils' 2024/25 Revenue Outturn returns were compared across the four bands, both as reported and after adjusting for the Area Cost Adjustment. For six services, spending was paired with a recognised outcome measure to test whether higher rural spend buys a better or worse result.
- **Statistical modelling.** Regression analysis tested whether rurality, remoteness and accessibility are linked to higher spend once we control for relevant factors that may include things like deprivation, and service-specific factors, and after removing the cost differences the Area Cost Adjustment already recognises.
- **Evidence from councils.** 114 councils across all four bands were contacted. 35 responded (31%), giving 271 separate pieces of evidence across 20 themes. Urban councils were included so that rural experience could be compared with urban experience.

3. What the evidence shows

3.1 Distance and dispersal: the cost of reaching residents

Delivering services across a large, dispersed area takes more staff time, more vehicles, more wear and tear of these vehicles and more depots. This was the most consistent rural pressure that was highlighted by councils in the evidence provided. Staff travel was raised by 74% of rural

and 75% of predominantly rural councils that responded, and by none of the urban councils. Staff travel and fleet together were raised 53 times, 70% of them by rural councils.

The statistical modelling supports this finding for waste collection, after controlling for waste volumes, recycling rates, and removing the cost differences from the Area Cost Adjustment such as labour and rental cost differences. The modelling found a U-shape, where councils at the most extreme ends with the shortest and the longest journey times between neighbouring areas (traversal) spend more collecting waste per dwelling.

MHCLG's sets a 2-5% weighting across difference services for accessibility, and because accessibility sits inside the Labour Cost Adjustment, the real effect of accessibility on the Area Cost Adjustment is around 1 to 3%. That weighting was set from councils' past spending. If rural councils have been underfunded for this pressure in the past, basing the weighting on past spending carries that gap forward.

A cost of increased travel is also worker productivity, is not just mileage. The Department for Transport's appraisal guidance values work travel as lost productive time at full employment cost. Time a care worker spends driving is time not spent caring, so the same caseload needs more staff hours.

> **From Councils: The Cost of A Care Round**
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> In one rural council, a round-trip visit commonly takes 80 minutes, and travel takes up around a fifth of practitioner time. In another, reablement workers, who help people regain independence after illness or a hospital stay, complete 30% fewer visits per shift in the council's most rural area than in its most urban area.
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> A predominantly rural council runs 59 refuse collection vehicles and estimates it would need around half as many if the whole county were as densely populated as its main town. Another operates nine depots and five fleet workshops to cover its area.

3.2 Networks: roads, winter service and buses

Some rural costs come from the size of the network a council has to maintain, not from the number of people it serves. The national spending analysis shows:

Service	Rural (Per Head)	Urban (Per Head)	Difference
Highways and transport	£18.16	£12.35	47% higher
Winter service (gritting and snow clearance), after Area Cost Adjustment	£7.62	£2.26	3.4 times higher
Bus operator support, after Area Cost Adjustment	£12.03	£4.94	2.4 times higher

Applying the Area Cost Adjustment barely changes these gaps. That is because the adjustment is based mainly on labour and property costs, which are often lower in rural areas, rather than on the length of the network. Despite higher spend, rural minor (B and C) roads are in worse condition than urban ones: 7.6% are rated in poor condition, against 5.8% in urban areas. This is the clearest case in the research of rural councils paying more and getting a worse result.

Supported bus services matter because, in many rural areas, there is no commercial alternative. Without council support, residents without a car lose access to work, education and health services. Rural councils also have fewer ways to offset network costs. In some urban authorities, particularly in inner London, parking income is larger than total highways spend.

3.3 Thin markets: paying more for less choice

Where there are few local providers, councils may pay more. This is a different cost from travel time: it raises the price of a service, not just the cost of reaching residents. Thin markets were raised 31 times in the council evidence, 96% of them by rural and predominantly rural councils, the clearest rural-urban split of any theme.

> **From Councils: The Price of A Thin Market**
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> **Home care.** One rural council pays an average of £28.05 an hour for home care, against a North West average of £23.80, and sets higher rates for its rural and most rural areas. The council's estimate of the impact of this difference across 12,000 hours a week, is around £2.6m a year for one service.
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> **Transport contracts.** A rural council found that 17% of its passenger transport contracts over five years attracted one bid or none. A predominantly rural council received one bid for a rural home-to-school transport route, against 20 bids for a similar route in a more accessible area.
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> **Where there is limited competition in the provision of services.** Thin markets were raised 31 times, almost entirely by rural and predominantly rural councils (96% combined). One predominantly rural council has expanded its in-house children's residential provision to around 30 places because of market failure, alongside a budget for about 140 external placements. One rural council pays an average £28.05 an hour for homecare, against a regional average of £23.80, a gap of £4.25 an hour. Across 12,000 hours a week, it estimates this adds about £2.6m a year. A rural home-to-school transport contract received one bid, against 20 for a comparable contract on a more accessible route.

Fewer potential suppliers of a service, leads to less competition, and may mean higher prices than relatively competitive places. However, even a market with few suppliers can stay competitive if new providers could credibly enter and this aligns with the economic theory of contestable markets. The problem persists where there are few suppliers to begin with and no credible threat of new entrants, which is more likely in rural areas, where the cost of entering may be high relative to the amount of work available. Without that threat, existing suppliers face less pressure to keep prices down.

We recognise that simply funding councils who face higher prices as a result of thin markets risks removing any pressure on such markets to become more competitive. The right response is therefore likely to combine fair funding for a cost councils cannot control with support for joint procurement and market shaping approaches that address the lack of choice of competition within such markets.] Providers already build rurality into their prices, which could give a practical starting point for a benchmark

3.4 Consistency: treating similar services the same way

MHCLG's remoteness adjustment applies only to adult social care while children's social care has no remoteness-specific cost adjustment at all. Both are personal, statutory services requiring regular home visits, delivered by the same regulated profession - social work has been maintained by government policy as "a single profession, with a common core set of values, skills and knowledge" across children's and adults' services, with social workers in both settings registered under the same regulator, Social Work England.[1] MHCLG's Fair Funding Review 2.0 consultation document originally proposed a 2% remoteness weighting for Children's Services,

[1] Department of Health, *Strategic Statement for Social Work with Adults* (2016): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/537069/DH-vision-adult-social-work.pdf

matching the same 2% proposed for Adult Social Care;[2] the remoteness adjustment was subsequently removed from every service except Adult Social Care.[3] That was a policy decision about where to apply the adjustment, not evidence that the underlying cost pressure exists only in adult social care.

> **From Councils: Finding A Placement**
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> A predominantly rural council has been able to place only 15% of children needing the most complex residential care within its own area, with almost half placed at a distance because few providers operate across its large rural area. A rural council places 20.9% of looked-after children outside the county and spends £499,000 a year transporting children in its care.

For Adult Social Care, the modelling found that remoteness is associated with spend for working-age adults. The estimated relationship is a U-shape: spend falls as remoteness first increases, then rises again for more remote authorities.

3.5 Costs that national data cannot see

Several of the rural cost pressures identified in this review are not visible as separate lines in councils' Revenue Outturn returns, including the effect of thin provider markets and the cost of out-of-area SEND transport and placements. The funding formula models need from historic spend and has no direct rural variable, with remoteness recognised in adult social care only. These pressures are therefore unlikely to be reflected in allocations, even where councils report them as real.

Digital access and face-to-face services

Whilst broadband coverage is generally adequate across rural areas, the cost of running staffed offices, outreach points and assisted phone support alongside digital services is a pressure. One rural council spends up to £720,000 a year on this; two others spend £37,000 and £98,000 on rural outreach points. 76% of the evidence on this theme came from rural councils.

Revenue Outturn returns have no spend line for these channels, so national data cannot show the cost, and the formula has no adjustment aimed at it. The remoteness adjustment is the nearest existing mechanism, but it applies to adult social care only, and whether it suits this cost has not been tested. We therefore ask MHCLG to test whether remoteness, or another measure, can recognise it.

Workforce supply

Recruitment is hardest where the local labour pool is small. One rural council has a 9 to 12% vacancy rate in adult social care and spends £15.4m a year on agency staff to fill the gap. Another's care workforce depends on the cost and reliability of a ferry crossing. Rural councils also report that staff cannot afford to live near where they work.

The Labour Cost Adjustment already uses local wage data. So, this evidence points to a shortage of available workers, which the adjustment does not measure, rather than a problem with wage data.

Transport for children with special educational needs and for children in care

[2] MHCLG, *The Fair Funding Review 2.0: A consultation*, Table 5 "Illustrative ACA Weightings": https://www.gov.uk/government/consultations/the-fair-funding-review-20/the-fair-funding-review-20

[3] MHCLG, *Area Cost Adjustment Technical Note*: https://www.gov.uk/government/publications/area-cost-adjustment-technical-note/area-cost-adjustment-technical-note

Transporting children to specialist school places and to care placements was raised by councils in all four bands, but 91% of the evidence came from rural and predominantly rural councils. One predominantly rural council spends around £8,900 a year transporting each pupil with special educational needs, against around £1,900 for a mainstream pupil. Whilst this is indicative of pressures there is a need for consistent national data before they can be properly reflected in the formula.

4. What we are asking MHCLG to do

Our asks fall into three groups: a specific change we believe can be made at the next update of the formula; further, targeted work on the formula, which we want to do jointly with MHCLG; and better evidence. We would welcome a meeting with officials to agree how to take these forward before the next multi-year settlement.

Ask 1	**Apply the remoteness adjustment to children's social care**
Type of ask	Specific change at the next formula update
What we are asking for	Extend the existing remoteness adjustment to children's social care, on the same basis as adult social care.
The evidence	Both are personal, home-visit services across the same geography. MHCLG chose where to apply the adjustment; it did not find the cost was absent. Some modelling direction is consistent; placement evidence shows the cost of distance .

Ask 2	**Review the accessibility weighting, starting with waste**
Type of ask	Targeted formula review leading to change
What we are asking for	Re-estimate the weighting of traversal and dispersal using evidence of cost rather than past spend alone, and test the measures against journeys staff make in practice. Start with waste, then extend to other services with rounds and home visits.
The evidence	Long travel times between households are associated with higher waste collection spend. This gap persists largely unchanged even after MHCLG's funding formula has been applied. The weighting was set from historic spend. Care visits per shift fall by 30% in rural areas.

Ask 3	**Recognise thin markets as a distinct cost driver**
Type of ask	Further work on the formula and wider policy
What we are asking for	Develop a measure of market thinness (for example, provider rates or the share of contracts attracting one bid or none), alongside support for joint procurement and market shaping so funding does not simply pay for a lack of competition.
The evidence	Home care premium of around £2.6m a year in one council; 17% of transport contracts with one bid or none; one bid against 20 for a comparable route.

Ask 4	**Build the evidence the formula needs**
Type of ask	Evidence
What we are asking for	A joint evidence programme with RSN before the next multi-year settlement, collecting consistent data on staff travel time, face-to-face and assisted digital services, single-bid contracts, out-of-area placement and special educational needs transport, and workforce supply. Consider whether new Revenue Outturn lines are needed. Use this to test whether remoteness should apply beyond adult social care.

Ask 4	Build the evidence the formula needs
The evidence	Councils report these costs, but national spending returns do not record them separately, so they never reach the formula.

What RSN will contribute

We will share the full technical report, modelling and highways analysis with MHCLG analysts, work with officials on the design of any changes, and ask our member councils to provide consistent data through the joint evidence programme.

What we are not asking for

We are not asking for a blanket rural uplift across every service. We are asking for the same evidence-based treatment of the costs that fall more heavily on rural areas.

5. Caveats of the analysis

We want this case to stand up to scrutiny, so we are clear about the caveats that need to be attached when interpretating the data:

- **The modelling doesn't prove a causal relationship:** Regression analysis is a statistical method for testing whether a factor - here rurality, remoteness or accessibility - is associated with expenditure on providing a service once other explanatory factors are accounted for. No regression can prove with certainty that a causal relationship exists, but it can show how likely it is that the relationship is real and the potential magnitude.
- **Only one year of data:** The modelling uses FY2024/25 spend data. It shows some associations between remoteness, accessibility and spend, not proof of cause and effect over time.
- **Council cost is proxied by spend data:** Council spend is used as a proxy for cost, since cost data is not available. Spend reflects local policy and budget decisions rather than a true reflection of underlying cost pressures and therefore may not be the most accurate measure to inform true cost differences.
- **Some modelling results are sensitive or not statistically significant:** The regression modelling tested a range of variables (remoteness, rurality, and accessibility), a range of other factors that affect the costs of services, and a range of shape of relationship (linear, U-shaped). Some of the modelling results were sensitive to these changes or did not provide statistically significant results.
- **Council evidence is illustrative:** It comes from 35 of the 114 councils contacted, is self-reported and has not been independently verified, and only four urban and four predominantly urban councils responded. Few councils put a cost on their pressures. It explains how costs arise; it does not measure them nationally.
- **The waste collection result is imprecise**: The modelling found that waste collection spend is higher at the extremes of journey time between neighbouring areas, not across the whole range. Councils with moderate journey times may spend less than the median council, and the estimates have wide error bars, so this result should be read as indicative rather than precise.