



22nd November 2014

Rt. Hon. Eric Pickles MP
Secretary of State for Communities and
Local Government,
2, Marsham Street,
LONDON SW1p 4DF

Dear Secretary of State,

Re: Study into cost of delivering rural services

Further to our letters of 14th of August to Brandon Lewis and Kris Hopkins we are writing to you alongside the report from LG Futures on the DCLG and DEFRA study into whether rural authorities face additional and unavoidable costs in delivering services compared to urban authorities.

As you are aware we welcomed the study as an opportunity to explore rural costs and we acknowledge the positive findings that have been recognised between a number of services and sparsity. We consider these are important findings, they constitute the first time that government commissioned work has established sparsity as a factor influencing service cost.

Of the expenditure groups considered in the report, sparsity was found to be positively and significantly related to unit costs in services accounting for £7.0bn of local authority expenditure in 12/13. These relate to a number of services such as waste collection, regulatory services and economic research and development. These services are vital to rural communities and the economy of the local area and therefore should be fairly and adequately funded.

The summary report highlights where the research revealed additional costs associated with sparsity but also a number of areas where limited cost and activity data make it difficult to establish a relationship between sparsity and unit costs.

Providing a voice for rural communities and service providers

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There are a number of services where there was found to be a lack of supporting evidence and even a negative relationship between sparsity and unit costs. It is important this is fully understood. In our view this can be explained by low or non-existent provision of many of these services. The research is based on Revenue Outturn Expenditure returns for local authorities, or more simply, how much did local authorities spend on particular services. Rural local authorities have been underfunded for a large number of years due to understatement of the additional 'sparsity' cost of delivery. This has led to reduced levels of spending on certain services when compared to urban authorities.

Public Transport is a key example of this where the service is provided very sparingly in rural areas due to the very high cost of providing a universal service. Relatively low numbers of the population are able to access the service due to the low provision capable of being funded. The low costs should not be misconstrued as provision being less expensive in rural areas but rather the significantly lower levels of provision in those areas associated with higher unit costs and low levels of overall funding. In fact, we believe that many of the areas highlighted in the report as having a negative correlation between sparsity and unit costs, are explained by none or partial provision associated with historically low government funding for rural areas.

We categorically do not want historical underfunding and therefore lack of provision, or low levels of provision in rural areas, to result in a negative implication for equitable funding of rural areas.

Rural residents would find it hard to understand the sense in a system that historically underfunds their services, and then produces evidence that their services are not expensive as they are not provided, to justify not providing adequate funding in the future, particularly at a time when further cuts are being made.

The report also highlighted broadband as an issue for rural communities.

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Rural areas are often behind urban areas in terms of the roll out of new technology for both broadband and mobile phone advances. The market provides for these 'universal' services in urban areas but rural areas are left fighting for a share of the coverage. Rural Authorities (unlike their urban counterparts) have already had to inject their own funds from shrinking resources to either match fund government initiatives or directly incentivise schemes. This will continue to be a problem year on year as technology advances and the development of the market mean that rural areas are left behind. With the Business Rate Retention Scheme, councils are keen to see economic growth in their area however for rural area with poor broadband or mobile phone reception, it can be difficult to entice businesses to develop within their boundaries.

In order to ensure access to services for all residents, rural areas often have to invest in more localised services or hubs rather than centralising operations in one location. This can result in additional costs for rural authorities that urban authorities don't have to face. Transformation Challenge Funding has helped rural areas to develop specific initiatives however this has not been available across all authorities. A number of our members are looking at such initiatives and would welcome the opportunity to receive targeted support to overcome some of the issues caused by population dispersal and settlement patterns.

Although we accept the limitations set out in the report in respect of available data, we do feel that there is sufficient to show that sparsity impacts on the cost of service delivery to make the existing relationship between sparsity and density in the formula unsustainable. The findings simply do not support past ministerial judgement that density (in the district and county EPCS services) should have a weighting that is very considerably greater than sparsity in the formula.

We appreciate that the Local Government Finance Settlement consultation has now closed which makes it difficult for you to materially alter the settlement for 15-16. However based on the evidence within the study which shows a positive correlation between sparsity and increased costs we ask you for a very significant increase in the Rural Services Delivery Grant for 15-16 as an interim measure.

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Changes were made to the formula in 2012-13 to increase the sparsity element however as you are aware this has resulted in over 75% of funding being taken away through the damping mechanism and other changes to the formulae. This is being lost to rural authorities year on year at a time when all authorities are receiving equal funding cuts.

While much of the 'increased' sparsity element has been frozen by this administration, previous governments have seen fit to introduce through ministerial judgement and with no governmental research, an enhanced density factor that is many times the size of the sparsity factor and as such has a significant influence in each annual settlement.

This has contributed to a position where in 2014/15 rural authorities receive an average £329 per resident of Settlement Funding Assessment (SFA), compared with £483 in urban authorities. Urban authorities receive a further £25 per head more in other government grants making the disparity in Government funded spending power £178 per head in favour of urban residents. As welcome as Rural Services Delivery Grant is, at current levels it is worth less than a pound per head in rural areas.

The consequence of historic underfunding of rural areas is, not surprisingly, higher Council Taxes in rural areas. Last year, the average rural resident paid £79 per head more in Council Tax than those living in urban authorities. So rural residents pay more in Council Tax from lower wages to receive less Spending Power.

This position will not change in 2015/16 given the equal cuts to all authorities. We accordingly ask government to use their ministerial discretion to fully ensure that the findings that have been able to be established at this stage with this report, and those recognised in 2012-13 are acted upon. This would require a significant increase in both the amount and the breadth of eligibility for the Rural Services Delivery Grant for 15/16.

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Given the findings of the report, we would ask for the following:

- A very significant increase in the Rural Services Delivery Grant and a widening of the eligibility criteria as the addition costs are not just limited to super-sparse authorities. With a difference of £178 per head in government funded spending power, this must be increased to significantly close the gap between rural and urban.
- A specific amount of funding for rural authorities to bid for, potentially with the support of the Transformation Network, to enable them to innovatively ameliorate some of the issues of sparsity which have been acknowledged in the report as relevant.
- Further research in the areas that LG Futures has highlighted. There is sufficient evidence in the study to ensure that there is a renewed effort to seek more detailed information. Resources should be made available to enable a sample of local authorities to put in place mechanisms to collect relevant information to provide a full analysis of rural cost of service delivery.

Rural areas are currently suffering disproportionately at a time of hardship. It is inequitable and unfair to rural residents to go on like this and action now needs to be taken.

Yours sincerely

Graham Biggs MBE, FCIS
Chief Executive

Copied to: Kris Hopkins, Parliamentary Under Secretary of State
For Communities and Local Government

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