

RSN Rural Conference

Finance Issues



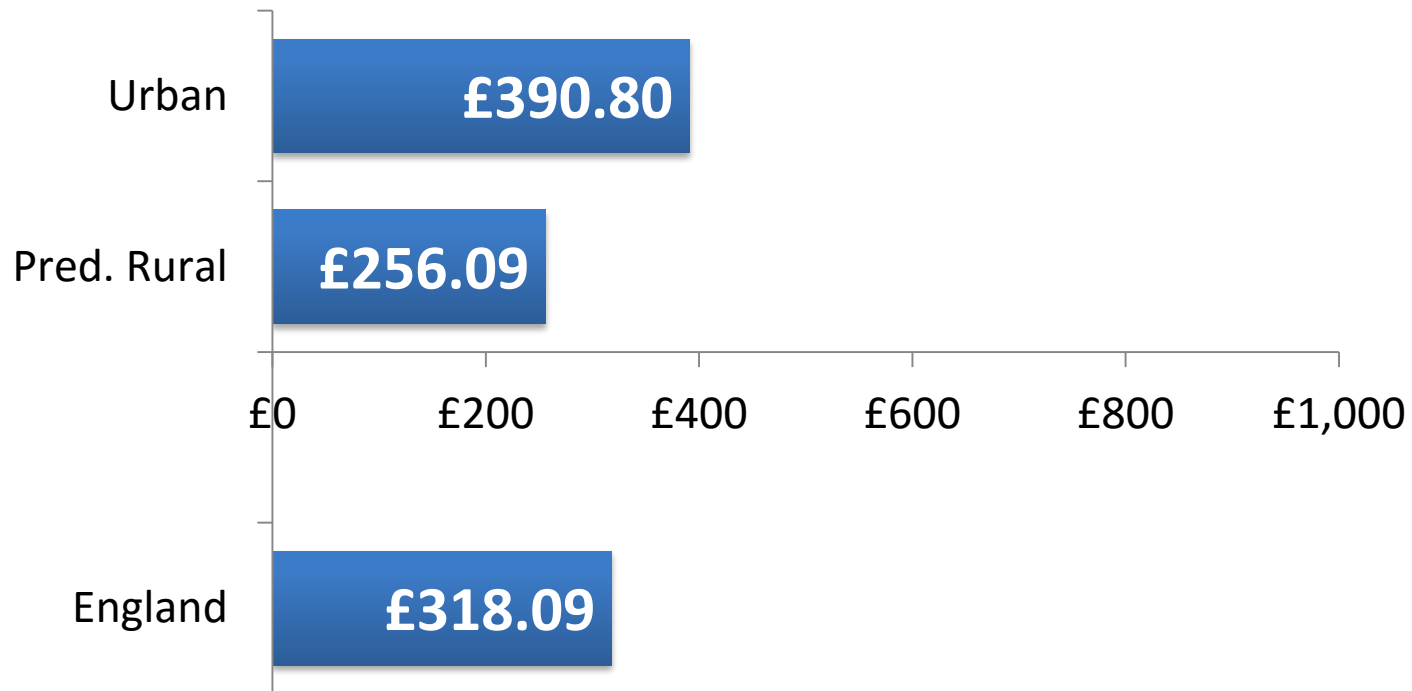
To Cover

- The Story so far ...
- The 2016/17 Settlement analysed
- Summer Consultation

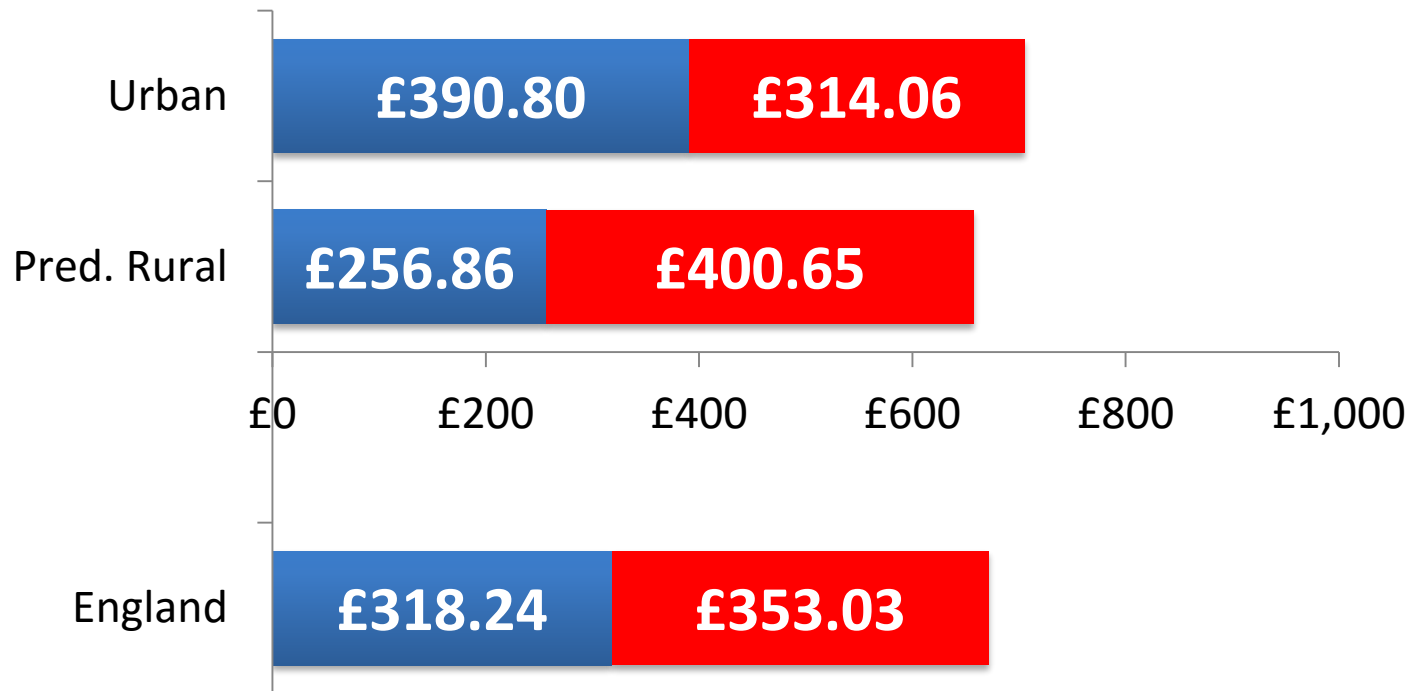
The story so far...

- May 2010 – New ‘rural friendly’ coalition government!
- July 2011 – Technical consultation on Localised Business Rates issued
- ✓ **For perhaps first time, massive response from rural authorities**
 - January 2012 – First coalition settlement shows extent of the problem
 - July 2012 – Technical consultation includes changes to sparsity weightings as main proposed changes
 - December 2012 - 13/14 provisional settlement released with rural gains but as with consultation, damping significantly wipes out gains
- ✓ **Significant involvement of MPs and Graham Stuart’s Rural Fair Shares Campaign**

13/14 Final Settlement: Formula Grant is considerably lower per head in rural areas than urban areas (by about £135)



13/14 Final Settlement: Council Tax is significantly higher per head in rural areas (by about £85)



The story so far...

- January 2013 – 13/14 Final Settlement
 - ✓ Significant political pressure from coalition MPs and Daily Telegraph article
 - ✓ Government introduces £8.5m ESSSA grant (Efficiency Support for Services in Sparse Areas)
 - ✗ Despite this, rural authorities received a larger cash reduction in Government funding than their urban counterparts

Fast forward one year...

- January 2014 – 14/15 Final Settlement
 - ✓ Government increases ESSSA to £9.5m at the December provisional settlement
 - ✓ More political pressure results in this increasing to £11.5m by the time the final settlement is announced
 - ✓ But by now the large cuts in SFA are shared equally between all authorities, locking in the 13/14 rural damping losses and effectively maintaining the urban / rural inequality
- Commitment to DCLG/Defra study on costs of providing services in rural areas

Last Year – 2015/16

- January 2015 – 15/16 Final Settlement
 - ✓ Government increases RSDG (formerly known as ESSSA) to £15.5m at the December provisional settlement
 - ✗ But by now the large cuts in SFA are shared equally between all authorities, locking in the 13/14 rural damping losses and effectively maintaining the urban / rural inequality
 - ✗ Urban receives £130 per head more SFA than rural in 15/16
 - ✗ Council Tax £81 pre head more in rural areas

Last Year – 2015/16

- Last Coalition Government Settlement
- January 2015 – 15/16 Final Settlement
- ✘ The Gap has narrowed but not by much! It is still 45%
- ✘ $\frac{3}{4}$ of rural gains still locked up in damping
- ✘ Council Tax remains higher in rural areas
- ✘ RSDG, as welcome, as it is accounts for about a quarter percentage point of Spending Power
- ✘ Business rates retention unlikely to improve the position
- ✘ Equal cuts + lower starting points = burning platform in rural areas
- ✘ **In 5 years no real change in the inequality of funding between rural and urban local authorities despite massive reductions in overall funding to LG**

The Future – 2016/17 onwards – success factors

- ✓ Rural Authorities are now engaged and active in the process
- ✓ Very strong political representation
- ✓ Reasonably (!) open door from the Government – possible future research into rural cost drivers
- ✓ Unprecedented acknowledgement of cost of rural services (if very little action yet to address this)
- ✓ Successful media campaign
- ✓ RSDG exists – its small but capable of growing!

The 2016/17 Settlement

- New Conservative Government to replace coalition
- New SoS Greg Clarke replaces Eric Pickles
- Surely ...
 - ✓ An end to equal cuts in SFA which maintained the inequitable gap between urban and rural funding
 - ✓ A generous top up to RSDG
 - ✓ An altogether brighter outlook for rural LG funding

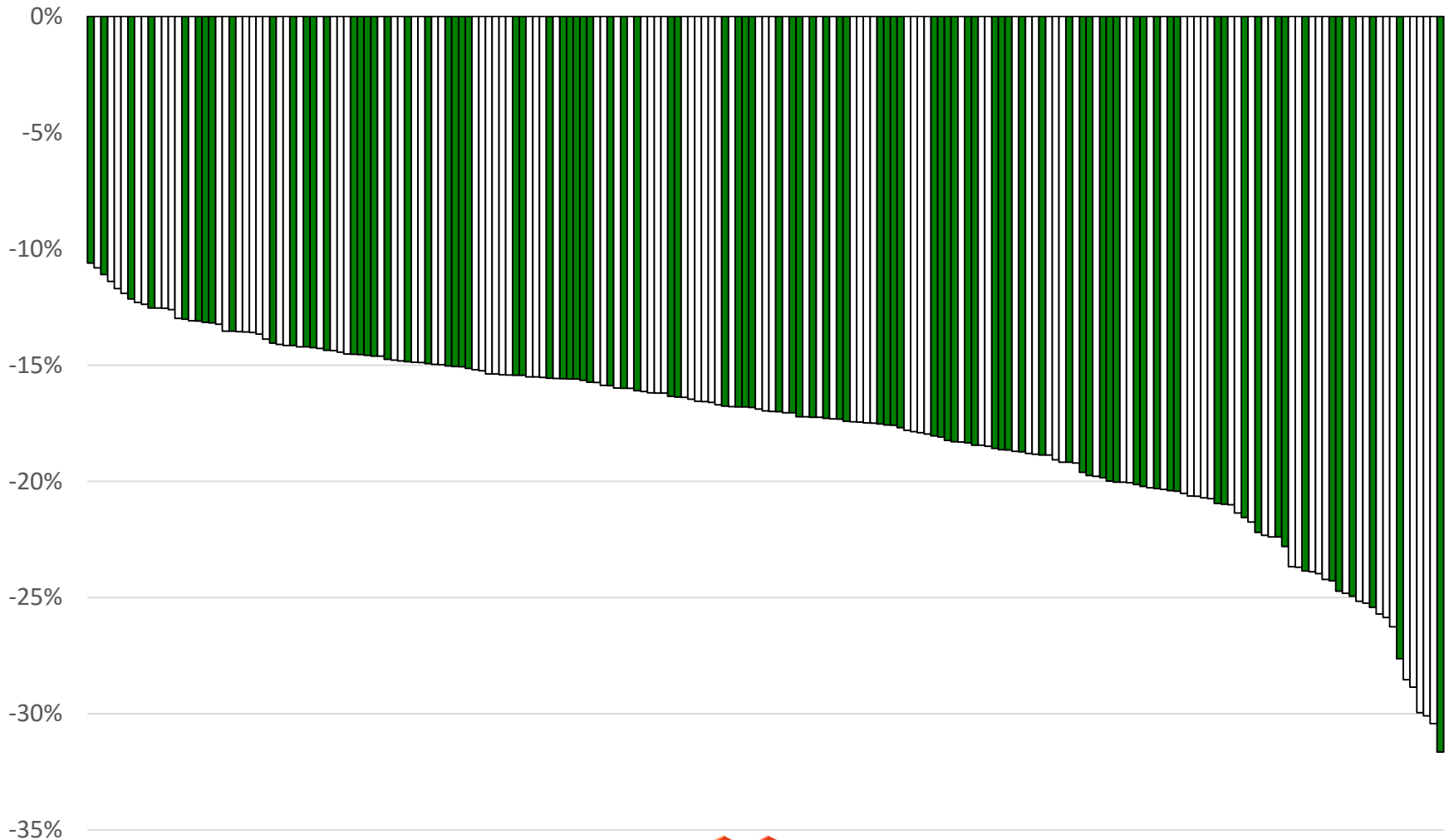
The 2016/17 Provisional Settlement

- ✓ An end to equal cuts in SFA
- ✓ RSDG increased to £65m

The 2016/17 Provisional Settlement

- ✓ **An end to equal cuts in SFA**
- ✗ Council Tax now included in calculation on SFA reductions making things far WORSE for rural authorities
- ✓ **RSDG increased to £65m**
- ✗ But 4 years to get there!

16/17 Reduction in SFA – lower tier



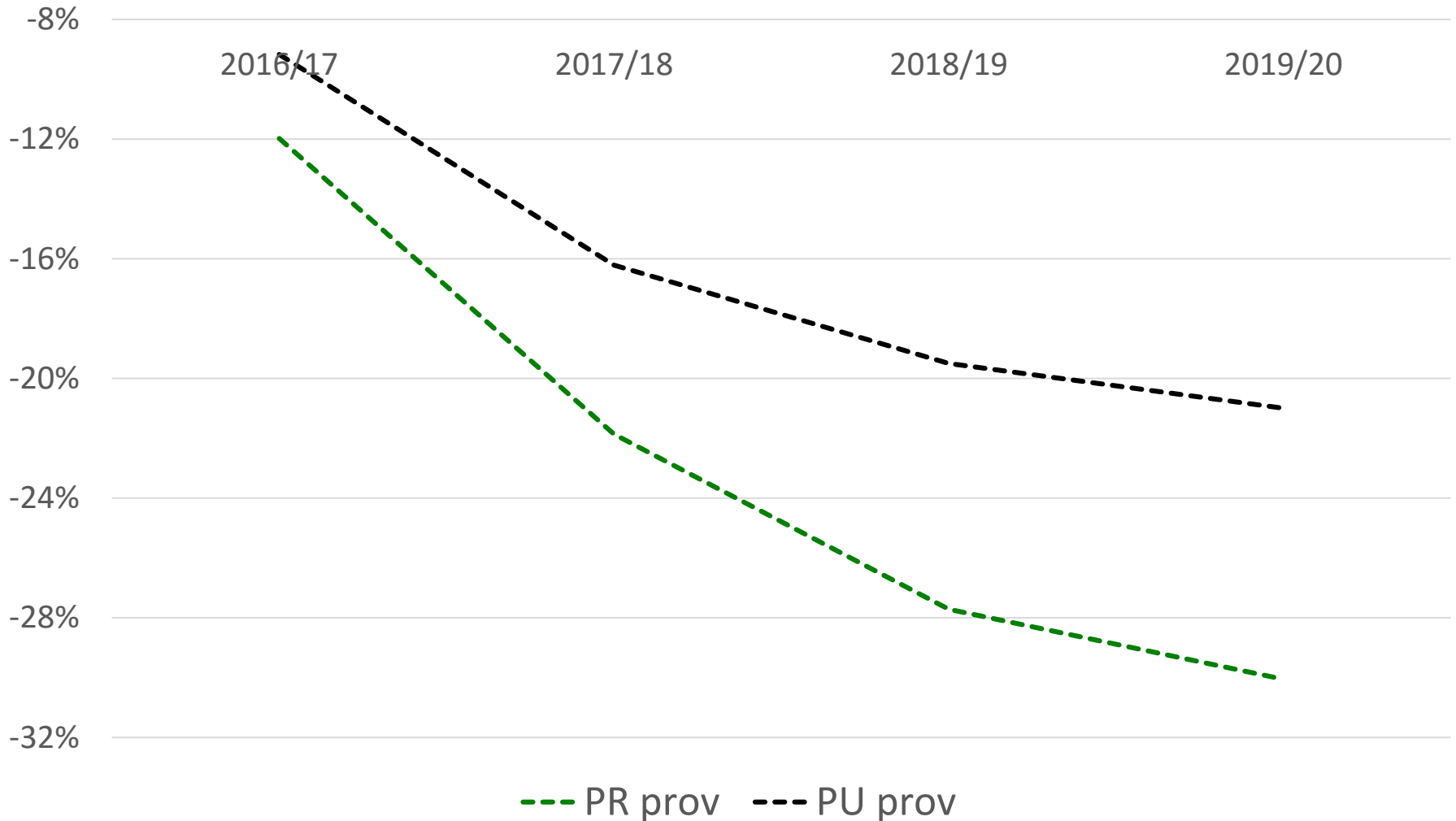
Rural / urban funding split

- 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

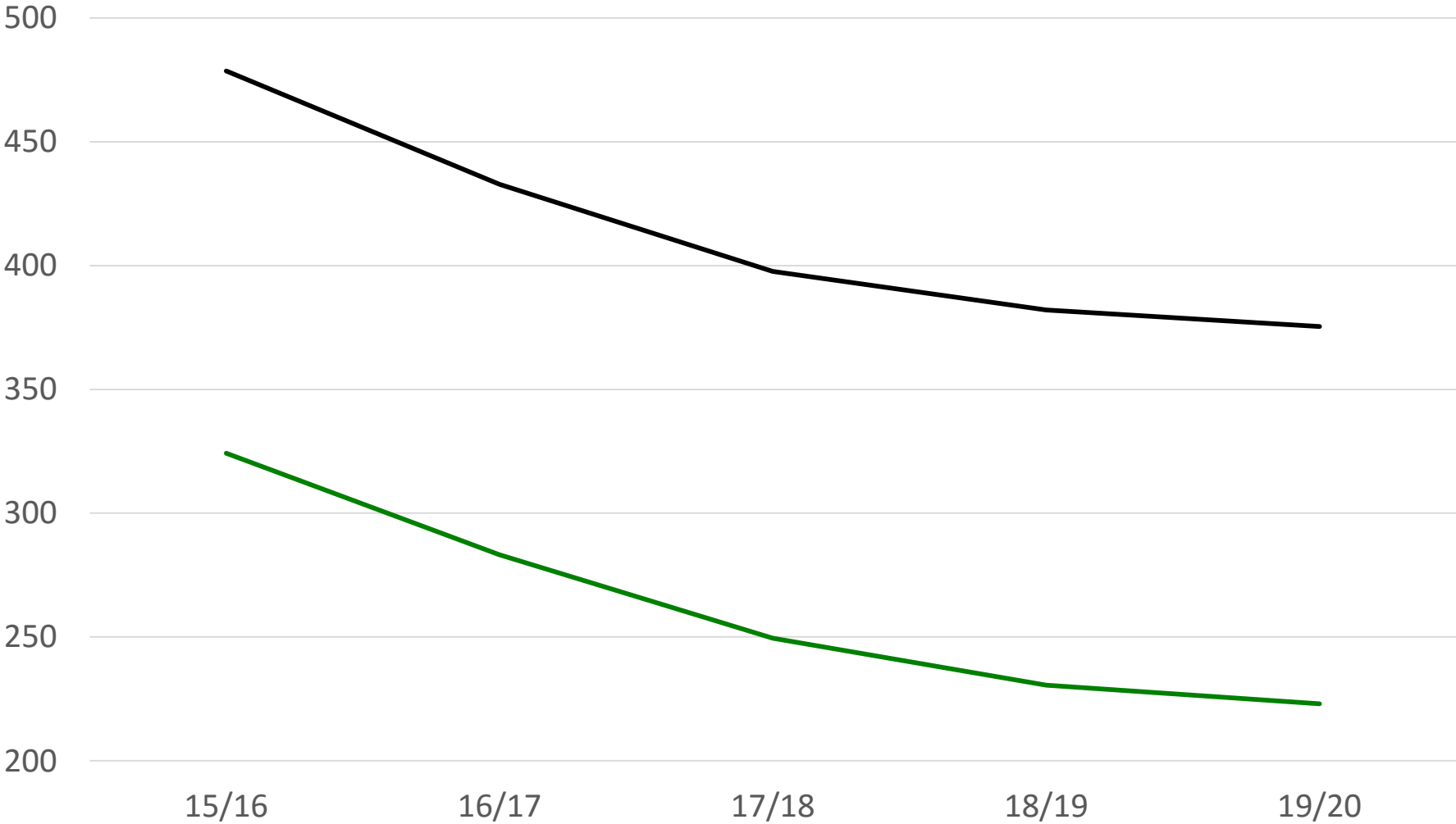
Rural/ urban funding split (over 4 years)

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%

Reduction in GFSP



Level of GFSP



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%
Uttlesford	37.55%					
Tewkesbury	36.63%					
Aylesbury Vale	34.35%					
Corby	33.61%					
Forest Heath	33.50%					

The 2016/17 Provisional Settlement

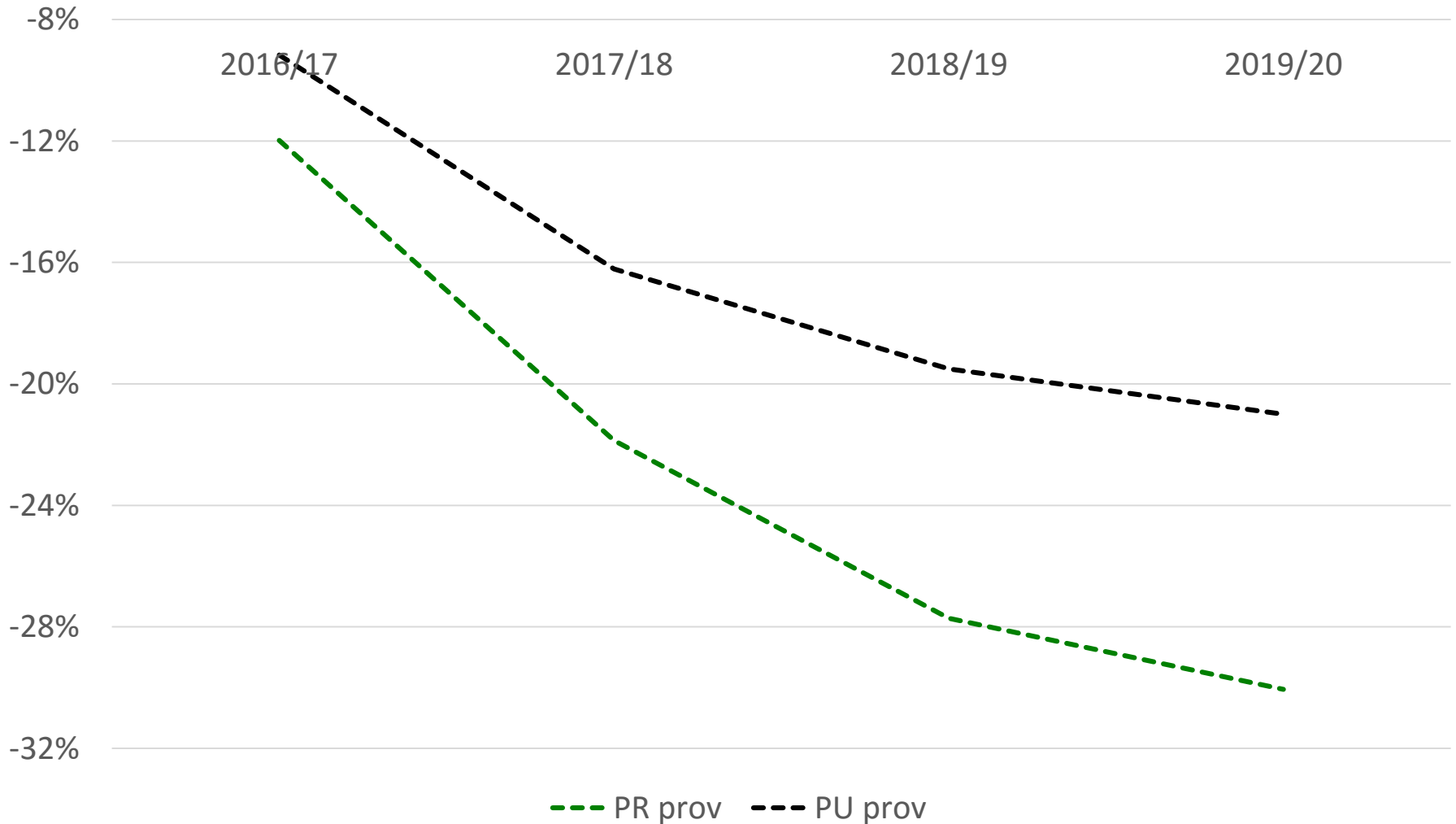
- ✓ **An end to equal cuts in SFA**
- ✗ **Council Tax now included in calculation on SFA reductions making things far WORSE for rural authorities**
- ✓ **RSDG increased to £65m**
- ✗ **But 4 years to get there!**

- ✗ **So not better but far WORSE!**
- ✓ **BUT by now RSN, its Members and the MPS Rural Fair Shares Group had become a force to be reckoned with!**
- ✓ **A significant lobby / threat of rebellion resulted in unprecedented changes between provisional and final settlement**

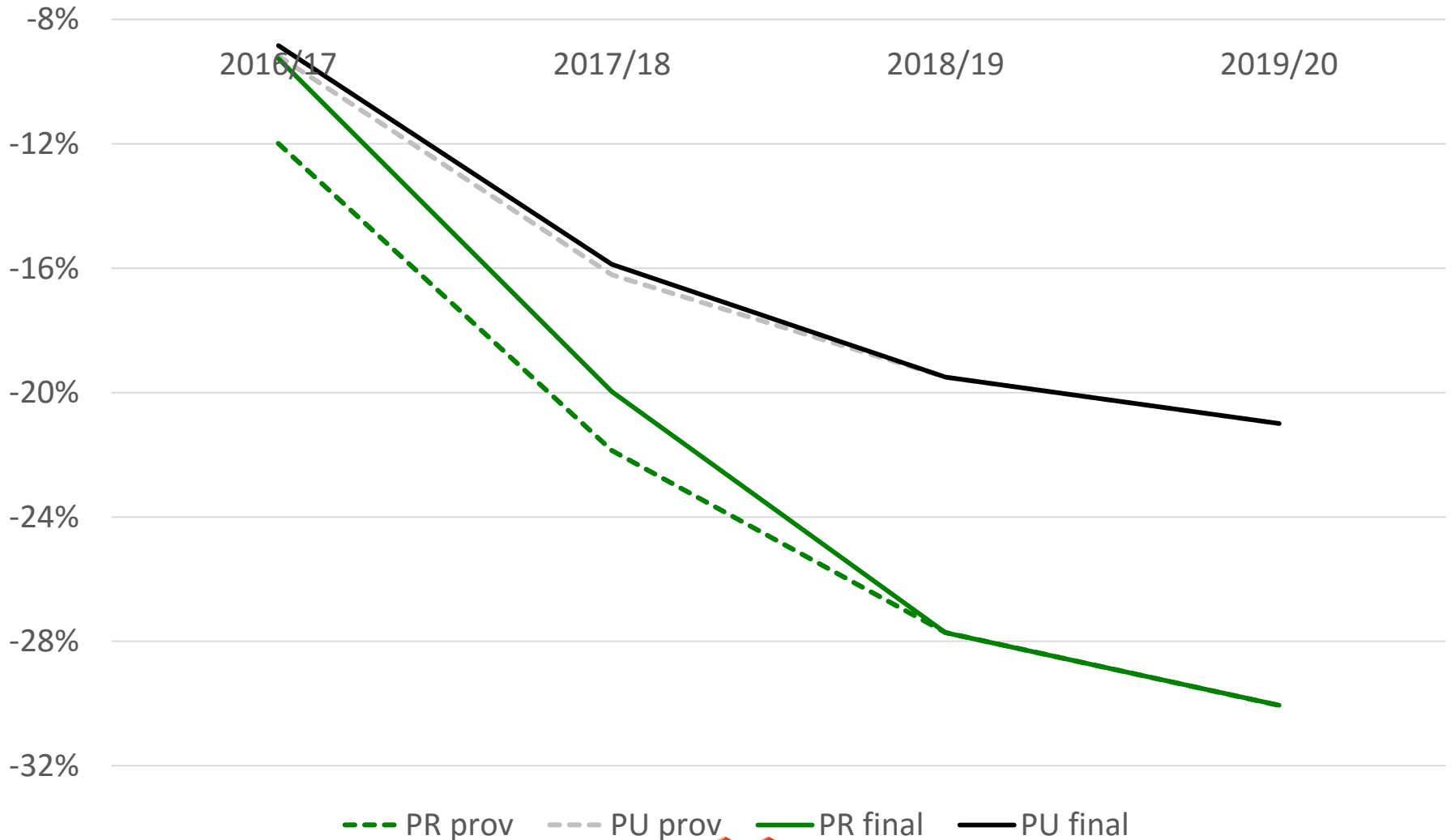
The 2016/17 Final Settlement

- ✓ **Massive boost to RSDG - £80.5m in 16/17, £65m in 17/18**
- ✓ **Transition Grant introduced for two years as acknowledgement that changes to SFA created significant re-distribution (worth £150m)**
- ✓ **Further acknowledgement by SoS Clarke that more had to be done for rural authorities**
- ✗ **Simply returned rural to a position of equal reductions – gap still the same in 16/17 but gets worse in 17/18!**

Reduction in GFSP



Reduction in GFSP



Now

- Things didn't get worse in 16/17 but they didn't get better!
- And, as things stand, they are set to get worse in 17/18
- Impact of BREXIT
- SoS Clarke swapped with Javid
- Graham Stuart becomes a whip!
- Possible easing of austerity

Now – what to do

- Build upon the impetus from the final settlement process
- Continue to campaign and lobby
- Ensure that you respond to the summer consultation – **remember it was the strength in numbers that kicked off this journey!**

Six top tips for responding to the Business Rates consultation

- Initial consultation on the new business rates system which incorporates re-assessment of needs
- Issued in July – responses later this month
- Quite technical

Top Tip 1 – Understand your chances of business rates growth

- If you anticipate growth then you will want to accept the Government's proposals to reward growth
- Perhaps a cap on 'super growth'!
- And vica versa

Top Tip 1 – Understand your chances of business rates growth

- Has your authority's share of business rates been above or below its Funding Baseline? (If you are a tariff authority, then being above the Funding Baseline means paying a levy.)
- Has your authority's underlying growth in business rates been above or below average? Rateable value will give you a broad indicator of underlying growth. You might also want to take account of whether your (unfunded reliefs) have increased more quickly than average as well.
- Does your authority have opportunities, prospects or plans for there to be growth after the reset? (The reset is probably going to be in 2020-21, but could be in 2019-20.)

Top Tip 1 – Understand your chances of business rates growth

- Growth in two years since 2013/14 in RV:
 - PR 1.16%
 - SR 0.58%
 - PU 0.26%

Top Tip 1 – Top 10 growers 13/14 to 15/16 (RV)

Bracknell Forest	PU	28.2%
South Staffordshire	PU	14.0%
Adur	SR	11.0%
Arun	PU	10.9%
East Riding of Yorkshire	PR	10.2%
Bolsover	SR	9.6%
North Kesteven	PR	7.8%
Gravesham	PU	7.7%
Greenwich	PU	7.6%
Bassetlaw	PR	6.0%

Top Tip 1 – Top 10 shrinkers 13/14 to 15/16 (RV)

Basildon	PU	-3.0%
Southampton	PU	-3.6%
Bolton	PU	-4.2%
Sutton	PU	-4.4%
Watford	PU	-4.6%
Medway	PU	-5.7%
Selby	PR	-5.9%
Vale of White Horse	PR	-6.1%
Redcar and Cleveland	SR	-9.4%
Newham	PU	-12.8%

Top Tip 2 – Resetting Baselines

- Growing authorities will want baselines to be reset as infrequently as possible so that they can retain as much of their growth as possible.
- If Gov follows last methodology then they will look at taking average of previous years rates levels – last time they looked at 5 year average but went for two year average
- Name of game is to get lowest possible baseline

Top Tip 2 – Resetting Baselines

- Name of game is to get lowest possible baseline
- A variance between the current and new baselines will be the result of (a) whether you have had above-average growth in business rates and (b) whether the current baseline was favourable to your authority or not
- Varies by authority with no discernible rural issue

Top Tip 3 – Losses from Appeal

- Need to calculate whether your authority is likely to lose more on appeals than average
- Use your IPP lists and look at losses to date
- Government allowed 9% in original baselines for losses in appeals
- If you feel that you have lower than average losses you need to ask for current system where LA manages losses to continue

Top Tip 3 – Losses from Appeal

- If you feel that you have higher than average losses you need to ask for the Government to ‘nationalise’ appeals losses
- Anecdotally, we feel that rural authorities tend to have lower than average appeals losses (but this is not scientific)
- If you have a nuclear power station then ask for appeals to be nationalised!

Top Tip 4 – Share of Needs v Resources

- Critical decisions for ministers is how to use the resources within the settlement: should they be put into the needs block or should they be used to keep the Resources block as low as possible?
- If you have high needs, low resources then you will want the Gov to maximise needs block
- If you have high resources, low needs then you will want the Gov to minimise the resources block

Top Tip 4 – Share of Needs v Resources

Cleveland Fire Authority	115%
Newham	106%
Manchester	94%
Leicester	90%
Merseyside Fire	89%
West Midlands Fire	88%
Humberside Fire Authority	88%
Tyne and Wear Fire	86%
Nottingham	82%

High Needs, Low Resources



High Resources, Low Needs



Mole Valley	-38%
East Dorset	-39%
Elmbridge	-42%
South Bucks	-42%
Buckinghamshire	-44%
Chiltern	-44%
Windsor and Maidenhead	-46%
Surrey	-47%
Richmond upon Thames	-49%
Wokingham	-50%

Top Tip 5 – Share of Relative Needs Formulae

- There are various needs formulae, all of which are being considered
- For those authorities that are high needs and perform well in the current RNFs, they will want to support new formulae that are based as far as possible on existing formulae.
- Usually these authorities will also want more complicated formulae that take into account more indicators and spending pressures.
- Conversely, low need authorities will usually benefit from simpler formulae, especially if they tend towards flat funding per head

Top Tip 5 – Share of Relative Needs Formulae

- Rural authorities tend to have lower needs relative to urban authorities (but there are some high needs rural authorities)

Top Tip 6 - Damping

- Probably the most invidious element of the current funding settlement
- If you have a negative amount you are paying in – and you want to be advocating that the current damping regime is phased-out as quickly as possible
- Many more (but not all) rural authorities are damping losers

Top Tip 6 - Damping

London		182
Significant Rural Mets		0
Urban Mets		-26
All Mets		-27
Rural-80 Unitaries		-11
Rural-50 Unitaries		-35
Sig. Rural Unitaries		7
Urban Unitaries		-45
All Unitaries		-84
Pred. Rural Counties		-81
Sig. Rural Counties		-75
Urban Counties		84
All Counties		-71
Rural-80 Districts		-12
Rural-50 Districts		3
Sig. Rural Districs		7
Urban Districts		3
All Districts		0
All Local Authorities		0

13/14

damping by
type of
authority
and
rural/urban

Dan Bates

Pixel Financial Management

0796 998 0016

dan@pixelfinancial.co.uk

<http://www.cipfa.org/services/networks/funding-advisory-service>

