

**COUNTRYSIDE ALLIANCE BACKGROUND NOTE**  
**LOCAL GOVERNMENT FUNDING FOR RURAL AREAS**

**Backbench Business Debate, House of Commons**

**Monday 11 January 2016**



**“That this House has considered local government funding for rural areas.”**

**Graham Stuart MP (Con, Beverley and Holderness),  
Sue Hayman MP (Lab, Workington) and  
Norman Lamb MP (LibDem, North Norfolk)**

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## **BACKGROUND**

Local government spending accounts for around a quarter of all public spending and includes schools, social services and maintaining roads which are some of the most vital public services.

The funding for local government in England is currently made up of a combination of central government funding through Specific and Formula Grants and local revenue sources including council tax, the retained portion of non-domestic (business) rates and fees and charges for certain services.

The Specific Grants are used for individual services as directed by central government and the Formula Grants are calculated using mathematical formulae based on, amongst other things, the local tax base and how many people rely on local services.

The Formula Grants include the Rural Services Delivery Grant which is paid to the most rural local authorities – as defined by the Office for National Statistics classification – to recognise the ‘rural penalty’ experienced by local authorities with rural communities as a result of the additional costs of service delivery in more sparsely populated areas. The Countryside Alliance welcomed the introduction of the Rural Services Delivery Grant as part of the Formula Grants and has called on successive governments to increase the amount of money available for this.

## **GOVERNMENT POLICY**

In the last Parliament the Coalition Government began a significant programme of devolving local government funding, most notably allowing the retention of non-domestic (business) rates. Previously all revenue generated from non-domestic (business) rates went to central government and was redistributed to local authorities taking into account the needs of individual councils. Following the introduction of the Rates Retention Scheme in 2013, local

authorities retained approximately half of the revenue generated from non-domestic (business) rates with the remaining half being sent to central government to be redistributed.

In the 2015 Spending Review the current Government announced an extension of this policy with local authorities set to retain the full revenue of non-domestic (business) rates without any allocation to central government. This is a significant devolution of tax allocation as non-domestic (business) rates for 2014-2015 were expected to generate a gross revenue of £22 billion.

These changes are designed to create greater accountability and competition between local authorities but they may also create greater disparity between rural and urban areas as the local revenue base in rural areas is generally lower and more expensive to administer than it is in urban areas. When this is combined with the additional costs of service provision in rural areas – the ‘rural penalty’ – it is clear that rural areas are at a distinct disadvantage. It is vital that the Government recognises this and ensures adequate funding for rural areas.

In December 2015 the Government announced that the Rural Services Delivery Grant will be more than quadrupled over the next four years and will reach £65 million by 2019/2020. The Countryside Alliance welcomed this commitment but believes that funding for rural areas needs to be reviewed in the context of broader changes to local government funding, particularly the possible reduction in other central government grants, in order to assess properly the impact on rural areas. It should also be noted that the increase in the Rural Services Delivery Grant still falls short of the £130 million which the [Rural Fair Share](#) campaign had called to be included in the Formula Grants.

The Secretary of State for Communities and Local Government has said that by 2020 local government will receive 100% of its funding from local revenue rather than central government. As local government funding moves from a predominately centrally funded system to an entirely locally funded system, it is vital that rural areas are not disadvantaged by the disparities in their revenue sources compared with urban areas. This policy also raises questions about the long term future of the Rural Services Delivery Grant and how the Government intend to tackle the ‘rural penalty’ under the new funding model.

## **THE RURAL PENALTY**

Deprivation is not limited to urban areas, and many rural areas across England are considered deprived based on the services and necessities available to communities. It is vitally important that central funding should be focussed the most deprived communities regardless of whether they are in rural or urban areas.

There is considerable evidence, particularly from [The Sparsity Partnership for Local Authorities Delivering Rural Services](#), that services are more expensive to deliver in rural areas because of the additional costs associated with the sparsely populated areas.

This was recognised in a report by the Environment, Food and Rural Affairs Committee which stated that “sparsity of population makes it more expensive to provide services in rural areas than urban areas. Yet, despite this, urban areas receive 50% more funding per head than rural areas.” (EFRA Committee, Sixth Report Rural Communities Accessed 24 July 2013).

Delivering essential services in rural areas is more expensive and residents pay higher taxes; and yet rural areas receive less funding. The [Rural Fair Share](#) campaign by the Rural Services Network states “the way that the Local Government Finance Settlement has been calculated has resulted in rural areas being significantly underfunded.” The way that the formula grant has been calculated has resulted in rural areas being significantly underfunded when compared to urban areas for a number of years. Provisional figures for 2015-16 indicate that urban areas still receive some 45% more (or £130.99 per person) in central government grants than their rural counterparts.

### **COUNTRYSIDE ALLIANCE CALLS FOR**

- Government to continue to make available grants for rural areas; and to increase year on year the funds available to rural local authorities.
- Government to commit to a review of the local government Formula Grants to ensure fairness between funding allocated to rural and urban areas, and bring an end to the ‘rural penalty’.
- Government to commit to a review of the latest changes to local government funding to ensure that rural areas are not disadvantaged.

### **COUNTRYSIDE ALLIANCE POLLING DATA (1509 surveyed - 1006 rural /503 urban)**

A survey carried out by the Countryside Alliance in 2014 showed that 43% of respondents (44% of rural respondents and 42% of urban respondents) ranked local government funding as the most important issue in the survey compared to Police and Crime Commissioners; Royal Mail’s Universal Service Obligation; broadband; and food labelling.