



18TH SEPTEMBER, 2019

TO: LGFsettlement@communities.gsi.gov.uk

Response from the Rural Services Network (RSN)

1. The technical consultation provides some certainty to local authorities for 2019-20 and it also addresses some of the funding problems that our members have been most concerned about, particularly Negative RSG. We support the preferred option that the Government is outlining for Negative RSG in this consultation paper. But there are still some real concerns both with some of the specific proposals in the consultation paper, and with the underlying funding allocations for rural authorities. Two of the main issues of concern for rural authorities are mentioned in the consultation but there are no formal consultation questions. We respond to these two issues here:
2. Whilst rural authorities will welcome the opportunity to bid for a business rate pilot in 2019-20, it is very disappointing that rural authorities will be offered pilot arrangements that are much less favourable than those offered to many urban areas. Pilots in the "devo" areas and in London have been extended on the same highly favourable terms for the third year running. Rural authorities can bid for pilots with 75% retention ("devo" areas get to keep 100%) and will not have the comfort of "no detriment" support ("devo" areas will not have to take any risk). We understand the rationale for reducing the local share for the 2019-20 pilots to 75%, but why has the local share not been reduced for the "devo" areas as well?
3. The proposal to not extend "no detriment" to pilots in rural areas in 2019-20 is particularly difficult to understand. After considerable engagement between MHCLG and rural and county authorities this time last year, a decision was made to reinstate "no detriment". By reversing this decision for 2019-20, it feels as though we are back to square-one. The cost to the Government of continuing "no detriment" support for rural pilots would almost certainly be nil, but it would offer great comfort to rural authorities who are rightly concerned about the additional risk of pilots. And it is unfair to offer these terms to pilots in "devo" areas and not to rural areas. We urge the Government to reconsider this aspect of the pilot's prospectus for 2019-20.
4. The second issue to which we would like to draw the Government's attention is New Homes Bonus. For many rural authorities this has been a very valuable source of

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funding (and one which has offset the very high cuts in RSG in rural authorities). It has also helped to incentivise local house-building and helped to increase local support for house-building. To reduce the incentive from NHB – both by introducing a threshold and by reducing the overall amount of funding – is perverse when NHB has been so successful and when the need for more house-building continues.

5. Our main concern is that the Government is indicating that the NHB will be stopped in 2020-21. This is a major source of funding to many rural councils, and one which is now vital to the financial health of many councils. Removing this valuable source of funding when there are other destabilising changes in funding in 2020-21 could cause significant financial harm. We would urge the Government to continue NHB into 2020-21 and beyond, both because of its proven incentive-effect on house building and its importance to the financial health of many councils.
6. It is also very worrying for many rural authorities that the national baseline (currently set at 0.4%) could be increased in 2019-20. RSN does not support the use of the national baseline, and is particularly concerned that the announcement about how it will be set is not going to be made until a couple of months before the start of the financial year. The use of the baseline also penalises many rural authorities where growth might not be very significant in percentage terms but where the effort to build new housing can often be considerable. Rural authorities often have additional planning restrictions (e.g. Areas of Outstanding Natural Beauty) that make it more difficult to build large numbers of houses. Unfortunately, the national baseline makes it less likely that the efforts of rural authorities will be rewarded.

Question 1: Do you agree that the Government should confirm the final year of the 4-year offer as set out in 2016-17?

7. We support the implementation of the fourth and final year of the Government's multi-year funding offer. The offer itself has provided welcome certainty for local authorities in respect of their major funding streams. We hope that the Government will consider repeating the four-year offer in the next spending review period.
8. Whilst the certainty of the four-year offer has been beneficial, it has hardly been a time of funding certainty for local authorities. There have been numerous funding changes that have disrupted authorities' efforts at financial planning. One certainty in local government funding over the past four years has been that there will be even more tinkering with the operation of the business rate retention scheme!

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9. Some of the changes to funding have been in response to pressure from rural authorities. Allocations of Rural Services Delivery Grant (RSDG) have changed every year. We do welcome these changes and we are grateful that the Government has been so responsive to the case that has been put forward by rural authorities. In 2019-20, we are expecting the level of RSDG to be the same as it was in 2018-19 (£81m rather than £65m).
10. Finally, we should make clear that support for the principle of pre-announcing four-year allocations is not the same as support for the level of funding. Funding over the past four years has been insufficient to local government generally, and to rural authorities in particular. In the next four-year settlement, there is an opportunity for rural authorities to be properly funded.

Question 2: Do you agree with the council tax referendum principles proposed by the Government for 2019-20?

11. We support the continuation of the core increase in Band D at 3%.
12. Council tax has been a major source of additional funding for local authorities over the past four years, particularly with cash terms cuts in funding for many authorities. We would support the Government considering giving authorities additional scope to increase Band D council tax in 2019-20, particularly for authorities with below average Band D. For instance, many district councils would support being able to increase Band D by the higher of 3% or £12 (the same terms that are offered to Police and Crime Commissioners).
13. RSN would also support authorities being given greater flexibility to increase Band D council tax more generally. Authorities ought to be able to increase the Band D council tax in consultation with residents, rather than requiring a full referendum.

Question 3: Do you agree with the Government's preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?

Question 4: If you disagree with the Government's preferred approach to Negative RSG please express your preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored here please provide further detail.

14. RSN supports the Government's preferred option for eliminating Negative RSG in 2019-20. The preferred option is the simplest and targets the authorities who are in a

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negative-RSG position. We understand that this option is the only one that has a reasonable cost.

15. However, it is not the ideal option. The cause of Negative RSG is that the cuts in Settlement Funding Assessment were too great, and were focussed too much on many rural authorities, particularly rural district councils. Any options to address Negative RSG should really address those cuts in SFA, of which rural authorities suffered much more than urban authorities. The main downside to the limited action that is proposed in the preferred option is that it does nothing to address the very large cuts in funding for those authorities who will have very little RSG left in 2019-20 but who do not benefit from the Government's preferred option.
16. We understand that it is too costly to deal with Negative RSG in this way, and as such we support the option that the Government is proposing.

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