

Please ask for: Jon Triggs, Director of Resources
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Dear Sirs,

Provisional Local Government Finance Settlement

Please find North Devon Council's response to the consultation on the Provisional Local Government Finance Settlement for 2025/26 year;

Question 1: Do you agree with the government's proposals for the Settlement Funding Assessment, including payment of Revenue Support grant and the basis of calculation of tariffs and top ups, in 2025-26?

NO

This has been a hugely disappointing settlement for rural authorities, such as North Devon Council. We strongly oppose the decisions taken by ministers to cut the funding for rural authorities. In particular, the decision to abolish Rural Services Delivery Grant (RSDG) without any engagement or consultation with affected authorities is extremely disappointing.

A number of rural authorities, similar to North Devon are angered by the decision to abolish RSDG, and by the lack of proper process. Whilst ministers do have discretion over funding decisions, those decisions must be made in a rational and impartial manner. Affected authorities should at least have been given the opportunity to make representations.

The decision to reduce funding for rural authorities had clearly been taken before the provisional settlement and was announced in the Policy Statement (28 November 2024). There was no consultation on this decision, and no evidence has been offered to support the decision.

RSDG was introduced in 2013-14 to compensate rural authorities for the impact of damping in the 2013-14 settlement. In that year, the weighting for sparsity had been increased by



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ministers in response to the evidence that rural authorities had presented about their “needs” and spending pressures. But, although the “needs” assessments for rural authorities were increased in the settlement, these gains were wiped-out by the impact of damping. Over 10 years later, no subsequent changes have been made to allow those “needs” assessments to flow through to rural authorities, and so it is reasonable for rural authorities to expect the compensation funding to continue as well.

Rural authorities are fully aware that the funding reforms expected in 2026-27 will change funding distribution, and that RSDG might well have been rolled into Settlement Funding Assessment (SFA) at that time. However, there will be a full process over the next 12 months for the new funding distribution to be determined, with authorities given the opportunity to present their own evidence and to challenge that put forward by the government. If it were part of the proposed changes to the formula in 2026/27 it would be subject to the transitional arrangements.

We do not agree with the proposal to increase 2024-25 Revenue Support Grant levels as set out. Simply increasing by CPI will not address the increased service demands faced by local government, address the historic underfunding (especially in rural areas) nor meet the other above inflationary costs local authorities will have to meet. Those include the fact that the increases in Employers National Insurance contributions are not fully funded by the Government and those increases from third-party suppliers are not funded at all. In addition, the increase in the National Living Wage is in excess of CPI.

Furthermore, as set out below, we do not support the Government’s proposals for the distribution of the total quantum to individual authorities as proposed in the Consultation. Under the proposals Core Spending Power in predominantly urban areas is 4.34% (£48.81) higher per head than it is in predominantly rural areas - this ignores the fact that it costs more to provide services across rural areas than elsewhere. In addition, rural residents are further penalised. On average those in predominantly rural areas will pay 19.54% (£117.38) more per head in council tax than their urban counterparts - this despite lower workplace-based earnings in rural areas and higher costs-of-living.

In the rural context it is inevitable that there will be significant reductions in services - which are already seriously depleted compared to other areas.

In that context, it is important that we again point out from analysis carried out, that for 2023/24 Predominantly Rural Councils only budgeted to spend £77.30 per head across so-called discretionary services whilst Predominantly Urban Councils budgeted to spend



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£162.00 per head (almost 110% more)

We support the proposals for uprating the elements within the Settlement Funding Assessment, and for compensating authorities for freezing the multiplier in the usual way.

Question 2: Do you agree with the government's proposals to roll grants into the local government finance settlement in 2025-26?

NO.

Whilst the aim of simplifying the local government funding landscape is laudable, simplicity must not be at the expenses of accuracy, transparency, and accountability.

It would be helpful if authorities had more advance notice of the grants that are going to be rolled in. Furthermore, we would prefer grants to be rolled in when there are updates to funding distribution rather than small numbers of grants every year, which just makes the settlement more complicated every year.

Question 3: Do you agree with the proposed package of council tax referendum principles for 2025-26?

NO.

The £5 limit (without a referendum) relative to District Councils and Fire and Rescue authorities should be increased. For District Councils it was first set at that level in 2016/17 and to reflect inflation should now be circa £7.25. It would then be for local leaders to decide whether or not to apply such an increase in whole or in part.

Question 4: Do you agree with the government's proposals to introduce the Recovery Grant for 2025-26?

NO.

We strongly oppose the way that the Recovery Grant has been distributed.

Rural authorities only received £22.8m, which equated to 3.8% of the total available.

Again, we are disappointed that there was no prior consultation on the methodology used to distribute this grant. This is a concerning precedent for the wider funding reforms that will be developed over the next 12 months. It is good practice to consult with the sector, to share



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proposals and evidence, and to respond to feedback. Without that process, there will always be the suspicion that decisions are being made without due evidence or process - and there is a risk that errors are made in the formulas. Those concerns certainly apply to the development of the distribution of Recovery Grant.

It is premature in the extreme to introduce such a significant and highly targeted grant change (which is biased against rural councils) ahead of the review of the formula itself to be undertaken next year and implemented in 2026/27. This is particularly as it is, in part, funded by the repurposing of the Rural Services Delivery Grant. Introducing it for 2025/26 is a massive blow for rural councils.

Government funded spending power (which excludes Council Tax) per head of population is the only true comparison of the relative position of urban compared to rural councils in terms of government grant support for the provision of local services. The following table outlines the trend of this gap and also how this has considerably widened in recent years;

| | Predominantly Rural | Predominantly Urban | Gap |
|--|---------------------|---------------------|--------|
| <i>Funding per head of population</i> | | | |
| 2015/16 | 335.48 | 450.78 | 115.30 |
| 2016/17 | 301.51 | 403.44 | 101.93 |
| 2017/18 | 282.36 | 386.84 | 104.48 |
| 2018/19 | 263.44 | 368.38 | 104.94 |
| 2019/20 | 258.12 | 361.30 | 103.18 |
| 2020/21 | 278.70 | 384.10 | 105.40 |
| 2021/22 | 282.36 | 391.22 | 108.86 |
| 2022/23 | 315.97 | 435.14 | 119.17 |
| 2023/24 | 365.61 | 500.06 | 134.45 |
| 2024/25 | 399.08 | 540.12 | 141.03 |
| 2025/26 | 407.32 | 573.51 | 166.19 |

As can be seen over the 10-year period 2015/2016 to 2024/25 the gap between Government Funded Spending Power per head in predominantly urban areas compared with



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predominantly rural areas increased by 22.32% (in urban's favour).

Based on the 2025/26 Provisional settlement, the gap between rural and urban from 2015/16 to 2025/26 has increased further to 44.13%. This is completely unacceptable and is without any evidence having been produced to support such a huge change.

Distributional analysis of the provisional settlement for 2025-2026 on rural authorities

| Measure | Rural (PR) | Urban (PU) | Cap (%) | Calculation |
|----------------------------------|-------------------|-------------------|----------------|--------------------|
| Council Tax | 718.10 | 600.72 | 19.54% | (PR-PU)/PU |
| Spending Power | 1,125.42 | 1,174.23 | 4.34% | (PU-PR)/PR |
| Government Funded Spending Power | 407.32 | 573.51 | 40.80% | (PU-PR)/PR |
| Social Care Grants | 157.56 | 182.40 | 15.76% | (PU-PR)/PR |
| Recovery Grant | 1.83 | 15.05 | 722.43% | (PU-PR)/PR |

As can be seen:

- > Government Funded Spending Power in Predominantly Urban areas will be £573.51 per head compared to £407.32 in Predominantly Rural areas. Urban Councils will get a huge 40.80% (£166.19) more per head than rural.
- > Council Tax per head will, on average, be 19.54% (circa £117) higher in rural areas than in urban areas (£718.10 compared to £600.72)
- > Predominantly urban areas are to receive over 7 times more of the proposed Recovery Grant than predominantly rural areas.

The above is against the backdrop of a much older population across rural areas than the national average, the cost-of-living being higher across rural areas and workplace-based incomes much lower than the national average in rural areas.

We have significant concerns about the use of the Index of Multiple Deprivation (IMD) to distribute funding in this context. The IMD is a composite index with a range of different domains. There is no transparency about which are relevant for this grant, or whether the weighting of those domains within the overall index is appropriate for this grant. This use of IMD should have been the subject of a fuller consultation.

There has been no evidence published by the government to demonstrate that deprivation is the key factor for distributing funding to local government. Indeed, the research undertaken by MHCLG in 2018 suggested that deprivation “was not a major cost driver for



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the services included in the Foundation Formula”. The same research found that population was overwhelmingly the most important factor, driving 88% of the variation of upper-tier costs in the Foundation Formula, and 84% of the lower-tier costs. What evidence has the department seen since 2018 that would lead it to change its conclusions about the relative importance of deprivation for distributing general funding to local government?

To use deprivation as the basis of the distribution of this fund is itself biased against rural areas. By targeting the £600m Recovery Grant on areas with high clusters of deprivation, the government is ignoring the fact deprivation is not the only driver of councils’ costs nor the key indicator of which councils are under the most financial distress.

North Devon has an ageing population with all the care and support needs that entails. The Recovery Grant does not reflect deprivation at a sub district level. A key example of this is within one of our largest towns, Ilfracombe in North Devon. The town has significant problems with deprivation, poor housing, poor attainment and very low life expectancy, figures that are significant nationally. However, previous allocation of government funding using the Index of Multiple Deprivation (IMD) formula failed to recognise the challenges that Ilfracombe experience. There are pockets of deprivation as well as issues of rural isolation and loneliness within other areas of North Devon and the distribution of funding needs to recognise this significant difference between rural and urban areas.

Rural deprivation is masked by existing deprivation measures. In this regard the English Indices of Deprivation (IoD) has been widely criticised for measuring deprivation in urban areas better than in rural areas. Critics of the IoD note that:

- > Some measures it uses are urban-oriented, whilst rural aspects to issues such as low income, health and crime are under-reported or poorly measured;
- > Access to services and affordable housing (key rural issues) is one domain, but is given less weight than most of the other domains;
- > The Index is most effective at identifying small area concentrations of deprivation, whereas rural deprivation is typically scattered.

The government’s FAQ webpage on the IoD indicates other limitations to its use. It notes:

- > The IoD is a relative measure which ranks areas. It shows where one area is more deprived than another, but it does not indicate by how much. For example, an area ranked 200th worst is not half as deprived as an area ranked 100th worst;
- > The IoD measures relative deprivation within areas, but all areas will have a mix of



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deprived and non-deprived individuals or households. It is not a suitable tool for targeting individuals;

- > The IoD measures those who are deprived but does not indicate whether the rest of an area's population is just above or well above the deprivation threshold. As such, an area could rank very deprived, whilst also containing many affluent residents.

More people live in rural areas than do so in the whole of Greater London. They pay the same in Income Tax, National Insurance and VAT and yet receive far less in terms of support for their Council services whilst paying more in Council Tax for those services. The proposals in this Consultation are 'rural blind' and demonstrably unfair. Government Policy and strategy should not assume that they will benefit all areas of the country equally but should explore the differential impact in different geographical areas and adjust accordingly.

Everyone deserves access to the public services that they need, irrespective of their postcode, and targeting funding only at those areas with high concentration for example of deprivation, means that it ignores residents living in deprivation in rural, more sparsely populated areas. This consultation has resulted in a system which means that these residents are currently less valued by the Government. Rural Local Authorities should receive a settlement that enables them to deliver services to meet the needs of their communities as do other non-rural councils.

Question 5: Do you agree with the government's proposals on funding for social care as part of the local government finance settlement in 2025-26?

NO.

N/A for North Devon Council.

Question 6: Do you agree with the government's proposal to allocate £250 million in a new Children's Social Care Prevention Grant to invest in family help?

NO.

N/A for North Devon Council.

Question 7: Do you agree with the government's proposals for New Homes Bonus in 2025-26?

North Devon Council support the continuation of the New Homes Bonus (NHB) for a further



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year. We rely on the NHB payments, and their withdrawal at short notice would have had significant financial consequences for the authority.

We now require some certainty about the future of this grant or about its replacement. There has been uncertainty since at least 2019, when the legacy payments were scrapped. The consultation paper published in February 2021 did not give any real guidance to authorities. So, some early direction on NHB or its replacement would be very welcome.

Question 8: Do you agree with the government's proposals to repurpose grants in order to target funding where it is needed most in 2025/26?

NO.

North Devon Council disagree in very strong terms with the proposals to repurpose grants within the settlement. There is no evidence to support distributing these funds via other grants (largely via Recovery Grant). Furthermore, there has been no prior consultation about making these changes, and their implications for the overall distribution of funding.

Rural Services Delivery Grant (RSDG). No evidence has been produced by MHCLG to show that the grant should be abolished. This is a major change in the funding of rural authorities, and we would have expected the decision to have been supported by published evidence. In fact, the only statement explaining the decision (the written ministerial statement on 18 December 2024) itself refers to the "impact of rurality" on cost drivers. Does this not suggest that there should continue to be funding for sparsity and rurality?

There is a process for reviewing the distribution of "needs," including the additional costs in rural areas, which was only launched in December 2024, and should be followed before reaching any conclusions about an appropriate level of funding for rural authorities. In the 2018 consultation paper, MHCLG accepted that there were additional costs in rural areas and was proposing to fund these via the new Area Cost Adjustment (ACA), which has yet to be implemented. We would strongly urge the government to wait until the conclusion of the Fair Funding Review before reaching any decision about changes in funding.

It is premature in the extreme to repurpose RSDG to introduce the Recovery Grant, ahead of the review of the formula itself to be undertaken next year and implemented in 2026/27. This an extremely significant and highly targeted proposal and biased against rural councils.



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RSDG in 2024/25 is worth just 0.38% of grant funding within the settlement. so, it is a relatively small element of the funding package as a whole – but for some rural authorities it is a huge element of their funding, and the disproportionate impact will be very significant.

Over 40% of Rural Services Network (RSN) predominantly rural local authority member authorities are proposed to get a 0% increase in Core Spending Power. This means:

- > the increases in council tax which those authorities introduce will not give them any increased funding at all. It will just go to replace government funding spending power (at best).
- > There is no funding in 2025/2026 to meet the extra costs associated with:
 - > general inflation
 - > salary/wage increases (including for those affected by the increase in the national living wage)
 - > Increased service demand
 - > cost increases passed on by third party contractors (including social care providers) because of their increased costs relating to employers National Insurance and national living wage increases)

North Devon Council are one of these authorities who are receiving a 0% increase in our Core Spending Power (CSP).

Services Grant. We strongly disagree with the decision to abolish the Services Grant. This grant was distributed using the existing Settlement Funding Assessment (SFA), which is the most comprehensive measure of the relative needs between authorities. It needs to be updated (but this process is underway and will conclude later this year). Distributing the £87m from the Services Grant through one of the other ad hoc grants that have been introduced in this year's settlement is not supported by any evidence and will result in scarce local government resources being used inefficiently.

Funding Floor (formerly the Minimum Funding Guarantee, MFG). Again, we strongly disagree with the decision to abolish the MFG. Although the Funding Floor remains in place, it provides much less financial support to those that need it. The level of support has been reduced from 4% of CSP to 0%, and now includes the maximum increase in Band D Council



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Tax. There is a strong argument that no authority should have received less Government funding. We call, for the re-instatement of some form of Minimum Funding Guarantee (rather than the 0% floor).

Question 9: Do you have any comments on the impact of the proposals outlined in this consultation document on persons who share a protected characteristic?

Please identify which protected characteristic you believe will be impacted by the proposals and provide evidence to support your comments.

Whilst where someone lives is not a protected characteristic, we believe it is imperative that every resident is treated fairly by government regardless of where they live and are afforded the same opportunities and access to services (at a similar cost). The Local Government and other Public Sector Funding Formulae as it currently stands, disadvantages rural residents - this is not fair. Rurality should therefore be addressed as if it were classed as a protective characteristic in the Public Sector Equality Duty.

In addition, according to the Rural Statistical Digest, published by DEFRA the population in rural areas has a higher proportion of older people compared with urban areas.' The 'Rural population has a higher proportion of those aged 65 and over, at 25.4%, compared with the Urban population where 17.1% are 65 and over.'

This greater older population in rural areas, will be impacted by the proposals, which direct funding towards more urban areas which have a younger population. Councils providing services to residents in urban areas with a greater proportion of the younger population will receive 41% more in Government Funded Spending Power compared to rural areas. This may disproportionately disadvantage older residents as their councils may be limited financially in the services that they can provide.

Question 10: Do you agree with the government's proposal to not extend the IFRS 9 statutory override beyond its current end date of 31 March 2025?

Please specify the financial impact, if any, on your council and any implications with respect to financial sustainability.

N/A – North Devon Council do not hold any pooled investment funds.



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Yours sincerely,



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