

S.I.G.O.M.A.

*The Special Interest Group
of Municipal Authorities (Outside London)
Within the LGA*

RESPONSE TO THE SUPPORTING PEOPLE DISTRIBUTION FORMULA: TECHNICAL CONSULTATION PAPER

FEBRUARY 2006

Background to SIGOMA Authorities

SIGOMA is a special interest group of 46 Municipal Authorities located outside London and is a recognised special interest group within the LGA. Its membership comprises 35 metropolitan districts and 11 major unitary authorities with similar characteristics. The combined population of SIGOMA authorities amounts to over a quarter of the population of England. Its member authorities account for over 25% of English local government expenditure and SIGOMA members comprise most of the largest housing authorities in England.

SIGOMA welcomed the Government's further review of the Supporting People Distribution Formula and our response to each of the questions below sets out our views. These are the result of consultation with our members, and aim to address the impact of the proposed model from the perspective of SIGOMA authorities that face their own particular issues.

Questions and SIGOMA Responses

Question 1:

Maximum reduction and increase (shown in graph as -5% & +10%)

Should the floor & cap be set at -5% & +10% or should the range be narrower? If narrower, at what levels, and what is your justification for choosing these levels?

SIGOMA recognises the arguments for stability with regard to funding allocations, especially where an authority's service provision is linked to contractual obligations that may be longer term. So too do we acknowledge as necessary attempts to minimise disruption to existing service users and providers, and allow future planning to be as much service-demand based as possible. However, we are also of the view that funding allocations must match relative need, and so any transitional period must be kept to the shorter-term if resources are to be used to address the issues faced by those areas where relative need is most acute.

The trade off between stability and the speed of change in needs-based funding allocations will always exist, given that more authorities are exposed to a maximum reduction in their funding if a speedier path towards revised allocations is required - but SIGOMA ultimately believe that the range should remain at least as it is (and definitely not made wider) if we are to move away from a legacy pattern and allow funding to be targeted to where it has been shown to be required.

Turning point for the floor and cap (shown in the graph at -30% & +100%)

Should the range between the turning points be widened (so fewer authorities are exposed to greatest reductions or increases) or narrowed, and what is your justification?

Again, for the reasons given above, SIGOMA would support the narrowing of the range between the turning points. Indeed in the illustration given, an authority facing an increase in funding of 100% or more in its SPDF share for each future year (and so significantly under-resources in previous years of the supporting people programme) would receive only a 10% increase in resources, and as such it would take around 10 years for that authority to achieve its full needs-based allocation – giving a relatively slow pace of change. We believe that this is not a satisfactory scenario, and that smoothing mechanisms should only be in place for a limited and shortened period of time, purely to aid transition from the current funding methodology based on legacy expenditure.

The central range (shown in the graph as –10% to +30%)

Should the central range be widened or narrowed, and what is your justification?

The central range should be narrowed; it seems unfair that a group of authorities with a change in their SPDF shares falling somewhere between –10% and +30% should suffer no alteration to their cash allocation, whilst all other are having to adapt. Indeed, allowing these authorities to continue to have their funding on a basis that is akin to their previous legacy expenditure allocation results to some extent in a slowing down of the ‘pace of change’ towards an equitable allocation based on relative need. In addition, those authorities are being allowed to retain their supporting people funding at the expense of those beyond either end of the central range ie: those authorities with an increase in SPDF share of 30% plus, or a decrease in SPDF share of 10% or more.

The proviso to the above, however, is that ODPM must ensure that the model for resource allocation is suitably robust, and so SIGOMA now asks for reassurance that a number of the issues still outstanding be fully addressed before the new methodology is implemented. For example, it is apparent that a number of judgemental decisions still need to be made, most significantly with regard to the compression of the Deprivation Index and the final selection of indicators throughout the SPDF model, to which the funding allocations are particularly sensitive. It is evident from the SPDF working model that these judgemental decisions, some of which will appear to be marginal, have a material impact on the final allocation for each authority. If ODPM is not able to provide the assurance sought, then it may be more appropriate to maintain (or offer protection to) the central range but only in the short term and until such time as confidence can be placed in the SPDF model and its outcomes.

Question 2:

Do you agree that authorities, identified from SPLS data as not using any increased funding for housing related services, should forego increases until their expenditure at least matches their funding?

SIGOMA is of the view that a needs based distribution formula is the most appropriate indicator of relative needs, and as such the SPDF model is the best indicator of the level of funding to be allocated to an authority. It would therefore seem highly inappropriate for an authority to have to forego any further increase in its funding in circumstances where its supporting people allocation was not fully spent (unless this occurred consistently over time). As the consultation document suggests, authorities to gain under the formula allocation are likely to be starting from a small expenditure base, and this may represent historically slow development of supporting people services in the area. Authorities should be permitted to invest further in the supporting people strategies, but obviously this will require due consideration and need to take place within a reasonable time frame.

SIGOMA suggests that ODPM investigate the reasons for any continued under-spend on a supporting people allocation before requiring an authority to relinquish its right to future increases in its SPDF share. We would also be interested to here the ODPM proposals for the ‘recycling’ of the increase not being allocated – we are presuming that an amount equivalent to that forgone will be reallocated between existing authorities, rather than being used to reduce the quantum of the total supporting people funding pot. Alternatively, the funding removed could be set aside for future use by the offending authority and drawn down in the short to medium term once an agreed programme of service developments had been met. In

doing so cash allocations would be made available at an appropriate point in time and avoid authorities maintaining excessive surpluses.

Question 3:

Views are sought on whether 10% is an adequate safety margin to protect valuable services. If not, what would be an appropriate margin, and how would the extra cost be paid for?

SIGOMA agrees with the view that the further an authority is above its SPDF share, the less likely it is that all the services it is providing will be good value or of high priority - so the case for protection of existing services weakens as an authority's share gets further from the SPDF average. However, we do believe (as a matter of principle) that authorities experiencing significant losses should be offered short-term transitional protection to reduce the level of turbulence in their services, and are of the opinion that a 10% safety margin is sufficient to enable this. All other authorities should be subject to their required reduction in funding if this means they are to comply with and move towards their lower funding allocation offered through the needs based formula.

Alternatively, the safety margin could be extended but this would only be feasible if it were to be funded from outside the system and by monies additional to supporting people programme pot, thereby avoiding a situation where some authorities receiving no increase in funding.

Question 4:

Views are sought on practical limits to the pace of change that authorities can accommodate.

Whilst the supporting people programme continues to be administered by top-tier authorities, the overall provision of housing-related services has required the effective joining-up of action at a local level, which involves partnership working between agencies as well as the commissioning of services.

Obviously contractual obligations will limit the ability to adapt to a new funding regime; an authority must first give notice and provide details of its intention to re-organise the service it has previously enabled. In order to do so successfully, authorities require some clarity from ODPM as to how the 'pace of change' will develop over future years, with details of floors and caps and indicative allocations. At least then authorities can seek to manage the change in service provision.

On a similar point, we note that transitional arrangements (floor damping) has been applied since 2005/06 in moving to a formula allocation, meaning that authorities that lose out in a formula allocation have been protected for at least three years by 2007/08. It is important that such protection should only last for a short period so that those authorities with a high historical expenditure base and low needs (indicated by the formula) are not over-compensated. We would suggest that the transitional arrangements should not extend for more than the two years after 2007/08.

Question 5:

Views are sought on whether density should be included as a component in the Deprivation Index.

If density is to be included then views are sought on whether the measure of “population per hectare” or “EDDENSITY” should be used.

The current SPDF 2.0 model incorporates density within the Deprivation Index, where density is defined as ‘population per hectare’. However, this measure could provide the same outcomes for areas significantly different in terms of their conurbations and how population is dispersed across their regions. For this reason, we believe ‘population per hectare’ is not suitable for use as a component.

The alternative proposed is EDDENSITY. However, we would like to point out our concern at the statement in Annex C, which reads: “An equivalent data set (for EDDENSITY) can be, and has been, calculated from the 2001 Census”. As discovered in the consultation on the formula grant distribution system, it is not possible to replicate the EDDENSITY calculations from the 2001 Census, as information on remuneration districts (upon which EDDENSITY is based) was not actually collected. Instead, data based on Output Areas was gathered, which can have the affect of altering (quite significantly) an authorities’ density factor. Indeed, minor changes to the sub-ward boundaries as a result of Output Areas being specified can have a material impact on the resulting density, even if the calculation is based upon exactly the same number of people living in exactly the same authority!! SIGOMA would welcome comments from the ODPM, with a view to clarifying the methodology for the EDDENSITY calculation but at this point in time, we believe that EDDENSITY is also not appropriate for use as a component in the Deprivation Index.

To summarise, SIGOMA states that it does not support either of the components suggested above. Whilst we do believe that severely deprived areas have more individuals that require housing related services (the ‘urban magnet effect’) with each client requiring a more intense level of support, and less able to pay for any provision than those residing in more affluent areas, we are of the opinion that the Income and Employment domains within the IMD2004 provide *direct* socio economic evidence of deprivation, and so density as a “proxy” for deprivation is no longer required and should be removed from the Deprivation Index..

Question 6:

Views are sought on whether ethnicity should be included as a component in the Deprivation Index.

Whilst ethnicity is identified as a measure of need in other formula driven funding streams (including the former FSS) it is not included in the Index of Multiple Deprivation (IMD 2004), the argument being that it should be captured by more direct indicators eg: as low income and unemployment.

SIGOMA is unable to take a view on ethnicity due to the diversity of our membership. However, if ODPM do decide to incorporate this factor, it is recommended that the new ONS population estimates by ethnicity be used in preference to the 2001 Census results.

Question 7:

Views are sought on how “difficulty in accessing services” could add to the need for HR support services.

If access to services is to be included in the DI then should this component include either of the IMD sub-domains or both?

SIGOMA is of the opinion that ‘Difficulty in Accessing Services’ does not add to the need for Housing Related Support Services. Indeed, we believe that this component replicates sparsity, which has already been included in the model’s Cost Index (designed to account for differences between authorities in the cost of providing a service); to include this element again will obviously result in double counting.

Our comments are expanded upon further with reference to the 2 sub-domains of “Difficulty In Accessing Services,” namely:

- Geographical Barriers, and
- Wider Barriers

The geographical distance an individual lives from certain services is not a measure of need; rather it is a measure of sparsity. People exercise choice over where they live and those in rural areas generally have no economic barriers to moving into urban areas if geographical proximity is a problem (by contrast economic barriers do exist to migration into rural areas which generally have shortages of affordable accommodation). People who need support and still choose to live in remote rural areas may well do so because of close informal support networks, which are better developed in small communities. A crude measure of geographical distance from post offices etc which is the so called ‘access’ measure, has no real bearing on supported housing need, and as such should not be included in the final model.

The ‘Wider Barriers’ sub-domain is also unsuitable for inclusion in the model. This sub-domain includes the controversial ‘difficulty of access to owner occupation’ indicator. This measures housing prices relative to incomes, which are highest in the most affluent parts of England with few exceptions, so this indicator is a measure of general affluence, not of deprivation. It is therefore wholly unsuitable as a measure of deprivation.

Another unsuitable indicator in the ‘Wider Barriers’ sub-domain is the measure of homelessness, which is already tackled in the prevalence component of the SPDF.

Question 8:

Views are sought on whether the “indoors” sub-domain of the IMD “Living Environment” domain should be included in the Deprivation Index.

The “indoors” sub-domain, which is one of two sub-domains within this component, measures the quality of housing and has previously been classed as a proxy for deprivation. However, SIGOMA objects to the inclusion of this sub-domain within the Deprivation Index for the reasons given below.

“Residences with no central heating”, which is the first of the two indicators within this sub-domain, is not an appropriate measure of deprivation given that people may occupy homes

fitted with central heating, but may not be able to make use of the facility due to concerns re: affordability.

The second indicator – “social and private housing in poor condition” - is a perverse incentive, as authorities should be endeavouring to enhance housing conditions. So taken together, both indicators preclude the use of the “indoors” sub-domain in the Deprivation Index.

Question 9:

Views are sought on whether the allocation to authorities should ensure that each authority receives some minimum allocation per head for each client group.

If so, how would this minimum allocation be determined?

SIGOMA believes that funding allocations should be based on formula, and that that formula should reflect the relative needs of authorities and allocate resources accordingly. To have minimum allocations would favour authorities that have relatively low need and generate even greater pressure on those with relatively higher needs, in addition to introducing another layer of judgement and complexity into the system.

Thus, we do not support a minimum allocation per head.

Question 10:

Views are sought on the extent to which the Deprivation Index should be compressed for each Cluster Group & on the justification for recommending a particular level of compression.

It is stated that the impact of deprivation on the need for housing related support is likely to vary between client groups or ‘clusters’ of client groups and so to allow for this, a “compression factor” has been incorporated into the model, which can vary the strength of the deprivation index by cluster group.

This differs to the methodology proposed in the original/previous SPDF, and so we are concerned that the compression factor now introduced as part of this consultation reduces or ‘damps’ the weighting of the deprivation index to quite a considerable extent. In particular and, for example, in relation to the Older People Cluster, we find excessive the use of a compression factor of 0.5. Indeed, SIGOMA does not agree with the statement that ‘age is likely to be the biggest determinant of need’ - in deprived, urban hubs, individuals require support at an earlier age and this is evident in the lower life expectancy in major cities. Deprivation is therefore a key driver in this domain, and should not be compressed.

We also have to ask why compression should be applied when we are, in fact, dealing with a relative needs-based formula; we are also anxious that the judgemental decisions on levels of compression have such a strong bearing on outcomes and so we would support the argument that the SPDF may be better used here, to identifying outliers and adjust their funding in relation to deprivation accordingly.

Question 11:

Views are sought on the weighting used in the cost index and justifications for changing these?

The cost index is designed to account for the differences between authorities in the cost of providing a service, and consists of two indices: a labour cost adjustment and a sparsity adjustment, with weightings of 99% and 1% respectively, based on a policy decision by ODPM.

If the sparsity element is to remain, then the current weightings are acceptable; however, please note that we would not support any increase in the weighting of the sparsity adjustment.

Question 12:

Views are sought on the use of current expenditure data taken from SLPS downloads.

SIGOMA believes that the most recent and up to date information available should be used, provided it is robust and reliable, and so we would support the use of current expenditure data rather than those legacy proportions based on supporting people national expenditure for the various client groups as at April 2003.

We agree that a move towards using data from SLPS downloads would better reflect expenditure on locally determined priorities, and would enable funding to shift towards those authorities with greatest relative need for particular client groups (and whose needs were under-represented by the previous legacy proportions that were relied upon).

We would ask, however, that ODPM monitor the use of the current expenditure approach and the expenditure patterns that result, so as to establish whether these are driven by changes in local priorities or by some other systematic factor operating across a number of authorities.

ODPM may also wish to give thought to how changing the weighting applied to each client group in each year of the programme will affect certainty over future allocations.

Question 13:

Views are sought on the case for adjusting expenditure proportions outside the model.

SIGOMA do support adjusting expenditure proportions “outside the model” and increasing funding to particular clients where a “systematic factor” can be evidenced and shown to be operating against a specific group disproportionately and over a sustained period of time.

However, we do not support the second circumstance whereby Ministerial policy (ie: judgement) would determine a shift in resources between client groups and may conflict with local decisions; obviously, a decision to increase the provision for, say, domestic violence would give a higher percentage weighting in terms of resources to be allocated to that specific group and this would be at the expense of other needy clients. Whilst central government could not guarantee that authorities would necessarily increase expenditure on the favoured group, resources would still be directed to areas where the government considered needs to be most pressing, and yet this would be in direct conflict with the results of the data analysis from the SPLS downloads (and the relative needs formula model).

If Ministers are to be allowed to direct financial support, there must be clear and justifiable reasons as to why, and the funding model used should be sufficiently transparent to show the changes to the resource allocations of the various client groups or ‘clusters’ that result.

Question 14:

Views are sought on whether the model should be structured to eliminate negative payments.

Where Supported People funding for an individual is allocated to an authority (the prior authority) but the individual receives supporting people services in another authority (the host authority) then funding should be transferred from the prior authority to the host authority as a “Cross Authority Adjustment” (CAA). Issues arise when an authority finds that for a particular client or cluster group, the charge generated by the CAA exceeds its supporting people funding allocation.

As the exporting authority has no control over the number of residents using other authority services, SIGOMA believes some form of restraint needs to be exercised with regard to the level of ‘negative payments,’ in the context of a needs-based formula. A nationally agreed ‘trigger-point’ would seem reasonable and could be investigated further by ODPM, but the data used to calculate these CAA must be robust.

If further research reveals that it is not possible to produce a suitable mechanism for dealing with CAA, then no funding should be attached to this data and the model should be structured so as to eliminate negative payments. Then it may be more appropriate to ask authorities to develop more robust figures and recoup funding through working together themselves.

Additional Comments relating to the Supporting People Consultation:

Annex B of the consultation paper considers potential data sources for use in the Supporting People distribution formula. SIGOMA is of the opinion that “households in temporary accommodation,” used to determine the population at risk index for the Rough Sleepers client group, is a perverse incentive (with ODPM setting this precedent by excluding this indicator for this reason from the final Index of Deprivation 2004) - hence it should be removed from the final supporting people model. Whilst Page 44 of the consultation paper does state that this indicator will be dropped, we are concerned to note that it still appears in the SPDF Consultation Model that ODPM has provided. This may simply be an unintentional oversight, in which we case as for the model to be amended and re-issued as soon as possible.

SIGOMA would also like to point out that there appears to be a lack of consistency in the age brackets for data sources used to represent client or cluster groups; for example, some data sources count individuals falling within the age bracket of 16-59 years of age, others use 16-64 or 18-64 and so forth. It is our opinion that there should be homogeneity across all the groups by applying the same age bracket to each.