



September
2007

Caring for all

balancing fairness and stability in the
funding of local services

The case for better targeted funding to provide
improved local services, especially for young people
and vulnerable adults

SIGOMA

Giving a Voice to Urban Areas

SIGOMA

SIGOMA is a national network of urban local authorities in the northern, midland and south coast regions of England. We are the collective voice of urban areas across these regions and embody the opportunities and potential of the communities who live there.

North West

Blackburn with Darwen
Blackpool
Bolton
Bury
Halton
Knowsley
Liverpool
Manchester
Oldham
Rochdale
Salford
St. Helens
Stockport
Tameside
Warrington
Wigan
Wirral

Yorkshire and the Humber

Barnsley
Bradford
Calderdale
Doncaster
Kingston upon Hull
Kirklees
Leeds
Rotherham
Sheffield
Wakefield

North East
Gateshead
Newcastle upon Tyne
North Tyneside
South Tyneside
Stockton-on-Tees
Sunderland

West Midlands

Birmingham
Coventry
Dudley
Sandwell
Stoke-on-trent
Walsall
Wolverhampton

East Midlands

Derby
Leicester
Nottingham

South

Plymouth
Portsmouth

damp *v tr (often followed by down)* **a** to take the force or vigour out of (damp one's enthusiasm) **b** make flaccid or spiritless Oxford Concise English Dictionary

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This report explains some of the key conflicts within the local government funding system, and explores the impact of the government's current approach, particularly for social services. It seeks to illustrate the inequalities that are caused by the practice of 'damping' back changes to the funding system, and how this compromises service delivery in SIGOMA local authority areas.

The report concludes by identifying how these problems can be addressed in a fair and balanced way, so local authorities across the country can deliver good quality services to some of the most vulnerable people in our society.



The balance between stability and fairness needs to be redrawn so funding reaches the people that really need it over the next three years

Now is the time for change



Funding for key local services like social care needs to be stable and predictable, but it also needs to be 'fair' and reflect the changing needs of local areas over time. The use of different 'protection' arrangements, to retain the status quo and avoid any sudden changes in funding, has been the subject of constant debate over the years. The key challenge is to strike a proper balance between stability and fairness for every local authority and area of the country.

In 2006 the government updated the way it calculates the need for social services funding in different local areas. This meant refreshing some of the outdated information previously used and introducing more relevant indicators to reflect the true situation across different towns and cities.



But despite accepting the need to update the formulae and target social services funding more effectively, the government introduced some of the most stringent controls on the re-distribution of funding, with a fundamental departure from previous regimes. Rather than just limit the changes in the overall level of grant targeted to councils, the government chose to restrict the need assessments underpinning the grant calculations in some, but not in all, areas.

This basically means that local authorities in some parts of the country are receiving over 100% more funding for local social care services than their needs would suggest. Other towns and cities, where needs are just as great, are effectively under funded by anything up to 25%.

At the same time, changes in overall grant levels have also been heavily limited, leaving little scope for re-allocating public spending to the areas identified as having most needs.

The Government is just about to agree a three year funding settlement for local councils. As such, it is vital that these ongoing inequities are addressed so that fairness is locked into the new three year funding system. This will ensure that councils can deliver the services that their local communities need.

A handwritten signature in black ink that reads "Stephen Houghton".

CLLr Stephen Houghton
Chair
SIGOMA

A handwritten signature in black ink that reads "Neil Turner".

Neil Turner MP
Chair
SIGOMA MPs Group

Social Services: funding and needs

Meeting needs

No one would deny that public spending to care for the most vulnerable individuals within our society is vital. By their very nature, social services will remain a significant share of the overall expenditure by a local authority in the foreseeable future.

This is particularly true in towns and cities represented by SIGOMA, as well as in parts of London, where there are real concentrations of need for social services. For example, in terms of **children**:

- ▶ almost half of the most deprived neighbourhoods identified in the government's child poverty index lie within SIGOMA authorities;
- ▶ the number of children looked after by SIGOMA authorities is around 72 per 10,000 (under 18 years), broadly similar to that of London at 73 per 10,000.¹

In social services terms, '**younger adults**' are defined as adults up to the age of 64 years. In SIGOMA areas, this means that social services were provided for a total of 131,000 adult clients in 2005/06, a rate of 165 per 10,000 adults. In contrast:

- ▶ Inner London dealt with 30,000 clients (a rate of 143 per 10,000 adults);
- ▶ Outer London managed 45,500 clients (a rate of 156 per 10,000 adults).²

At the same time, **drug and substance abuse in young adults** is a major issue for all our areas - each SIGOMA authority has an average of around 1,590 problem drug users on treatment programmes, compared to an average figure of 1,400 in Inner London and 800 in Outer London.³

On **wider health issues** as well, it is possible to identify a concentration of need in SIGOMA areas. For example:

- ▶ SIGOMA areas have some of the highest levels of incapacity benefit and severe disablement allowance claimant rates, averaging around 10% of adults aged 18-64 years;
- ▶ whilst in outer London, levels of incapacity benefit and disablement allowance are less than 5% of the adult population, and 7% in Inner London.⁴

Overall, SIGOMA areas have a broadly similar set of needs to inner London and a generally higher rate of need than the national average. As such, funding for local social services is a key issue for all SIGOMA local authorities, and a good starting point to illustrate the impacts of a lack of change in the current local government funding system.

The government has failed to allow resources to follow needs.

Measuring need and targeting funding

Given the real impact that funding can have on the day to day lives of people in different client groups, SIGOMA has always argued that available resources need to be targeted efficiently and effectively to areas with the greatest needs.

In 2005, the Government recognised that the formula used to distribute social services funding to local authorities was fundamentally flawed and **based on data some 15 years old**. A full review was therefore undertaken to ensure that any future funding allocations were able to meet the change in relative need that had occurred over time, so appropriate standards of social care could be provided to the most vulnerable citizens living within our towns and cities.

The results of this review were warmly welcomed by SIGOMA, as they developed a new approach to address under-funding in many areas and ensure that resources could be re-directed to where the needs are greatest. For example, the new approach:

- ▶ **updates** the children's social services formula by replacing a 'children living in flats' indicator with an indicator measuring 'children not in good health';
- ▶ **draws** on a wider range of variables to improve the way that a deprivation top-up for younger adults' social services is calculated;
- ▶ **revises** the adjustment made for low income in elderly adults, by using the 2001 Census rather than older data.

Yet, despite taking these very practical steps to update and strengthen the way need is calculated, the government failed to allow resources to follow those needs. Instead, the government chose to apply a system of 'damping' to the formula for calculating both the children's and younger adults social services funding - effectively slowing the pace at which changes are made and preventing local authorities from receiving their fair share of resources as directed by the government's own formula.

The local government funding system has a well established practice of limiting year to year changes to overall levels of grant, to ensure funding to different councils is more stable. However, this new system of 'formula damping' works by introducing controls to the way that grant is calculated in the first place. It is currently applied to the children and young adults formulae, but not the formula for elderly adults, and means that the needs of people in different local council areas are simply not reflected in the way that funding is being calculated.

Instead, the majority of funding continues to flow to areas that traditionally received more resources under the older, outdated system. Ultimately this has a direct impact upon a council's underlying ability to deliver social services to clients who need them most.

Impact of formula damping on needs and funding

This damping of the needs formulae creates a situation where significant levels of resources are not being received by the very authorities that have communities with more complex and widespread issues. This is simply illustrated in **Figure 1**, which plots the average amounts of funding per client targeted to local authorities in SIGOMA areas, inner London and outer London.

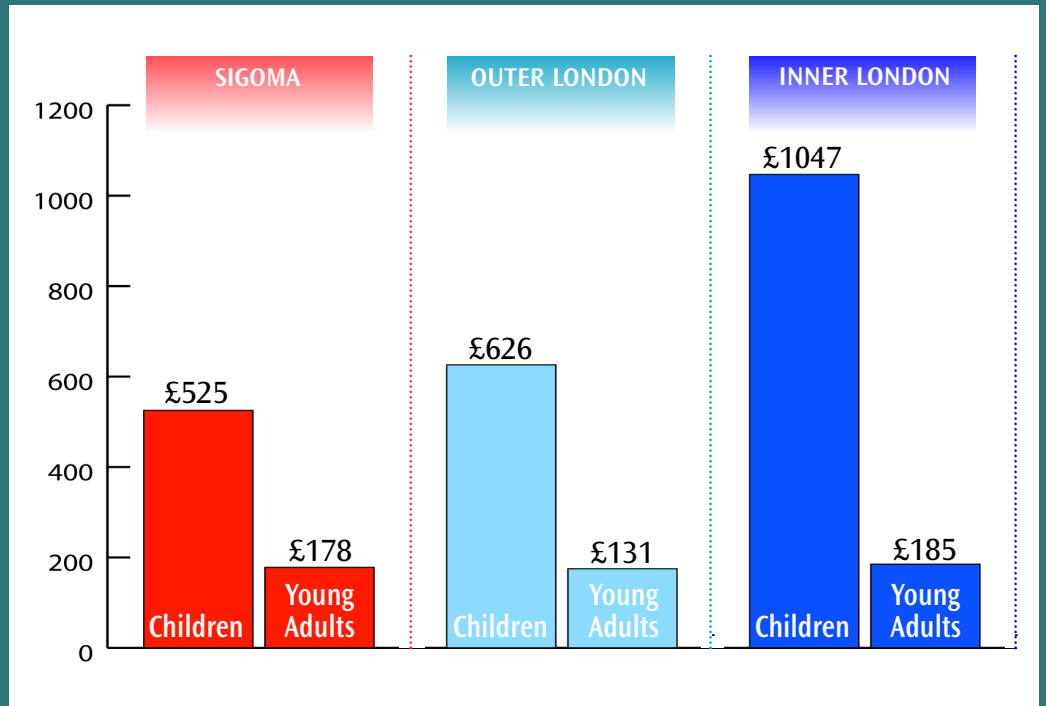
For **children**, the formula damping system means that, on average, SIGOMA local authorities receive funding of £525 per child, considerably lower than that received by more affluent Outer London (£626 per child) and around half of that received by Inner London (£1,047 per child).

For **younger adults**, SIGOMA areas receive on average only £178 per younger adult to deliver the full range of services required. Whilst this is slightly higher than that received by wealthy Outer London, Inner London receives an extra £7 per younger adult, at £185.

Figure 1 shows the average level of grant funding per child and young adult for SIGOMA areas and London areas. It demonstrates the way in which SIGOMA councils have a much lower amount of grant per child or adult than either inner or outer London.



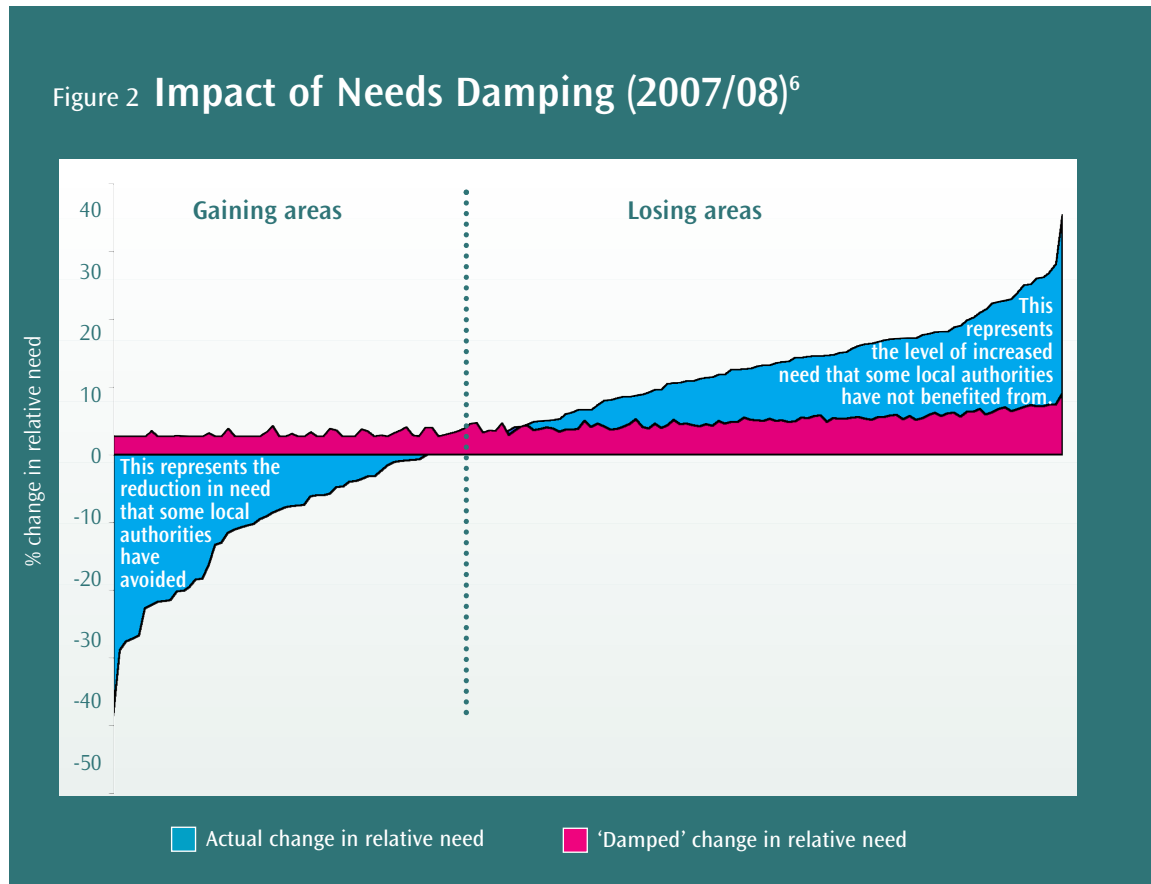
Figure 1 Estimated Funding per Client (2007/08)⁵



Despite our needs, SIGOMA areas still receive significantly less resources than others

Figure 2 illustrates how this inefficiency in the way that funding is targeted can be explained by the formula damping system. Formula damping restricts the amount of true needs that is calculated for funding. This shows the difference between the actual change in need calculated by the new system, and the 'damped' or limited amount of need calculated through formula damping.

Figure 2 shows the level of change in need across all local authorities, along with the level of change that would have been funded without formula damping. Councils to the left of the chart gain, as their relative needs would have decreased by up to 40%, but instead grew by a minimum of 2.7%. Councils to the right are losers - their relative needs should have grown by up to 30% more, but instead only grew by less than 10%.



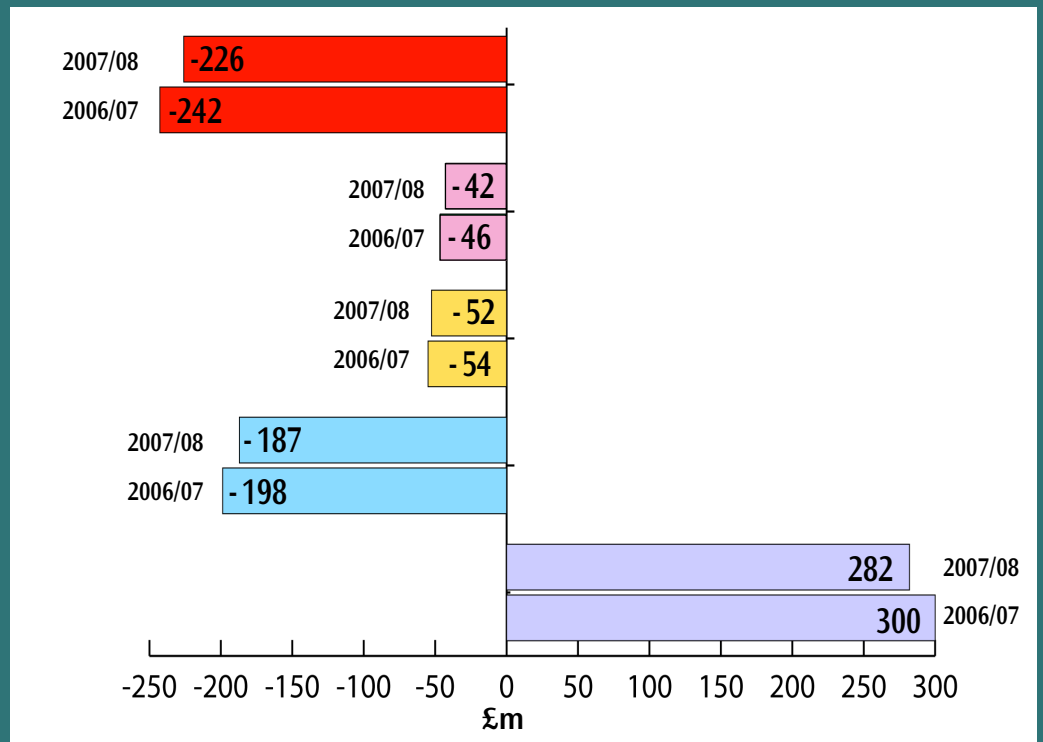
A provisional estimate, not disputed by government, suggests that the net losses to SIGOMA local authorities caused by formula damping will be approximately £227m in 2007/08. This in addition to around £250m lost in 2006/07.

This scale of losses is in comparison to significant gains in London authorities. **Figure 3** highlights the disproportionate and uneven impact of formula damping upon different types of local authority.

Figure 3 shows how much different groups or types of local authorities lose from the damping of social services formulae, as well as how many millions of pounds London authorities gain. SIGOMA, unitary and shire authorities all lose.



Figure 3 Impact of damping on grant⁷



- SIGOMA
- Unitaries
- Counties
- Metropolitan areas
- London area

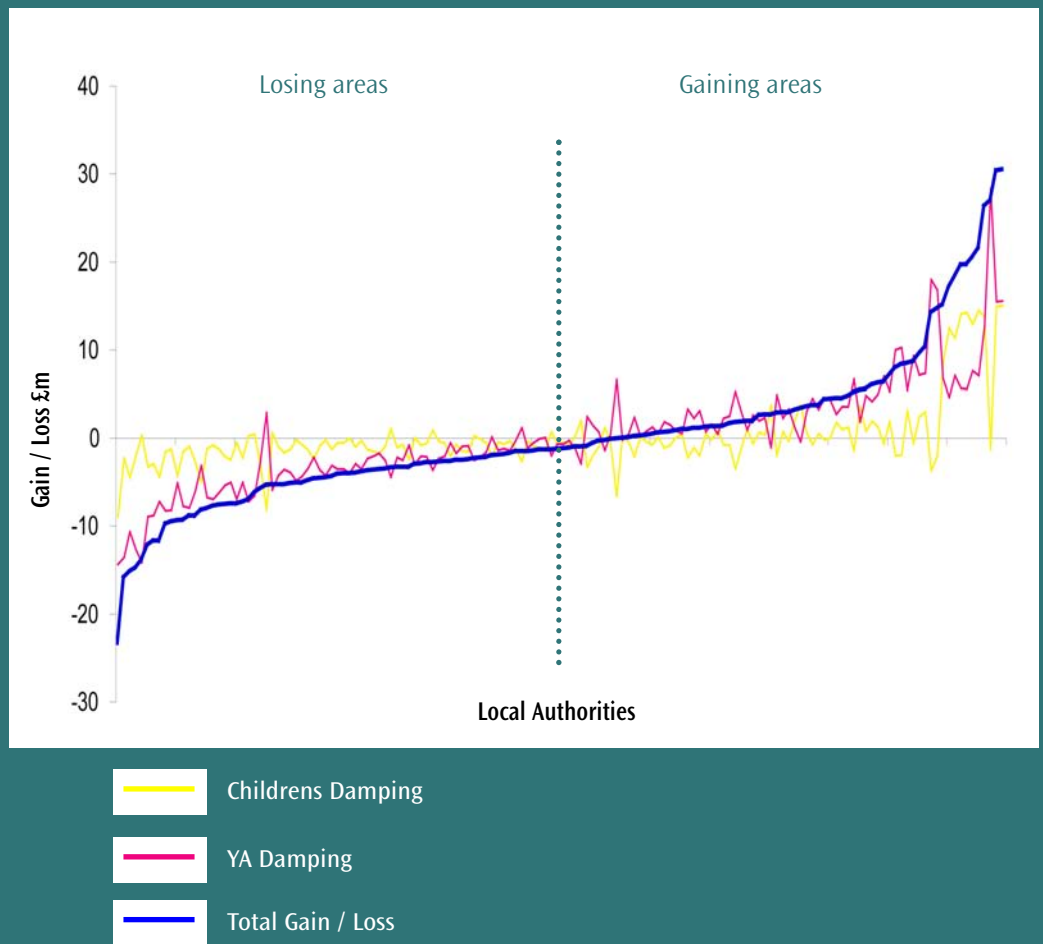
This situation cannot be allowed to continue: formula damping must be removed from the funding system

There are also significant variations in funding for individual local authorities from this type of formula damping. Individual councils receive up to £30m over and above their calculated levels of true need, whilst others receive some £25m below current needs. **Figure 4** sets out the situation for a spectrum of different local authorities across the country.

Figure 4 shows the impact of the damping of social services formulae on individual local authorities. Losers, to the left of the chart, are up to £25 million under-funded on their total social services funding. Gainers, to the right of the chart, are up to £30 million over funded.



Figure 4 Social Services damping (2007/08)⁸



Overall, we can see that specific damping of the social services funding formulae in this way is not consistent with two of the aims of the local government funding system - that it should be equitable and transparent. This cannot be justified when:

- ▶ there are no specific damping mechanisms for other individual elements of the funding system;
- ▶ there is still a separate, overall damping mechanism for grants, which already protects authorities from very large change and provides the stability required for councils to plan their budgets.

In effect, local authorities continue to receive grant that reflects historical levels of funding rather than their up-to-date local circumstances - this hardly seems to fit with the principles of equity and fairness that are thought necessary by the government to govern the allocation of resources.

Total Funding: slowing change and limiting impact

In addition to the specific damping being applied on two of the three social services funding areas, the government has always limited the impact of large changes in local government grant to councils. This type of 'grant damping', as it has become known, is something that is necessary and practicable in the system as it:

- ▶ provides stability and predictability in funding levels for individual local authorities, and
- ▶ gives some support to those authorities losing large amounts of resources through changes to data used in the funding formula, such as when information is updated.

The grant damping system operates by setting a 'floor' or minimum increase in grant for every authority. Authorities who would not have achieved this level of increase are brought up to the floor. Authorities that would have received a larger increase than the floor have to have some of their increase scaled back to pay for the increase in the floor councils.

Although this is well established practice, the current levels of floors and scaling back mean that too much funding is failing to reach the areas where it is needed. For example, with the current floor of 2.7% for 2007/08, local councils above the floor are scaled back by around 69% of their increase. As such, over two thirds of the funding increase needed in some areas is being taken away from some local councils to pay for bringing other councils to the floor.

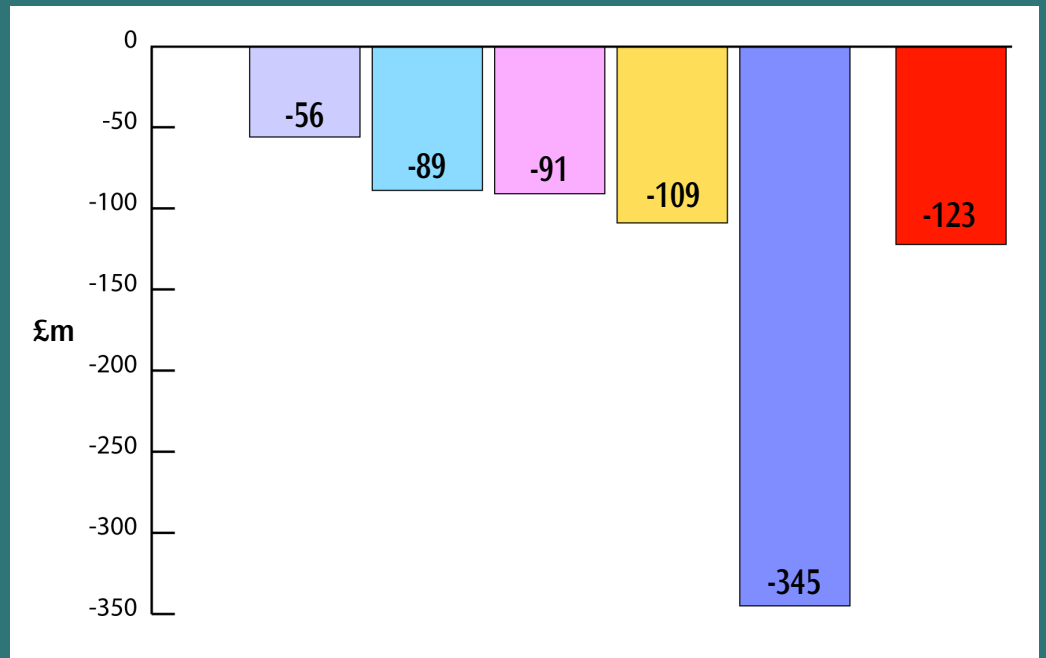
This means that improvements to the funding formula made by the government to reflect the needs of today are effectively negated by the size of the scaling factor. Little benefit is seen by local authorities, especially in urban areas, despite the increased recognition of needs through the formula.

Figure 5 shows which types of local authorities are effectively losing out by having to fund the system of grant floors. Of the total £345 million cost of the grant floor, over 35% is being funded from 34 SIGOMA local authorities.

Figure 5 shows the amount of overall local government grant that groups of councils are contributing to paying for the 'grant floor'. SIGOMA areas contribute over £120 million a year to subsidising other areas.



Figure 5 Funding the Grant Floor (2007/08)⁹



- London
- Metropolitans
- Unitiaries
- Counties
- England
- SIGOMA

...the grant received by individual local authorities increasingly bears little relationship to the needs identified for their local communities.

Clearly, the current balance between stability and the funding of acknowledged 'needs' requires urgent reconsideration. The current grant damping arrangements mean that the grant received by individual local authorities increasingly bears little relationship to the needs identified for their local communities. The introduction of the specific damping for Social Services has further exacerbated the position.

Based on the 'Target Grant' for 2007/08 i.e what the needs assessment concludes is the fair level of funding, the actual funding position for the year sees:

- ▶ 34 local authorities receiving grant over **10% more** than their target grant
- ▶ 18 local authorities receiving grant over **10% less** than their target grant.¹⁰

The table in **Figure 6** lists some examples of the most extreme 'losers' and 'gainers' from the current damping system and the amount of funding that they are away from their target grant based on needs. The scale of these losses in urban areas like Blackburn with Darwen, Rotherham and Wigan, along with many others, is clearly going to seriously undermine their ability to deliver the quality and level of services that they should achieve given their assessed needs.

Figure 6 Most extreme 'losers' and 'gainers'¹¹

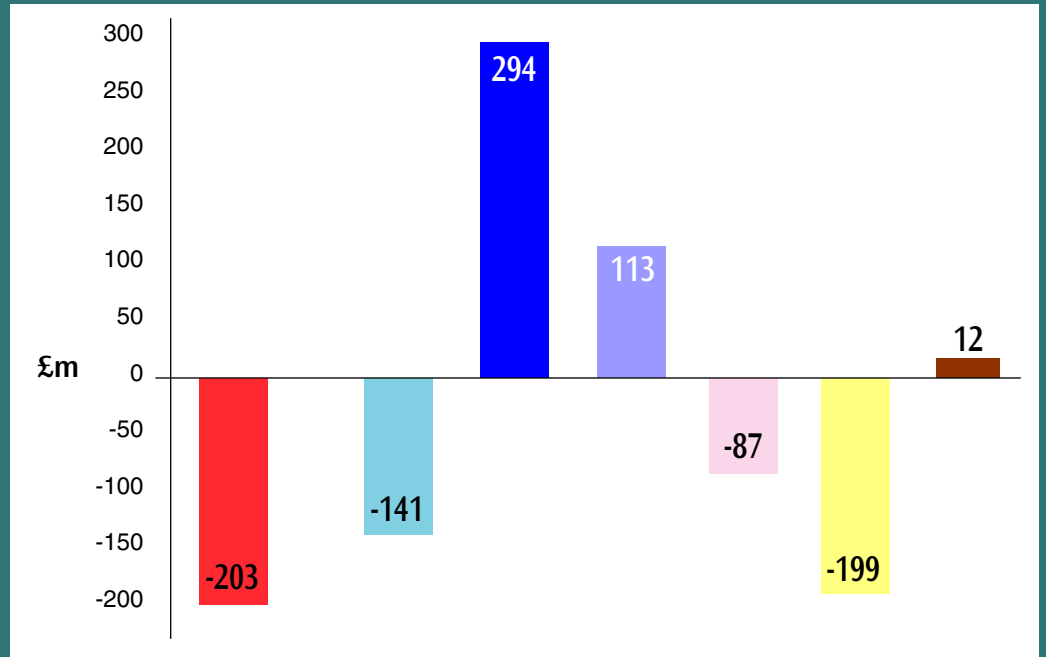
	Distance from target grant in 2007/08 %	Distance from target grant in 2007/08 £m
Richmond upon Thames	+130	13.6
Wandsworth	+57	49.1
Lambeth	+26.8	41.5
Blackburn with Darwen	-11.4	8.3
Rotherham	-11.1	11.4
Wigan	-8.3	10.1

In total, those Authorities not funded at their target level have lost some £686m in 2007/08.

Figure 7 highlights the scale of the unfairness of current funding levels, with SIGOMA areas a total of more than £200 million under their full grant figures, based on needs. At the same time, London areas are almost £300 million over their grant based on needs.



Figure 7 Current Distance from Grant based on Needs



■ SIGOMA ■ Inner London ■ Unitaries ■ City of London
■ Metropolitans ■ Outer London ■ Counties

Even after taking out the most extreme examples, such excessive levels of grant damping and formula damping will continue to undermine the fairness of resource distribution in the future. This picture is set out in **Figure 8** which plots the differences in grant changes for a range of local authorities under three different scenarios. Assuming a 2% increase in total grant (which may be the case for 2008/09), even a floor of 0% would allow little movement towards a fairer distribution. With a 0.5% floor for grant increases, the difference between assessed funding based on need and actual funding increases further.

Obviously, any increase in the floor extends the distance from the overall grant target and thus the size of funding gap.

Figure 8 plots the percentage change in grant for local authorities under three different scenarios. It shows how even a very modest floor, of 0.5% increase, will mean that some authorities will lose the majority of their grant increase. Winners from the floor are on the left of the chart, as they will avoid a large loss in grant, losers are on the right - they will fail to receive their fair increase in grant.

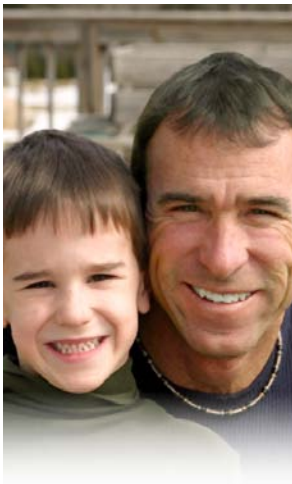
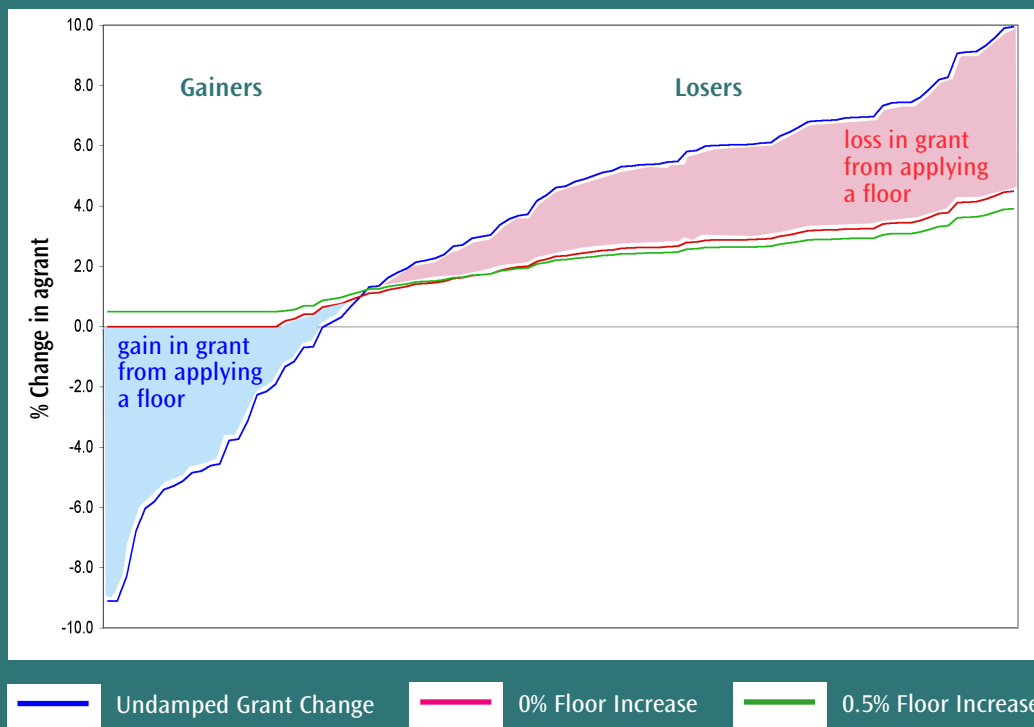


Figure 8 Impact of damping¹³



Understandably, SIGOMA authorities are extremely concerned about the reduced level of resources they are receiving as a result of damping, and the situation is exacerbated by the lengthy period of time that needs to pass before the damping is completely “unwound”. Our authorities require their full amount of grant much sooner - the fact that formulae are not allowed to fully direct resources towards need means that our members are having to continue to provide social care services with less than adequate funding.

Impact on Council Tax Payers

The ongoing lack of allocating adequate resources to those identified as most in need, also impacts on the levels of Council Tax within SIGOMA Authorities.

The Table below shows the average Band D council tax for 2007/08 and clearly highlights that those authorities currently being protected are able to subsidise their council tax with those additional resources.

Not only are our Tax payers being denied the level of services required but are having to pay for the subsidy of those being protected.

Figure 9 The lowest band D council tax of £377 in Wandsworth clearly reflects the fact that they currently receive some £49m more than their true allocation.

Rotherham's underfunding of £11m means that their taxpayers have to pay £1,121, nearly 3 times more.

Figure 9 Impact on Council Tax Payers¹⁴

	Band D Council Tax 2007/08 £	% increase
Inner London	787	2.0
Outer London	1057	3.7
Mets	1120	3.8

Impact on wider local service delivery and improvement

The continued under-funding to some local authorities, and especially for social care needs, is currently being compounded by a similar set of controls on funding for primary care trusts (PCTs).

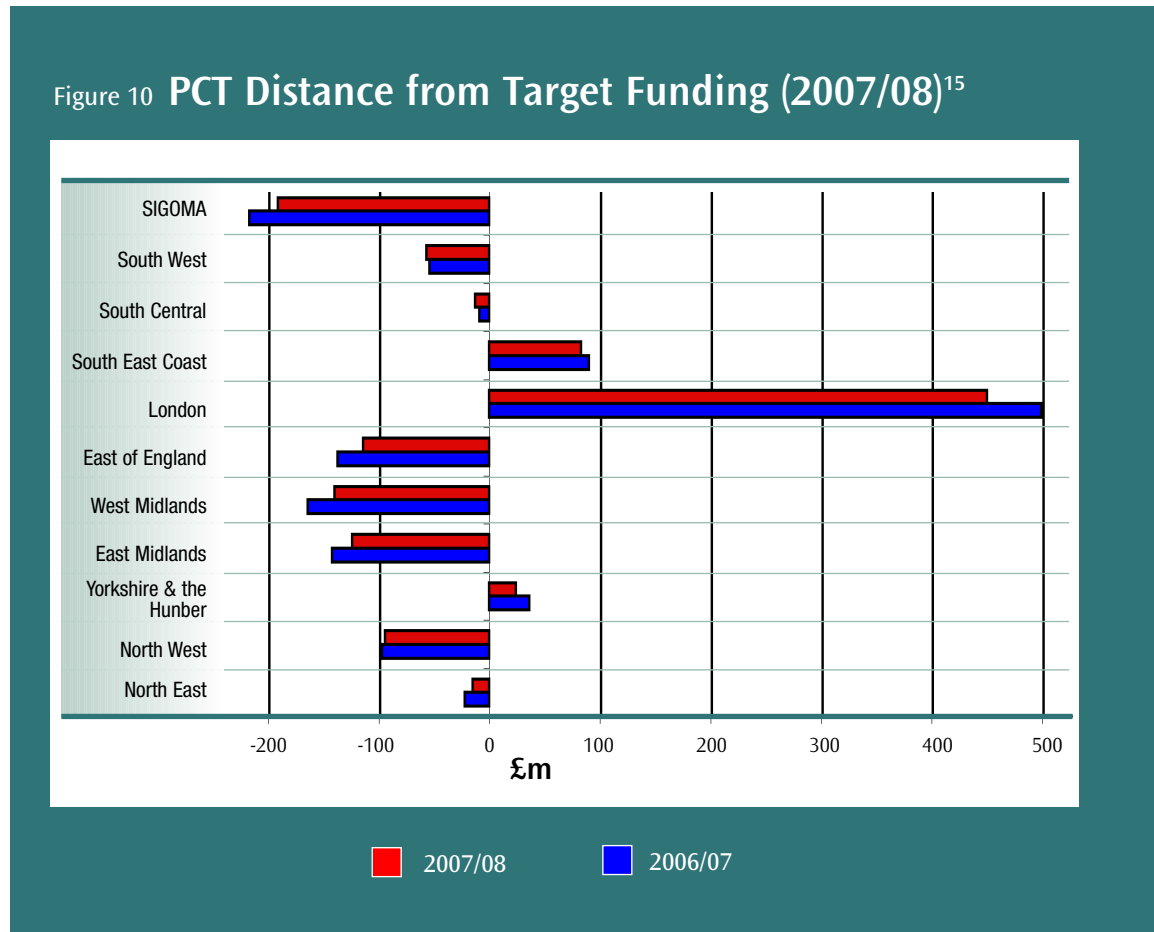
Despite the increases in overall resources for the health service, and significant improvements in joint working between councils and PCTs, the failure to target funding at levels of identified need means that progress on health inequalities is being hindered.

At the moment, the health funding system means that:

- ▶ by the end of 2007/08, PCTs in SIGOMA areas will have received some £191m less than their target funding levels,
- ▶ whilst at the same time, PCTs in London will have received £450m more than their funding targets.

Figure 10 illustrates the regional differences on PCT funding - with only London and the south east coast receiving more than the target level of funding. Every other region, and particular towns and cities within SIGOMA, are effectively under target on their mainstream health funding.

Figure 10 shows the 'Difference from Target' for PCTs in different regions. Regions 'over target' receive a higher level of funding than their needs. Areas under target are effectively under their target funding. SIGOMA areas are under target funding by more than £190 million, whilst PCTs in London receive a total of £500 million more than their target funding.



The fact that both health and social care services suffer from a significant lack of resources means that these crucial services are suffering from 'compounded under-funding'. It means a total loss of more than £400 million over the last two funding years, whilst at the same time the London region benefits by up to £700 more funding than it is assessed as needing (Figure 11).

Figure 11 shows the total amount of social care and health funding gained or lost on target levels for SIGOMA areas and London. SIGOMA areas have consistently received less than their targeted or allocated funding levels for both health and social care. This amounts to more than £400 million in each of the last two years. In contrast London areas have consistently received more than £700 million above their targeted levels.



Figure 11 **Compounded Underfunding - Total Funding Loss/Gain**¹⁶



There can be no excuse for continuing to deprive our members of the resources their local communities are entitled to

Opportunities for the future

In a House of Commons debate, held on 31st January 2007, Minister for Local Government Phil Woolas gave a commitment to review the government's approach to both formula damping and grant damping:

“Consultation over the three-year settlement (2008/09 to 2010/11) will begin later this year. Obviously, both the policy towards the overall floor and the policy towards damping within the social services block will be given consideration.”

SIGOMA will fully engage with this consultation, and this document forms one part of that engagement. We need to see the lack of movement on local government funding addressed, with:

- ▶ the complete removal of formula damping on the children's and younger adults social services funding; and
- ▶ a lower, more realistic 'floor' for the overall increases in local government grant.

The protection that damping has provided for councils that would otherwise have seen a reduction in social care resources has already been in place for two years. It is now necessary to go some way towards redressing the balance, by removing damping and giving local authorities their fair entitlement of funding. The government has already accepted our general technical arguments on these points and amended their funding formulae accordingly. The final step is to allow these formulae to operate unhindered by arbitrary controls.

In addition:

- ▶ the costs of overall damping should be found from outside the local government finance system.

Funding the costs of the 'floor' from outside of the main local government grant will ensure that changes to allocations are delivered within a reasonable time period and so provide for the continuity of acceptable levels of services in all areas, but especially those with Primary Care Trusts (PCTs) that also face severe financial difficulties.

The need for proper levels of resources must be met now if SIGOMA members are to have the capacity to provide quality services into the future.

End notes

1. Drawn from income deprivation affecting children index, in the ODPM Indices of Deprivation 2004; and children looked after at 31 March 2005, ONS/DfES
2. Based upon the number of clients receiving care aged 18-64, from Community Care Statistics, DoH.
3. Number of Problem Drug Users in Drug Treatment Programmes, Commission for Social Care Inspection, 2006
4. Incapacity Benefit and Severe Disablement Allowance for 2006, DWP Information Directorate.
5. Formula Spending Share equivalents calculated by SIGOMA and divided by relevant population from available mid-year estimates.
6. Needs level based on Relative Needs Formula, taken from DCLG grant model in 2007/08 Revenue Support Grant Settlement.
7. Estimates calculated by SIGOMA using a simple method to re-allocate grant between social service authorities on the basis of no damping to needs formula within resources block of 2007/08 Revenue Support Grant Settlement.
8. As above.
9. Drawn from DCLG grant damping model in 2007/08 Revenue Support Grant Settlement.
10. Figures calculated by SIGOMA based on the difference between actual grant and grant councils would have received without damping, supplied by DCLG in answer to Parliamentary Question 1335.
11. As above.
12. As above.
13. Based on grant that would be received in 2008/09, assuming a 2% uplift on 2007/08 figures.
14. Based on Table 5: 2007/08 Council Taxes (Band D for 2 adults) by class of Authority published by DCLG.
15. Figures taken from 2006/07 - 2007/08 Revenue Resource Limits Expositions Book, DoH.
16. Based upon estimates by SIGOMA to re-allocate grant between social service authorities on the basis of no damping to DCLG 2007/08 Revenue Support Grant Settlement and the 2006/07 - 2007/08 Revenue Resource Limits Expositions Book, DoH.

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