SIGOMA

SIGOMA RESPONSE TO THE FAIR FUNDING REVIEW

OF RELATIVE NEEDS AND RESOURCES

SIGOMA Response to the Fair Funding Review of Relative Needs and Resources

About SIGOMA

SIGOMA represents 46 out of the 149 upper and mixed tier authorities across the country. Around 25% of English households reside in a SIGOMA authority. Our membership includes authorities in the North East, Yorkshire and Humberside, the North West, the Midlands and the Southern Ports. Around 24% of service expenditure by English local authorities is accounted for within SIGOMA authorities.

Though SIGOMA represents around a quarter of the local authority picture in general terms, our authorities carry a disproportionate burden of many of the adverse factors that affect demand for authority services, for example:

- The proportion of households living in poverty has been consistently higher in SIGOMA authorities than in others. 34% of all family households claiming benefits are from SIGOMA authorities, this trend has persisted over a number of years.

  Percentage of family households claiming out of work benefits[1]

	2011 %	2012 %	2013 %	2014 %
SIGOMA authority average	6.9	6.5	6.3	5.8
Rest of England average	4.8	4.5	4.2	3.8

- The morbidity rate in old age is higher for SIGOMA authorities than the rest of the country. 43 out of 46 SIGOMA authority populations had a shorter healthy life expectancy at age 65 than the national average.[2]

- Child protection enquiries are increasing 11% faster in SIGOMA areas than the overall England increase (2012-2017).

There has been some recent selective use of finance data to illustrate the impact of cuts, regretfully not excluding by Ministers. But using MHCLGs own preferred and illustrated measure of core spending power (CSP) it is clear that the poorer authorities we represent have borne the greatest burden of local authority cuts.

Recent settlement initiatives have moderated an historic trend of higher cuts to SIGOMA authorities but still, by 2019-20, our members will have suffered a cash term cut of 24.7% in

[1] From DWP Children in out of work household data and from households in settlement data.https://www.gov.uk/government/statistics/children-in-out-of-work-benefit-households-31-may-2016
[2] ONS 2016 HLE 2012-2014

CSP since 2010 whilst the remainder of English authorities will be worse by 15.5%[3]. We calculate the real term impact on our members to be a cut of around 41%; this during a period, as the above statistics show, where the triggers of demand have increased at a greater rate than the national average for our members.

General Comments

SIGOMA have contributed to the development of the fair funding proposals in steering and working groups and many of the comments in this paper will be known to MHCLG and our colleagues in the groups. However we welcome the opportunity this gives to our members to set out our views on the fair funding system.

We are strongly supportive of an objective, evidence based methodology of funding that eliminates or minimises the necessity for the judgement of Ministers.

We are equally clear, as we believe our colleagues in the working group are, that once the formula is established, the sector should move as quickly as possible to the new allocations with the shortest possible transition period and no damping.

Whilst it is understood that the consultation has the objective of arriving at a relative distribution mechanism, we join with the LGA and other authorities in highlighting that a fair and clear formula alone will not be sufficient to ensure continuity of the vital services that authorities deliver and on which some of the most vulnerable people in society depend.

We support the LGA's assessment that cost pressures on authorities have grown significantly in excess of inflation, whilst local authorities have suffered real term cuts in funding above those of any other Department in the last decade. Cost pressures continue to accrue over and above inflation due to such impacts as the national living wage whilst demographic pressures stemming from austerity measures place ever greater reliance on local support mechanisms.

The recent report of the National Audit Office, Financial Sustainability of Local Authorities 2018 illustrates that the LGA view is not exaggerated, stating that

" compared with the financial situation described in our 2014 report the financial position of the sector has worsened markedly, particularly for authorities with social care responsibilities"

[3] Measured as compound impact of % annual cut in comparative value of CSP and equivalent.

The NAO report points out the increasing use of financial reserves by authorities to balance their budgets and comments that

"these trends are not financially sustainable over the medium term"

Authorities are occasionally portrayed in the press as a divided sector. Local authorities are we believe exemplars of national co-operation for the public good, not least in our joint contributions to the fair funding steering and working groups. Authorities need, and our residents deserve, a fully and fairly funded system of local government. The prospect of taking on additional burdens with capped funding when existing funding is already inadequate is, for most authorities, and particularly our members, unthinkable. We urge the Government to address not only relative need but the overall quantum of funds necessary to fulfil the statutory duties placed upon us.

Q1 What are your views on the Government's proposals to simplify the relative needs assessment by focusing on the most important cost drivers and reducing the number of formulas involved?

1. It is a reasonable objective to have a simple and transparent formula, ***provided it is consistent with a fair and logical distribution of funds.***

1.1. We have supported this objective within working groups, subject to the qualification highlighted.

1.2. We support the principle that all formulae used within the mechanism should be reviewed to ensure they still make a meaningful contribution to allocations and should be eliminated, replaced or combined with other formulae if this can be done without compromising the effectiveness of allocations.

1.3. We have however questioned within the group and question here whether the Government are clear about what a simple and transparent formula means in terms of the end user and how we will know whether or not that has been achieved at the end of that process? In the following sections we consider possible definitions and our own suggestion:

Should a council be able to predict its allocations from a known set of local cost drivers?

1.4. This cannot ever be the case under the current proposals, as the MHCLG's objective is a formula for relative distribution. This means that an authority's allocation will depend not only on its own data but the data of other authorities.

1.5. For example, if the proportion of residents aged 90 and over (an adjustment factor in the Adult Social Care element of current formula) is increasing in one authority, this will only result in increased funding if other authorities have not also had an increase in "residents over 90" by the same proportion and could in fact result in a reduction if other authorities have increased by a greater proportion.

Should the formula use the cost drivers that local authority officers recognise and use to calculate likely demand and cost in service areas?

1.6. This would make the formula instantly and intuitively recognisable to authorities. Discussions at working groups and within the sector have aired this view with varying degrees of conviction.

1.7. Though this has intrinsic logical appeal we have come to the view that this is not practical, especially given the key criteria for cost drivers, listed in section 2.4.3 of the consultation. The criteria suggest that locally collected, and in many instances locally generated, data is insufficiently comparable since they may not be measured in the same way for each authority and may be the subject of different policies at a local level.

1.8. We also suspect that the result would not be "simple" in that each authority would put forward factors of the greatest importance locally and may be disinclined to accept factors put forward by others.

1.9. That is not to say that local drivers do not have a role in providing assurance about resultant allocations, as a "sense test" of the effectiveness of the selected formula.

Should an informed officer or Member of an authority be able to understand how much has been attributed to service areas and which local factors have affected their authority allocation, using publicly available data and without further complex analysis?

1.10. This seems to us a more reasonable objective. In our view, the existing formula, prior to damping, strives for fairness but fails this simplicity test by a long mark. In fact, we believe that few commentators have worked to understand how the current underlying formulae affect allocations, due to the opacity of the over-arching tier system.

1.11. In our view though, merely reducing the number of formulae would make little difference to the perceived complexity of the formula as it stands. We would go further and say that simplicity and transparency could be achieved whilst the number of formula remain the same.

1.12. We believe this is down to two principle issues, namely:

I. How the data is presented by the Ministry
II. At what level allocations are determined

How the data is presented by the Ministry

1.13. The principles of the " 4 Block system", described at 1.15 below, are logical, though there has been dispute from time to time about the £ values of the blocks. However, the allocations of funds is made only at block level and the data used to arrive at the relative weighting, though provided in underlying tables, is difficult to relate to allocations.

1.14. Consider the high level extract in table 1 below. This is taken from 2013-14 formula model showing how block £ allocations have been arrived at for one authority.[4]

1.15. Each authority can clearly see its £m share of the four blocks, which are:

- Tailored distribution block (specific grants added in at set values)
- Central share (a share of basic per head amount for all services the authority provides, referred to as its "threshold" allocation)
- Needs share (An amount per head representing need above the basic amount, driven by needs weightings, referred to as the amount "above the threshold")
- Resource adjustment (a deduction representing the authority's council tax base which is used to inflate needs and central share totals)

1.16. Each Block value was set annually by Government and adds to a "control total" being that years' Settlement Funding amount. Each authority's block shares (A to D) in table 1, add to its formula before damping which, by adding all authorities, sums to the total settlement funding of that year.

1.17. The authority also sees tier level aggregations of the relative statistics that underlie each block. The fact that the statistics are aggregated at tier level has the effect, we believe, of masking the connection between services and funding.

1.18. The table below is the lowest level of the current model in which £ allocations are determined. In looking at this top level analysis, consider a council Member or officer trying to understand the service demands that affect this allocation and their relative weight.

1.19. To answer these questions the authority officer would have to go to separate tables showing how tier level aggregations of relative share *proportions* (not £ values) have been built up, and to yet further individual tables to see how those formula have been compiled.

1.20. It takes a considerable amount of effort and skill to model and to drill down into these data sets and, in some instances, requires a subjective judgement of how the £ allocation filters down. This is highlighted in paragraph 1.23 below.

[4] The resource adjustment details have been kept deliberately brief by us in this table; resource adjustment is not a subject of this consultation but does form an inseparable element of formula funding explanations when considering the current formula.

Table 1 : 2013-14 Formula Tables (extract) for Barnsley

This table calculates allocations based on tier level data, as discussed above. Block allocations are split between upper and lower tier services. £ values are not split at any lower level.

Formula element	Denomination	Barnsley Lower tier	Barnsley Upper tier	Barnsley Total £m	
Local Transport Services Allocations	£ million		0.159	0.159	
Supporting People Allocations	£ million		7.742	7.742	
Housing Strategy for OP	£ million		0.055	0.055	
LSC Staff Transfer	£ million		0.227	0.227	
AIDs grant allocation	£ million		0.238	0.238	
Preserved Rights Grant	£ million		0.066	0.066	
Animal Health & Welfare Allocations	£ million		0.011	0.011	
County-Level Civil Contingency Functions in London	£ million			-	
GRANTS ROLLED IN USING TAILORED DISTRIBUTIONS	**£ million**		**8.500**	**8.500**	A
Upper-Tier RNF	#		0.00193		
2013 Population Projection	Number	235,097	235,097		
Upper-Tier RNF per head	#		0.00822		
Upper-Tier Threshold	#		0.00495		
Upper-tier RNF per head above threshold	#		0.00327		
Lower-Tier RNF	#	0.00039			
Lower-Tier EPCS per head	#	0.00166			
Lower-Tier Threshold	#	0.00141			
Lower-Tier per head Above Threshold	#	0.00025			
Mixed-Tier EPCS RNF	#	0.00000			
Mixed-Tier EPCS per head	#	0.00001			
Mixed-Tier EPCS Threshold	#	0.00000			
Mixed-Tier per head Above Threshold	#	0.00001			
Capital Financing RNF	#	0.00002	0.00024		
Capital Financing RNF per head	#	0.00007	0.00102		
Capital Financing Threshold	#	0.00001	0.00001		
Capital Financing RNF per head above Threshold	#	0.00006	0.00101		
Total RNF per head above Threshold	#	0.00032	0.00428		
Total RNF above threshold	#	0.00008	0.00101		
Needs allocation £m Total	**£ million**	**5.453**	**72.333**	**77.79**	B
Needs Threshold	#	102.361	356.440		
Resource Threshold	#	- 39.516	- 222.870		
Needs Threshold + Resource Threshold	#	62.845	133.570		
(Needs Threshold - Resource Threshold) * 2011 Population Projection	#	14.775	31.402		
Central Share		**10.356**	**22.010**	**32.366**	C
Resource adjustment	**£ million**	**- 2.494**	**- 14.064**	**- 16.558**	D
Total formula allocation (A+B+C-D)	**£ million**			**102.095**	

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1.21. Compare this to an alternative presentation in table 2, opposite. We have constructed this using the same data for the same authority (and one other, showing how authorities may be compared), by analysing the tables supporting the data and the allocations above.

1.22. In our table, tailored distributions are shown as one total but in practice would be available in the detail provided in table 1 above

Table 2: Alternative Block Share presentation Barnsley MBC and City of Westminster

Needs share Barnsley				**Central share Barnsley**			Total	**Needs share Westminster**				**Central share Westminster**			Total
Weighting per general population	Authority Summary for	Service and tier	Service total	**Population**	Service and tier	Service total	Needs + central share	Weighting per general population	Authority Summary for	Service and tier	Service total	**Population**	Service and tier	Service total	Needs + central share
	Barnsley	2013-14	2013-14	235,097	2013-14	2013-14	Barnsley		**Westminster**	2013-14	2013-14	230,302	2013-14	2013-14	Westminster
£ Weight		£m	£m	£ Weight	£m	£m	£m	£ Weight		£m	£m	£ Weight	£m	£m	£m
	TAILORED DISTRIBUTIONS TOTAL						**8.50**		**TAILORED DISTRIBUTIONS TOTAL**						**19.06**
37.03	Children's Services	*8.706*	8.706	67.160	*15.789*	15.789	24.495	65.84	Children's Services	*15.163*	15.163	67.160	*15.467*	15.467	30.630
175.47	Adults' PSS	*41.253*	41.253	109.948	*25.848*	25.848	67.101	205.61	Adults' PSS	*47.352*	47.352	109.948	*25.321*	25.321	72.673
9.97	Concessionary Travel	*2.344*	2.344	5.966	*1.403*	1.403	3.747	26.73	Concessionary Travel	*6.155*	6.155	5.966	*1.374*	1.374	7.529
- 0.10	Highway Maintenance	- *0.023*	- 0.023	19.063	*4.482*	4.482	4.459	16.35	Highway Maintenance	*3.765*	3.765	19.063	*4.390*	4.390	8.155
17.89	District-Level EPCS	*4.207*		71.010	*16.694*		-	244.39	District-Level EPCS	*56.283*		71.010	*16.354*		-
12.74	County-Level EPCS	*2.995*	7.201	47.149	*11.085*	27.779	34.980	118.93	County-Level EPCS	*27.390*	83.674	47.149	*10.859*	27.212	110.886
0.01	Other Flood Defence	*0.003*	0.003	0.257	*0.060*	0.060	0.063	- 0.36	Other Flood Defence	- *0.083*	- 0.083	0.257	*0.059*	0.059	- 0.024
- 0.16	Continuing EA Levies	- *0.038*	- 0.038	0.177	*0.042*	0.042	0.003	0.10	Continuing EA Levies	*0.023*	0.023	0.177	*0.041*	0.041	0.064
-	Coast Protection Upper tier	-			-			-	Coast Protection Upper tier	-			-		
- 0.00	Coast Protection Lower Tier	- *0.000*	- 0.000		*0.000*	0.000	- 0.000	- 0.00	Coast Protection Lower Tier	- *0.000*	- 0.000		*0.000*	0.000	- 0.000
	Fixed Costs								Fixed Costs						
-	Fixed Costs Upper Tier	-			-			-	Fixed Costs Upper Tier	-			-		
0.82	Fixed Costs Lower Tier	*0.193*	0.193	0.107	*0.025*	0.025	0.218	0.84	Fixed Costs Lower Tier	*0.193*	0.193	0.107	*0.025*	0.025	0.218
72.72	*Capital Upper tier*	*17.097*		*0.372*	*0.087*		-	40.56	*Capital Upper tier*	*9.341*		*0.372*	*0.086*		-
4.47	*Capital Lower tier*	*1.051*	18.148	*0.372*	*0.087*	0.175	18.323	14.40	*Capital Lower tier*	*3.315*	12.656	*0.372*	*0.086*	0.171	12.828
	Fire				-	-	-		Fire				-	-	-
	SERVICE LEVEL ALLOCATIONS TOTAL		**77.786**			**75.603**	**153.389**		**SERVICE LEVEL ALLOCATIONS TOTAL**		**168.898**			**74.061**	**242.959**
	Resource adjustment within central share								**Resource adjustment within central share**						
	Lower Tier				- 6.512				Lower Tier				- 6.379		
	Upper tier				- 36.725	- 43.237	- 43.237		Upper tier				- 35.976	- 42.355	- 42.355
	Resource Block adjustment								**Resource Block adjustment**						
	Lower Tier						- 2.494		Lower Tier						- 12.287
	Upper tier						- 14.064		Upper tier						- 69.301
	Resource block total						- 16.558		**Resource block total**						- 81.589
	TOTAL RESOURCES ADJUSTMENTS (central share +resource block)						**- 59.794**		**TOTAL RESOURCES ADJUSTMENTS (central share +resource block)**						**- 123.944**
	NET FORMULA BEFORE DAMPING		**77.786**			**32.366**	**102.095**		**NET FORMULA BEFORE DAMPING**		**168.898**			**31.706**	**138.076**

The alternative presentation, with a little examination, allows top down analysis of the factors that have influenced the formula allocation. For example:

-We see the full £ impact of resource adjustment on allocations, which is more than 3x the amount shown in the resource block alone for Barnsley.

-We see that the total EPCS £ weighting in central share is higher than children's and adult social care services'services weighting.

-In examining Highways' allocations, we see that the tier allocation methodology can result in negative needs allocations for some service lines.

1.23. We argue that analysis of the above type, could, with additional detail, help authorities and members of the public to begin to understand and assess the fairness of funding weightings. In addition, by summing all authority allocations, the weighting between service areas is clear and can inform the debate on what these should be:

Table 3: 2013-14 Formula Grant Allocations
Totals Allocated by Service Area*

	£ million
TOTAL TAILORED DISTRIBUTIONS	**2,001.26**
Children's Services	5,875.199
Adults' PSS	12,604.300
Concessionary Travel	663.672
Highway Maintenance	949.380
EPCS combined tiers	8,691.450
Other Flood Defence	47.376
Continuing EA Levies	5.493
Coast protection combined tiers	12.664
Fixed costs combined tiers	77.012
Capital costs combined tiers	3,252.186
TOTAL SERVICE LEVEL ALLOCATIONS	**32,178.731**
Fire (County and Unitary only)	**142.801**
Resource adjustment within central share Combined tiers	- 9,952.034
Resource Block Adjustment Lower Tier	- 925.073
Resource Block Adjustment Upper tier	- 5,222.227
Resource Block Adjustment combined tiers	- 6,147.300
TOTAL RESOURCES ADJUSTMENT	**- 16,099.335**
NET FORMULA BEFORE DAMPING	**18,223.460**

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* Excludes police and fire authority shares.

Fire total above is that of Unitary and County councils with fire responsibility

The level at which allocations are determined

1.24. The above analysis breaks down allocations to recognisable service levels but, as we have already stated, allocations are actually made within blocks, based on tier level aggregations of services. Whilst this makes allocations easier to manipulate for DCLG, and may not result in unfair allocations overall, it does make for a complex and confusing break down.

1.25. Note, for example, in table 2 above, analysis Barnsley's needs share for Highways Maintenance is negative (-£23k). This is a consequence of rolling highways services into other "upper tier" services before setting a threshold. The authority used to set the threshold, Wokingham, has the lowest upper tier needs score overall, but not in highways services. If one uses Wokingham's baseline at each service level as the baseline for that service, the result is an apparently negative allocation.

1.26. Of course, all authorities will have had (must have had) needs scores higher than Wokingham in other upper tier service functions, which results in greater funding shares than they require, but the consequence is that Barnsley (and others) will rely on (say) a higher Children's services needs score to provide adequate funding for highways. This is not intrinsically unfair in terms of the end result but does not make for a comprehensible formula.

1.27. To be clear, we are not arguing that there is no place for allocations that take account of the different tiers of local government. There are useful simplifying distinctions that can be made about the basic size of establishment needed to provide different services. We are arguing, however, that these must be made at service level and must allow authorities to understand the services and their weightings in the final allocation. Transparency will not result solely from reducing the number of service level formula and may be achievable without doing so.

1.28. It is currently the Ministry's proposal to have service specific cost drivers for:

I. Adult Social Care
II. Children's Services
III. Highways Maintenance
IV. Waste Collection
V. Fire and Rescue
VI. Legacy Capital Financing

with a single simple population based formula for the remainder, weighted for certain needs factors. We observe that, if this had been applied in 2013-14, based on the analysis in table 3 above, that only EPCS allocations (excluding waste) would be subject to a single simplified formula.[5]

1.29. Within Revenue estimates, the overwhelming majority (around 49%) of net expenditure in EPCS relates to waste collection, disposal and street cleaning. Applying this to the values in table 3 would have left around 13% of total expenditure or £4.2 billion of funding falling under a general simplified formula at 2013.

[5] We assume that allocations for coast protection and flooding would not be based on general population.

1.30. Referring to Revenue Estimates reveals that the residue within EPCS covers expenditure whose profile will vary significantly between authorities depending on their location and particular circumstances. For example, individual authorities will have different priorities for open spaces, culture and heritage, library services and community development. It does not seem unreasonable, however, to allocate these funds on an overarching per head basis and to allow authorities to use funds as they wish according to local priorities.

1.31. Using RO forms to make a simplified comparison of net residual service spend which would be the subject of a simplified formula, we note that, though there is a reasonable overall correlation with total population numbers (R^2=0.452 in table 4), examination of the data suggests that the same value per head would not be appropriate across all tiers. Analysis suggests that different weightings would be appropriate for different tiers of authorities, illustrated in chart 1-3 below.

Chart 1: All authorities - Net spend covered by single formula compared to population[6]

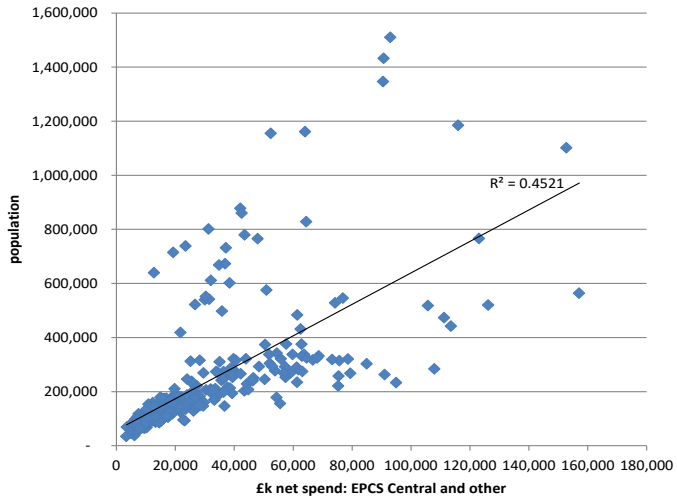
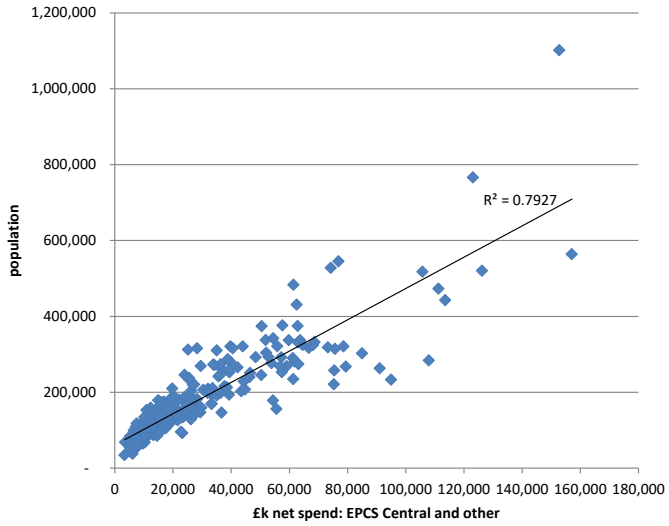


Chart 2: Excluding Shire Counties - Net spend covered by single formula compared to population

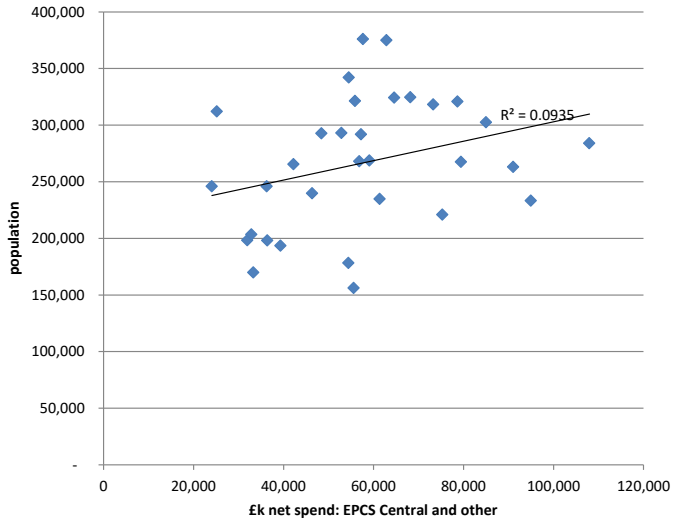
[6] 2015-16 revenue outturn for EPCS excluding waste, central and other costs, Population mid term 2014 projection total population ONS.



1.32. The two charts above illustrate that there can be different strengths of correlation within tiers.

1.33. Between London authorities in particular there appears to be virtually no correlation between general spend per head and resident population.

Chart 3: London authorities - Net spend covered by single formula compared to population



1.34. In conclusion, we therefore agree with the proposal of a single simplified formula, subject to the following:

- that weighting of spend on service specific allocations is adequate, reflects authority priorities and recognises the disparity in locally raised funding available to authorities
- that the amount of funding subject to the single formula reflects only the proportion of funding not dealt with by specific formula as described in 1.28 and 1.29 above.
- funds are allocated down to service level

- further detail is shared at working groups as this proposal is developed
- consideration is given to authority tier variations.

Q2 Do you agree that the Government should use official population projections in order to reflect changing population size and structure in areas when assessing the relative needs of local authorities.

2. SIGOMA members support the principle that allocations should be as contemporary as possible and, if possible, forward looking to the period over which they will have effect, particularly if there is a long time between resets.

2.1. However, SIGOMA members also support the principle of shorter reset periods, at least as short as any proposed revaluation period, and especially so if the government pursues a strategy of partial resets.

2.2. As the Government have a stated aim of 3 year revaluation periods we feel that regularly updated population projection data would be an adequate proxy for a three year re-set period.

Q3 Do you agree that these population projections should not be updated until the relative needs assessment is refreshed?

3. If it is possible to refresh population projections on a routine basis we believe this should be done and so do not agree.

3.1. The data could be used to assess whether funding is being materially misdirected. Authorities and the Ministry should maintain awareness of significant changes in population and demographic changes.

3.2. The data could allow authorities to assess likely changes at reset, this would be a useful tool for authority planning.

Q4 and 5 Do you agree that rurality should be included in the relative needs of assessment as a common cost driver.

4. We commend our colleagues in the rural services network for the work they have done in presenting this issue and the energy they have devoted, and continue to devote to it. However, we do not find the argument conclusively and independently made that rurality is a material factor that would always tend to <u>increase</u> costs, across the board. On the contrary,

independent evidence suggests that, in the majority of instances where it makes any difference, sparsity may lead to lower unit costs.

4.1. It must also be taken into account that many rural authorities operate within a two tier structure which is recognised as an inherently more costly than single tier. This structural issue should be addressed in favour of a more efficient model, rather than subsidised from other authority shares.

4.2. Section 3.3.7 of the consultation refers to LG futures' 2014 report which found that services which require a greater travel time generally incurred higher costs, but distance is not the sole factor affecting travel times. We along with colleagues in non-SIGOMA authorities wonder whether this takes into account:

- Congestion difficulties in urban areas (e.g. due to less distance but greater travel time, less efficient travelling speeds)

- The nature of dwellings. A care visit does not start when a vehicle arrives at the destination. The care worker has to find parking and, in a proportion of urban visits, walk to dwellings in high rise accommodation.

4.3. The consultation further quotes LG futures as finding evidence for higher costs in rural areas for around 15% of local authority spending but for lower costs in 31% of local authority spending. On this basis, rurality would overall be a net downward weighting, which should be reflected in a revised formula.

4.4. It is also worth pointing out LGF's observation that, whilst sparsity may affect specific service areas, this may be lost in a more generalised formula (of the sort the Government proposes).

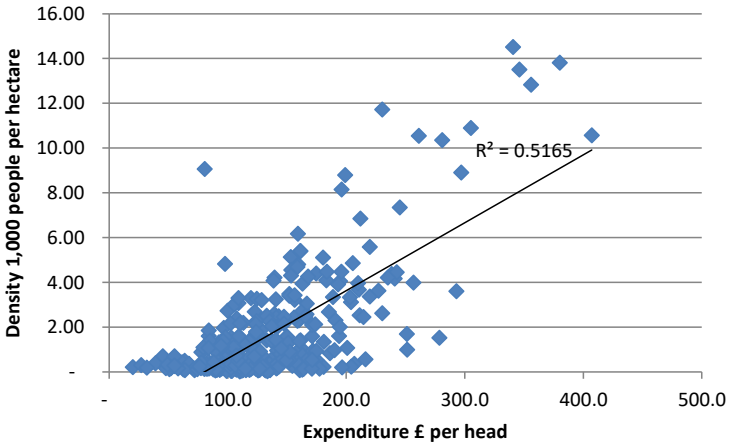
"…for example, sparsity may be a significant variable explaining the variation in local authorities' waste collection costs, but this significance may be lost when explaining the variation in overall EPCS costs."[7]

4.5. Our own analysis of 2016-17 expenditure suggests that, if anything, the correlation with sparsity has been negative.

Chart 4 : All authorities - Net spend covered by single formula [8]

compared to density

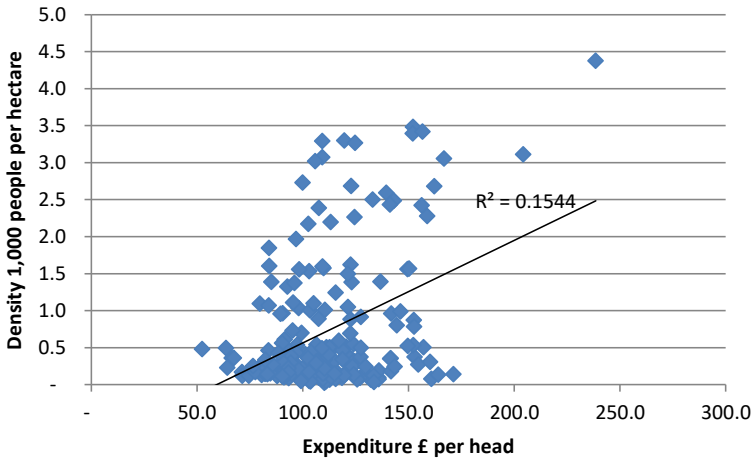
[7] DCLG/DEFRA Research into Drivers of Service Costs in Rural Areas Para 2.8
[8] From ONS mid 2013 population density at LLSOA, Revenue Expenditure 2016-17 & Mid term population estimates 2014



G: \Fair Funding documents\[Deprivation correlation.xlsx]General

4.6. Of course, there will be other factors at play in this comparison and the correlation factor changes, diminishing at lower densities, but it is hardly supportive of a formula distribution which allocates greater funding for lower densities, even within the same authority tiers, as illustrated in chart 5.

Chart 5: Shire districts only - Net spend covered by single formula compared to density[9]



4.7. We welcome independent and impartial Government research to explore alternative data that might measure or proxy the relative costs of providing services in different population densities (not just rural areas) but, to be impartial, this needs to consider not only instances where sparsity increases costs but also those areas where sparsity has no effect or reduces unit cost compared to density.

4.8. It does, to some extent though, feel as if Government intend to repeat previous research but with a strong narrow bias towards looking only for examples of services which increase for rural authorities.

[9] Excludes shire counties

4.9. Again, we refer to the consultations' stated objective of identifying need which places costs with the council, which would exclude circumstances where the council is able to recover costs from the service user.

4.10. For the reasons above, until conclusive independent evidence is produced, we do not agree that rurality should be included as a common cost driver in the relative needs assessment,

Q6 Do you agree that deprivation should be included in the relative needs assessment as a common cost driver.

6. We agree that deprivation should be a significant weighting factor for population in formula. There are two separate aspects to the deprivation adjustment, already identified by the consultation.

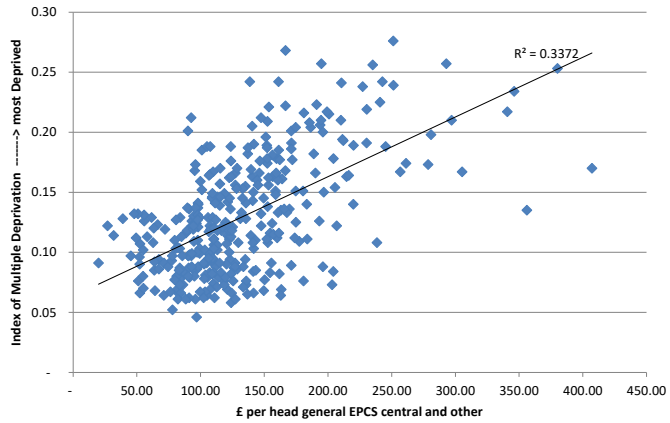
- Firstly, more deprived residents tend to have greater demand for authority services, through poor health, higher proportions of mental health needs, higher antisocial behaviour, less access to personal transport, more challenging housing needs and so on.

- Secondly, poorer residents are less able to make a contribution to services, leaving authorities with greater financial responsibilities for means-tested services. We fully support the principle outlined in the consultation that it is the statutory cost to the council that should be identified.

6.1. Most authorities have local measures of the issues that cause costs to vary across their boroughs and districts but, by the standards of criteria set for cost drivers in 2.4.3, many of these would not be acceptable. Within working groups there seems to have been a universal acceptance that poverty and deprivation increase costs to the authority in the way described in 6 above.

6.2. Whilst we have seen in chart 2 that population size is a major determinant of overall spend for EPCS, our own comparison of the variation in spend per head shows a significant positive correlation, though this varies at tier level.

Chart 7 General spend per head and deprivation



Q7 How do you think we should measure the need to spend? Should the relative needs assessment use the Index of Multiple Deprivation or are there alternative measures that should be considered?

7. We assume, from this question and information presented at working group meetings, that reference to the IMD is to the next index of multiple deprivation, scheduled for 2020.

7.1. The Ministry has highlighted the problems in using the benefit measures upon which it has previously relied due to the roll out of universal credit and has suggested that it may rely on the IMD as a substitute.

7.2. We remain unclear as to what benefit this confers since IMD measures have also relied heavily on benefit data for its indices in the past. The Ministry (which is also responsible for the IMD construction) needs to be clear how it proposes to deal with the lack of benefit data in the IMD calculation. It needs to be equally clear at an early stage about what the latest year from which data will be used is, either within IMD or in the needs calculation in its own right.

Q8 Do you have views on other common cost drivers the Government should consider? What are the most suitable data sources to measure these cost drivers?

8 Members will submit individual proposals

Q9 Do you have views on the approach Government should take to area cost adjustments?

9. Our members acknowledge that there are higher cost of inputs for some services in some regions.

9.1. It is essential, though, that area cost adjustments should not anticipate or encourage cost differentiation on (say) the grounds of availability of labour or services but should meet the standard of evidence set by the Ministry and measure or approximate the actual costs of labour and rates experienced by authorities.

9.2. Hence, we would expect to see evidence that issues of geography actually correlate with higher input costs, not an assumption that it must, and of course this must include an examination of situations where the same geographies result in lower input costs.

9.3. We have pointed out in working groups that the impact of the increasing national living wage will over time tend to harmonise minimum wage values across the country towards the values set by the low pay commission. This should be anticipated in levels of Area Cost Adjustment set in the formula

9.4. The results should be verified and sense checked against revenue returns of authorities.

9.5. We look forward to a more detailed consultation on Area Cost Adjustments.

10a) Do you have views on the approach that the Government should take when considering areas which represent a small amount of expenditure overall for local government, but which are significant for a small number of authorities?
10b) Which services do you think are most significant here?

10. Whilst members acknowledge the possibility of such areas, it is important that Government establish and consult within working groups on parameters for values and services which may fall within it.

10.1. This issue is complicated by the proposal of a single simplified formula for service expenditure. Because of this, there will be significant amounts of funding that are not allocated down to detailed service level and which will cover a wide range of unspecified services.

10.2. This could therefore be seen as covering significant local variations in national spend profiles and will result in a mixture of over and under allocations at detailed service level for each authority, which would be expected to balance out at summary level according to local priorities.

10.3. If expenditure meets the criteria set as suggested in paragraph 10, we think it most sensible to allocate funds on a tailored basis, i.e. to retain a tailored distribution block based on a proportion of estimated spend (a proportion, since formula funding does not wholly match forecast service spend totals in any service area).

10.4. We recommend that the government separately considers the impact of "other services", as set out in Revenue returns as this varies significantly between authorities.

10.5. Members will submit individual proposals for consideration under this category

Service Specific Cost Drivers

Adult Social Care

Question 11a): Do you agree that the cost drivers set out above are the key cost drivers affecting adult social care services?

Question 11b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting adult social care services

11. As a general point for this and all specific cost drivers we emphasise members view that allocations should avoid Ministry judgement and be based on clear evidence based evaluation.

(i) Number of adults by age group

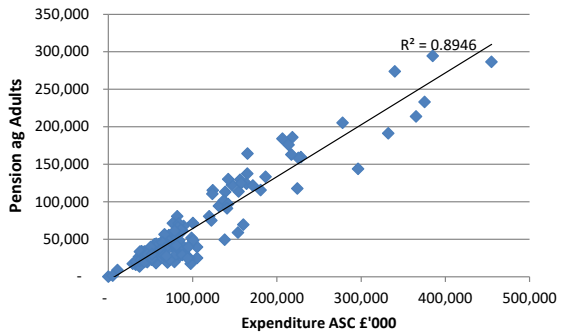
11.1. We agree this as base population. We suggest this is also weighted for the variation in disability free life expectancy, as an earlier onset of disability is likely to increase costs.

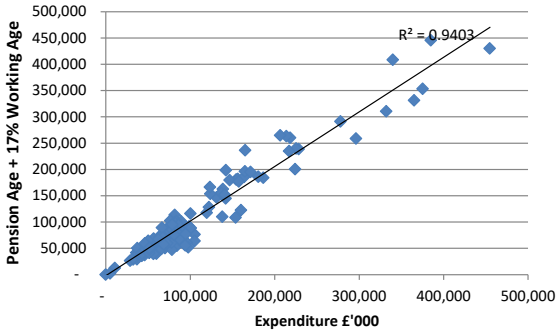
11.2. Our research suggests a higher correlation (+.0.05) is obtained if around 17% of working age adults (as a proxy for adult disabled population) is added, as the next two charts show:

Charts 8 and 9: Authority ASC expenditure and population

8 ASC expenditure v Pension age population

9 ASC expenditure v pensioners + 17% of working age population





11.3. The baseline population in the "old" formula is currently 65+ with an additional age weighting for the number of 90+ year olds as proportion of the 65+ year old population.

11.4. In the working groups we have discussed a higher baseline age (around 80-85).

11.5. The ONS have produced 'Life Expectancy at age 65' data which also includes 'Disability Free Life Expectancy at age 65'. Of course, both figures vary across authorities but the median Disability Free Life Expectancy (DFLE) from the data is around 10 years, taking the average age at which disability sets in to 75. It requires some very broad assumptions but is it possible perhaps to equate the stage at which people become disabled through old age to a likelihood of becoming more reliant on services? If so this would suggest an age of around 75?

11.6. We contrasted DFLE with cost per head of 75+ resident for each authority to see if cost per head increased as DFLE reduced. The correlation is weak, (around 0.10). The strongest correlation is between cost per head and poverty measures, e.g. the number of 75+ year olds claiming the guarantee element of pension credit (R^2=0.65) but this is dealt with separately in the current model.

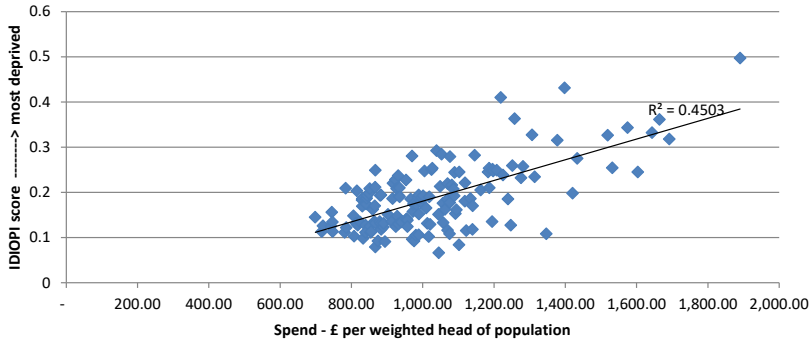
11.7. There is also interesting background data at authority level from the National End of Life care intelligence network. Their use of age 75+ years old, suggests that perhaps 75 is seen as a key age dependency marker?

http://www.endoflifecare-intelligence.org.uk/profiles/la_2012/atlas.html

(i) Number of adults with income and wealth that meet the means test

11.8. We strongly support this factor. As we have referred to in our comments on item i), we observed a strong correlation between costs per head and the number of 75+ year olds claiming the guarantee element of pension credit. However, spend per head also correlates to IDIOPI, the domain of the Index of Multiple Deprivation that relates to older people.

Chart 10 Spend per weighted head of population v IDIOPI score



(ii) Number of people with higher levels of impairment

11.9. We support adjusting for this factor, however, for these purposes we would emphasise that the objective is to identify higher cost impairments not the higher level of impairment, as one does not necessarily always correlate with the other.

11.10. We would support the continued use of 90+ year olds as a proportion of the 65+ year old population as a proxy for higher costs of impairment and we would recommend health and care bodies such as ADASS are engaged to compile schedules of high cost impairments whose populations can be recorded or modelled.

(iii) Number of people who live alone

11.11. We believe this is an appropriate weighting when applied to those already in more vulnerable categories specifically the elderly or those suffering from extremes of health problems.

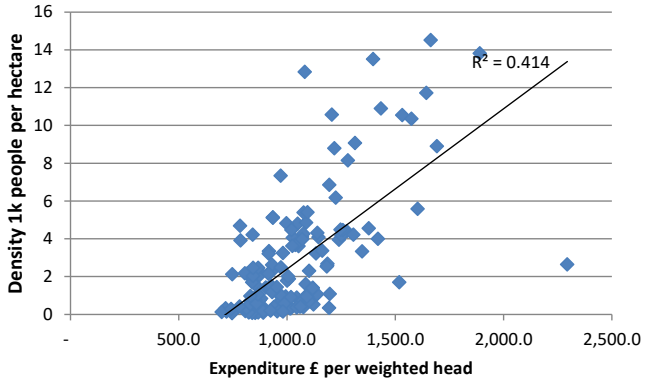
(iv) Sparsity

11.12. The LG Futures analysis referenced by the consultation, did not identify adult social care as a service where costs varied positively in a statistically significant way with sparsity and one adult service (adults under 65 with learning difficulties) was found to vary negatively with sparsity in that report. [10]

11.13. This is reflected in our own analysis of the spend per weighted head compared to density of population. This shows a higher cost with increased density, though the correlation is lower at higher densities.

[10] National Analysis of Unit Costs – Main Report Figure 1

Chart 10 Expenditure per head[11] v density



11.14. We have already stated that, in determining costs, more factors are at play than distance between (in this case) clients, such as congestion, parking, distance from vehicle to client. There is also the factor that not all adult social care services will require a visit by a health worker, as the next paragraph considers.

(v) Other factors – Learning disability

11.15. An analysis of the total expenditure estimates as presented in 2017-18 RA tables shows a breakdown as follows:

Revenue Estimates 2017-18 Adult Social Care

Category	£'000	%
Physical support - adults (18–64)	1,197,245	7.7%
Physical support - older people (65+)	3,626,277	23.2%
Sensory support - adults (18–64)	53,473	0.3%
Sensory support - older people (65+)	103,475	0.7%
Support with memory and cognition - adults (18–64)	50,019	0.3%
Support with memory and cognition - older people (65+)	872,354	5.6%
Learning disability support - adults (18–64)	4,744,707	30.4%
Learning disability support - older people (65+)	524,916	3.4%
Mental health support - adults (18–64)	685,827	4.4%
Mental health support - older people (65+)	385,224	2.5%
Social support: Substance misuse support	28,247	0.2%
Social support: Asylum seeker support	29,273	0.2%
Social support: Support for carer	127,730	0.8%
Social support: Social Isolation	65,797	0.4%
Assistive equipment and technology	162,177	1.0%
Social care activities	1,594,856	10.2%
Information and early intervention	193,019	1.2%
Commissioning and service delivery	1,178,530	7.5%
TOTAL ADULT SOCIAL CARE	15,623,146	

11.16. It will be noted that the single highest spend category is adult learning disability support. Many working group members have commented on the poor accuracy of RA data and its use to model allocations but we suggest that the Ministry should assess the nature of the spend underlying LDS and consider inclusion of a weighting measure or proxy for proportion of adults with learning disabilities.

[11] Weighted to include 17% of working age adults

Children's Social Care

Question 12a): Do you agree that these are the key cost drivers affecting children's services?

Question 12b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting children's services?

i) Number of children (under 18 years of age) –

12.0 We agree this as a baseline measure, with a high correlation, around 85% on our outline analysis.[12]

ii) Number of children for whom parents receive Disability Living Allowance

12.1 We agree with this measure.

iii) Deprivation

12.2 We strongly agree this measure. The 2015 IDACI measure of deprivation affecting children explained around 38% of variation in expenditure per head. As we refer to in section 12.6 many of the factors affecting families and adults impact on the demand for and cost of childrens social care and are also deprivation driven.

iv) Distance to schools

12.3 We agree this measure in connection with local authority responsibility for providing school transport to children who attend their nearest suitable school.

V) General

12.3 We await the outcome of the research to be conducted in connection with the cost of providing children's services. We urge the Ministry to engage with authorities during the course of this research.

12.4 Almost ¾, 71%, of 2017-18 estimated expenditure on children's services was in connection with looked after children and safeguarding.

[12] With outliers removed, based on outturn 2016-17 and forecast 2014 mid-term estimates

12.5 This raises firstly the issue of using data on children in care as a means of assessing need. Whilst we appreciate the Ministry's reluctance to use authority generated statistics which can be, to some extent, affected by policy, we would wish to see it demonstrated that the final formula correlated closely with children in care data at a national level.

12.6 Secondly, it seems to be a fact universally acknowledged, including by the Ministry, that the status of parents or guardians has a strong influence on the likelihood of a need for children's social services. The Ministry, however, seems reluctant to consider collating benchmark or other comparative data that would establish this factor as a reliable cost driver.

12.7 We hope that the data gathering exercise and involvement with authorities may help to convince them of the potential use of this measure in good time to introduce it into formula.

Highways maintenance and public transport

Question 13a): Do you agree that these are the key cost drivers affecting routine highways maintenance and concessionary travel services?

Question 13b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting routine highways maintenance or concessionary travel services?

i) Road length

13.0 We agree to the use of this measure and agree also that it will be necessary to weight the road length for road type and recommend data produced by the Department of Transport to support cost drivers.

ii) Traffic flow

13.1 We agree to the use of this weighting.

iii) Forecast snow days / predicted grit days

13.2 We agree with a weighting for this measure.

iv) Concessionary bus boardings.

13.3 We agree to the use of this measure in weighting an appropriate proportion of formula relevant to the value of concessionary travel within overall funding.

Question 14a): Do you have views on what the most suitable cost drivers for local bus support are?

Question 14b): Do you have views on what the most suitable data

14.0 Members question whether the cost of this service is significant enough, within the scheme of overall funding, to warrant a separate funding stream and if that would be materially different if allocated on a per head basis, within general formula, as would be the case with the rest of EPCS.

Question 15a): Do you agree that these are the key cost drivers affecting waste collection and disposal services?

Question 15b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting waste collection and disposal services?

i) Number of households

15 We agree with this as a baseline measure.

ii) Types of property

15.1 We agree with this as a weighting factor, as well as the density of households

iii) Travel times

15.2 We agree that average travel times between household is a factor but reiterate that travel times are not only a function of distance.

iv) Deprivation

15.3 We agree with this weighting factor. This was listed by DEFRA, in their paper to the working group on 10 January 2017, as one of the major cost drivers across all districts, not only in connection with waste collection but also an increased likelihood of litter and fly tippling which is also the authority's responsibility.

Legacy Capital Financing

Question 17a): Do you agree these are the key cost drivers affecting the cost of legacy capital financing?

Question 17b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting legacy capital financing?

17 We agree with the measures as proposed.

Question 18a): Are there other service areas you think require a more specific funding formula?

Question 18b): Do you have views on what the key cost drivers are for these areas, and what the most suitable data sets are to measure these cost drivers

18. We suggest that certain elements currently sitting within EPCS might be more usefully combined with some of the above service specific weightings for example:

- Street cleansing deal with in Highways
- Recycling deal with in Waste disposal

Question 19: How do you think the Government should decide on the weights of different funding formulas?

19. The weighting of funding according to different formula should broadly reflect the weighting of spend by all authorities, also adjusted for outliers and anomalies in RO and RA data.

19.1. Members believe that allocations should be supported by evidence and avoid the use of ministerial judgement. This is the only way in which allocations will be accepted as fair and reasonable by the sector as a whole.

19.2. Whilst it would be desirable to build in estimated trends in expenditure as overall formula funding continues to decline, we believe this should be done according to a clear and explicit methodology, on which it may be difficult to obtain consensus.

19.3. We emphasis again that in addition to a fair weighting, the overall amount of funding needs to be sufficient to match the cost of services at a local level. A mechanism under which all authorities are inadequately funded in the same proportion is not a fair one.

Question 20: Do you have views about which statistical techniques the Government should consider when deciding how to weight individual cost drivers?

20. Whilst appreciating the concerns expressed by some of our colleagues and referred to in the consultation document, we are broadly supportive of a regression based weighting at the level of total service spend.

20.1. We are unclear, what other method, in a relative distribution mechanism would better reflect the priorities set by local government under the current funding constraints, though we are supportive of statistical refinements that would adjust for local income variations.

20.2. We would expect the outcomes to be modelled against other data which, though they may fail the tests outlined in the consultation, should serve as a sense test of the weightings actually used.

20.3. Without repeating the points made at 1.13 onwards, we believe that the way in which this is explained and illustrated by the Ministry will go a long way towards removing the perceived complexity of the allocation basis.

20.4. We support our colleagues in the view that regression formulae should emanate from experienced, impartial professional analysis and be checked and verified against other local authority generated data. It is essential that this work is discussed openly and, wherever possible, the effects illustrated using historic data as a minimum (if no other is available).

Q21: Do you have any comments at this stage on the potential impact of the options outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

20. As centrally distributed funding diminishes, the focus of local government has inevitably been concentrated on the most vulnerable in our communities, the elderly, children and those who are vulnerable through physical or mental infirmity.

20.1. This is reflected in the changing expenditure profiles of local government, with adult and children's social care services relatively protected whilst other services have diminished significantly.

20.2. It is essential that the formula proposed recognises the characteristics of our authorities which drive the demand for and net cost of delivering services and recognise this in funding allocations.

20.3. It is also appropriate that Government, and this Ministry in particular, assess the quantum of funding available to provide essential services and champion the cause of those most in need and least able to help themselves. Failure to do so is to put the rights of the most vulnerable in society at risk.