



Title: **Needs & Redistribution Technical Working Group**

Paper: NR TWG 18-04: Discussion paper regarding the approach to Adult Social Care in the review of relative needs and resources

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POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

Introduction

1. The current Adult Social Care Relative Needs Formula (2005/06 RNF) ¹ has been included in the Local Government Finance Settlement since 2006/07, subject to initial damping. Since 2013/14, the population data and wider formula data in the RNFs (including the ASC RNF) have been frozen as part of the Business Rates Retention scheme.
2. The current formula is therefore now quite outdated, with some aspects of the formula dating back almost 20 years to the 2001 Census. It was based on a relatively small dataset (e.g. 750 observations for the Older Peoples RNF) and does not take advantage of improvements in data availability and statistical techniques that have taken place since it was implemented.
3. MHCLG launched a technical consultation on 19th December 2017² to review potential approaches that have been identified to measure the relative needs of local authorities. Analysis of this consultation is currently ongoing but a new dedicated ASC RNF is currently seen as a leading option. Using the current RNF is a difficult option because it would be even more outdated by the time the review was complete.

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<http://webarchive.nationalarchives.gov.uk/20140505104649/http://www.local.communities.gov.uk/finance/0607/consult/index.htm>

² <https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources>

4. The Department of Health and Social care is leading work across Government to publish a Green Paper by summer 2018 setting out its proposals for long term reform of the adult social care system, which will necessarily inform the direction of the Fair Funding Review.

Adult Social Care eligibility rules and their connection to cost drivers

5. Adult Social Care has three distinct categories of cost driver, which are linked to the social care eligibility criteria. The relative distribution of eligible needs is determined by the relative distribution of people who meet all three of the following criteria:
 - Have a significant level of impairment³; and
 - Do not have sufficient informal care; and
 - Who meet the often highly restrictive means test. (Broadly, support for home care is only provided for people with less than £23,250 in assets excluding the value of their home, and support for residential or nursing care is only provided for people with less than £23,250 in assets including the value of their home).
6. A formula may also adjust for area costs, population sparsity and ability of those who do meet the means test to contribute towards the cost of their care.

The current (2005/06) RNF

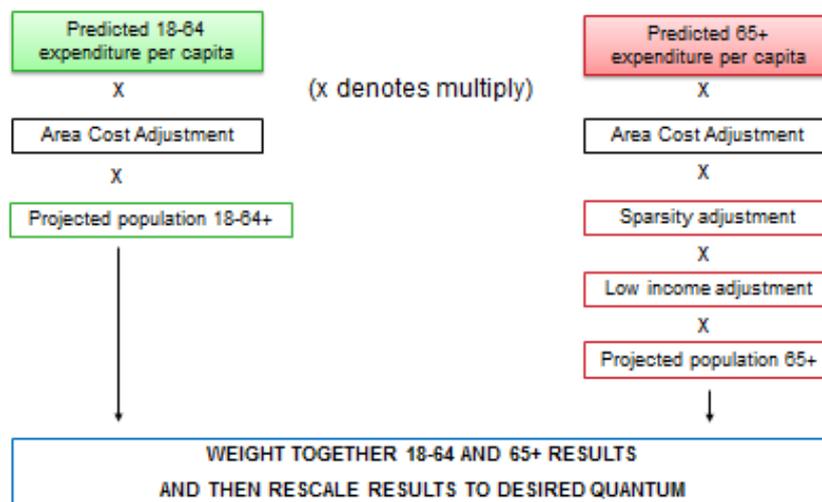
7. The above criteria are reflected in the cost drivers within the current RNF⁴. The current RNF is split into a 18-64 component and an age 65+ component because of the very different patterns of service use between the two groups. Few 18-64 clients are self funded but almost half of 65+ clients are. Broadly, the current RNF gives a higher allocation share for local authorities with higher impairment, less ability to meet the means test and less informal care, because these factors are clearly associated with higher expenditure in the data (as well as being clearly linked to the eligibility criteria).
8. For example in the age 65+ RNF, local authorities receive a higher allocation if they have a higher share of residents aged 65+ claiming Attendance Allowance (a disability benefit) and/or a higher share of people aged 65+ who are aged 90+, as these factors are associated with greater impairment. For informal care, authorities receive a higher allocation if they have a higher share of people aged 65+ living alone, as this indicates lower availability of informal care. A higher allocation is received if authorities have a higher share of people living in rented accommodation and/or higher claim rates for Income Support and Pension Credit, as such people are far more likely to meet the

³ <https://www.scie.org.uk/care-act-2014/assessment-and-eligibility/eligibility/>

⁴ <http://webarchive.nationalarchives.gov.uk/20140505104701/http://www.local.communities.gov.uk/finance/1314/settle.htm>

means test. The formula is heavily driven by 18-64 and 65+ population sizes, which vary substantially across local authorities, and also has an Area Cost Adjustment, Sparsity Adjustment and a Low Income Adjustment as reflected in the diagram below. These adjustments are separable from the 18-64 and 65+ per capita formulae for reasons of transparency and consistency across other formulae.

Structure of current RNF



9. The new formula discussed below also has separate 18-64 and 65+ components and fits a similar structure to the one shown above.

The new RNF (2012/13)

10. The Review of Adult Social Care Relative Needs Formulae began in late 2012, conducted by LG Futures (a consultancy), together with the Personal Social Services Research Unit (PSSRU) at the University of Kent and the London School of Economics and Political Science. The aim of the research was to review the current RNF, and to develop specific allocations for the following cost elements of the Care Act 2014:
- Early assessments for the cap
 - Deferred payment agreements
 - The extension to the means test (£118,000 taper)
 - The cap on care costs.
11. The Review gathered small area data for 2012/13 from a representative sample of 53 councils for age 65+, and 50 councils for age 18-64. As well as the allocations listed above, this review developed a new ASC RNF which we subsequently refer to as the 'new RNF'. The allocations for early assessments

and deferred payment agreements were consulted on in 2014,⁵ and the extension to the means test formula, cap on care cost formula and the new RNF will be published in due course. Both the current and new RNFs are high quality peer reviewed analysis written by experts in their field, chosen following a competitive tender.

12. The new RNF has a number of substantial advantages over the current RNF:

- It is based on small area rather than LA level data, which provides examination of variation within councils whilst effectively controlling for local non-need related differences in cost-weighted utilisation (essentially expenditure, with the controls implemented as local authority fixed effects). The current RNF was also based on small area data, but only at Ward level, for a sample of 17 councils. The new RNF is based on data from 53 councils for far smaller areas (Lower Super Output Area instead of Ward; LSOAs are about one quarter the size.) This means that its sample is substantially more representative and more detailed – e.g. over 13,000 observations compared to 775 for the current 65+ RNF.
- It uses more recent data, including a significant number of variables from Census 2011 instead of Census 2001.
- It benefits from the incorporation of variables that were not available for, or not used in the current RNF. This includes Census data on the number of people with a significantly limiting condition, and council tax banding data for property value distribution (i.e. how far from the £23,250 threshold).

13. The cost drivers of the current RNF are listed in the diagram below, which separates them into needs (impairment), income/wealth and informal care variables. A plus symbol indicates that a higher value for that data item correlates with a higher allocation share, and a negative value for that data item results in a lower allocation share. Specifically:

- All of the needs variables (green) have a positive sign, as higher values for these data reflect greater levels of local impairment. For example, having an increase in residents with a limiting condition gives a higher allocation share.
- The pink income/wealth variables have different signs. The ones associated with greater poverty (working age benefit claim rates and Pension Credit claim rates) have a positive sign, whereas the ones associated with greater wealth (home ownership) have a negative sign as these people are less likely to be eligible for means tested social care. For example, a higher share of home owner households leads to a lower allocation share, particularly if those houses are mostly in council tax bands F, G and H (there is less likelihood of reaching the £23,250 threshold below which authorities contribute to care costs).
- The orange informal care variables have negative signs as they all reflect a greater extent of informal care provision (e.g. more older

⁵ <https://www.gov.uk/government/consultations/care-act-2014-funding-allocations-for-new-adult-social-care-duties>

people living as a couple will mean less need for Adult Social Care given the carer sighted eligibility criteria).

Explanatory variables in 2012/13 RNF

18-64 formula		65+ formula	
+	Number of people aged 16 to 64 inclusive whose day-to-day activities are limited a lot per Census person aged 16 to 64 inclusive	+	Number of entitled attendance allowance claimants aged 65 and over per person aged 65 and over
+	Sum of people claiming any of the following benefits [JSA (aged 16+) plus IS (aged 16 to 59) plus ESA (aged 16 to 59)] per person aged 16 to 59 inclusive,	+	Number of people aged 65 and over with a limiting (significantly) condition per Census person aged 65 and over
-	Number of people living in households with one family (all ages) per Census person (all ages)	-	Number of people aged 60 and over claiming pension credit per person aged 65 and over
-	Number of people aged 16 to 24 inclusive per person aged 16 to 64 inclusive	-	Number of couple households aged 65 and over per Census household aged 65 and over
		-	Number of home owner households (outright ownership only) aged 65 and over per Census household aged 65 and over, multiplied by
			Number of properties in Council Tax bands A, B, C, D and E per all Council Tax banded properties
		-	Number of home owner households (outright ownership only) aged 65 and over per Census household aged 65 and over, multiplied by
			Number of properties in Council Tax bands F, G and H per all Council Tax banded properties

Key:
Green = needs variables
Pink = income/wealth variables
Orange = informal care variables

14. The cost drivers compare well against the criteria set out in the MHCLG December 2017 consultation:

- **Relevant:** The three underlying categories of cost driver (needs, income/wealth, and informal care) are clearly tied to the social care eligibility criteria, as cited earlier in this paper. The above indicators clearly relate to these categories and have been shown by the researchers to be independently valuable.
- **Objective:** The above cost driver items are based on robust data that is published by independent organisations such as the Office for National Statistics, Department for Work and Pensions and the Valuation Office Agency.
- **Distinct:** the three underlying categories of cost driver are clearly distinct concepts. Where multiple cost driver variables are used for a given category (e.g. Pension Credit take up and home ownership), that is because each variable captures a different aspect of the relevant cost driver category. Pension Credit better captures the domiciliary care means test and home ownership better captures the residential and nursing care means test. The indicators have been shown by the research to have better predictive power together.
- **Stable:** where regularly updated data is used (e.g. DWP benefits), averages of the most recent 12 quarters can be used to maximise stability. The same approach is used in the current RNF.
- **Future proof:** the cost drivers are all clearly linked to the on-going costs of future services.

15. The weight of each cost driver reflects the extent to which it is associated with variation in cost-weighted utilisation (essentially expenditure), controlling for local non-need related differences in expenditure (via local authority fixed effects) and variation in the supply of care home beds. All cost drivers (including populations) apart from Census data and the JSA / IS/ ESA benefit data can be updated prior of implementation.

16. However, the new RNF does have limitations in that:

- The cost-weighted utilisation (expenditure) data used in the estimation dates from 2012/13. Whilst this was several years ago, it was an extensive and high quality collection involving direct collaboration with more than 50 councils.
- The new 18-64 formula uses DWP benefits data from before the introduction of Universal Credit, which will likely need to be frozen into the formula (i.e. not updated in future). The use of Universal Credit data is only possible after full rollout across England, hence it was not an option when the formula was estimated and will still not be an option for formulae that are being estimated now. This issue does not affect the 65+ formula because Attendance Allowance and Pension Credit are outside the scope of Universal Credit. The New State Pension will not affect the formula's Pension Credit data for many years because it uses data on claimants aged 80+, and the New State Pension only applies to people who reached state pension age on or after 6th April 2016⁶.
- Census data can only be updated at a new Census, and only if the questions are equivalent to those used in Census 2011. The Census has been used because it is a rich source of small area data (LSOA level).
- As with any small area formula, altering the cost drivers would compromise the academic independence of the research. The whole formula would need to be re-estimated if the cost drivers were altered.

17. The 2012/13 RNF has been fully documented and calculated by the Department of Health and Social Care and could be integrated within the rest of the review of relative needs and resources, subject to the details and alternatives given below. It is not possible to objectively implement the new RNF in the current settlement, as it is no longer possible to objectively identify individual funding streams (even one as large as Adult Social Care) until a reset.

How the ASC RNF relates to the rest of the review of relative needs and resources

18. **Updating of population data:** Past ASC RNFs have used sub-national population projections for the financial year to which the allocation relates,

⁶ <https://www.gov.uk/new-state-pension>

e.g. 2017/18 allocations would use published ONS population projections for 2017, the latest of which are based on 2014 data on actual populations. Unlike the vast majority of the per capita data used in the formula, LA level population data by age and sex is available on an annual basis and the Office for National Statistics publishes LA level projections for the next 25 years, updated every two years⁷. The most current projections for a new April 2020 methodology will be the 2016-based projections to be published in mid-2018. Using this data, it would be possible to 'pre bake' future years' population projections into the new methodology, but there is a risk that the projections subsequently turn out to be inaccurate. Updated population projections could then be used at the next reset.

19. **Formula adjustments:** As illustrated in the diagram above, the current RNF includes an Area Cost Adjustment, a Sparsity Adjustment and a Low Income Adjustment. The Area Cost Adjustment generally is to be determined in future work on the review. Population sparsity is argued to affect social care relative need because travel times for carers (in home care) are greater in sparsely populated areas. It may be possible to incorporate the impact of population sparsity in the Area Cost Adjustment. The Low Income Adjustment reflects the fact that even amongst people who are financially eligible for Adult Social Care, people in some areas are less able to contribute to the cost of their care than others, requiring a larger allocation to compensate. (Under the charging rules, local authority funded care home residents are generally expected to contribute all of their income less circa £30 per week living expenses towards the cost of their care.)

Question 1: Do you think it would be a good idea to remove the existing sparsity adjustment if a measure of sparsity were incorporated in the Area Cost Adjustment instead?

20. **Deprivation:** As noted above, the treatment of deprivation is very clearly defined in the social care eligibility criteria (in terms of the fraction of people who will meet the restrictive means testing criteria). These are closely proxied in the new RNF by the number of older people claiming Pension Credit, the number of older people who own their home and the council tax banding of those homes, and for 18-64s by a mix of DWP benefits. These cost drivers have been integrated into the formula as part of independent academic research.
21. The review generally is considering how deprivation should be measured and incorporated, in particular whether the Index of Multiple Deprivation should be used as a measure of deprivation. The IMD is not suitable to be incorporated into the ASC RNF due to the clear link between Pension Credit and home ownership and the adult social care means testing rules. (Pension Credit has very similar means testing criteria to those for adult social care, and home ownership is the main financial driver of eligibility for care home support

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<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/subnationalpopulationprojectionsforengland/2014basedprojections>

because broadly, ownership of any home will push people well above the £23,250 threshold.)

Question 2: What are your views on using an alternative measure of deprivation in adult social care than the IMD indicators?

22. Use of service-specific formulae: The new ASC RNF is a service-specific formula, hence the use of the RNF would by definition require that at least one service-specific formula is part of the new methodology. This is arguably justifiable as Adult Social Care has historically been the largest element within the settlement methodology. If no service-specific formulae were used, Adult Social Care funding would not be separately identified within the settlement, or at least not identified as accurately as service-specific formulae can enable.

Alternatives and updates to the new ASC RNF

23. There is a possible alternative to the new RNF:

- As mentioned in MHCLG technical working group paper [NR TWG 03 – Summary of potential analytical options], a possible alternative would be to estimate a newer ASC RNF using newer local authority level expenditure data. This would have the advantage of basing the choice of cost driver metrics and weights on more recent expenditure data instead of 2012/13, though Census data would remain at Census 2011. As with the new RNF, certain cost drivers and population data could then be plugged into the formula in future years, subject to policy on resets. It would also use data on all councils rather than the (albeit large and representative) sample of 53 councils used by the new RNF. However, this approach would substantially compromise the precision of the formula by reducing its number of observations from 13,000 to 152, and by only using variation between (not within) local authorities. This means that it would not be able to fully control for the individual decisions of any council in the dataset. Unbiasedness is arguably a more important objective for the formula than timeliness.
- Simple replacements for the ASC RNF, such as flat per capita allocations, are incompatible with the heavily means tested nature of the system, and its close links with informal care availability and levels of impairment. For example, potential clients in areas with lower income and wealth will be substantially more likely to be eligible for support, and this should be reflected in the formula.
- The continued use of the current RNF within the new methodology is also difficult to justify, as it would contain data over 19 years old on implementation in 2020/21.

24. Looking to the future, and subject to policy on resets, it should be possible to incorporate cost driver data from the 2021 Census into the new formula, as well as update other regularly published cost driver data such as Attendance Allowance and Pension Credit claimant numbers, council tax banding and

population projections. The publication of 2021 Census data at small area level and the settling down of changes to the benefits system would also facilitate estimation of an entirely new formula, which would also benefit from newer expenditure data.

Overview

25. The new ASC RNF's main advantage is that it was developed using a substantial 13,000 observation small-area dataset which exploits patterns within as well as across councils, and enables control for individual council expenditure decisions. It uses data and statistical techniques that were not available or not used in the current RNF, and has clear cost drivers that fit well with the five MHCLG criteria and logically align with the adult social care eligibility framework. Its main disadvantage is that it was estimated using 2012/13 expenditure and cost driver data, although new cost driver data can be plugged in. Other disadvantages would be common to any new formula, such as that Census 2011 data has not yet been updated, and DWP benefits are in flux due to the introduction of Universal Credit, so need to have data frozen. The main alternative option would be a 152 local authority level regression using newer expenditure data, though it would lack the precision and control of a small area approach. Simpler approaches are difficult to justify given the clear eligibility criteria for adult social care (particularly the means test).

Question 3: Do you agree that if service-specific formulae are confirmed, the advantages of the data and approach used to estimate the new ASC RNF outweigh alternative options?

Next steps

26. The technical consultation closed on 12 March, and responses to the consultation are still being analysed.
27. This paper, alongside the responses to the consultation, will feed into a technical paper that will go out for wider sector engagement. This will be accompanied by publication of the academic report on the new RNF by researchers from PSSRU.
28. We will hold a full consultation in due course, including our proposed treatment of adult social care within the review.
29. We are commencing engagement with sector representatives such as ADASS and the LGA to gather their views on these questions, and the new formula.