



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

Paper: **NR TWG 17-06 Deprivation in the Needs Allocation Formula: Discussion paper on evidence and weightings for deprivation in service funding formulae by the Society of County Treasurers (SCT)**

Date: 29 September 2017

Venue: Southwark Council - 160 Tooley Street, London, SE1 2QH

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## **POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY**

### **Introduction**

- 1) This note sets out a few thoughts on the impact of deprivation on the costs of providing services. The note seeks to;
  - Understand the how the current formula reflects deprivation and what this actually means for funding levels; and
  - Carry out a recent literature review try and understand the evidence available (not anecdotal) to evaluate the impact deprivation has on service cost.

### **Current Position**

- 2) The paper attached (Annex A) on deprivation in the current allocation formula sets out the role it plays, and undoubtedly for some services it was expected to play a major role. As such you would expect that those areas with high deprivation would receive higher income. The graph attached (Annex B) indicates a very loose relationship between core spending power and deprivation which would indicate that the current system did not work as intended. The loose relationship probably reflects a whole host of issues that really underpin the need for the fair funding review.

### **The role deprivation could play**

- 3) The SCT has undertaken a literature search to gain an understanding of the evidence available that could be used to help identify the weighting deprivation should be given in any new formula (Summary in Annex C). From the work completed there is some evidence that deprivation is a key driver for some services (especially those for children and young people). However, when it

comes to finding evidence to actually determine the magnitude of weighting that should be given to deprivation there appears to be surprisingly little evidence.

#### **4) Conclusion**

- 5) In the absence of a comprehensive evidence base it would appear that there are some services such as children's and education where deprivation is a key driver of cost. However, for other services such as highways or waste disposal it could be argued that deprivation plays a far more minor role if any.
- 6) Two broad conclusions can be drawn, firstly and unsurprisingly the current system is in need of reform. Secondly, the absence of a comprehensive evidence base will make it more difficult to accurately reflect deprivation into any new formula. However, this will need to be addressed in as practical and fair way as possible.
- 7) There appear to be two broad options emerging from the TWG discussions; either a regression/MLM approach to the formula or a simpler cost driver-based approach (the ALATS group). In either case weightings for deprivation will need to be arrived at. In the regression/MLM approach these weightings will be arrived at through the modelling process but the sector will have no real idea whether these weightings are correct.

**The SCT would like a discussion at the TWG on whether either there would be support for a DCLG/ LGA-commissioned sector-wide survey of "experts" on the additional workload/cost caused by deprivation. The experts would likely be service managers and/or commissioners of services from the broad service areas covered by the need formula. It may also be possible to determine which type of deprivation is the key driver; poverty, health, education, housing etc. The results of this could be used to inform the ALATS model and also provide the "check & balance" on any regression/MLM approach.**

According to the 2013-14 [Local Government Finance Report](#) and the [Calculation of 2013-14 Formula Funding](#) documents, deprivation-type measures are being used in nearly all the funding formulae:

The main Relative Need Formulae all tend to use a similar style of formula; the relevant population grouping is multiplied by a basic amount (which is the same for every authority) plus top-ups. These top ups can be for a variety of reasons, such as deprivation, sparsity, density, risk etc. Crucially, whilst the basic amount is the same for all authorities the other top up amounts can vary depending on how deprived/sparse/dense an area is.

Under each heading we have listed the proportion of the “need” under each formula “block” which is dependent on the deprivation top-up. This is before any ACA or other adjustments are applied.

The proportion that each formula distributes of the national total (excluding police) is given in brackets in italics on each table. Please note: individual authorities’ needs profiles will vary.

### Children’s Services

- Youth and Community a deprivation top-up measuring “Children in out-of-work families receiving child tax credit”
- Local Authority Central Functions (likely to be abolished??) – also uses the above measure for “pupils” and “resident pupils”
- Children’s Services – a deprivation top up using a combination of the above measure, “children without good health”, “Income support/IBJSA claimants aged 18-64” and “children in black ethnic groups”. There is also a Foster Cost Adjustment described as a factor to reflect the differences in the cost of providing foster care. It could be easily argued that many of the measures contained within it are deprivation-based:
  - People in other ethnic groups
  - People in mixed ethnic groups
  - People aged 16 to 74 whose highest qualification attained was level 1 or 2 (approx. 5 GCSEs)
  - People aged 16 to 74 whose highest qualification attained was level 4 or 5 (approx. degree level)
  - Females aged 16 to 74 looking after home and/or family.

<b>CHILDREN’S SERVICES</b> <i>(19.5% of Relative Need)</i>			
<b>Class of Authority</b>	<b>Youth and Community</b> <i>(1.5% of Relative Need)</i>	<b>LEA Central Functions</b> <i>(6.1% of Relative Need)</i>	<b>Children’s Services*</b> <i>(12% of Relative Need)</i>
Inner London	35%	26%	74%
Outer London	25%	17%	64%
London	29%	20%	68%

Metropolitan Districts	29%	18%	62%
Counties	10%	5%	41%
Unitaries	22%	12%	54%
<b>ENGLAND</b>	<b>21%</b>	<b>12%</b>	<b>56%</b>

*\*Excludes the Foster Cost Adjustment*

### Adults' Personal Social Services

- Social Services for Older People – a deprivation top-up using a combination of “older people receiving attendance allowance”, “older people in rented accommodation”, “older people on income support/IBJSA/guarantee element of pension credit”. There is also a “low income adjustment”
- Social Services for Younger Adults – a deprivation top-up using a combination of “people aged 18-64 receiving DLA (disability living allowance)”, “people aged 18-64 who are long-term unemployed or have ever worked”, “people aged 18-64 who work in routine or semi routine occupations” and “households with no family”.

<b>ADULTS' PERSONAL SOCIAL SERVICES (39.8% of Relative Need)</b>		
<b>Class of Authority</b>	<b>Social Services for Older People*</b> <i>(23.8% of Relative Need)</i>	<b>Social Services for Younger Adults</b> <i>(16% of Relative Need)</i>
Inner London	54%	59%
Outer London	37%	49%
London	43%	53%
Metropolitan Districts	46%	64%
Counties	27%	47%
Unitaries	36%	56%
<b>ENGLAND</b>	<b>35%</b>	<b>55%</b>

*\*Excludes the Low Income Adjustment*

### Fire and Rescue

- The deprivation top-up here is based on a Risk Index which uses a combination of the following measures: “working age adults with no qualifications”, “working age population not in employment”, “income support/IBJSA/guarantee element of pension credit claimants” and the “standardised mortality ratio under 75 years”.

<b>FIRE AND RESCUE (4.5% of Relative Need)</b>	
<b>Class of Authority</b>	<b>Fire and Rescue</b>
London	10%
Metropolitan Districts	18%
Counties	7%
Unitaries	8%
<b>ENGLAND</b>	<b>11%</b>

### Highways (3.6% of Relative Need)

- No deprivation top-up

## EPCS

- Lower Tier services – contains a deprivation top-up based on a combination of “incapacity benefit and severe disablement allowance”, “income support/IBJSA (Income Based Job Seekers Allowance)/guarantee element of pension credit claimants”, “older people on income support/IBJSA/guarantee element of pension credit”, “unemployment related benefit claimants” and “country of birth of residents”.
- Upper Tier services – also contains a deprivation top-up which contains all of the above measures except for the one referring to “older people in receipt of income support/IBJSA/guarantee element of pension credit”.

<b>ENVIRONMENT, PROTECTIVE AND CULTURAL SERVICES (EPCS) (24.1% of Relative Need)</b>		
<b>Class of Authority</b>	<b>Lower Tier EPCS (10.4% of Relative Need)</b>	<b>Upper Tier EPCS (11.2% of Relative Need)*</b>
Inner London	59%	25%
Outer London	42%	27%
London	50%	26%
Metropolitan Districts	31%	31%
Counties/Shire Districts	20%	21%
Unitaries	27%	25%
<b>ENGLAND</b>	<b>30%</b>	<b>25%</b>

*\*Additional EPCS blocks account for 2.5% of Relative Need*

## Capital Financing (8.5% of Relative Need)

- No deprivation top-up

## Other Grants (rolled into 2013-14 settlement)

### Supporting People

This grant is broken down into 8 sections (older people, homeless families, young people, single vulnerable (homeless), single vulnerable (mentally ill), socially excluded, people with disabilities and generic services. These all contain a deprivation top-up which uses the same four measures: three from the Index of Multiple Deprivation (IMD) – employment and income, geographical barriers and indoors living environment and the final one; population density.

### Housing Strategy for Older People

This grant contains a deprivation top-up which uses the same measures as the “Supporting People Grant”.

### HIV/AIDS Support & Preserved Rights

No deprivation measure as allocations are based on caseload data.

**Care Act** funding also uses the ASC RNF. Deprivation also features heavily in the **Dedicated School Grant** – with pupils eligible for free school meals, with parents in

the forces or having ever been in care being eligible for considerable additional funding.

**Other Grants (contained within the SFA)**

**Council Tax Support Grant**

No specific deprivation measure although it does use projected spend by DWP.

**Early Intervention**

The formula uses a “tax credit deprivation index” which has been created by the Department for Education. It is based on the percentage of children in families receiving each element of tax credits.

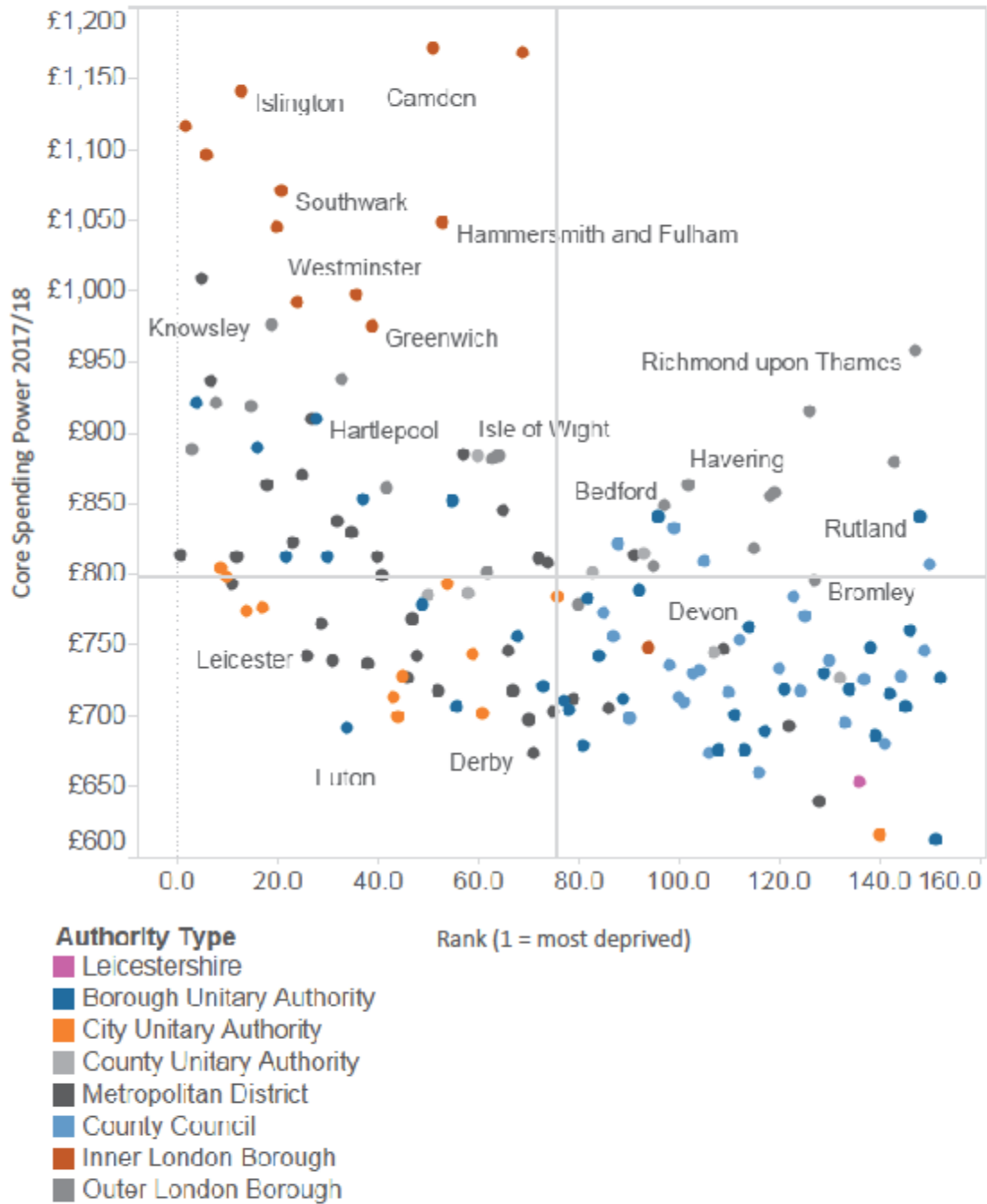
There is also a separate deprivation index but it is not clear exactly what this is based upon other than income and employment.

**Learning Disability and Health Reform Funding**

Uses the ASC RNF (as described above).

## Annex B

Overall Index of Multiple Deprivation rank (1 = most deprived) vs CSP



Source: Indices of Deprivation 2015, DCLG

### Introduction

- 1) The Joseph Rowntree foundation commissioned a report entitled '*Counting the cost of UK poverty*'. The document endeavours to show how much poverty costs the UK, either directly or indirectly. It is one of a very few recent pieces of independent research on the subject matter. In addition, there was a report published on 4 September entitled '*Living on the edge: Britain's coastal communities*'. This will be covered later in the briefing as it is both recent and relevant to the question of deprivation and service cost.

### Rowntree Research

- 2) The report claims to show that '*the public service costs of poverty amount to around £69 billion, with identifiable knock-on effects of child poverty costing a further £6 billion and knock-on effects of adult poverty costing at least £2.7 billion; this gives a total cost of poverty in the UK of around £78 billion; a large proportion of what we spend publicly (about £1 in every £5 spent on public services) is making up for the way that poverty damages people's lives*'.
- 3) The report is segmented into areas of government spending. These include; Health care, Adult Social Care, Schools, Higher Education, Housing, Fire and Rescue, Transport and a range of others. This briefing aims to cover relevant areas in a concise manner with the goal of giving an overview of each area and how the service and service cost is affected by deprivation.
- 4) It is important to note that the Rowntree Foundation is an independent organisation. The full report can be found at [this link](#).

### Children and Families

- 5) Children's and family services, in this context, refer primarily to social services directed at children in need such as; nursery, childcare and early year's provision. The cost data has been estimated from local authority level budgetary and activity data.
- 6) '*The aim has been to measure how much additional activity and spending are associated with higher rates of poverty in areas that are more deprived.*'
- 7) Using a recent child poverty measure '*income deprivation affecting children index*' the report found that 56.3% of caseloads were linked to poverty. There was a study conducted entitled '[hard edges](#)' which the Rowntree report references that uses the term 'Severe and Multiple Disadvantage' or 'SMDs'. Hard Edges states that '*there are...significant social costs associated with SMD, not least the potentially negative impacts on the children with whom many people facing SMD live, have contact, or are estranged from;*'. When using this measurement, 48.2% of caseloads are linked to poverty.
- 8) The Rowntree Foundation finds that there is an additional spend of £7.5 billion associated with poverty. The relationship between child poverty and poor



outcomes has caused services to focus on giving children from disadvantaged backgrounds to give them a better start in life. This has meant that there is a greater amount spent on Children's services among families in poverty.

- 9) *'The strands of evidence lead to a range of estimates of the proportion of activity being attributable to poverty (48–70%), from which we take an average of 58% pending furthermore detailed analysis of CIN [Children in Need Census for England] data. This leads to an estimate of poverty costing £5.9 billion in additional spending on social services and £1.6 billion on childcare and early years.'*

#### Adult social care

- 10) In this context, adult social care refers to both domiciliary and residential care as well as other support for both the elderly and people with LD (learning difficulties/disabilities). The evidence used was local authority budgetary data compared with deprivation in England.
- 11) Adult social care is one of the largest services provided by local government. You can divide this service into two parts (of roughly equal size). Services for older people, particularly home care and services for younger adults with some form of disability or mental health issue.
- 12) There has been a shift in recent years away from a static service, to a more mixed economy that includes third party providers. For example, many authorities have commissioned private providers to provide services for adults with learning disabilities. It was not so long ago that the services provided directly by local government accounted for almost all of the services available to people with Learning Disabilities. With changes to policies like direct payments, that market share is falling and diversifying. According to the Rowntree research *'privately funded care is now as large as LA-funded care in England'*.
- 13) In the most deprived areas (rated 1) adult social care expenditure per capita is £284.86. The cost reduces as the area gets less deprived until you reach a value of £264.84 per capita in the least deprived area (rated as 5). According to the research, 30.8% of expenditure of younger adult social care is related to poverty and *'total budgeted net spending on this service in 2014/15 in England was £7,783 million, so the poverty related part of this would be £2.4 billion.'*
- 14) The report also shows that there is a correlation between elderly care cost and deprivation. This is shown on page 33 of the report. The conclusion drawn is that *'26% of expenditure is linked to poverty, giving totals of £2.4 billion for younger adults and £2.2 billion for older adults.'*

#### School education

- 15) According to the Rowntree research; poverty accounts for around £10 billion of the annual school expenditure in the UK. Like health, this service costs more to deliver for those from disadvantaged backgrounds. It is known by both central government and the schooling system that children from disadvantaged backgrounds are more likely to fall behind, and therefore, funding is channelled

directly to the children from these backgrounds through funding elements of the pupil premiums.

- 16) *'Poverty and deprivation in the home background hamper attainment throughout childhood and the educational system, but that appropriate provision and support can counter this and lead to more desirable and acceptable outcomes for most pupils.'*
- 17) The Pupil Premium was introduced by the Coalition government. However, even before the pupil premium introduction there were still systems in place that gave additional weight to deprivation during the 2000's.
- 18) The Rowntree report suggests that calculating the costs of poverty is 'relatively uncontroversial' as measuring additional per pupil spend associated with poverty is already defined by FSM (free school meals) measurements.
- 19) *'The resulting estimate of the cost of poverty for school education in England is £3.0 billion for primary, £4.9 billion for secondary and £0.5 billion for special schools, making a grand total of £8.5 billion, which is 18.5 per cent of school funding.'*
- 20) There is a clear link between deprivation and the amount of money spent by local authorities on schooling. This additional money is spent through factors of the pupil premium which, by definition, are there to help the children who come from deprived backgrounds.
- 21) According to the report, the Rowntree Foundation finds that there is an additional spend of £7.5 billion associated with poverty. The relationship between child poverty and poor outcomes has caused services to focus on children from disadvantaged backgrounds and families to give them a better start in life. This has meant that there is a greater amount spent on Children's services among families in poverty.

#### Other Factors

- 22) There are a multitude of other services that are affected by poverty according to the Rowntree research. Many of them are not the direct responsibility of county councils, but many have knock on, or indirect effects. Housing, in relation to poverty, adds £4 billion. Police and criminal justice adds £9 billion as well as £1.4 billion for employment and support allowance and £2.4 for other benefits.
- 23) This report makes strong claims about the link between deprivation and the cost of services. To read the full report, please follow the [link](#).

#### **Social Market Foundation Research on Coastal Communities and Deprivation**

- 24) In addition to the Rowntree report, there was a piece of [research](#) published September 2017 entitled '*Living on the Edge*' that reinforces the assertion that there is a strong link between deprivation and cost of services. In addition, the BBC published an [article](#) outlining the findings.

25)The report highlights such “pockets of deprivation” where coastal communities are surrounded by relative affluence and their needs are often overlooked by policy-makers. .

26)The report doesn’t just focus upon the cost of services, but also shows how these coastal areas are struggling.

- *Average wages are £3,600 a year lower in these "pockets of deprivation"*
- *“the two local authorities in England and Wales with the smallest proportion of over-16s holding level four and above qualifications [certificates above A level] are Great Yarmouth in Norfolk and Castle Point in Essex.’*
- *5 of the 10 highest unemployment rates in Britain are in these deprived coastal areas.*

27)With regard to services, the report shows that 10 of the 20 authorities with the worse health (defined as bad or very bad) are coastal communities. This supports the Rowntree foundation stating that *‘Health care accounts for the largest portion of additional public spending associated with poverty, around £29 billion per year. There is a growing weight of evidence that health care utilisation and costs are strongly related to poverty, both as presently experienced and as a legacy from past experiences of poverty.’*