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Impact of new adult social care funding formulae on members of the County Councils Network (CCN) – initial findings of fair funding review research

1. Pixel Financial Management has been commissioned by CCN to update its modelling of the potential impact of the Fair Funding Review (FFR) on local government. This briefing presents the initial findings of our modelling in light of recent coverage on the FFR and the completion of the first stage of our modelling.
2. The modelling takes into account all the proposals that the government has made within the FFR, including council tax equalisation, the creation of the foundation formula and the latest Area Cost Adjustment (ACA) factors. We have used the latest data where this is available and have made our assumptions based on the most up-to-date information on the Government's proposals.
3. Our modelling will now also include the effect of a possible new adult social care formula based on the proposals from the Personal Social Services Research Unit (PSSRU). This briefing note outlines the effect of such a formula on each local authority class and provides some initial indications of the wider effect of the FFR on local government, based on our current assumptions.
4. The final iteration of our work for the CCN will also include potential changes to the highways maintenance and public health formulae. However, it will not be possible to include changes to the children's social care formula given the lack of public information on the proposals for this formula.
5. A full report on our modelling will be published in the near future. It is important to note that while our modelling will be based on the latest evidence and intelligence to inform our assumptions, the modelling should be used to indicate a 'direction of travel' given many precise policies are still subject to public consultation.
6. Following recent coverage of the impact of the adult social care formula, our initial modelling shows that the impact of the new formula will result in significant redistribution of funding. Our analysis shows that the potential change in 'needs' to be similar to those recently published by the Local Government Association (LGA). It is our view that the method deployed by the independent consultants PSRU used to develop the social care formula is, overall, justified.
7. However, the potential impact of this formula must be considered in the context of wider proposals in the review of relative needs and resources. This briefing shows that when the changes to the adult social care formula are put into our initial modelling on the overall changes in the FFR, the distributional impacts are not as reported in the national press recently, nor do they conform with common assertions over the past twelve months that the changes to funding will disproportionately benefit shire counties at the expense of metropolitan boroughs.

Background

8. On 24 January 2020, the Local Government Association (LGA) published indicative figures on the change in needs under the proposed new adult social care relative needs formulae for 2021-22:

   https://www.local.gov.uk/adult-social-care-relative-needs-formulas-lga-illustration-january-2020

9. The report on which these exemplifications were based was written by academics at the PSSRU. The underlying research was commissioned by the Department of Health and MHCLG in 2013:

   https://www.pssru.ac.uk/pub/5143.pdf

10. It is intended that the new formulae for both younger adults (18-64 years) and older people (65+ years) will be based on this research.

11. As part of our commission with CCN we have modelled the potential impact of the formula.

PSSRU report

12. The work undertaken by PSSRU uses multi-level modelling to predict the social care needs in local authorities. It is based on data from around 60 local authorities. The modelling looks at the variation in expenditure per head between small areas (mostly lower layer super output level).

13. In theory, the methodology is very robust. It is based on a large sample of data (over one-third of social care authorities) and the methodology strips-out the effects of previous funding decisions (at the national level) and policy decisions (at the local level). So, although it is based on regression against past spending, it avoids the downside of simple regression against past spending at the local authority level.

14. The below summary provides an overview of the independent methodology used by PSSRU to develop the two formulae for older and younger adults. The mechanics of the formulae themselves are replicated in our funding model.

RNF value (for younger adults)	=		
Limiting (significantly) condition 16-64 per capita 16-64	x	22.71	+
Living arrangements: share of people living in one-family households	x	-3.82	+
Population 16-24 per capita 16-64	x	-4.40	+
Income Benefits Claimants 16+ (i.e. IS, ESA, and JSA) per capita 16-59	x	3.77	+
(Constant)		5.58	

RNF value (for older adults)	=		
Attendance Allowance claimants 65+ per capita 65+	x	29.53	+
Limiting (significantly) condition 85+ per capita 65+	x	27.89	+
Living arrangements: couple households per household 65+	x	-5.35	+
Pension Credit Claimants 80+ per capita 65+	x	21.13	+
Home-owner households 65+ per households 65+ × properties in council tax band ABCDE per all properties	x	-5.95	+
Home-owner households 65+ per households 65+ × properties in council tax band FGH per all properties	x	-14.75	+
(Constant)		14.89	

15. The proposed formula will replace the current social care formulae which were implemented in 2005-06. These formulae – particularly the younger adults formula – has been the subject of significant criticism since its implementation. There were some very serious technical deficiencies in this formula, largely because the data was of poor quality (based on only 17 authorities, and the data was insufficiently "cleaned"). Any replacement of these formulae is bound to result in very different outcomes.

16. Many shire counties in the south-east of England were significant losers from the 2005-06 younger adults formula. A key element in that formula is the very high weighting for the number of claimants of Disability Living Allowance (DLA). Claimant rates were very low in the south-east (and in much of London), whereas they were very high in many metropolitan authorities in the north and the midlands.

17. The formulae proposed in the PSSRU paper will certainly be amended and updated before they are implemented in 2021-22. Firstly, the formulae are now a few years out-of-date and will need to be refreshed for more recent data. Secondly, some of the proposed indicators are no longer available. The introduction of Universal Credit means that some of the benefits data is no longer available nationwide and alternatives will have to be found (possibly from the Index of Multiple Deprivation). Both these types of revision will change the formula, but they are very unlikely to change the broad "direction of travel".

18. We have modelled the proposals for the social care formulae and compared the outcomes to those published in the LGA needs analysis. Our results are not identical, but they are similar. The reasons for the variations, as far as we can see, are caused by (a) possibly using different datasets, (b) using 2016-based population projections rather than population estimates, and (c) using the latest Area Cost Adjustment figures.

19. The below table presents the change in projected 'needs' and then applies the changes to estimated funding for adult social care within Settlement Funding Assessment (SFA) This excludes other temporary social care grants outside of SFA.

Table 1 –Estimated change in 'needs' and projected financial redistribution from new adult social care formulae

	Older People PSS		Younger Adults PSS	
	% change in assessed need	Change £m	% change in assessed need	Change £m
Metropolitan districts	-1.1%	-16,189	-12.0%	-165,657
CCN authorities	1.6%	51,315	6.9%	135,578
Non-CCN unitary authorities	4.6%	46,006	-3.6%	-32,411
Inner London boroughs	-18.4%	-62,267	1.0%	4,156
Outer London boroughs	-3.7%	-18,865	11.7%	58,335

20. Although the direction of travel is similar to the LGA's needs assessment, our modelling suggests that the cash effects are much less severe than that implied by the findings reported recently in the national media.

21. Our estimates suggest that Mets assessed needs would reduce -12.0%, resulting in a £165m lower allocation for younger adults, and a further -1.1% reduction in needs for older people and a £16m lower allocation. In the financial figures reported by the Guardian – which were based on the needs analysis by the LGA but reportedly released by the LGA Labour Group – indicated that "councils in England's most deprived areas" would lose £320m from the younger adults formula.

22. Our estimated share of needs for CCN member councils are also lower than those implied by the LGA's figures. In our modelling CCN member councils would gain on both younger adults (+6.9%, £136m) and older people (+1.6%, £51m).

23. Are the changes proposed by PSSRU reasonable? Our view is that they are. Certainly, the methodology that PSSRU have followed is robust and independent. And the calculations were based on a substantial dataset. Furthermore, the changes in distribution of funding, particularly for younger adults, correct the errors that were made in the 2005-06 social care formulae.

Overall changes in Fair Funding Review

24. It is crucially important to see the proposed changes in adult social care funding in the context of all the changes proposed in the Fair Funding Review (FFR). Authorities will be rightly concerned if they see isolated figures showing very large losses in funding, particularly for very important services such as social care. Conversely, isolated figures

that show very large gains for some authorities could be misleading. Not all authorities losing from the proposed adult social care formulae will lose from the FFR overall – and vice versa.

25. Therefore, our initial modelling shows the impact when the changes to the adult social care formula are considered with our assumptions on wider changes as part of the review of relative needs and resources.

26. The main assumptions used in this first iteration of our modelling are:

- 2016-based population projections used through the model
- Assumed notional council tax based on equalisation of 85% of council tax income
- Area Cost Adjustment factors published by MHCLG in June 2019
- Population (and ACA factors) used to distribute Foundation Formula (no deprivation factor)
- Home-to-school transport and concessionary fares transferred to Foundation Formula
- No change in the formulae for capital financing, fire, highways maintenance or children's (other than to remove home-to-school transport)
- No adjustment to 'resources' for either parking income, commercial income or fees and charges

27. When we apply our modelled changes for the adult social care formula to the current iteration of our model it shows metropolitan authorities are likely to be overall gainers from the FFR, as are CCN member councils. Counties would see the largest cash gains but would remain significantly lower funded on a per head basis compared to other parts of local government. The most significant losers are still likely to be inner London boroughs.

Table 2 – Initial forecast outcomes from the overall FFR

			Overall change in Settlement Funding Assessment (SFA)		
	Current SFA	**Revised SFA**	**Change (£)**	**Change (%)**	**Revised RNF per head**
Metropolitan districts	3,902,190	4,150,904	248,714	6.4%	342
CCN authorities	3,541,288	3,867,157	325,869	9.2%	149
Non-CCN unitary authorities	2,298,578	2,387,484	88,906	3.9%	254
Inner London boroughs	1,269,355	953,075	-316,279	-24.9%	287
Outer London boroughs	1,356,182	1,251,788	-104,394	-7.7%	215

28. At individual authority level, the outcomes are much more complicated. We expect most shire counties to gain from the FFR. However, our modelling shows that the most important driver of changes in distribution in 2021-22 will be council tax equalisation. And the losers from equalisation will be the high-taxbase counties, boroughs and unitaries of south-east England.

29. Our initial modelling shows the change in SFA, based on our initial estimated changes in assessed needs and a flat-cash change if the review was implemented immediately. This allows us to judge the potential redistributive impact of the FFR.

30. However the review will be implemented over a transition period of between 3-5 years. Equally, the extent of loses experienced by individual councils could be mitigated by an increase in the 'quantum' of resources available to local government and increased locally raised revenue through council tax and business rates. Our final report for the CCN will explore these issues in detail to inform the FFR and wider Spending Review.

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