Distribution Sub-Group (2017) Paper 6 – Formula Simplification

Summary

1. This is an initial discussion paper looking at the complexities of the current settlement funding formula.

Views sought

2. This paper is for information, but members may wish to discuss their views of the current formula and consider how this may be simplified in the future.

Background

3. To produce the local government settlement funding distribution, there are 4,305 individual data items to be sourced, validated and processed by running 24 separate statistical programmes. There are 69 indicators of need, which make up 49 individual formulae designed to cover the range of local government services. Some of these formulae represent very small services indeed, for example, there is a formula to distribute £1.3 million across Authorities for coast protection. A number of these formulae are somewhat anomalous historic additions which add undue complexity to the overall methodology.

4. Although the majority of the data is gathered from administrative sources, some has to be collected solely for the purpose of Settlement calculations. This places an additional burden on Local Authorities as well as Welsh Government staff resources.

5. It is possible that changes in one indicator are outweighed in part or entirely by changes in another indicator. Further detailed analysis would need to be carried out to ascertain the exact trade-offs. However, we have carried out some indicator-level analysis, which looks at ordering the indicators from those that have the most funding attached to them, to those that have the least. This shows the 16 most significant indicators distribute over 80% of the funding, whereas the least significant 35 indicators only account for 5% of the funding. It is important to note that, although this appears to be insignificant, the bottom 35 indicators still account for around £290m of funding allocation.

Analysis

6. The able in the annex shows the 69 indicators in order of the amount of funding distributed, to give a sense of the impact each has on the overall distribution. It can be seen that the 16 most highly weighted indicators distribute over 80% of the funding, whereas the least significant 35 indicators only account for 5% of the funding. It is important to note that, although this appears to be insignificant, the bottom 35 indicators still account for around £290 million.

7. The graph in the annex shows the cumulative amount of funding that is distributed on the Settlement indicators. The rapidly ascending curve displays in a visual way how the majority of funding is based on a small number of key indicators.

8. Further analysis shows that, if you were to remove the bottom 35 indicators, there would be fluctuations in Authorities' funding allocations of between minus £9 million

and plus £3.7 million. The rural Authorities tend to lose the largest amount of funding as the four population dispersion indicators, having relatively small individual impact, have been removed. If instead these 4 dispersion indicators were taken together as one factor, they would fall somewhere around 25th when ranking the indicators by financial impact.

9. In order to affect no Authority by any more than 1% on their original allocation, the maximum number of indicators that could be crudely removed would be 24.

10. This, again, affects the rural Authorities the most negatively as 2 of the 4 dispersion indicators would not be picked up by the adjusted formula. However, the measure of population density is also removed in this case, meaning that Cardiff, Swansea and Newport also fare badly. Although 1% may not seem significant, this equates to around a £4 million reduction for Cardiff.

Conclusion

11. The local government settlement funding formula is highly complex and consideration needs to be given as to whether this can be simplified.

Local Government Finance Policy
Welsh Government

Table 1: Settlement Indicators by Amount of Total SSA Distributed

Indicator Ordered by Amount Distributed	Amount Distributed (£000s)	Percentage Share	Cumulative Percentage Share
Primary school pupils and modelled nursery school pupils	854,542	15.9%	15.9%
Secondary school pupils in year groups 7 to 11	659,537	12.2%	28.1%
Population, all ages (projected)	495,298	9.2%	37.3%
Dependent children in out of work families	323,665	6.0%	43.3%
Debt Financing	302,949	5.6%	48.9%
Population aged 18 to 64 (projected)	287,570	5.3%	54.3%
Council Tax Reduction Schemes Expenditure	244,000	4.5%	58.8%
Enhanced population (projected)	192,466	3.6%	62.4%
Population aged 3 to 16 (projected)	178,479	3.3%	65.7%
Pensioners with a limiting long-term illness	172,326	3.2%	68.9%
Pensioners living alone in households	162,723	3.0%	71.9%
Population aged 85 and over (projected)	108,838	2.0%	73.9%
Settlement threshold 1,000	102,755	1.9%	75.9%
Primary school pupils eligible for free school meals	91,221	1.7%	77.5%
Severe disablement allowance and disability living allowance claimants aged 18 to 64	82,570	1.5%	79.1%
Secondary school pupils eligible for free school meals	78,941	1.5%	80.5%
Pension credit claimants aged 65 and over	78,427	1.5%	82.0%
Households where head is aged 18 to 64 with no carer	75,451	1.4%	83.4%
Settlement threshold 7,500	69,744	1.3%	84.7%
Secondary school pupils in year groups 10 and 11	63,662	1.2%	85.9%
Dependent children in social rented housing	56,622	1.1%	86.9%
Weighted Road Length	53,537	1.0%	87.9%
Dependent children in overcrowded housing	40,201	0.7%	88.7%
Index-weighted working age population	40,012	0.7%	89.4%
Population aged 11 to 15 (projected) and secondary school pupils in year groups 12 to 14	37,540	0.7%	90.1%
Street lighting units	33,933	0.6%	90.7%
Private Finance Initiative	29,813	0.6%	91.3%
Traffic flow	29,586	0.5%	91.8%
All dwellings	28,689	0.5%	92.4%
Total income support, job seekers allowance and pension credit claimants	28,664	0.5%	92.9%
Settlement threshold 30,000	24,955	0.5%	93.4%
Population aged under 18 in wards with weighted density greater than the Welsh average	22,758	0.4%	93.8%
Settlement threshold 40,000	22,310	0.4%	94.2%
Population aged 11 to 20 (projected)	22,272	0.4%	94.6%
Deprivation Grant	22,000	0.4%	95.0%
Area per modelled secondary school index	21,116	0.4%	95.4%
Income support, job seekers allowance and pension credit claimants aged 18 to 64	18,982	0.4%	95.8%
Population aged 3 to 11 (projected)	18,393	0.3%	96.1%
Urban road length	17,181	0.3%	96.4%
Dispersion threshold 300 (2001)	14,925	0.3%	96.7%
Dispersion threshold 5,000 (1991)	13,301	0.2%	97.0%
Local Government Borrowing Initiative - Highways Improvement	12,000	0.2%	97.2%
Population aged 18 and over (projected)	11,425	0.2%	97.4%
Total homelessness decisions	10,322	0.2%	97.6%
Population aged 60 and over (projected)	9,179	0.2%	97.8%
Area per modelled primary school index	8,937	0.2%	97.9%
Population within settlement threshold 50,000	8,905	0.2%	98.1%
Local Government Borrowing Initiative - 21st Century Schools	8,000	0.1%	98.2%
Planning applications received	7,691	0.1%	98.4%
Housing General Capital Funding	7,651	0.1%	98.5%
Dependent children in lone adult households	7,437	0.1%	98.7%
Dependent children in households where head is in a low occupational classification	7,437	0.1%	98.8%
Population aged 16 and over (projected)	7,160	0.1%	98.9%
Adults aged 18 to 64 in non-white ethnic groups	6,169	0.1%	99.0%
Settlement threshold 12,500	6,149	0.1%	99.2%
Housing Benefit Recipients	5,375	0.1%	99.3%
Food premises	5,326	0.1%	99.4%
Dispersion threshold 7,500 (2001)	5,040	0.1%	99.5%
Council Tax Reduction Schemes Caseload	4,861	0.1%	99.5%
Integrated Family Support Service	4,688	0.1%	99.6%
Dispersion threshold 2,500 (1991)	4,558	0.1%	99.7%
National park levies	3,322	0.1%	99.8%
Trading premises	3,161	0.1%	99.8%
Population aged 16 to 18 (projected) other than at school	2,635	0.05%	99.9%
Number of deaths from all causes	2,077	0.04%	99.9%
Land drainage levies	1,312	0.02%	99.9%
Length of artificially protected coastline	1,303	0.02%	100.0%
Population aged under 60 (projected)	1,020	0.02%	100.0%
Ships arriving at ports	432	0.01%	100.0%
Total of All Indicators	**5,385,525**	**100%**	**100%**

Cumulative percentage share of Total SSA when adding further indicators