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# Housing support grant: development of a funding formula

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# HOUSING SUPPORT GRANT: **Development of a funding formula**

Report by: **alma economics** 

Views expressed in this report are those of the researcher  
and not necessarily those of the Welsh Government

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# Executive Summary

The Welsh Government is currently in the process of implementing the new Housing Support Grant, an early intervention grant programme which seeks to prevent homelessness through the helping and supporting of vulnerable groups. This programme will bring under one umbrella the administration of existing funding streams for Supporting People, the Homelessness Prevention Grant and Rent Smart Wales. As part of the development of the Housing Support Grant, the Welsh Government wishes to develop a new funding formula for allocating Housing Support Grant funding to local authorities; one which reflects where there is the greatest need, local context and wider policy drivers.

As part of this initiative, the Welsh Government has commissioned Alma Economics to: review previous and current funding formulas; consult with key stakeholders (including local authorities) to better understand the key challenges, opinions and concerns with respect to implementing a new funding formula; and to develop a suitable methodology for proposing a new funding formula for allocating funds under the Housing Support Grant programme. In the course of this project the views of an array of different stakeholders have been gathered through a series of workshops, semi-structured interviews and surveys.

Funding formulas are commonly used mechanisms for determining the level of funding allocated to devolved organisations for delivering services to their clients. If structured in the right way, a funding formula can be an efficient and objective means of allocating funds to where they are most needed. The Aylward funding formula, first implemented in 2012/13, sought to distribute funding for Supporting People using a newly developed needs-based approach. However, the funding formula was ultimately discontinued by the Welsh Government in 2015/16, with the reallocation resulting in large funding cuts for some local authorities, which were compounded further by austerity-driven budget cuts, the lack of a sufficient transition period and data problems with respect to some of the formula's constituent indicators. Funding allocations for Supporting People have since been frozen in the same proportions as 2015/16 in anticipation of an alternative funding formula.

The results of the engagement with stakeholders suggested that context should be an important factor when developing a new funding formula, and as such an effective funding formula should reflect both current and future demand (need) for services, the expected costs of service provision and the time duration necessary for local authorities to adjust to any changes in funding. In terms of future demand for services, the research indicated that homelessness, deprivation and poor mental health are the primary drivers of funding need for Housing Support Grant funding. The engagement with stakeholders suggested that the user groups most at risk of spending increases were those with mental health issues, young people with support needs and those at risk of homelessness. Conversely, the survey results from this research suggested that demand for alarm services was expected to be lower in future.

Nominal spending on the Supporting People programme has been frozen in recent years and many local authorities have suggested this has impacted on their ability to maintain service quality for Supporting People related programmes in light of inflation and rising staff costs. This research identified population, deprivation and rurality as key factors which drive the cost public service provision.

It is also apparent that transitional arrangements, whereby any changes to funding allocations are phased over a period of time, should be an important ingredient of any funding formula so as to minimise disruption to service provision and reduce risk to the financial sustainability of local authorities. The length of a transition period should ideally reflect existing contractual commitments with suppliers, ensure the continuity of public service delivery, and consider existing policy lead times. Stakeholders suggested that a greater transition period would be required to implement Supporting People funding for larger than smaller changes to funding, and that reductions to funding would likely require a greater transition period than corresponding increases. There was a general consensus amongst stakeholders that a transition arrangement should span a period of at least 5 years.

Typically, funding formulas allocate funding on the basis of need, with measures of need estimated and weighted as deemed appropriate, and funding ultimately allocated to local authorities based on the relative outcomes of the formula. A common and relatively simple approach is to allocate funding on a per capita basis; however, many funding formulas also capture wider indicators of need such as deprivation, rurality or number of welfare recipients.

Following the interaction with stakeholders and review of current and previous funding formulas, this research established that an effective funding formula should be:

- Reflective of the future and current **needs** of service users;
- **Fair** - not unduly favouring particular client groups or localities;
- **Transparent** and relatively easy to **understand**;
- **Stable** - enabling local authorities to consistently and accurately plan into the medium-term;
- **Flexible** - allowing local authorities to respond to changes in demand for public services;
- **Future-proof** - exhibiting robustness to any emerging trends (e.g. demographic change) or changes to the policy environment (e.g. Universal Credit);
- Based on an analytically **robust** methodology which uses current and **objective** sources of data; and
- Reflective of the **context** in which it is applied, such as the overarching purpose of the Housing Support Grant programme.

Based on the evidence collected through the course of this project, this report proposes a new 5-step methodology for calculating local authority funding allocations for the Housing Support Grant programme. These 5 steps comprise of:

- I. **Adhering to local government settlement precedents:** to ensure consistency with other local authority funding allocations, existing precedents from the Welsh local government settlement as set out in the 'Green Book' have been taken into account;
- II. **Using 2018/19 Spending Plans to guide formula design:** the client groups identified in local authority spending plans to be linked to appropriate indicators of need, with the total spend for each client group allocated to local authorities in proportion to their measure of relative need;
- III. **Adjusting formula for rurality and sparsity:** a further adjustment to be made to the formula to reflect the generally greater cost of providing support to clients in rural and more sparsely populated areas;

- IV. **Adjusting formula to address maximum changes in funding:** a weighting to be assigned to the 2019/20 budgeted allocation to limit the magnitude of any potential funding changes. The aim of this adjustment is to avoid the very large funding changes which might threaten the continuity of public service provision and the financial viability of local authorities; and
- V. **Designing transitional arrangements:** an appropriate transition period to be determined to smooth any changes in local authority funding levels over a number of years.

Using this five-step methodology, estimates of what local authority funding allocations would look like under the new funding formula have been produced. The proposed funding allocations with existing funding allocations are compared in the table below.

#### Estimated steady-state (post-transition) funding shares by local authority

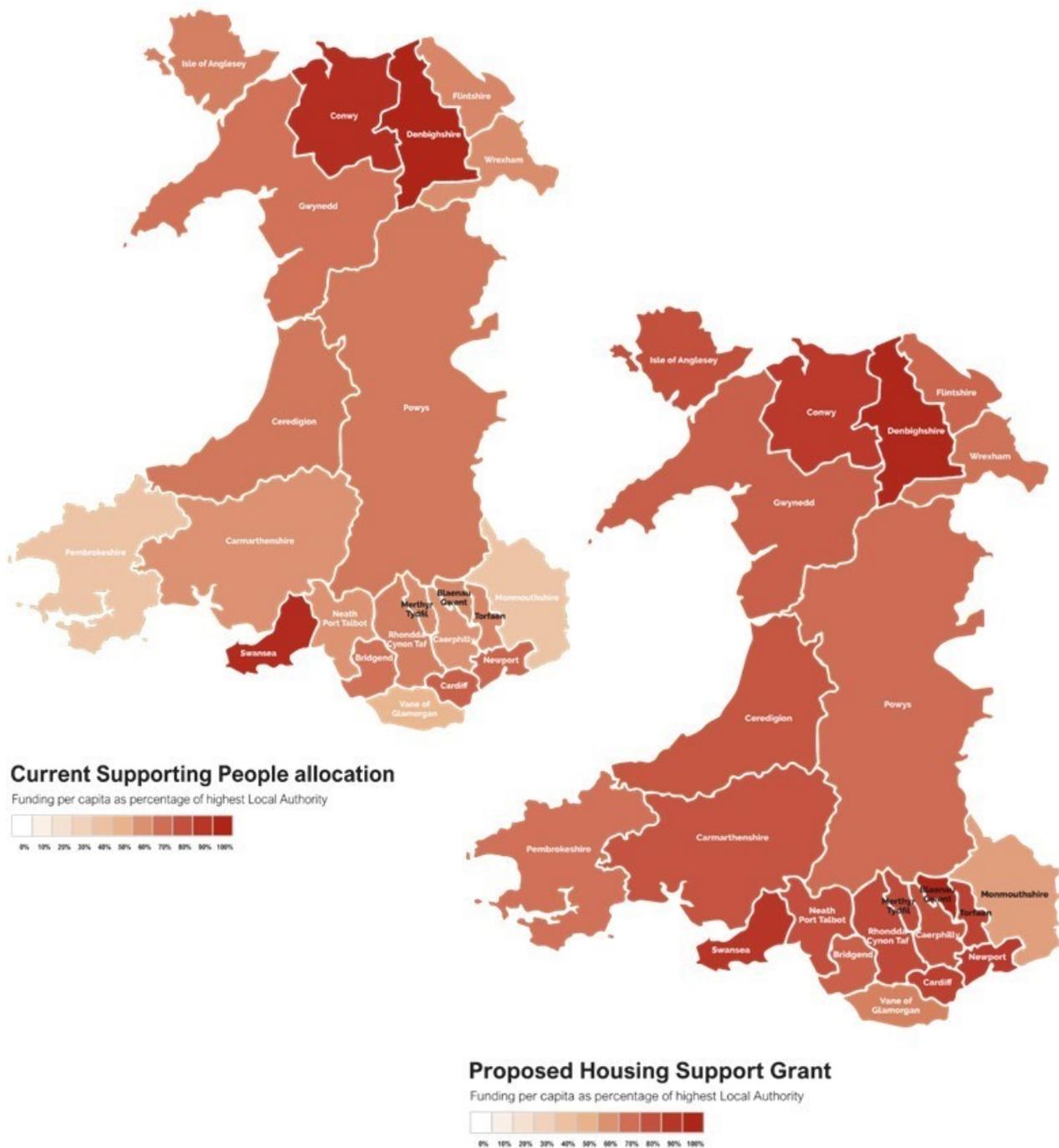
	Current	Constant per capita	% diff from current	New funding formula	% diff from current
Isle of Anglesey	2.1%	2.2%	4.8%	2.3%	6.2%
Gwynedd	4.1%	4.0%	-2.9%	3.7%	-9.6%
Conwy	5.2%	3.7%	-28.5%	4.1%	-21.2%
Denbighshire	4.4%	3.1%	-31.2%	3.7%	-15.8%
Flintshire	4.7%	5.0%	5.5%	4.5%	-4.3%
Wrexham	4.0%	4.5%	11.4%	3.8%	-5.5%
Powys	4.2%	4.2%	1.2%	3.7%	-10.5%
Ceredigion	2.4%	2.4%	2.5%	2.4%	0.6%
Pembrokeshire	2.2%	4.0%	80.6%	3.5%	57.6%
Carmarthenshire	5.3%	6.0%	13.3%	5.9%	12.3%
Swansea	11.2%	7.8%	-29.9%	9.0%	-19.8%
Neath Port Talbot	3.9%	4.5%	16.3%	4.6%	18.9%
Bridgend	4.7%	4.6%	-2.8%	4.3%	-8.7%
The Vale of Glamorgan	2.8%	4.1%	46.4%	3.3%	17.5%
Rhondda, Cynon, Taff	7.3%	7.6%	4.0%	7.9%	7.5%
Merthyr Tydfil	1.7%	1.9%	10.2%	1.9%	12.7%
Caerphilly	5.0%	5.8%	14.6%	5.8%	15.4%
Blaenau Gwent	2.1%	2.2%	7.1%	2.7%	32.1%
Torfaen	2.8%	2.9%	5.9%	3.0%	9.2%
Monmouthshire	1.6%	3.0%	80.8%	2.0%	24.4%
Newport	5.1%	4.8%	-7.5%	5.2%	1.6%
Cardiff	13.2%	11.8%	-10.3%	12.6%	-4.1%
<b>Total</b>	100%	100%	-	100%	-
<b>Median increase</b>	-	-	10.2%	-	12.7%
<b>Median decrease</b>	-	-	-10.3%	-	-9.6%

The outcome of this exercise seeks to distribute Housing Support Grant funding to local authorities in a way which is reflective of underlying need. The proposed funding formula includes mechanisms to soften the impact of any reductions to local authority funding. Based on the feedback of stakeholders, the proposed funding formula includes a seven-year transition period which would give local authorities eight years in total to adjust to any changes in funding allocations (if the year between announcement and implementation is

included). The underlying formula also includes an explicit adjustment to cap the magnitude of any change in funding for local authorities where a funding reduction is experienced.

The infographics below show per capita funding levels for each local authority relative to that which receives the most funding, under both the current and proposed funding allocations. What is apparent is that the proposed funding formula achieves a more even spread of funding per capita. Much of this effect is via reducing the dispersion of the distribution rather than changing the ranking of the level of funding per capita received.

### Supporting People / Housing Support Grant funding per capita as a percentage of the highest local authority funding per capita



# Background

## Research aims

- 1.1 Alma Economics has been commissioned by the Welsh Government to assist in developing a funding formula for the new Housing Support Grant, which will combine funding streams for Supporting People, Homelessness Prevention and Rent Smart Wales enforcement. This project aims to:
- Review and assess the current funding formulas of the three funding streams under the Housing Support Grant to understand their strengths and weaknesses;
  - Engage with key stakeholders in the sector to understand the main challenges, concerns and opinions about the current and past funding allocation process, with the aim of developing a new formula for Housing Support Grant which would enjoy broad consensus; and
  - Develop different options for a new funding distribution formula through collaboration with stakeholders.

## Homelessness legislation in Wales

- 1.2 A defining piece of homelessness legislation in the UK was the Housing (Homeless Persons) Act of 1977. The legislation set out for the first time the homelessness duties of local authorities by making the rehousing of certain groups of homeless people the responsibility of local authorities.<sup>1</sup> The Act defined the groups of people who have a 'priority need' and are, therefore, entitled to secure settled accommodation. The underlying foundation of the 1977 Act and, later, of Part 7 of the Housing Act 1996 was the Priority Need test. This stated that only households in 'priority need' – i.e. households with a pregnant woman, dependent children or a vulnerable adult – are eligible for secured permanent accommodation. The 1977 Act was a landmark piece of legislation for the protection of homelessness people, yet, it drew a line between the people defined to be in priority need and the ones who are not.
- 1.3 The most recent amendments to Welsh homelessness legislation in Part 2 of the Housing (Wales) Act 2014 reflect a clear shift in the focus of the Welsh Government from priority need to prevention. The reform sought to support not just those in priority need but everyone at risk of homelessness, introducing relief and prevention duties irrespective of whether a person is in 'priority need'. This policy development was critical, but at the same time increased financial pressure on local authorities who were required to expand their provision of services.
- 1.4 In 2017/18 a total of 11,277 households were classified as being homeless, an increase of 3% from the previous year's figure of 10,908 homeless households.<sup>2</sup> Of the 11,277 households that were assessed as being homeless, and therefore owed a duty of care for assistance in securing safe accommodation, 41% were successfully relieved of their homelessness. However, 37% were unsuccessfully relieved of homelessness and 22% did not receive support for other reasons, e.g. application withdrawal or non-cooperation.

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<sup>1</sup> Crisis (2015) [The homelessness legislation: an independent review of the legal duties owed to homeless people.](#)

<sup>2</sup> The Welsh Government (2018) [Homelessness in Wales, 2017-2018.](#)

## Supporting People

- 1.5 The key source for homelessness funding and housing-related support in Wales is the Supporting People programme, introduced by the Welsh government in April 2003. The Supporting People programme – which is a ring-fenced grant – provides housing-related services aimed at supporting vulnerable people at risk of homelessness to live as independently as possible. It is estimated that Supporting People supports 67,000 people each year through the provision of supported accommodation schemes and tenancy support.<sup>3</sup> Following the introduction of the Housing (Wales) Act 2014, Supporting People’s focus moved towards prevention and early intervention, with the aim of reducing demand for costlier services such as healthcare, social services and the justice system. Notably, although Supporting People was rolled out across all of the UK’s devolved nations, the ring-fenced element has been removed in England and Scotland.<sup>4</sup> The Supporting People programme in Wales received approximately £124 million in funding in 2018/19.

## Homelessness Prevention Grant

- 1.6 In addition to the Supporting People programme, local authorities can also access housing support funding through the Homelessness Prevention Grant. In *Prosperity for All: the national strategy (2017)*,<sup>5</sup> the Welsh Government pledged to “deliver earlier and more effective interventions for those at risk of becoming homeless”. Homelessness Prevention Grant funding is therefore allocated to a range of prevention-focused projects across local authorities that go beyond statutory provision. Of the approximately £9 million budget for homelessness prevention in Wales in 2018/19, the Homelessness Prevention Grant represents around £3 million, which will be brought into the new Housing Support Grant.<sup>6</sup>

## Rent Smart Wales enforcement funding

- 1.7 Rent Smart Wales is a service introduced in 2015 to assist with the administration of requirements for landlord registration and agent and landlord licensing under the Housing (Wales) Act 2014. The overarching aim of Rent Smart Wales is to raise management standards in the Private Rented Sector, through reducing the number of non-compliant landlords and agents. Rent Smart Wales represents additional funding provided for enforcement action by local authorities against landlords and agents not complying with their legal obligations. The funding for Rent Smart Wales is allocated to local authorities through a distribution formula reflecting the number of Private Rented Sector housing units in each local authority. The budget for Rent Smart Wales enforcement was around £0.3 million in 2018/19.

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<sup>3</sup> Auditor General for Wales (2017) [The Welsh Government's Supporting People Programme](#).

<sup>4</sup> Parliament UK (2012) [The Supporting People programme](#).

<sup>5</sup> Welsh Government (2017) [Prosperity for All: the national strategy](#).

<sup>6</sup> Welsh Government (2017) [Final Budget 2018 to 2019](#).

# Literature review

## Developing a funding formula

### What is a funding formula?

- 2.1 Funding formulas can be defined as “mechanical rules to determine prospectively the level of public funds a devolved organisation should receive for delivering a specified public service”.<sup>7</sup> This form of funding allocation has become one of the most important methods for distributing resources to public services globally, including the UK – other forms of funding include reimbursing expenditure, allocation based on historical precedent, or the quality of local bidding.
- 2.2 The key rationale behind use of a funding formula include the desire of national and local governments to control the magnitude of aggregate expenditure, while ensuring that limited public resources are shared in an acceptable and fair manner. Arguments in favour of the use of a formulaic distribution of public resources are:
- Efficiency in allocating resources and allowing for the redirection of public funding where it will secure the greatest benefit;
  - Being an accepted mechanism for determining budgets for devolved organisations;<sup>8</sup> and
  - Enabling the development of competition between providers, driven by the separation of purchaser and provider.
- 2.3 Funding formulas in the UK are not new – they can be traced back to 1888 when a local government in England proposed ‘indoor pauperism’ as an indicator of spending need.<sup>9</sup> One of the most important formulas in the country is the Barnett formula which was introduced in 1978 by the Treasury – and is still used – in order to adjust the level of funding allocated to the UK’s devolved nations (Northern Ireland, Scotland and Wales). Funding formulas are used to determine the allocation of resources for a number of services with conservative estimates showing that approximately £150 billion of public funding for higher education, local government, social care and health care in the UK are distributed using formula-based approaches.<sup>10</sup>

### Key guiding principles for a funding formula

- 2.4 There is a consensus in existing literature that funding formulas should reflect certain key principles such as accuracy, transparency and fairness. The Ministry of Housing, Communities and Local Government (MHCLG) in the UK Government recently undertook a review of local authorities’ relative needs and resources. Following consultation with numerous local authorities in England, the following guiding principles for determining funding formulas were established:<sup>11</sup>
- **Simplicity** – formulas must be simple, without compromising on other guiding principles such as the robustness and transparency of the formula;

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<sup>7</sup> Smith, P (2006) [Formula funding of public services](#).

<sup>8</sup> Osborne and Gaebler (1992) [Reinventing Government](#)

<sup>9</sup> Bennett, R (1982), *Central Grants to Local Governments*, Cambridge, Cambridge University Press.

<sup>10</sup> Smith, P (2006) [Formula funding of public services](#)

<sup>11</sup> Ministry of Housing, Communities & Local Government (2018) [A review of local authorities’ relative needs and resources](#)

- **Transparency** – the recipients of funding must be able to identify the key drivers of the funding allocation so that those determining the allocation of funding can be held to account;
- **Contemporary** – funding formulas must be based on the most current data possible, with the data underlying the key drivers of the funding formula being updated at frequent and planned intervals to the extent feasible;
- **Sustainability** – funding formulas must consider the ‘bigger picture’ with respect to public funding i.e. the funding formula should reflect the overall level of resources available to local authorities and the relative priorities of different policy areas. Moreover, to the extent possible, funding formulas must also factor in any changes in future demand for services which may influence the cost base of each local authority (e.g. those services whose demand is determined by demographic change);
- **Robustness** – the methodology underpinning the formula must be based on an objective analysis that allows policymakers to easily sense-check the proposed funding allocations. Data sources must be independent in nature to ensure that they are robust to any political agendas or manipulation; and
- **Stability** – the formula should support predictable long-term allocations, fostering a feeling of financial certainty among beneficiaries. Ideally, funding formulas should therefore include multi-year settlements.

2.5 In addition to the guiding principles highlighted above, a report<sup>12</sup> for the Independent Commission on Finance and Funding in Wales highlighted the need to ensure that funding formulas do not provide perverse incentives which could lead local authorities to make decisions purely with the aim of guaranteeing access to higher funding; in essence funding formulas should be robust to “gaming” of the system. A further potential consideration is fairness, with the Education Law Center<sup>13</sup> in the US suggesting that the underlying principle of all needs-based formula must be fairness. Such funding formulas would require a structure that drives public funding to the neediest in society.

### **Types of needs-based funding formulas**

2.6 Needs-based funding formulas are one of the most common forms of determining public resource allocation. Such funding formulas reflect factors that determine the level of need within each local authority, and therefore go beyond historic provision of services. However, measuring need is a complex undertaking given the varied and complex array of factors which drive the need for public services and the costs underpinning those services in different areas. In particular, the key challenges when designing needs-based funding formulas are:

- the identification of specific indicators which measure need, to be included in the formula, and
- the weight to be assigned to each of these indicators in order to reflect their importance.

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<sup>12</sup> The Independent Commission on Funding and Finance in Wales (2011) [The use of needs-based formulas in the allocation of public resources: literature review](#).

<sup>13</sup> Education Law Center (2013) [What Pennsylvania Can Learn From Other States' Education Funding Formulas](#)

- 2.7 Such challenges originate because there is often a lack of reliable and timely data on key variables, whilst it is also necessary to isolate important factors from non-important factors when determining the level of need (i.e. in identifying which are the true drivers of need, causation must be established). In addition, given the scope for conflicting interests between local governments, local authorities and the national government, it is there may be difficulties in identifying a funding formula which is both objective and robust.
- 2.8 There are broadly two types of needs-based funding formulas: the per capita approach and 'complex' approaches.

### **Per capita approach**

- 2.9 The per capita approach is a commonly used funding formula approach. Such a method has the benefit of being simple and transparent and may even be a decent proxy for the level of need in certain cases. However, per capita funding may be inappropriate where the factors which drive need are more complex; for example, due to the greater dispersion of population in rural areas compared with urban areas, the per capita approach would likely be an unsuitable funding formula for road infrastructure given the likely higher cost base (e.g. construction and maintenance of a more extensive road network), and the greater need of road infrastructure to rural communities (e.g. due to lack of feasible alternatives such as walking, cycling or metro). The per capita funding approach is a substantial part of the Barnett funding formula.

### **Complex approaches**

- 2.10 Given that national and local governments are responsible for a wide number of public services that are determined by different cost drivers, many countries have adopted complex formulas to be able to accurately allocate public funds based on the level of need. Such complex approaches include:<sup>14</sup>
- **Standard cost approach:** This method determines total expenditure by identifying and assigning weights to drivers that account for variations in need and cost;
  - **Expenditure regression:** This method is widely used in the UK and is very similar to the standard costs approach, the only difference being that the weights that are used for each indicator are determined by regression analysis; and
  - **Outcome-based approach:** This type of formula is a budget process that makes resource allocation and control decisions based on the impact of the expenditure e.g. the level of funding allocated is aimed at achieving a specific outcome such as a level of educational attainment or homelessness reduction. Such arrangements were in place in Scotland as well as in England under the banner of Local Area Agreements (LAA) in which local authorities had to deliver agreed outcomes.<sup>15</sup>
- 2.11 The UK Government's recently proposed National Funding Formula (NFF), to be implemented as the primary method for allocating funding to schools in England, is an example of a complex funding formula. It aims to distribute funding on the basis of a weighted scorecard of factors including pupil numbers, measures of deprivation, history

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<sup>14</sup> The Independent Commission on Funding and Finance in Wales (2011) [The use of needs-based formulas in the allocation of public resources: literature review.](#)

<sup>15</sup> Bramley, G., Watkins, D., and Karley, K (2009) [An outcome-based resource allocation model for local education services in Wales.](#)

of educational attainment and measures of sparsity of population. The formula is also subject to a minimum per-pupil funding amount.

## Cost drivers

- 2.12 According to MHCLG's Fair Funding Review (2018),<sup>16</sup> several factors have been identified by local authorities in England which are primarily responsible for driving cost and are appropriate for evaluating relative need across numerous public services, including support for the homeless. These factors include:
- **Population** – 90% of respondents to the review agreed with the use of population projections for the relative needs-assessment. In addition to projecting permanent residents, some respondents also mentioned the need to factor in measures of the transient population (e.g. students, tourists) which will also have an impact on a local authority's required level of service provision;
  - **Deprivation** – 86% of respondents to the MHCLG review argued that there is need to take deprivation into account when designing relative needs-based formulas. 82% of respondents agreed that the Index of Multiple Deprivation (IMD), a weighted index of deprivation indicators, would be appropriate measure to reflect deprivation in a funding formula; and
  - **Rurality** – 63% of respondents claimed that rurality is an important factor in the relative needs-assessment as a common cost driver. However, 40% of respondents also felt rurality was either inappropriate or more evidence was needed to support the case for rurality to be included within a needs-assessment.
- 2.13 As one local authority respondent from England described: '[We are] faced with high housing costs for staff and residents, and a rising level of homelessness. This has led to increased expenditure; in particular on meeting our homelessness obligations. The core measures of population, rurality and deprivation do not address this directly and could perhaps be complemented by an indicator of housing costs.'

## Transitional arrangements

- 2.14 The introduction of a new funding formula is likely to result in changes to the level of funding that individual local authorities receive. Whereas some local authorities may see their receipts increase, others may experience cuts that can potentially destabilise the provision of services, ultimately having a strong negative effect on beneficiaries. For this reason, the literature suggests that it is important to introduce transitional arrangements that will ensure the smooth roll out of a new distribution formula.
- 2.15 The key challenge when launching a new formula is to ensure that efficiency does not compromise stability and financial certainty. Although ideally every local authority would reach their new funding allocation target as soon as possible, it is equally important to take into consideration that a sudden change could threaten the quality of public service provision as well as potentially putting the financial sustainability of some local authorities at risk.
- 2.16 The MHCLG's *A review of local authorities' relative needs and resources* (2018) outlines the following set of principles which the UK Government intends to use when structuring transitional arrangements:

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<sup>16</sup> Ministry of Housing, Communities and Local Government (2018) [Fair Funding Review: a review of relative needs and resources](#).

- **Stability** – the proposed changes in funding allocation must be manageable, given available resources, and safeguard sustainability by considering the ‘bigger picture’ in which local authorities operate in. To preserve sustainability, many formulas have a ‘damping mechanism’ that, whilst guaranteeing a maximum cut in funding, also phase budget cuts over a number of years so as to limit the scale of disruption with respect to service provision in any given year;<sup>17</sup>
- **Transparency** – there should be an understanding of the rationale for adopting a new funding formula amongst stakeholders and beneficiaries, as well as a consultation over the key cost drivers to be included in the formula;
- **Flexibility** – introducing a time interval, within which local authorities would have the flexibility to adjust to the new funding formula, could help local authorities minimise any disruption to service provision and better manage the financial implications of a changing budget. Given the varied local and financial circumstances of different local authorities, flexibility may be more preferable to some than others; and
- **Time-limited support** – support could be provided to the local authorities that are set to experience the largest budget cuts under the new formula. Considering the destabilising effect of the roll out of the Aylward formula, it may be worth considering the provision of additional financial support to some local authorities for a limited amount of time.

## Funding formula examples

### Lessons learned from the Aylward formula

- 2.17 Supporting People is the key source of funding for preventing and relieving homelessness in Wales. In 2009 the Welsh Government commissioned the first review of the Supporting People programme to measure the Supporting People programme’s progress against its overarching objectives. The Aylward Review, carried out in 2010, concluded that Supporting People provides considerable support for the alleviation and prevention of homelessness and proposed that the programme be continued. However, the review also highlighted the need for changes in delivery and monitoring of the programme.
- 2.18 Based on the review, the Welsh Government introduced a new funding formula for 2012/13 and 2013/14 with the aim of redistributing funding to areas of greatest need. The funding formula proposed in the ‘Aylward Review’, including the relevant socioeconomic and demographic drivers and their respective weighted contributions to the allocation (in percentage terms), can be summarised as follows:
- Welsh Index of Multiple Deprivation (20%);
  - Social Fragmentation Index (20%);
  - Number of people in receipt of at least the middle rate of the care component of Disability Living Allowance (10%);
  - Age structure of the population (the proportion of older people living alone) (20%); and
  - Local measures of homeless people (30%).

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<sup>17</sup> The Independent Commission on Funding and Finance in Wales (2011) [The use of needs-based formulas in the allocation of public resources: literature review.](#)

- 2.19 However, reforming the funding formula at the same time as implementing budget cuts - the programme experienced a budget cut of 1.3% in real terms between 2014/15 and 2015/16 - resulted in some local authorities suffering large cuts, with negative implications for the provision of public services. Following the requests of key stakeholders, the Welsh Government suspended the formula in 2015 with allocations remaining in the same proportions in cash terms as for 2015/16 since then.
- 2.20 Important lessons can be learned from the critique of the Aylward formula by key stakeholders. Key criticisms of the formula are:<sup>18</sup>
- The formula led to large funding cuts for some local authorities but considerable increases for others. For example, according to the Auditor General for Wales's report "The Welsh Government's Supporting People Programme" published in 2017, Cardiff Council experienced a £0.8 million decline in funding between 2012/2013 and 2013/14 following the implementation of the new formula.<sup>19</sup>
  - The initial roll-out of the funding formula did not involve any transitional element, which might have ensured a smoother redistribution process and avoided the abrupt changes to the levels of available funding which ultimately might have helped better preserve the quality of service provision for the local authorities worst affected.
  - There was a lack of timely data, or even data gaps, with respect to certain of the variables included in the funding formula.
  - The funding formula failed to account for changes in policies, legislation and welfare reforms in other relevant policy areas and therefore lacked sufficient consideration of the 'bigger picture for public financing.
  - Whilst the funding formula was introduced at a time of rising budgets, its implementation was poorly timed as soon after its roll-out austerity-driven financial pressures resulted in unexpected funding cuts for all local authorities and consequently reduced Supporting People funding allocations.

### **Scottish Supporting People funding formula**

- 2.21 The Scottish funding formula for Supporting People, adopted between 2005/6 and 2007/8, is an example of a needs-based funding approach. The funding formula focused on distributing funds to local authorities based on an assessment of need across an aggregation of the local authority's population (i.e. there was no breakdown by recipient group; for example, those aged 65+ or those at risk of homelessness). Although this method was considered to be relatively transparent and understandable, since only one formula was used across all funding streams, the aggregate level approach could be viewed as lacking nuance when compared with a scenario in which funding formulas are separately determined for each recipient group, including a set of needs measures and weightings appropriate to each group.
- 2.22 The funding formula contained four measures of need, with a set weighting applied to each one:
- Population aged over 65 (30%),
  - Number receiving disability living allowance (20%),
  - Homelessness applications – three-year average (30%), and

<sup>18</sup> The Welsh Government (2013) Supporting People Programme Grant – Guidance Wales.

<sup>19</sup> Auditor General for Wales (2017) [The Welsh Government's Supporting People Programme](#).

Population in the worst 15% of Scottish Index of Multiple Deprivation (SIMD) data zones (20%).

- 2.23 The Supporting People funding formula for each local authority was computed by first calculating separately for each measure of need the funds available per person falling under each measurement category across Scotland and using the prescribed weights. The second step involved multiplying the previous result by the number of people falling under each measure of need in each local authority.
- 2.24 A 'damping' mechanism to phase the change in the funding allocation across local authorities accompanied the introduction of the funding formula. The mechanism ensured that the funding which each local authority received from Supporting People in the first year of the new funding formula (2005/6) was no less than 92.5% of the Supporting People funding of the previous year, in effect limiting the extent to which funding could be cut in that given year. A similar adjustment (no less than 90% of the prior year) was applied in the following year.<sup>20</sup>

### **Local government settlement funding formulas**

- 2.25 The Welsh Local Government Revenue Settlement contains funding formulas for 56 different categories of spending, which are known as Indicator Based Assessments (IBAs). IBAs apply weights to the relevant indicators and are published alongside the resulting funding allocations.
- 2.26 One notable feature of the existing settlement IBAs is that they tend to be relatively simple and transparent. Most IBAs take account of around 1-5 indicators in their assessment, although there are a few cases in which substantially more indicators are used (however, this is generally when a grant is being rolled into the settlement and the distribution is based on a combination of existing IBAs). The calculation required for each IBA is relatively straightforward, with funding allocations determined based on multiplying the relevant set of indicators by their respective weightings.
- 2.27 Many of the settlement formulas attach significant weightings to demographic data, which features in 34 IBAs, representing 74% of the total number of IBAs after excluding non-current Standard Spending Assessments (SSAs) and funding distributed in line with other IBAs. Other common categories of indicators include measurements of deprivation, sparsity (dispersion of population) and specific estimates of caseloads for funding streams.

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<sup>20</sup> LE Wales (2018) [Development of an Approach to Distributing Supporting People Monies to Local Authority Areas](#).

# Stakeholder engagement

## Approach

- 3.1 In order to ensure that the views of key stakeholders, including local authority representatives and those of relevant umbrella groups, are adequately captured in proposals for a new funding formula, an array of stakeholder consultation activities were conducted, including:
- **First round of workshops:** two workshops were held with local authorities in July, one in North Wales and one in South Wales. These workshops focused on current funding issues, future opportunities and any potential concerns. Representatives from 19 of the 22 Welsh local authorities were in attendance.
  - **Online survey:** an online survey was distributed to gather additional quantitative information following the initial July workshops. The survey was sent to all 22 local authorities in Wales and approximately 15 complete responses were received (68% response rate). The responses to individual questions varied in quality.
  - **Interviews:** semi-structured interviews with representatives from a variety of organisations were undertaken, including the Society of Welsh Treasurers, Homelessness Network, Community Housing Cymru, Cymorth Cymru and Welsh Local Government Association. In addition, representatives of all Regional Collaboration Committees (RCCs) were interviewed.
  - **Documents:** in addition to primary collection methods, also reviewed were the content of notes and documents provided by the Welsh Government and other research participants.
  - **Second round of workshops:** two final workshops were held with local authorities in September, again with one in North Wales and one in South Wales. These workshops focused on the approach to be taken in developing a new funding formula (outlined in Chapter 5 below), some early indicative results as to the potential level of funding reallocation amongst local authorities, and the speed of transition toward new funding levels.

## Context

- 3.2 Repeatedly throughout the engagement activities, stakeholders report that any changes to the status quo must consider the wider context in which local authorities operate; namely, that any changes should reflect the wider policy environment and the financial sustainability concerns of local authorities. Participants wished to emphasise that social care and housing support services had faced unprecedented difficulties in recent years due to the impact of constrained budgets and other policy changes. Budget pressures have made balancing support priorities more challenging over time. Stakeholders noted that it is important to evaluate a funding formula in the context of what is happening to the level of related funding streams e.g. the Revenue Support Grant, integrated care fund and the children and communities grant.

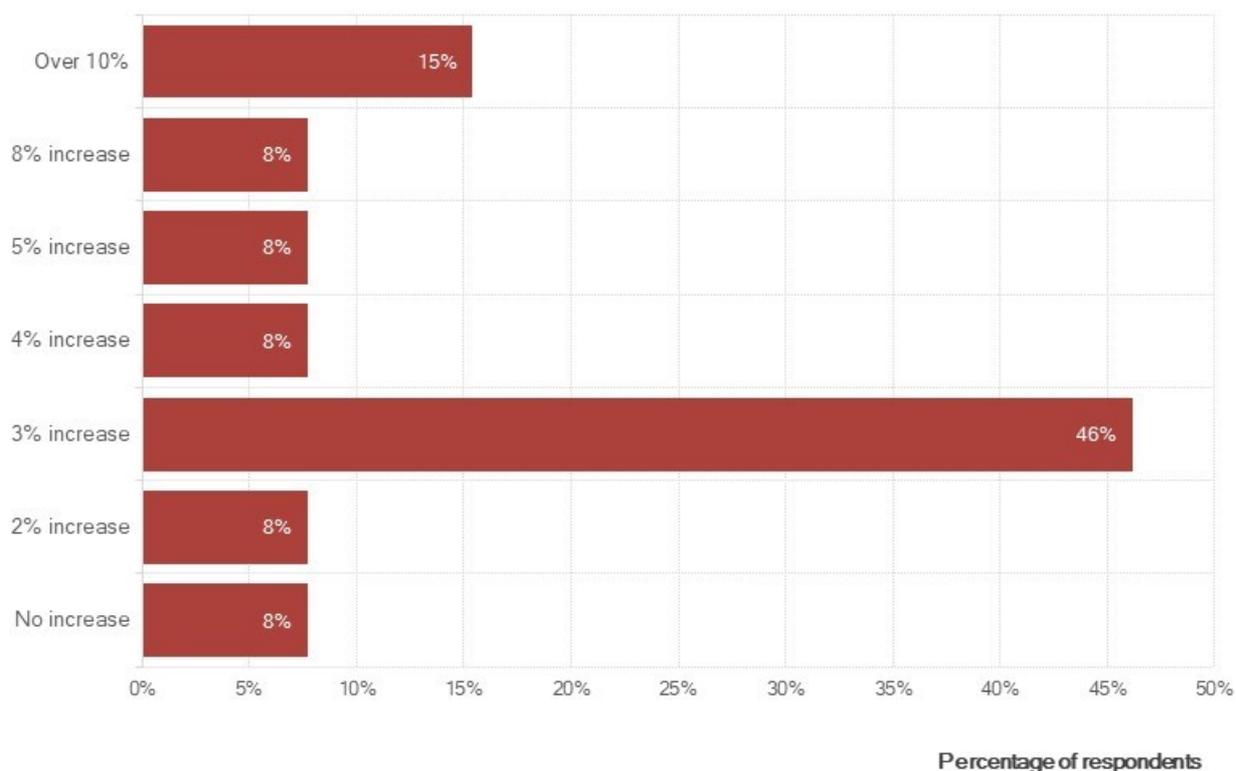
## Funding levels

- 3.3 Whilst beyond the scope of the current project, much of the feedback received asserted that additional funding is necessary to maintain service quality and expand provision beyond statutory services and towards preventative services; such preventative services have scope for long-term cost savings. Nominal funding of the

Supporting People programme in Wales has been frozen in recent years, and stakeholders described the range of challenges this has caused, including more pressure on services and staffing challenges. Many local authorities noted that providing non-statutory services has become more difficult in this environment.

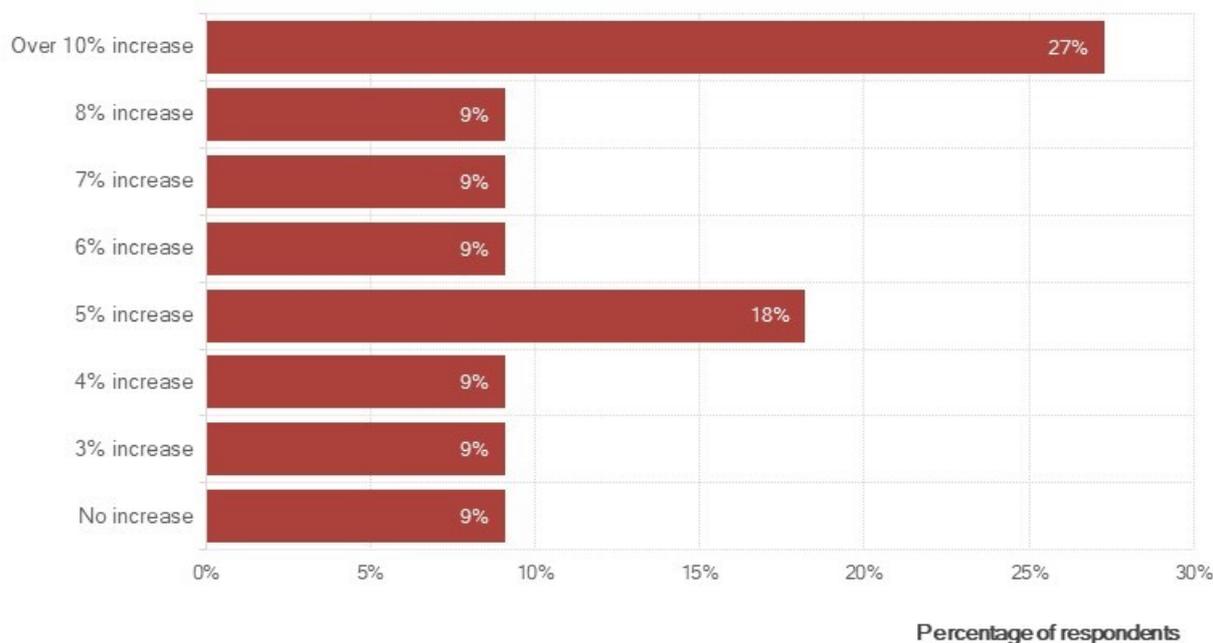
3.4 When asked what percentage increase in funding would be required each year for the past three years to maintain the quality of services delivered by the Supporting People programme, the most common response was that a 3% per annum increase would allow for services to keep up with inflation and increases in wage costs, with almost half of the 13 respondents (46%) choosing this answer. However, 5 respondents (39%) were of the view that the required funding would be larger than 3%, with 2 respondents (15%) suggesting that an increase of over 10% was required. Only one respondent indicated that no increase in funding was required. It was noted that in some local authorities, service providers have already requested uplifts from them of between 2% and 5% to cover increased service delivery costs.

**Chart 1. Estimated funding increase required each year for the past three years for Supporting People programme funding to maintain service quality (percentage of respondents) n=15**



3.5 The impact of budgetary pressures on health and social care services is also occurring alongside the increase in demand for support services. Just less than a third of the 14 respondents to this question suggested that an increase in funding of at least 10% each year for three years was needed to keep pace with new demand for health and social services. Only one respondent indicated that no increase in funding was required. Another respondent noted that Supporting People has been referred to as 'Second Social Services' for its role in providing services to vulnerable people, especially against the backdrop of the fiscal austerity in the past decade.

**Chart 2. Estimated increase each year for the past three years required for Supporting People programme funding to counteract impacts from pressures on health and social care spending (percentage of respondents) n=15**



### Pending decisions

- 3.6 In addition, it was noted that the Welsh Government has ongoing analytical projects which may have affected the delivery of Supporting People and consequently the funding formula being deliberated on in the report. In particular, the outcomes of the Welsh Government’s learning disability<sup>21</sup> work were highlighted by stakeholders as findings to consider; there was concern that if a funding formula for Supporting People is implemented before the completion of the review of the formula for learning disability funding, it may become quickly obsolete pending the findings of the latter review. Other linked projects, which may influence include the review of accommodation-based services for violence against women, domestic abuse and sexual violence.

### Principles of the funding formula

- 3.7 Several common themes emerged from the discussions with stakeholders regarding the ingredients required for a successful funding formula. The characteristics of an effective funding formula include:
- **Need-based:** some stakeholders stated that the key to ensuring a fair allocation of funding is to develop a funding formula that reflects the current and future needs of its recipients. Examining current and future Supporting People spending plans was a suggested approach to gauge the needs requirements.
  - **Fairness:** there was consensus amongst stakeholders that the funding formula must not unduly favour a recipient group or locality. It was noted however that fairness is a challenging concept to objectively judge. Stakeholders suggested that the funding formula should not create perverse incentives or penalise local authorities with particularly effective services (e.g. localities with good prevention programmes may have lower numbers of people at crisis point). It was of

<sup>21</sup> This work has now been concluded: [Understanding local authority funding for learning disability housing support across Wales](#)

importance to participants that the formula could not be unfairly ‘gamed’ by local authorities to receive greater funding allocations.

- **Transparency/simplicity:** it was important for most stakeholders that a funding formula is transparent and relatively easy to understand. However, there was some nuance to this stance with some local authorities willing to accept a more complicated formula if they felt it increased the fairness of funding allocations.
- **Stability:** stakeholders suggested that an effective funding formula must be able to allocate funding accurately and consistently over the medium-term. Stakeholders observed that dramatic swings in funding would undermine long term procurement and planning.
- **Flexibility:** a key consideration of stakeholders in transitioning towards the Housing Support Grant from three separate funding streams, is improving the flexibility of local authorities to be responsive in their service provision.
- **Future proof:** it was noted by stakeholders that there should be mechanisms in place to ensure the funding formula is robust to any future changes (e.g. emerging demographic trends). It was suggested that future proofing could involve fixed review dates for the formula or a methodology for factoring in any developing trends.
- **Robust and objective:** stakeholders considered that the methodology which underpins the funding formula should be analytically robust and based on principles of best practice. It was suggested that lessons should be learnt from the flaws of previous relevant examples of funding allocation. In addition, it was observed that the data used in a funding formula should be of high quality; data which is subjective or inconsistently reported (e.g. some of the Supporting People programme’s outcomes data) should be avoided.
- **Context aware:** it was asserted by stakeholders that the funding formula should be clearly linked to the overarching purpose of the Housing Support Grant, as well as considering the wider objectives and financial sustainability of local authorities.

### Transitional arrangements

- 3.8 In fieldwork with stakeholders, appropriate transitional arrangements were considered to be fundamental to the success of a move to the Housing Support Grant. However, it was noted by stakeholders that the transitional arrangements required would largely depend on the extent of the change to the level of funding – if the level of change is limited it was felt that a quicker transition with less protection could be made, but large increases or decreases would require a softer transition. It was generally accepted by participants that there may be ‘winners and losers’ from the implementation of a new funding formula, but it was also felt that a well-managed transition would provide for any changes being phased so as to preserve the quality of public service provision and minimise administrative barriers.

### Transition period

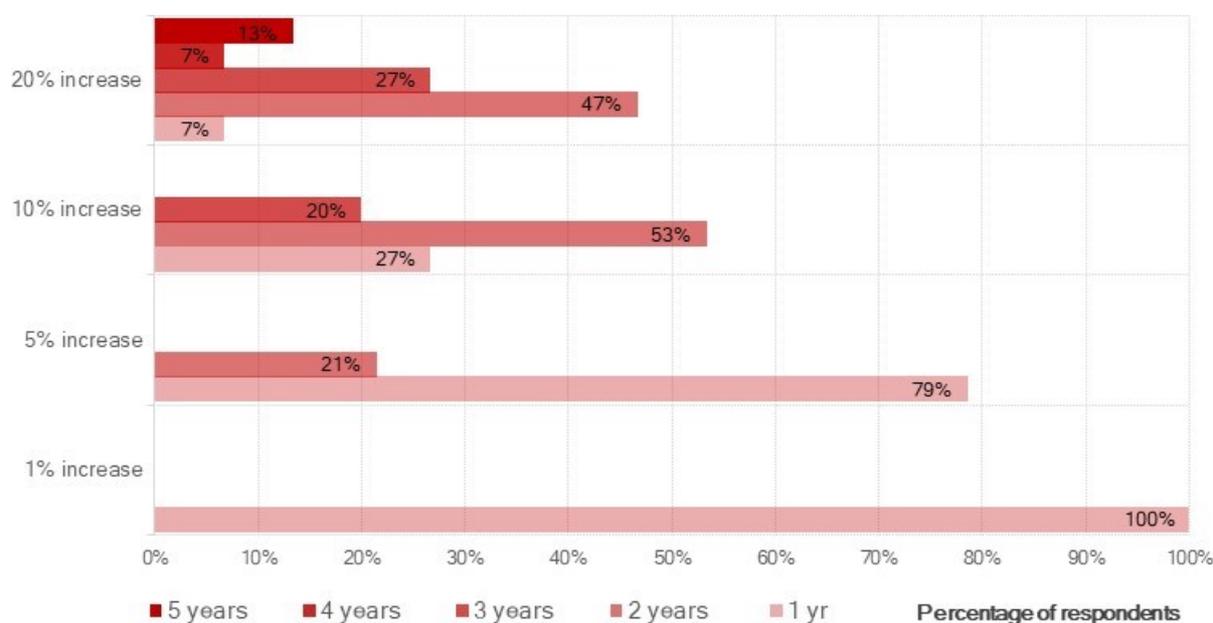
- 3.9 Stakeholders were asked what they believed the ideal timeframe would be for transitioning to a new Housing Support Grant funding formula, with a spectrum of responses received ranging from one year to more than seven years. The key concerns raised by stakeholders with respect to transition time were:
- **Existing contractual commitments:** frequently local authorities have multi-year contracts with service providers which typically include variation options or break clauses. However, it was noted that it can often be costly and disruptive to break or

vary such contracts even if a contractual mechanism exists. Stakeholders noted that the designated transition time would be aligned with procurement cycles, although such cycles can vary across local authorities.

- **Continuity of service provision:** maintaining a high quality of service provision for users is a priority for stakeholders. It was suggested that transition time should be sufficient to ensure that support services are not seriously disrupted and that some people do not 'fall in the gaps'.
- **Policy lead times:** commissioning changes for supported housing services (i.e. supported accommodation) can take time depending on where and how the property is sourced. It was suggested that it can take three years or more to develop a new scheme from inception to the first tenants moving in, and that transition periods should factor in such lead times.

3.10 The online survey asked a series of questions with the aim of determining the optimal transition period based on the level of any funding increase or decrease. As shown in Chart 3, for more minor funding increases of between 1% and 5% all 15 local authority respondents expected that the change could be adjusted to between one and two years. However, for larger increases of above 5% the mix of time requirements was significantly more varied, with those expecting to be able to adjust to the increased funding level in one or two years decreasing with the level of funding increase. A fifth of the local authorities surveyed (3 of 15) expected to need at least four years to adjust to an increase in funding of 20%, whilst around a half (8 of 15) expected to require two years or less to adjust to the same level of increase.

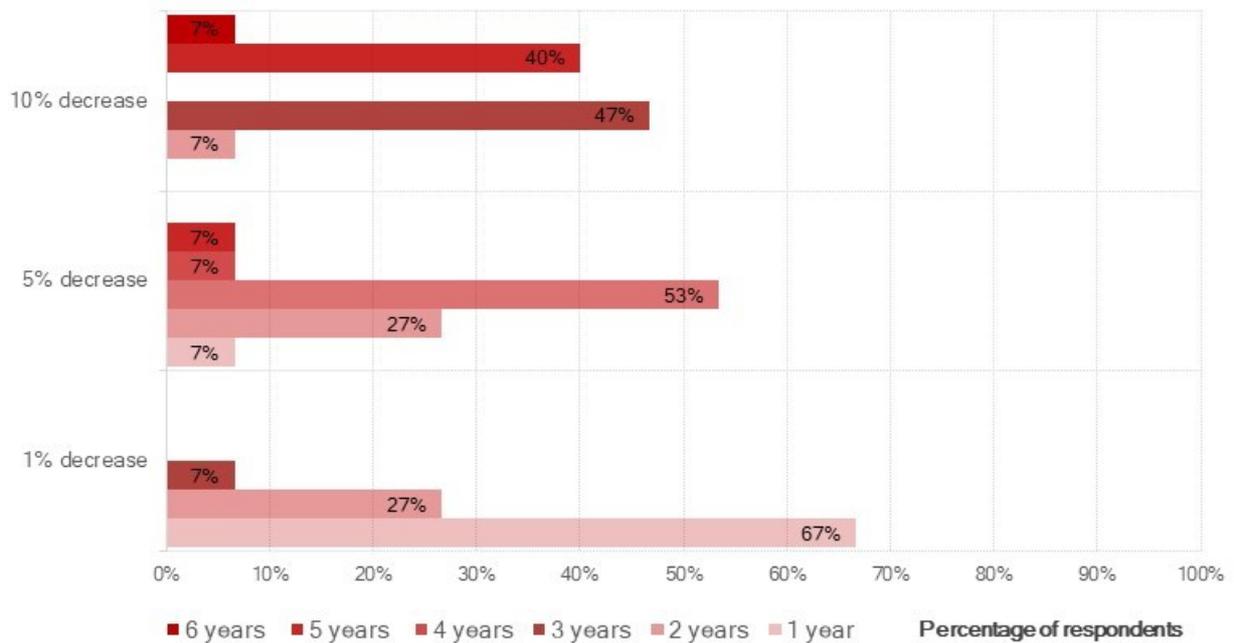
**Chart 3. Time required to implement an increase in Supporting People funding (Percentage of respondents) n=15**



3.11 Notably, participating local authorities estimated that decreases in funding would take far longer to implement than corresponding funding increases, with even the smaller cuts in funding of between 1% and 5% expected by local authority respondents to take between one and three years to adjust (see Chart 4). It was expected by all local authorities surveyed that funding cuts of 10% would take at least 2 years to implement,

with 47% of respondents expecting implementation to take significantly longer, at 5 years or longer.

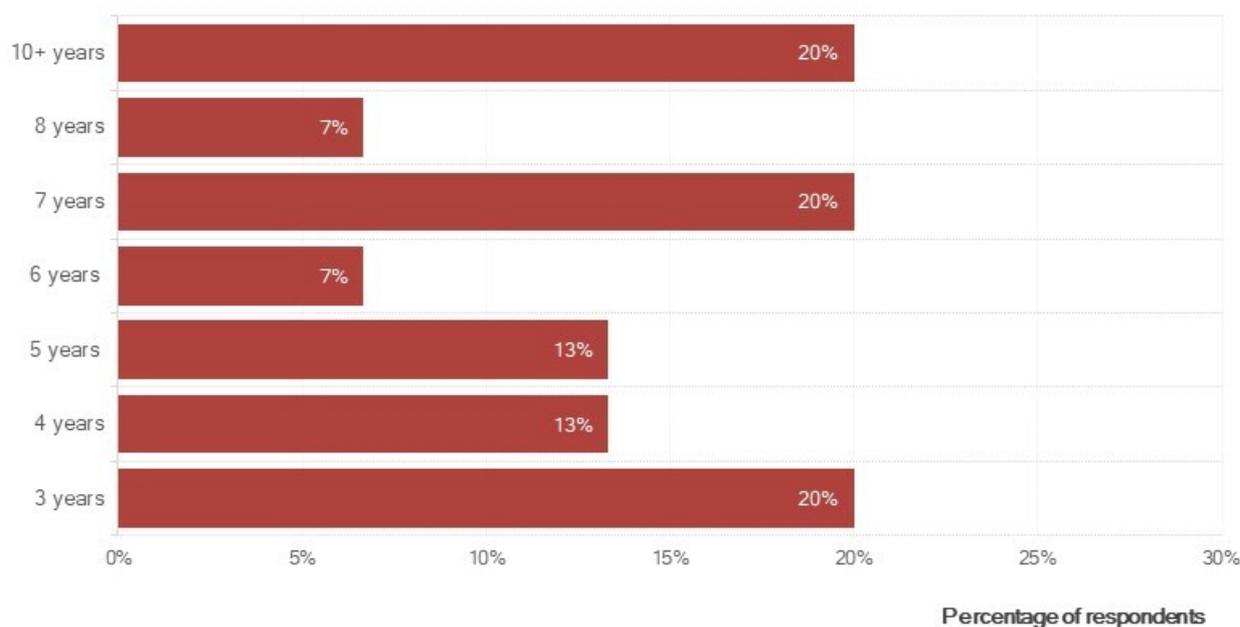
**Chart 4. Time required to implement a decrease in Supporting People funding**



**(Percentage of respondents) n=15**

3.12 Chart 5 presents in greater detail at the expected time required by the 15 local authorities surveyed to implement a 20% decrease in Supporting People funding. There was a large spectrum of expected implementation lead times than for smaller cuts in funding, with estimates ranging from three to ten years amongst respondents. 67% of local authority respondents believed that it would require five years or more to prepare for the fall in funding, whilst 33% expected implementation to take between three and four years.

**Chart 5. Time required to implement a 20% decrease in Supporting People funding (Percentage of respondents) n=15**



### **Knowledge sharing and capacity building**

- 3.13 Having spoken with RCCs, it became evident that there are currently strong networks to share best practice and knowledge across local authority practice teams across the three existing grant schemes. It was noted by interviewees that going forward it will be important to also include all relevant teams in these networks, and some RCCs have already started to identify these in order to prepare for the transition.
- 3.14 A concern raised by a few stakeholders was the variation in monitoring and evaluation capacity across the teams that support the three different funding streams. It was noted that Supporting People has a clear reporting structure but that some of the other grants have less stringent reporting requirements. It was observed that the capacity of teams to work together could be improved.

### **Communication**

- 3.15 Many of the stakeholders that were consulted felt that clear and timely communication from the Welsh Government to both local authorities and the wider public would be necessary to facilitate the process. In particular, it was considered important that guidance related to the Housing Support Grant clearly addresses any concerns people may have (e.g. how the Housing Support Grant fits in with the Welsh Government's homelessness strategy, issues around eligibility for funding). Some stakeholders were concerned that any changes implemented may create confusion for service users, which would in turn put additional staffing pressure on local authorities. It was considered important that service users are also informed about changes in service provision, while considering the variations that may occur at implementation level.

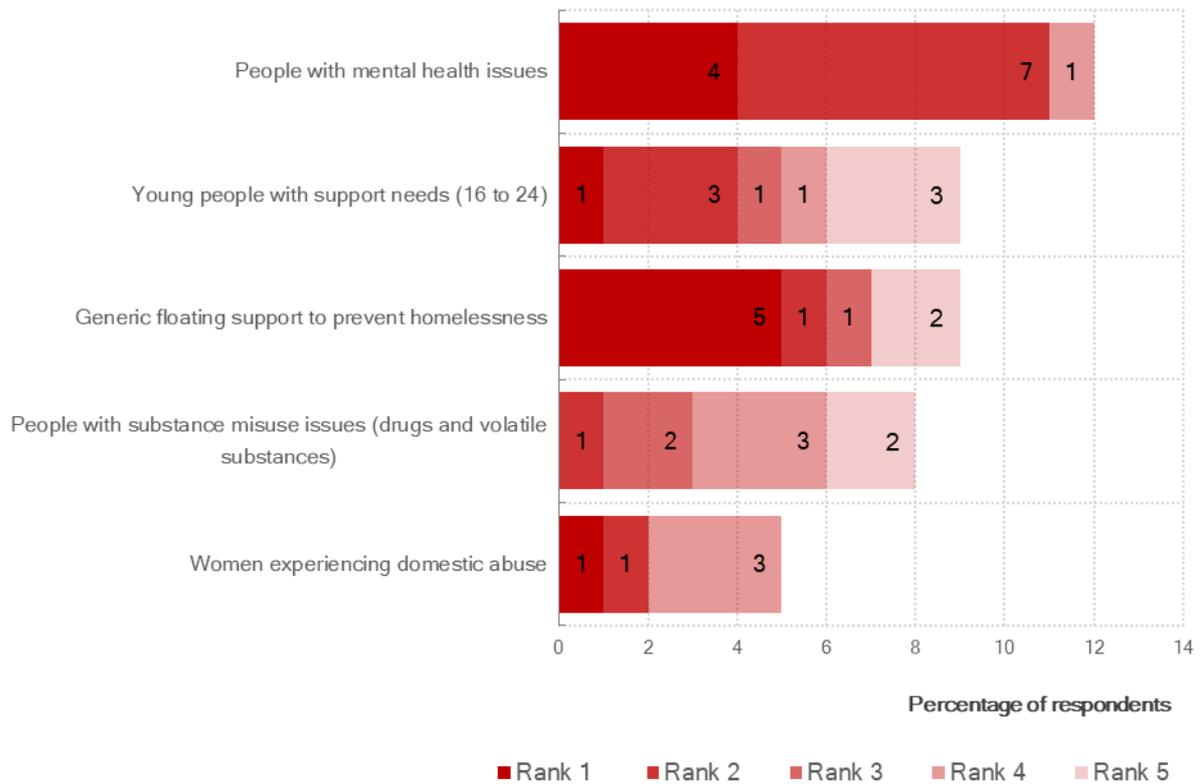
## Proposed transition strategies

- 3.16 In the workshops and interviews various strategies were suggested by stakeholders to help smooth the transition to the new Housing Support Grant, including:
- **Incremental transition:** many stakeholders voiced a preference for a phased approach over a long time period to help services adjust to any changes to funding levels. Generally, stakeholders preferred annual incremental changes building up to a target funding level. However, it was suggested that the amount allocated using the funding formula could change over time to ease the transition – for example, in the first year the funding mechanism could remain the same except for a small portion of the funding being reallocated using the new formula, with the reallocated portion growing over time and the current funding mechanism being slowly phased out.
  - **Transitional grant funding:** it was noted that additional financial resources would be helpful in establishing or restructuring implementation and reporting mechanisms for the Housing Support Grant. It was thought that if there are substantial increases or decreases in funding levels then the cost of administration is likely to increase.
  - **Capping changes:** some stakeholders noted that some funding formulas, such as the Police Allocation Formula, have a process to limit the percentage increase or decrease in any given year.
  - **Flexibility to phase in:** another option proposed by stakeholders is to provide local authorities with the option to phase in the formula in a way that suits their individual strategic plans, within a pre-defined period.
  - **Indicative budgets:** it was observed that it would help local authorities plan for the future if the Welsh Government could provide indicative forward-looking budgets.

## Changes in client demand

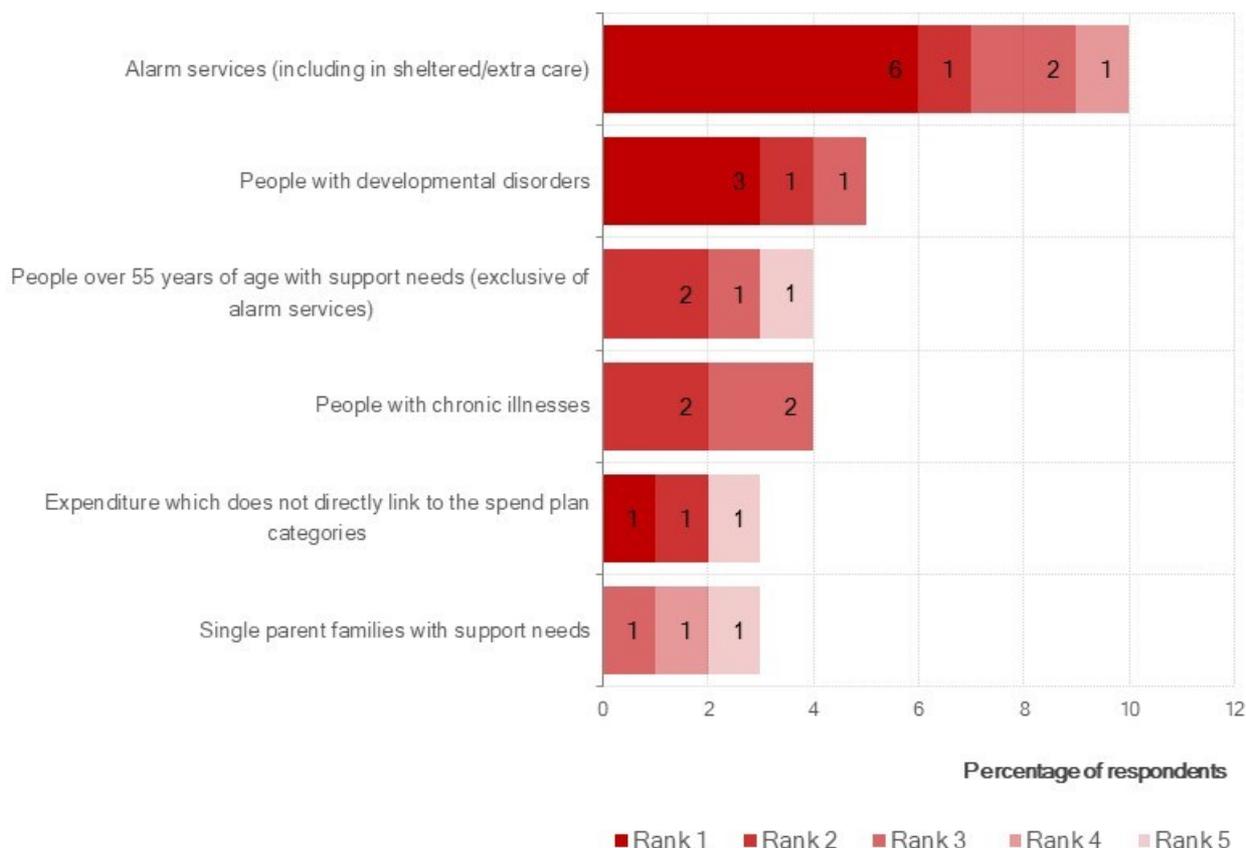
- 3.17 A key issue for future-proofing the funding formula is accurately projecting how the demand for support services may change. In the online survey respondents were asked to rank the top five user groups that they expect to experience increased spend per user over the next five years. 15 responses were received but not all respondents used all of the rankings from one to five so only 64 rankings were received (equivalent to 4.3 per respondent out of a maximum of 5). The results suggest that people with mental health issues are expected to experience the greatest increase in demand for support services, with 19% of responses (12 out of 64 ranked options) putting this as their top five, and 17% (11 out of 64) putting this group in their top two. Other user groups which are expected by respondents to experience an increase in demand for support services include young people aged 16 to 24 with support needs; those who require generic support to prevent homelessness; people with substance misuse issues; and women experiencing domestic abuse.

**Chart 6. Top 5 user categories with expected increases in spend over the next 5 years (number of respondents) n=64**



3.18 In terms of which user groups respondents expected demand to fall for, responses were generally less concentrated on certain user groups but there was an expectation that spending on alarm services would decrease in coming years. 26% of responses (10 out of 39 rankings) put alarm services in their top five, whilst at least 10% of responses put each of those with developmental disorders; those over 55 years of age with support needs; and those with chronic illnesses, in their top five of user groups expected to experience a fall in spend.

**Chart 7. Top 5 user categories with expected decreases in spend over the next 5 years n=39**

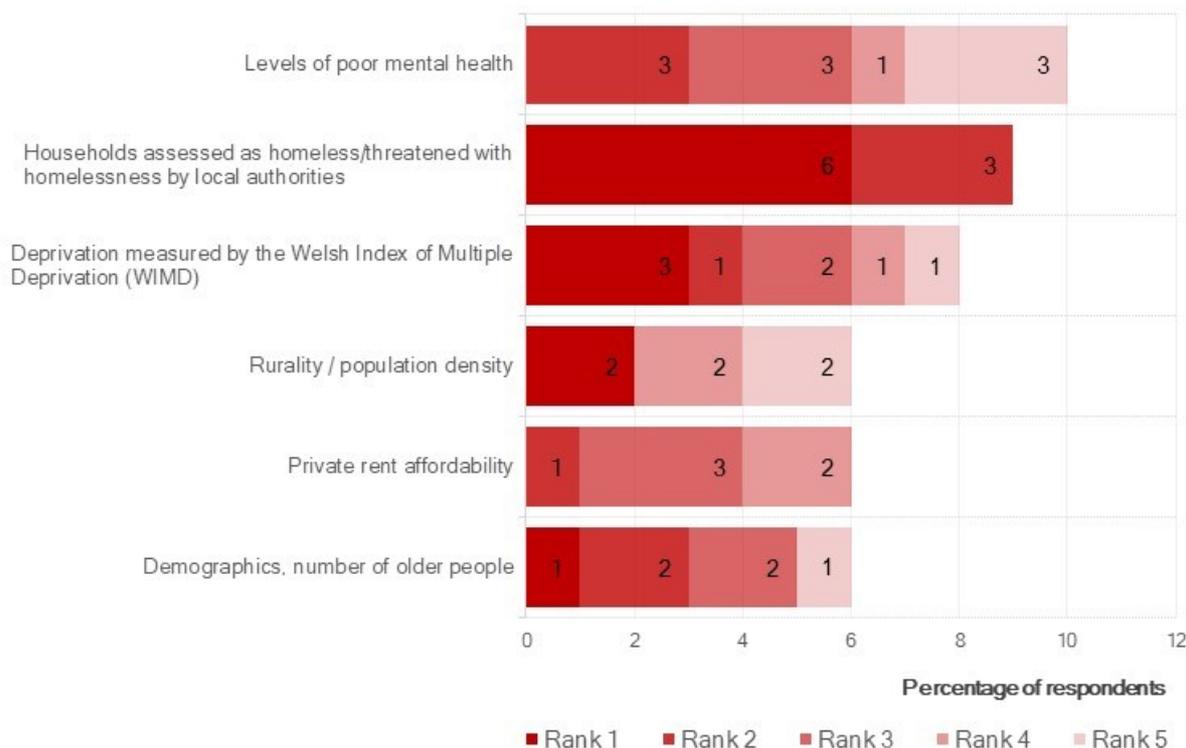


3.19 It should be noted that several respondents found it challenging to identify changes to user demand in future years as many of their clients, for whom support services are provided, have complex and multiple needs. In general, services are changing to support not just on one lead need but to be more person centred and able to deal with more complex needs. On average, respondents estimated that 57% of Supporting People cases had complex needs, which is an increase of 6% on five years ago.

### Funding drivers

3.20 As part of the stakeholder engagement activities stakeholders were asked to identify which factors they see as driving the funding need for the Housing Support Grant. In the survey respondents were asked to identify the top 5 drivers from a list of factors including the option to suggest their own factors. Based on responses and conversations with stakeholders, it is evident households assessed as homeless (or threatened with homelessness) and more deprived, as measured by the Welsh Index of Multiple Deprivation, are generally considered as key user groups which drive demand for support services. However, many stakeholders noted that crisis point measures, such as households assessed as homeless, should be used with caution as a situation may arise which penalises areas with effective preventative programmes.

**Chart 8. Top 5 drivers of funding need (number of respondents) n=61**



- 3.21 While considered less of a priority, survey respondents also highlighted that the user group of those with poor mental health was a key driver for funding need. Rurality was another key issue that was frequently brought up in the discussions with stakeholders. It was noted that service provision in areas with low population density can be challenging due to the additional travel time requirement and additional staff costs. There was hesitancy on providing support on a per capita basis due to these issues. However, in other conversations it was noted that in urban areas there can be similar travel issues due to traffic congestion. A frequently highlighted issue was the increase in substance misuse and its linkage to reduced mental health and domestic violence. It was noted that in rural areas ‘county lines’ activity has had an adverse impact on these drivers.<sup>22</sup>
- 3.22 Stakeholders also raised the issue of ensuring funding for public services adequately captures people migration, and the potential shifts in demographic profiles this may bring. For example, people may come from England to access support services in Wales, or the construction of a large prison may generate additional service demand in an area despite the assumption that prison leavers will return to their home location upon release. The general movement from rural to urban areas, and vice versa, also creates new challenges for support provision.
- 3.23 Regarding Rent Smart Wales, it was noted that the activities are somewhat different to the homelessness prevention and Supporting People funding streams. Respondents generally considered the current funding allocation method, allocated on the basis of number of Private Rented Sector units in each local authority, to be a good indicator of funding need. However, it was also noted by stakeholders that the current measure is based on estimates and could be improved by using actual data from the Rent Smart Wales programme.

<sup>22</sup> See here for a definition of [County Lines](#).

## **Opportunities to optimise funding**

- 3.24 With changes to funding already underway, some stakeholders noted that there are emerging opportunities to further maximise the impact of the funding available. Some local authorities noted that due to austerity there has been a push toward implementing innovative solutions to relieve budgetary pressures. It was suggested this has led to the implementation of more holistic service provision; for example, through joint working between mental health and social care services. Stakeholders commented that the focus on user centred delivery can help to address some of the factors that lead to 'revolving door' cycles. Some interviewees highlighted the role technology can play in improving the efficacy of service provision. However, it was noted that long-term funding plans and an environment of stability is required to further encourage innovative practices.
- 3.25 Some of the RCCs that were consulted highlighted potential opportunities to improve regional procurement activities; however, they emphasised opportunities only exist in a limited number of cases. It was observed that often an inability to plan forward, geographic constraints and differing needs prevent joint procurement. However, it was noted that there have been some small-scale examples of effective joint procurement for specialist services.
- 3.26 A recurring issue that stakeholders raised was the challenge associated with annual allocations of funding. While local authorities seem to acknowledge that funding cycles are tied to central government procedures, measures such as providing indicative budgets or flexibility to move a small portion of funds into a new financial year would help local authorities to allocate funding in a more strategic and forward-looking manner, assisting with adapting to funding changes.
- 3.27 Finally, it was noted that through restructuring of funding streams there is the potential to revisit and streamline the implementation of homelessness prevention programmes. The Welsh Government administers several homelessness prevention programmes directly and there have been ongoing discussions concerning whether it would be more cost effective to delegate the management of these initiatives to the relevant local authority. However, it is worth noting that limited funding is distributed in this manner and so this issue is not likely to have a substantial impact on available budgets.

## **Rent Smart Wales**

- 3.28 Several stakeholders voiced concern about the incorporation of the Rent Smart Wales funding into the Housing Support Grant. It was noted that it comprises of a small portion of the overall budget and the aims of the programme are less consistent with the other two funding streams. Interviewees noted that there is a risk that the current funding gets lost and reallocated to more direct services. It was recommended by some stakeholders that the Rent Smart Wales funding is modelled separately – or perhaps an indicative amount could be provided to help raise awareness of these issues.
- 3.29 In general, it is expected that the demand for enforcement funding will grow in coming years as the programme matures. There has been a marked increase in complex case (cases where licenses are refused or revoked), which involve high administrative costs. While licencing fees are used to cover some of these costs, with complex cases there are often enforcement issues with properties that do not pay licencing fees. The number of licences refused would be an indicator to help assess the need driven by

complex cases. However, it is worth noting that there are currently very few cases across Wales.

## **Other stakeholder concerns**

### **Impact on service providers**

- 3.30 Various stakeholders observed that any changes to funding may have an adverse effect on the service provider market, which is generally considered fragile due to low profit margins. For small scale service providers, constant changes and the lack of funding uplifts have created financial challenges. Anecdotally, it has been reported that it is becoming harder for service providers to retain and recruit suitably qualified staff as wages remain flat and the role becomes more challenging given an increase in complex cases. Ensuring that service providers are kept well informed of any changes to funding and are provided with sufficient transition time to adjust to any reallocations, were considered to be important elements of any transition plan.

### **Housing First**

- 3.31 The Housing First (HF) scheme takes a 'recovery-orientated' approach to addressing homelessness, with the aim of quickly responding to homelessness through provision of self-contained accommodation accompanied by access to support services.<sup>23</sup> The scheme provides housing as the starting point for support for the homeless and can be an alternative to hostel accommodation and other shared living situations, which may be unsuitable for some. Many of the stakeholders engaged noted that the commitment of the Welsh Government to the Housing First programme, as demonstrated by the establishment of a set of guiding principles for the service and a new funding round for HF projects, was a positive step to addressing the problem of homelessness, but expressed concern about funding the increased costs associated with the programme. Further communication and guidance have been requested by local authorities on how the programme may be integrated into current provision of services for the homeless, and whether HF might fall under the Housing Support Grant in the future.

## **Feedback from the second round of workshops**

- 3.32 A second round of workshops was held later in the process once there was further detail to share on the planned approach to developing a new funding formula, some modelling results from considering options for a funding formula and some specific suggestions for transitional arrangements.

### **Approach to developing a new formula**

- 3.33 At the second round of stakeholder workshops, the approach proposed for developing a new funding formula, as outlined in Chapter 5 of this report, was generally well received.
- 3.34 Most attendees seemed to support the use of a 'local government settlement-style' Indicator Based Assessment (IBA) with Spending Plan data used as the basis for a formula (given this provides a snapshot of current funding). A minority of participants were less supportive about using Spending Plan data and commented that this would be backward-looking rather than forward-looking. It was considered that such a

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<sup>23</sup> Welsh Government (2018) [Housing first principles: guidance for local authorities](#).

problem could be addressed by updating the weights in the formula at future dates in order to capture changing priorities for the Housing Support Grant. It is worth noting that some workshop participants were not familiar with funding formulas and so did not feel able to advance a strong opinion for or against some aspects of the approach at this particular stage.

- 3.35 Rurality was discussed as a key driver of funding need for some local authorities; and one which does not feature in Spending Plans. One local authority reported in the workshop that around 25% of provider time was spent on travel and this could rise to 50% in more remote areas, although the view highlighted that rurality was only a significant issue for a minority of local authorities.
- 3.36 There was general support for the principle of limiting the maximum reductions in funding that a local authority might face as part of the move to a new funding formula, although this was not a consensus. Some workshop participants made the point that applying limits or caps to funding reductions undermined the case for formula-based allocation of funding. There was less detailed discussion of the specific method for limiting funding reductions, but a number of participants suggested it would make sense to limit funding increases if limits were going to be applied at all.

### **Transitional Arrangements**

- 3.37 Discussion of transitional arrangements focused primarily on the length of the transition period. There was a relatively high degree of consensus that the transition should last a minimum of five years. However, there was much less consensus about how much longer than five years it should be. A significant minority favoured a five-year transition period and another significant minority favoured a 10-year transition period.
- 3.38 Although contract duration varies between local authorities, it was noted that the vast majority of contracts have 'get-out' clauses exercisable within five years. This was a reason that stakeholders gave in support of not going further than a five-year transition period. However, two points were raised to support a longer transition period. Firstly, even though many contracts could be exited within five years, this may still not provide sufficient time to fully smooth any of the other negative impacts of lower funding on service providers. Secondly, stakeholders suggested a longer transition period increases the chance that the transition period might overlap into a period of rising budgets; this may help to offset some of the reductions to local authority funding allocations as a result of the new funding formula.
- 3.39 Another point raised by stakeholders in relation to a transition period was that the period between announcement and implementation also provides time for local authorities to adjust to any budget cuts. If the new funding formula was announced prior to the commencement of the funding year 2020/21, but did not have any impact until 2021/22, then this provides a year in which the transition can begin to be implemented.

## **Other Considerations**

- 3.40 Aside from the discussion of the approach to creating a formula, including the level of reallocation and transitional arrangements, a number of other points were raised by stakeholders.

### **Regional clustering**

- 3.41 One concern raised by stakeholders was about regional clustering of certain funding outcomes; in particular, the potential for a large number of local authorities in a given region losing funding. To the extent regional clustering exists, it is expected to lead to a disproportionately high impact on service providers because there would be limited scope for activity to be moved to neighbouring markets. This suggests that the regional pattern of reallocation needs to be taken into account in any new funding formula, particularly when designing transitional arrangements and for considering whether the reallocation should be limited or capped.

### **Stability of funding levels under a formula approach**

- 3.42 Another point raised by stakeholders was the issue of funding level volatility, given that the indicator values underlying the funding formula would likely change from year to year. This problem was noted as particularly significant during any period of transition and has been explored analytically in Section 5.

# Data sources

- 4.1 This section considers the data sources available for use in a funding formula, discusses the robustness of sources and also considers the implications of the introduction of universal credit on variables related to benefits.

## Variables considered for a funding formula

### Variable selection

- 4.2 Sections 2 and 3 of this report broadly identify the drivers that both external sources and stakeholder fieldwork have identified as the main drivers of funding need. These include demographic measures, deprivation measures, variables relating directly to homelessness (or the threat of homelessness), variables relating to health outcomes (particularly mental health outcomes) and measures of rurality and sparsity.
- 4.3 In some cases, there are a number of alternative options for capturing the variables identified above. Not all of the drivers of funding need identified are robustly measurable at present (e.g. no robust measure of mental health outcomes at the local authority level has been identified). Other variables are not directly measurable but are expected to be reliably proxied by other measures (e.g. no robust source specifically on rurality has been identified but there are robust sources of population dispersion which can be used in place of a specific assessment of rurality).

### Local government settlement indicators

- 4.4 A good starting point for sourcing variables for use in the new funding formula is the list of indicators currently used in the Welsh Local Government Revenue Settlement 2019/2020 (as set out in the 'Green Book') in order to make Indicator Based Assessments (IBAs) for spending allocation. This source contains 69 indicators, all of which have a precedent for use in funding formulas. These variables have the advantage of being published annually, contributing to the criteria of transparency.

### Additional data sources

- 4.5 In addition to the full range of settlement indicators, additional variables have been identified to provide further information on measures of deprivation and housing affordability, which is not explicitly captured in the current Green Book. No robust sources at the local authority level have been identified to directly measure mental health outcomes as part of this project, which was a key driver of funding need from the stakeholder consultation exercise. Full details on the additional data sources and availability of the potential indicators are presented in Table 1.

**Table 1. Data sources and availability**

Variables	Sources	Publication Frequency <sup>24</sup>	Description
<b>Population in Income Deprivation (WIMD)</b>	Stats Wales-Welsh Government	*	Indicator of WIMD. It captures the extent of deprivation relating to income. It focuses on the proportion of people with an income below a defined level.
<b>Population receiving employment related benefits</b>	Stats Wales-Welsh Government	*	Indicator of WIMD. It captures lack of employment. It covers involuntary exclusion of the working-age population from work, including those who cannot work due to ill-health or who are unemployed, but actively seeking work.
<b>Housing Affordability (lower quantiles)</b>	Office for National Statistics	Annually	It includes the affordability ratios calculated by dividing house prices by gross annual workplace-based earnings, based on the lower quartiles of both components.
<b>Housing Affordability (median quantiles)</b>	Office for National Statistics	Annually	It includes the affordability ratios calculated by dividing house prices by gross annual workplace-based earnings, based on the median quartiles of both components.
<b>Social rent</b>	Stats Wales-Welsh Government	Annually	Includes information collected from Welsh social landlords on stock held by local authorities and registered social landlords at 31 March each year and the associated average rents charged set on the same date for the following year.
<b>Housing Benefit caseloads (private rented sector)</b>	DWP National and Official Statistics	Monthly	Monthly returns of housing benefit claimants from each individual local authority. It relates to claimants receiving a payment of at least 50 pence per week for Housing Benefit on the second Thursday in the month.
<b>Households assessed as homeless</b>	Stats Wales-Welsh Government	Quarterly	Households applying to local authorities for housing assistance under the Housing Act (Wales) 2014 (Section 73).
<b>Households threatened with homelessness</b>	Stats Wales-Welsh Government	Quarterly	Households applying to local authorities for housing assistance under the Housing Act (Wales) 2014 (Section 66).
<b>Number of rough sleepers</b>	Stats Wales-Welsh Government	Annually	The number of rough sleepers in local authorities. The total count of rough sleepers are single night snapshots. The estimated count is based on data collected over a two-week period with assistance from the voluntary sector, faith groups, local businesses/residents, health and substance misuse agencies, and the police.
<b>Disability Living Allowance caseloads (middle and highest rates)</b>	DWP National and Official Statistics	Quarterly	Includes all entitled cases showing both the number of people in receipt of an allowance and those with entitlement where the payment has been suspended, for example if they are in hospital. However, note that DLA is being replaced by Personal Independence Payments for disabled people.

<sup>24</sup> Asterisks denote cases where information was not identified regarding either the frequency of publication or the next update of the data.

## **Choosing robust sources**

- 4.6 The data on potential variables that could be considered for a funding formula, as they were presented more explicitly in the previous section, are provided by official statistical services. In particular, the sources are: Statistics for Wales (StatsWales), which is the statistical service of the Welsh government, providing independent official statistics; the Office for National Statistics (ONS), which is the executive office of the UK Statistics Authority and the UK's largest independent producer of official statistics; and the Department for Work and Pensions (DWP), which is a UK government department and is responsible for welfare and pension policy.
- 4.7 The sources provide free and open access data, implying that the recipients of funding would be able to identify the indicators in the distribution formula, such that transparency, one of the key principles for a funding formula, can be satisfied. Furthermore, data are frequently updated (with a maximum time lag of one year), while the data sources are independent. Hence, relying on Official Statistics means that accuracy, another key principle for a funding formula, can be satisfied as well.

## **Universal Credit**

- 4.8 Universal Credit (UC), first announced in 2010, is a social security benefit in the United Kingdom which brings together a range of working-age benefits into a single payment. It is replacing six means-tested benefits (also referred to as legacy benefits): Housing Benefit, Child Tax Credit, Income Support, Working Tax Credit, Income-based Jobseeker's Allowance and Income-related Employment and Support Allowance. The new benefit started to be rolled-out in 2013, and it is predicted to be fully implemented not before 2023 on a UK-wide basis.
- 4.9 The introduction of UC needs to be considered when designing a new funding formula because options that link funding to elements of the benefits systems, which may be affected by UC reforms, may not be fully future-proofed.

# New funding formula recommendations

- 5.1 The first section of this chapter outlines the approach to developing a funding formula and transitional arrangements, the second section provides details of the proposed formula and the final section outlines recommendations for the transitional arrangement. These options build on the literature review, data gathering and fieldwork with stakeholders described in Sections 2-4 above.

## Approach

### Step I. Adhere to settlement precedents

- 5.2 The approach to creating a new funding formula is based closely on precedents to create a formula consistent with other local authority funding allocations in Wales.
- 5.3 As discussed in Section 2, local government settlement Indicator Based Assessments (IBAs) tend to be relatively simple and transparent, taking account of 1-5 indicators to produce a funding allocation. Funding allocations are determined based on multiplying the relevant set of indicators by their respective weightings. Where appropriate indicators are already used as part of existing IBAs, these have been used in the proposed funding allocation.

### Step II. Using 2019/20 Spending Plans to guide formula design

- 5.4 Following feedback from stakeholder workshops that Spending Plans would be an excellent starting point for considering funding allocation, formulas have been created that link client categories in Spending Plans to indicators for their level of need. Based on the review of data availability in Section 2, there are a number of client categories for which there do not exist specific indicators clearly linked to funding need. In these cases, an average of population and a deprivation indicator have been used as an indicator of need, with the deprivation indicator given double weight.
- 5.5 Table 2 shows the breakdown of client categories from an aggregated version of the Spending Plans for all 22 local authorities, with and without the inclusion of “People with Learning Disabilities” and suggests an indicator for each category based on those in the current Green Book.

**Table 2. 2019/20 Spending Plan client categories and suggested indicators**

Client category	% of spend (1 decimal place)	Indicator
Women experiencing Domestic Abuse	7.8%	} Pop 16+ and Deprivation proxy
Men experiencing Domestic Abuse	0.3%	
People with Learning Disabilities	22.3%	LD Indicator
People with Mental health Issues	10.8%	} Pop 16+ and Deprivation proxy
People with Substance Misuse Issues (Alcohol)	0.9%	
People with Substance Misuse Issues (Drugs and Volatile substances)	3.1%	
People with Criminal Offending History	2.1%	
People with Refugee Status	0.2%	
People with Physical and/or Sensory Disabilities	1.1%	
People with Developmental Disorders (e.g. autism)	0.2%	
People with Chronic Illnesses (including HIV, Aids)	0.0%	
Young People who are Care Leavers	0.6%	
Young People with Support Needs (16-24)	11.1%	
Single parent Families with Support needs	0.6%	
Families with Support Needs	3.5%	
Single people with Support Needs not listed above (25-54)	4.0%	
People over 55 years of age with Support needs (this category must be exclusive of alarm services)	7.1%	Pensioners with a limiting long-term illness (latest Green Book data)
Generic Floating support to prevent homelessness (tenancy support services which cover a range of user needs but which must be exclusive of fixed site support)	17.6%	Homelessness indicator**
Alarm Services (including in sheltered-extra care)	1.3%	Deprivation proxy*
Expenditure which does not directly link to the spend plan categories above	5.2%	Pop 16+ and Deprivation proxy*
<b>Total</b>	<b>100%</b>	

\* Income support, job seekers allowance, pension credit or universal credit (not in employment) claimants, aged 18-64.

\*\* Households threatened with Homelessness within in 56 days -Number (Section 66), selected as the best indicator to reflect the target client category of Supporting People.

5.6 The combined weights for each indicator are shown in Table 3 prior to the adjustments made in subsequent steps.

**Table 3. Pre-adjustment formula weights**

Indicator	Weight (%)
Population aged 18 and over	10.6%
Deprivation proxy*	42.3%
Homelessness indicator**	17.6%
Pensioners with a limiting long-term illness	7.1%
Persons with learning disabilities	22.3%
<b>Total</b>	<b>100.0%</b>

*Note: figures may appear not to sum due to rounding*

\* Income support, job seekers allowance, pension credit or universal credit (not in employment) claimants, aged 18-64

\*\* Households threatened with Homelessness within in 56 days -Number (Section 66)

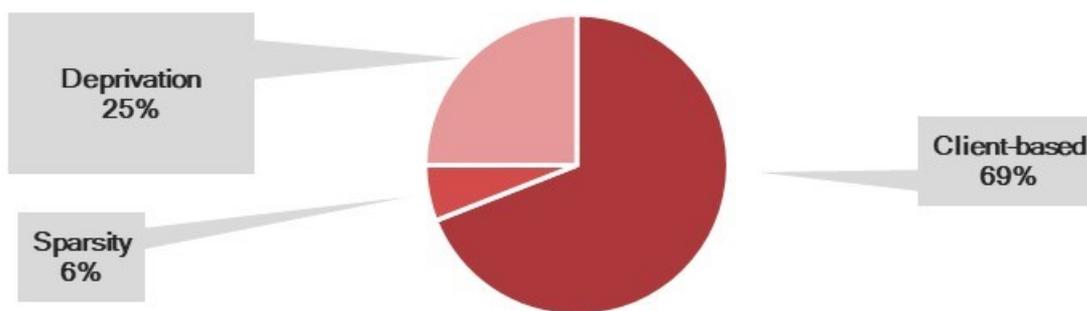
### Step III. Adjust for rurality / sparsity

- 5.7 During the process of engagement with stakeholders, there were a number of representations that rurality should be taken account of in designing a formula on the basis that there is a cost implication from providing support to clients in rural areas. This issue can be significant, with one local authority reporting that around 25% of provider time was spent on travel and this could rise to 50% in more remote areas. It is not however an adjustment that naturally comes from a Spending Plan based formula and instead requires an additional adjustment to be made.
- 5.8 Of the 46 funding formulas in the 2019/20 Green Book,<sup>25</sup> nine (20%) make use of indicators of population dispersion. For these nine formulas, the weight placed on dispersion varies from 0.4% (for the Welsh Independent Living Grant) to 17.6% (for refuse collection), with an average weight of 7.6%. Chart 9 below, reproduced from the 2019/20 Green Book shows the extent to which different categories of indicator drive funding allocations.
- 5.9 The 6% average weight given to sparsity (rurality) has been applied to the formula presented below, specifically using a pre-existing measure of population dispersion.<sup>26</sup> Other weights all scaled down accordingly, so they sum to 94% prior to the adjustment made during Step 4.

<sup>25</sup> Excluding funding distributed in line with other Indicator Based Assessments (IBAs) and non-current Standard Spending Assessments (SSAs).

<sup>26</sup> The “Dispersion threshold 300 (2001)” measure in the Green Book, which is chosen primarily due to being the most recent measure of dispersion.

**Chart 9: Aggregation of Standard Spending Assessment elements into need indicator categories (Source: 2019/20 Green Book)**



#### **Step IV. Adjust to address maximum changes in funding**

5.10 In addition to the funding formula presented below, a relatively large number of alternative formulas were analysed. Notably, all formulas generated the result that with a frozen total budget for the Housing Support Grant, reallocation would lead to a funding reduction greater than 30% for at least one local authority and typically for more than one. No solution has been identified for solving this problem using a traditional Indicator Based Assessment.<sup>27</sup>

5.11 There are good reasons to reduce this level of reallocation to some extent:

- It is likely that there is some useful information in the current funding allocation that cannot easily be captured by alternative indicators. This means that there will be some regional patterns to those in need of funding that will not correspond to any reliable statistical sources available to base a formula on.
- The impact on providers must be considered. There are general funding pressures in the sector, including from pressures on other public funding budgets and from increases in the National Living Wage. An additional problem is regional clustering, with more Local Authorities in North Wales expected to see reductions in funding than in Central Wales or South Wales, which creates a particular problem for providers in North Wales.
- There was considerable stakeholder support for limiting the extent of the reallocation of funding, with concerns over managing both large reductions and large increases in funding.

5.12 To address the issues above, a permanent weight is applied to the 2019/20 funding allocation. This weight has been set at 30%, which has the result that if the national level of Housing Support Grant funding remains flat, the maximum reduction in funding for any local authority is just over 20%. In the absence of this dampening factor, three Local Authorities would see funding reductions of around 30% assuming a flat national budget.

#### **Step V. Designing transitional arrangements**

5.13 There are various options for designing transitional arrangements but the key factor to determine is the duration of transition. Transition over longer periods requires smaller annual changes but more of them.

<sup>27</sup> This was true even using advanced statistical techniques such as regression analysis to attempt to identify the IBA that would lead to the smallest amount of reallocation relative to the current funding allocation.

- 5.14 Based on feedback from stakeholder engagement discussed in Section 3, it takes time to increase or decrease funding. However, there is an asymmetry with large funding reductions being expected to take longer to implement than large increases in funding. Focusing on the Local Authorities with the largest falls in budget allocations, a minimum transitional period of 5 years is required to restrict all annual funding cuts to a maximum of around 4% (assuming a flat total budget). A period of 10 years is required to restrict annual funding cuts to a maximum of 2%.
- 5.15 This length of time (of 5-10 years) for a transitional arrangement might be longer than desirable from the perspective of getting funding relatively quickly to where there is most funding need. However, this might be mitigated by reduced negative impacts on service providers and reduced pressures on Local Authorities to change provision levels quickly, which must be weighed against the benefits of reallocating funding towards client needs.
- 5.16 Whilst there is no “right” answer to the length of time required for transition, a transition period of seven years of funding adjustments has been chosen. This effectively allows eight years for the process to be completed between announcement and full implementation if announcement is prior to 2020/21 but no change is made to funding in this year. This period of seven years of funding adjustments and an eight-year gap between announcement and completion of transition falls in the middle of the five-year and ten-year windows that both have considerable support from stakeholders.
- 5.17 To assist with simplicity and transparency, the transition from current funding levels to the new steady-state is introduced on a straight-line basis so that one seventh of the required total adjustment happens in each of the seven years of transition.

## **New funding formula and transitional funding levels**

### **Funding formula**

The resultant funding formula from following Steps 1 to 5 above is shown in Table 4

**Table 4. New funding formula**

<b>Weight 1</b>	<b>Sub-weight</b>	<b>Indicator</b>
<b>% of transition complete x</b>	0.300 x	2019/20 Supporting People Funding Allocation
	0.070 x	Population aged 18 and over (projected)
	0.278 x	Income support, job seekers allowance, pension credit or universal credit (not in employment) claimants, aged 18-64
	0.116 x	Households threatened with Homelessness within in 56 days (Section 66)
	0.047 x	Population aged 60 and over (projected)
	0.147 x	Persons with learning disabilities
	0.042 x	Dispersion threshold 300 (2001)
<b>% of transition incomplete x</b>	1.000 x	2019/20 Supporting People funding allocation

### **Constant per capita spending as a benchmark**

- 5.18 As a benchmark case, the illustrative scenario of setting Housing Support Grant funding constant on a per capita basis is presented as a comparator.
- 5.19 As well as considering this option as an alternative benchmark case to current funding levels, it should also be noted that there are precedents for basing funding formulas just on population. Of the 46 funding formulas in the 2019/20 Green Book,<sup>28</sup> six (13%) are based solely on population measures and 34 (74%) include population measures as part of their funding formula. Population-based measures of funding allocation tend to perform well in terms of simplicity and transparency, although typically it is possible to improve on purely population-based allocations by including variables more closely targeted at measuring the needs of individuals.

### **Estimated steady-state funding allocations**

- 5.20 Table 5 shows the funding share for each local authority under the existing allocation, new formula and constant per capita spending as a benchmark. In addition, the percentage required funding change is shown assuming no change in the total level of funding.
- 5.21 The values for indicators used for the calculation are included.

<sup>28</sup> Excluding funding distributed in line with other Indicator Based Assessments (IBAs) and non-current Standard Spending Assessments (SSAs).

**Table 5. Estimated steady-state (post-transition) funding shares by local authority**

	Current	Constant per capita	% diff from current	New funding formula	% diff from current
Isle of Anglesey	2.1%	2.2%	4.8%	2.3%	6.2%
Gwynedd	4.1%	4.0%	-2.9%	3.7%	-9.6%
Conwy	5.2%	3.7%	-28.5%	4.1%	-21.2%
Denbighshire	4.4%	3.1%	-31.2%	3.7%	-15.8%
Flintshire	4.7%	5.0%	5.5%	4.5%	-4.3%
Wrexham	4.0%	4.5%	11.4%	3.8%	-5.5%
Powys	4.2%	4.2%	1.2%	3.7%	-10.5%
Ceredigion	2.4%	2.4%	2.5%	2.4%	0.6%
Pembrokeshire	2.2%	4.0%	80.6%	3.5%	57.6%
Carmarthenshire	5.3%	6.0%	13.3%	5.9%	12.3%
Swansea	11.2%	7.8%	-29.9%	9.0%	-19.8%
Neath Port Talbot	3.9%	4.5%	16.3%	4.6%	18.9%
Bridgend	4.7%	4.6%	-2.8%	4.3%	-8.7%
The Vale of Glamorgan	2.8%	4.1%	46.4%	3.3%	17.5%
Rhondda, Cynon, Taff	7.3%	7.6%	4.0%	7.9%	7.5%
Merthyr Tydfil	1.7%	1.9%	10.2%	1.9%	12.7%
Caerphilly	5.0%	5.8%	14.6%	5.8%	15.4%
Blaenau Gwent	2.1%	2.2%	7.1%	2.7%	32.1%
Torfaen	2.8%	2.9%	5.9%	3.0%	9.2%
Monmouthshire	1.6%	3.0%	80.8%	2.0%	24.4%
Newport	5.1%	4.8%	-7.5%	5.2%	1.6%
Cardiff	13.2%	11.8%	-10.3%	12.6%	-4.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>-</b>	<b>100%</b>	<b>-</b>
<b>Median increase</b>	<b>-</b>	<b>-</b>	<b>10.2%</b>	<b>-</b>	<b>12.7%</b>
<b>Median decrease</b>	<b>-</b>	<b>-</b>	<b>-10.3%</b>	<b>-</b>	<b>-9.6%</b>

*\*Note: figures may not sum due to rounding*

- 5.22 Re-allocating a fixed budget will result in some local authorities receiving more funding and some receiving less. Commenting on the results in Table 4, the first striking point is how much funding per capita varies under the existing Supporting People allocation. Levelling out funding per capita through the proposed funding formula would see 12 out of 22 local authorities in Wales experience a funding change (either an increase or decrease) of 10% or more of their current budget allocation.
- 5.23 This theme was consistent across the range of funding formulas considered as part of this analysis with all Indicator Based Assessments for the Housing Support Grant leading to considerable levels of reallocation. This suggests funding need has changed over time and differs from the current funding distribution so that individuals with equivalent support needs will receive differing levels of support depending on where they live.
- 5.24 Table 6 shows the hypothetical transitional levels of funding allocation from 2011/22 to 2027/28 on the assumption that current indicators do not change between now and that 2027/18 to provide an indication of what the transition might look like. It is worth noting that if the total Housing Support Grant budget starts to rise then it would be possible for some reductions in funding allocations to be achieved without cuts in nominal funding, which would ease the transition to the new steady-state allocation.

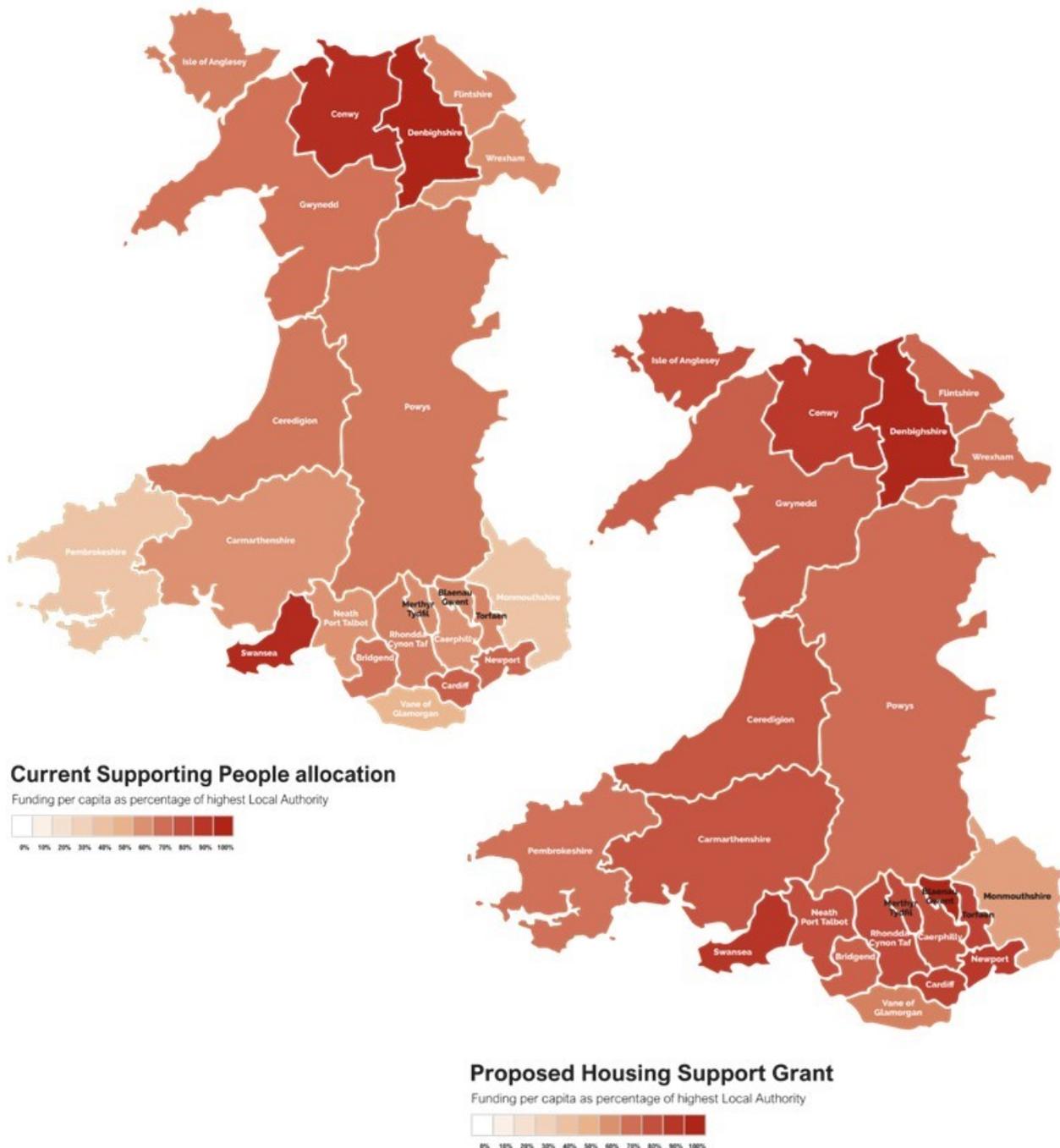
**Table 6. Hypothetical funding allocation by financial year (holding formula determinants constant)**

	Financial Year						
	21/22	22/23	23/24	24/25	25/26	26/27	27/28
Isle of Anglesey	2.16%	2.17%	2.19%	2.21%	2.23%	2.25%	2.27%
Gwynedd	4.02%	3.97%	3.91%	3.86%	3.80%	3.74%	3.69%
Conwy	5.06%	4.90%	4.75%	4.59%	4.43%	4.27%	4.11%
Denbighshire	4.33%	4.23%	4.13%	4.03%	3.93%	3.83%	3.73%
Flintshire	4.67%	4.64%	4.61%	4.58%	4.55%	4.52%	4.49%
Wrexham	4.00%	3.97%	3.94%	3.90%	3.87%	3.84%	3.81%
Powys	4.09%	4.03%	3.96%	3.90%	3.84%	3.78%	3.72%
Ceredigion	2.38%	2.38%	2.39%	2.39%	2.39%	2.39%	2.39%
Pembrokeshire	2.37%	2.55%	2.73%	2.92%	3.10%	3.28%	3.46%
Carmarthenshire	5.34%	5.44%	5.53%	5.62%	5.71%	5.81%	5.90%
Swansea	10.86%	10.55%	10.23%	9.91%	9.60%	9.28%	8.97%
Neath Port Talbot	3.98%	4.09%	4.19%	4.30%	4.40%	4.51%	4.61%
Bridgend	4.64%	4.59%	4.53%	4.47%	4.41%	4.35%	4.29%
The Vale of Glamorgan	2.87%	2.94%	3.01%	3.08%	3.15%	3.22%	3.29%
Rhondda, Cynon, Taff	7.40%	7.48%	7.56%	7.64%	7.71%	7.79%	7.87%
Merthyr Tydfil	1.75%	1.78%	1.81%	1.84%	1.87%	1.90%	1.93%
Caerphilly	5.15%	5.26%	5.38%	5.49%	5.60%	5.71%	5.82%
Blaenau Gwent	2.16%	2.25%	2.35%	2.44%	2.54%	2.63%	2.73%
Torfaen	2.81%	2.85%	2.89%	2.92%	2.96%	3.00%	3.03%
Monmouthshire	1.70%	1.76%	1.81%	1.87%	1.93%	1.99%	2.04%
Newport	5.16%	5.17%	5.18%	5.19%	5.21%	5.22%	5.23%
Cardiff	13.08%	13.01%	12.93%	12.85%	12.78%	12.70%	12.6%

## Regional analysis

5.25 To understand the implications of the new funding formula, it is important to consider how it affects the regional distribution of Supporting People / Housing Support Grant funding. The heat maps below (Figure 1) show the relative regional distribution before and after the proposed reform on a per capita basis. In each case scaled to be a percentage of the local authority with the highest level of funding per capita.

**Figure 1: Supporting People / Housing Support Grant funding per capita as percentage of highest local authority**



- 5.26 The first striking feature of the heat maps above (Figure 1) is that the relative funding allocation is considerably more evenly spread on a per capita basis under the new funding formula. This has been a consistent feature of all of the formulas that have been considered, which suggests the current unevenness of funding per capita is not something that can be reproduced by transparent formula-based funding.
- 5.27 The second striking feature is that some of the Local Authorities that see the largest falls in their funding allocations remain among the best funded in relative terms. The majority of the impact of reforms is to reduce the spread of funding between Local Authorities rather than moving areas from above-average funding to below-average funding. Based on a measure of spread for the two heat maps, the spread in funding per capita is reduced by around a third between the current funding allocation and the new funding allocation.<sup>29</sup>

### **Annual fluctuations under the funding formula**

- 5.28 Another feature of the new funding formula that is important to understand, particularly for the period of transition, is how stable the outcomes of the funding formula will be from year to year as indicators change. To assess this effect, the funding formula was recreated for the last three financial years: 2019/20 (equivalent to the results above), 2018/19 and 2017/18.
- 5.29 Had the proposed formula been in place for these three years, across the 44 observations (two years of changes for 22 Local Authorities), the average annual change in funding would have been 2.1% (either up or down) and the median change would have been 1.8%. These are potentially large enough to cause problems for the transitional period because they could significantly increase required changes in funding for Local Authorities.
- 5.30 Interestingly, the average change over two years was 3.1% with a median of 2.3%, which are both a long way short of being double the size of the 1-year average and median figures. This suggests there is a small element of fluctuation or noise in the outcomes of formula-based funding so that often an increase in one year will see a reduction in the following year and vice versa.
- 5.31 This represents a possible area for further work in considering whether the transitional arrangements above are sufficient or whether additional steps need to be taken to ensure a smooth transition.

### **Conclusion**

- 5.32 Building on the programme of research outlined in the first four sections of this report, this final chapter presents and then implements a methodology for creating a new funding formula and transitional arrangements. Analysis has then been conducted of regional impacts and potential changes over time to ensure the formula is robust and as future-proof as possible.

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<sup>29</sup> This is based on the relative standard deviations for the two maps.

## Annex A: 2019/20 indicator values used for estimating the new funding allocation

	2018/19 Supporting People Funding Allocation	Population aged 18 and over (projected)	Income support, job seekers allowance, pension credit or universal credit (not in employment) claimants, aged 18-64	Households threatened with Homelessness within in 56 days - Number (Section 66)	Pensioners with a limiting long-term illness	Dispersion threshold 300 (2001)	Persons with learning disabilities
<b>Isle of Anglesey</b>	2.14%	2.25%	2.28%	1.90%	2.27%	4.30%	2.23%
<b>Gwynedd</b>	4.08%	4.02%	2.77%	1.40%	3.89%	8.46%	4.85%
<b>Conwy</b>	5.22%	3.81%	3.25%	2.91%	4.42%	4.40%	4.39%
<b>Denbighshire</b>	4.44%	3.03%	3.14%	3.05%	3.56%	4.31%	4.19%
<b>Flintshire</b>	4.69%	4.92%	3.73%	3.55%	4.12%	4.01%	6.31%
<b>Wrexham</b>	4.03%	4.43%	4.53%	1.34%	4.07%	2.49%	3.94%
<b>Powys</b>	4.15%	4.30%	1.99%	2.07%	4.31%	16.09%	3.39%
<b>Ceredigion</b>	2.38%	2.57%	1.26%	1.54%	2.33%	10.28%	2.92%
<b>Pembrokeshire</b>	2.19%	4.00%	3.56%	4.19%	3.88%	8.43%	3.44%
<b>Carmarthenshire</b>	5.25%	5.98%	4.92%	4.05%	6.89%	12.29%	8.35%
<b>Swansea</b>	11.18%	7.95%	7.88%	10.93%	8.39%	2.99%	7.34%
<b>Neath Port Talbot</b>	3.88%	4.54%	5.45%	6.09%	5.64%	2.93%	3.54%
<b>Bridgend</b>	4.70%	4.56%	4.90%	3.52%	4.60%	1.80%	3.41%
<b>The Vale of Glamorgan</b>	2.80%	4.06%	3.39%	3.19%	3.74%	2.38%	3.93%
<b>Rhondda, Cynon, Taff</b>	7.32%	7.53%	9.19%	7.02%	8.66%	3.60%	8.29%
<b>Merthyr Tydfil</b>	1.72%	1.87%	2.66%	1.62%	2.12%	0.76%	1.55%
<b>Caerphilly</b>	5.04%	5.70%	7.40%	5.81%	5.83%	2.00%	5.57%
<b>Blaenau Gwent</b>	2.06%	2.22%	3.67%	3.47%	2.67%	0.75%	2.53%
<b>Torfaen</b>	2.78%	2.91%	3.43%	4.05%	3.21%	1.20%	2.52%
<b>Monmouthshire</b>	1.64%	3.03%	1.56%	2.85%	2.65%	3.75%	1.98%
<b>Newport</b>	5.15%	4.63%	6.26%	4.64%	4.37%	1.41%	5.57%
<b>Cardiff</b>	13.16%	11.69%	12.80%	20.82%	8.39%	1.37%	9.74%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Annex B: References

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