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Position statement – ‘How can public resources be fairly allocated between different places?’

Introduction

1. It is important that public resource allocations between different places are fair and are seen to be fair. This is so that, for universal services, all citizens receive broadly similar services. It is also necessary so that targeted services, for example to disadvantaged people, reach those targeted people and groups wherever they live.
2. This is notwithstanding the fact that local democracy, decision making and choice can also lead to variations in the levels of some services, as well as in levels of local taxation. The Commission for Rural Communities (CRC) recognises that there are often complex trade-offs, both implicit and explicit, involved in rural service delivery: between access to services, quality of service, cost of service, cost of accessing the service, local tax and charging levies, eligibility criteria and so on. Some services may cost more to deliver in urban areas and some may cost more to deliver in rural areas. There may also be different expectations about service delivery, with rural citizens not always expecting the same levels of service delivery as urban citizens.
3. At the moment there is a considerable perception, backed up by some evidence, that public resource allocations *between* places are not fair. This is a view felt strongly by many of those representing and serving rural communities. This was one of the messages of research conducted for Defra in 2004¹. It is also the message articulated by bodies such as the County Councils Network, the Rural Services Network, Action with Communities in Rural England and others. For example, earlier this year the Independent Policy Commission on Primary School Organisation in Shropshire concluded: “we believe that a strong case has been made that the present national funding formula fails to take sufficient account of sparsity and the relatively high costs of public services in rural areas”. We also have concerns that resource allocations *within* places (e.g. local authority areas) are not always transparent or fair.
4. Therefore, it is important that Government, at all levels, considers the *fairness* of resource allocations between people and places, when it is planning services and programmes.

¹ ‘Review of Evidence on Additional Costs of Delivering to Rural Communities’ conducted for Defra by MSA Ferndale in 2004

This is an important message within the Rural Proofing guidance the CRC published in 2009 www.ruralcommunities.gov.uk/publications/crc97ruralproofingtoolkit

It is a particularly important message at a time of increasing pressure on public finances. If there is to be a smaller funding pie it is all the more important that it is fairly shared.

5. Service providers also need to continue to be keenly involved in delivering continuous improvements and efficiencies in service delivery to rural communities. Alongside fair resource allocations must be placed efficiency, different ways of service delivering (when appropriate) and also a commitment to innovation and testing new approaches to service delivery.
6. The CRC is willing to advise and work with policy makers to help ensure that resource allocations are devised that are agreed to be broadly fair and reasonable between different geographies. Whilst we are not experts in the minutiae of resource allocation formulae we can advise about the characteristics of rural England and the challenges of rural service delivery and some of the considerations that policy makers should take into account before taking decisions.

Main factors relevant to resource allocation reflecting rural circumstances, needs and costs

7. It is a truism that needs and costs vary between services. It is also widely accepted that there is no simple resource allocation model that will deliver exactly the right answer across a basket of services. The underlying public delivery *rationale* will also have an important bearing (e.g. NHS services are supposed to be equally available to all and this is different to the funding basis for say, discretionary cultural and leisure services provided by local authorities).
8. It is recognised that across all services there are some examples where cross subsidies may support service delivery equally across the country. This is the case with some Universal Service Obligations (USOs), such as the universal costs of postage stamps despite very different levels of local delivery costs. But the wider existence or otherwise of USOs should be an irrelevant factor when considering new and revised resource allocations for particular services. Each allocation system should be treated on its own merits and a point of balance and fairness found.
9. Many resource allocation systems are needs based. It is vital that needs based allocation formulae are properly rural proofed. Such formulae aim to meet the needs of people and base their allocation models on weighting various population needs. This is implicitly to meet the different cost drivers posed by different population groups (e.g. children and elderly people, in the health service). Where different population groups are used within a resource allocation system it is important that the results are tested against geographic

fairness. An important example is the claim of the failure within health resource allocation systems sufficiently to weight elderly population groups, as compared to deprivation based population groups. Age is a stronger cost driver of health services than is deprivation and a failure to account for this leads to the under provision of resources to help health services serving areas with higher numbers of elderly people (often rural and coastal areas). This is a subject raised, for example, by Professor Sheena Asthana and Dr Alex Gibson² in evidence to the Health Select Committee.

10. Needs based resource allocation systems are also less adept at looking at the (geodemographic) *cost* basis for delivering services in different places. These geodemographic factors include a set of variables relating to distance, settlement patterns and population densities. Examples of where such costs are (to an extent) recognised in a few resource allocation systems include Area Cost Adjustments (to reflect different labour costs) and sparsity factors (e.g. the sparsity uplift in funding for further education colleges). Geodemographic costs are also being recognised within exploratory work being undertaken on minimum income standards (<http://www.minimumincomestandard.org/>)
11. Services that cost more to deliver in rural areas are those where:
 - travel involves greater mileage costs;
 - travel time related costs are greater (in both cases allowing for urban congestion costs as well);
 - lower demand levels lead to lower economies of scale; and
 - a strong focus on citizen/customer choice introduces additional diseconomies in sparsely populated areas.
12. Rural costs may also be higher due to greater complexity of shire administrative units (including the two tier local government system) and also overlapping administrative boundaries. These can give rise to higher overhead and transactional costs.
13. Targeted funding such as regeneration initiatives can benefit rural as well as other places. However, such targeted funding often uses the Index of Multiple Deprivation (IMD) to allocate resources. This often results in the allocation of disproportionately more resources to areas of concentrated deprivation (urban) rather than meeting more dispersed deprivation (rural). This can be an unintended consequence of using the IMD. We would recommend that the most service relevant data and evidence is used within resource allocation systems. Where the Indices of Deprivation (ID) are appropriate, then a tailored approach can make better sense than using the whole IMD. (Thus the 'access

² See evidence to the Health Select Committee (2006), Asthana and Gibson

to services' and 'access to housing' domains within the IMD can be useful domains that capture some of the challenges of geography to fair service delivery).

14. Where resource allocation systems make assumptions about charging regimes, then this should be considered through a geographical lens. Different geographic communities can be affected by charging regimes. For example, car parking charges within NHS hospitals.
15. A similar point is relevant about costs of accessing services. Where resource allocation systems make assumptions about the costs of access to a service belonging to the customer then this too needs to be considered through a geographic lens. Rural customers and citizens can have to spend more than other people on both private and public transport to access services.
16. Research that seeks to discover underlying geodemographic costs, and that is based on historical patterns of spend (regression analysis), is often flawed. Historic patterns of spending may simply reflect historic lower provision of services and the effects of past resource allocation systems – rather than the underlying differential geodemographic cost drivers.
17. Nevertheless, collectively such studies do point towards a conclusion that service providers to rural areas face greater difficulties in providing services to the same standards at the same costs as in urban areas. Generally, either cost is higher or performance is lower.
18. Operational research, by avoiding the deficiencies of historic service expenditure, can simulate and cost service inputs and outputs and examine the cost/performance tradeoffs that can be made. Research, 'Developing geodemographic Indicators of Costs and Performance for Public Services', (MSA Ferndale, 2004) concluded, based on operational research of ten selected service areas, that average values of a standard 'delivery unit' varied across three categories of district geographies as follows: Mainly Urban: 0.73; Mixed Urban/Rural: 1.28; Mainly Rural: 1.85.
19. The use of sparsity factors within resource allocation systems – although welcome in their way – is a single and simple dimension that does not capture the complexity of population distribution and settlement patterns that drive service cost structures. Although for some services a combined use of sparsity and distance variables can be a valuable explanatory tool that can help in designing indicators that work.
20. Care should be taken not to make the case that common or equal service standards should mean *exactly* the same quantum or standard of service must be provided in all areas. A standard of '95% of the population to be within 45 minutes of service delivery

point X' means that most rural people will still be further away from X than most urban people. Different styles of service may also well be appropriate for rural and urban populations (such as the retained fire service).

21. The way that resource allocation happens *within* local and regional delivery bodies is as important as the national resource allocation system. There is little evidence/literature on this. Arguably, for some services, it may be the case that urban areas within shire areas are cross subsidising the additional costs of service provision to rural areas. This was the finding of the Shropshire Schools Commission³.
22. Policy makers and service providers (at all levels) should be trying to ensure that their performance management systems capture the extent to which service delivery is being fairly achieved across different geographies. Likewise, watchdog and inspection bodies should be looking to see that such systems are doing this. Much performance monitoring currently lacks the sensitivity to measure and to judge differential service delivery within administrative units. The CRC's advice to CLG, the Audit Commission and local government and others on using the National Indicator Set (underpinning the Local Area Agreement improvement targets) and delivering the new Comprehensive Area Assessments addresses these challenges⁴. Where outcome measures and measures of organisational stress indicate problems and failures one of the factors (of several) that inspection and scrutiny bodies should consider is the sufficiency of the resource per capita allocated for the service.
23. Local authorities and service providers should be encouraged to continue to deliver services efficiently. They should also continue to deliver services differently where this makes sense (e.g. mobile provision and using multi service outlets such as village halls). Likewise, a continuing focus on innovation and testing new approaches should be encouraged. This is both realistic and sensible and in tune with the benefits of a more devolved localist approach.

Conclusion

24. Part of the CRC's job is to advise and work with policy makers to help ensure that resource allocations are broadly fair and reasonable between different geographies. We encourage Government departments, inspectorates and others to seek our advice.
25. Based on the evidence we have reviewed we believe that the costs of providing services

³ See, for example, the report of the Independent Policy Commission on Primary School organisation in Shropshire (2009), paragraphs 85 – 87 at: <http://www.shropshire.gov.uk/policycommission.nsf>

⁴ See the CRC's 'Locality reporting against the National Indicator Set' (2009) at: <http://www.ruralcommunities.gov.uk/events/atruylolocalviewlocalityreportingagainstthenationalindicatorset>

reasonably and fairly to rural people and communities are significantly under counted in many resource allocation systems (centrally, regionally and locally).

26. We advise Government (at all levels) and other bodies allocating resources to deliver services and other public goods to rural places to consider and take proper account of:

- the fairness of the geographic impacts of the proposed formulae. For example, are needs based formulae fair when applied across different geographies? Will the cost of delivery be higher in rural areas where clients are more widely dispersed and economies of scale can be harder to achieve? Will longer travel times or distances add to the cost of service provision? Will services need to operate out of smaller outlets, so losing economies of scale?
- the way resources might be fairly allocated within a regional, sub-regional or local administrative unit;
- the need for continuous improvement in the efficiency and search for new approaches in delivering services fairly to different geographic communities.

27. The CRC also has a watchdog role, evaluating and calling to account the extent to which policy makers and service delivery bodies are treating rural people and places fairly. Where we think there is a case to undertake a watchdog evaluation or report on fair resource allocations then we will do this.