The implications of national funding formulae for rural health and education provision

Summary Report

All-Party Parliamentary Group on Rural Services

March 2010

The All-Party Parliamentary Group on Rural Services

The All-Party Parliamentary Group (APPG) on Rural Services is a cross-party group formed of Members of both the House of Commons and the House of Lords. The Group exists to promote debate on the provision of rural services. Between January and February 2010, the Group undertook a short inquiry into the implications of national funding formulae for rural healthcare and education provision. This report consists of the recommendations arising from that inquiry, together with the written and oral evidence submitted.

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The Group is very grateful to all of those organisations and individuals who presented written and oral evidence to the Inquiry. Particular thanks also go to Ruth Gripper for her assistance in drawing the evidence together to form this report.

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Summary

The All-Party Parliamentary Group for Rural Services has now completed its inquiry into the funding formulae used to allocate resources for health and education. Our findings and recommendations (in bold) are set out below, and transcripts of the oral evidence sessions, as well as a written evidence pack, are included as appendices to this report.

We conclude that achieving equitable outcomes – the goal of any administration – costs more in rural areas, for a variety of reasons relating to remoteness and limited economies of scale. In addition, the older age profile in rural areas increases the cost of providing adequate healthcare for rural populations. Yet the current funding formula actually provides less money per pupil and patient for those who happen to live in a rural rather than an urban area.

The funding formulae used for both health and education focus on allocating resources according to need. Proxy indicators are used to predict that need, and funds allocated accordingly. Such a system sounds reasonable enough, but there are problems both with the detail (the choice of proxies) and with the system as a whole. Rather than attempting to fund according to need alone, we favour a cost-based approach which would seek simply to fund the actual cost of provision necessary to meet the need in different types of area, with top-ups open to adjustment for need and other priorities. The system as it stands, and the relative weight given to particular types of need, leaves many rural authorities under-funded. We acknowledge that this means that the Government of the day would be determining basic needs, prioritising these based on available national resource, and publishing their decisions. However, we do not consider that to be unreasonable. Indeed, in the search for transparency and the equitable distribution of national resources, it is highly desirable.

This situation is not new. Resources have been channelled to urban over rural areas by Governments past and present, and utilisation models combined with 'spend-plus' systems or blanket percentage increases have only served to prolong pre-existing funding imbalances. We wish to see an end to percentage increases and any other system which takes previous funding levels as its starting point. In its place, we envisage a clear, transparent formula whose results can be explained and justified.

The changes we are calling for will have an immediate and tangible effect on funding allocations. They may be resisted by some concerned about 'losing out,' but will provide those who have been 'losing out' for many years already with a more reasonable level of funding. The elephant in the room, according to one witness, is the economic context, which poses a significant challenge for the redistribution of resources – usually undertaken during periods of spending growth. That does not mean, however, that we should not take steps to improve a system which we know to be flawed, even if it has to be managed over several years. Change will have to be carefully and sensitively managed, but it is necessary. The argument is not simply a technical or academic one, of competing econometric measures and complex equations. Ultimately, it is about meeting the educational needs of every child, and the health needs of every individual, wherever they may live and whatever their individual circumstances.

Health findings and recommendations

The inquiry into the health funding formula focused on the Hospital and Community Services (HCHS) element, which receives 76% of health funding.

1. Additional costs of rurality

Providing healthcare to rural populations entails unavoidable additional costs due to diseconomies of scale, additional travel and travel-time related costs, and the effects of caring for an older population. Technology is sometimes cited as the solution to health provision in remote rural areas, but it does not answer every problem, nor can it be assumed that the infrastructure is in place to support it. Some services are required regardless of geography, and in remote rural areas providing such services is more expensive. England is alone among the regions of the UK in not adjusting funding allocations to compensate for those additional costs. The Arbuthnott formula used in Scotland includes specific adjustments which recognise the needs of rural areas, or of mixed rural and urban locations, when allocating funds for HCHS. Wales uses a similar model, while in Northern Ireland funding is based on the efficiency of road routes between need and supply.

There should be an evidence-based rurality adjustment included in the funding formula in England, as is already the case elsewhere in the UK, to meet the unavoidable additional costs of providing healthcare in rural areas.

2. Age-related need

The median age in rural areas is nearly six years higher than in urban areas, and rural areas have a higher proportion of people aged over 55. As a general rule, as people age so their healthcare needs, and the related costs, increase. While the funding formula does adjust for age-related need, we believe that it underestimates the extent to which age drives up costs. Furthermore, the emphasis placed on addressing additional need means that the funding formula disadvantages less deprived areas with older populations, who may be facing far greater actual costs right now. This is of particular concern for rural areas, with their older age profile and problems regarding the measurement of additional need (see point 3 below); these areas may not be receiving sufficient funding to meet their populations' basic healthcare needs. It can be argued that this is addressed by the CARAN formula's one-stage approach, stratifying by age, although this is counteracted by the subsequent health inequalities adjustment.

Age-related need should be given greater weight in the formula while an independent evaluation of the costs of serving an ageing population is carried out. There should be an annual report showing progress towards funding those costs.

3. Additional need

The funding formula adjusts for poor health needs over and above those related to age. Socio-economic deprivation is used as a proxy indicator for this additional need. However, we are concerned that the way in which deprivation is measured is more sensitive to urban than to rural deprivation. The former tends to be more concentrated, and the latter more dispersed; rural deprivation may be due to seasonal employment or low wages rather than unemployment itself.

Further research is needed to find proxy indicators that accurately capture both rural and urban deprivation.

4. Health inequalities

On ACRA's recommendation, the formula now includes a separate element aimed at reducing avoidable health inequalities. This element does not apply to a separate budget, but is a further adjustment in the existing funding formula. Ensuring equal access for equal need and reducing avoidable health inequalities are two distinct goals, and we are convinced that it is impossible to reconcile the two in a single funding formula. There has been little research into the cost-effectiveness of previous public health interventions, and there is no guarantee that funds allocated to combat health inequalities are actually being spent to do so. Including this element in the formula prevents a clear statement of relative funding priorities, or the actual amount of funding dedicated to public health. Nor is the NHS necessarily the only relevant actor: education and social services, for example, may both have a role to play.

The healthcare budget should focus on ensuring equal access to equal need. The money used to target health inequality, which is not currently distinguished from total funding allocations, should be placed in a separate public health budget whose level of funding is clearly stated. More research is needed to ensure that that budget is spent effectively. It will also be appropriate for other departments to become involved in funding and delivery, as recognised in the recent Marmot Review of health inequalities; "National policies will not work without effective local delivery systems focused on health equity in all policies"[1].

5. Ministerial decisions

The Government established ACRA as an independent body in order to set the funding formula on an objective basis. Decisions about the formula, however, are unavoidably political, and all decisions about funding will be subject to a greater or lesser extent to ministerial influence, judgement and decision-making. The Minister sets the pace of change in policy, which has a major impact on the actual amount of funding received (as opposed to the target levels of funding determined by the formula). The Minister also sets the relative weighting of health inequalities; his decision to apply the health inequalities element to 15% of the formula had the effect of maintaining the funding status quo, leaving money in urban areas which the basic formulae for meeting current health needs would have directed to less deprived and rural areas. No evidence or other justification was given for deciding on this figure. Political judgement and Ministerial decisions are inevitable, but for Parliament to fulfil its scrutiny role, the reasons for those decisions must be clearly stated and backed by sound argument.

The Government should publish a set of criteria by which ministerial decisions regarding the formula will be made, to improve transparency and to enable Parliament to exercise adequate scrutiny.

6. Acute and community services

[1] "Fair society, healthy lives": The Marmot Review; A strategic review of health inequalities in England post-2010, UCL, 2010.

Due to a dearth of data on community services, the funding formula is dominated by acute services. Community services, however, have a vital role to play particularly in rural areas where the nearest general hospital may be some distance, and time, away. If a patient is discharged from the acute hospital to a Community Hospital, relevant funding should also transfer to the Community Hospital, which does not happen at present. The economies of scale which can be achieved in a large general hospital cannot be achieved in small community hospitals, but the latter provide a necessary service in rural areas and their costs should be met through the funding allocation. While the lack of information relating to community services is recognised by the Department of Health and work is being done to rectify the situation, we are alarmed that there is no timetable for that work, not least given the Department's increasing priority given to care in the community. Finally, rapid structural change has adversely affected community services.

Greater effort should be made to collect sufficient, appropriate data on community services so that their needs may adequately be reflected in funding allocation, and a timeframe for that work should be made public. Structural change should be carefully managed, allowing sufficient time for the appropriate planning and management of change by all services.

7. Mental health services

The ageing population in rural areas, with the associated increased incidence of depression and dementia, will place increasing pressure on mental health services. Recruiting staff with the requisite specialist skills, and the experience to work autonomously in remote rural communities, may be costly and difficult. Social as well as geographical isolation, and the stigma attached to mental illness, pose additional challenges to mental health services in rural areas.

The forthcoming review of mental health funding allocations should look specifically at the particular costs and challenges of providing services in remote and rural areas, and consider an appropriate rurality adjustment (see also point 1 above).

8. Transport

Transport is an additional cost for both staff and patients in rural areas. Travel and travel-time related costs were mentioned (see point 1 above) as an additional cost of delivery, but their impact on patient access is also important. In many rural areas, public transport is very limited. Ensuring equal access for equal need is an explicit aim of the funding formula, and yet suitable transport, a crucial aspect of ensuring patient access, does not form part of its remit. One witness informed us that her PCT was commissioning additional transport to ensure patient access, but that they have to meet those costs themselves as transport does not feature in the funding formula. Funding for public transport comes through the Local Authority allocations of the Department for Communities and Local Government (DCLG) budget, and therefore has also to try to meet the competing needs of industry, retail and leisure services.

To ensure equal access for equal need, there should be a transport element included in the funding formula which reflects the higher costs of provision in remote and rural areas.

9. The Market Forces Factor

The Market Forces Factor adjusts funding to reflect salaries in local communities. It is designed to compensate for unavoidable geographical variations in the cost of providing services – namely, higher costs in high-wage areas. However, with staff on national pay scales, low-wage areas face similar staffing costs to high-wage areas, without the corresponding increase in their funding through the MFF. The MFF is irrelevant and inappropriate to most parts of the country other than London, and serves to disadvantage low-wage, often rural, areas which face similar levels of staffing costs but do not receive equivalent funding.

The MFF should be revised to reflect the existence of national pay scales, and its application limited to London.

Education findings and recommendations

1. Additional costs of rurality

We are concerned that the emphasis in the funding formula on adjusting for need (identified by deprivation indicators, see point 6 below) means that the aim of meeting the actual cost of service delivery is being neglected. As with healthcare, providing education in rural areas entails unavoidable additional costs. Lower demand limits economies of scale, whilst remote rural areas experience greater travel and travel-time costs. There may also be higher transactional costs as a result of greater administrative complexity. Transport, staffing and recruitment also incur additional costs (see points 3 and 4 below) in rural areas.

A rurality adjustment should be included in the formula to compensate for the additional costs of providing education in rural areas. Over the longer-term, we would like to see the funding formula move from a needs-based allocation system to one which seeks first to meet the basic costs of provision on a per capita basis. Those costs will inevitably vary between areas. Additional funding, appropriately weighted and targeted, should be allocated only once these costs have been met.

2. Sparsity

Funding for primary and diploma level schooling is already adjusted for sparsity, but no such adjustment applies at secondary level. Small secondary schools in rural areas nonetheless face similar diseconomies of scale, and the additional costs involved in ensuring student access to a broad curriculum and related facilities. The secondary curriculum is expensive to deliver: schools have to teach subjects such as science and technology in appropriate workshops or laboratories, and with appropriate class sizes. Economies of scale are limited in small rural secondary schools, pushing up cost per pupil. Concerns were also raised by witnesses about the accuracy of the sparsity measure. Any review of sparsity measures should seek to establish the cost of sparsity, looking beyond the amounts currently allocated for it by Local Authorities. Current patterns of expenditure reflect not the cost of sparsity, but the amount the Local Authority can afford to spend on it; some Local Authorities are cross-subsidising small secondary schools.

The accuracy of sparsity measurements should be examined, and the adjustment made applicable to secondary schools. Sparsity measurements should be based on the population density of school-age children, and not simply on overall population density.

3. Area Cost Adjustment

Staffing costs absorb a large proportion of any school budget. The Area Cost Adjustment is supposed to increase funding to areas where wages are high. However, teaching staff work to national pay scales, as will support staff in the near future, making consideration of the average local wage largely irrelevant. Schools in low-wage areas have to pay similar salaries to those in high-wage areas, but do not receive equivalent funding. Furthermore, staff in rural areas are often more senior, and therefore more expensive, while the cost of temporary staff is greater due to limited choice. This means that many authorities ranked relatively low for funding actually have a relatively high rank for teachers' average salaries.

The ACA should be revised to reflect the existence of national pay scales and the additional costs of seniority and of supply staff; the adjustment for high wage areas should be applicable to London only.

4. Transport costs

Additional transport costs in rural areas are covered under the grant to Local Authorities (and therefore the DCLG), rather than the Dedicated Schools Grant (and the DCSF). The cost of school transport cannot be dissociated from the cost of that school, and yet the former comes from Local Authority funding and the latter from the DSG. It is perverse that such interrelated factors should be considered in isolation, particularly in decisions about closure where the long-term increase in travel cost can outweigh the apparent financial gain of closing a small rural school.

Funding for the extra transport costs in rural areas should form an explicit element of the DCSF funding review, which should include an analysis of the amount spent by each LA on educational transport as a percentage of its DSG and DCLG funding allocations.

5. Training and Continuing Professional Development

There is a notable lack of information regarding differences between rural and urban areas regarding access of both potential trainee teachers to ITT courses and access by schools to newly qualified teachers. Further work may be required to encourage rural schools to take up TDA support in providing Initial Teacher Training (ITT) places. Nor is information readily available regarding the availability of placements in rural areas for trainee teachers in any area. Such information is required to ensure that access to teacher training is reasonably spread throughout rural and urban areas. Once qualified, teachers need opportunities for continuing professional development (CPD). The costs of providing CPD come out of the individual schools' budget, with those in remote areas facing higher travel and travel-time costs, with no corresponding compensation in the funding allocation formula.

The TDA should undertake an evaluation of the provision of ITT in rural areas, and the availability of NQTs to rural schools. The evaluation should examine the availability of teaching placements in rural schools for those in ITT, including those training in urban areas. It should also examine the funding of graduate teacher training programs to ensure that all schools are able to benefit from them. The DCSF/DCLG funding review collaboration (see point 4 above) should consider the costs of travel for staff training as well as for pupil attendance.

6. Indicators of rural deprivation

The formula uses socio-economic deprivation (pupils on Free School Meals) as a proxy for additional need. This often results in the allocation of disproportionately more resources to urban areas, where deprivation tends to be concentrated, rather than rural areas where deprivation is more dispersed. FSM does not capture all of those who are eligible, as some groups may be reluctant to apply. Rural deprivation differs to urban deprivation in other ways too, such as lack of access to facilities, social

isolation, and low pay and seasonal work rather than unemployment itself. It should no longer be necessary to use proxy indicators, as advances in management information systems now allow the capture of actual costs.

The Government should evaluate the impact of deprivation measures in rural and urban areas, and seek to improve their accuracy and sensitivity to rural deprivation. These changes should be put into place as interim measures, whilst over the longer- term there should be a move towards cost measurement using existing management information systems.

7. Additional Educational Needs (AEN) and Special Educational Needs (SEN)

AEN and SEN costs, particularly involving "high tariff" pupils such as those with Profound and Multiple Learning Difficulties (PMLD), can be difficult to predict; social deprivation and low birth weight are used as proxy indicators to allocate resources. Some of the problems of measuring deprivation have been raised above. Many rural authorities will not have specialist health facilities for low birth-weight, but will move mothers to the nearest, and usually urban, facility. Rural authorities face higher per pupil costs supporting AEN, SEN and PMLD pupils, due to increased travel costs and diseconomies of scale, while pupils may suffer isolation should they be taught in a neighbouring area with better provision. Rural authorities also face problems providing for low incidence, very high cost special needs, which can be unexpected and funding for which at present must be found from within their funding allocation. These costs can be both unpredictable and be extremely high, so that a very small number of cases can distort an LEA's budget. Transport costs can be enormous, or else residential accommodation may have to be provided. The result is that the costs of providing for the needs of high tariff pupils in rural areas often exceed the funding allocated for them through the formula.

Funding should reflect the needs of pupils educated in an authority, not only those who were born there (who may be in education in other authority areas). AEN and SEN funding should be adjusted for rurality to compensate for higher per pupil costs in rural areas, and funding for high tariff pupils should be managed centrally and disbursed to LEAs to meet actual costs as they arise.

8. Structural change

Structural change can have a significant and often unanticipated impact on rural schools. For example, if larger urban areas seek unitary status, funding provision is affected: the higher per-capita funding associated with urban pupils is no longer available to cross-subsidise relatively under-funded rural areas. Local Authority 'flattening' of the deprivation element of funding allocations has been observed, suggesting that such cross-subsidies do exist. Rural schools also suffer from a more limited range of funding sources than schools in urban areas, such as access to City Challenge funding.

An impact assessment of any proposed structural change in the education and local government system should systematically consider the effect on rural areas.

An electronic copy of the full report, including written and oral evidence submissions, can be viewed and downloaded from www.rsnonline.org.uk.

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