



The Working Neighbourhoods Fund 2009 – 2011:
Revising the Third Criterion - *Consultation*
Government Response

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Introduction

1. The Working Neighbourhoods Fund is paid to eligible local councils to develop concentrated, concerted, community-led approaches to getting people in the most deprived areas of England back to work.
2. On 4 November 2008, CLG and DWP published a consultation paper seeking views on the Government's proposals for revising the third criterion used to determine eligibility for the Working Neighbourhoods Fund (WNF) for 2009 to 2011 (the consultation document)¹. The revision was necessary following the discovery of a significant error in the calculation of this criterion which was not addressed as part of the January 2008 revision. This consultation closed on the 9th January 2009.
3. This document sets out the key points raised by the local authorities and individuals who submitted their opinions on the proposals, and the Government's response to those key points.

Overview of the responses

4. In total, 43 responses to the consultation were received. Twenty two of these came from local authorities that are in receipt of full WNF funding. Eight responses were received from local authorities currently receiving transitional funding while a further 13 responses were received from other organisations and individuals including special interest groups and local MPs.
5. The principal results from the consultation were that (percentages refer to the proportion of responses that expressed a clear preference on that particular subject):
 - Seventy-two per cent **agreed that the third criterion should be revised** using consistent data from 2007
 - Fifty-one per cent of respondents **accepted the proposal to extend the cut-off point** for eligibility from 40 to 50
 - Fifty-one per cent of respondents **fully supported both proposals while just over forty per cent did not fully support both proposals.**
6. Respondents were invited to submit any other comments about the proposals in the document. The key points raised are outlined in the following section along with the Government's response to the consultation.

¹ The Working Neighbourhoods Fund 2009-2011: Revising the Third Criterion. Available at: www.communities.gov.uk/publications/communities/wnf200911consultation

Government response

7. The Government has carefully considered all responses received to the consultation in determining that we should proceed with the proposals made in the consultation paper.
8. Concerns were raised over a number of issues relating to WNF and these are addressed below. These are general responses. Some specific issues were raised by a small number of authorities adversely affected by the change in the criterion and these have been addressed in individual letters to each of those authorities.

The third criterion

Benefits issues

9. A small number of consultees queried the exclusion of 'other income related benefits' from the third criterion. We have considered this carefully and determined that this was appropriate given the policy goals of WNF and nature of benefits involved. We will briefly outline the background and explain why we selected three benefits: jobseekers allowance ('JSA'), incapacity benefit ('IB'), and income support ('IS') lone parents rather than a greater number of benefits.
10. For completeness, we reiterate here paragraph 84 of the consultation document:-

The policy purpose of WNF is to combat deprivation by alleviating high levels of worklessness and low levels of skills and enterprise. To achieve this objective it is necessary to identify and subsequently target areas of high worklessness. 'Other income related benefits' were excluded from the third criterion because they are contingent on low income rather than work and are thus not such a helpful indication of high levels of worklessness. JSA, IB and IS lone parents are, by contrast, the benefits which are most closely related to worklessness.

11. The benefits selected are those which clearly measure the presence of worklessness as opposed to other factors such as poverty. Benefits that are paid to people due to their income deprivation are excluded as they are unhelpful in targeting worklessness interventions. The majority of people in the 'other benefits' group are claiming Pension Credit, which can be claimed by people who are working but are earning below set levels. The Pension Credit, in common with many of the other benefits in this category, is a tool for alleviating *income* deprivation and is not directly related to employment.
12. The lack of consistency between the benefits used in the third criterion and those used for measuring the Local Area Agreement (LAA) targets was also raised. We acknowledge that there is a difference between the sets of benefit claimant data used for each process. This is understood and intentional.

13. The WNF eligibility criteria and the Local Performance Framework National Indicator Set (NIS) perform different functions. The NIS indicators set out national priorities and need to be useful and applicable for all Local Authority areas. WNF is allocated on the basis of need and focused particularly on low levels of work, skills and enterprise. The indicators used for WNF allocation are selected on the basis of their relevance to this ambition.

Mid-year population estimates

14. Several respondents were concerned at the use of mid-year population estimates, and the potential for error within them. The mid-year population estimates are produced by the Office for National Statistics (ONS), which is part of the United Kingdom Statistics Agency. The ONS's estimates are the best available source of population data and can be used to ensure consistent treatment of local areas nationally; no better source which is consistent across all local authority areas exists.
15. The ONS is transparent in its work, publishing methodologies, following international standards and using independent experts to peer review changes. It is widely acknowledged that census and survey methods are never perfect, but the ONS have refined their methods and continue to do so.

Employment rate data

16. One respondent raised concerns around the confidence intervals in the employment rate data and suggested that the data masked significant concentrations within their area. We are confident that we have drawn on the best possible data sources and treated those appropriately, and will briefly outline the reasons for our confidence.
17. Employment data, from the Annual Population Survey, and Benefits data, were used for measuring worklessness across the country as these are the only reliable means of ensuring consistent measurement and hence permitting fair treatment of different local authorities. The precise distribution of worklessness inevitably varies between local authorities, with some experiencing greater concentrations than others. However, for the purposes of allocating grant to local authorities in England, it is important to use standardised eligibility criteria and in a way that will achieve reasonable and fair outcomes between areas based on comparable and consistent data.
18. Whilst there may be more current and more detailed estimates for some local areas, such studies cannot be used in a scheme for the national distribution of grant funds to local authorities, since they are not comparable and have not been replicated in all authority areas. They would therefore introduce inconsistent data and materials which could not be applied to all authorities and their use would, therefore, not only give rise to potential inconsistencies but would be inherently unfair from the lack of comparable data available to all authorities. It is also worth noting that while local studies of this kind can be of

high quality, they are not always subject to the same levels of quality control as the data sets and analysis used in the WNF eligibility criteria.

19. Another respondent suggested that using four quarterly updates of the APS rather than a single figure would have been better. We believe this response was based on a misunderstanding of the way the APS is collated. The APS is a continuous survey and a figure quoted covers a full year's worth of data, i.e. four quarters. As was explained in paragraph 78 of the consultation document, for WNF purposes the employment data used covered the time period from 1 January to 31 December 2007 and the benefits data used covered the period from 1 December 2006 to 30 November 2007. Therefore the period covered by the employment data is the closest match that can be achieved with the benefits data.

Issues about the third criterion as a whole

20. The issue of low take-up of benefit rates by certain groups was raised by a small number of respondents. The Government is aware that there is a difference in benefit take-up rates for certain groups and that is why the employment rate is included in the third criterion. The consultation document said the following, at paragraphs 34 and 35:

As the employment domain of the IMD captures only those people in an area claiming out of work means tested benefits, a third criterion was introduced which consisted of a 50-50 weighted index based on benefit receipt and employment rates, at local authority level. This ensured that local authorities with large numbers of people who were workless, but were not in receipt of benefits, were also captured.

The third criterion can be distinguished from the first two criteria by the fact that it includes employment rates. Employment rates are a useful addition because they capture deprived groups or areas which are not identified by the claimant count or benefit rate alone. This is because of the difference in benefit take-up rates for certain groups that are known to be less likely to claim benefit when out of work. Those groups are reflected in a low employment rate, but not necessarily in a high benefit rate. The employment rate and benefit rate were therefore combined to create a fuller picture of employment deprivation than would be obtained by using the benefit rate only.

21. The third criterion was, therefore, included as part of the WNF eligibility criteria in order to address the issue of low take-up of benefit rates by certain groups. The criterion may not produce a perfect fit but, given that it should be applicable as consistently as possible to all authorities and is considered to be sufficiently fair and robust, it is suitable for the purposes of WNF as explained above. Therefore, having considered the consultation responses, the Government is still of the view that the third criterion serves this role and that this an appropriate approach to adopt having regard to the policy objectives of WNF.

22. A small number of authorities expressed disagreement with the 50:50 weighting assigned to the benefit and employment rates in the third criterion. Our rationale for using a 50:50 weighting was set out in the consultation paper at paragraph 82:

The 50:50 weighting was chosen in order to avoid introducing additional biases into the WNF model on the third criterion. As previously indicated the employment rate was introduced in the third criterion to address possible biases against groups with low benefit take-up rates. However, we are aware that employment rates on their own are not perfect as they can be unduly affected by large student populations living in certain cities. It was therefore felt that an equal weighting of the benefit claim rate and the employment rate was the most appropriate approach to take.

23. Having considered the responses, the Government has concluded that an equal weighting remains the appropriate approach. Both data sources are useful but have known limitations. Benefits take-up rates miss those individuals who do not claim the relevant benefits, and there is evidence that ethnic minority females are less likely than other eligible people to take-up benefits. That means that if we used benefits data alone in the third criteria we could be biasing the distribution of WNF grant against areas with higher than average ethnic minority workless populations. Employment data provides an important balance, although it also has limitations, for example it does not include people living in communal establishments (such as many students).
24. We cannot accurately know the level or nature of imperfection within each data set, and must acknowledge that the two data sets are actually different in nature. To apply a differential weighting would imply that we could accurately measure the significance of the differences between the two data sets (which involves an “apples and pears” exercise) and also that we could accurately measure the impact of the imperfections in both data sets. Neither of those conditions apply, and hence to use a differential weighting would run the risk of introducing other unknown, but real biases. A 50:50 weighting is the orthodox solution of statisticians in such situations, and whilst imperfect it is the fairest and most faithful means of incorporating two quite different indicators within one measure. Our conclusion, therefore, is that applying the 50:50 distribution is both fair and statistically robust.
25. A number of respondents expressed the view that by extending the cut-off point for eligibility from 40 to 50 in relation to the third criterion, the Government was contradicting the recommendations of the Review of Sub-National Economic Development and Regeneration (‘SNR’). The Government took account of the recommendations of the SNR when it allocated WNF to a smaller number of authorities than had previously received allocations under the Neighbourhood Renewal Fund (‘NRF’). In its last year of operation, NRF provided additional resources to 80 authorities (plus 6 transitional authorities), whereas WNF was originally allocated to 66 authorities.

26. The original decision to have a cut-off point of 40 authorities in relation to the third criterion was a matter of judgment taken in the light of the overall number of authorities that would be eligible for WNF and the recommendations in the SNR. In the consultation proposals the judgment about the appropriate overall number of WNF eligible authorities was very similar and the cut-off point used in the third criterion was adjusted to achieve a very similar overall number of WNF eligible authorities (65). Having considered the consultation responses and looked again at the nature of the newly qualifying authorities, we are still of the view that this is the correct approach and in line with the original intention of the WNF to provide resources to English local authorities that have some of the highest concentrations of worklessness and the lowest levels of skills and enterprise. We consider that the approach set out in the consultation document achieves a fair, rational and reasonable result.

The other eligibility criteria

27. The issue of inconsistency in data time points between the third criterion and the first two was cited in a small number of cases, with respondents suggesting that all three criteria should use a consistent data time point. While our proposals will result in greater consistency in the data time point within the third criterion, there will not be consistency between the three eligibility criteria. The consultation document said in paragraphs 54 and 55:

Our chosen proposed approach is to revise the third criterion using 2007 data as this will be the most up-to-date data available at the time the revised allocations will be announced; in early 2009.

This will ensure that changes in both the population and the workless population are captured, thus ensuring that resources are targeted at those local authorities currently experiencing the highest benefits/non-employment rate.

28. Having reconsidered this, the Government has decided to proceed as planned. The Government still believes it is appropriate, and in line with good practice, to use the most up-to-date data across each of the three criteria. The IMD is the best spatial measure of socio-economic disadvantage that is consistent across local authority areas, and it would not be possible to review the Index of Multiple Deprivation (IMD) on a reasonable timescale for announcing and allocating WNF for 2009-10 and 2010-11. The Government also considers it unnecessary to do so at this stage given that the IMD is used for a variety of other policy and funding purposes.

Allocation methodology

29. A number of respondents raised a concern about the methodology employed in determining the actual funding to each eligible authority. Specifically, respondents questioned whether it was reasonable to set a minimum allocation for WNF authorities. As set out in the Working Neighbourhoods Fund Allocations paper² published in February 2008, WNF eligible local authorities are set a minimum allocation of 60 per cent of their 2007/08 NRF allocation.
30. The Government contemplated a number of ways of allocating funding to eligible authorities and this methodology was adopted for two main reasons. It ensured that no authority eligible for WNF received less, proportionally, than the transitional authorities. The Government also bore in mind the need for eligible authorities to have sufficient consistency of funding over the three year period of the Fund in order that the Fund would have the necessary impact. The Government sees no need to change this approach at this stage, although it will consider the level of any minimum allocation in any future review of the fund.

Other issues

31. A number of respondents raised issues that were beyond the scope of the consultation, for example on the construction of the first two criteria used to determine eligibility for the WNF; and the transitional arrangements that are in place for those authorities which received NRF but did not meet the eligibility criteria for the WNF. Where these comments are relevant to the proposals in the consultation document, they have been addressed below but those which did not concern the consultation proposals are not addressed.
32. One respondent also sought assurances about the length of any future consultation exercises concerning WNF. Government has no current intention to consult further on the fund and is therefore not in a position to offer such assurances. We seek to ensure that consultations are carried out in line with the Code of Practice on Consultation.
33. A particular concern was raised that the use of the first two criteria has biased the allocation towards smaller local authorities. While we accept that this might be a theoretical possibility, because we are allocating on the basis of the percentage of LSOAs in a local authority, overall we can find no evidence of any significant bias towards small local authorities - in fact, a large proportion of the largest districts qualify for WNF, while only a small proportion of smaller districts do.
34. A consultee queried the rationale behind the transitional funding taper of 60 per cent 40 per cent and 0 per cent over three years. This approach is based upon experience with an earlier area based fund, entitled the Neighbourhood Renewal Fund, where it was found that a transitional payment can protect any

² Available at: www.communities.gov.uk/documents/communities/doc/703722.doc

communities still vulnerable to the impact of cuts and provide public bodies, statutory agencies and the voluntary sector with time to mainstream the best services. Better value for money can be obtained across the life of the programme by a wind-down rather than a sudden closure.

Annex A

List of respondents

Association of North East Councils
Barnsley Metropolitan Borough Council
Blackpool Council
Bolsover District Council
Burnley Action Partnership
City of Westminster
Gateshead Council
Greater Merseyside Councils (Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral)
Haringey Council
Hartlepool Borough Council
Hartlepool Partnership
Hyndburn Borough Council
Islington Council
Jane Ellison, Conservative Candidate for Battersea
Justine Greening, MP for Putney, Roehampton and Southfields
Knowsley Metropolitan Borough Council
Leeds City Council
London Borough of Brent
London Borough of Camden
London Borough of Croydon
London Borough of Lewisham
London Borough of Southwark
London Borough of Waltham Forest
London Borough of Wandsworth
London Councils
Manchester City Council
Newcastle City Council
Northumberland County Council
Norwich City Council
Oldham Partnership (on behalf of Oldham Council)

Preston City Council
Redcar and Cleveland Borough Council
Rochdale Metropolitan Borough Council
Rotherham Metropolitan Borough Council
Scarborough Borough Council and North Yorkshire County Council
Solihull Metropolitan Borough Council
Sunderland City Council
Thanet Works Board (on behalf of Thanet District Council)
The Special Interest Group of Municipal Authorities (Outside London) Within the LGA (SIGOMA)
Tyne and Wear Research and Information (on behalf Gateshead, Newcastle, South Tyneside and Sunderland Districts)
Walsall Council (and Walsall Partnership)
West Somerset Council
Wigan Council

Department for Communities and Local Government

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