Methodology Note: 2024 Children's Services Area Cost Adjustment

1. Policy background

This note provides the methodology used to calculate the Children's Services Area Cost Adjustments (ACA). This ACA is referred to as the 2024 Children's Services ACA. The 2024 Children's Services ACA was used in the calculation of the Children's Social Care Prevention Grant allocations in 2025-26.

The ACA is a tool used to measure the variation in the cost of providing services for local authorities in England. The cost of providing services varies between local authorities due to several internal and market factors. The ACA only measures the market factors such as the cost of labour, rent and accessibility within local authorities. The ACA is used to compensate local authorities who have relatively higher costs when providing local services. The ACA consists of the three adjustment factors:

- **Labour cost adjustment (LCA)** - which measures the difference in the cost of labour between local authorities.
- **Rates cost adjustment (RCA)** - which measures the difference in the cost of property rates/rents between local authorities.
- **Accessibility** - which measures the impact of the difference in travel time to provide services on the cost of labour. This factor consists of a Dispersal adjustment factor and a Traversal adjustment factor. They are measured using journey time data and combined with the LCA since they are measures of additional labour cost.

The government is committed to funding councils based on an accurate and up-to-date assessment of their needs, including variation in the cost of delivering services due to local factors. The methodology and assumptions outlined in this note are based primarily on the ACA methodology published in 2021, which can be found here. The government will consult on the methodology and assumptions in this note as part of the consultation on wider local government finance reform next year.

2. Data and methodology

2.1 Overview

The LCA, RCA and Accessibility measures are each calculated as indices with a mean of 1, with relatively higher cost authorities scoring above one and vice versa. The following tables summarise the methodologies and rationale for calculating each index. Annex B provides the technical regression specifications for the LCA and RCA.

Table 1: Summary of the LCA and RCA

	What are we measuring?	Data	What factors are controlled for?
LCA	Spatial variation in the going rate for similar workers, accounting for the effects of other factors known to affect wages.	Office for National Statistics (ONS) Annual Survey of Hours and Earnings (ASHE) 2022 & 2023 final data and 2024 provisional data.	Age, Sex, Full-time vs Part-time, Public vs Private sector, Occupation (e.g. “Chief Executive” or “Dental Therapist”), Industry (e.g. “Advertising” and “Youth Work”).
RCA	Spatial variation in the going rate for similar properties, accounting for the effects of building characteristics known to affect valuation.	A detailed database of property valuations from the Valuation Office Agency (VOA).	Property Type, Types of Features (e.g. air conditioning), Valuation adjustments (e.g. age, variations in floor level), Plant and Machinery value, Area of property, Proportion of area taken up by additional features such as car parks.

Table 2: Summary of the Accessibility Components in the LCA

Measure	Description	Rationale
Traversal	- Journey times from Lower Super Output Areas (400 to 1,200 households) to the closest Lower Super Output Areas (LSOA) in an area totalling 10,000 people. - The centre of LSOAs is determined by the ONS using population weights.	Aims to account for the relative additional cost – in terms of employee time and therefore the pay bill – of longer journeys between households when delivering services such as waste collection.
Dispersal	- DfT Journey Times from Output Areas (average 129 households) to the closest “hub town” (settlement of over 10,000 people). - The centre of each “hub town” is the centre of an Area of Town Centre Activity	Aims to account for relative additional cost – in terms of employee time and therefore the pay bill – of longer journeys to reach households to provide services such as child protection visits.

Measure	Description	Rationale
	(ATCA) or a selected school or shop in a settlement without an ACTA.	

3. Weights

3.1 Components of the ACA are weighted together into a single index for the relevant service area.

3.2 Weights for the LCA and RCA are determined using two data sources: Revenue Outturn (RO) and Subjective Analysis Return (SAR). RO statistics show the actual revenue spending of all local authorities in England using the final audited financial accounts where possible. A sample of authorities in England complete the SAR to give a detailed breakdowns of spending within services. Since data aggregated at the service level is used to calculate the weights, the final ACAs for individual authorities are not dependent directly on their RO or SAR return.

- Local authorities record the split of their spending on each service line in the RO between: “employee costs” and “running costs”.
- Next, we identify the components of ‘Running Costs’. The SAR collates authorities’ break down of running costs into categories and we assign these categories to the most appropriate components of the ACA (see Annex C for a full list).
- The cost of spending for some categories is assumed to vary with one of the LCA, RCA or Accessibility (for example, agency staff costs are assigned to the LCA).
- Some categories are assumed to be unaffected by any components of the ACA and remain **unadjusted** (for example, energy costs are assumed not to vary geographically).
- Some categories are assumed to be affected by all three factors and are **split** (for example, contracted services).

3.3 In line with the previous Area Cost Adjustments, we assume 70% of contracted costs are labour costs, so assume 70% of the split category refers to employee costs and 30% refers to running costs. We apply the weights from the previous step to split the “running costs” of those categories assigned to ‘split’.

3.4 Adding the employee costs from the RO to the labour costs from within running costs and splitting insurance costs according to these weights, we get a final weight for the LCA and RCA.

3.5 Accessibility is a measure of additional **employee time** needed to deliver services owing to journey times and is therefore applied to the LCA. Weights for

Accessibility are determined using the National Transport Survey (NTS) or service specific cost modelling where data is available.

3.6 The default weight is calculated using the average number of **hours per year spent travelling for work** by relevant workers in the NTS, as a proportion of all paid time.

3.7 Once the weights are determined, the indices are combined to form ACAs for the relevant service(s). The Children's Services weights are found in Annex A and the equations in Annex B.

3.8 All indices are calculated at lower and upper tier levels, with separate regressions for each tier.

3.9 Weights differ between services primarily due to the service specific employee costs from the RO data. This reflects the fact that services such as Children's Services are more labour intensive than Highways Maintenance for example. Furthermore, the running costs differ between social care and other services, due to the structure of SAR data.

3.10 The LCA weight, RCA weight and Unadjusted weights all sum to 1 for each spending area. Accessibility weights are separate as they form the Adjusted LCA.

4. Comparison to 2021 ACA

4.1 The 2024 ACA uses the same methodology as the ACA published in 2021. The main differences between these two updates can be summarised by:

- Updated input data which included using 2022-2024 ASHE data, 2023 VOA data, updated RO data and SAR data to calculate the weights, updated data on hours spent travelling for work in the NTS.
- New Local Authority Geographies which reflect recent local government reorganisation and included values for Cumberland and Westmoreland & Furness.
- A Business Density Variable has been added to the RCA regression specification to help control for some of the variation in area value within a Local Authority.

5. Other assumptions

5.1 Capping the City of London (CoL) Accessibility values

- The CoL's traversal and dispersal values are significantly higher than the mean values for other Inner London Boroughs (ILBs). This is primarily a result of the CoL's small population and unique characteristics (see 2021 ACA methodology for more detail).
- Therefore, due to the un-naturally high values from the CoL's unique characteristics, the City's traversal and dispersal values are capped at the median values for all other ILBs.

5.2 Business Density Control Variable in the RCA

- Land and property values in business districts are exceptionally high which results in high RCA values for Local Authorities with such districts.
- However, Local Authorities with business districts have a high range of business densities within themselves, indicating that business districts and their associated higher rental costs do not cover whole authorities.
- Therefore, a Business Density variable is added to the RCA regression specification (see Annex B). This variable serves as a proxy for central business districts and helps control for the variation in area value within a local authority.

Annex A: Weightings

Table 3: Weights used in the Children's Services Area Cost Adjustments

RNF	LCA	RCA	Unadjusted Weight	Accessibility
Children's Services *	67%	2%	32%	2%

*Figures may not sum to 100% due to rounding.

Annex B: Equations

Equation 1: Regression specification for the LCA

$$\ln(gross\ pay) = \alpha + \beta_1 hours + \beta_2 age + \beta_3 age^2 + \gamma_i local\ authority_i + \delta_j full\ time_j + \delta_k private\ sector_k + \delta_l occupation\ and\ industry\ group_l + \delta_m sex_m + \varepsilon$$

Equation 2: Regression specification for the RCA

$$\ln\left(\frac{rateable\ value - plant\ and\ machinery\ value}{total\ area}\right) = \alpha + \beta_1 \frac{line\ area}{total\ area} + \beta_2 \frac{other\ addition\ area}{total\ area} + \beta_3 \frac{car\ park\ area}{total\ area} + \beta_4 business\ density + \gamma_i local\ authority_i + \delta_j property\ description_j + \delta_k line\ description_k + \delta_l other\ addition\ description_l + \delta_m adjustment\ desciption_m + \varepsilon$$

Where:

$$business\ density = \frac{sum\ of\ businesses\ registered\ (LSOA)}{LSOA\ Area}$$

Equation 3: Calculation of the final ACA for Local Authority 'i'

$$ACA_i = (Adjusted\ LCA_i * LCA\ Weight) + (RCA_i * RCA\ Weight) + Unadjusted\ Weight$$

Where:

$$Adjusted\ LCA_i = 0.5 * [(Traversal_i * Accessibility\ Weight) + (Dispersal_i * Accessibility\ Weight)] + (1 - Accessibility\ Weight) * LCA_i$$

And:

$$1 = LCA\ Weight + RCA\ Weight + Unadjusted\ Weight$$

Annex C: SAR

- The SAR (Subjective Analysis Return) is a survey of local government revenue and expenditure, completed by a sample of authorities in England every 3 years.
- It is used to assign weights for the different components of the ACA. As not all authorities fill in the SAR, weights are calculated using aggregated data. Sub-categories of expenditure in the SAR are subjectively assigned to either the LCA, RCA, Accessibility (which is incorporated into the LCA weights), Split and Unassigned:

Table 4: Summary of the ACA categories given to the SAR components

PART B - RUNNING EXPENSES	**Weighting**
18 Repairs, Alterations and Maintenance of Buildings	RCA
19 Energy Costs - Electricity, Gas and Other	Unadjusted
21 Rents	RCA
22 Rates	RCA
23 Water Services	Unadjusted
24 Fixtures & Fittings	RCA
25 Cleaning and Domestic Supplies	RCA
26 Grounds Maintenance Costs	RCA
27 Premises Insurance	RCA
28 Other Premises Related Expenditure	RCA
29 TOTAL PREMISES EXPENSES (Total of lines 18 to 28)	**Sub-total**

30 Direct Transport Costs - Vehicle Running Costs, Repair & Maintenance	Split
32 Contract Hire and Operating Leases	Unadjusted
33 Car Allowances for Travelling Expenses	Unadjusted
34 Public Transport Allowances for Travelling Expenses	Unadjusted
35 Transport Insurance	Unadjusted
36 Other Transport Related Expenditure	Unadjusted
37 TOTAL TRANSPORT EXPENSES (Total of lines 30 to 36)	**Sub-total**
38 Equipment, Furniture & Materials	Unadjusted
39 Catering	Split
40 Clothing, Uniforms & Laundry	Unadjusted
41 Printing, Stationery and General Office Expenses	Unadjusted
42 Communications and Computing - Postage, Telephone, Computer Costs and Other	Unadjusted
46 Subsistence and Conference Expenses	Unadjusted
47 Subscriptions	Unadjusted
48 Insurance	Other
49 Schools' Non ICT Learning Resources	Unadjusted

50 Schools' ICT Learning Resources	Unadjusted
51 Exam Fees	Unadjusted
52 Other Supplies and Services Expenditure	Unadjusted
53 TOTAL SUPPLIES & SERVICES EXPENDITURE (Total of lines 38 to 52)	**Sub-total**
54 Joint Authorities and Other Local Authorities	Unadjusted
55 Payments to Voluntary Bodies	Unadjusted
56 Private Contractors and Other Agencies - Professional Services	Split
57 Private Contractors and Other Agencies - Agency Staff	LCA
58 Private Contractors and Other Agencies - Other	Split
59 Internal Trading Organisations	Unadjusted
60 TOTAL THIRD PARTY PAYMENTS (Total of lines 54 to 59)	**Sub-total**
61 Total Transfer Payments (Discretionary)	Unadjusted
62 Expenditure on Management and Support Services	LCA
68 Balancing Item	LCA
63 TOTAL Part B (Total of lines 29, 37, 53, 60, 61 & 62)	**Sub-total**