



“Local authority funding reform: objectives and principles”

County Councils Network, Society of County Treasurers and Association of County Chief Executives Joint Response

Executive Summary

- The current funding system is out-of-date and urgently needs to be updated. This funding review should take into account differences in demand, unit costs, and the ability to raise council tax income. These elements are fundamental to the review and mirror the approach taken in the 2018 consultation document.
- In broad terms CCN, ACCE and SCT support the principles underpinning this review set out in the consultation, which we believe will support the effective operation and public accountability of the funding regime - if they are adhered to and implemented in full. Both robustness and transparency should be applied without any caveats.
- We do have concerns about some aspects of this consultation. There are statements throughout the consultation that indicate where ministers might depart from the 2018 consultation, but any such departure should be justified by evidence. Therefore, there are indications throughout the consultation that ministers may depart from the 2018 consultation. For example, ministers have made their view very clear that deprivation should merit a much greater emphasis in funding distribution, as happened with the 2025-26 Local Government Finance Settlement when the Recovery Grant was very highly targeted towards authorities with the highest levels of deprivation, whilst the Rural Services Delivery Grant was abolished.
- Any changes to funding formula need to be based on evidence to ensure that the new review retains the confidence of the sector. Our strongly-held view is that deprivation is only one cost driver, and that other cost drivers are just as important. For example, many of the cost pressures in local authorities in recent years have come from market failure rather than deprivation. The effect of these market failures on county authorities have been at least as great as in areas with higher levels of deprivation, and it is important that an outcome of the review is to provide too much weighting to deprivation within any new formula.
- Ministers must therefore ensure that they take a balanced approach in the funding review, and that they take decisions that are reasonable, based on evidence and not based on preconceptions about where the current funding formula is not meeting councils' needs.
- We recognise that council tax levels need to be reset within the funding formula. However, CCN, SCT and ACCE would favour partial equalisation, and we emphasise that

the government must be careful to ensure that the effects of equalisation do not undermine the financial sustainability of any individual authority. We supports partial equalisation using “notional” rather than actual council tax levels, but the percentage equalisation is crucial in this respect.

- CCN strongly supports the government’s indication that it will use a Foundation Formula to distribute funding for any functions that do not require a specific formula. This approach was developed by the previous government (in the 2018 consultation). There was strong statistical evidence that these are functions where the distribution of “needs” could be largely explained by population, a unit cost adjustment, and (possibly) a limited deprivation weighting: “population of a local authority remains the most important driver of demand for the bulk of non-social care services”. There is very strong evidence from the 2018 consultation paper that the deprivation weighting should be very low.
- As stated through this consultation response, our view is that wherever possible the government use the best available independent academic-led evidence to develop needs-based formulae. We note that robust evidence-based formulas have already been developed for the “needs” formulas, in particular for adult and children’s social care: these could easily be implemented with very little further amendment.
- CCN, SCT and ACCE supports having separate formulas for Adult Social Care, Children’s Social Care, Fire and Rescue Services, and highways maintenance and we would strongly recommend one is established for Home to School Transport. These are major services where the distribution of demand cannot be explained by a simple population-based formula; a more sophisticated formula will be required, or one using a different basis for distribution (e.g. highways lengths).
- CCN, SCT and ACCE is strongly of the view that the adult social care RNF needs to be fully updated as part of the review as there are some serious problems with the current Adult Relative Needs Formula (RNF), most of which we were aware of at the time that the formula was introduced in around 2006. The University of Kent’s research and formula is much more robust. A new formula should be applied to both funding within SFA and specific adult social care grants wherever possible.
- We would also urge the government to confirm that full implementation of other new funding formula for the Public Health Grant will take place alongside the wider funding reform package.
- The consultation paper proposes replacing the current ACA and density and sparsity indicators with the new Area Cost Adjustment (ACA). ‘Remoteness’ was a significant element from the 2018 proposals for the ACA, and seems to have been dropped from the latest ACA proposals. Remoteness takes account of market failures in more remote areas. CCN would like to confirm that this important element will be reinstated and will be included in the future ACA. With that important caveat, overall, CCN, SCT and ACCE supports the new ACA and the travel-time elements that will be included within it.

Introduction

1. This is a joint response from the County Councils Network, Society of County Treasurers and Association of County Treasurers. The 37 CCN members, 41 SCT members and 38 ACCE members are drawn from the same county and unitary councils representing rural parts of England, collectively representing 47% of the population of England and providing services across 87% of its land area.
2. It is worth noting that this includes a number of sparsely populated rural county areas. The rural economy provides £315bn of national income, and 16% of national GVA, and these communities cannot survive if roads are not maintained, and pupils of all ages struggle to attend local schools and colleges to acquire skills.
3. You can find details of CCN's membership [here](#), SCT membership [here](#), and ACCE membership [here](#).
4. Hereafter, CCN refers to CCN, SCT and ACCE jointly.

Overview

5. CCN welcomes the publication of the consultation on funding reforms. The current funding system is out-of-date and urgently needs to be updated. The broad proposals put forward appear to be based closely on those published for consultation in 2018 – rightly so in the view of CCN. On the “needs” formulas in particular for adult and children’s social care, there are robust evidence-based formulas that have already been developed and which could be implemented with very little further amendment.
6. It makes sense that the government is proposing to build on the work that was undertaken by the previous government. We can see that the principles will largely be unchanged from the 2018 consultation, and many of the same building blocks will be used, for example within the new needs formulas. CCN could broadly support a continuation of the 2018 proposals, even though we recognise that some of our member authorities would not necessarily have benefitted from those earlier proposals.
7. Whilst there were aspects of the 2018 consultation that CCN did not support, the overall direction of travel is welcome given the need to complete this exercise before the next provisional settlement at the end of the year and the need for certainty. Having the results on the in-depth work that has been undertaken to call on provides an opportunity for the government to balance the tight timescale with the need for robustness, ensuring confidence in the sector as the new formulae are implemented
8. Overall, the consultation document is drafted very cautiously, with little supporting arguments and no supporting data, so it is not possible to understand exactly where the government wants to take the review. The approach suggested seems largely sound and familiar, though the absence of detail and of numbers setting out the impact on the sector as a whole and on individual authorities or groups of authorities, makes it difficult to comment meaningfully.

9. We do have concerns about some aspects of this consultation. There are statements throughout the consultation that indicate where ministers might depart from the 2018 consultation, but any such departure should be justified by evidence. For example, the consultation paper suggests that ministers may want to use their judgement about the weighting of deprivation funding in the Foundation Formula; but any changes to the funding system must be evidence-based, and the application of discretion should be kept to the minimum (and where essential, it should be exercised within reasonable bounds), be based on the principles of fairness, credibility and transparency and be evidence based.

Deprivation is not the only cost driver

10. Ministers have made their view very clear that deprivation merits a much greater emphasis in funding distribution: "There is a strong argument that local authorities with high levels of deprivation see more demand for their services". This is a statement made without any supporting evidence. Furthermore, these areas with high levels of deprivation will also already be receiving higher allocations of needs funding because deprivation is already a factor in the current formulas. If the government believes that this evidence exists, we would welcome its publication as part of its commitment to transparency through this process.
11. CCN's very strongly-held view, based on the available evidence, is that deprivation is only one such cost driver, and that there are other cost drivers that are just as important in services such as adult social care, SEND and Home to School Transport. For instance, many of the cost pressures in local authorities in recent years have come from market failures, and their effect on county authorities have been at least as great as in areas with higher levels of deprivation. Ministers must ensure that they take a balanced approach in the funding review, and that they take decisions that are reasonable, and based on evidence and not on preconceptions. Whilst we recognise the desire of the government to make good some of the existing impact of inadequate funding on local authorities, where councils are under pressure and seeking Exceptional Financial Support, this is not correlated to deprivation, but because of inadequacies in the overall quantum available for local government. Prioritising money towards deprivation will not tackle this issue.
12. We saw this deprivation-based approach in action in the 2025-26 provisional settlement: the Recovery Grant was very highly targeted towards authorities with the highest levels of deprivation and was not taken with a clear appraisal of the needs of rural communities. At the same time, more broadly-based approaches to funding distribution were abolished (e.g. the Services Grant). The funding reform consultation gives the very strong impression that ministers intend to continue to increase the weight for deprivation in the funding distribution. Indeed, the consultation paper, combined with the settlement and other ministerial statements, commits to getting money where it is most needed but indicates that decisions might already have been taken despite evidence not having been received. In other words, that the outcome of the funding reform process has already been determined. If so, this is extremely worrying – both in terms of sound administration of public money, and sector and public confidence in the local government funding system.

13. The first chapter of the consultation paper makes an unsupported claim about council tax levels in more-deprived areas. It is true that some parts of the country are able to generate more council tax income per head than others, and many of these areas are CCN members. However, it is not correct to imply that more-deprived areas have higher Band D council tax. They do not, and not only is there is no evidence to support this, and the available evidence suggests the contrary, as shown in the council tax levels between inner London and other parts of the country
14. As we outline in detail in this response, CCN's view is that there could be a deprivation indicator within the foundation formula, but that it should be included if and only if there is a clear statistical basis, and be weighted according to what the evidence suggests.

Scope

15. The consultation paper's scope encompasses the Settlement Funding Assessment (SFA), the Business Rates Retention System (BRRS), and a replacement for the New Homes Bonus (NHB). This is a reasonable starting point but we assume that the formula changes will also be applied to all the specific grants within Core Spending Power (CSP). The consultation is not explicit about this, but it would be inconsistent to change, say, the Adult Social Care formula within SFA, but not to apply it to the ASC specific grants. (Furthermore, these grants include equalisation of the precept which, we assume, will in future take place within SFA.)
16. CCN would like to seek assurance that existing adult social care grants will be distributed using the new Adult RNF, and that any existing equalisation within these grants will be removed, and that any equalisation only takes place within the SFA. We would also like an assurance that no further equalisation will be applied to any specific grants during the period of the next multi-year settlement.
17. There is no mention of Public Health Grant. A new formula has already been part-implemented for this grant; we urge the government to confirm that full implementation of the new funding formula will take place alongside the wider funding reform package. We would welcome a government commitment to publish Public Health Grant allocations at the time of the Local Government Finance Settlement to avoid a situation where councils are having to set budgets without knowing their allocations for the coming year.
18. Wider than the Public Health Grant, our view is that the funding reforms should have the widest possible range and incorporate all the major specific grants both inside and outside CSP. This is a good opportunity to review and update all funding sources, and to apply revised and updated "needs" assessments to all the core funding streams.
19. Whilst it is beyond the scope of this consultation, the government should also be mindful of decisions taken elsewhere in government and of other distribution formula on local authority finances and financial stability. The issues around SEND are well-documented, with mounting concern about the impact on councils when the 'Statutory Override' ends at in March 2026. These issues appear to be more acute in counties as the Dedicated Schools Grant is distributed using a formula that has under-funded county areas.

Principles

Question 1: Do you agree with the government's objective to allocate grant and retained business rates income in a way which accounts for differences between local authorities in demand for services, the cost of delivering them and ability to raise Council Tax locally?

20. Yes – we agree that the funding review should take into account differences in demand, unit costs, and the ability to raise council tax income. These elements are fundamental to the review and mirror the approach taken in the 2018 consultation document. This also reflects the approach taken in earlier reviews.
21. However, ministers should ensure that the drivers of need are based on the best economic and statistical techniques, and reliable and up-to-date data. Any variation in “needs”, costs, or council tax should be based on evidence and not on unfounded judgement.
22. We do not support the use of regression-based funding formulas which are based on past spending decisions. These only seek to replicate the historic patterns of funding and do not account for unmet need (which can be particularly damaging to rural communities) or different levels of efficiency in delivering services. Using population within the Foundation Formula is an effective way of addressing unmet needs, and of moving away from past expenditure patterns.

Question 2: In addition to the areas included in this consultation, are there elements of the local government finance system that are not fit for purpose and require improvement and reform? If so, please provide information on what reforms are required and why.

23. Many of the pressing problems with the current funding regime have been caused by the previous government not keeping the system up to date. Funding allocations have failed to keep pace with changes in “needs” (and local taxation), as well as population. It has also created huge cliff-edges for authorities, where the reset of the system will potentially create enormous losses (or gains) in funding. Authorities have been uncertain about when funding changes will take place, and the effect of those changes on their financial position. As a result, authorities have not been able to make effective decisions based on a full understanding of their financial position.
24. At the same time, the sector has had to cope with seven successive one-year settlements. This has added to the uncertainty about funding and has again hampered sound financial planning, and service transformation and delivery in local authorities. Ironically, these settlements have given the sector reasonable cash- and real-terms growth in resources – but without forward certainty, it has been difficult for authorities to use the resources as effectively as they otherwise could have done.
25. We would welcome a commitment from this government to give local authorities certainty about funding levels over the medium term, and certainly over the remainder of this parliament, aligned with the Spending Review. We would also welcome certainty about the elements of the funding system that will be updated at the end of this period,

and some indications about how they will be updated. For instance, to understand which elements of the “needs” assessments will be reviewed, or how the business rates baselines will be reset. We would also welcome new thinking on providing forward financial certainty for major front-line services, which is not constrained as now by the artificial timescales of Spending Reviews.

26. Council tax is also becoming out-of-date in many ways, and is a weakness in the funding system. Given wider changes to council tax, such as a revaluation, are outside of the scope of this consultation, in the shorter term local authorities need more flexibility over the charges they apply to their band D levels.
27. Some authorities are stranded on lower Band D levels, and the ability to increase them above the current referendum thresholds would enable them to manage their financial health more effectively. Council tax flexibilities could play an important role in funding reform transition and, as a matter of principle, additional flexibilities should be part of the solution to lower council tax levels rather than offsetting this difference in any grant calculation.
28. There should be a clear process for how government departments develop and introduce new funding formulas. Departments are often operating to different standards, and have varying levels of understanding about the needs and characteristics in local government. Recently, formulas have been introduced with no prior collaboration or consultation, and insufficient explanation of their mechanics. There have been a number of examples in this settlement.
 - The Recovery Grant has been developed without any prior consultation or input with local authorities.
 - The Children’s Social Care Prevention Grant is loosely based on previous research that was commissioned by the Department for Education – but this research has not been published and there is no clarity about how it has been used.
 - Guaranteed amounts for Extended Producer Responsibility (EPR) were published late in the financial year, and there was no opportunity for authorities to comment on or contribute to the development of the approach to funding allocations.
 - Actual funding allocations for Employer’s National Insurance Contributions were only announced at the Final Settlement (with less than two months notice), and the description of the methodology that will be used is insufficiently precise.
26. In none of these new grants have the full mechanics of the distribution been supplied so that authorities can check how their allocations have been calculated and ensure themselves that errors have not been made. Quite apart from issues of public accountability, it is imperative that there is an agreed pathway for new funding streams, and a quality assurance process to make sure that funding allocations have been developed to accepted standards. This also has to apply to the wider funding reform programme for 2026-27 onwards.

Question 3: Do you agree that the suggested principles should inform our approach to updating local authority funding allocations?

27. The principles in the consultation paper are largely unchanged from those in the 2018 consultation: simplicity, transparency, dynamism, sustainability, robustness, and stability, with one additional principle: accountability.
28. In broad terms, these are sensible principles that will support the effective operation and public accountability of the funding regime. For instance, CCN would fully support using “the best possible objective analysis and evidence”. Inevitably, though, there will to some degree be choices between how the principles are applied in practice. As an example, a dynamic funding system that is regularly updated is less likely to be a simple or stable funding system.
29. Where there are trade-offs between the principles – which will inevitably be the case – the government should ensure that there is a forum in place for these decisions to be discussed, and for the sector to make a contribution towards how those trade-offs are made in a rational manner. The process has to be owned by the sector, and for authorities to feel that they have co-produced the outcomes.
30. CCN’s preference is to have a simpler funding system that is updated periodically. Our member councils would prefer to have certainty about future funding allocations. We would prefer to return to a similar multi-year settlement (MYS) where there is a high degree of certainty in funding allocations, but rather than fixing allocations for the multiple-years, allocations should be set with CPI uplifts guaranteed throughout the MYS.
31. Broadly, we also support a simpler funding system, where this is possible and where it reflects underlying differences in “needs”. The previous government’s concept of a Foundation Formula is a sound one from our point of view, and we are pleased that the government is continuing this into the new funding review. Of course, there are some services where a separate funding formula will be required, but decisions to move away from a simple formula should be made on a case-by-case basis and on the basis of evidence.
32. Transparency is a principle that should be applied without any caveats. Development of all the new formulas should be undertaken transparently. Authorities should be able to see how the formulas have been developed, and the evidence on which they have been based, and the areas where choices have been made. This should be an overriding principle that is observed throughout the funding review process. Unfortunately, the new formulas used in the provisional settlement have not been developed in a transparent way, and we strongly urge the government not to repeat this approach in the wider funding reform process. For example, we still have not yet seen the planned CSC formula, nor modelling of the planned ASC formula.
33. Of course, the new funding regime should itself also be transparent. Authorities should be able to understand how their funding allocations have been calculated, and should be able to replicate those calculations. It should be clear how the elements within the funding system interact. This is particularly the case for the interaction between the “needs based” funding allocations and the Business Rates Retention Scheme (BRRS).
34. The key outcome of the funding review should be that it delivers resources and funding allocations to local authorities that allow them to function in financial terms and ensures

financial sustainability across the sector. There will inevitably be changes in funding, and some authorities will have a smaller share of resources in 2026-27 and beyond than they do now. The government needs to develop a transparent and public methodology for assessing the impact on financial sustainability of its funding proposals on the sector, which gives confidence to all authorities that changes in funding are affordable and sustainable.

Chapter 2 – Measuring differences in demand for services (“needs” assessment)

35. A considerable amount of work to inform the “needs” assessment was undertaken for the 2018 consultation. Although much of the underlying data is now out-of-date, this work can still form the basis of the “needs” assessments in 2026-27. CCN supports updating and refreshing the current “needs” assessments. We want to see new formulas that are based on independent, academic-led research (particularly in children’s and adult social care). We support the research that was undertaken by the University of Kent on Adult Social Care funding.¹ It was based on thorough and comprehensive research (over 13,000 data points compared to only 775 in the current formula), and modelled “needs” at a small-area level. A similar methodology was used in the CSC formula, whereby it captures and models the characteristics of the children using the services, rather than simply looking for measures which replicate the current distribution. We also strongly support using simpler formulas (population based) for funding outside the major service blocks (i.e. in the Foundation Formula). We recognise that council tax equalisation is an important part of these updates but equalisation should be applied in a way that does not jeopardise the financial sustainability of any local authority.
36. CCN supports having separate formulas for Adult Social Care, Children’s Social Care, Fire and Rescue Services, and highways maintenance and would like to see one established for Home to School Transport. These are major services where the distribution of demand cannot be explained by a simple population-based formula; a more sophisticated formula will be required, or one using a different basis for distribution (e.g. highways lengths).
37. CCN is strongly of the view that the adult social care RNF needs to be fully updated as part of the review as there are some serious problems with the current Adult Relative Needs Formula (RNF), most of which we were aware of at the time that the formula was introduced in around 2006. The University of Kent’s research and formula is much more robust.
38. Indeed, the University of Kent’s Personal Social Service Research Unit’s (PSSRU) report compares their approach to that used in the current formula. Essentially, the Kent research uses a lot more data, and to a much lower level, and so will produce much more reliable outcomes. These are the comparisons made by the University of Kent in its report:

¹ The revision of the Relative Needs Formulae for adult social care funding and new allocation formulae for funding Care Act reforms”, PSSRU, September 2018, <https://www.pssru.ac.uk/pub/5143.pdf>

- using data at much smaller area level, i.e. Lower Layer Super Output Area (LSOA), compared to ward level in the 2005/06 analysis;
 - using a much higher number of observations, i.e. more than 13,000 compared to 775 in 2005/06;
 - using newer data, e.g. Census 2011 and DWP 2013 compared to the Census 2001 data used for developing of the current (2005/06) ASC RNF;
 - using additional variables to capture need by taking advantage of the Census 2011, i.e. the share of people with limiting (significant) conditions;
 - using additional variables to capture the distribution of wealth, i.e. interaction terms between the share of home ownership and the share of properties in various council tax bands
39. As stated elsewhere in this consultation response, CCN's view is that wherever possible the government use the best available independent academic-led evidence to develop needs-based formulae. Based on this, CCN would strongly welcome the government using the proposals put forward by PSSRU *in full* as the basis for new formula, updating data where needed. A new formula should be applied to both funding within SFA and specific adult social care grants wherever possible.
40. In contrast, the consultation paper does mention the more-recent research for children's services, which was used to inform the proposed Children's Services Prevention Grant allocations in 2025-26. Both these two pieces of independent, academic-led research must be used as the basis for formulas for the current funding review, and we do not see any justification from departing from their recommendations. CCN is looking for a commitment from MHCLG that it will use all the available the research that has already taken place (at great expense), and that any departure from the researchers' proposals is fully evidenced and justified. In the absence of further information, our preference would be for these two formulas to be implemented with the minimum of changes. We would also like to see the original research papers that were commissioned and the most up-to-date allocations prepared on this basis.
41. The consultation is open about whether there should be separate formulas for capital financing, flood defence, concessionary fares, or home-to-school transport. Without having seen any evidence, CCN also has an open mind at this stage. MHCLG will have to provide evidence to show whether a separate formula is needed (or not), and to demonstrate that funding through a general, population-based formula would not significantly disadvantage some individual authorities or groups of authorities. We would expect that the department will consider whether expenditure is significant (after the application of specific grants). This is particularly the case for capital financing, which has in the past distributed significant sums to some authorities.
42. CCN's strong view is that there should be a specific formula for home-to-school transport (HTST). CCN's position on this has changed since 2018. Cost pressures in this service have increased substantially, and they continue to grow. County authorities in particular have experienced very significant increases in demand and cost. The network has produced substantive research on HTST demonstrating these rising costs, particularly in SEND HTST, including detailed analysis of the drivers of expenditure and their

disproportionate impact on our rural counties and large unitary authorities. CCN urge the department to study in detail the findings of Isos Partnership independent report,² analysis by the CCN and BBC of SEND HTST costs and service users,³ and future costs projections produced by PwC for CCN.⁴

43. It is absolutely clear from this evidence that a population-based approach to through the Foundation Formula will fail to capture relative needs in HTST and CCN would therefore support having a separate formula for this service.
44. CCN strongly supports the government's indication that it will use a Foundation Formula to distribute funding for any functions that do not require a specific formula. This approach was developed by the previous government (in the 2018 consultation). There was strong statistical evidence that these are functions where the distribution of "needs" could be largely explained by population, a unit cost adjustment, and (possibly) a limited deprivation weighting: "population of a local authority remains the most important driver of demand for the bulk of non-social care services"
45. We are concerned that ministers will increase the weighting and extent of deprivation indicators without evidence, in the way that has been proposed for the 2025-26 provisional settlement. Indeed, there are a number of indications in the consultation paper itself that ministers are considering using judgement to set a deprivation-based indicator within a Foundation Formula:

There is a "strong argument that local authorities with high levels of deprivation see more demand for their services", and that ministers would still be able to "exercise judgement in determining the drivers of demand".

46. Over the next year, CCN will be arguing very strongly against the application of judgement-based weighting for deprivation within the new formula – unless its application can be supported by evidence. There is very strong evidence from the 2018 consultation paper that the deprivation weighting should be very low.
47. The latest consultation paper states that:

"even the best statistical model of non-social-care need was found to be weak at explaining historic expenditure in this area".
48. This suggests, in fact, that there is no strong evidence basis to include indicators beyond population, including for deprivation.
49. An important issue that is not discussed in the consultation paper is control totals. These are the amounts of funding that are allocated to each service formula. The allocation of control totals ought to be determined by actual spending patterns. We would expect, for instance, that the social care control totals would have a much higher

² ISOS Partnership: From home to the classroom - making school transport services sustainable
<https://www.countycouncilsnetwork.org.uk/download/5114/?tmstv=1738004927>

³ PwC & CCN. The Outlook For Council Finances This Parliament
<https://www.countycouncilsnetwork.org.uk/download/5462/?tmstv=1738004954>

⁴ <https://www.countycouncilsnetwork.org.uk/councils-call-for-reform-of-send-school-transport-services-as-costs-double-for-local-authorities-in-county-areas-over-the-last-five-years/>

share in 2026-27 than they had in 2013-14. In our view, the share of funding for social care, and other upper-tier services, should be based on expenditure patterns now (i.e. the latest revenue outturn position), and should ideally also take into account potential future growth in spending, in relative terms, over the period of the multi-year settlement. Ministerial judgement when applied to control totals must be clearly communicated – including which elements of the service are to be increased or scaled back and why.

50. CCN would like to see the government be much more transparent about the evidence that they already have available. Any evidence and research from the 2018 process should be shared now, and the government should be clear about how much work has been done since then. For instance, the government ought to be able to share without any delay the academic research that has already been completed on adult and children’s social care. CCN will be pressing for new evidence and exemplifications to be made available at the earliest possible opportunity, and for these to be refreshed regularly. It would be unacceptable if authorities were to be kept in the dark until very late in the process; publishing exemplifications in June or July would be far too late.

Question 4: Do you agree with our proposal to use the best available evidence and most up-to-date data in the assessment of need, including using the most recent census data?

51. Yes – CCN supports using the best available evidence and latest data. Such an approach fits with the principles that we support. Any data that is used must be reliable. The exercise of ministerial judgement and discretion should be kept to the minimum and exercised in a reasonable manner, and the department should be completely transparent where this has been used and the basis for doing so.
52. If the government is going to use the Index of Multiple Deprivation (IMD) within the funding formula, it has to do much more to demonstrate that it is capable of reflecting local authority needs or its usefulness in predicting demand for services – living in an area that scores highly on the IMD does not translate into increased likelihood of need home to school transport services, for example. Its construction is arbitrary, with weightings that have little science or evidence behind them. IMD was designed to rank relative levels of deprivation between authorities; it was not designed to distribute funding. If that had been the case, then the indices would have been produced with different weightings for different service types. If a form of IMD is going to be used, then it needs to be developed for the purposes of local government funding distribution, and not taken as an off-the-shelf product.

Question 5: Do you agree with our proposal to simplify the assessment by reducing the number of Relative Needs Formulae? If you disagree, please explain why and which service areas you are concerned about.

53. Yes – but the planned approach to settling the number of specific formulas is opaque and lacks supporting data. The department firstly needs to show how data will be used to inform judgements, and how this is being used to identify the “needs” formulas concerned. This presumably uses historic expenditure levels, cost drivers and distributional impacts. This mapping needs to break down candidates for specific

formulas e.g. free or concessionary transport, SEND. The department also needs to clarify the planned coverage and cost drivers of the adult and children's formulas (to help establish whether separate formulas are needed for any part of these spending areas).

54. CCN broadly supports the specific formulas that are proposed. We have already indicated that there should also be a separate formula for home-to-school transport. We support dropping the Fixed Cost element. We would like to see further data on the distributional impact of abolishing the Capital Financing formula, although we are open to the change in principle.
55. The department should set out the proposed cost drivers for each of the specific formulas at the earliest opportunity.
56. We agree that population is the key cost driver for both upper and lower tier Foundation Formulas. A question remains about the 'best fit' weighting for adding deprivation to the upper and lower tier Foundation Formulas, or at least the potential range of weightings. CCN's view is that there could be a deprivation indicator but that it should be included if and only if there is a clear statistical basis.
57. It is important to remember that whilst local authorities with higher deprivation face significant needs for funding, this is true for all local authorities. If there is no statistical evidence for including deprivation in the formula then this reflects the need for additional quantum rather than a redistribution of relative shares. To be clear, CCN is not opposed to the inclusion of a deprivation factor but it must be included on the basis of statistical evidence, and must not be given undue weight, especially as those who would potentially gain the most already receive significantly higher funding per head as a result of the way that need is assessed in the formulas.

Question 6: For the children, young people and family services formula, do you agree that the variables set out are the right ones to consider in an assessment of relative need? If you recommend the addition or removal of variables, please provide supporting evidence and recommend a suitable dataset.

58. Our initial view is that the indicators that have been proposed are reasonable, but without seeing the research (that was commissioned through LG Futures) it is not possible for us to reach a firm conclusion. The academic research should now be published, together with the latest set of potential allocations on this basis, so that authorities can take an informed view. If the outcome of this academic research has not been implemented as originally intended then clarity should be provided on why this has not been the case for the sake of transparency.
59. We have further questions about the proposals for this formula: Has further work been done on these formulas? By whom? To what extent is the planned approach driven by data availability?

Question 7: Do you agree that the government should consider updating the data in the fire and rescue services Relative Needs Formula?

60. Yes – there needs to be a specific formula for Fire because, otherwise, stand-alone Fire authorities will not get an allocation. Also, the Fire formula has distinct cost drivers, based in part on risk. The proposed approach based on updating data is presumably because work to develop a more sophisticated model (mentioned in the 2018 consultation paper) has not progressed and there is now not enough time to do so.

Chapter 3 – Measuring differences in cost of delivering services (Area Cost Adjustment)

61. The consultation paper proposes replacing the current ACA and density and sparsity indicators with the new Area Cost Adjustment (ACA). A new ACA (developed for the 2018 consultation and used in the COVID RNF) included a travel-time element which was intended to compensate authorities for the additional unit costs associated with high density and sparsity.
62. 'Remoteness' was a significant element from the 2018 proposals for the ACA, and seems to have been dropped from the latest ACA proposals. Remoteness takes account of market failures in more remote areas. CCN would like to confirm that this important element will be reinstated and will be included in the future ACA. If not, the department should explain, with evidence, why it has been excluded. We assume that the department thought that incorporating this component was feasible in 2018.
63. With that important caveat, overall, CCN supports the new ACA and the travel-time elements that will be included within it. However, we have concerns that the additional costs within rural authorities are not being fully recognised by MHCLG. Some of our member authorities with high levels of sparsity will lose from these changes, as we have seen in the provisional settlement for 2025-26.
64. In our response to the 2018 consultation, CCN gave qualified support to the new ACA but raised concerns that other cost or demand pressures in rural areas were not being recognised:

“MHCLG has yet to provide compelling evidence that there is no additional incidence of additional costs in rural areas as a result of higher levels of demand. We believe that there is still a case for the inclusion of demand or volume related factors elsewhere in the funding formula to reflect some of the additional costs in rural areas. Home-to-school transport is one example.”

Question 8: Do you agree we should assess differences in cost using an Area Cost Adjustment based on the structure of 2024 ACA? If not, please provide evidence for alternative approaches.

49. Yes – CCN supports this broad approach. We would want the Remoteness element mentioned in the 2018 consultation paper to be included in the new ACA. This element was intended to account for variation in the cost of some inputs due to the size of local markets or isolation from major markets. We assume that the department thought that incorporating this component was feasible in 2018.

Chapter 4 – Measuring differences in locally available resources (council tax equalisation)

50. CCN recognises that council tax levels need to be reset within the funding formula. Equalisation would have been undertaken within the 2018 consultation as well, and the consultation states that:

“We agree with the previous government that local authorities better able to raise resources locally should receive a larger reduction to their allocation and those with less ability to raise funding locally should receive a smaller reduction”.

51. However, CCN would strongly favour partial equalisation, and we emphasise that the government must be careful to ensure that the effects of equalisation do not undermine the financial sustainability of any individual authority.

Question 9: Do you agree that (other than locally retained business rates) we should only adjust for Council Tax when assessing local resources? If you do not agree, please include details of what other sources of income you think should be included (if any), and how the government should adjust for them.

52. The consultation paper indicates that income from sales, fees and charges is unlikely to be included within equalisation. There are some good arguments for excluding these income sources (they often do not always recover full costs; some fees are determined by central government; there are often constraints on spending receipts). We assume that means excluding parking income as well.

53. However, this income is real and is being used by these authorities to fund spending on services. Many county authorities do not have access to the same level of income as district councils, or upper-tier authorities in more urban areas. As a result, CCN authorities have less to spend on services, and their residents suffer as a result. Whilst we recognise the arguments against including income from SFC in any future equalisation, we would like to see options including car parking income, because the levels of income in some authorities are exceptionally high, giving those authorities an unfair advantage and also increasing the council tax burden in county areas.

Question 10: Do you agree that we should measure Council Tax income by making uniform assumptions on the Level of Council Tax charged by local authorities and factors which determine their ability to raise Council Tax?

54. Yes – CCN supports partial equalisation using “notional” rather than actual council tax levels, but the percentage equalisation is crucial in this respect.
55. The consultation paper gives a very strong steer that equalisation will be based on “notional” rather than actual council tax levels (that is, an authority’s share of the national taxbase and an assumed level of council tax). Notional equalisation has been used in previous funding reviews, and was proposed in the 2018 consultation. CCN would strongly support equalisation on the basis of an authority’s notional rather than actual share of council tax resources.

Question 11: To what extent should we adjust for Council Tax when determining local authority allocations (i.e. what assumption should we make on Council Tax Level)?

56. CCN strongly supports partial rather than full equalisation of council tax within the funding formula. There is precedent for partially equalising council tax (in 2013-14, we estimate that only 85% of council tax levels were equalised). CCN would support linking the level of notional equalisation to an external benchmark, such as the lower-quartile Band D. This would allow councils to keep the council tax income that they raise where their own Band D is higher than this benchmark.
57. Ministers might be tempted to fully equalise council tax – but it could be very financially de-stabilising within the funding system, and make the transitional system much harder to manage. Excessive council tax equalisation will have a serious negative impact on the financial sustainability of those authorities affected. Any changes in the treatment of council tax within the funding system has to take this fully into account. And we would expect the department to set out its criteria for assessing financial sustainability at the outset of the review.
58. Partial equalisation would also allow councils to keep some of their taxbase growth which will incentivise (and reward) them for building more housing. This is something ministers want to encourage, and partial equalisation would support this outcome. Local authorities should be encouraged to grow their taxbases and to benefit some of that growth over the long term. Taxbase growth is often used by local authorities to fund the additional services that are required when their populations grow. (See our response to the question 13.)
59. Furthermore, it is essential that the government recognises that council tax is a local tax. Excessive equalisation would undermine the connection between locally-raised council tax, and locally-funded services. Residents expect their council tax to be spent locally and recognition it is a local tax is required to maintain trust between residents and local authorities. A transparent approach to applying equalisation is essential to avoid the perception of undue redistribution of council tax resources.

Chapter 5 – Resetting the Business Rates Retention System

60. CCN supports the proposals for a full baseline reset in 2026-27, with further regular resets after that. We agree that the baseline reset is “long overdue”, and we eagerly await the technical consultation on the baseline reset this year.
61. The reset will result in authorities losing most or all of the business rates growth that they have built-up since 2013-14. Any surplus arising from the reset will be reallocated “as per the updated assessment”. The government is also going to take the opportunity to improve the way that the BRRS operates (e.g. remove s.31 grants). It is essential that any surplus arising from the reset and from s.31 grants remains within the sector, and CCN’s view is that it should be redistributed based on “needs” (i.e. Settlement Funding Assessment).

62. A full baseline reset in 2026-27 would be very beneficial to most CCN authorities. We estimate that the net benefit from the reset would be more than £400m. The gains would be reliant on the government sharing the reset surplus based on the updated “needs” assessment. Shire county councils only retain a 9% share of business rates growth (10% if they have a Fire & Rescue Service), and have not fully benefited from the retained business rates system as a result.

Question 12: Do you agree Transitional Arrangements should account for a Business Rates Reset? If not, please explain why.

63. Yes – the level of turbulence from the reset will be significant and needs to be factored into transitional arrangements. CCN would support including the effects of the baseline reset within the transitional arrangements. For some authorities (particularly many shire district councils), not including the reset within damping could be financially catastrophic.
64. The department should share information with the sector about the levels of retained rates across local government. Data on the level of retained rates should be published by the department on a regular basis, and has not been published for a number of years. It would be help with transparency, and with understanding the potential scale of a business rates reset.

Chapter 6 – The New Homes Bonus (NHB)

65. CCN supports abolishing NHB in 2026-27, and we look forward to the further consultation paper specifically on a replacement to NHB in the first half of 2025.

Question 13: Do you agree or disagree we should enable and encourage local authorities to support housebuilding in their areas through the Local Government Finance Settlement? Please provide any explanation or supporting evidence for your view.

66. CCN’s view is that incentives do not sit well within the settlement process, which should be focused on needs and resources. There is already an incentive to enable and encourage housebuilding from council tax itself, and NHB effectively duplicates that incentive. It could be argued that council tax alone (with periodic and partial equalisation) is the best way of incentivising house-building.

Chapter 7 – Implementing changes and keeping allocations up-to-date

67. The proposals outlined in the consultation paper – and in the previous 2018 consultation – indicate the potential for very substantial changes in funding, and some very significant losses for some authorities. Some form of transitional support will be essential so that funding losses (and gains) are introduced over several years. There is a tension here between relative “winners” and “losers”, particularly around the pace of change. CCN supports the government in its objective of introducing funding changes in an “orderly and efficient manner”.

Question 14: What measures should we use to support local authorities to move to their updated funding allocations?

68. The transition model included for illustration in the consultation document is particularly forceful, with transition completed on a fixed timescale for all authorities. It is concerning that the government has proposed likely funding changes on the scale that are envisaged in this consultation without providing evidence about the robustness of local authority finances, or a methodology for assessing the scale of change that an authority would be able to cope with.
69. An alternative approach to transition would be a 'glidepath' model under which authorities arrive at their target allocations at different times, depending on the distance between their current and target allocations i.e. authorities get more time the further they are away from their funding target. Our preference would be for a transitional scheme based on sustainability rather than an arbitrary target date.
70. A broad measure of the funding baseline for transition is preferable. CCN would favour transitional support having a wide coverage, including both changes in Core Spending Power (CSP) and the effects of the baseline reset. The pace of change is equally important, and on this the consultation paper is vague. We understand that the design of the transitional arrangements has to take into account the funding that is available ("the broader economic and fiscal climate") – but the overriding objective has to be that every affected authority can cope financially with the proposed change in funding.
71. Relative 'winners' will want to argue for a quick transition; relative 'losers', for a slower transition. The example used in the consultation shows changes in funding over 3 years only (the paper only talks about "over several years"). Whilst this may work for those with relatively small changes (those in the middle), this will likely be too rapid for some. Given the potential scale of funding changes, we would have thought that at least 5-6 years will be needed for funding changes to be fully introduced. What measures will Ministers use to assess the effectiveness of transition model, and to ensure the financial viability of every authority? The government should also consider using the existing funding for the New Homes Bonus – which is due to finish this year – and the Recovery Grant – which was a one-year allocation – to help with this transitional arrangements.

Question 15: Do you agree we should keep funding allocations up-to-date dynamically by using the most up-to-date data possible? If so, how?

72. The future funding system will also need to balance future dynamism in allocations with multi-year certainty. This is about how (or if) the funding allocations are updated over the remainder of the Spending Review period for changes in population or taxbase. The multi-year settlement between 2016 and 2020 prioritised certainty over updating data (and many county authorities appreciated the absolute certainty of this approach). We would have thought most councils will favour certainty, i.e. a fixed, multi-year settlement.
73. Our preference would be for stability through a three-year settlement. The Mid-Year Estimates could be used for the first year of the settlement, with the welcome commitment to then update this as we progress through the other years of the settlement, with only a change in control totals. Reports could be amended to

compensate authorities where their population at the reset is much higher and they have “lost out” in the previous years, to a value of 10%.

Chapter 8 – Reviewing demands on local government

Question 16: What are the most excessively burdensome activities or requirements for councils, which if changed, could significantly free up local government capacity?

74. The government asked the sector for their views on this within the past year when they asked councils to submit productivity plans – we assume that the department still has these on file, and we would draw especial attention to those of our members.
75. In particular, the accounts that councils are required to produce could be simplified and the process made less onerous, especially given persisting issues around the audit regime. We would also suggest that simplifying accounts may make them more accessible for residents.
76. The government should also consider what changes it can make to the funding regime for local authorities would help. Uncertainty and a lack of transparency from one year to the next means that councils have to dedicate more resource to risk management. Last minutes changes to funding, including the introduction of new distribution formula, new grants or sudden cessation of grants is also not helpful. The government should also end funds that need to bid for, and indeed reduce the number of funding pots for a more simplified system of funding.

Question 17: Do you agree with our proposals to reduce the number of grants and New Burdens payments issued to local government?

77. Yes – CCN supports the overall principle of simplifying the funding system and increasing the number of grants that are paid via Revenue Support Grant (RSG). This approach will help local authorities to forecast their future funding, reduce the administrative burden on authorities, and give them more control over how these resources are used.
78. Some principles should also be established about how these funds will be distributed in 2026-27 and beyond. We assume that they will be distributed using the most appropriate formula within the new SFA – but some clarity would be helpful, because changes in funding distribution will negatively affect some authorities.
79. It would also be helpful if MHCLG published a full list of the grants that are potentially in-scope for rolling into SFA in 2026-27. New burden funding must be sufficient. and transparent, but that does not mean that funding arrives as a separate grant, it can be rolled straight into the settlement.

Chapter 9 – Sales, fees and charges

Question 18: Do you agree or disagree that the government should provide local authorities with greater control over Sales, Fees and Charges? Please provide supporting evidence, considering specific fees where greater control would be of most benefit, and expected impacts on charge-payers.

80. Yes - though the planned shift in accountability from central to local government is blunted by remaining statutory requirements and potential central conditions over the impact on vulnerable individuals, working people and businesses. True devolution would allow (and trust) councils to agree their own policies on these issues.

Chapter 10 – Equalities impacts of the proposals in this consultation paper

Question 19: Do you have any views on the potential impacts of the proposals in this consultation on persons who share a protected characteristic?

81. Whilst we have no specific evidence on protected characteristics, given that there will be a significant section of our population who have protected characteristics, it is important to ensure that MHCLG gets these funding formulae right, so that we can continue to support services used by some of the most vulnerable in our communities.