

# The Fair Funding Review 2.0

A consultation on the government's proposed approach to local authority funding reform through the Local Government Finance Settlement from 2026-27

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# Ministerial foreword

Local government runs around 800 essential services that we all rely on, supports the most vulnerable, and is the foundation of a functioning state.

This government is under no illusion about the scale of the issues facing local government. We know that the demand for, and cost of, services has increased significantly – and that this has made the job for local authorities in recent years much harder. After a decade of cuts and fiscal mismanagement inflicted by the last government, compounded by spiralling inflation, rocketing demand for key services, and a failure to grow our economy, councils of all political stripes were left in crisis. Our fiscal inheritance means that there will be tough choices on all sides to get us back on the path to recovery, and it will take time.

The broken funding system we inherited has left local authorities across the country in crisis. To turn this around, we need to reset local government so that it is fit, legal and decent and can, once again, reliably deliver for our communities. We are going to work with local authorities to rebuild throughout this parliament.

Earlier this year, we announced the £69 billion financial Settlement for 2025-26 - a 6.8% cash terms increase, with £600m being directed through a one-off Recovery Grant to sustain councils with historical low tax bases and higher levels of deprivation, through to the upcoming multi-year settlement. At the Spending Review earlier this month, we also announced over £5 billion of new grant funding over the next three years. This includes £3.4 billion of new grant funding which will be delivered through the multi-year Local Government Finance Settlement.

We will work closely with the sector to ensure local leaders have the flexibility to shape their places and focus on local priorities. We have ambitious plans to strengthen and simplify the structures of local government through reorganisation. We are also bringing to an end wasteful, competitive bidding for funding pots and moving towards multi-year financial Settlements that give local leaders the certainty and stability they need to plan for the future. We're ending micro-management from the centre, so that local authorities can spend their time and resources on services for local people, not filling in forms to satisfy central government.

We are rebuilding the public services that the most vulnerable in our society rely on. We are directing money to where it needs to go, enabling more spending on prevention and less on crisis management.

At the Spending Review we also announced significant additional funding for preventative services. This will keep more families together, improving outcomes for children and reducing local authority costs, while joining up disparate agencies and support services so that fewer children fall through the cracks.

This government recognises the pressures local authorities are facing because of their Dedicated School Grant deficits. The Spending Review confirmed funding to reform

the Special Educational Needs and Disabilities (SEND) system. We will commence a phased transition process which will include working with local authorities to manage their SEND system, including deficits, alongside an extension to the Dedicated Schools Grant Statutory Override until the end of 2027-28. We will set out more detail at the provisional Local Government Finance Settlement.

Now we need to take the next, crucial step towards a fairer, simpler funding system that targets money where it is most needed, to the benefit of working families.

Too many areas have felt the combined impact of reducing government support and low historical tax bases to raise income from. This has been coupled with high levels of need driving up demand for services, which have shifted from early intervention and prevention to crisis management, now costing more for worsening outcomes. At the same time neighbourhood services that make areas clean, safe, and decent have felt the brunt of reductions. That has to change.

The previous government understood this. Their review of Relative Needs and Resources, better known as the 'Fair Funding Review', highlighted the problem created by unfair local government funding, and the need for change. But the previous government failed to deliver these much-needed reforms – they dithered, delayed, and abandoned the Review.

This government is prepared to take the tough choices to improve services for the working people of Britain – with a balanced approach that protects all local authorities but ensures funding is truly based on need. Our reforms will take into account the different needs and costs faced by communities across the country, including adjusting for the costs of remoteness faced by rural communities, and the ability of individual local authorities to raise Council Tax, while also resetting business rates income. It will update the crucial formulae used to calculate funding allocations, which are a decade out of date.

Once finalised, the changes will be implemented in 2026-27 through the first multi-year Settlement in a decade.

These improvements are part of wider reforms we are making to local government to reset the relationship with central government, and drive the greatest transfer of power from Whitehall to the townhall in a generation through our landmark English Devolution Bill.

It is a partnership that will be based on respect and cooperation.

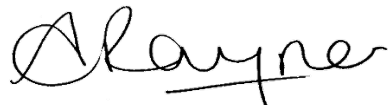
We recognise the extraordinary pressures local government has been under in recent years, and we are determined to see it emerge stronger.

We know we are facing huge financial challenges as a country. We have to take difficult decisions, on all sides, to get us back on the path to recovery.

These decisions were shaped by the consultation on local government funding we held in December, and they aim to prevent financial crises, of the kind we inherited, happening again.

Working people and the councils who serve them deserve better.

By putting fairness, investment and stability first, and working together to deliver for them, we are putting government back the service of working people.

A handwritten signature in black ink, appearing to read 'A Rayner', with a stylized, cursive script.

**RT HON ANGELA RAYNER MP**

Deputy Prime Minister and Secretary of State for Housing, Communities and Local Government

A handwritten signature in black ink, appearing to read 'Jim McMahon', with a cursive script.

**JIM MCMAHON OBE MP**

Minister of State for Local Government and English Devolution

# Scope of the consultation

## Topic of this consultation

This consultation seeks views on the approach to local authority funding reform through the Local Government Finance Settlement from 2026-27.

## Scope of this consultation

This consultation seeks views on the approach to determining new funding allocations for local authorities, and fire and rescue authorities, building on the [local authority funding reform: objectives and principles consultation](#) which the government has provided a summary to in parallel.<sup>1</sup> This consultation covers: determining local authority funding allocations; approach to consolidating funding; measuring differences in demand for services and the cost of delivering them; measuring differences in locally available resources; the New Homes Bonus; and transitional arrangements and keeping allocations up-to-date. It also covers: long-term approach to the business rates retention system; devolution and wider reforms, including how we can bring Strategic Authorities closer to the Local Government Finance Settlement; ways we can reduce demands on local government to empower them to deliver for communities; and sales, fees and charges reform. It invites views on the possible equalities impacts of these proposals.

Text in **bold** represents a statement of the government's position..

To enable us to develop a robust approach to local authority funding allocations, please provide explanation and supporting evidence for your answers where possible.

## Geographical scope

These proposals relate to England only.

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<sup>1</sup> <https://www.gov.uk/government/consultations/local-authority-funding-reform-objectives-and-principles>

# Basic Information

## Body responsible for the consultation

The Local Government Finance Directorate within the Ministry of Housing, Communities and Local Government (the 'Ministry').

## Duration

This consultation will last for 8 weeks from 20 June 2025 to 15 August 2025.

## Enquiries

For any enquiries about the consultation please contact:

<mailto:lgfcorrespondence@communities.gov.uk>

## How to respond

We strongly request you respond through the following online form:

<https://consult.communities.gov.uk/local-government-finance/local-government-funding-reform-consultation>

The online survey will allow you to save a draft response and return to the survey at a later time. You may also submit additional information or evidence to support your response to this consultation. Further advice on how to use these features is available on the home page of the online survey.

If you are unable to use the online form, responses may be sent by email or post as set out in Annex B of this consultation document.

## About this consultation

This consultation document and consultation process have been planned to adhere to the [Consultation Principles](#) issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation). In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Ministry is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Ministry.

The Ministry of Housing, Communities and Local Government (MHCLG) will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the consultation principles? If not, or you have any other observations about how we can improve the process please, contact us via the [Complaints Procedure](#).

# 1. Summary of the government's proposed approach

## 1.1. Executive Summary

- 1.1.1 This consultation marks the next step in introducing a fairer funding system that targets money where it is most needed, in partnership with local government. This up-to-date approach will use the best available evidence to take account of the different needs and costs faced by local authorities in urban and rural areas, and the ability of individual local authorities to raise Council Tax. This is a fairer and simpler approach overall, with fewer formulae, whilst also proposing that in certain high-cost areas, like temporary accommodation and home-to-school transport, bespoke formulae are justified.
- 1.1.2 Building on the recent technical consultation, we propose to reset business rates income, while ensuring that, in line with the government's growth mission, the system will continue to reward local authorities for local economic growth.
- 1.1.3 This government is committed to building 1.5 million homes to tackle the housing crisis and kickstart economic growth, but the New Homes Bonus is an ineffective incentive, so we are proposing to return that funding to the core Settlement, where it is needed most.
- 1.1.4 We are also moving away from wasteful bidding pots and restrictive reporting requirements to give local leaders the flexibility they need to deliver locally, including rolling in temporary accommodation funding into Revenue Support Grant from 2026-27.
- 1.1.5 **Altogether, this will lead to a new, transparent methodology in which funding is fair and better aligned with relative need, cost and resources.** Subject to consultation, the culmination of these changes means that the multi-year Local Government Finance Settlement for 2026-27 will be more streamlined and simpler than the system in place today. This includes fewer separate grants compared to 2025-26, and our proposal to include the Market Sustainability and Improvement Fund, Local Authority Better Care Grant and the Social Care Grant in our Settlement Funding Assessment.
- 1.1.6 **Once finalised, the changes will be implemented over three years, beginning in 2026-27, through the first multi-year Settlement in a decade.** In order to support local authorities through these changes, the consultation invites views on options to support a sustainable movement to a new distribution methodology, as well as proposals to ensure the finance system remains up-to-date in future. The consultation invites views on a new distribution methodology, and wider and longer-term funding reforms. This includes the longer-term approach to the business rates retention system;

interactions across funding reform and devolution; local government reorganisation; reforming local government burdens; and inviting views on protecting service users whilst increasing flexibilities on some sales, fees, and charges.

- 1.1.7 The government will set out our response to this consultation and final policy positions in a Policy Statement in autumn. This will also include details on the future of Exceptional Financial Support arrangements. This will be followed by the publication of the provisional Local Government Finance Settlement before the end of year.

## 1.2. Vision for Local Government

- 1.2.1 Local government is essential to the running of our country and is a key partner in delivering the Plan for Change, providing over 800 vital front-line services that people rely on every day. In recent years, local government has found itself facing acute challenges. Increased pressures have forced local authorities to become more reactive and made it harder to take long-term decisions to meet the needs of communities, deliver preventative and early intervention services, and support local economic growth. We are acting now to support local government in the long-term.
- 1.2.2 **Through the Spending Review, we have provided over £5 billion of new grant funding over the next three years for the services that communities rely on.** This includes £3.4 billion of new grant funding which will be delivered through the multi-year Local Government Finance Settlement. The new grant funding in the Settlement, taken together with a 3% core council tax referendum principle and a 2% adult social care precept, will result in an average overall real terms increase in local authority core spending power of 2.6% per year between 2025-26 and 2028-29.<sup>2</sup>
- 1.2.3 **The government has committed to streamlining and strengthening the structure of local government to ensure decisions are made at the right level.** This includes an ambitious programme of local government reorganisation and a devolution revolution in this Parliament to drive efficiencies and empower local leaders as set out in the [English Devolution White Paper](#). We are committed to consistent, clear and accountable structures to improve

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<sup>2</sup> Figures for Local Government core spending power from 2026-27 are estimates based on additional grant funding and council tax referendum principles confirmed through the Spending Review, and are averages across all local authorities. The Ministry of Housing, Communities and Local Government will publish updated estimates as part of the Local Government Finance Settlement (LGFS) 2026-27, including the specific core spending power figures for each local authority.

local decision-making, and to fixing the broken local audit system, so that every council is fit, legal and decent.

- 1.2.4 **We are creating a system where a uniform layer of unitary local authorities will deliver strong, reformed public services.** Strategic Authorities will sit across functional economic areas and act as 'place leaders' to drive growth, represent their place on the national and international stage, plan and deliver transport services as the Local Transport Authority, and lead a co-ordinated approach to local public services.
- 1.2.5 **We are resetting the relationship between central and local government through simplified funding arrangements, supported by clear outcomes.** We will replace a system of central government micro-management with a system based on trust. We want local leaders to have more flexibility and freedom to deliver for their communities.
- 1.2.6 **The government is also clear that fixing the foundations of local government requires a whole-system approach.** We started this in 2025-26 with children's social care, where we have invested over £300 million of new funding to lay the groundwork for reform, including the national rollout of transformed family help and child protection reforms, and support for children in kinship and foster care.
- 1.2.7 **We will invest more in children's services to put them on a sustainable trajectory.** The Spending Review confirmed over £2 billion over the next three years for children's social care reform. This includes over £500 million in new investment over 2026-27 and 2027-28 as part of the Transformation Fund, and continuing the existing £523 million in each year for children's social care prevention, through the Local Government Finance Settlement. We will set out details on further funding for prevention through the Local Government Finance Settlement. The government will also provide £560 million, announced at the Spending Review, to refurbish and expand children's homes and provide more foster care placements.
- 1.2.8 **The government is committed to transforming adult social care and making tangible improvements in the short-term.** The Spending Review allows for an increase of over £4 billion available for adult social care in 2028-29 compared to 2025-26. This includes an increase to the NHS's minimum contribution to adult social care via the Better Care Fund, in line with DHSC's Spending Review settlement.
- 1.2.9 **The government remains committed to wider reform of the adult social care system and to building a National Care Service.** The government will consider recommendations from Phase 1 of the independent commission into adult social care, led by Baroness Casey, when she reports in 2026.

- 1.2.10 The Department for Education Spending Review settlement confirmed funding for reform of the current Special Education Needs and Disabilities (SEND) system, details of which will be set out in a White Paper in the autumn. We recognise that local authorities will need support during the transition to a reformed SEND system. **The government will commence a phased transition process which will include working with local authorities to manage their SEND system, including deficits, alongside an extension to the Dedicated Schools Grant Statutory Override, which is currently due to end in March 2026, until March 2028.** The government will provide more detail by the end of the year including a plan for supporting local authorities with both historical and accruing deficits. We will set out more detail at the provisional Local Government Finance Settlement.
- 1.2.11 **We will modernise and reform local government, so it is fit to face the future.** It has been more than a decade since local authorities were funded in a rational and fair way, with Local Government Finance Settlement funding allocated to local authorities using an updated set of funding formulae, which seek to account for differences in demand, costs and Council Tax raising ability. Multiple formulae contained data from several years before and transitional protections ('damping') were 'baked in' to funding allocations to limit local authority changes in funding. This disadvantaged some areas from the outset, and it has not been updated since to reflect changing patterns of relative need and Council Tax raising ability.
- 1.2.12 On balance, since 2013-14, local authorities we have assessed to be relatively disadvantaged in the funding system have experienced a greater deterioration in certain outcomes and have generally increased their Council Tax further. Without action this will get worse. Continuing to distribute funding through outdated formulae leaves many local authorities struggling to provide basic services.
- 1.2.13 Furthermore, in 2025-26, over 300 individual grants were delivered to local government, often with stringent reporting requirements. This has hindered longer-term planning, particularly when combined with single-year funding settlements. This fragmented system has limited the ability of local government to act strategically and flexibly according to local priorities, pulling against the principles of devolution, and wasting vital local capacity.
- 1.2.14 **Today, we take the next step in fixing the foundations of local government funding, to set a different course for the future.** Through the Local Government Finance Settlement 2025-26, we took the first steps towards a fairer, cost-effective system. We set out that this path is not an easy one, but that it is necessary. The previous government recognised that the system is unfair, but did not make the changes needed. We will act where they delayed.

- 1.2.15 The response to our consultation in December showed that the local government sector is overwhelmingly clear that reform is needed. We are therefore continuing to make progress, using the best available evidence, and in the spirit of partnership between central and local government. This consultation will inform how we move forward.
- 1.2.16 **Council Tax plays an important role in local government funding and, while we have no plans to reform Council Tax, the approach to accounting for Council Tax income in the allocation of government funding is a key focus of funding reform proposals.** Separately, the government is considering opportunities to modernise and improve Council Tax administration and has issued a consultation document in parallel seeking views on options.
- 1.2.17 **We will ensure that the local government sector has funding that is fair, simple and stable.** It is going to be a long road to deliver this vision, and we recognise that it will require tough choices in the coming years. But we cannot keep delaying. This government is committed to an up-to-date system that allocates funding where it is needed most, delivering better value for taxpayers. We will streamline the funding landscape, clarify key priorities for the sector, and provide certainty through the first multi-year Settlement in a decade. We will empower leaders to deliver the high-quality services that people rely on every day.

## 1.3 Summary of this consultation

- 1.3.1 Chapter 2 sets out the calculation for a new transparent, fair distribution methodology, bringing together the approach to relative need, cost and resources. This will help local authorities plan in advance of multi-year allocations in the provisional Settlement for 2026-27.
- 1.3.2 Chapter 3 proposes to simplify the local funding landscape so local authorities can plan more effectively. We are consulting on the approach to funding simplification for the upcoming multi-year Settlement, and inviting views on how to continue consolidating grants in between multi-year Settlements.
- 1.3.3 Chapter 4 proposes reducing the number of relative needs formulae (RNF) - which calculate a share of need for each local authority for a particular service or group of services – from 15 to 9. The proposed formulae are the Foundation Formula (upper and lower tier), highways maintenance, fire and rescue, home to school transport, temporary accommodation, children and young people's services, and adult social care (older adult and younger adults). Following the previous consultation, we propose to remove the legacy capital finance and fixed costs formulae. Flood defence and coastal protection, and concessionary travel need, will be captured by the Foundation Formula.

- 1.3.4 Chapter 5 proposes to account for differences in the cost of delivering local government services in both urban and rural areas when determining funding allocations. We propose to apply an Area Cost Adjustment (ACA) to all RNFs, including a Rates Cost Adjustment (RCA), Labour Cost Adjustment (LCA) and an Accessibility Adjustment, while also considering the inclusion of a 'Remoteness Adjustment'.
- 1.3.5 Chapter 6 sets out our proposed approach to accounting for local resources by setting an assumed level of Council Tax. This reflects the ability to raise money for all local authorities and accounts for variations in the different local Council Tax bases.
- 1.3.6 Chapter 7 invites views on the longer-term approach to the business rates retention system, including the design of future resets, the approach to the levy rate and safety net, and pooling arrangements for local authorities. This builds on the previous consultation which set out a 'reset' of the business rates retention system as a core part of distributional reform, and the approach to this in the [Business Rates Reset Technical Consultation](#).
- 1.3.7 Chapter 8 proposes ending the New Homes Bonus. In the current system, the New Homes Bonus is funded through a portion of the Revenue Support Grant to incentivise additional housebuilding. However, the bonus is an ineffective incentive for new homes.
- 1.3.8 Chapter 9 invites views on transitional arrangements while implementing funding reform. Transitional arrangements are necessary to enable local authorities to plan for changes in an orderly and efficient manner. We are inviting views on a package of transitional arrangements that enable local authorities to plan and deliver service transformation and efficiencies. These arrangements include: inviting views on income protection; publishing the first multi-year year Settlement in 10 years and moving local authorities to their new allocations gradually over three years; granting local government additional freedoms and flexibilities; local revenue raising powers and resources; and service reform and reorganisation to reduce cost pressures.
- 1.3.9 Chapter 10 recognises the wide-ranging interactions – and opportunities – between funding reform and devolution, local government reorganisation, and reforming local government statutory duties. We are consulting on the role the Local Government Finance Settlement could play in funding Strategic Authorities, how to treat emerging unitary authorities in a reformed funding system, and the reduction of unnecessary burdens on local government.
- 1.3.10 Chapter 11 invites views on modernising and increasing flexibilities on sales, fees and charges, whilst minimising impact on service users. This includes a proposed framework for updating fees and charges and longer-term options for devolving certain fees to local authorities, which balance fairness with the need for fees and charges to better meet the cost of delivering services.

- 1.3.11 Chapter 12 provides further detail on the approach and methodology for assessing need and demand, inviting views on each individual relative needs formulae, building on chapter 4.
- 1.3.12 Chapter 13 sets out the equalities impacts of the government's proposals throughout the consultation. Each chapter will be underpinned by the government's proposed objectives and principles, set out below.

## 1.4 Proposed Objectives and Principles

- 1.4.1 Following widespread support in the previous consultation<sup>3</sup>, the government's principal objective remains to develop a new distribution methodology that more efficiently funds local authorities through the Local Government Finance Settlement.
- 1.4.2 The previous consultation set out seven principles for funding reform: simplicity, transparency, dynamism, sustainability, robustness, stability, and accountability. Based on responses, we propose retaining these principles:
- **Simplicity** – we will introduce a simpler distributional methodology, as set out in this document. We are also proposing to simplify local government funding by consolidating the disparate landscape of grants paid to local authorities;
  - **Transparency** – information on how local authority allocations have been calculated will be publicly available and understandable. This will ensure users have confidence in the system and enable the principle of accountability below;
  - **Dynamism** – the new Settlement Funding Assessment will be based on the most up-to-date data possible. To facilitate more frequent updates, as far as practicable, funding allocations will be based on data that can be updated at planned intervals. This consultation invites views on our approach to this;
  - **Sustainability** – we have identified and proposed the factors which drive demand and costs for local authorities, as well as our assessment of available local resources, to understand how much funding each local

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<sup>3</sup> <https://www.gov.uk/government/consultations/local-authority-funding-reform-objectives-and-principles>

authority requires to be financially sustainable whilst delivering high-quality services;

- **Robustness** – the new distribution methodology will take into account the best possible objective analysis and evidence, and allow experts in local government to understand the calculation and review it;
- **Stability** – the new distribution methodology should support predictable, long-term funding allocations through multi-year Settlements. Local authorities will also be assisted by temporary transitional arrangements to smooth changes as they move to their new funding allocations;
- **Accountability** - The approach should enable citizens to understand how local authorities are funded, and more effectively hold their local authorities to account for the quality and cost effectiveness of services they provide, as well as for local decisions on how and to what extent to raise resources locally.

## 2. Determining local authority funding allocations

### 2.1 Settlement Funding Assessment and New Spending Power Calculations

2.1.1 **The government proposes to calculate updated local authority funding allocations by bringing together: an updated assessment of relative need; a resources adjustment; and transitional arrangements.** The allocation is summarised below, with detail set out in the relevant chapters. Whilst the calculation will account for local authorities' ability to raise Council Tax, local authorities will continue to retain all Council Tax they raise locally – this is important for local democratic accountability and there are no plans to change this policy.

- **Settlement Funding Assessment (SFA) = relative needs share allocation – resources adjustment**
- **New Spending Power = Settlement Funding Assessment ± transitional arrangements + Council Tax income**

2.1.2 **We will seek to simplify existing Settlement grant funding within the Revenue Support Grant (RSG).** We understand there may be exceptions where a grant has a specific distribution or serves a specific purpose that could not be replicated when incorporated within RSG. We will confirm which grants we propose to incorporate within RSG at the provisional Settlement. As part of these funding simplification plans set out in chapter 3, we anticipate that any grants rolled into RSG in 2026-27 will be within scope of these calculations. We will confirm this at the provisional Settlement. Funding agreed through the Spending Review, which is distributed through RSG, will also be in scope of these calculations.

### 2.2 Relative Needs Share Allocation

2.2.1 **First, we propose determining each local authority's 'overall relative need share'.** This will be a measure of the demand and costs each local authority faces in the delivery of local services compared to other local authorities. The needs assessment calculates a percentage for each local authority, which represents their share of the total need for local government services in England. **The overall relative need share for each local authority will be determined by a series of Relative Needs Formulae (RNFs), which assess differences in demand for services between local areas.** RNFs calculate the

need share for particular service areas. We propose weighting RNFs using historical service expenditure and combining them to give overall need shares. Our approach to RNFs and how these are combined into overall relative need shares is set out in detail at chapter 4.

2.2.2 **All RNFs seek to account for local authority differences in the cost of delivering services, including in rural and urban areas.** Cost differences are measured through factors like wage and office rental costs, accessibility, and remoteness primarily by including an Area Cost Adjustment (ACA). The detailed approach to ACAs is set out in chapter 5.

2.2.3 Indicative relative need shares for each local authority have been published alongside this consultation. This includes need shares for individual service areas (calculated by specific RNFs and ACAs), as well as an overall need share. Relative needs shares do not represent the final funding position for local authorities through the Settlement. As outlined in detail below, after calculating relative needs shares, we then propose applying a resource adjustment and transitional arrangements.

## 2.3 Resources Adjustment

2.3.1 **Chapter 6 sets out how the government proposes to act as an equaliser for local government income, directing funding towards places that are less able to meet their needs through locally raised income. We propose accounting for the differing Council Tax raising ability between local authorities through a ‘resource adjustment’.** We will use the Council Tax base of a local authority as a measure of this Council Tax raising ability.<sup>4</sup> The strength of Council Tax bases is usually down to several factors, including historical house prices and land values, and, in general, is not an outcome of the decisions that local authorities make. To account for differing Council Tax raising ability, we propose multiplying each local authority’s tax base by an assumed (or “notional”) level of Council Tax. To fully account for the ability to raise Council Tax, we propose setting the assumed or notional level at the average level of Council Tax in England. This will mean that, all else being equal, local authorities with stronger Council Tax bases will receive lower funding allocations than those with weaker Council Tax bases. Local leaders will remain wholly responsible for local Council Tax decisions. Changes to actual Council Tax levels will therefore not be reflected in funding allocations, retaining local discretion on Council Tax changes.

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<sup>4</sup> As set out at chapter 5 below, we are also inviting views through this consultation on accounting for mandatory and discretionary discounts, exemptions and premiums.

## 2.4 Settlement Funding Assessment

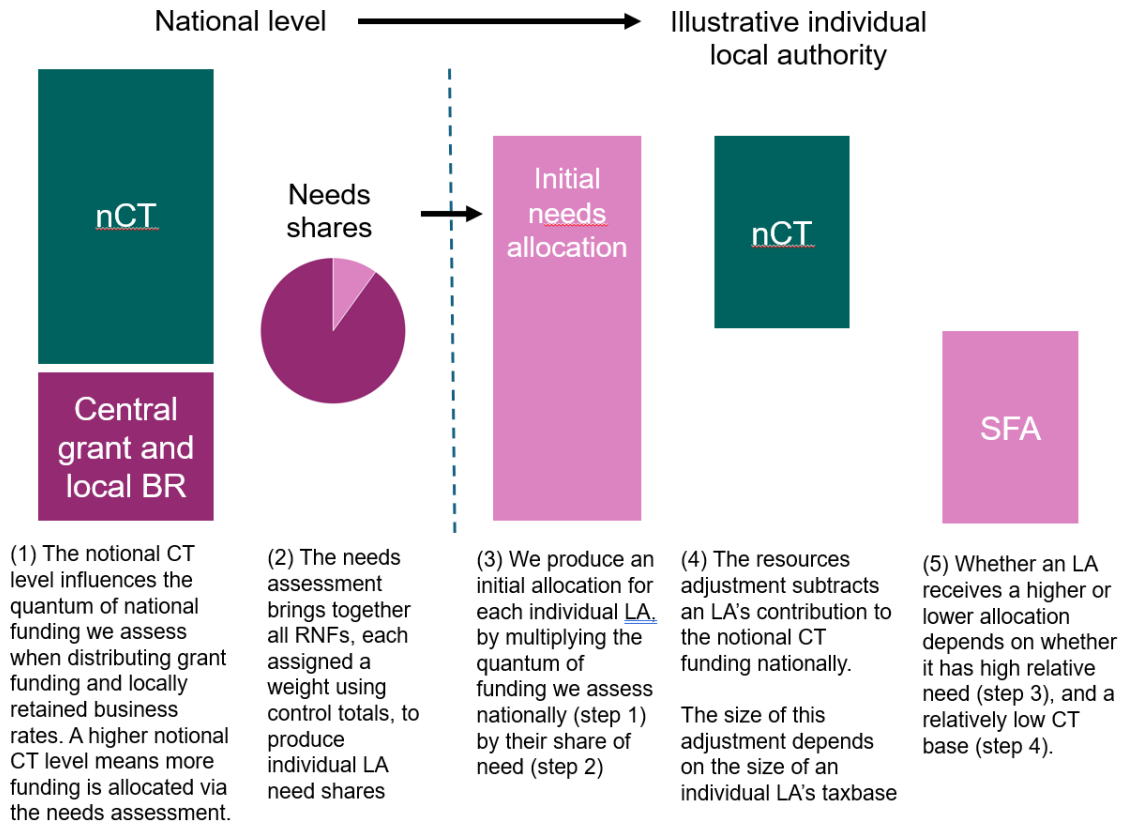
- 2.4.1 **We bring together each local authority's relative needs share allocation and the resources adjustment, to calculate each local authority's updated Settlement Funding Assessment.** First, we calculate the total amount of funding available nationally that we assess when distributing grant and retained business rates. We do this by combining a total amount of Council Tax income (based on the assumed "notional" level of Council Tax), with the grant and retained business rates that are available nationally. This is the total notional amount of funding available to local government, which we consider when distributing grant and retained business rates. We allocate this notional funding according to the overall need shares described above, to give a local authority its initial allocation. We then deduct each local authority's contribution to the total notional amount of Council Tax from its initial allocation, to give its final Settlement Funding Assessment allocation. Local authorities will retain the income they raise locally from Council Tax, which, as a local tax, will not be redistributed under these proposals. Further information on how this works, including worked examples, is in figures 1, 2 and 3 and in chapters 4 and 5.

Figure 1: Explanation of the Settlement Funding Assessment calculation



- 2.4.2 **A local authority's Settlement Funding Assessment is driven by the combination of the strength of their taxbase and their measure of relative need.** Having a strong taxbase alone does not mean that an authority will receive a lower allocation if the system has a high level of equalisation. Local authorities who have a higher share of need, compared to their share of the Council Tax base, would receive a larger allocation with higher levels of equalisation; while local authorities whose share of need is less than their share of the Council Tax base would receive a lower allocation. This is illustrated in the worked example in Box 1 below.

Figure 2: Visualisation of the Settlement Funding Assessment calculation



### **Box 1. Illustrative example of how we propose to determine local authority allocations**

The table below provides a worked example for a hypothetical three local authority system where one local authority (B) has a relatively strong tax base. For simplicity, we ignore any adjustments to the Council Tax (CT) base such as from Local Council Tax Support. In the first table, we assume a notional CT level of 5 in column (b), which is the average level of actual CT in this simple three authority model. This average is calculated by taking total actual CT income of 200 and dividing it by the total tax base of 40. The total amount of grant is 150 (column (g)).

If there was no equalisation of the CT base, then the grant of 150 would be distributed according to the need shares in column (f), which are 0.4 (or 40%) in A and B, and 0.2 (or 20%) for C. A and B would get an allocation of 60 and C an allocation of 30.

However, the resource adjustment works by adding the total level of notional CT that is generated by the setting of a notional CT level of 5 – 200 in column (c) – to the grant of 150 in column (g). The total notional CT of 200 is calculated by multiplying the notional level of 5 in (b) by the CT base in (a). This means there are 350 of ‘resources’ (150 of grant and 200 of notional CT), that are then distributed according to the need share (column (f)) to give a 140 ‘initial allocation’ (column (h)) to each of A and B and 70 to C.

Each authority then has its notional CT “contribution” (column (c)) deducted from its “initial” allocation to give its “final allocation” in column (i). The actual CT income in column (e) is added to the “final allocation” (column (i)) to give its spending power (column (j)).

With the equalisation of the CT base, the allocations are 90 for A, 40 for B and 20 for C (rather than 60 each for A and B and 30 for C with no equalisation). The different distribution primarily reflects B’s stronger CT base (in column (a)). A benefits more than C despite having the same tax base because it has a higher need share (0.4 versus 0.2).

**Table 1: Illustrative example of resources adjustment with ~100% CT base equalisation**

LA	CT base (a)	Notional CT level (b)	Notional CT raised (c) = (a) x (b)	Actual CT level (d)	Actual CT raised (e) = (d) x (a)	Need share (f)	Grant (g)	‘Initial’ allocation (h) = $[\sum(c) + (g)] \times (f)$	Final allocation (i) = (h) - (c)	Spending power (j) = (i) + (e)
A	10	5	50	4	40	0.4	150	140	90	130

B	20	5	100	5	100	0.4		140	40	140
C	10	5	50	6	60	0.2		70	20	80
Total	40	5	200	n/a	200	1		350	150	350

In addition, despite A having an actual CT level that is below the notional CT level – in this case 4 versus 5 – it benefits from the resource adjustment. This is because given the ‘overall need share’ is the same for A and B, it is A’s smaller taxbase that means it receives a higher allocation with greater CT base equalisation.

If we were to assume a lower notional CT level of 4 (so ~80% equalisation), this increases the grant funding to B (which has a stronger CT base) to 44 (from 40), and decreases A’s grant funding to 84 (from 90) as shown below. However, the total amount of spending power (350) is unchanged.

**Table 2: Illustrative example of resources adjustment with ~80% CT base equalisation**

LA	CT base (a)	Notional CT level (b)	Notional CT raised (c) = (a) x (b)	Actual CT level (d)	Actual CT raised (e) = (d) x (a)	Need share (f)	Grant (g)	Initial allocation (h) = $[\sum(c) + (g)] \times (f)$	Final allocation (i) = (h) - (c)	Spending power (j) = (i) + (d)
A	10	4	40	4	40	0.4	150	124	84	124
B	20	4	80	5	100	0.4		124	44	144
C	10	4	40	6	60	0.2		62	22	82
Total	40	4	160	n/a	200	1		310	150	350

It is important to note, however, that simply having a weaker (stronger) taxbase does not mean a local authority automatically benefits (loses) from greater CT base equalisation. It also depends on what their overall need share is. For example, in the above example, local authority C has the same tax base as A but has a higher allocation in the lower equalisation scenario (22 versus 20). This is because it has a lower need share (0.2 versus 0.4) than A.

**2.4.3 The reset of the business rates retention system will ensure retained business rates are allocated based on the updated Settlement Funding Assessment. In recognition of the complexity of the business rates system, and the need for it to run uninterrupted to ensure a consistent revenue stream for local areas, we plan to conduct the reset in one year,**

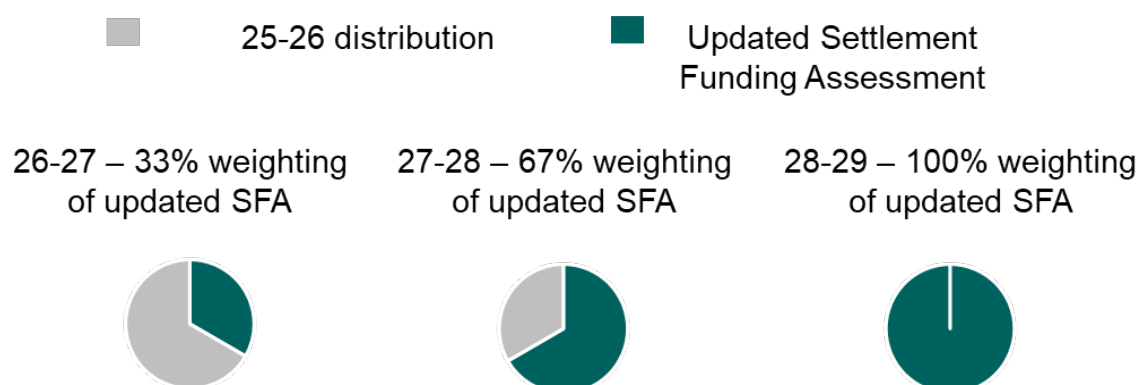
**in 2026-27.** We propose using grant to gradually move each local authority to their updated funding allocation over the multi-year Settlement, meaning that the full impact of the new allocations is not felt by authorities in the first two years of the multi-year Settlement. By the end of the multi-year Settlement, Settlement Funding Assessment allocations will be made up of grant and retained business rates, proportionate to the amount of each available in the Settlement overall. We consulted separately on the technical approach to the reset<sup>5</sup> and invite further views at chapter 6.

- 2.4.4 **In line with the government’s growth mission, the business rates retention system will continue to reward local authorities for local business rates growth.** Business rate growth from designated areas, such as Freeports, Enterprise Zones and Investment Zones, will be exempt in line with current policy.

## 2.5 New Spending Power

- 2.5.1 **Finally, to determine each local authority’s final funding position, the government proposes that we apply transitional arrangements.** We are proposing moving local authorities to their new allocations over the three-year Settlement, by phasing in the new methodology to gradually move to their updated funding allocations. We are also inviting views on whether we should have a funding floor, to ensure local authorities whose funding position will decrease relative to others, based on their updated assessment of needs and resources, see their income protected by a specified amount. Further detail on this is in chapter 9.

Figure 3: Visualisation of proposed method for updating settlement allocations over three years



<sup>5</sup> [Local authority funding reform - Resetting the business rates retention system: technical consultation](#)

- 2.5.2 We are providing details of the proposed approach to calculating funding allocations through an updated Settlement Funding Assessment, to support local authorities' financial planning and service delivery. Given we are inviting views on the approach to funding simplification, and the balance between allocating funding according to the updated assessment and transitional arrangements, we are not currently able to publish indicative funding allocations. As part of the upcoming provisional Local Government Finance Settlement we will publish three years of funding allocations.

## 2.6 Zero allocations within the Settlement Funding Assessment

- 2.6.1 The government is committed to delivering an improved, fairer funding system for local government. The December consultation set out the government's view that this system should recognise the differing needs of local areas, as well as the difficulties some areas face raising their own funding, such as through increasing their local Council Tax. We plan to directly account for these differences within the updated Settlement Funding Assessment (SFA).
- 2.6.2 Whilst the final assessment is subject to change following this consultation, it is possible that the updated SFA would find that an area has the resources to fund all its assessed need through increases in local Council Tax, and therefore would receive a zero allocation. The government is considering the consequences of zero allocations within the updated SFA and possible mitigations to avoid any local authority's SFA reducing to zero.

### Question 1

**What are your views on the updated SFA resulting in zero allocations, and the use of mitigations to avoid zero allocations?**

## 2.7 Council of the Isles of Scilly

- 2.7.1 The Council of the Isles of Scilly is treated as a special case in the current Local Government Finance Settlement. Its small population size (c.2100 as of the 2021 Census) means that calculating the Council of the Isles of Scilly's allocations via the approach applied nationally is not appropriate or feasible.
- 2.7.2 The Council of the Isles of Scilly's Settlement Funding Assessment was set in 2013-14 as a fixed amount, apportioned between funding from locally retained business rates, and a "top-slice" of the Revenue Support Grant.

- 2.7.3 **The government proposes to continue determining the Council of the Isles of Scilly's Settlement Funding Assessment in this way, meaning it will be determined outside of the proposed national approach to the Settlement Funding Assessment.**
- 2.7.4 Paragraph 2.1.2 outlines the government's expectation that existing Section 31 grants, which are currently incorporated within Core Spending Power, are in scope of the updated SFA calculations, and will resultantly become part of the Revenue Support Grant. The government will seek to reflect this position for the Council of the Isles of Scilly by incorporating grants into their Revenue Support Grant allocation where possible. The government will also monitor and explore if funding simplification plans set out in chapter 3 can enable further consolidation of funding for the Council of the Isles of Scilly.

## **Question 2**

**Do you agree with how the government proposes to determine the Council of the Isles of Scilly's Settlement Funding Assessment?**

## 3. Funding Simplification

### 3.1 Overview

- 3.1.1 **As set out in the previous chapter, as a core part of wider funding reform, the government proposes to radically simplify the grant landscape from 2026-27** to provide local authorities with more flexibility and certainty over a greater portion of their income. In recent years, central government has increasingly relied on ringfenced micro-grants in an attempt to ensure the continued delivery of siloed departmental priorities. In 2025-26, over 300 grants were awarded to local government from across Whitehall. One county council told us that they draw down on around 240 grants each year, almost two thirds of which have conditions attached. The government recognises that this fragmented, restrictive funding system is not sustainable. The December consultation set out the direction of travel. Support for funding simplification has been clear from across the sector.
- 3.1.2 In 2025-26, we consolidated almost £700 million into the Settlement. **We are going further and faster for 2026-27 and will deliver the biggest programme of funding simplification for a number of years.**
- 3.1.3 **We intend to bring together grants from across government into large ringfenced consolidated grants**, delivered as part of the Settlement. Many of these large grants will support prevention and service reform and encourage working across departments. This will provide multi-year certainty over as much funding as possible, and reduce the late announcement of funding throughout the financial year. Where possible, we will also roll suitable grants into the Revenue Support Grant to reduce the number of micro grants.
- 3.1.4 Alongside consolidating grants into the Settlement, we are working to **end wasteful competitive bidding** between local authorities for government funding, to minimise unnecessary administrative and financial burdens.
- 3.1.5 **The simplification of grant funding will be supported by a shift towards outcomes-based accountability for local authorities.** We will set out and measure progress on the key services and outcomes we want to work with local government to deliver for local people and places. This will help free up local delivery and focus central attention on what really matters. We are also progressing further work to **reduce burdens** so local government has greater flexibility over how to deliver in line with local needs, and in support of Mission delivery. This will include **tackling burdensome statutory duties and reviewing the [Single Data List process](#)** to ensure local government can spend more time delivering for residents.

## 3.2 Scope of funding simplification in 2026-27

- 3.2.1 The Settlement is a key moment in the budget-setting calendar for local authorities. All grants in scope of Settlement consolidation must therefore be ongoing and stable. In principle, to be rolled into Revenue Support Grant a grant must be paid to all local authorities or, where applicable depending on the service, to all upper tier or all lower tier authorities. Grants must be awarded to the majority of local authorities to be in scope of inclusion in a consolidated grant. Some grants are therefore unsuitable for payment through the Settlement.
- 3.2.2 A small number of grants in the system currently fund very specific programmes and therefore only award a small group of local authorities. **These grants will be out of scope for 2026-27. Capital grants will also be out of scope for direct consolidation into the Settlement in 2026-27** given the Settlement currently delivers revenue grants only. For these grants, government intends, where possible, to publish their allocations at the same time as the Settlement in order to provide greater certainty to local authorities when setting budgets.
- 3.2.3 We will also seek to reduce burdensome reporting requirements; consolidate grants with others outside the Settlement where they have similar objectives; and end wasteful competitive bidding processes for local government grants. In cases where competitive bids remain the most effective form of distribution, updates to the New Burdens Doctrine will ensure that the costs incurred by local authorities in preparing bids are recognised and funded as legitimate new burdens.
- 3.2.4 The existence and creation of Section 31 grants for new burdens is not restricted by the simplification agenda. Future new burdens will continue to be funded through new Section 31 grants, in line with the New Burdens Doctrine. **To reduce the number of separate payments to local authorities, we are streamlining new burdens payments, combining them into quarterly payments.** As set out in the Doctrine, it is our expectation that new burdens, once stable and where appropriate, will be consolidated into the Local Government Finance Settlement.

## 3.3 Consolidated grants

- 3.3.1 **Consolidated grants will bring together existing grants, which fund similar services and strive for the same broad outcomes, into a single fund delivered through the Settlement.** Each consolidated grant will be delivered as a single ringfenced Section 31 grant, generally worth a minimum of £500 million, to help local authorities spend less time tracking payments and more time delivering on the ground.

- 3.3.2 **Each consolidated grant will have a bespoke distribution.** Some constituent grants will retain their existing distributions, meaning several formulae will be applied to the consolidated grant, weighted according to the quantum being rolled in. Other consolidated grants will be distributed via a single formula. Where appropriate, we will consult on distributions at the 2026-27 provisional Local Government Finance Settlement.
- 3.3.3 We anticipate that the 2026-27 Settlement will deliver at least four consolidated grants. We will provide more detail at the provisional Settlement, including on the constituent grants in scope of each consolidated grant, the overall quantum, the distribution, and any ringfencing arrangements. We will continue to explore options for delivering further consolidated grants where appropriate within the 2026-27 Settlement.
- Homelessness and Rough Sleeping Grant – this will bring together funding for all homelessness and rough sleeping revenue funding, except for temporary accommodation funding which will be rolled into RSG. Below is a case study for the Homelessness and Rough Sleeping consolidated grant, which demonstrates how consolidation will work in practice.
  - Public Health Grant – the Public Health Grant will be consolidated alongside other service-specific grants to create a wider Public Health grant, delivered as a separate grant within the Local Government Finance Settlement in 2026-27.
  - Crisis and Resilience Grant – this will enable local authorities to build the financial resilience of their communities and assist those facing financial crisis, incorporating Discretionary Housing Payments.
  - Children, Families and Youth Grant – this will consolidate the Children's Social Care Prevention Grant and the Children and Families Grant, alongside further investment in children's social care reform. The government will explore whether additional grants for children, families and youth services can be consolidated within this grant.

**In 2026-27, the government proposes to consolidate a number of grants into a single Homelessness and Rough Sleeping Grant.** Except for temporary accommodation grant funding, all homelessness and rough sleeping revenue grants will be distributed through a single consolidated grant. This includes funding for prevention and relief activity currently funded through the Homelessness Prevention Grant, as well as the Rough Sleeping Prevention and Recovery Grant. The government intends to roll the temporary accommodation funding currently provided through the Homelessness Prevention Grant into the Revenue Support Grant from 2026-27, distributed using the new Settlement Funding Assessment (SFA). The SFA will include a

Temporary Accommodation formula to account for the varied need for temporary accommodation across the country – see chapter 4.

Taking this approach of separating out temporary accommodation funding, and rolling it into the Revenue Support Grant, will end the current tension that forces local authorities to choose between investment in prevention, and meeting current temporary accommodation costs, creating dedicated ringfenced funds for the prevention of homelessness and rough sleeping. Bringing the remaining homelessness and rough sleeping grants together into a single consolidated grant will enable local authorities to plan and deliver services more efficiently and prioritise prevention.

### 3.4 Approach to rolling into Revenue Support Grant

- 3.4.1 **We will seek to roll existing Settlement grant funding into Revenue Support Grant (RSG)**, distributed using the new Settlement Funding Assessment detailed in this consultation. We understand there may be exceptions where a grant has a specific distribution or serves a specific purpose that could not be replicated when incorporated within RSG.
- 3.4.2 **Where grants outside the Settlement cannot be placed into a suitable consolidated grant or do not constitute an exception, we will roll them into RSG where appropriate.** We propose that any grant that is rolled into RSG will adopt the new Settlement Funding Assessment. This will uphold the key principles of transparency and simplicity of the new funding system. We will consult at the provisional Settlement on the individual grants that we propose to roll into RSG.
- 3.4.3 Adult social care is a vital statutory service, a key responsibility for local authorities, and the largest area of local authority expenditure. It is key to the government's missions to build an NHS fit for the future, to shift care from hospitals to communities, and from treatment to prevention.
- 3.4.4 In 2025-26, three grants in the Local Government Finance Settlement provide funding for adult social care: the Market Sustainability and Improvement Fund (£1.05 billion), Local Authority Better Care Grant (£2.6 billion), and the Social Care Grant (£5.9 billion - which provides funding for both adult and children's social care). These grants have supported local authorities to increase fee rates for providers, increase workforce capacity and retention, reduce waiting times for care, improve discharge performance, and promote joint working between local authorities and the NHS.
- 3.4.5 **The government is proposing to include these grants in our updated Settlement Funding Assessment from 2026-27**, set out in this consultation.

This will simplify adult social care funding and support the updated needs assessment.

- 3.4.6 **We are proposing a bespoke arrangement for adult social care accountability and assurance to support local authorities to fund and deliver related services within a new, more flexible funding system.** Instead of a consolidated grant, the inclusion of adult social care grants in the Settlement Funding Assessment will be accompanied by a published adult social care 'notional allocation' for each local authority. This 'notional allocation' will set out the government's expectation for how much local authorities should spend on adult social care, considering local authority expenditure, alongside income and funding available, for adult social care. We will also develop new accountability arrangements, that will describe how we intend to work with local government to ensure that this funding supports delivery of HMG's ambitions for adult social care. Further details on accountability and assurance will be set out alongside the provisional Local Government Finance Settlement.
- 3.4.7 **We are proposing to consolidate the Market Sustainability and Improvement Fund, and Social Care Grant, into RSG.** The Local Authority Better Care Grant acts as a legal requirement for local authorities to pool funding with the NHS and has been a key factor in the pooling of health and social care budgets nationally. We therefore propose to retain a standalone Section 31 Grant for Local Authority Better Care Grant. The distribution of the Local Authority Better Care Grant will be the same as the updated Settlement Funding Assessment, and retaining a Section 31 Grant will ensure that current Better Care Fund pooling arrangements continue. We propose the updated Local Authority Better Care Grant will be funded via a top-slice of social care authority allocations of RSG.
- 3.4.8 Chapter 9 sets out that the government is considering transitional arrangements for income in relation to Core Spending Power and business rates retention income. These arrangements will include proposed changes to the Local Authority Better Care Grant in 2026-27.

## 3.5 The future of funding simplification

- 3.5.1 The 2026-27 Settlement will be a landmark moment for radical grant consolidation, paving the way for further consolidation in future years. **In the years 2027-28 and 2028-29, we will continue to work across government to explore which grants can be consolidated into the Settlement,** ending micro-grants for good.
- 3.5.2 Future grant consolidation will not undermine the objective of providing multi-year certainty over the Settlement period. **Changes made to the grant**

**landscape between Settlement years will be additional to the allocations set out at the 2026-27 Settlement.** We will consult on any changes between years at future provisional Settlements.

- 3.5.3 The government is determined to avoid a repeat of the proliferation of grants. **Our intention is that new funding in future, where appropriate, will be rolled into RSG or a relevant consolidated grant.** As set out in paragraph 3.2.3, we will continue to fund new burdens through new Section 31 grants until funding is stabilised, at which point the new burden will be consolidated into the Settlement.

### **Question 3**

**Do you agree with the government's plans to simplify the grant landscape?**

## 4. Approach to Assessing Demand

### 4.1 Overview

4.1.1 This chapter builds on chapter 2, providing further detail on the relative needs share allocation. It sets out how the proposed updated system of distribution will assess how much demand local authorities experience for their services, relative to one another. This includes:

- Why the distribution uses needs formulae and how they work
- Key objectives for updating the approach to demand
- The formulae the government proposes to include and how that has been determined

4.1.2 The formulae proposed for inclusion are:

Social care formulae	<ul style="list-style-type: none"><li>• Adult social care (older adults and younger adults)</li><li>• Children's and young persons' services</li></ul>
Non-social care formulae	<ul style="list-style-type: none"><li>• Foundation Formula (upper and lower tier)</li><li>• Fire and rescue</li><li>• Highways maintenance</li><li>• Home to school transport</li><li>• Temporary accommodation</li></ul>

4.1.3 Detail about the design of individual formulae can be found at chapter 12. This does not include the temporary accommodation relative needs formula, where further detail can be found in the [funding arrangement for the homelessness prevention grant consultation](#).

### 4.2 Why the distribution uses needs formulae and how they work

4.2.1 **The government proposes that relative needs formulae (RNFs) calculate how much 'need' a local authority has relative to other authorities for a particular service or group of services.** This is determined by calculating the extent to which a local authority's characteristics are likely to drive demand for a particular service.

4.2.2 The formulae do not calculate the amount of money required for a local authority to deliver this service. Instead, each local authority is given a 'share' of the need.

This is because each formula uses a 'relative' approach, meaning local authorities' need is compared to one another's. As a result, each formula determines a local authority's proportion of the national need for the service being evaluated.

- 4.2.3 A local authority's share of need for services can significantly impact their overall funding allocation. **Local authorities are assessed for how much relative demand they are likely to experience, as well as being given an aggregate share of need across all service areas.**
- 4.2.4 The methods used to derive each RNF vary but there are consistent elements to their design. Broadly speaking, each RNF is derived using data on the potential drivers of activity/demand in each service, e.g. population aged 18-64, and statistical techniques which weight each variable, in recognition that some drivers will have a greater impact on demand.
- 4.2.5 Each local authority will receive a share of need for each service area. After additional calculations have been applied to each formula, to account for the differences in the costs of delivering services in rural and urban areas (the 'Area Cost Adjustment'), local authorities will receive an overall share of need across services.
- 4.2.6 To determine an overall share of need, individual formulae are given a weight known as control totals. Control totals are calculated using the department's revenue outturn (RO) and the Department for Education's Section 251 data, which explain net current expenditure by local government across services.
- 4.2.7 **The government proposes to then apply the resources adjustment to account for differing ability to raise Council Tax.** In this way, the needs assessment and resources adjustment come together through the updated Settlement Funding Assessment calculation.

## 4.3 Key objectives for updating the approach to demand

- 4.3.1 Since 2013-14, the Local Government Finance Settlement's core distribution has used 15 RNFs that encompass a range of service areas. The formulae have been used within the Settlement Funding Assessment (SFA) to help determine the distribution of Revenue Support Grant (RSG), and set each local authority's Baseline Funding Level (BFL).
- 4.3.2 **These formulae are over a decade old and no longer reflect local authorities' current levels of demand; they urgently need updating in line with the government's robustness principle. The government also proposes to ensure the system remains up-to-date in the future, as outlined in chapter 9.**

- 4.3.3 The government needs to consider which services require a separate formula. It is not possible to include a formula for each of the 800 services delivered by local authorities without undermining the principle of simplicity. Where data is incomplete, it is necessary to exercise judgement in the identification and weighting of drivers of demand for some services.
- 4.3.4 In the December consultation, the government proposed reducing the number of formulae, with a single 'Foundation Formula' assessing demand for most non-social care services. The government recognises the need to balance accuracy with simplicity. **Using a single formula to assess demand for most services will aid simplicity, while including bespoke formulae for key service areas will support accuracy.**
- 4.3.5 The government recognises that a small number of local authorities have unique characteristics or deliver unique services, making it difficult to assess them in the same way as others within the needs assessment. **As set out in chapter 2, we propose the Isles of Scilly is not included in our calculation.** The government will engage bilaterally with the limited number of other authorities which warrant a bespoke arrangement for how they are included in the calculation. These arrangements are not in scope of this consultation.

## 4.4 How the updated formulae compare to the 2013-14 formulae

- 4.4.1 Our updated system uses fewer formulae but takes a comparable number of service areas into account. The table below sets out formulae that were included in 2013-14 alongside our proposal.

Table 3: Summary of formulae that were included in 2013-14 alongside our proposal.

2013-14 formulae in Settlement Funding Assessment (SFA)	Formulae the government proposes using in the updated core assessment
Adult's Personal Social Services (Social Services for Older Adults)	<b>Updated</b> Adult Social Care (Older Adults)
Adult's Personal Social Services (Social Services for Younger Adults)	<b>Updated</b> Adult Social Care (Younger Adults)
Children's Services (Youth and Community)	<b>New</b> Children and Young People's Services
Children's Services (Children's Social Care)	
Children's Services (Central Education Functions)	<b>New</b> Home to School Transport
Concessionary Travel	<b>New</b> Foundation Formula (Upper Tier) <b>New</b> Foundation Formula (Lower Tier)
Continuing Environment Agency Levies	
Coast Protection	
Environmental, Protective and Cultural Services (Lower Tier)	
Environmental, Protective and Cultural Services (Upper Tier)	
Flood Defence	
Fire and Rescue	<b>Updated</b> Fire and Rescue
Highways Maintenance	<b>New</b> Highways Maintenance
n/a	<b>New</b> Temporary Accommodation
Fixed Costs	No longer included in assessment
Legacy Capital Finance	

## 4.5 How the government has determined bespoke formulae

- 4.5.1 **The government proposes to include formulae for individual services where there is a strong case that doing so improves the effectiveness of our overall assessment of need.** This will support the government in ensuring a robust updated distribution. The government has considered a range of factors when making this determination, including:
- The proportion of national expenditure on the service area;
  - The technical complexity of assessing demand for the service area, or the unsuitability of using the Foundation Formula to do so;
  - The views of respondents to our principles of reform consultation; and
  - The scale of impact on the overall distribution if the bespoke formula is included in the assessment.
- 4.5.2 **Separate formulae for adult and children's social care services are critical to support the sector to deliver responsibilities which represent their largest costs.** Social care spend (adult and children's combined) as a proportion of local government spending has increased over the last 10 years. It has risen as a proportion of Core Spending Power (CSP) of principal authorities from 55% in 2015-16 to 68% in 2023-24.
- 4.5.3 Alongside using the best available evidence, it has been necessary for the government to apply judgement in deciding which non-social care formulae to include, with the rationale for each set out below. Chapter 12 goes into detail about each formula's respective design, with the exception of the Temporary Accommodation formula, as information about its design is already [publicly available](#). Having considered the range of factors listed above, **the government is proposing not to include a bespoke formulae for either concessionary travel or flood defence and coastal protection.**

## 4.6 Adult social care

- 4.6.1 Providing adult social care (ASC) services to people with eligible needs is a statutory requirement for upper tier authorities. Local authorities receive grant funding from central government which, combined with other funding sources, pay for the provision of services to individuals who are eligible for local authority-funded social care support. Under the Care Act 2014, local authorities have duties including to:

- Promote individual well-being, and the integration, diversity and quality of services;
- Prevent needs for care and support;
- Provide information and advice; and
- Cooperate and safeguard adults at risk of abuse or neglect.

4.6.2 Respondents to the December consultation strongly supported using the most up to date data, to better reflect contemporary demographic trends. The ASC formula currently used to distribute ASC grant funding was introduced to the Local Government Finance Settlement in the 2006-07 financial year. The data it uses has not been updated since the 2013-14 financial year, meaning that its assessments of relative needs are becoming out of date.

4.6.3 The ASC RNF in use was introduced to the 2006-07 Local Government Finance Settlement. The data and weightings in use have not been updated since 2013-14. The proposals prioritise changing the current formula's variables, data and weightings whilst broadly following the original methodology. This draws on independent expertise of the Adult Social Care Research Unit in the Personal Social Services Research Unit (ASCRU-PSSRU) at the University of Kent. ASCRU has been involved in previous updates to the ASC formula (including a proposed update in 2018). **The government's proposals build on this previous work** and involve the following changes to improve the formula's accuracy:

- **More detailed data** at a smaller geographical area level;
- **More up-to-date data** (for example 2021 Census data as opposed to 2001); and
- **Improved relative needs indicators** to better capture the distribution of wealth and impairment needs for older adults.

## 4.7 Children and young people's services

4.7.1 Children, young people and family services represent a combination of statutory and targeted support for children and their families, and universal support for all families. These services represent the second largest area of service expenditure within the scope of reform for upper tier authorities. This is a complex area of need to assess. A significant proportion of expenditure is directed towards a relatively small population. The cost of providing support for a child who is looked after, with unique needs met only in a bespoke or secure placement, for example, can be high and relatively unpredictable compared to other local government services with established and negotiable unit costs.

- 4.7.2 The current children's formula has not been updated since 2013-14 and no longer reflects actual levels of need. The [Independent Review of Children's Social Care \(2022\)](#) recommended updating the existing funding distribution formula to improve resource allocation for children's services.
- 4.7.3 The new Children and Young People's Services (CYPS) formula aims to better reflect how the need for services is spread across local authorities resulting in a fairer allocation of resources. An interim version of the CYPS formula was used for the first time in 2025-26, to distribute the new Children's Social Care Prevention Grant.
- 4.7.4 The CYPS formula has been extensively developed with support from academic partners. The government drew on a model originally developed by LG Futures, the University of Huddersfield and the University of Plymouth, completed in 2020, based on a commission from the Ministry of Housing, Communities and Local Government (MHCLG) and the Department for Education (DfE). The formula has been rebuilt using updated data including the latest census, National Pupil Database (NPD) and the Children in Need (CIN) and Children Looked After (CLA) datasets. The model was then trained on data from all local authorities, improving its accuracy compared to the original CYPS model.
- 4.7.5 **The government's intention in updating the formula is to fund local authorities based on their anticipated need for children's services, rather than assessing need based on historical service use.** The CYPS model does this by assessing the combination of child and neighbourhood characteristics that most accurately predict whether a child will engage with social care in one of three ways (CIN, CLA or having ceased care) within a given year. This prediction is based on national level data in the CIN and CLA datasets to inform relative need share estimates. For example, a male aged 14-15 years who is eligible for Free School Meals (FSM) is significantly more likely to engage with CSC services than a female aged 6-7 years who is not eligible for FSM.
- 4.7.6 As the CYPS relative need share estimates are based solely on child and neighbourhood characteristics, they are independent of individual local authority practice. This safeguards against any financial incentives attached to categorising more children as CIN or CLA. It also ensures that local authorities investing heavily in effective preventative services are not penalised. [The LG Futures report](#) (section 1.1.5) acknowledges the benefit of using individual child-level data as it "removes the impact of local authority decision-making (or that of other agencies, such as the court service) from the relative allocations, and therefore will not penalise those authorities that are more efficient or place more emphasis on preventative services." In summary, CYPS relative need share estimates are determined by factors such as an area's child population

size and demographics (including child age, gender and eligibility for FSM) and neighbourhood factors (such as deprivation and overcrowding).

- 4.7.7 The government consulted on the high-level principles underpinning the formula in the December consultation. Respondents agreed with the proposed approach, noting the inclusion of deprivation measures as highly relevant for assessing need. Feedback emphasised the need for greater transparency and, in response, the DfE published the [LG Futures Final Evaluation Report](#) and an [Independent Peer Review](#) of the proposed model by Professor Anna Vignoles.

## 4.8 Foundation Formula

- 4.8.1 There are inherent complexities to using a single formula to assess demand for the majority of non-social care service areas. Only a limited number of cost drivers apply to a wide range of services, making it challenging to design a formula that comprehensively assesses demand for all of them.
- 4.8.2 **In recognition of this, the government intends to both follow the best available evidence, while also applying judgement in the design of the Foundation Formula.** The proposal is to include the following cost drivers, more detail can be found on the rationale in chapter 12:
- Both residential and daytime population, which have a very high correlation with annual spending levels; and
  - Deprivation, which has a significant statistical relationship with spending per capita.

## 4.9 Fire and rescue

- 4.9.1 Fire and rescue services play a crucial role in making our communities safer, both in prevention and in responding to emergencies. Fire and Rescue services in England are carried out by stand-alone fire authorities in some areas, and by upper tier authorities in other areas. These services include firefighting and rescue operations; community fire safety; and emergency planning and civil defence. Based on 2023-24 RO data, these services represent 4.3% of national expenditure for services funded by the Local Government Finance Settlement.
- 4.9.2 There is a strong rationale for retaining a bespoke formula for fire and rescue services. The Foundation Formula's need drivers are not suited to making this assessment; for example, the formula does not take account of how risk factors such as building density and building height may create service need.
- 4.9.3 **The government proposes to use the most up-to-date data in the fire and rescue relative needs formula, in line with responses to the previous**

**consultation.** In the December consultation, the government consulted on a proposal to update the data in the Fire and Rescue Relative Needs Formula (RNF). Of the 55 responses who provided substantive comments on the proposal, a majority (55%) explicitly agreed to update the existing formula with new data. More technical detail on the proposed approach is provided in chapter 12.

## 4.10 Highways maintenance

- 4.10.1 Upper tier authorities have a statutory duty to maintain the roads in their area. Based on 2023-24 RO data, the associated services represent 3.2% of national expenditure. These services include environmental, safety and routine road maintenance; structural maintenance; street lighting; and winter services.
- 4.10.2 **The government intends to include a separate formula for Highways Maintenance, to allocate resource funding.** Government does not consider the Foundation Formula to be an appropriate method of assessing demand for these services. The drivers of need do not include spatial variables such as road length, which are particularly relevant in some transportation services.

## 4.11 Home to school transport

- 4.11.1 Local authorities have a statutory duty to arrange free home-to-school transport (HTST) services. This service applies to children of compulsory school age who attend their nearest suitable school and are unable to walk there because:
- It is beyond the statutory walking distance (two miles for pupils under 8; three miles for those aged 8 to 16);
  - They would be unable to walk there because of their special educational needs, disability or mobility problem; or
  - The nature of the route means it would be unsafe for them to walk to school. There are also 'extended rights' to HTST for low-income families, to support them in exercising school choice.
- 4.11.2 Based on 2023-24 RO data, these services represent 3.7% of national expenditure, with a sharp rise in spending during the last decade. Given the escalating pressure HTST is placing on authorities, **the government intends to include a separate formula to best account for each local authority's demand for HTST.** The cost drivers for HTST are varied and can differ from one local authority to the next, but at their core are based on pupil populations and the distances travelled to school.

- 4.11.3 Local authorities have separate statutory duties regarding travel for post-16 pupils eligible for transport to education or training. Local authorities are responsible for setting their own policies for travel to post-16 providers. **The government proposes that post-16 travel is covered by the Foundation Formula.**

## 4.12 Temporary accommodation

- 4.12.1 Temporary accommodation (TA) services are an element of the homelessness services provided by authorities. Lower tier authorities have a statutory responsibility to prevent or relieve homelessness and, where this is not possible, to secure accommodation for unintentionally homeless households in priority need.
- 4.12.2 Based on 2023-24 RO data, TA represents 1.4% of national expenditure and 10.3% of lower tier expenditure. Service pressures are not evenly distributed, with particularly high demand in London (making up 56% of total households in temporary accommodation) and other urban areas.
- 4.12.3 **TA is currently funded through multiple sources, which we intend to simplify for 2026-27.** These sources of income encompass the Housing Benefit TA subsidy (funded through the welfare system), the Homelessness Prevention Grant and the Local Government Finance Settlement. As set out in chapter 3, **the government intends to roll TA funding currently provided in the Homelessness Prevention Grant into the Revenue Support Grant from 2026-27.**
- 4.12.4 MHCLG consulted separately in January [on funding arrangements for the Homelessness Prevention Grant \(HPG\) from 2026-27 onwards](#), including a proposed formula for TA.
- 4.12.5 **The government has evaluated that including the TA formula has a meaningful impact on the overall pattern of local authority allocations.** The government recognises that local authorities face an ongoing challenge to both prevent homelessness and respond to existing pressures on TA, and that some areas may continue to have high numbers of households in TA despite undertaking significant prevention activity. **We have therefore developed a separate homelessness prevention and relief formula that will be used to distribute costs associated with these services** in the Homelessness and Rough Sleeping Grant, as set out in chapter 3.

#### Question 4

**Do you agree with the formulae for individual services the government proposes to include?**

### 4.13 Streamlining the assessment of need

- 4.13.1 This is the first time the approach to assessing demand has been updated in over a decade. **It is therefore necessary that the government considers which areas of need should continue to be assessed.** While the Foundation Formula will be used to assess demand for service areas that don't have individual formulae, **the government proposes to no longer include 'fixed costs' and 'legacy capital finance' in the assessment.**
- 4.13.2 'Fixed costs' assumes a minimum amount of funding required for local authorities to provide services. A small number of respondents (10%) disagreed with the proposal in our previous consultation to remove this formula. **However, the government's position is that our approach does not seek to capture absolute need. Instead, our wider assessment aims to capture the relative need of local authorities, including both fixed and variable cost differences.** This is done through both the design of each formula (including the Area Cost Adjustment) as well as their respective weightings, which are based on Revenue Outturn data.
- 4.13.3 'Legacy Capital Finance' distributes funding for historical capital financing debts. Only 3% of respondents to the December consultation disagreed with the proposal to remove the associated formula from the assessment. These debts were primarily accrued prior to 1 April 1990, with no debt accrued after 2011 being taken into account. The associated formula uses assumed figures for debt and interest repayment, as using actual figures would risk incentivising authorities not to repay the accumulated debt in order to receive more funding. **Given the age of these debts, the government proposes to no longer include them in the assessment.** A new system of capital financing was introduced in 2013-14, which will not be affected by the removal of Legacy Capital Finance from the updated needs assessment.

#### Question 5

**Do you agree with the areas of need the government proposes to no longer include in the assessment through the Foundation Formula?**

## 4.14 How these formulae will be weighted in the overall calculation

4.14.1 Each individual formula is assigned a weight, to help determine the impact a formula has in the overall calculation. These are collectively known as the control totals and they reflect the scale of national expenditure on the service area(s) assessed by the formula. The combination of weighted RNFs is then used to determine an overall share of need for each local authority. Control totals are calculated using MHCLG's revenue outturn (RO)<sup>6</sup> and the Department for Education's Section 251 data, which is used to understand net current expenditure by local government. The supporting technical document shows this data mapped to RNFs. **To arrive at control total weights, the government proposes using revenue outturn (RO) data to explain net current expenditure by local government across services.** The government proposes further adjustments to ensure accuracy:

- **To understand the spend on Home to School transport services we propose supplementing the RO data with more detailed information on this service area from the Section 251 data.**
- **The government proposes using only the submitted data for local authorities in a given year and not amending the data to account for local authorities that did not submit data.** We assume that local authorities that haven't submitted data will not on their own significantly influence the national spend shares that control totals are based on. The vast majority of local authorities submit RO data, but an individual authority's allocation will not be substantially affected by whether or not they have made this submission.
- **We propose making an adjustment for concessionary travel spend to account for levies** paid by some local authorities to transport authorities.
- The ASC RNF is a composite formula composed of a Younger Adults element and an Older Adult element. **We propose to firstly use the existing DHSC methodology to accurately weight between services** for Younger Adults and services for Older Adult within the ASC formula. **The composite ASC RNF will then be weighted against other relative needs formulae using Revenue Outturn data.**
- **We propose creating a split of spend for unitary-type local authorities i.e. metropolitan districts, London Boroughs and unitary authorities for the Foundation Formula,** so they can be considered in the upper and lower tier versions of the formula on an equivalent basis with shire counties

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<sup>6</sup> Available at: [www.gov.uk](http://www.gov.uk)

and shire districts respectively. **To do this we propose using the split of total spend on this formula area between shire counties and shire districts in aggregate**, given their respective upper and lower tier responsibilities.

- **We propose making some minor additional amendments to deal with anomalous recorded spend.** For example, for adult social care spending we treat all spend by upper tier authorities as on ASC but for shire districts this is recorded as Foundation Formula spend.
- **We propose only including local authorities in the calculation of the control totals who have a 'stake' in the needs assessment**, i.e. all upper and lower tier local authorities plus all authorities with responsibility for fire and rescue services.
- Due to the fact we use an average of 3 years' net current expenditure in some of the non-social care formulae, **we propose using shares of total population to account for local authority reorganisations over this time and convert spend on a consistent geographic basis.** This only impacts on those areas that have experienced restructuring during the last 3 years.

4.14.2 **Finally, the government proposes calculating individual control total shares for each formula based on their relative proportion of the total national net current expenditure.** This calculation would be made by mapping the spend lines which correspond to each formula's service areas and aggregating their spend. Each formula's relative proportion of this aggregate figure would provide the formula's control total share. Each formula's control total would then be used to weight the formulae relative to one another in the overall calculation.

## **Question 6**

**Do you agree with the government's approach to calculating the control total shares for the relative needs formulae?**

## 5. Approach to Assessing Cost

### 5.1 Overview

- 5.1.1 As set out in chapter 2, **the government believes that we should account for differences in the cost of delivering local government services when determining funding allocations through the Local Government Finance Settlement.** This is to ensure all authorities receive funding which reflects their costs relative to others. There is precedent for considering variation in local costs in the distribution of funding to local authorities, including in existing funding allocations and the previous government's proposals for reform.<sup>7</sup>
- 5.1.2 **We are proposing an approach which seeks to account for the relative cost of delivering services across all authorities.** Informed by our robustness principle, we will use the best available evidence on what drives cost differences, including the cost of property and employing staff. Our approach includes changes from when the assessment was last updated in 2013, including new adjustments to: account for the potential impact of travel times on labour costs; and to control for the impact of high-value business districts on property costs (given local authorities will be able to procure properties outside such districts). Where the case for our approach is more theoretical, principally on the remoteness adjustment, we are inviting respondents to submit additional evidence in response to this consultation. The balance of these measures seeks to recognise the costs faced by different authorities.
- 5.1.3 **We propose separating factors which drive demand for services from those which affect the cost of services.** The proposed approach distinguishes between Relative Needs Formulas (RNFs), which accounts for demand, and the Area Cost Adjustment (ACA), which accounts for costs.
- 5.1.4 **We propose applying an Area Cost Adjustment (ACA) to the Relative Needs Formulae to account for differences in the costs of delivering services.** The approach set out in this chapter is based primarily on the ACA methodology published in 2021 and 2024.
- 5.1.5 **We have reviewed previous versions of the ACA and are minded to incorporate the following adjustment factors:**
- Rates Cost Adjustment (RCA) – aims to measure the difference in the cost of property rates / rents between local authorities. This reflects the variation

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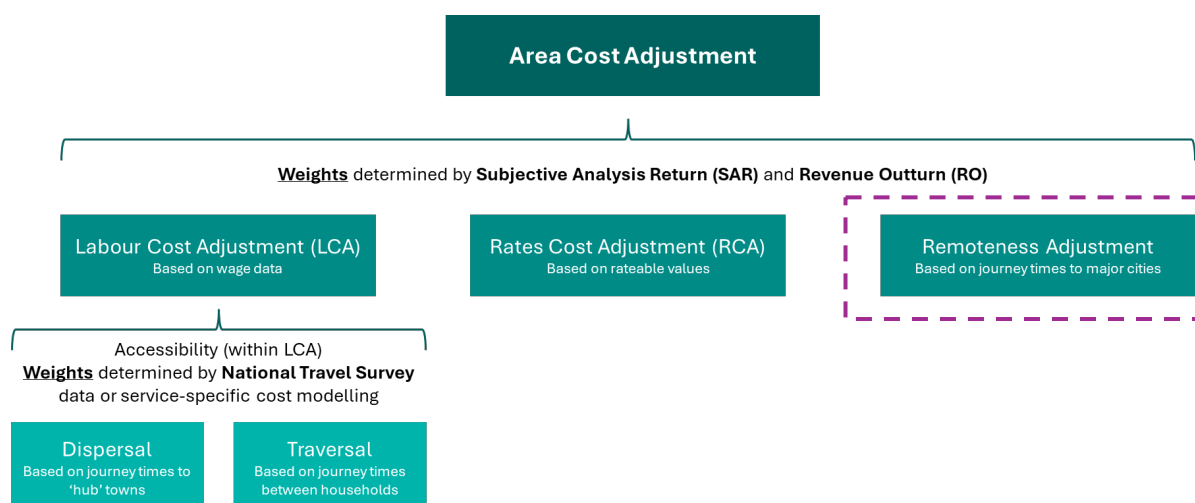
<sup>7</sup>[https://assets.publishing.service.gov.uk/media/5c124b8340f0b60bb17f6e29/Review\\_of\\_Local\\_Authorities\\_Relative\\_Needs\\_and\\_Resources\\_consultation\\_document.pdf](https://assets.publishing.service.gov.uk/media/5c124b8340f0b60bb17f6e29/Review_of_Local_Authorities_Relative_Needs_and_Resources_consultation_document.pdf)

between areas in the cost of using equivalent premises due to differences in local supply and demand factors;

- Labour Cost Adjustment (LCA) – aims to measure the difference in the cost of labour between local authorities. This reflects the fact that authorities will need to compete with other potential employers to secure and retain suitable skilled staff;
- Accessibility Adjustment – aims to measure the impact of the difference in travel time to provide services on the cost of labour. We have identified two measures within this adjustment - a dispersal adjustment factor (longer journeys to reach households) and a traversal adjustment factor (longer journeys between households). They are measured using journey time data and combined with the LCA, since they are measures of additional labour cost. This adjustment is a new addition since the 2013-14 ACA; and
- Remoteness Adjustment – aims to measure the impact of separation from larger concentrations of service users.

5.1.6 **We are proposing a Remoteness Adjustment to account for the variation in costs due to the size of local markets or isolation from major markets.** The government notes that there is a compelling theoretical case for including this adjustment. We have previously received evidence from stakeholders and invite respondents to provide us with further evidence for the impact of remoteness on the costs of delivering services.

Figure 4: Proposed Structure of the ACA

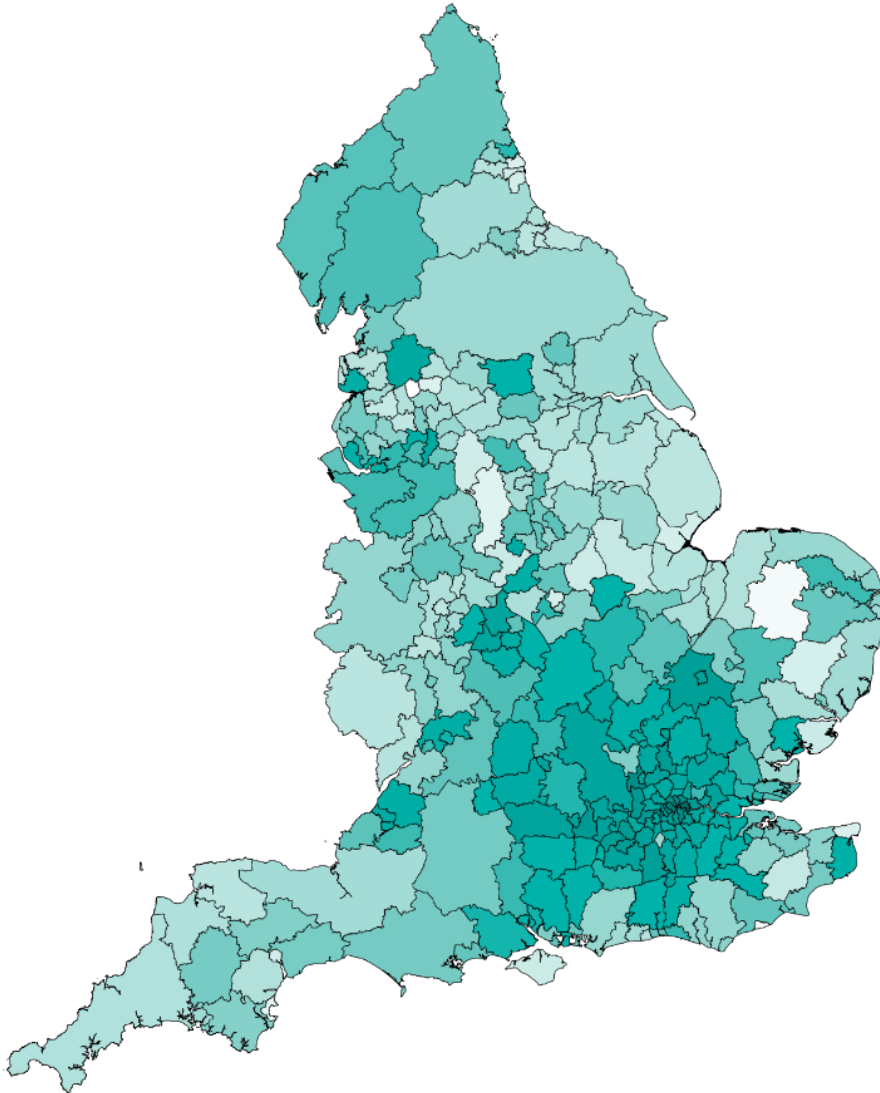


- 5.1.7 **The RCA, LCA, Accessibility and Remoteness measures would each be calculated as indices with a mean of 1**, with relatively higher cost authorities scoring above one and vice versa. The measures would be estimated at the local authority geography level so that each local authority would have a unique ACA index value. **This is a change to the previous approach in the 2013-14 ACA, where ACA values were estimated at a higher geographical level.** The proposed LA-level approach was adopted in the 2021 and 2024 publications of the ACA. This approach would likely reflect local markets better, however there is a trade-off with smaller sample sizes.
- 5.1.8 The remainder of this chapter sets out detail behind the above factors and the proposed weighting of these factors. As part of the consultation process, the Institute for Fiscal Studies (IFS) are undertaking a technical review of the ACA, and the results of this will be factored into any version of the ACA that is applied to funding formulae. **Outstanding data updates will also be incorporated into the ACA ahead of applying the adjustment to funding formulae**, and these include incorporating the latest journey times and ONS wage data. The ACA values presented should be treated as illustrative and subject to change.
- 5.1.9 The figures below illustrate the discrete components of the ACA before they are weighted to form composite indices. In each measure, the average score is 1; the darker shaded areas reflect a higher score and the lighter shaded a lower score.

## Components of the ACA

Figure 5: LCA Index (excluding accessibility)<sup>8</sup>

Darker shaded areas reflect a higher score and the lighter shaded a lower score

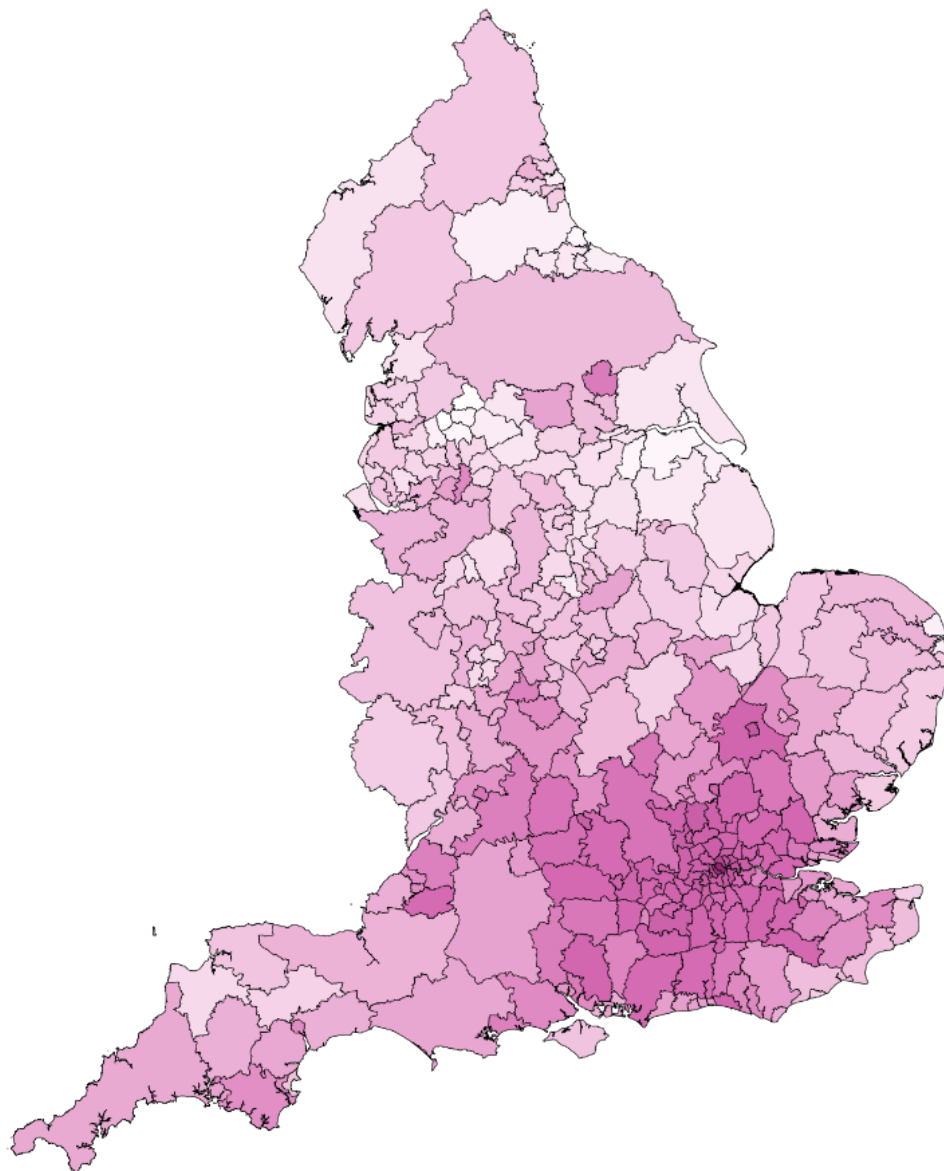


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<sup>8</sup> This map is an illustrative example of the geographical distribution of LCA values. For exact values by local authority see Annex B. The LCA Lower Tier values range from 0.91 to 1.42 with an average of 1.

Figure 6: RCA Index<sup>9</sup>

Darker shaded areas reflect a higher score and the lighter shaded a lower score

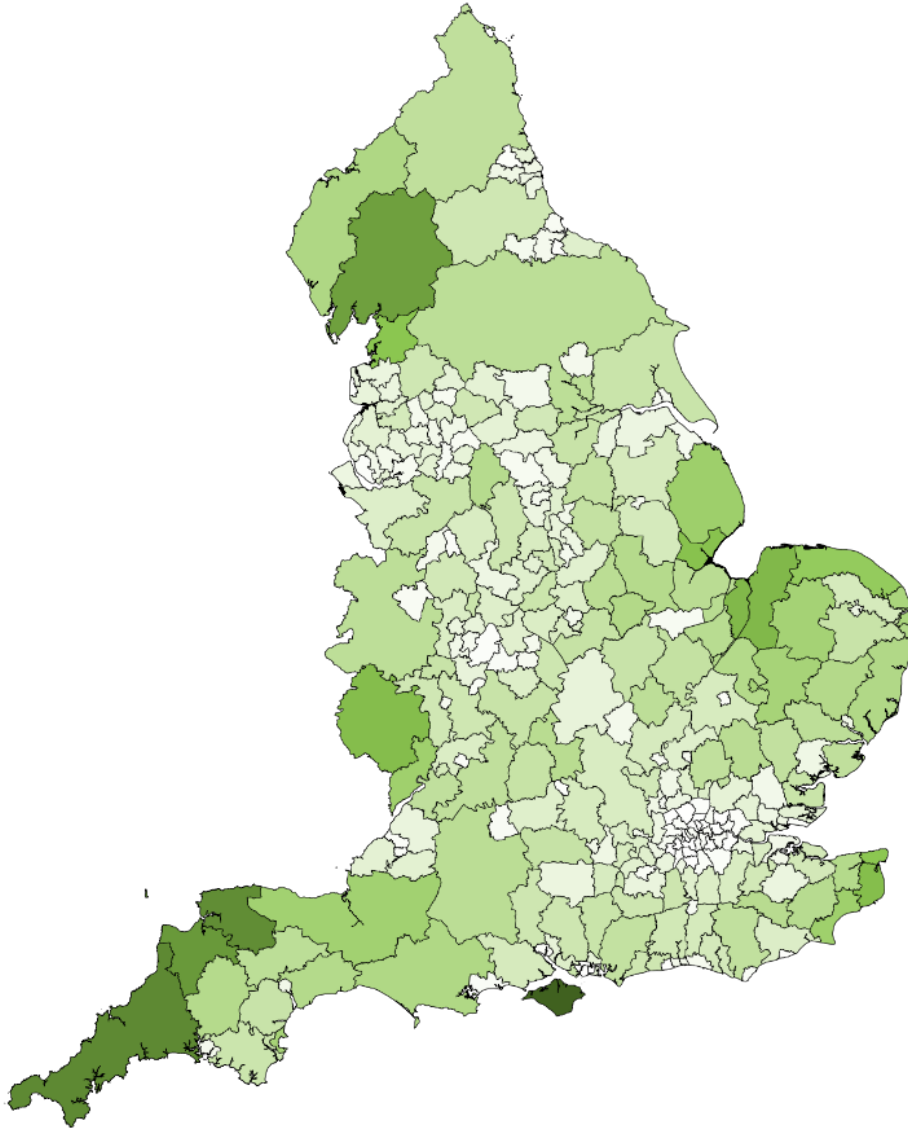


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<sup>9</sup> This map is an illustrative example of the geographical distribution of RCA values. For exact values by local authority see Annex B. The RCA Lower Tier values range from 0.50 to 3.84 with an average of 1.

Figure 7: Remoteness Index<sup>10</sup>

Darker shaded areas reflect a higher score and the lighter shaded a lower score



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<sup>10</sup> This map is an illustrative example of the geographical distribution of RCA values. For exact values by local authority see Annex B. The RCA Lower Tier values range from 0.23 to 5.11 with an average of 1.

## 5.2 Rates Cost Adjustment (RCA)

- 5.2.1 Local authorities experience different costs due to the premises that they use to deliver services, in particular because of business rates or rents. The relative costs that authorities face for using an equivalent space will vary between areas as a result of local supply and demand factors.
- 5.2.2 **We propose using the Rates Cost Adjustment (RCA) to estimate the rate for similar properties, accounting for the effects of building characteristics that affect valuation.** To measure the going rate, the below equation would be used to estimate property value, controlling for factors that drive differences in property value such as property area, property usage and car parking availability:

Equation 1: Proposed regression specification for the RCA

$$\ln\left(\frac{\text{rateable value} - \text{plant and machinery value}}{\text{total area}}\right) = \alpha + \beta_1 \frac{\text{line area}}{\text{total area}} + \beta_2 \frac{\text{other addition area}}{\text{total area}} + \beta_3 \frac{\text{car park area}}{\text{total area}} + \beta_4 \ln(\text{business density}) + \gamma_i \text{local authority}_i + \delta_j \text{property description}_j + \delta_k \text{line description}_k + \delta_l \text{other addition description}_l + \delta_m \text{adjustment description}_m + \varepsilon$$

Where:

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

- 5.2.3 **The RCA would be calculated as an index of rateable and/or market value per square metre of building spaces.** This would use a detailed database of property valuations from the Valuation Office Agency (VOA) which contains details on the rateable values and building characteristics. The RCA would be updated with the latest available VOA data – currently the RCA would be based off data from 2023.<sup>11</sup>
- 5.2.4 **In addition to using the VOA data to control for building characteristics, the proposed RCA regression specification includes a ‘business density’ variable to serve as a proxy for central business districts.** Land and property values are likely to be exceptionally high in central business districts; this results in high RCA values for local authorities with such districts. Local authorities with these districts have a high range of business densities, indicating that business districts and their associated higher rental costs do not

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<sup>11</sup> [VOA rating list downloads](#)

cover whole authorities. Local authorities should therefore be able to procure properties outside high value business districts. When estimating the RCA, it is important to control for the variation in area value within a local authority through the business density variable.

- 5.2.5 **To estimate the business density control variable, business registrations data from the Business Census would be used.** The dataset contains information on companies registered in the UK and can be mapped to Lower Super Output Area (LSOA) geographies.<sup>12</sup> We are currently using 2019 Business Census data in the RCA values presented here. **We propose using updated census data going forward** and are in the process of obtaining this. If updated business census data is used this will change the RCA values.

## 5.3 Labour Cost Adjustment (LCA)

- 5.3.1 Local authorities compete for staff with other potential employers. To secure and retain suitably skilled staff, authorities need to pay the local ‘going rate’ for labour. The relative costs that authorities face for labour will vary across authorities and reflect local living and housing costs, skills, career opportunities, population and commuting costs.
- 5.3.2 **It is proposed that the Labour Cost Adjustment (LCA) should be used to estimate the going rate for similar workers, accounting for characteristics that affect staff pay.** To measure the going rate, Equation 2 would be used to estimate staff pay. To avoid comparing very different sets of workers between areas, due to differences in demographics or economic activity, controls are used to take account of differences in industry and occupation, age, gender, hours worked and the public / private sector mix:

### Equation 2: Proposed regression specification for the LCA

$$\begin{aligned} \ln(\text{gross pay}) = & \alpha + \beta_1 \text{hours} + \beta_2 \text{hours}^2 + \beta_3 \text{age} \\ & + \beta_4 \text{age}^2 + \beta_5 \text{age}^3 + \beta_6 \text{age}^4 + \gamma_i \text{local authority}_i + \delta_j \text{full time}_j \\ & + \delta_k \text{private sector}_k + \delta_l \text{occupation and industry group}_l + \delta_m \text{sex}_m \\ & + \delta_n \text{apprentice}_n + \varepsilon \end{aligned}$$

- 5.3.3 **The Labour Cost Adjustment would be calculated as an index of average weekly pay for all workers in each area,** using data from the Office for National Statistics’ (ONS) Annual Survey of Hours and Earnings (ASHE)<sup>13</sup>. The ASHE provides information on earnings and paid hours worked for employees in all industries and occupations, with information on several other variables.

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<sup>12</sup> The data was provided by the Geographic Data Service, [Business Census - Dataset - Geographic Data Service](#)

<sup>13</sup> [Employee earnings in the UK - Office for National Statistics](#)

- 5.3.4 The ASHE is updated on an annual basis by the ONS and, when available, the most recent three years of final ASHE data would be used to estimate ‘smoothed’ LCA values<sup>14</sup>. This smoothing approach will help reduce year on year volatility in the dataset.
- 5.3.5 The LCA factors are standardised as indices with a mean of 1, with relatively higher cost authorities scoring above one and vice versa. **This marks a change from the approach taken in the 2013-14 LCA, where a judgment based lower limit was applied.**

## 5.4 Journey Times Measures – Accessibility & Remoteness

- 5.4.1 **It is proposed that journey times data is used to capture additional costs from i) Accessibility and ii) Remoteness factors.**
- 5.4.2 The journey times data<sup>15</sup> consists of theoretical journey times calculated by modelling journeys between known sets of origins and destinations. The journey times dataset is created using information on the road network, traffic speeds and public transport timetables in England, and produces a value which represents how long that journey would take. We are in the process of obtaining more recent journey times data, and the ACA will be updated accordingly to reflect this.

Table 4: Definitions of key components in measuring accessibility and remoteness

Area Type	Definition
OA (Output Area)	An area with an average of 129 households
LSOA (Lower Super Output Area)	An area with 400 to 1,200 households
ATCA (Area of Town Centre Activity)	A Settlement of over 10,000 people
Major Town/City	A Settlement of over 75,000 residents  The ONS identifies this as a ‘Built Up Area’, consisting of high-density development.

<sup>14</sup> The LCA is currently estimated using 2022 & 2023 final ASHE data and 2024 provisional ASHE data. However, this will be updated with final data when available.

<sup>15</sup> Journey times data is procured from Basemap Ltd.

5.4.3 Journey times data is used in these measures, rather than measures of sparsity or density, for the following reasons:

- Journey times measures can reflect the way services are delivered. Some sparsely populated areas are either close to or well-connected to much denser areas (e.g. areas in a Green Belt) or have easy access to major roads. This has different implications for the cost of service delivery.
- Previous measures of sparsity or super-sparsity have counted the proportion of smaller areas with population density below a judgement-based threshold. This creates "cliff edges" around the threshold, with similar areas either side of the threshold having different implications for funding. Areas which are far below the threshold are counted the same as areas just below the threshold, meaning that funding is not targeted to areas with the greatest potential need. By contrast, journey times provide a continuous proxy measure of additional costs, treating similar areas alike and dissimilar areas differently

#### Accessibility

5.4.4 Local authority employees can face relatively long periods where they must spend time travelling – either as a result of longer distances, poorer transport links, or traffic congestion. Labour productivity is therefore likely to be lower in areas with longer journey times, because authorities will have to pay their staff for more hours to deliver similar services.

5.4.5 **We are minded to apply two measures within the LCA to account for the additional costs associated with ‘accessibility’ (i.e. differing journey times).** These measures were not included in the 2013-14 ACA. The inclusion of these additional measures is based on the assumption that there is a time, and therefore direct staffing, cost associated with greater journey times.

5.4.6 ‘Traversal’ aims to account for 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. To estimate 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 are used. The centre of LSOAs is determined by the ONS using population weights.

5.4.7 ‘Dispersal’ aims to account for the relative additional cost – in terms of employee time and therefore the pay bill – of longer journeys to reach households to provide services such as social worker visits. To estimate dispersal, 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 (ATCA) or a selected important place (e.g. a school or shop) in a Settlement without an ACTA.

- 5.4.8 **Where skewed accessibility values are observed, it is proposed that they should be capped.** The City of London's (CoL) 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. Therefore, due to the un-naturally high values from the CoL's unique characteristics, their traversal and dispersal values are capped at the median values for all other ILBs.

#### Remoteness

- 5.4.9 Economic theory suggests that separation from major markets may, in some cases, increase the cost of service provision for local authorities. Outside of larger service markets, fewer providers can sustainably operate which may reduce competition, and therefore increase the cost of procuring specialised goods and services. The cost of council-run services may be higher in smaller and sparser markets due to lower economies of scale.
- 5.4.10 **If we were to account for the above, it is proposed that this would be through a 'remoteness adjustment'.** This adjustment would function as a proxy to account for separation from larger concentrations of service users and would use journey times data. If the remoteness adjustment were to be included, some income would likely be distributed away from London Boroughs and metropolitan districts, and towards shire districts, unitary authorities and shire counties.
- 5.4.11 The remoteness adjustment would be estimated using journey times from Output Areas (OAs) to the centre of Major Towns and Cities. The centre of each "Major Town or City" is selected based on features such as major railways stations or town halls. Ferry journeys, including waiting times to and from the Isle of Wight, are also accounted for in the adjustment. Sub-divisions of Major Towns and Cities, such as London, which individually contain more than 75,000 people, are also included. Centres of these additional areas are determined as the centre of the Areas of Town Centre Activity (ATCA), within the area with the greatest workday population.
- 5.4.12 We understand from engaging with the sector that remoteness is creating cost pressures for some local authorities, and recognise there is a theoretical basis for making the adjustment. The remoteness adjustment has not been included in previous versions of the ACA (this includes the 2013-14 ACA and both the 2021 and 2024 published ACA). To support the government's proposal in this consultation to now include the remoteness adjustment, **we invite respondents to provide us with additional evidence for the impact of remoteness on the cost of delivering services.**

## 5.5 Weights

- 5.5.1 **We propose weighting together components of the ACA into a single index for each funding formula, appropriate for the relevant service(s).** This means that service-specific adjustments for relative differences in costs across authorities would be applied to the appropriate RNF.
- 5.5.2 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 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.
- 5.5.3 **To estimate weights for the LCA and RCA, the following approach is proposed:**
- RO spending lines would be mapped to the relevant broad service area;
  - Local authorities record the split of their spending on each line in the RO between 'employee costs' and 'running costs'. 'Employee costs' would be assigned entirely to the LCA, while 'running costs' would be split between elements of the ACA using the SAR data;
  - The SAR collates authorities' breakdown of running costs into categories and these categories can be assigned to the most appropriate components of the ACA;
  - 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). For the split category, it is assumed that 70% of contracted costs are employee costs and 30% are running costs. This assumption is in line with the previous Review of the Area Cost Adjustment<sup>16</sup>; and

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<sup>16</sup> Local Government Finance: Review of the Area Cost Adjustment, Report by Professor Robert F Elliot, David McDonald & Roy MacIver. (University of Aberdeen, 1996)

- The SAR weightings are then applied to the 'running costs' (from the RO) and combined with the employee costs to produce weightings for the LCA and RCA for each different service area.

- 5.5.4 **If remoteness were to be included within the ACA, weights for remoteness would be determined using a similar method.** When included, some of the SAR allocations are assigned to remoteness instead of unadjusted.
- 5.5.5 **It is proposed that weights for accessibility would be estimated using the National Travel Survey (NTS), which is the default, or service specific cost modelling where data is available** (for waste services and social care).
- 5.5.6 The default accessibility weights are estimated using the average number of hours per year spent travelling for work by relevant workers in the National Travel Survey (NTS), as a proportion of the average paid time for relevant workers from the ONS ASHE data.
- 5.5.7 There are limitations with the NTS data employed in this estimate due to the small sample size of the data. However, when using this NTS data, it suggests that travel time as a proportion of labour time for the relevant workers is estimated to be around 1.5%.
- 5.5.8 The weight for domiciliary adult social care uses travel time estimates published by the UK Homecare Association (UKHCA), and the weight for waste collection estimates total travel time from Waste and Resources Action Programme's (WRAP) Indicative Cost and Performance (ICP3) model of waste collection costs. The waste collection weight is applied to the proportion of labour costs in the Foundation Formula that correspond to waste collection.

Table 5: Illustrative ACA Weightings

Service Area	LCA	RCA	Remoteness	Unadjusted	Accessibility
Adult Social Care	67%	1%	2%	30%	3%
Children's services	67%	2%	2%	30%	2%
Foundation Formula: Upper tier <sup>17</sup>	49%	7%	6%	38%	2%
Foundation Formula: Lower Tier	55%	7%	5%	34%	5%

<sup>17</sup> This ACA is also applied to the Home-to-School Transport RNF. See paragraph 12.6.9 for further detail.

Highways Maintenance	47%	8%	6%	39%	2%
Public Health	42%	8%	7%	43%	2%
Fire & Rescue	84%	2%	2%	12%	2%

### **Question 7**

**Do you agree with the Labour Cost Adjustment (LCA) and Rates Cost Adjustment (RCA) equations set out in this chapter?**

### **Question 8**

**What are your views on the proposed approach to the Area Cost Adjustment (ACA)?**

### **Question 9**

**Do you agree or disagree with the inclusion of the Remoteness Adjustment? Do you have any evidence to support or contradict the theory that rural areas face additional costs due to separation from major markets?**

## 6. Approach to Resources

### 6.1 Overview

- 6.1.1 Alongside the previous chapters on the approach to demand and cost, the principle of taking account local authorities' locally raised resources, when determining the distribution of funding at the Settlement, is well established.
- 6.1.2 In the December consultation, the government proposed an approach to local authority resources in which we would continue to adjust for Council Tax, but not other forms of local income such as sales, fees and charges. The government also set out its broad approach to measuring Council Tax income, based on multiplying the number of liable dwellings in each local authority (i.e. their 'Tax Base') by an assumed or "notional" level of Council Tax charged.
- 6.1.3 The majority of respondents to the objectives and principles consultation agreed with our proposal to adjust for Council Tax only. Almost half (47%, the most common response) of respondents agreed with the proposal to measure Council Tax income, by making assumptions on the level of Council Tax charged by local authorities, and factors which determine their ability to raise Council Tax, such as Council Tax discounts, exemptions or premiums.
- 6.1.4 This chapter sets out further detail on how we **propose to use the resource adjustment to equalise funding allocations across authorities, and how we measure Council Tax income for the purposes of the resource adjustment.**

### 6.2 Council Tax equalisation and the notional Council Tax level

- 6.2.1 **The government is committed to allocating grant funding as effectively as possible through the Local Government Finance Settlement.** Over time, local authorities have become increasingly reliant on locally generated revenue from Council Tax, but the ability to raise Council Tax has not been fully accounted for when allocating grant funding. **The government believes it is not right that these areas do not currently receive their 'fair' share of government funding.**
- 6.2.2 **The government has an important role as an equaliser for local government income,** directing funding towards the places that are less able to meet their needs through locally raised income. The objective of equalisation is to make funding available in such a way as to enable all local authorities to provide the same level of service to their residents.

- 6.2.3 Chapter 2 sets out how the government is proposing to determine local authority funding allocations, bringing together an updated assessment of relative need, a resource adjustment, and transitional arrangements. **To equalise for the Council Tax base of a local authority, we propose in the resource adjustment to set an assumed or ‘notional’ level of Council Tax for all authorities.**
- 6.2.4 The assumption we make for the notional Council Tax level determines the amount of funding that is distributed according the updated needs assessment, and the size of the relative resource adjustment for individual local authorities (see 2.4.1 above). The notional Council Tax level therefore effectively sets the level of equalisation in the funding system, with a higher notional level of Council Tax meaning greater equalisation of the Council Tax base. Greater equalisation of the taxbase prevents disadvantaging those areas with weaker taxbases.
- 6.2.5 **The government is proposing to set a notional Council Tax level that achieves the objective of full equalisation.** To fully equalise against the Council Tax base, we set the notional Council Tax level at the average Band D level of Council Tax in England for authorities in scope of these reforms (c. £2000 in 2026-27). This does not mean that all councils will set their Council Tax at this level, but that we calculate their central grant funding and locally retained business rates in such a way to ensure that all authorities can provide the same level of services to their residents, irrespective of their ability to raise Council Tax.
- 6.2.6 The government recognises that a range of views on the level of equalisation were provided in response to the December consultation, including that Council Tax should only be partially accounted for. However, partial equalisation would mean that areas with a higher share of taxbase would on average benefit, theoretically enabling them to set lower Council Tax rates, or provide a greater level of service. Partial equalisation of 80-90% would imply a notional Council Tax level of c. £1600-£1800 in 2026-27.

### **Question 10**

**Do you agree with the government’s proposal to set a notional Council Tax level at the national average level, to achieve the objective of full equalisation?**

## 6.3 Proposed approach to measuring Council Tax

### 6.3.1 In determining a measure of Council Tax for the resource adjustment, there are several further factors which need to be accounted for:

- A measure of the Council Tax base, including a treatment of discounts, exemptions, premiums and local Council Tax support, multiplied by;
- A measure (if included) of the Council Tax collection rate, shared according to;
- An approach to Council Tax tier splits in multi-tier areas.

#### Council Tax base

6.3.2 The size of a local authority's tax base is defined as the number of Band D equivalent dwellings after accounting for Council Tax discounts, exemptions and premiums. Properties in other bands are set as proportions of Band D: for example, a Band H property is set as twice the value of a Band D, whilst a Band A property is two-thirds the value. A higher number of Band D equivalent dwellings could be the result of a larger housing stock or a greater proportion of higher banded dwellings. The total number of chargeable dwellings in England as of October 2024 was 22.9 million, which equates to 24.9 million Band D equivalents.

6.3.3 A local authority's taxbase is also affected by discounts, exemptions, premiums and other schemes. An authority could have a higher number of Band D equivalent dwellings due to higher premiums and/or lower levels of revenue foregone to discounts, exemptions, premiums and local Council Tax support.

6.3.4 There are multiple categories of discounts, exemptions and premiums. Some, such as the single person discount and student exemptions, are set nationally. Others, such as second homes discounts, empty homes discounts, empty homes premiums and local Council Tax support are set with some local discretion.

6.3.5 Whilst it is important to account for discounts, exemptions and premiums given their impact on the taxbase across authorities, the ability to apply some of them is at local discretion and the choice to use them might reflect local needs or seek to incentivise certain behaviours in the housing market. **It may not always be right therefore for the government to account for them in our measure of local authority Council Tax base.**

#### Mandatory discounts and exemptions

6.3.6 Some discounts and all exemptions are set nationally. Authorities have no influence or control over the resulting reduction in the tax-raising ability. A list of

the schemes this section refers to is provided below, including their impact on the national taxbase.

**Table 6: Information on mandatory discounts, exemptions and disregards included in the resources adjustment, 2024 taxbase data**

<b>Category</b>	<b>Percentage of dwellings in England (Band D equivalents)</b>	<b>Number of dwellings in England (Band D equivalents)</b>
<b>Exemptions</b>	2.7%	642,000
<b>Demolitions</b>	0.01%	1000
<b>Disabled reduction</b>	0.6%	146,000
<b>Disabled relief</b>	0.5%	125,000
<b>Single person</b>	30.0%	7.2 million
<b>25% discounts</b>	1.0%	236,000
<b>50% discounts</b>	0.2%	54,000
<b>Family annex</b>	0.03%	6,000
<b>Class O (military exemptions)</b>	0.2%	37,000
<b>LCTS Pensioner</b>	3.3%	796,000
<i>Rounding has been applied to the above figures</i>		

- 6.3.7 **The government is minded to fully include the impact of mandatory discounts and exemptions in the measure of taxbase.** This means that a smaller resource adjustment would be applied to authorities that have a greater number of properties subject to these discounts or exemptions.
- 6.3.8 This proposal is consistent with the approach employed in previous iterations of the system, including the 2013-14 Local Government Finance Settlement. We believe that it meets the guiding principles outlined in the previous consultation, including robustness, transparency and simplicity. It is also the fairest approach, given that authorities have no influence or control over the reduction in tax-raising ability due to these schemes.

## Question 11

**Do you agree with the government's proposal to fully include the impact of mandatory discounts and exemptions in the measure of taxbase?**

### Proposed approach to Working Age Local Council Tax Support

- 6.3.9 It is mandatory for authorities to have a Working Age Local Council Tax Support (WA-LCTS) scheme in place, although they have discretion over the level of Council Tax support that they offer. This discretion means that the schemes vary significantly across the country, and a person of working age in similar circumstances can receive very different levels of support depending on where they live – due to a variety of factors such as eligibility thresholds, minimum payments or band caps.
- 6.3.10 **The government is minded to not take account of the actual levels of WA-LCTS schemes that local authorities provide.** Taking direct account of local policy choices would inhibit an authority's local discretion, and could also introduce perverse incentives for local authorities to alter the provision of discretionary schemes in order to impact their funding allocations.
- 6.3.11 However, the government recognises that the working age scheme has sizable impact on authorities' ability to raise income (reducing the taxbase nationally by around 5.8 per cent), and that this impact is unevenly distributed across England – due to factors which are out of a local authority's control. **We therefore do not think that making uniform assumptions about, or taking no account of, the impact of WA-LCTS on the taxbase is tenable.**
- 6.3.12 **Instead, the government is proposing to use statistical methods to proxy for the impact of WA-LCTS on authorities' taxbases.** This approach avoids making a direct link between any authority's actual scheme and their funding allocation. It also supports the reform principles of robustness and sustainability, using well-evidenced factors for which we have robust data to account for the differences in WA-LCTS across England. A description of our proposed approach is outlined next.

## Question 12

**Do you agree with the government's proposal to use statistical methods to proxy for the impact of Working Age Local Council Tax Support in the measure of taxbase?**

- 6.3.13 **The government proposes using a linear regression approach to estimate the proportion of Band D equivalent dwellings in a billing authority which receive WA-LCTS.** This uses the latest annual data available from the published Council Tax base statistics. The model uses two independent variables to predict this: the population-weighted IMD score of an authority, and the proportion of the total population that is of working age (18-64). These variables are proposed as they are largely outside the control of authorities and together explain a significant amount of authority-level differences in WA-LCTS.
- 6.3.14 We then apply these estimated proportions to the total tax base for each authority to arrive at an estimated number of Band D equivalent properties receiving WA-LCTS. Finally, we take the proportions that each authority represents of the total in the previous step and apply these proportions to the actual England total for the reduction in tax base due to WA-LCTS. This gives us an estimate for how much each authority's tax base should be reduced by to adjust their tax base for WA-LCTS.

### Question 13

**What are your views on the proposed statistical approach to proxy for the impact of Working Age Local Council Tax Support?**

#### Discretionary discounts and premiums

- 6.3.15 A final category of discounts and premiums are for different types of unoccupied homes.<sup>18</sup> This includes the second homes premium, enabling local authorities to charge a Council Tax premium of up to 100% on second homes, which came into effect on 1 April 2025.
- 6.3.16 Authorities have discretion over how to apply these schemes, which are a tool to help them address challenges in their local housing markets, and to assist taxpayers in particular circumstances (e.g. discounts where homes are being renovated).
- 6.3.17 **Similarly to WA-LCTS, the government is minded to not take account of actual discretionary discount and premium schemes,** to avoid drawing a direct link between local policy decisions, and funding allocations.
- 6.3.18 **The government proposes to assume that authorities make no use of their discretionary schemes.** In line with the December consultation, the government believes that applying a single uniform assumption across these

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<sup>18</sup> These are: the empty homes discount, empty homes premium, second homes discount, and second homes premium

schemes promotes simplicity, fairness, and accountability. It also protects authorities' discretion to use these powers to manage their local circumstances and avoids tying local decision-making to central funding allocations.

#### Question 14

**Do you agree with the government's proposal to assume that authorities make no use of their discretionary discount and premium schemes in the measure of taxbase?**

##### Proposed approach to collection rate

- 6.3.19 In 2023-24, the Council Tax collection rate in England was 95.9%. This varies across local authorities, and there is evidence that lower collection rates are seen in authorities with higher levels of deprivation.
- 6.3.20 The measure of Council Tax in the relative resource adjustment could, therefore, also include an assumption around collection rates at the local authority level to account for these observed differences.
- 6.3.21 **One approach would be to use local authorities' actual collection rates.** However, this would mean that for two authorities that are identical aside from their collection rate, the one with the higher collection rate would receive a lower baseline funding level. **The government does not view this as a desirable outcome and wants to retain a clear incentive for all authorities to reduce avoidance of Council Tax.**
- 6.3.22 A number of responses to the December consultation suggested that the government should take a formula-based approach to collection rates. This approach would, theoretically, account for differential collection rates without removing the incentive for any single authority to reduce avoidance of Council Tax in their local area. The government acknowledges the value of such an approach, which upholds the reform principle of robustness. However, this approach may run counter to other reform principles, such as simplicity and dynamism. Furthermore, the government does not consider that the inclusion of such an approach in the measure of resources would have a sufficiently meaningful impact on local authority allocations to justify the increased complexity.
- 6.3.23 **The government is therefore minded to apply a uniform approach to all authorities.** A uniform approach has the same effect for all authorities in the relative resource adjustment irrespective of their actual collection rate, effectively meaning we include no assumption on Council Tax collection rate (or assume full collection) within the measure of local authority resources.

- 6.3.24 This approach ensures that the incentive for all authorities to reduce tax avoidance remains. The government is clear that its wider approach to funding reform outlined in the remainder of this consultation – for example, its approach to the Foundation Formula – reflects the impact that deprivation has on local authorities' relative needs and resources.

## Question 15

**Do you agree with the government's proposal to apply a uniform Council Tax collection rate assumption to all authorities?**

### Proposed approach to tier splits

- 6.3.25 Council tax is collected by a billing authority and in multi-tier areas the income is split between each tier and/or fire and rescue authorities. Once an assessed measure of Council Tax is agreed, the government will need to determine how to split or allocate the resource adjustment for areas where upper tier, lower tier and/or fire responsibilities are carried out by different local authorities.
- 6.3.26 One approach could be to use actual Council Tax tier splits in each area. The government is not attracted to this approach as it significantly undermines the reform principles of simplicity (as it requires different splits to be calculated for all authorities), and transparency (as authorities may be treated differently for factors outside of their control).
- 6.3.27 **Instead, the government is minded to uniformly apply the average tier split in multi-tier areas to the measure of Council Tax in the resources adjustment.** To do this, we will calculate the average share in Council Tax receipts in multi-tier areas between the shire county precept, the shire district element and the fire element of Council Tax bills across the country, and apply that percentage uniformly to the measure of Council Tax in the resource adjustment for relevant areas. This approach ensures equal treatment of otherwise similar authorities within the system.
- 6.3.28 Using this methodology, the band D tier split in 2024-25 for England would be:

Table 7: England average Council Tax tier split <sup>19</sup>

Resource tier split	GLA	London Boroughs	Upper Tier	Lower Tier	Fire Tier
2024-25	2.3%	82.1%	84.4%	11.0%	4.6%

### Question 16

**Do you agree with the government's proposal to split or allocate the resource adjustment in multi-tier areas according to the average share in Council Tax receipts in multi-tier areas?**

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<sup>19</sup> In addition to providing fire and rescue services, the GLA performs duties that upper tier LAs cover in other areas. The upper tier council tax tier split for London is therefore split between London Boroughs and the GLA.

## 7. Running the Business Rates Retention System

### 7.1 Overview

- 7.1.1 As a core part of the funding system proposed in this consultation, **the government is delivering a full reset of the Business Rates Retention System in 2026-27**. This reset is long overdue and crucial to this government's aims to ensure funding is targeted where it is needed most and restore the balance between aligning funding with need and rewarding business rates growth. The local share (the percentage share of locally collected business rates that will be retained by local government) will continue to be subject to redistribution across local government via 'top-ups' and 'tariffs', which will be updated at the Reset.
- 7.1.2 In the December consultation, the government acknowledged concerns around potential 'cliff edges' at the point of the 2026 Reset, and proposed that Transitional Arrangements take into account the impact of reform as a whole, including a Reset. The majority of respondents agreed with this proposal. More detail on the potential for including existing business rates growth in Transitional Arrangements is included in chapter 9.
- 7.1.3 Since proposing the scope and design of the reset, the government has engaged the sector on the technical aspects of its delivery. After working with technical experts in the sector, from 8 April – 2 June the government ran the [Local authority funding reform – Resetting the business rates retention system](#) technical consultation. This addressed the technical task of how to deliver a business rates reset in the current tax context. Specifically, it proposed a methodology to remeasure the income each local authority expects to collect from business rates at the start of the new reset period. The government is considering the responses within its work on establishing new Business Rates Baselines and will publish a response to this consultation in due course.

### 7.2 Balancing risk and reward in the Business Rates Retention System

- 7.2.1 The level of risk and reward local authorities are subject to within the Business Rates Retention System will largely be determined by the level of protection provided to local authorities experiencing drops in their business rate income from the Safety Net, the levy charged on business rate growth above funding baselines, and whether local authorities are able to share risk and reward through pooling arrangements.

7.2.2 Unlike the proposals set out by previous governments, the reset in 2026 is happening alongside significant changes to the business rates tax system. **The proposed approach reflects a significant change to tax policy that will coincide with the reset:** the introduction of further tax rates (also known as business rates multipliers) with permanent targeted support for retail, hospitality and leisure to replace the temporary time-limited relief currently in place. The reset will also coincide with the triennial revaluation of rateable values for non-domestic properties. Both these factors will lead to changes in the business rates that each local authority collects and retains locally and have impacts on how the system works. To manage this and help smooth the delivery of the reset, we propose making changes to the safety net as detailed below.

7.2.3 **The government will continue working with sector experts on the technical aspects of measuring retained rates income following the reset.** Alongside this work, this consultation considers the objectives of the safety net and levy following a reset.

Risk: safety net

7.2.4 The current Business Rates Retention System includes a Safety Net to protect local authorities from significant negative impacts to their income by guaranteeing that no local authority will see its income from business rates fall beyond a set percentage (currently 92.5%) of its Baseline Funding Level – its Safety Net threshold.

7.2.5 Since the implementation of the Business Rates Retention System in 2013-14, many local authorities have grown their business rates income in excess of their Business Rates Baseline, such that the call for the Safety Net across the sector has generally decreased over time, except for several years during and after the COVID-19 pandemic. To compare to the length of the upcoming multi-year Settlement period, 59 local authorities triggered Safety Net payments in 2013-14, falling to 17 local authorities triggering payments in 2015-16.

7.2.6 Reallocating growth and resetting Business Rates Baselines in 2026-27 will expose authorities to a higher risk of falling below their Baseline Funding Level, particularly in the first year following a reset before growth accumulates again. Further, the 2026 revaluation and the reform to business rates multipliers mean there is higher risk when estimating locally collected business rates, with it more likely that a fall below Baseline Funding Levels.

7.2.7 **Given the additional potential for uncertainty in setting Business Rates Baselines in 2026-27 and estimating business rates income following the reset, the government proposes increasing the level of protection provided to local authorities by the Safety Net for 2026-27 before planning to scale protection back down to the current 92.5% level over the course**

**of the multi-year Settlement period.** Further information will be provided ahead of the provisional Local Government Finance Settlement.

Reward: levy rate

- 7.2.8 A levy on growth in business rates income part determines the level of reward for business rate growth and the funding of the Safety Net.
- 7.2.9 The levy rate is calculated by a formula which considers a local authority's need to spend – its Baseline Funding Level – and its ability to generate income – its Business Rates Baseline. Only local authorities whose Business Rates Baseline exceed Baseline Funding Level (tariff paying local authorities) currently pay levy, and the levy rate is designed to produce a 1% increase in retained growth above Baseline Funding Level for every 1% increase in income. This is to mitigate the differing ability of local authorities to generate income based on their tax base. However, levy rates are capped at 50%.
- 7.2.10 The current approach, which generates individualised levy rates per local authority, is a source of complexity for the Business Rates Retention System. The proposed technical approach to delivering the 2026 Reset<sup>20</sup> would also mean that, without changes to the design of the levy rate, authorities may pay an increased levy on future growth. A newly redesigned levy could be designed to help mitigate the impact of this whilst maintaining a meaningful reward for business rate growth.
- 7.2.11 Proposed changes to the Safety Net thresholds will also have implications for the reward for business rates growth as the Safety Net is predominantly funded by a levy on growth in business rates income. Whilst we will use any levy account surplus in the first instance, a higher Safety Net may need additional funding as in the first years following a Reset it is likely that the call for Safety Net payments will be higher than any levy available. In the first three years after the introduction of Business Rates Retention from 2013-14 to 2015-16, total Safety Net payments were worth £426 million, exceeding levy receipts by £281 million.
- 7.2.12 **The government is exploring options for redesigning the levy rate, aiming to provide meaningful reward for business rates growth, simplify the Business Rates Retention System and continuing the levy's role in funding the Safety Net.**

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<sup>20</sup> [Local authority funding reform – Resetting the business rates retention system: technical consultation - GOV.UK](#)

- 7.2.13 The government will work with the sector to develop the approach to the levy rate ahead of the 2026 Reset and set out more information ahead of the provisional Local Government Finance Settlement.

### Question 17

**Noting a potential trade-off of an increased levy charged on business rate growth for some local authorities, do you agree that the level of Safety Net protection should increase for 2026-27?**

#### Pooling

- 7.2.14 As part of the Business Rates Retention scheme, local authorities can formally seek designation as a pool. This allows local authorities to share risk and reward by treating them as single body within the Business Rates Retention system for the purposes of levy charges and Safety Net payments. For 2025-26, there are 25 pools composed of 188 authorities. Since the introduction of Business Rates Retention in 2013-14, Pooling has resulted in £1.9 billion of reduced levy payments which would have been available for redistribution across the sector.
- 7.2.15 **In the context of potential changes to the levy rate and Safety Net, the government is considering whether pooling arrangements should continue from 2026-27.** A newly designed levy rate and increased protection provided by the Safety Net in the first year of the Reset may reduce the need for pooling arrangements by increasing the protection to business rate income and continuing to provide a reward for business rate growth.

## 7.3 Delivery of future Resets

- 7.3.1 **Beyond 2026-27, the government has proposed delivering periodic Resets to ensure funding allocations are kept up-to-date while providing future funding certainty to local authorities.** The frequency and design of these Resets will impact how the reward for business rates growth feels for authorities.
- 7.3.2 Reset periods – the time elapsed between resets – will determine how long growth accumulates before being available for reallocation based on assessed need. **To provide certainty to the sector and continue to reward local authorities for business rate growth, the government proposes that the Business Rates Retention System will be reset in 2026-27 and not reset in the remaining years of the multi-year Settlement.**

- 7.3.3 **The government proposes that further periodic resets should coincide with multi-year Settlements and business rate revaluations – whether this be a 3 or 6-year intervals (i.e. every revaluation or every second revaluation).** With view to providing certainty to local authorities, the government will confirm the timing of the reset by the end of the next multi-year Settlement period. Proposing timing at this later point will allow reset periods to be considered alongside the delivery of the first Reset, wider improvements to the Business Rate Retention System and the government's commitment to Transforming Business Rates. It will also allow time to work with the sector to evaluate the different types of Reset design – including the concept of partial and phased resets which would allow authorities to retain a proportion of growth between reset periods – to ensure the options proposed are operationally deliverable.

## 7.4 A new offer to Strategic Authorities

- 7.4.1 The government has committed to considering how the Business Rates Retention System could better and more consistently support Strategic Authorities to drive growth as part of the government's reform of funding for local government.
- 7.4.2 As set out in the English Devolution White Paper, through the English Devolution Bill, we will create a statutory requirement for all Mayoral Strategic Authorities to produce a Local Growth Plan, setting out a long-term vision for growth in their region over the next decade and a roadmap for how this can be achieved. **To supplement the new statutory requirement, a new offer could see all Mayoral Strategic Authorities receive a direct share of business rates through the Business Rates Retention System to help them drive growth.**
- 7.4.3 The upcoming multi-year Settlement aims to put local authorities on the road to recovery by targeting funding to where it is needed most, based on an up-to-date assessment of need and local resources. To build on this, agreeing and implementing a new offer on how Business Rates Retention can help Strategic Authorities drive growth will take time and detailed engagement with the sector to deliver. A new offer can also be considered alongside wider improvements to the Business Rates Retention System. **The government proposes that this engagement takes places over the forthcoming multi-year Settlement period to co-develop a new offer with view to implementation thereafter.** The co-development process will include design workshops with Mayoral Strategic Authorities and engagement with the wider sector.

## 8. The New Homes Bonus

- 8.1.1 A portion of Settlement grant is currently allocated through the New Homes Bonus, which is paid to authorities in recognition of net additions to effective housing stock in their area and not according to local authorities' needs. In the December consultation, the government proposed that 2025-26 will be the final year that the New Homes Bonus is paid in its current format, and that it would consult on proposals for arrangements beyond 2025-26.
- 8.1.2 Of the 172 respondents who provided substantive comment on the question on encouraging housebuilding through the Settlement, 50% agreed that the New Homes Bonus is an ineffective incentive. Nearly a third of responses stated that any housing incentive should sit outside of the Settlement.
- 8.1.3 As set out previously, the government's primary objective is to update Settlement funding allocations from 2026-27 by developing an updated distribution methodology which continues to assess relative need and resources, directing funding efficiently to the places which need it most. As the New Homes Bonus is funded through a top slice of the Revenue Support Grant, this funding is not allocated according to local authority need.
- 8.1.4 **The government does not believe that the New Homes Bonus is an effective incentive.** It often rewards authorities for housebuilding that would have occurred in the absence of any incentive, and its efficacy is further blunted by the interactions with the remainder of the Settlement. For example, in recent years the provision of funding floors in the Settlement has meant that New Homes Bonus payments have been protected in subsequent years, even if authorities' housebuilding performance has changed.
- 8.1.5 **The government is therefore restating its proposal that 2025-26 will be the final year the New Homes Bonus is paid in its current format.**
- 8.1.6 **The government has no plans to replace the current incentive with a new grant incentive within the Settlement. Instead, the government proposes that funding currently allocated to the New Homes Bonus (c.£290 million in 2025-26), will be returned to the core Settlement, and allocated according to the updated assessment of needs and resources.**
- 8.1.7 Given its limited impact on housebuilding, removing the New Homes Bonus from the Settlement does not run counter to the government's ambition to build 1.5 million homes in this Parliament, to tackle the housing crisis and kickstart economic growth. The government has already taken important steps to ensure that local government is able to support us towards this objective, reintroducing mandatory housing targets, reforming the National Planning Policy Framework, enhancing Mayoral devolution. In March, we announced £2 billion of new investment to support the biggest boost in social and affordable housebuilding

in a generation and have more recently confirmed £39 billion for a successor to the affordable homes programme. The government is committed to going further and will use the long-term housing strategy to set out its plan for meeting 1.5 million homes in this Parliament. Increasing housebuilding at this scale requires all parts of the delivery system, including local government.

#### **Question 18**

**Do you agree with the government's proposal to end the New Homes Bonus in the Settlement from 2026-27 and return the funding currently allocated to the Bonus to the core Settlement, distributed via the updated Settlement Funding Assessment?**

#### **Question 19**

**What measures could the government use to incentivise local authorities to specifically support affordable and sub-market housing?**

## 9 Transitional arrangements and keeping allocations up to date

### 9.1 Transitional arrangements

9.1.1 **As set out throughout this consultation, and in our previous objectives and principles consultation, the government will begin implementation of updated funding allocations at the 2026-27 Settlement, alongside a business rates reset.**

9.1.2 **We expect the vast majority of councils with social care responsibilities will see their Core Spending Power increase in real terms over the multi-year Settlement, with most councils seeing it increase in cash terms.** The Spending Review 2025 provides an additional £3.4 billion of grant funding for local authorities over the SR period. Together with a 3% core council tax referendum principle, and a 2% adult social care precept, this results in an average overall real terms increase in Core Spending Power between 2025-26 and 2028-29 of 2.6% per year. Given the previous government consulted on funding reform, and the business rates retention system was designed to be periodically reset, many of the authorities which are most advantaged by the current funding system are prepared for changes, including by setting aside reserves.

9.1.3 **The government agrees with respondents to the December consultation that implementing funding reform in 2026-27 without transitional arrangements would be the wrong approach.** Transitional arrangements are necessary to enable local authorities to plan for changes in an orderly and efficient manner, but they inevitably mean that local authorities will get to their updated Settlement Funding Assessment allocations more slowly. We heard calls for transitional arrangements to be time-limited, to balance the need for time to plan for changes with the need to move decisively towards improved and updated allocations.

9.1.4 To support local authorities to their new allocations in a sustainable way, we are inviting views on a package of transitional arrangements available over the multi-year Spending Review period. **It is our intention that the package of transition enables service transformation and efficiencies – balancing the need to fund local authorities fairly whilst promoting sustainable changes in funding** that will enable continued service provision. These transitional arrangements are summarised below, and set out in further detail later in this chapter.

9.1.5 The government recognises that there are some authorities which require bespoke treatment through the transition. This might be because their new

share of funding is furthest from their current share of funding, or because they have unique funding arrangements and responsibilities and to ensure public service impacts are fully considered, as is the case with the GLA. We will engage these authorities on transitional arrangements and will confirm their treatment ahead of the provisional Local Government Finance Settlement.

#### Implementation period and time to plan

- i. The 2026-27 Local Government Finance Settlement will mark the first multi-year Settlement in 10 years. We will set out allocations for 2026-27, 2027-28 and 2028-29 at the provisional Settlement later this year.
- ii. **As set out at section 9.2 below, we propose phasing in new allocations over the three years of the multi-year Settlement.** We are inviting views on the duration of the implementation period.

#### Income protection

- iii. As set out in more detail at section 9.4 below, we are inviting views on a funding floor to protect councils' income in cash terms across the multi-year Settlement – this measure would ensure the vast majority of councils see their income either increase or avoid cuts over the multi-year Settlement.

#### Additional financial freedoms and flexibilities

- iv. **As outlined in chapter 3, the government will simplify the local funding landscape and reduce wider burdens so that local authorities can deliver services more efficiently and effectively.**
- v. **The government is also exploring other financial flexibilities and ways to support councils over a multi-year period.** For example, whether there is a potential role for further or expanded capital flexibilities in supporting transition and invest-to-save activity, or if there are other measures that could support local authorities to manage their budgets over a multi-year period – noting the need for these to be time-limited, with the right safeguards. The government would welcome views and will draw on any feedback to inform an updated approach to supporting councils. We intend to set out our approach by the autumn.

### **Question 20**

**Are there any further flexibilities that you think could support local decision-making during the transitional period?**

### **Question 21**

**What are the safeguards that would need to go alongside any additional flexibilities?**

### Local revenue and resources

- vi. Some local authorities which are most advantaged by the current system have been planning for these changes for some time and have significant unringfenced reserves. **Where local authorities have a high ratio of unringfenced reserves relative to their Core Spending Power, we would encourage local authorities to consider their use in service transformation** as they move to their new funding allocations.
- vii. **The government's priority is to protect taxpayers, and therefore, in line with previous governments' position, we expect councils to consider all levers at their disposal to manage their financial position ahead of making requests for Council Tax referendum principle flexibility**, which should be a last resort. In considering any local requests, the government will carefully consider a council's specific circumstances and will take account of a local authority's tax level in relation to the median. Government would not agree to local requests for flexibility where Council Tax payers are already paying more than the average and will expect councils to put in place robust mechanisms to protect low-income and vulnerable households. We will be providing more information on our approach to Council Tax in due course.

### Service and structural reform

- viii. At the 2025 Spending Review, the government announced an ambitious programme of public service reform, focused on prevention to improve outcomes for local residents. **Addressing soaring costs for some services is a key part of fixing the foundations of local government and will support local authorities to sustainably move to their new funding allocations.**
- ix. The government confirmed over £2 billion for children's social care reform over the Spending Review, including over £500 million in new investment as part of the Transformation Fund, to improve support for England's most vulnerable children and young people. In addition, we announced total capital investment of over £560 million to reform the children's social care system and support the refurbishment and expansion of the children's homes estate.
- x. The Spending Review allows for an increase of over £4 billion available for adult social care in 2028-29 compared to 2025-26. This includes an increase to the NHS's minimum contribution to adult social care via the Better Care Fund, in line with DHSC's Spending Review settlement. This will support the sector to improve adult social care.
- xi. Alongside protecting record levels of investment in tackling homelessness and rough sleeping and providing the biggest boost to social and affordable

housing investment in a generation, the Spending Review also announced an additional £100 million to fund increased homelessness prevention activity by local authorities. The government is also providing £950 million of investment for the fourth round of the Local Authority Housing Fund – the largest investment in the fund to date - to support local authorities in England to increase the supply of good quality temporary accommodation and drive down the use of costly bed and breakfasts and hotels.

- xii. Funding for schools is increasing by over £4.7 billion per year by 2028-29. Accounting for the funding recently announced for pay, the core schools budget will increase by £4.2 billion by 2028-29. This additional funding will provide an above real terms per pupil increase on the core schools budget, which will take per-pupil funding to its highest ever level and enable us to transform the SEND system. Details of the government's intended approach to SEND reform will be set out in a Schools White Paper in the autumn. **We are also confirming that government will commence a phased transition process** which will include working with local authorities to manage their SEND system, including deficits, alongside an extension to the Dedicated Schools Grant Statutory Override until the end of 2027-28. We will set out more detail at the provisional Local Government Finance Settlement.
- xiii. The English Devolution White Paper, published in December, set out the government's vision for simpler local government structures, which can lead to better outcomes for residents, improved local accountability, and savings to be reinvested in public services. We are seeking views on devolution and local government reorganisation proposals in chapter 10 of this consultation.

## 9.2 Phasing in new allocations

- 9.2.1 **The government proposes moving local authorities to their new funding allocations gradually, to smooth changes and provide local authorities with time to plan.** We invited views on this as part of the December consultation, and the majority of respondents were in favour of moving local authorities to their new allocations gradually by blending in updated allocations over several years. This approach will smooth changes and will allow local authorities to benefit from locally raised income (i.e. Council Tax and business rates). In addition, by publishing details as part of the 2026-27 multi-year Settlement, we will provide local authorities notice and time to plan for their new funding allocations and deliver service transformation where necessary. Implementing updated allocations in full in 2026-27, would lead to sudden funding changes, provide local authorities insufficient time to plan, and could lead to financial instability and worse service outcomes for local residents.

- 9.2.2 **The government is minded to phase in allocations over the three-year Settlement.** We need to implement our updated assessment in a timely manner to ensure funding is targeted where it is needed most and local authorities across the country can provide high-quality services for their residents. We are inviting views on the duration of the implementation period and ask for representations and evidence on the possible impacts on local authorities' finances and service outcomes of different approaches.
- 9.2.3 **We will operationalise this by calculating allocations using both the existing distribution through the 2025-26 Settlement and the updated Settlement Funding Assessment.** We will phase in the new distribution over the multi-year Settlement, moving local authorities gradually to their new allocations (see Figure 3 in Chapter 2).

## Question 22

**Do you agree or disagree that we should move local authorities to their updated allocations over the multi-year Settlement?**

**Please provide any additional information, including the impact this measure could have on local authorities' financial sustainability and service provision.**

## 9.3 A funding floor

- 9.3.1 **The government is inviting views on using some grant for a funding floor,** to ensure that local authorities see their income protected by a specified amount across the multi-year Settlement. The rationale for this policy would be to prevent funding reductions that could pose a financial sustainability risk in these local authorities. However, such a policy involves a direct trade-off with allocating funding where we consider it to be needed most according to the updated Settlement Funding Assessment.
- 9.3.2 **The government is inviting views on the level of protection that could be offered to local authorities,** considerate of the broader fiscal and economic climate. We would encourage respondents to consider the other government policies and local levers outlined above when providing views on this question. We are also seeking views on the possible impacts on service provision and financial sustainability risk.
- 9.3.3 **Whilst most councils will see their available funding increase over the multi-year Settlement, without transitional arrangements some would see it fall – it is the government's intention to protect the vast majority of these councils' income through a 'flat cash' (or 0%) funding floor.** This would

mean councils in scope of this measure will be guaranteed their income, which we would intend to define in relation to Core Spending Power and business rates retention income, will be held flat over the multi-year Settlement. We would also propose continuing the existing policy that any protection offered through a funding floor assumes local authorities use their full council tax flexibility. We will confirm the details of any income protection, including the definition of the income baseline, once we have considered responses to this consultation and when we respond later this year. This proposal needs to be considered in the wider fiscal context, and we need to strike a balance between: i) the appropriate use of taxpayers' money; ii) ensuring financial sustainability; and iii) allocating funding using the updated Settlement Funding Assessment as quickly as possible.

- 9.3.4 We will engage the small number of councils whose new share of funding is furthest from their current share of funding regarding how we can support them to manage larger losses. A number of them have made preparations for these changes, including by setting aside reserves.

### Question 23

**Do you agree or disagree that we should use a funding floor to protect as many local authorities' income as possible, at flat cash in each year of the Settlement?**

**Please provide any additional information, including on:**

- **The level of protection or income baseline, considerate of the trade-off with allocating funding according to the updated assessment of need and resources; and**
- **The possible impacts on local authorities' financial sustainability and service provision.**

## 9.4 Keeping allocations up-to-date

- 9.4.1 **The government's position is that an updated Settlement Funding Assessment should be based on the most up-to-date data possible.** This follows from the principle of dynamism, one of the key principles informing our approach. There are two key choices on how to implement dynamism: the frequency of updates; and whether to use data projections.
- 9.4.2 **The government proposes updating the data at the beginning of each multi-year Settlement, to balance dynamism with providing certainty and stability over the Settlement period.** Whilst annual updates would prioritise accuracy, this would undermine our objectives to provide multi-year certainty

and reward local growth. Updating data at the beginning of the multi-year Settlement strikes the right balance between these competing objectives, particularly when combined with our proposals on using projections below. The majority of respondents to the December consultation supported updating data at the beginning of the multi-year Settlement over annual updates.

9.4.3 **The government is also inviting views on using projections to make sure allocations reflect demand, costs and resources across the multi-year Settlement.** Projections would provide a more contemporary and dynamic assessment of the needs and resources of local authorities, ensuring funding continues to be targeted to where it is needed most. Additionally, by ‘future-proofing’ allocations in this way, we would reduce the change in funding levels when we next update data, increasing certainty and providing further confidence for long-term financial planning. As projections can be used to inform multi-year allocations, they are consistent with multi-year certainty and rewarding local growth. We are inviting views on whether there are any technical or delivery issues associated with the use of projections, or whether their use could undermine any of the government’s objectives, for example on housebuilding.

9.4.4 **The government is inviting views specifically on projecting residential population, Council Tax levels and Council Tax base.** Being guided by the principles as set out in Chapter 1, we would only look to use forecasts where robust modelling exists, and where forecasts would be likely to substantially impact allocations (thus not unnecessarily adding complexity). Based on these principles, we are inviting views on the following data, which we consider to be the most suitable to project:

- Residential population (in the needs assessment);
- Council Tax level (in the resource assessment); and
- Council Tax base growth (in the resource assessment).

9.4.5 **The government is inviting views on projecting residential population, given this is the most significant driver of local authority need and projections that are produced are robust.** As noted in the December consultation, total population remains the most important driver of non-social care services, and is included within formula related to Fire funding and the Foundation Formula. Projecting population will ensure resources are targeted to places with faster growing populations. The Office for National Statistics (ONS) produces population projections on the future size of local populations based on the continuation of recent demographic trends<sup>21</sup>. They are produced using the cohort component methodology, which is a standard demographic

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<sup>21</sup> [Subnational population projections QMI - Office for National Statistics](#)

method that uses high-quality data sources to inform the three major components of population change: natural change (births and deaths), migration and special populations. The projections use the same methods for projecting the population for all local authorities in England so that data is comparable between authorities. The projections are usually produced every two years and are based on the local authority mid-year population estimates. The latest projections<sup>22</sup> will be based on the mid-year population estimates for 2022<sup>23</sup>. These are based on data from Census 2021, which was recorded during the COVID-19 pandemic. The ONS have taken steps to maximise the quality of Census 2021 population estimates<sup>24</sup>.

- 9.4.6 **The government is inviting views on projecting Council Tax levels, to ensure places less able to raise tax locally are not left behind.** As set out at section 6.2, the government's proposed approach is to act as an equaliser for local government income, directing funding towards the places that are less able to meet their needs through locally raised income from Council Tax. Projecting Council Tax levels affects the assumption we make for the notional Council Tax level, which determines the amount of funding that is distributed according to the updated needs assessment, and the size of the relative resource adjustment for individual local authorities. Projecting the amount of Council Tax available across the multi-year Settlement is needed to ensure local authorities' ability to raise income from Council Tax continues to be fully accounted for. This ensures that more deprived places less able to raise Council Tax don't fall behind more affluent places. It does not affect the amount of Council Tax local authorities raise, which remains a local decision, or the overall amount of funding available nationally. We could project the notional Council Tax level making a uniform assumption, considerate of the government's referendum principles and historic council behaviour with regards to bill setting.
- 9.4.7 **Finally, the government is inviting views on projecting Council Tax base growth in the context of supporting the government's objective to build 1.5 million new homes.** We know that authorities already enable housing development for the dual objectives of meeting local housing need and generating more Council Tax income. With this context in mind, the government is inviting views on projecting Council Tax base for similar reasons to those articulated above for projecting Council Tax level, namely ensuring local authorities' ability to raise income from Council Tax continues to be fully accounted for across the multi-year Settlement to ensure more deprived places don't fall behind more affluent places. However, using residential population

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<sup>22</sup> [Subnational population projections: 2022-based - Office for National Statistics](#)

<sup>23</sup> [Population estimates for England and Wales - Office for National Statistics](#)

<sup>24</sup> [Maximising the quality of Census 2021 population estimates - Office for National Statistics](#)

projections without a Council Tax base projection would mean that an authority with base growth would benefit, as their share of relative need would increase without an increase in their share of relative resources. This could reward local authorities for additional homes through increased revenue gained over the Settlement period. We are inviting respondents to submit any evidence on whether projections, particularly Council Tax base projections, support or undermine the government's housebuilding and equalisation objectives.

9.4.8 There are several options for how we could project Council Tax base growth including but not limited to:

- The OBR's Council Tax forecasts, which make a uniform assumption as to Council Tax base growth for all local authorities across England based on historical trends.
- A bespoke projection for each local authority based on their Council Tax base growth over a 5-year average. This approach is currently used to calculate local authorities' Core Spending Power.

#### **Question 24**

**Do you agree or disagree with including projections on residential population?**

#### **Question 25**

**Do you agree or disagree with including projections on Council Tax level?**

#### **Question 26**

**Do you agree or disagree with including projections on Council Tax base?**

#### **Question 27**

**Please provide any additional information, including any explanation or evidence for your response and any views on technical delivery. If you agree, what is your preferred method of projecting residential population, Council Tax level and Council Tax base?**

# 10. Devolution, local government reorganisation and wider reform

## 10.1 Overview

- 10.1.1 Devolution across England is fundamental to achieving change the public expects and deserves; growth and jobs for local people, and more joined-up delivery of public services. As the English Devolution White Paper set out, devolution will put the right powers at the right levels. Strategic Authorities will be empowered with clear access to defined powers, enshrined permanently in law. We will replace devolution by deal, with devolution by default. The proposals in this consultation will put local authorities on the road to recovery and reform. They will be supported to shape their places and prevent crises from emerging through public service reform. The government is also seeking views on reducing the demands on local government, to have the certainty and flexibility needed to deliver for residents.

## 10.2 Strategic Authority Funding

- 10.2.1 The English Devolution White Paper set out that where a Strategic Authority takes on powers which are currently funded outside of the Local Government Finance Settlement or the Integrated Settlements: MHCLG will work with the relevant department or organisation to explore funding these functions through either the Integrated Settlement or Local Government Finance Settlement. The government is not seeking views on these issues through this consultation but will work closely with Strategic Authorities directly going forward.
- 10.2.2 The government is committed to simplifying the funding landscape for Strategic Authorities, **for example, by** bringing together various MHCLG capacity and capability funds. The government proposes to deliver this funding through the Local Government Finance Settlement going forward, ensuring Mayoral Strategic Authorities (MSAs) receive this funding as part of a regular annual funding cycle. The government will also engage with Strategic Authorities on these issues in due course, including to review how this capacity funding, such as the Mayoral Capacity Fund, should be calculated in the future.
- 10.2.3 As set out in the English Devolution White Paper, through the English Devolution bill (when passed), MSAs are to be made responsible for fire and rescue functions where their geographies align with fire and rescue authorities. **Where this happens, MSAs will receive funding for fire services via the Settlement Funding Assessment, as is already the case for York and North Yorkshire and Greater Manchester Combined Authorities.**

- 10.2.4 Established MSAs will also receive an Integrated Settlement from 2026-27, building on from the Greater Manchester and West Midlands Combined Authorities Settlements in 2025-26. The additional authorities who are currently confirmed to receive an Integrated Settlement are the Greater London Authority, Liverpool City Region, the North East, South Yorkshire, and West Yorkshire Combined Authorities. Integrated Settlements consolidate funding across multiple policy areas and departments into a single and flexible pot to support MSAs to deliver growth. Integrated Settlements are supported by a streamlined, overarching, single assurance framework, coordinated by MHCLG, rather than multiple frameworks administered by different departments. Ahead of an MSAs first Integrated Settlement, MHCLG will request an external confirmation of readiness via a 'readiness check' to prepare for and provide assurance of readiness for the settlement. More information on Integrated Settlements is available [here](#).
- 10.2.5 **In the long term, the government has an ambition of full devolution coverage across England, at the right geographies, and a focus on driving growth that is felt in every corner of the country.** Local transport functions sit with Strategic Authorities and the Government recognises that simplified funding for Local Transport Authorities relies on transport funding being paid to the Strategic Authority instead of its constituent authorities. During the multi-year Settlement period, the government will work with the sector to review local transport funding arrangements, including whether Transport Levy powers remain the most effective way of ensuring Strategic Authorities are properly funded as Local Transport Authorities. This is necessary for the funding to improve public transport services and the revenue funding tied to local transport infrastructure schemes.

## 10.3 Local Government Reorganisation

- 10.3.1 Reorganising local government into more efficient, accountable structures can help to improve the sustainability and resilience of the sector. Strong local authorities are the building blocks for effective Strategic Authorities. Unitary local government will lead to better outcomes for residents, unlocking significant savings which can be reinvested in delivering better frontline local public services. For taxpayers, this reform will mean clearer, less confused structures, with better accountability through fewer, more empowered local political leaders, who can focus on delivering for residents.
- 10.3.2 Local government reorganisation is a complex process and we are under no illusion about the scale of change facing local government. Local authorities need our full support as they develop their proposals for reorganisation. We will continue to work in partnership with the sector to ensure they receive the

necessary support. The government announced on 24 March that £7.6 million will be made available in the form of local government reorganisation proposal development contributions, to be split across the 21 areas which submitted reorganisation proposals. This is the first time that capacity funding has been made available for reorganisation proposals, recognising that this is a priority for this government.

- 10.3.3 **We will prioritise the delivery of high quality and sustainable public services to citizens and communities.** Unitary authorities bring lower and upper tier services together, creating opportunities for service transformation which can support improvements in delivery. We have asked places to give particular consideration to the impacts on crucial services such as social care, children's services, SEND and homelessness, and for wider public services including public safety, when developing their reorganisation proposals.
- 10.3.4 **The government is aware that areas developing reorganisation proposals will need to do so in light of the finance reform proposals set out in this consultation.** Areas will need to have regard to the impact of these proposals on both existing and new local authorities. We are seeking views on the proposed approach to agreeing allocations for new unitary authorities after reorganisation.
- 10.3.5 **Where two tier areas seek to reorganise into a single unitary authority, the government proposes that allocations of the predecessor authorities are combined to determine the allocation of the successor authority.**

## Question 28

**Do you agree with the proposed above approach to determining allocations for areas which reorganise into a single unitary authority along existing geographic boundaries?**

- 10.3.6 **Where there are proposed boundary changes, including where an area is divided into more than one unitary authority, the government proposes to provide guidance to support areas to determine an appropriate division of allocations locally.** There is a precedent for local areas agreeing the division of local resources in previous rounds of local government reorganisation, for example in Cumbria, and Bournemouth, Christchurch and Poole. This approach would apply, for example, where an area proposes to reorganise a single county or district council into two or more unitary local authorities, or where a proposal involves changing the boundary of an existing authority.

- 10.3.7 **It is important that areas determine allocations locally because local authorities hold the information needed to assess the level of need and resources at a sub-local authority level**, for example information on social care demand within a county area. This means local authorities are best placed to use this information to determine the appropriate share of funding between successor authorities.
- 10.3.8 **The government is proposing to provide guidance to areas on how to determine the division of funding locally.** Local authorities will need to ensure that proposed funding splits are financially sustainable for the new unitary authorities, and this guidance will support areas in doing so. Guidance is also important in recognition of the fact areas are developing proposals at the same time as government is delivering much needed reforms to the funding system. Additionally, the guidance would ensure that there is a consistent approach to the division of funding allocations across all reorganisation areas, recognising that this is the most significant local government reorganisation in decades. This guidance will set out how the government expects areas to use the information they hold to determine local allocations. This guidance will include providing clarity on how Council Tax harmonisation will affect allocations to new unitary areas.
- 10.3.9 **The final decision on the division of allocations between successor authorities will sit with the Secretary of State, and will ultimately be subject to Parliamentary approval through the annual Local Government Finance Settlement process.** This approach will apply to all funding delivered through the Settlement.

## **Question 29**

**Do you agree that, where areas are reorganising into multiple new unitary authorities, they should agree a proposal for the division of existing funding locally, based on any guidance set out by central government?**

**Please provide any supporting information, including any further information areas would find helpful in guidance.**

## **10.4 Reviewing wider demands on local government**

- 10.4.1 By simplifying grant funding and moving towards an outcomes-based accountability system, we will give local authorities greater clarity over their roles and greater flexibility on how to deliver. We know there are still a large number of statutory duties across government which at best place a high burden on already stretched local authorities, and at worst force local

authorities to make trade-offs which do not benefit residents. By identifying opportunities to remove or modify existing duties, we can reduce burdens, provide clarity on roles and responsibilities, and give local government the certainty and flexibility needed to focus on their residents' priorities.

- 10.4.2 In the previous consultation we sought views on burdensome activities which, if changed, could significantly free up local government capacity. Respondents highlighted several areas including funding complexity (both in terms of bidding and grant reporting), accounting and audit processes, and data reporting and monitoring more broadly. **Building on these responses, we are now seeking views on statutory duties that impose significant burden without significant value for residents**, to inform future work to reduce these burdens.

### Question 30

**Do you agree that the government should work to reduce unnecessary or disproportionate burden created by statutory duties? If you agree, what specific areas of statutory duties impose significant burden without significant value for residents?**

**Please provide any examples of changes you would like to see to statutory duties, being as specific as possible.**

# 11. Sales, fees and charges

## 11.1 Overview

- 11.1.1 In the December consultation, the government sought views on whether changes to certain sales, fees and charges would be justified. The consultation set out proposals on whether responsibility for setting levels for some fees and charges should be devolved to local authorities, as part of our commitment to hand back control and reset the relationship with local government.
- 11.1.2 It is important that local authorities balance the need to raise income to provide services, with protecting service users from disproportionate costs. Councils are well placed to determine how to most effectively raise income for services needed by their local population. However, a number of significant sources of fee revenue are set by central government, and have not been adjusted in line with inflation for a number of years or decades. **The government's position remains that it is essential to protect service users.** In light of the challenging financial position for many local authorities, **the government is seeking to review whether the current sales, fees and charges system appropriately balances these objectives.**
- 11.1.3 Responses to the December consultation highlighted several fees where local authorities felt they were unable to recover the cost of the service. These included alcohol licensing, planning and building control. Where respondents have raised concerns about the ability of a fee to recover the cost of delivery, **we will continue to engage across government to assess the impact of below cost recovery fees and the feasibility, and possible adverse impacts, of any changes.**

## 11.2 Proposed approach and protections

- 11.2.1 The government has considered responses, and is now seeking views on how changes to fees and charges could be taken forward in a proportionate way across the multi-year Settlement.
- 11.2.2 **After considering responses to this consultation, our proposed approach is to review all fees previously identified and consider where there is the strongest case for reform.** The government will not seek to legislate to change fees across the whole system through this review, and we expect that there will be cases where there is no rationale for making any changes to the fee.
- 11.2.3 **To support the review, the government is seeking views on a proposed framework against which fees can be assessed.** This will consider:
- Impacts on working people;

- Impacts on persons who share particular protected characteristics under the Equality Act 2010, compared to those who do not;
- Impacts on businesses;
- Behavioural impacts, for example if changes to the fee level would act as a disincentive to using the service; and
- The quality, potential for improvement, and financial sustainability of the service.

### **Question 31**

**Do you agree with the proposed framework outlined at paragraph 11.2.3 for assessing whether a fee should be changed?**

**Please provide any additional information, for example any additional considerations which would strengthen this proposed assessment framework, and any data which would be used to assess against it.**

11.2.4 The government expects that fees will fall into one of the following three categories where:

- Devolving control of fee setting for that particular service to local authorities may be appropriate. This will be the case where there is strong potential to maintain or improve the quality and/or financial sustainability of that service, without detrimental impacts on service users, and where there is a case to devolve the fee setting framework.
- Updating the fee level via secondary legislation may be appropriate. This will be the case where there is strong potential to maintain or improve the quality and/or financial sustainability of that service without detrimental impacts on service users, but the case to devolve the fee is not sufficient.
- No reform to the fee structure is thought to be appropriate. This will be the case where the potential to maintain or improve the quality and/or financial sustainability of a service does not outweigh the impacts on service users.

### **Question 32**

**The government invites views from respondents on how best to balance the need to maintain fee values and the original policy intent of the fee whilst minimising cost of living impacts for service users.**

11.2.5 Respondents to the December consultation suggested a number of specific mechanisms that could be put in place to protect service users from disproportionate costs. Protections could be applied where there is a case to devolve a fee, but where complete local control is not appropriate – for example where there is a policy rationale for a fee to be relatively consistent across the country. **The government is seeking views on the potential merit of the following protections:**

- A national fee being set, with a permitted degree of variation to allow for local costs, for example to adjust for differences in the cost of service delivery locally, such as wages; and
- Powers to allow the relevant Secretary of State to intervene if a fee is deemed above cost recovery, and legislation does not explicitly allow this.

### **Question 33**

**Do you agree that the measures above provide an effective balance between protecting charge payers from excessive increases, while providing authorities with greater control over local revenue raising?**

**Please provide a rationale or your response. We are also interested in any further mechanisms which could be applied to fees that are updated or devolved, that will help strike a balance between those objectives.**

## **11.3 Sequencing of changes**

11.3.1 **The government proposes taking a phased approach to fees and charges reform, taking action to update a small number of fees alongside the exploration of proposals to devolve certain fees to local government.** The existing landscape of fee legislation is complex and wide ranging, across a number of pieces of legislation. Updates to existing fee legislation on the basis of the process set out here will be made when Parliamentary time allows. This does not apply to updates which are already in progress, which may be made sooner.

11.3.2 **Government would then seek to devolve fee setting towards the end of this Spending Review period, following a comprehensive process to select appropriate fees for devolution.** These changes will take time to get right, and the government's view is that it is important to ensure any changes are carefully considered, and changes to fees are staggered over time.

**Question 34**

**Do you agree that we should take action to update fees before exploring options to devolve certain fees to local government in the longer term?**

## 12. Proposed design of relative needs formulae

This chapter covers the proposed design of each formula proposed for inclusion in our assessment of demand in chapter 4. This does not include the temporary accommodation relative needs formula, where further detail can be found in the [funding arrangement for the homelessness prevention grant consultation](#).

### 12.1 Adult social care (ASC)

<b>Formula structure</b>	Formula for upper tier authorities
<b>Local authorities in scope:</b>	All upper tier authorities i.e. LB, MD, SC and UAs (excluding the Council of the Isles of Scilly)
<b>Who/what covered by service(s):</b>	Younger (18 to 64) and older adults (65 and over)
<b>Need drivers:</b>	<p>Younger adult formula:</p> <ul style="list-style-type: none"> <li>• Proportion of household reference persons (an ONS term for people) aged 16 to 64 living in one-family households</li> <li>• Proportion of people aged 18 to 64 in receipt of Universal Credit (not subject to Work Requirements), Employment Support Allowance, Personal Independence Payment, Disability Living Allowance or Attendance Allowance* claimants</li> <li>• Proportion of people aged 16 to 64 who are aged 16 to 24</li> </ul> <p>Older adult formula:</p> <ul style="list-style-type: none"> <li>• Proportion of people aged 65 or over who are Personal Independence Payment, Disability Living Allowance, or Attendance Allowance claimants</li> <li>• Proportion of household reference persons aged 65 or over living as a couple</li> <li>• Proportion of people aged 65 or over who are aged 80 or over</li> <li>• Proportion of people aged 65 or over who are Pension Credit claimants aged 80 or over</li> <li>• Proportion of household reference persons aged 65 or over who own their home outright, multiplied by the proportion of all dwellings in Council Tax bands A to E</li> </ul>

	<ul style="list-style-type: none"> <li>Proportion of household reference persons aged 65 or over who own their home outright, multiplied by the proportion of all dwellings in Council Tax bands F to H</li> </ul>
<b>Analytical technique used:</b>	Small area modelling
<b>Example of service areas included in the formula:</b>	<ul style="list-style-type: none"> <li>Learning disability and support</li> <li>Physical support</li> <li>Social care activities</li> <li>Mental health support</li> <li>Support with memory and cognition</li> <li>Commissioning and service delivery</li> </ul>

### The current methodology

- 12.1.1 The current ASC RNF contains separate components for younger (18 to 64) and older adults (65 and over) to account for the differences in the factors that drive ASC needs in these two age groups. These two components make up the 'base ASC RNF'.
- 12.1.2 The base ASC RNF was developed using a utilisation-based approach, which assumes that the way adults use local authority-funded ASC support broadly reflects their ASC care needs.
- 12.1.3 The current formula modelled how ASC services are used by collecting 'use data' from 18 local authorities on ASC service use at ward level - a small geographical area which on average have a population of 6,000 per ward (as at 2001 Census). This data was collected in 2004-2005.
- 12.1.4 Analysis on relative needs indicators was then carried out to find a list of indicators which best explained the variations in ASC service use between local authorities. To be included in the final model, these indicators had to: i) be routinely updated and available at a small-area level; ii) be outside of the direct control of local authorities; and iii) be strong indicators of eligible ASC needs.
- 12.1.5 Further details about the current RNF methodology can be found in the following reports on [younger adults](#), [older adults](#) and the [Methodology Guide for Adults' Personal Social Services Relative Needs Formulae 2013 to 2014](#).

### Updating and rescaling the ASC use data in the base RNF models

- 12.1.6 **We propose updating the estimates of ASC relative needs in the base RNF models with ASC use data from 2012-2013 at a Lower Layer Super Output Area (LSOA) level from 48 local authorities.** LSOAs usually comprise a resident population between 1,000 and 3,000 people, so better reflect small

local variations than ward-level data. This means this update would use a much higher number of data points (around 13,000, compared to previously 775).

12.1.7 **We propose rescaling the ASC use data collected from the LSOAs to 2022-2023 ASC use levels**, using local authority-level ASC use data taken from the [2022 to 2023 Adult Social Care Activity and Finance Report](#) (ASC-FR) - this was the latest data available when we completed the rescaling exercise.

12.1.8 This proposal would mean that the updated ASC RNF would:

- make use of data from 2012-2013 (rescaled to 2022-2023 use-levels) rather than from 2004-2005
- make use of more granular data from LSOAs to better capture variation in need within local authorities.

12.1.9 If we pursued updates to a slower timeframe, we may be able to include additional data, including [Client Level Data](#)<sup>25</sup>, but do not think that we should delay updating the formula, so will look to include more updated data in any future updates.

#### Proposed updates to the relative needs indicators

12.1.10 Tables 8 and 9 show the relative needs indicators we propose updating for the two age cohorts.

12.1.11 The indicators are similar to those in the current ASC RNF. However, they have been updated to reflect changes in definitions over time (for example, changes in the benefits system) from the latest available data sources (for example, using Census 2021 data in the updated ASC RNF rather than the Census 2001 data currently used).

12.1.12 Researchers and DHSC agreed the indicators that were found to be the most strongly associated with relative needs for each of the two age groups. Therefore, different indicators were chosen for the two different age components.

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<sup>25</sup> Client Level Data is a national data collection that could be built up to provide anonymised individual social care records from local authorities in smaller geographical areas below local authorities, which could potentially provide greater detail on relative need. More information on Client Level Data is available here: [Adult Social Care Client Level Data - NHS England Digital](#)

Table 8: Relative needs indicators in the younger adults component of the current and proposed updated ASC RNF

Relative needs indicators in current ASC RNF	Relative needs indicators in proposed updated ASC RNF
Proportion of households with no family	Proportion of household reference persons aged 16 to 64 living in one-family households (Note: household reference persons is an ONS term which means 'people')
Proportion of people aged 18 to 64 who work in routine or semi routine occupations (occupations carrying out specific activities with well-defined instructions, for example, cleaners, bar staff)	Proportion of people aged 18 to 64 in receipt of Universal Credit (not subject to Work Requirements), Employment Support Allowance, Personal Independence Payment, Disability Living Allowance or Attendance Allowance* claimants
Proportion of people aged 18 to 64 who are long term unemployed or have never worked	
Proportion of people aged 18 to 64 who are in receipt of Disability Living Allowance	
	Proportion of people aged 16 to 64 who are aged 16 to 24

*\*We note that it is not possible to claim Attendance Allowance under the State Pension age which includes people who are aged 18 to 64. However, this is the name of the variable as included in the DWP Stat Xplore benefits combination dataset where this data is obtained. We have kept this name for consistency.*

Table 9 – Relative needs indicators in the older adults component of the current and proposed updated ASC RNF

<b>Relative needs indicators in the current ASC RNF</b>	<b>Relative needs indicators in the proposed updated ASC RNF</b>
Proportion of people aged 65 or over who were in receipt of attendance allowance	Proportion of people aged 65 or over who are Personal Independence Payment*, Disability Living Allowance, or Attendance Allowance claimants
Proportion of people aged 65 or over who are living alone	Proportion of household reference persons aged 65 or over living as a couple
Proportion of people aged 65 or over who are aged 90 or over	Proportion of people aged 65 or over who are aged 80 or over
Proportion of people aged 65 or over who were in receipt of pension credit **	Proportion of people aged 65 or over who are Pension Credit claimants aged 80 or over
Proportion of people aged 65 or over living in rented accommodation	Proportion of household reference persons aged 65 or over who own their home outright, multiplied by the proportion of all dwellings in Council Tax bands A to E
	Proportion of household reference persons aged 65 or over who own their home outright, multiplied by the proportion of all dwellings in Council Tax bands F to H

*\*We note that it is not possible to claim Personal Independence Payment over the State Pension age, which includes some people who are 65 or over. However, this is the name of the variable as included in the DWP Stat Xplore benefits combination dataset where this data is obtained. We have kept this name for consistency.*

*\*\* Pension credit was the only benefit included during the 2005-06 development of the final model for the older adults component of the current ASC RNF. However, in subsequent years during the calculation of the estimated relative gross expenditure using local authority-level data, it appears the input data used also included information for other benefits such as income support.*

### **Question 35**

**Do you agree or disagree that these are the right Relative Needs Indicators? Are there any other Relative Needs Indicators we should**

**consider? Note that we will not be able to add additional indicators for a 2026-27 update.**

Proposed changes to the adjustments made to the base RNF

- 12.1.13 This section sets out the proposed changes to the adjustments that we make to the base RNF.
- 12.1.14 The base ASC RNF formulae calculates per capita relative needs values. A set of adjustments is then applied to the base RNF to account for other local variations that could drive differences in the costs of service delivery.
- 12.1.15 The adjustments used for the current RNF are:
- local authority population size - to reflect the differing populations to which local authorities are responsible for providing ASC
  - an ACA - to reflect differences in wages, property rates and rent between local authorities, which can impact the extent to which people are eligible for local authority-funded ASC as well as local authorities' spend on ASC
  - a low-income adjustment (LIA) – to recognise local authorities' differing ability to raise income from contributions made by local authority-funded care users. This is only applied to the 65 and over component of the RNF
  - a sparsity adjustment - to reflect differences in the costs of providing home care services in rural areas, for example, travel times. This is only applied to the 65 and over component of the current RNF.

Accounting for these adjustments enables us to calculate the allocation shares.

Proposed update to the population size data used in the ASC RNF

- 12.1.16 The current ASC RNF uses 2013 population projections taken from the ONS as one of its adjustments.
- 12.1.17 The updated allocation shares use 2023 ONS population estimates for each local authority which is the most current population data available. This is to give respondents the most up-to-date data to inform their responses.
- 12.1.18 **We propose that using more up-to-date population data would more accurately reflect the current population across England.** We are inviting views about using the local authority level population projections rebased to the 2021 Census when published, to adjust allocation shares during the multi-year settlement.

- 12.1.19 This would mean that allocation shares are updated to reflect changes in projected population size. However, because the remaining input data would still be 'frozen', this may not necessarily reflect changes in ASC need.
- 12.1.20 The alternative option is to keep allocations constant during the multi-year settlement. This would keep all input data at the same point in time, reflecting need as of the input data year.

### **Question 36**

**Do you agree or disagree with including population projections in the ASC formula, when published, that have been rebased using Census 2021 data?**

### Area Cost Adjustment (ACA)

- 12.1.21 The final stage of the model involves the application of a tailored ACA. This adjustment will not impact the formula's underlying design, but it will help take account of local variations in the cost of delivering these services. The adjustment applied in the model will be a variation of the latest available ACA which is specific to adult's services.
- 12.1.22 The updated ASC RNF does not require a separate sparsity adjustment because the 2021 and 2024 ACA includes an 'accessibility' element that directly accounts for the impact of travel times on labour costs, making a separate sparsity adjustment unnecessary.

### Proposed updates to the Low-Income Adjustment (LIA)

- 12.1.23 **We propose continuing to include a LIA for the older adults RNF component only** to account for contributions made by ASC service users towards their care costs. This is because their care contributions are significantly higher relative to local authorities spend for service users aged 65 and over (27% of ASC Gross Current Expenditure (GCE)) than for those aged 18 to 64 (7% of ASC GCE).
- 12.1.24 ASC service users' contributions represent a significant source of income for local authorities ([£3.2 billion from older adults in the 2023 to 2024 financial year](#)), particularly for residential and nursing care.
- 12.1.25 The percentage of ASC expenditure that local authorities recover from service users' contributions from older adults varies ([between 0 and 48% in the 2023 to 2024 financial year](#)). This impacts on local authorities' relative needs for funding.
- 12.1.26 **We propose incorporating the latest [DWP benefits](#) and [ONS population data](#) into the LIA model for this update**, as well as the [latest data on ASC expenditure from the 2023 to 2024 financial year](#), to reflect these developments.
- 12.1.27 There is limited data available to accurately describe the profile of people aged 65 and over who might need to contribute to the cost of their care. This means that the formula used to calculate the LIA only explains a relatively low percentage of the differences in the proportion of GCE spent on ASC that local authorities fund from contributions from service users. If the LIA was removed from the older adults RNF component, the impact on final allocation shares would be small. However, we believe it is a useful adjustment to make as user contributions are not considered elsewhere in the model.

### Question 37

**Do you agree or disagree with our proposal to include a Low-Income Adjustment (LIA) for the older adults component of the ASC RNF model?**

Proposed changes to the weights we use to combine the two age components of the formula

- 12.1.28 Having developed the two base RNF and adjustments, the final step to obtain final ASC RNF allocation shares is to combine the older adults and younger adults' components using percentage weights.
- 12.1.29 This ensures that the final allocations reflect the national proportion of ASC need between these two groups.
- 12.1.30 In the current ASC RNF we used a 60% weighting for older adults RNF and a 40% weighting for younger adults.
- 12.1.31 **For the updated ASC RNF we propose calculating the weights for the two formulae using the most recently reported national data on local authorities' net current expenditure on ASC for older adults and younger adults**, as reported in the [2023 to 2024 ASC-FR](#) (which was available when DHSC input data to ASCRU's modelling outputs). This means taking the amount local authorities spent on day-to-day ASC services after accounting for income raised, for example, from user contributions and the NHS.
- 12.1.32 **Based on this we propose using weights of:**
- 48% for the older adults component
  - 52% for the younger adults component
- 12.1.33 **We believe that this weighting reflects more up-to-date information on England-level ASC spending, better reflects the expenditure split between adults aged 18 to 64 and adults aged 65 and over, and is outside of local authorities' control.** We would welcome views on what alternative information can be taken to inform the weights. Full detail of the methodology is available in the technical annex.
- 12.1.34 We could apply a range of different weights to the formulae in order to combine them, such as continuing to use the current weights or giving them equal weighting.

### Question 38

**Do you agree or disagree that the overall ASC RNF should combine the two component allocation shares using weights derived from the national**

**ASC net current expenditure data on younger and older adults (in this case 2023 to 2024)?**

**If you disagree, what other weightings would you use? Please provide details for why you would use these weights and what data it would be based on?**

## 12.2 Children and Young People's Services (CYPS) RNF

<b>Formula structure</b>	Formula for upper tier authorities
<b>Local authorities in scope:</b>	All upper tier authorities i.e. LB, MD, SC and UAs (excluding the Council of the Isles of Scilly)
<b>Who/what covered by service(s):</b>	Children in Need, Children Looked After, and children who recently ceased care
<b>Need drivers:</b>	<ul style="list-style-type: none"> <li>• Sex of child (categorised as male or female)</li> <li>• Age of child</li> <li>• Eligibility for free school meals (FSM) on date of the census</li> <li>• Socio-economic deprivation level in child's LSOA (as measured by the IDACI)</li> <li>• Proportion of children in child's LSOA with parents with low qualifications</li> <li>• Proportion of children in child's LSOA with poor health</li> <li>• Proportion of overcrowded households in child's LSOA</li> <li>• Population density (measured in persons per km<sup>2</sup>) in child's LSOA</li> <li>• Travel time from LSOA centroid to nearest town centre (mins)</li> </ul>
<b>Analytical technique used:</b>	Multi-level model
<b>Example of service areas included in the formula:</b>	<ul style="list-style-type: none"> <li>• Child, young people and family support services</li> <li>• Safeguarding, social work assessment, case management, and commissioning</li> <li>• Looked after children, supporting legal permanence in alternative families and care leaver services</li> <li>• Sure Start children's centres and early years</li> <li>• Youth justice</li> <li>• Information, advice and guidance for young people</li> </ul>

12.2.1 This section of the consultation seeks views on a new formula to inform the distribution of funding to local government for children and family services. This will form part of the Settlement Funding Assessment and may be used to allocate grants for children and family services, subject to future decisions. This section sets out how the Children and Young People's Services (CYPS) formula

has been developed and provides the resultant need shares for each local authority.

- 12.2.2 In 2013-14 a new relative needs formula was introduced covering youth and community services, local authority central education functions, and children's social care (CSC). The formula has not been updated since then and no longer reflects actual levels of need for CSC. As a result, funding is not accurately distributed to local authorities based on the current relative need for children's services within their communities. **We believe that the approach to identifying need can be improved by using an enhanced relative need formula.** The [Independent Review of Children's Social Care](#) (2022) recommended updating the existing funding distribution formula to improve resource allocation for children's services.
- 12.2.3 **The new CYPS formula is part of our work to make local government funding simpler and fairer.** This will help local authorities to meet the needs of their citizens, including protecting and supporting children and families. The formula aims to better reflect how the need for services is spread across local authorities, resulting in a fairer allocation of resources. The formula sits alongside wider reforms such as the investment in the Families First Partnership Programme, which aims to support local authority investment in early help services.
- 12.2.4 To arrive at the CYPS formula, Department for Education (DfE) analysts have updated a model developed by LG Futures, the University of Huddersfield and the University of Plymouth, completed in 2020, based on a commission from MHCLG and the DfE. The original LG Futures model was then trained on newer, better-quality data from all local authorities, improving its accuracy compared to the original model.
- 12.2.5 The CYPS model uses variables that are evidenced to drive CSC activity to predict the likelihood of future need. This is an improvement on older models which rely on historical data on the number of young people engaging with CSC services in an area to estimate levels of need. As well as improving accuracy, this predictive model also ensures that local authorities are not penalised for investing in effective prevention services, while eliminating financial incentive to classify more children as Children Looked After (CLA) or Children in Need (CiN).
- 12.2.6 To work out which characteristics best indicate a young person's likelihood of interacting with CSC services, the model identifies the child-level characteristics that most strongly correlate with CLA and CIN census data. The model then determines a local authority's need share based solely on its proportion of children with those characteristics, relative to other areas. Notably, it does not calculate relative need based on the number of children currently categorised as CLA or CIN.

- 12.2.7 An interim version of the CYPS formula was used for the first time in financial year 2025-26, to distribute the new Children's Social Care Prevention Grant and, in December, we consulted on the high-level principles underpinning the formula. Respondents agreed with the proposed approach, noting the inclusion of deprivation measures as highly relevant for assessing need. Feedback emphasised the need for greater transparency and, in response, the DfE published the [LG Futures Final Evaluation Report](#) and an [Independent Peer Review of the proposed model by Professor Anna Vignoles](#). Respondents requested that local authority need shares or funding allocations be disclosed, as well as future opportunities to feedback views. This consultation aims to address those requests and invites views on each element of the formula.
- 12.2.8 Throughout the consultation, we will refer to the [Final Evaluation Report](#) to allow the reader to access the detailed research underpinning the recommended model.
- 12.2.9 This section of the consultation is structured into three parts:
- Part 1 – Explores the child and neighbourhood variables used to predict relative need and provides a high-level overview of the model's design.
  - Part 2 – Presents the model's outputs, in terms of each local authority's predicted share of national need for services.
  - Part 3 – Considers potential future updates to the model.

#### How the Children and Young People's services model works

##### *The data underpinning the model*

- 12.2.10 LG Futures were able to identify the child-level characteristics that most strongly predict engagement with children's social care services. To achieve this, data from the National Pupil Database (NPD) was integrated into the CYPS model, including detailed child-level socio-demographic information. This was then combined with CLA and CIN census data, capturing engagement with CSC services in one of three ways: being registered as a Child Looked After, a Child in Need or having ceased care in a given year. By linking these data sources, a comprehensive dataset of all known interactions with CSC services was created. This provided detailed demographic insights into the child characteristics most strongly associated with CSC engagement. The dataset also includes children not listed in the NPD, supplemented by additional data collections.
- 12.2.11 LG Futures were also able to identify the neighbourhood-level characteristics that most strongly predict need for children's social care services. The combined child-level dataset is made richer still with neighbourhood data for the Lower-layer Super Output Area (LSOA) of origin for all children recorded within

the CLA and CIN census registers, allowing the model to consider the effect of characteristics of where individual children come from (rather than where they are placed) and whether they interact with CSC. LSOA data provides more granular detail than local authority-level data, resulting in a more robust model that captures local variations in need.

- 12.2.12 **The new CYPS model takes as its starting point the correlations between demographics and need that the LG Futures model identified. But it incorporates the most up-to-date census, CLA and CIN data.** This ensures that relative need shares reflect shifts in child population size and evolving local demographics, providing a more accurate assessment of need for children and family services.

*The model design and characteristics driving need*

- 12.2.13 To ensure the model captures the broad range of Children and Young People's Services delivered by local authorities, different activity metrics were selected and tested. Analysis undertaken by the LG Futures academics indicated that children's social care (specifically CIN, CLA and children who have ceased care during the past year) offers the most reliable and consistent data reflecting engagement with children's services. **Consequently, the model assumes that a local authority's overall need for broader children's services, including help and targeted interventions, reflects their level of need for children's social care.** The agreed activity metrics are:

- Being registered as a Child in Need on 31st March during a given year
- Being a Child Looked After (in residential or foster care) during the year.
- Having ceased care during the year for any reason during the year.

- 12.2.14 Child and neighbourhood characteristics were then analysed to identify which combinations best predict whether a child in the dataset is likely to access social care in any of these three ways (CIN, CLA and ceased care). The child characteristics assessed as showing a significant contribution to the model are detailed in Chapter 3 of the Final Evaluation Report. These include:

- Sex of child (categorised as male or female)
- Age of child
- Ethnicity of child, defined by minor ethnic group
- Eligibility for free school meals (FSM) on date of the census

- 12.2.15 The recently announced upcoming changes to Free School Meals eligibility are set to take effect from September 2026, **therefore the CYPS model continues to be based on current Free School Meals eligibility criteria.**

### Removing ethnicity from the model

- 12.2.16 LG Futures found that including ethnicity in the model improved its ability to predict the likelihood of a given child engaging with children's social care services. However, they noted it was not clear whether children and families of different ethnicities have genuinely varying levels of need, or whether this is due to other factors, including bias within the system. In consultation with MHCLG, DfE and key stakeholders, LG Futures decided to include ethnicity in the original CYPS model. Consequently, the interim version of the CYPS formula used to distribute the 2025-26 Children's Social Care Prevention Grant included ethnicity as a variable.
- 12.2.17 Further analysis has shown that including ethnicity could potentially reduce need shares in some more diverse areas, potentially suggesting under identification of need within certain communities. Currently, there remains no clear explanation for why children from some ethnic backgrounds are more likely to be registered as a CiN, CLA or ceased care – compared to a white British reference child – and why some from other ethnic backgrounds are less likely to. This presents a risk that including ethnicity in the model could reinforce racial bias. The [DfE's report on Ethnicity and Children's Social Care](#) highlighted the limited research on racial disparities in CSC. However, it identified contributing factors, including social workers' lack of confidence in engaging with ethnic minority families and variations in practice that lead to children from certain backgrounds receiving fewer preventative services and more acute interventions. Insights from social workers, academics and local authorities also indicate that systemic bias contributes to the disproportionate representation of certain ethnic groups within children's social care.
- 12.2.18 Including ethnicity in the model therefore risks reinforcing racial bias and allocating funding based on a variable that may not accurately reflect need. **Following careful consideration – factoring in the lack of conclusive evidence on what causes racial disparities in the system, the potential of further embedding bias and the risk of potentially reducing need shares in some more diverse areas - we have removed it as a variable in the updated CYPS formula.** The impact of this change on local authority need shares is small, particularly in comparison to other variables.

### Question 39

**Do you agree that ethnicity should be removed as a variable in the CYPS formula? Please explain your reasoning.**

- 12.2.19 Our aim in updating the formula is to ensure that local authorities are funded based on the need for children's services support within their populations. Rather than using historical service use to predict future demand, the CYPS model assesses the combination of child and neighbourhood characteristics that most accurately predict whether a child will engage with social care in one of three ways (CIN, CLA or having ceased care) within a given year. This prediction is based on national level data in the CIN and CLA datasets. For example, a male aged 14-15 years who is eligible for Free School Meals (FSM) is significantly more likely to engage with CSC services than a female aged 6-7 years who is not eligible for FSM.
- 12.2.20 As the CYPS relative need share estimates are based solely on child and neighbourhood characteristics, they are independent of individual local authority practice. This safeguards against any financial incentives attached to categorising more children as CIN or CLA. It also ensures that local authorities investing heavily in effective preventative services are not penalised for doing so. The LG Futures report (section 1.1.5) acknowledges the benefit of using individual child-level data as it "removes the impact of local authority decision-making (or that of other agencies, such as the court service) from the relative allocations, and therefore will not penalise those authorities that are more efficient or place more emphasis on preventative services."
- 12.2.21 In summary, CYPS relative need share estimate are determined by factors such as an area's child population size and demographics (including child age, gender and eligibility for FSM) and neighbourhood factors (such as deprivation and overcrowding).
- 12.2.22 The Lower layer Super Output Area (LSOA) level variables which were considered to be robust and improved the predictive power of the model are detailed in Chapter 5 of the Final Evaluation Report. **Those selected, which will be included in the proposed model are:**
- Socio-economic deprivation level in child's LSOA (as measured by the Income Deprivation Affecting Children Index, IDACI)
  - Proportion of children in child's LSOA with parents with low qualifications
  - Proportion of children in child's LSOA with limited activity\*
  - Proportion of overcrowded households in child's LSOA
  - Population density (measured in persons per square km) in child's LSOA
  - Travel time from LSOA centroid to nearest town centre (mins)

*\*This variable was not included in the 2021 Census and has instead been replaced with the proportion of children in child's LSOA with poor health.*

- 12.2.23 You can read more about the Department for Education's analysis into the [Drivers of Activity for Children's Social Care](#).
- 12.2.24 To estimate the relative need for each local authority (their relative share of national need), the predicted needs of individual children are estimated across three activity metrics (CIN, CLA and ceased care). This is based on an analysis of child and neighbourhood characteristics that best predict need for services. The child-level estimates are then aggregated to local authority level, determining their relative need for each of the three children's social care activity metrics. Importantly, this process does not rely on a local authority's current or historical categorisation of children (as CLA or CIN) or its spending patterns. Instead, relative need share estimates are determined by an analysis of child demographic and neighbourhood factors.
- 12.2.25 Each activity metric (CLA, CIN and ceased care) is then weighted based on its proportion of the total national local government expenditure on these service areas. This is averaged over three years and reflects the relative resource costs of providing different services. Resource weights reflect national expenditure, regardless of how much the individual authority currently spends on each of the three metrics. Further details about weighting the different metrics are discussed in Chapter 8 of the Final Evaluation Report.

Table 10: Activity metrics which proxy each of the Section 251 service areas, based on 2021-2023 local authority expenditure data

Metric	Service area	Resource weight
CIN	(1) Child, young people and family support services, (2) Safeguarding triage: assessment, case management, and commissioning, (7) Youth justice	49.8%
Care	(3) Residential Care for Children Looked After & (4) Fostering for Children Looked After	39.4%
Ceased care	(5) Supporting legal permanence in alternative families; (6) Care leaver services	10.8%

#### The model's outputs

- 12.2.26 The model's outputs provide each local authority's predicted share of the national need for children and family services. These indicative relative need shares have been published alongside this consultation.

#### Updating the model in future

- 12.2.27 As discussed above, ethnicity is of vital importance and analytically the association with need is complex. **After careful consideration, we are recommending that ethnicity is removed.** We will bring together academic experts and experts by experience through the consultation period to advise us on the best way to consider ethnicity in children's social care and on wider work to refine the formula and address bias in the system.
- 12.2.28 The model uses the National Pupil Database from a fixed point in time. **We propose routinely updating this and the other data used in the formula, such as the CLA and CIN census data,** to ensure that the model continues to produce accurate and up-to-date relative need shares. Any such updates would be implemented with full consideration given to the potential impact on local authority funding allocated through the Local Government Finance Settlement.
- 12.2.29 Updated Income Deprivation Affecting Children Index (IDACI) data is expected to be published later this year and will be incorporated into the CYPS model, to ensure it reflects the most current data available. This also presents a sensible opportunity to update the National Pupil Data and other newer data used in the model where it exists. Consequently, the local authority CYPS need shares used in calculating the updated Settlement Funding Assessment may differ from the indicative relative need shares published alongside this consultation. Revised CYPS need shares will be detailed in the provisional Settlement consultation, later this year.

#### Question 40

Do you agree overall that the new formula represents an accurate assessment of need for children and family services? Please share any reflections or suggested changes.

### 12.3 Foundation Formula

<b>Formula structure</b>	Separate formulae for lower tier and upper tier authorities
<b>Local authorities in scope:</b>	All lower tier and upper tier authorities
<b>Who/what covered by service(s):</b>	Daytime population: <ul style="list-style-type: none"><li>• Projected total residential population</li><li>• Commuters</li><li>• Domestic day visitors</li><li>• Domestic visitor nights</li></ul>
<b>Need drivers:</b>	Lower and upper tier formulae: <ul style="list-style-type: none"><li>• Index of Multiple Deprivation (IMD) population-weighted score</li></ul>
<b>Analytical technique used:</b>	Expenditure-based regression at local authority level
<b>Example of service areas included in the formula:</b>	<ul style="list-style-type: none"><li>• Waste services</li><li>• Libraries</li><li>• Leisure</li><li>• Sports and recreation</li><li>• Environmental health</li><li>• Public transport, including bus services</li><li>• Planning</li><li>• Central services</li><li>• Concessionary travel</li><li>• Flood defence</li><li>• Coastal protection</li></ul>

- 12.3.1 **In line with previous consultations, the government proposes that a Foundation Formula covers the majority of non-social care services.** We will introduce separate upper tier and lower tier Foundation Formulae to reflect the structure of local government and the responsibilities of different tiers. In the case of single tier authorities both the lower and upper tier formula will apply.
- 12.3.2 **The government proposes that the general approach to the formula will match that proposed in the 2018 Review of Relative Needs and Resources.** Specifically, that a “client group” is identified to reflect the size of the population group eligible for the services in-scope of the formula, as well as “need drivers” that to determine the level of need-per-capita across authorities.
- 12.3.3 Given the wide range of services that this formula covers compared to others, statistical techniques are not able to fully capture the need for all of them perfectly. As such, the choice of variables included and how these are weighted was based on a combination of statistical evidence, evidence gathered from stakeholders, as well as judgement.

#### Client Group

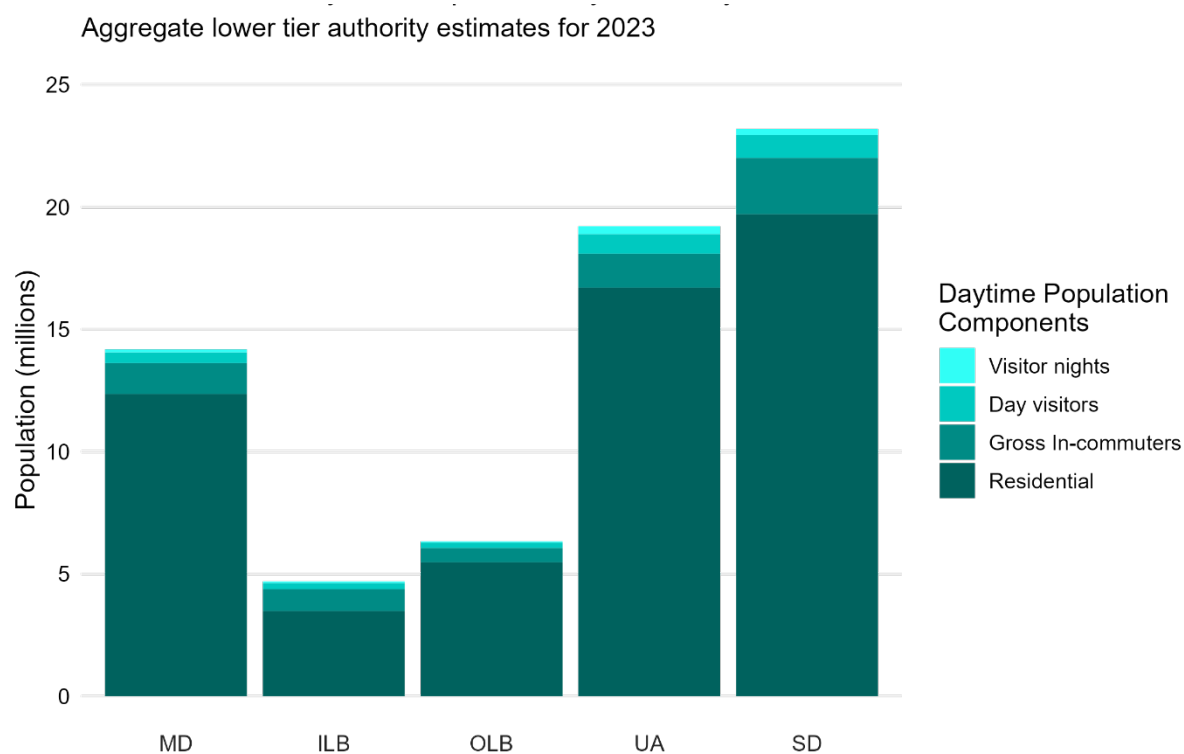
- 12.3.4 Non-social-care services covered by the Foundation Formula, such as waste services or leisure facilities, are considered ‘universal’, and typically they do not require an eligibility assessment to determine entitlement to them. Previous consultations and stakeholder engagement have identified the total residential population as the most important driver of need for the bulk of these services.
- 12.3.5 However, the number of visitors, including commuters and tourists, may also play a major role in driving demand for these services. Most directly, they can impact demand for waste management, parking, transport planning, leisure and cultural services, and environmental health services. Importantly, this would not affect just urban areas. Rural areas, especially those with popular natural attractions, can also face heightened service demands due to high tourist volumes.
- 12.3.6 **The government is therefore proposing to expand the definition of the client population to recognise the potential additional burden that a large number of commuters and tourists places on both rural and urban authorities.** We propose to estimate this new client population, termed the “daytime population” of an authority, as follows:

$$\begin{aligned} \text{Daytime Population} &= \text{Projected Residential Population} \\ &+ \text{Gross In-commuters} \\ &+ \text{Day Visitors} + \text{Visitor Nights} \end{aligned}$$

where *Gross In-commuters* will be estimated using Census 2021 commuter data, and *Day Visitors* and *Visitor Nights* will be estimated using authority-level estimates of domestic day visitor and overnight visitor night volumes produced

by VisitBritain<sup>26</sup>. Figures 8 and 9 shows how these different components are distributed across authority class and region.

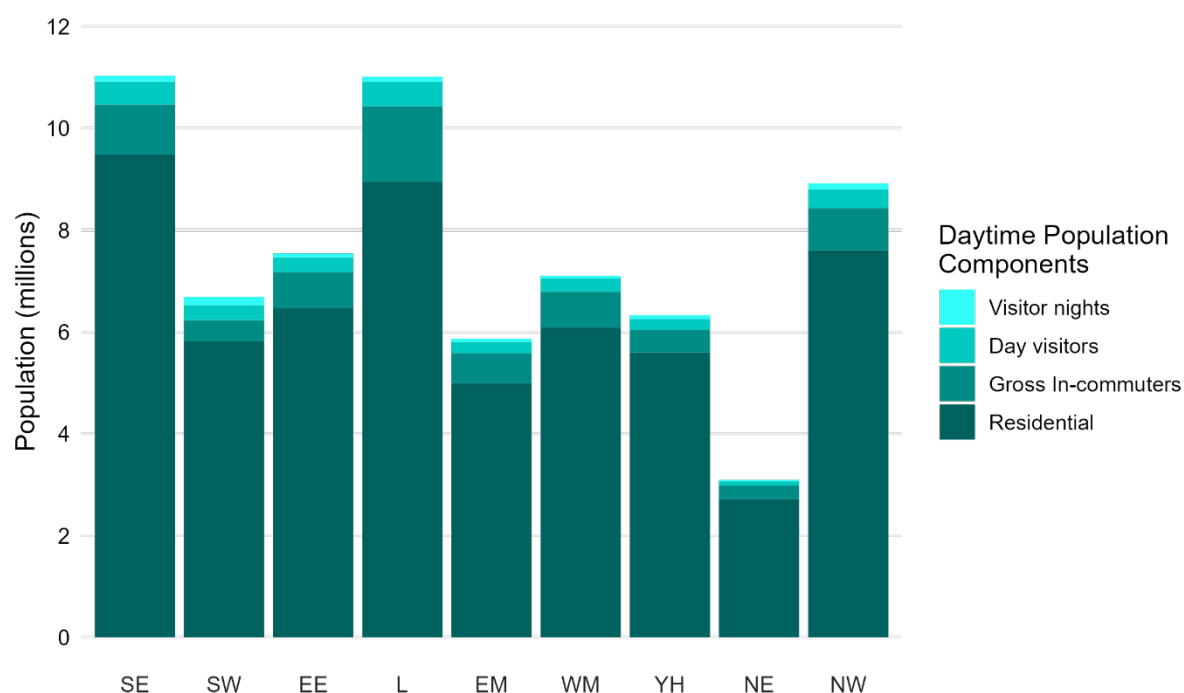
**Figure 8: Breakdown of Daytime Population by authority class**



<sup>26</sup> VisitBritain has previously published authority-level estimates of day visitor and overnight trip nights using a 3-year rolling average approach. Due to methodological changes that occurred after 2021, the newest estimates of authority-level visits and trips will be available later in 2025. VisitBritain has provisionally produced 2-year average county-level data, based on 2022 to 2023 data for overnight trips and October 2021 to September 2023 data for day visits. We are minded to use the newest authority-level data when that is made available, drawing on the county-level data in the interim

**Figure 9: Breakdown of Daytime Population by England region**

Aggregate lower tier authority estimates for 2023



- 12.3.7 Commuters and tourists likely use non-social-care services at different levels of intensity than the resident population. Given this, weights could be applied to the components of daytime population inflow to reflect their per-person need relative to that of a resident. These weights could be estimated through statistical methods or using expert and/or evidence-based judgement.

#### Question 41

**Do you believe that the components of daytime population inflow should be weighted to reflect their relative impact on demand for services?**

#### Need Drivers

- 12.3.8 There was broad agreement from most respondents in our previous consultation that a measure of deprivation should be included as a common need driver, subject to the development and demonstration of a clear evidence base for weighting. **The government proposes to include the Index of Multiple Deprivation (IMD) as a need driver of the Foundation Formula.**
- 12.3.9 The IMD was chosen over other potential measures of relative deprivation (such as household income) as it accounts for the broadest range of factors that impact the level of deprivation of an area. These include levels of income,

employment, educational attainment, health, crime, barriers to housing, and the living environment.

- 12.3.10 The latest release of England IMD scores was in 2019, which is the version that is used to produce the indicative authority-level need shares in this consultation. MHCLG has commissioned an updated iteration of the index that is due to be published later in 2025. **We will be updating our formula for the 2026-27 multi-year Settlement to reflect the most up-to-date data on deprivation when it is made available.** This follows from the principle of dynamism, one of the key principles informing our approach.
- 12.3.11 Among respondents to the previous consultation, 23% expressed reservations about the proposed use of the IMD as part of calculations to determine funding allocations. There was particular concern that the IMD does not recognise local pockets of deprivation within comparatively less deprived areas. We have aimed to capture the distribution of deprivation within authorities by estimating a population-weighted average of their deprivation score, at the highest level of granularity available (the Lower Super Output Area, which captures approximately 400 to 1,200 households). While the latest Census collected more granular data on household deprivation, at the level of 40 to 250 households (the Output Area or OA), this data neither captures the same range and depth of dimensions of deprivation as the IMD nor aligns with our principle of dynamism. **We are confident that this measure of deprivation captures the experience of an average resident in the area and reflects pockets of deprivation.**

#### Final Formula: Lower Tier

- 12.3.12 We propose the main structure of the lower tier Foundation Formula should be:
- A **basic amount** per resident and daytime population;
  - A **deprivation top-up** based on the IMD score of an authority.

The full formula used to calculate the RNF share of each lower tier authority is:

#### *Lower Tier Foundation Formula*

- a) **PROJECTED DAYTIME POPULATION** *multiplied by* the results of:  
**LOWER TIER FF BASIC AMOUNT**; *plus*  
**LOWER TIER FF DEPRIVATION TOP-UP**;
- b) The result of (a) is then *multiplied by* **AREA COST ADJUSTMENT FOR LOWER TIER FOUNDATION FORMULA**;
- c) The result of (b) for all authority in scope are added together;
- d) The result of (b) is divided by the result of (c).

### Final Formula: Upper Tier

12.3.13 We propose the main structure of the upper tier Foundation Formula should be:

- A **basic amount** per resident and daytime population;
- A **deprivation top-up** based on the IMD score of an authority.

The full formula used to calculate the RNF share of each upper tier authority is:

#### *Upper Tier Foundation Formula*

- a) **PROJECTED DAYTIME POPULATION** *multiplied by* the results of:  
**UPPER TIER FF BASIC AMOUNT; plus**  
**UPPER TIER FF DEPRIVATION TOP-UP;**
- b) The result of (a) is then *multiplied by* **AREA COST ADJUSTMENT FOR UPPER TIER FOUNDATION FORMULA;**
- c) The result of (b) for all authority in scope are added together;
- d) The result of (b) is divided by the result of (c).

### **Question 42**

**Do you agree with/have any comments on the design of the Foundation Formula?**

## 12.4 Fire and Rescue RNF

<b>Formula Structure</b>	Formula for fire authorities
<b>Local authorities in scope:</b>	All authorities with Fire and Rescue responsibility
<b>Who/what covered by service(s):</b>	All residents within a fire authority
<b>Need drivers:</b>	<ul style="list-style-type: none"> <li>• Length of coastline</li> <li>• Household deprivation (2021 Census)</li> <li>• Population density</li> <li>• Population sparsity</li> <li>• Number of Control of Major Accident Hazard (COMAH) sites</li> <li>• Property and societal risk</li> <li>• Percentage of households which have dependent children, students or age 65+ occupants</li> </ul>
<b>Analytical Technique used:</b>	Based on the existing formula which was derived using a combination of expenditure-based regression and Ministerial judgement
<b>Example of service areas included in the formula:</b>	<ul style="list-style-type: none"> <li>• Promoting fire safety</li> <li>• Extinguishing fires, as well as protecting life and property in the event of a fire</li> <li>• Rescuing people in the event of a road traffic collision</li> <li>• Assessing and preventing any fire and rescue-related risks</li> <li>• Responding to any other emergencies, including requests from the Secretary of State</li> </ul>

12.4.1 In the December consultation, we consulted on a proposal to update the data in the Fire and Rescue RNF. Of the 55 responses who provided substantive comment on the proposal, 30 (55%) explicitly agreed to update the existing formula with new data. 9 respondents (16%) also suggested making substantive changes to the formula itself. Due to timescales, it has not been possible to make additional changes with sufficient quality assurance and sector engagement.

12.4.2 **The proposed formula therefore uses the same structure as the existing one.** It is partially based on an expenditure-based regression approach (which assumes that historical spending broadly reflects the demand for Fire and Rescue services) and partially based on ministerial judgement regarding other factors which could increase risk for a Fire and Rescue service.

12.4.3 **The government is proposing to apply an updated Area Cost Adjustment (ACA) for the Fire and Rescue formula in line with the approach taken across the needs assessment.** However, due to the structure of the proposed formula being based on the existing formula, this presents a few key issues not found in other formulae:

- a. The top-up weightings of the existing formula are based in part on the historical ACA from the original formula, meaning that the final RNF shares of each authority are determined partially by the ACA used in 2013-14, and partially by the updated ACA.
- b. The updated ACA accounts for journey times as a component of labour cost through its Accessibility adjustment, as well as through the Remoteness adjustment. The existing formula captured metrics which are strongly correlated with these differences in travel times through population density and sparsity, which are retained in the proposed formula. As such, the impact of journey times on authority formula shares may be double counted to some degree.

12.4.4 The government recognises that this formula was designed over a decade ago. **In the medium term, the government is committed to working with the Fire sector on a comprehensive review of the formula** – including methodology, drivers and data – which can be used when the system is next updated.

#### Final Formula

12.4.5 We propose the main structure of the Fire and Rescue RNF should continue to be:

- A **basic amount per resident**;
- A **coastline top-up** based on the coastline length of an authority;
- A **deprivation top-up** based on the percentage of households which meet 3 or more census household deprivation dimensions;
- A **density top-up** based on the number of residents per hectare;
- A **sparsity top-up** based on a measure of population sparsity;
- A **high-risk top-up** based on the number of Control of Major Accident Hazard (COMAH) sites in an authority;
- A **property and societal risk top-up** based on a measure of property fire risk capturing likelihood of rescue being required as well as extent of property damage;
- A **community fire safety top-up** based on the percentage of households which have dependent children, students or occupants aged 65 and over per authority.

12.4.6 The full formula used to calculate the RNF share of each fire authority is:

***Fire & Rescue formula***

- A. **PROJECTED RESIDENT POPULATION** *multiplied by the*  
results of:  
**FIRE BASIC AMOUNT; plus**  
**FIRE COASTLINE TOP-UP; plus**  
**FIRE DEPRIVATION TOP-UP; plus**  
**FIRE DENSITY TOP-UP; plus**  
**FIRE SPARSITY TOP-UP; plus**  
**FIRE HIGH-RISK TOP-UP; plus**  
**FIRE PROPERTY AND SOCIETAL RISK TOP-UP; plus**  
**FIRE COMMUNITY FIRE SAFETY TOP-UP;**
- B. The result of (a) is then *multiplied by* **AREA COST  
ADJUSTMENT FOR FIRE & RESCUE FORMULA;**
- C. The result of (b) for all authority in scope are added together;
- D. The result of (c) is divided by the result of (b).

**Question 43**

**Do you agree with/have any comments on the design of the Fire and Rescue Formula?**

## 12.5 Highways Maintenance RNF

<b>Formula structure</b>	Formula for upper tier authorities
<b>Local authorities in scope:</b>	All upper tier authorities i.e. LB, MD, SC and UAs (excluding IoS)
<b>Who/what covered by service(s):</b>	<ul style="list-style-type: none"> <li>• Road length in kilometres (maintained by local authorities)</li> </ul>
<b>Need drivers:</b>	<ul style="list-style-type: none"> <li>• Traffic volume per unit of road length</li> </ul>
<b>Analytical technique used:</b>	Expenditure-based regression at local authority level
<b>Example of service areas included in the formula:</b>	<ul style="list-style-type: none"> <li>• Environmental, safety and routine road maintenance</li> <li>• Structural maintenance</li> <li>• Street lighting</li> <li>• Winter services</li> </ul>

- 12.5.1 The Highways Maintenance formula is used to allocate resource funding for highways. **The design of the updated Highways Maintenance formula is substantially similar to the previous 2013-14 formula for the service.** The proposed formula was derived using regression and the best performing model with the smallest average difference between its predicted values and actual spend values was a log-log model where both the dependent variable and independent variable are logged.

### Final Formula

- 12.5.2 We propose the main structure of the Highway Maintenance RNF should be:
- A **basic amount per kilometre of road**;
  - A **usage top-up** based on the traffic volume per length of road.

The full formula used to calculate the RNF share of each upper tier authority is:

<i>Highway Maintenance Formula</i>	
e)	<b>ROAD LENGTHS</b> <i>multiplied by</i> the results of: <b>[HIGHWAY BASIC AMOUNT; plus USAGE TOP-UP]</b> <i>exponentiated</i> ;
f)	The result of (a) is then <i>multiplied by</i> <b>AREA COST ADJUSTMENT FOR HIGHWAY MAINTENANCE FORMULA</b> ;
g)	The result of (b) for all authority in scope are added together;
h)	The result of (b) is divided by the result of (c).

#### Question 44

Do you agree with/have any comments on the design of the formula for Highways Maintenance?

## 12.6 Home to School Transport RNF

<b>Formula structure</b>	Formula for upper tier authorities
<b>Local authorities in scope:</b>	All upper tier authorities i.e. LB, MD, SC and UAs (excluding IoS)
<b>Who/what covered by service(s):</b>	Mainstream and SEND pupils
<b>Need drivers:</b>	Average distance to school per pupil
<b>Analytical technique used:</b>	Distribution of serviced population weighted by need driver
<b>Example of service areas included in the formula:</b>	Pre-16 mainstream and SEND home-to-school travel

- 12.6.1 The government has created separate relative need shares for mainstream home-to-school travel and travel arranged for pupils on the grounds of their special educational needs or disabilities (SEND). These shares are combined to calculate a single HTST relative need share for each local authority. The formula uses the National Pupil Database and data from the

special educational needs survey to source data on pupils' characteristics and the schools that they attend.

#### Mainstream shares

- 12.6.2 Pupils without education, health and care plans (EHCPs) in mainstream schools are identified in the data, and the straight-line distance to their nearest suitable school (based on age and gender) is calculated. Straight-line distances are adjusted to approximate road distances using a local authority level, average adjustment. This adjustment accounts for differences in local geography such as bodies of water. All distances over 20 miles are capped at 20 miles.
- 12.6.3 Pupils who meet the HTST statutory distances (over 2 miles from home for pupils under 8 years old and over 3 miles from home for pupils aged 8 and over) are identified, and their adjusted travel distances are added together for each local authority. Each local authority's relative need share for mainstream HTST is based on their proportion of the total number of miles of all eligible pupils in all local authorities.

#### SEND shares

- 12.6.4 **A different approach has been taken to calculating the SEND relative need shares**, which does not rely on calculating the total distances travelled by pupils with EHCPs. It is an established part of the funding system for schools and high needs provision that funding allocations are not based directly on data relating to EHCP numbers. Rather, to target funding to support the costs of arranging travel for pupils with SEND, the department uses proxy factors that correlate with the incidence of SEND.
- 12.6.5 The total compulsory school age (5-16) pupil population in both state-funded and independent schools is used as a proxy for SEND need. For each local authority, the pupil population is multiplied by the average estimated distance travelled by EHCP pupils to their state-funded and named independent schools. The average includes pupils attending special and Alternative Provision (AP) providers and those in mainstream schools who have an EHCP. The average distance is used as a rurality weighting, to account for the existing school infrastructure to which local authorities have access and to prevent a bias towards large urban populations.
- 12.6.6 Distances are capped at 20 miles prior to calculating the average. The cap affects less than 5% of pupils and serves to remove the minority of journeys that are outside of the normal range of travel distances. Capping distances at 20-miles reflects the expectation that children and young people should, where possible, be placed in schools close to their home, to avoid reliance on more

expensive, long-distance travel. However, we also recognise that this will not always be the case in exceptional circumstances.

- 12.6.7 Each local authority's relative need share for SEND HTST is based on their weighted pupil population as a proportion of the total weighted pupil population for all local authorities.

#### Combining shares

- 12.6.8 **The mainstream and SEND shares are combined into a single share for each local authority.** To account for the additional costs that can be involved in arranging travel for pupils with SEND (e.g. passenger assistants, specialist equipment, smaller and single occupancy vehicles etc.) we weight the SEND shares by 6.6. This weight is calculated by dividing the estimated average per pupil cost of SEND HTST by the estimated average per pupil cost of mainstream HTST. The combined shares are rebased by dividing each local authority's mainstream and SEN shares by the national total mainstream and SEND shares.
- 12.6.9 **The Upper Tier Foundation Formula ACA is then applied to these rebased shares,** with the final local authority shares being calculated by finding the authority's share of the sum of these ACA-adjusted shares. The choice of ACA was driven by the fact that the Upper Tier Foundation Formula covers most upper tier non-social-care services, which is what HTST is categorised as. We are exploring whether a more service-specific ACA could be estimated for the HTST RNF.

#### **Question 45**

**Do you agree with/have any comments on the design of the formula for Home-to-School-Transport?**

## 13. Equalities Impacts

- 13.1.1 Public bodies have a duty under the Equality Act 2010 to consider the needs of people who share particular protected characteristics. The three objectives under the Public Sector Equality Duty (PSED) are to:
- i) Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
  - ii) Advance equality of opportunity between people who share a particular protected characteristic and people who do not share it;
  - iii) Foster good relations between people who share a particular protected characteristic and people who do not share it.
- 13.1.2 The relevant protected characteristics are:
- Age
  - Disability
  - Gender reassignment
  - Civil partnership
  - Pregnancy and maternity
  - Race
  - Religion and belief
  - Sex
  - Sexual orientation
- 13.1.3 The government must consider the possible disproportionate impacts on people sharing protected characteristics when making policy and spending decisions. Therefore, when making decisions on local government funding, the government must have due regard to the PSED objectives outlined above.
- 13.1.4 We can anticipate to some extent how local authorities might respond to changes in funding and the impact this may have on service users. However, local authorities ultimately decide how their resources are allocated. It is not possible to say definitively how changes in funding will affect local authorities' spending decisions and will impact on people sharing particular protected characteristics. In making these decisions, local authorities will also need to have due regard to the PSED objectives under the Equalities Act.
- 13.1.5 In considering the impact of these reforms on people sharing protected characteristics, the government has considered qualitative and quantitative research on the users of the local government services, the impact of these

services and the likely impact of funding decisions. We have also considered the characteristics of the people that live in each local authority area. There are significant differences in the demographic makeup of local authorities across England, and there are trends across different classes of authority. Consequently, changes to the distribution that moves funding between local authorities may have equalities impacts for certain groups that are more likely to rely on local authority services. Changes to funding could lead to an improvement or decline in quality and quantity of these services and outcomes.

- 13.1.6 As set out in this consultation, the government has developed an updated Settlement Funding Assessment that provides an updated distribution of funding. By more accurately accounting for factors such as local authorities' differing ability to raise revenue locally, we will target money where it is needed most and empower local authorities across the country to deliver high-quality services for their residents. This will likely have positive impacts for particular protected groups overall, even though there could be negative impacts on certain groups in areas where available funding falls or does not increase as it might have previously.
- 13.1.7 Our analysis indicates that our proposed funding reforms will have a positive impact on people sharing certain protected characteristics in places that will see an increase in core funding as a result of reform. By directing funding to these places, they will be able to reinvest in services that were cut during the 2010s and improve outcomes for residents.
- 13.1.8 An updated distribution will move funding away from some local authorities, due to changes in our assessment of relative need and ability to raise local income, but the government intends to apply transitional arrangements to support these places. This will insulate residents with protected characteristics from the most acute impacts associated with reductions in funding, such as reductions in service provision.
- 13.1.9 We are inviting views on transitional arrangements in this consultation, and final decisions on their design have yet to be taken. It is therefore not possible at this stage to set out final funding allocations, and to assess the resultant impacts on people with protected characteristics. We will publish further information on equalities impacts later this year.
- 13.1.10 In the December consultation, we invited views on the potential impact of reform on people who share particular protected characteristics. The summary of responses was published alongside this consultation. With regard to the more detailed proposals in this document, we would like to once again invite views on potential equalities impacts.
- 13.1.11 Given the proposals set out in the consultation document are more detailed (subject to the caveat on transitional arrangements above), we would welcome any specific examples you are able to provide of possible equalities impacts.

**Question 46**

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