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Submitted to Local authority funding reform: objectives and principles
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Introduction

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1. Summary of the government's proposed approach

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

Disagree

Please provide any additional information, including any explanation or evidence for your response:

Although we agree that these are the core elements within the funding review and should all be taken into account, the key issue here will be whether changes in each element are made on the basis of evidence. Decisions should be made transparently, and evidence should be shared with the sector to justify any decisions, particularly where ministers are applying judgement.

Overall Position

1. Whilst the Rural Services Network (RSN) welcomes the government's decision to review local government funding it does so with considerable concern about its outcome. Rural authorities were very badly treated in the 2025-26 settlement. The decision to abolish the Rural Services Delivery Grant (RSDG) was unexpected, and in our view unjustified. Indeed, the department provided no evidence to support its decision. Taking this decision ahead of the funding reforms excludes this major change for the authorities affected from the benefits of Transitional Relief.
2. The RSN's strongly held view is that there are additional costs in rural areas, and that the local government funding system should fully reflect those additional costs. Some of the additional costs relate to higher unit costs, (refuse collection/recycling being an obvious example) some of which the government intends to fund via a revised Area Costs Adjustment (ACA). But there are also additional demand-led costs (for social care services, for example), as well as under-measuring of rural poverty. Rural residents are also short-changed in the funding system for access to services.
3. Rural authorities had a mixed outcome from 2013-14, the last time that the funding formulas were updated. Ministers decided at that time that sparsity indicators in the "needs" assessments should be increased, which should have resulted in higher levels of funding for rural local authorities and Fire and Rescue Services. In reality, most of these increases in sparsity were damped away, and rural authorities receive only a small share of the increase in assessed need.
4. We believe that the RSN has made a strong case – with supporting evidence - for additional funding, and that case was accepted by Ministers and the Department the last time that formula was reviewed in 2013/14. It is disappointing that this government has apparently reversed that decision without providing any supporting evidence. It is welcome that ministers continue to say that "rurality" is a driver of need – but we will need to see decisions to back-up that statement.
5. The RSN is also concerned that ministers will prioritise deprivation above any other factor. We recognise that deprivation is an important cost driver for some services. But there are other cost drivers -population and settlement patterns and older populations in rural areas, for example - that are equally as important. We would urge Ministers to rely on evidence to support any decisions around funding for deprivation – and to ensure that the case for rural

costs gets an equal hearing.

6. The first chapter of the consultation paper makes an unsupported claim about council tax levels in more-deprived areas. It is true that some parts of the country are able to generate more council tax income per head than others. However, it is not correct to imply that more-deprived areas have higher Band D council tax. This is not the case, and in fact our data shows very clearly that council tax levels are on average 20% higher in rural areas than urban areas (see below for further details).

7. It is notable that the Government's prime focus is very much upon growing the economy and raising productivity. Whilst it is arguable whether GDP/GVA is a deprivation measure and how much it relates to public service delivery costs; it may be worth considering as an alternative given the importance of growing the economy. The rural economy must be given the opportunity to grow, and research shows it has the potential to contribute up to £19Bn.

<https://www.rsnonline.org.uk/rural-economy-a-sleeping-giant-worth-19-billion>. Local authorities will be key to growing local economies.

Scope

8. The RSN agrees with the indication in the consultation paper that the funding review will encompass the Settlement Funding Assessment (SFA), the Business Rates Retention System (BRRS), and a replacement for the New Homes Bonus (NHB). We would assume that it will also include the specific grants within Core Spending Power (CSP), as well as Public Health Grant.

Response to the Specific question

Residents in different areas should not be required (as they are at present in rural areas) to pay through Council Tax for a greater proportion of the costs of providing the essential public services they require (Under the 2025/26 Final Settlement, Council Tax as a percentage of Core Spending Power is 63.3% in predominantly rural areas compared to 50.7% in predominantly urban areas). Council Tax is a property tax, and the amount charged is not varied by the financial circumstances of the householders.

More people live in rural areas than do so in the whole of Greater London. They pay the same in Income Tax, National Insurance and VAT and yet receive far less in terms of government support for their Council services whilst paying more in Council Tax (which is a tax on working people) for those services. That cannot be right and must be addressed in this review.

The Levelling up and Regeneration Act is still on the statute book and in several respects requires by law that the needs of rural areas are taken fully into account. That principle should be reflected in all public services funding arrangements/formulae.

Whilst the aim of simplifying the local government funding landscape is laudable, simplicity must not be at the expense of accuracy, transparency, and accountability. It must treat all areas fairly and be based on evidence which is published for all to see. Where Ministerial judgement is included the basis upon which that judgement has been made must be objective and made publicly available.

Any changes of significance must be subject to meaningful consultation with authorities given the opportunity to present their own evidence and to challenge that put forward by the government. This was not the case in respect of the 2025/26 Settlement and the decision to re-purpose Rural Services Delivery Grant and create a Recovery Grant.

There already appears to be a degree of predetermination in what the government says in this consultation. Paragraph 1.1.2. states "the link between funding for local authorities and need for services has broken down, contributing to worse outcomes and higher council tax bills on balance in more deprived places." It makes this assertion without having produced any evidence to support it.

To refer to "one northern city paying £351 more council tax this year than the residents of a southern shire county with a similar population" without giving details of those areas is ridiculous - what are the circumstances of just one council intended to show in the context of a review of the whole funding formula for local government services when there are 317 local authorities in total? Furthermore the statement is "based on analysis of the 2019 indices of deprivation and Band D Council Tax bills for 2024-25" but no detail is given of the calculation. The indices of deprivation have no relevance to the amount of council tax being paid and again this statement is demonstrating bias.

Having analysed the final settlement, and taking Predominantly Urban (PU) and Predominantly Rural (PR) areas across the whole of England together, the facts of the situation are set out below:

- Government Funded Spending Power in Predominantly Urban areas will be £583.07 per head compared to £415.48 in Predominantly Rural areas. Urban Councils will get a huge 40.33% (£167.59) more per head than rural.

- Council Tax per head will, on average, be 19.54% (circa £117) higher in rural areas than in urban areas (£718.10 compared to £600.72)

- Predominantly urban areas are to receive over 7 times more of the proposed Recovery Grant than predominantly rural areas.

The above is against the backdrop of a much older population across rural areas than the national average. In 2020, 25% of the rural population was aged 65 and over compared to only 17% of the urban population, according to government figures.

https://assets.publishing.service.gov.uk/media/661d3b95ac3dae9a53bd3dd3/16_04_2024_-_1_-_Population.pdf

The cost-of-living is higher across rural areas and workplace-based incomes are much lower in rural areas at £25,600 compared to £27,200 in urban areas (excl London) https://assets.publishing.service.gov.uk/media/670d27fe3b919067bb4830fb/7_Rural_Economic_Bulletin_15_10_2024.pdf

These concerns are also relevant in respect of the wording of paragraph 1.1.10 "the Reset will move business rate income retained by local authorities to the places who need it most"

It is important to establish the baseline position for this review. Of course, that is the funding available to each local authority in 2025/26. Fundamentally that must be the baseline used in calculation of the changed position for each local authority between the existing and proposed new formula.

Paragraph 1.1.3 of the consultation document refers to "perverse outcomes, where some authorities are struggling to provide basic services whilst others are better off." We would strongly argue that rural authorities of all classes both historically and presently are clearly suffering that "perverse outcome."

As an example, we point out that for 2023/24 Predominantly Rural Councils only budgeted to spend £77.30 per head across so-called discretionary services whilst Predominantly Urban Councils budgeted to spend £162.00 per head (almost 110% more).

Cost of Delivering Services

A review of Total Service Expenditure (from RA returns) for 2024/25 shows the Predominantly Urban (PU) councils are planning to spend some 19% more per head, (£2021 compared to £1701) than their Predominantly Rural (PR) counterparts.

However, on waste services PR Councils will be spending a third more per head than PU Councils (£91.31 compared to £68.32). In PR Councils waste

services per head will constitute some 5.3% of total service expenditure compared to some 3.8% in PU Councils. This is a clear demonstration of a rural premium which will also apply to other services, Environmental and Regulatory and Planning Development, for example.

Paragraph 1.1.4 (repeated in paragraph 1.1.15) states “we will set out and measure progress on the key services and outcomes we expect local and strategic authorities to prioritise for local residents.” Surely, that should come first and be subject to consultation before a formula is developed. The key services (including levels of service and equitable access to those services) and outcomes which the government requires to be provided, should form the basis of central government funding support to local government (at District, County and Unitary authority level as the case may be) to provide services, both statutory and discretionary. The Government should therefore, within the funding formula, set a minimum funding floor for each authority below which it cannot drop with recognition that to do so would mean it being unable to deliver the key services and outcomes which the government expects to be delivered. An objective assessment of the costs of providing those services taking into account costs driven by both density and sparsity in different localities is an essential feature of a fair funding formula.

Paragraph 1.1.6 of the consultation refers to “the foundations of local government funding allowing local authorities across the country to provide high quality services that people rely on every day” and “will enable local authorities who have had to scale back services the most to catch up and allow people to access the services they need no matter where they live in England”. A starting point should be for the government to identify (and publish its findings) which services have had to be scaled back in which areas and the current level of service being delivered across different types of authority - including rural compared to urban. In addition to the issue of scaling back services the government should identify those services which have never in recent years been provided in some areas (unquestionably an issue in rural areas) due to lack of adequate funding. This of course, relates back also to the government being very clear about the key services (including levels of service and access to those services) and outcomes which the government requires to be provided.

For example, a recent report commissioned by SYSTRA for the County Council Network, highlighted the bus routes in county and rural areas which have vanished over the last decade.

<https://www.countycouncilsnetwork.org.uk/rural-bus-services-at-a-historic-low-as-new-report-reveals-urban-locations-received-two-thirds-of-flagship-government-funding>
The Government's thoughts in relation to the future structure of local government should not influence decisions as to the allocation of funding to the different tiers of local government as they exist in 2025/26.

Paragraph 1.2.1 of the consultation states that the new distribution methodology will be used to allocate grant funding and retained business rates income and that it will:

I. measure differences between local authorities in demand for services, using updated Relative Needs Formulae, taking into account drivers of demand including population and deprivation.

II. measure differences in the cost of providing services using Area Cost Adjustments; and

III. adjust for the ability to raise council tax locally.

In measuring differences between local authorities in demand for services the government must consider all the drivers of the needs for services in different types of areas and measure those objectively. It would be completely inappropriate to simply use deprivation as the measure of demand for services.

Use of the IMD in the proposed formula

As an example of rural poverty, the DESNZ Annual Fuel Poverty Statistics in England 2024 states “Households living in rural areas had the highest fuel poverty rate of 15.5 per cent and the largest fuel poverty gap at £778 in 2023. Households in semi-rural areas had lowest fuel poverty rate of 12.5 per cent, while urban areas had a similar fuel poverty rate of 12.8 per cent”

We have major concerns about the use of the Index of Multiple Deprivation (IMD) to distribute funding in this context. The IMD is a composite index with a range of different domains. The Index is most effective at identifying small area concentrations of deprivation, whereas rural deprivation is typically scattered. There is no transparency about which are relevant for which services in the context the purposes of this review, or whether the weighting of those domains within the overall index is appropriate for this purpose. This use of IMD and the relative weighting given to it in a Foundation Formula and Individual Service block – and the tier split, should be the subject of a fuller consultation before a new formula is developed.

There has been no evidence published by the government to demonstrate that deprivation is the key factor for distributing funding to local government. Indeed, the research undertaken by MHCLG in 2018 suggested that deprivation “was not a major cost driver for the services included in the Foundation Formula”. ISBN 978-1-4098-5387-9. The same research found that population was overwhelmingly the most important factor, driving 88% of the variation of upper-tier costs in the Foundation Formula, and 84% of the lower-tier costs. What evidence has the department seen since 2018 that would lead it to change its conclusions about the relative importance of deprivation for distributing general funding to local government?

To use deprivation as the basis of the distribution of the Recovery Grant in the 2025/26 Settlement is itself biased against rural areas. By targeting the £600m Recovery Grant on areas with high clusters of deprivation, the government is ignoring the fact deprivation is not the only driver of councils' costs nor the key indicator of which councils are under the most financial distress.

It is necessary to review the question as to how well is rural deprivation reflected in the Indices of Deprivation?

The English Indices of Deprivation (IoD) is criticised throughout literature and even Government publications describe its limitations. It is widely seen as giving a poor representation of rural deprivation and poverty. Criticisms levelled include:

- The 'ecological fallacy' – typical statistics using the IoD assume that most deprived people live in deprived places. Even where pockets of rural deprivation exist, they are usually too small to register in Census output area statistics;

- Weighting – one obviously useful sub-domain from a rural perspective is that on 'barriers to services,' but this is given a low weighting in the overall IoD and is used in combination with the barrier to housing domain (which dilutes it);

- Measure of barriers to services – this sub-domain, while useful, is too simplistic. It measures the minimum travel time to services, but takes no account of factors such as frequency of public transport; reference <https://www.countycouncilsnetwork.org.uk/rural-bus-services-at-a-historic-low>

- Material deprivation – overall the IoD places the emphasis on measuring material deprivation, to the detriment of measuring social deprivation, slanting it towards typical urban descriptors of deprivation;

- Unaddressed issues – some key aspects of rural deprivation are left out of the IoD altogether. These include fuel poverty, poor digital connectivity, and

poor quality employment; Reference Can Labour address rural poverty and disadvantage? - NICRE

- Administrative measures – some indicators in the IoD are based on administrative data for welfare benefits and are problematic given evidence that more eligible residents fail to make claims in rural areas;

- Age-standardised measures – some health indicators used are age-standardised, thereby removing any effect of differing age profiles in different places. However, the older demographic of rural areas is often key from a policy perspective e.g. demand placed on health and care services, dependency on pension income.

To this list could be added that IMD indicators are selected from analysis which identifies those that best explain deprivation across England. Since the English population is 83% urban, it is unsurprising this selects indicators which best explain urban deprivation.

As a couple of the sources, we have reviewed point out, any urban slant of the IMD (or other similar indices, such as the Carstairs index used in health care) has real world consequences, steering targeted policy interventions and their resources away from rural communities.

A review of the IMD data shows rural areas are more deprived on measures of accessibility, transport networks, fuel poverty and home energy efficiency and digital connectivity. Depending how they are defined, low wages, education/skills and the cost of living could be added to this list. Poverty and housing affordability, though both less prevalent in rural than urban areas, are still seen as substantive elements of rural deprivation.

Statistics from the IMD frequently record the most deprived decile (10%) or quintile (20%) of Census Lower Super Output Areas (LSOAs), thereby identifying spatial concentrations of deprivation. A Defra technical note matches this to rural and urban settlements, finding that:

- o 1% of rural residents live in one of the 10% most deprived LSOAs; whilst
- o 12% of urban residents live in one of the 10% most deprived LSOAs.

From other data sources e.g. on poverty, it is abundantly clear urban areas do not have even twice as many deprived people as rural areas, let alone twelve times as many. The way that IoD results are typically presented massively understates rural deprivation and says far more about differing spatial patterns of deprivation.

When the cumulative total of residents living within LSOAs in decile 1, is analysed. then decile 1 plus 2, then deciles 1 to 3 and so on up to all 10 deciles. At the mid-point (deciles 1 to 5) we can see the proportion of residents living in relatively deprived LSOAs i.e. all those with more than average deprivation. On this measure sparse rural areas are, broadly speaking, as deprived as urban areas. Figures are:

- o 56% of urban settlement residents live in more than averagely deprived LSOAs;
- o 52% of sparse rural town or fringe settlement residents live in more than averagely deprived LSOAs; and
- o 70% of sparse village or dispersed settlement residents live in more than averagely deprived LSOAs.

This is further evidence of a relationship between sparse rural areas and deprivation. It also indicates that using a broader measure of deprivation (rather than focussing on the top decile or two), whilst still far from perfect, could offer a more balanced approach that better reflects rural geographies.

It is clear from all of the literature that we have reviewed that use of the IMD to allocate resources for public services is problematic. This would largely overlook rural deprivation and significantly skew allocations to urban areas. Given the scatter of rural deprivation, that is especially true if the measure used is the population share living in the most deprived decile or quintile of LSOAs.

We have significant concerns that the issues concerning the cost of providing services across rural areas will 'get lost' if they are just included in composite Area Cost Adjustments. Those costs are far more than those just relating to travel (direct and unproductive travel time) and distance. That is not to underplay the huge impact that travel costs have on rural service delivery costs. One of our members has provided us with information from their private sector refuse collection contractor but there is an additional rural cost of just under £100,000 a year in fuel costs alone when collecting from the rural rather than the more built-up parts of their district.

There are substantial issues in respect of lack of economies of scale, poorer markets, and the need to replicate service delivery points on access to services grounds. In addition, there are substantial issues relating to historic unmet needs.

The basis of any calculations of Area Cost Adjustments (ACA) for each local authority must be made publicly available in respect of each element within the ACA

Ability to raise Council Tax Locally.

The first chapter of the consultation paper makes an unsupported claim about council tax levels in more-deprived areas. It is true that some parts of the country are able to generate more council tax income per head than others. However, it is not correct to imply that more-deprived areas have higher Band D council tax. They do not, and there is no evidence to support this.

It should be a fundamental principle that residents in different areas should not be required (as they are at present in rural areas) to pay through Council Tax for a greater proportion of the costs of providing the essential public services they require. Council Tax is a property tax, and the amount charged is not varied by the financial circumstances of the householders.

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

If you have views, please share these and any supporting explanation or evidence:

From a rural perspective, our member authorities believe that they have been short-changed in the funding settlements in recent years. The underlying funding formulas had been uplifted for higher levels of sparsity, but these increases had not flowed through to actual grant allocations. Damping was

applied in 2013-14 and has since been frozen. Our main criticism, therefore, is that the system has not been based fully on evidence – and so the distribution of funding has not matched assessed needs.

Instead, rural authorities have had to rely on ad hoc funding through the Rural Services Delivery Grant (RSDG). Although this grant has increased since its inception in 2013-14, it does not cover the additional costs in rural areas, or the “lost funding” from 2013-14. The distribution used within RSDG also meant that many rural authorities did not receive any of the funding. Again, the RSN wants the funding system to be based on evidence, and for the allocations of funding to be predictable and less ad hoc.

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

Disagree

Please provide any additional information, including any explanation or evidence for your response:

For rural authorities, simplicity is the principle that should be applied as a priority. Wherever possible, we would want population to be used to distribute funding, and for funding formulas to be kept as simple as possible. If ministers do want to apply indicators within a formula, then indicators for rurality and sparsity should be considered.

RSN supports the previous government’s concept of a Foundation Formula, and we are pleased that the Government is continuing this into the new funding review. Of course, there are some services where a separate funding formula will be required, but decisions to move away from a simple formula should be limited and on the basis of evidence.

Subject to the new funding formula being fair and recognising the rural context as we set out in this consultation response, our member authorities would prefer the certainty of fixed funding allocations for the period of a multi-year settlement. The four-year settlement that was in place between 2016 and 2019 was very helpful for authorities for financial planning – but from a rural perspective bated in the unfairness of the 2013/14 formula not being implemented in full. We would prefer to return to a similar multi-year settlement where there is a high degree of certainty in the funding allocations.

It is fundamentally important that any new funding system must be developed in a transparent way. Local government must be able to see that decisions have made in a transparent way, supported by evidence, and with the opportunity for authorities to provide their own evidence. The changes in funding in the 2025-26 settlement were not made in this way – and as a result have undermined the faith of rural authorities in the decision-making process.

The RSN supports the updating of “needs” assessments based on evidence. We would prefer simpler formulas based, as far as possible, on population with the minimum of “needs” uplifts. We want to see new formulas that are based on independent, academic-led research. Some updates for council tax equalisation will clearly have to be applied, but we would support partial equalisation.

Additional principles:

There should be a principle in respect of fairness in the services which residents and businesses receive from their local councils and the amount they are expected to pay through Council Tax – and retained business rates- for those services and to access those services.

We repeat, it must be a fundamental principle that people should not be disadvantaged by where they live. Residents in different areas should not be required (as they are at present in rural areas) to pay through Council Tax for a greater proportion of the costs of providing the essential public services they require. Council Tax is a property tax, and the amount charged is not varied by the financial circumstances of the householders.

Simplicity and Transparency

Whilst the aim of simplifying the local government funding landscape is laudable, simplicity must not be at the expenses of accuracy, transparency, and accountability. It must treat all areas fairly and be based on evidence which is published for all to see. Where Ministerial judgement is included the basis upon which that judgement has been made must be objective and made publicly available.

Stability

In measuring differences between local authorities in demand for services the government must consider all the drivers of the needs for services and measure those objectively. It would be completely inappropriate to simply use deprivation as the measure in demand for services.

As we set out earlier, we have significant concerns about the use of the Index of Multiple Deprivation (IMD) to distribute funding in this context. The IMD is a composite index with a range of different domains. There is no transparency about which are relevant for which services in the context the purposes of this review. This use of IMD should have been the subject of a fuller consultation.

There has been no evidence published by the government to demonstrate that deprivation is the key factor for distributing funding to local government. Indeed, the research undertaken by MHCLG in 2018 suggested that deprivation “was not a major cost driver for the services included in the Foundation Formula”.

Transitional Arrangements:

Whilst we support the use of Temporary Transitional Arrangements, we are concerned that these words must be matched by actions.

In 2013-14, the weighting for sparsity had been increased by ministers in response to the evidence that rural authorities had presented about their “needs” and spending pressures. But, although the “needs” assessments for rural authorities were increased in the settlement, these gains were wiped-out by the impact of damping. Over 10 years later, no subsequent changes have been made to allow those “needs” assessments to flow through to rural authorities. In the Local Government Finance Settlement for 2025/26 the government – without any evidence to support its decision - has ‘re-purposed’ (that is remove completely) Rural Services Delivery Grant which has provided at least some compensation for the failure to fully implement the 2013/14 changes to the formula.

Accountability

The government is proposing adding the principle of accountability and that is to be welcomed. However, the government's actions to date on local government finance through the Settlement for 2025/26 have been anything but accountable. The decision to abolish Rural Services Delivery Grant (RSDG) without any engagement or consultation with the affected authorities is particularly egregious.

Many of our member authorities are angered by the decision to abolish RSDG, and by the lack of proper process and will, no doubt, be considering whether there are further options that they can take to challenge the decision. Whilst ministers do have discretion over funding decisions, those decisions must be made in a rational and impartial manner. Affected authorities should at least have been given the opportunity to make representations. The late communication of this decision has left rural authorities with insufficient time to resolve a significant, additional funding shortfall increasing the challenge of setting a balanced budget for 2025/26. This has hardly aided the principle of stability

The decision to reduce funding for rural authorities had clearly been taken before the provisional settlement and was announced in the Policy Statement (28 November 2024). There was no consultation on this decision, and no evidence has been offered to support the decision. This demonstrates very clearly that ministers have taken decisions in a prejudicial manner.

In the name of accountability, the government must publish in full its reasons, and evidence to support its reasoning, for any decision to reject evidence which the Department has accepted in the past. We specifically refer to the evidence on the costs of providing services across rural areas.

2. Measuring differences in demand for services

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

Disagree

Please provide any additional information, including any explanation or evidence for your response:

The phraseology of this question does not reflect the details set out in the narrative before the question in Section 2 of the consultation.

The government should consult fully on the detail of what they regard as being "the best available evidence and most up-to-date data in the assessment of need" or any decisions are reached.

The government says in the Consultation (paragraph 2.3.4) that "respondent should be mindful of the government's proposal to begin implementation from 2026-27. Given local government is facing acute financial challenges, there is an urgent need to ensure funding allocations are updated to better reflect local needs and resources." Whilst accepting that position, if the government believes that better data or evidence should be sought to support the funding formula it should set out a timetable for seeking that data or evidence at the earliest possible opportunity and to review the formula accordingly. Of course, the RSN supports using the best available evidence and latest data.

Substantial research has been undertaken on both children's and adult's social care. This research was commissioned by the Department for Education and Department of Health respectively and was delivered by independent academics. The research has not been published or formally shared with the sector. We would urge the government to share this research with authorities at the earliest opportunity.

Some of the outcomes from the research have already been used. The new Children's Social Care Prevention Grant uses the research to inform an interim formula based on the research that has been commissioned. Some of the options for the social care charging reforms were informed by the research into adult social care "needs." So, these are formulas that are largely ready to be implemented. Evidence from the research should be shared, and any departure from the research backed by additional evidence.

All evidence should be used in a transparent manner, and research should be shared with the sector.

Proposed approach to measuring differences in demand and cost

As we set out in response to Question 1 above, the government must consider all the drivers of the needs for services and measure those objectively. It would be completely inappropriate to simply use deprivation as the measure of demand for services.

We cannot repeat too often that The IMD is a composite index with a range of different domains. There is no transparency about which are relevant for which services in the context the purposes of this review, or whether the weighting of those domains within the overall index is appropriate for this purpose

There is then the issue of how the data is interpreted and how much weighting is given to each factor relative to others. Already we can see bias against rural areas in the 2025/26 Settlement. Having been allocated £5.4m of RSDG in 2024/25, Cornwall Council didn't receive any Recovery Grant despite Cornwall being ranked 83rd in the Indices of Multiple Deprivation (IMD). Yet Leeds, ranked 92nd in the IMD, received £20.5m of Recovery Grant. The reason for the disparity derives from the fact the methodology used to allocate the Recovery Grant is based on an assessment of 'need and demand for services' (as proxied by IMD and weighted by population) versus the ability to generate 'resource' locally (specifically, council tax) – with far too much importance being placed on the suggested ability to generate resource locally and as such demonstrating bias.

Where Ministerial judgement is included the basis upon which that judgement has been made must be objective and made publicly available. This is essential so that people are not left thinking that the decision has simply been made to direct funding to those types of areas where Ministers want it to go.

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

Disagree

Please provide any additional information, including any explanation or evidence for your response:

There is a clear case for simplifying the funding system and reducing the number of separate funding formulas. However, that should not be at the expense of fairness in the distribution of government funds to support the provision of local services.

On the face of it simplifying the assessment by reducing the number of Relative Needs Formulae is a good thing but as we have said earlier, whilst the aim of simplifying the local government funding landscape is laudable, simplicity must not be at the expenses of accuracy, transparency, and accountability. It must treat all areas fairly and be based on evidence which is published for all to see.

It is not reasonable to expect an agree or disagree response to this question without more detail being consulted on as to which multiple services might be assessed through a single formula and why the proposals are put forward. We acknowledge that the consultation states "there are several factors we could consider when deciding whether to introduce bespoke formulae and further complexity. These include whether a service has unique drivers of demand; whether there is a disproportionate impact on particular geographical areas or groups of authorities; and whether there is similarity between different drivers of demand". The government's view of these issues must be set out together with any evidence to support them.

The case for separate formulas for Adult Social Care, Children's Social Care, Fire and Rescue Services, and highways maintenance is a reasonable one. Research has been undertaken for the adult's and children's formulas, and these should be used in separate funding blocks. It is clear that the distribution of demand cannot be explained by a simple population-based formula in these funding blocks. A different formula will also be required where there needs to be a totally different basis for distribution (e.g. highways lengths).

The one exception is home-to-school transport where the costs of delivering the service have grown hugely since the 2018 consultation paper. County authorities in particular have experienced very significant increases in demand and cost. Cost drivers are unlikely to match population and the RSN would support having a separate formula for this service.

There might also be some functions that have a very local extent (e.g. flood defence, coast protection, Internal Drainage Boards). Funding for these functions will need to remain separate from any of the other funding blocks and could potentially be funded outside the settlement itself.

Elsewhere, however, the evidence (from the 2018 consultation) is that population is capable of explaining the bulk of the variation in expenditure. There was no case for additional indicators in 2018, and we have not seen any evidence that would change this conclusion. A question remains about the 'best fit' weighting for adding deprivation to the upper and lower tier Foundation Formulas, or at least the potential range of values. If there is going to be a deprivation indicator in the Foundation Formula, then it should only be included if there is a clear statistical basis for doing so.

There needs to be more transparency about how Ministers will take decisions about having separate blocks, and about how the size of these blocks is set. These decisions need to be informed by actual expenditure levels, which have changed considerably since 2013-14.

Fixed Costs

We disagree with the suggestion of removing the Fixed Costs element of the needs assessment. The Consultation states in paragraph 2.3.32 that "fixed costs are arguably identified in the wider assessment." The government should produce evidence to support that assertion if it is to proceed with this thought.

Simplifying the approach for non-social care services

We agree that (as set out in paragraph 2.3.8) "this may be an area where we should exercise judgement in determining the drivers of demand ...local authorities play a vital role in supporting people in need outside of social care provision, such as by supporting those at risk or who are homeless, providing equitable access to sports and recreational facilities and promoting community development"

We do not, however, agree with the statement in paragraph 2.3.8 "there is a strong argument that local authorities with high levels of deprivation see more demand for their services." Again, this looks to be predetermination, especially in the light of research undertaken by MHCLG in 2018 suggested that deprivation "was not a major cost driver for the services included in the Foundation Formula".

Adult social care

We agree that a bespoke Relative Needs Formula is essential for ensuring funding intended for adult social care is allocated where the need for local authority funded adult social care and support is greatest. There is a specific rural dimension to this in terms of the costs of proving care at home, the costs of care home and nursing home care – and the poorer markets that are available. Current levels of service, driven by local levels of funding, and waiting lists for care support must not be considered to be a baseline.

Accessing adult social care services must not be a postcode lottery.

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

Agree

Please provide any additional information, including any explanation or evidence for your response:

This formula is in urgent need of review and the RSN would support using a new formula in the 2026-27 settlement. Research was undertaken by independent academics for the DfE, and this research was used to inform the interim RNF used to distribute the Children's Social Care Prevention Grant in the 2025-26 settlement. A good starting point would be to simply release the academic research that has been commissioned.

The indicators proposed in the consultation paper seem to be reasonable, but without seeing the research (that was commissioned through LG Futures) it is not possible for us to reach a conclusion. The academic research should be released so that authorities can take an informed view.

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

Agree

Please provide any additional information, including any explanation or evidence for your response:

There is a clear need for there to be a specific formula for Fire It is disappointing that more work has not been undertaken on the fire formula and, as a result, it is likely that funding distribution will have to rely on an outdated formula.

We recognize that the fire formula is different from other formulas within the settlement because it has to reflect risk as well as activity. For fire functions in rural areas, the current funding approach tends to underestimate the costs of providing a service. The funding allocations force rural fire services to rely much more on retained fire fighters, and to have few fire stations.

The basic construct of the existing Fire and Rescue relative needs formula remains appropriate, although we agree some of the data used may no longer be reflective of the current needs for some Fire and Rescue services [including those serving rural areas]. A basic allocation of funding per resident with adjustments for coastline population density and sparsity, deprivation fire risk areas and community fire safety continue to be relevant.

In terms of change, Firstly, there is a need to move away from the current dominance of regression against past expenditure and move towards greater reliance on risk-based indicators. Secondly it is necessary to broaden the risk-based approach to include non-fire activities. The current approach is still very much fire related. In a typical rural fire authority, callouts are roughly split into thirds for fires, road traffic incidents, and other types of call-out, such as water rescue or supporting other emergency services.

There is evidence that fire costs are greater in rural fire authorities to deliver the same level of service: it costs rural authorities more to maintain the same basic level of response and minimum call standards. Hereford and Worcester Fire Authority has calculated that it would cost more than twice as much to deliver the same cover as is in place in the West Midlands. Currently, both fire authorities have similar ratios of fire stations to population (about one fire station per 68,000 people) but, because of the lower population density, Hereford and Worcester has to mitigate the cost with a lower response standard and on-call provision. In its own response standard, Hereford and Worcester estimate that 90% of the instances where response times are not met is because of distance.

One approach that would reflect the higher costs of meeting national response standards would be to use travel time data. This approach has been adopted successfully elsewhere in the local government funding formula. MHCLG has used travel times (from Google maps) to estimate the travel times required to deliver services within each local authority. A top-up based on travel times could replace both the sparsity/ density indicators and modify the coastline top-up.

Travel times would reflect the impact of a variety of geographic features. These would include, as examples, the number and distribution of river crossings, and the effect of lower mutual aid in authorities with large coastlines and large upland areas. Implicitly, this approach would also reflect the impact of congestion in urban areas when this is a factor in response times.

3. Measuring differences in the cost of delivering services

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

Disagree

Please provide any additional information, including any explanation or evidence for your response:

We have significant concerns that the issues concerning the cost of providing services across rural areas will 'get lost' if they are just included in Area Cost Adjustments.

It is unreasonable to expect respondents to provide new evidence of rural service delivery costs in the short timescale of the consultation – especially as the first half of the period coincided with the 2025/26 Provisional Settlement consultation. The Department has all the evidence that has been submitted (and accepted by the Department) over the years.

Without details of the possible weighting of the factors it is not possible to give a yes or no answer to the question.

The RSN has significant concerns about the approach that the government is proposing for funding sparsity in a future formula. Its proposal is to remove the sparsity (and density) indicators from the formulas, and instead to fund the additional costs in these areas via a travel-time uplift in the new Area Cost Adjustment (ACA). The additional costs of sparsity and rurality are wider than those that would be reflected in the proposed ACA uplift.

The RSN raised concerns in 2017 when the department started to develop this approach.

<https://www.local.gov.uk/sites/default/files/documents/NR%20TWG%2017-07%20Funding%20for%20higher%20unit%20costs%20associated%20with%20sparsity%20and%20density%20indicators.pdf>
These were our conclusions, and the paper as a whole provides a summary of RSN's arguments and of the evidence that is available:

"There is a strong evidence base showing the additional costs that are faced by local authorities in rural areas. Additional costs come in a number of forms, including additional services, rural deprivation, and access to services, as well as higher unit costs. Based on the evidence that is available, the bulk of additional costs arising in rural areas are from higher unit costs.

"There is a strong argument that higher unit costs could be addressed alongside the ACA. The purpose of both is broadly aligned in that they are there to fund variations in geographically based unit costs. However, we would be opposed to a unified approach to measuring and distributing funding for higher unit costs. The methodologies used to measure ACA in the past have tended to underplay or ignore rural costs, and our view is that the higher unit costs

in rural areas need to be measured and funded separately.

“On balance, population sparsity remains the best way of distributing funding for rural areas, although there are problems with the way that the current formulae actually apply the indicators. However, we have identified other potential indicators that could be used to distribute funding for specific additional costs in rural areas. The RSN would be supportive of developing these indicators with the possibility of using them alongside measures of population sparsity.” (paragraphs 33-35)

The RSN is very concerned about the consultation paper failing to mention the inclusion of the ‘Remoteness’ factor in the new ACA. Remoteness takes account of market failures in more remote areas and was a significant element from 2018 proposals for ACA. The RSN seeks confirmation that this element will be reinstated and will be included in the future ACA. If not, the department should explain, with evidence, why it has been excluded.

Rural authorities have additional costs, and these were recognised in the update to the relative needs formulas in 2013-14. The additional costs associated with increased travel times will be funded through the ACA. But rural authorities also have costs in addition to those recognised in the travel time uplift. These include:

- Waste collection and disposal. Additional costs associated with access.
- Access to services. Residents in rural areas suffer from less access to services.
- Lack of economies of scale, poorer market, and the need to replicate service delivery points on access to services grounds. In addition, there are substantial issues relating to historic unmet needs.

4. Measuring differences in locally available resources

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

Disagree

Please provide any additional information, including any explanation or evidence for your response:

We reiterate the point we make in response to Q3 that it must be a fundamental principle that people should not be disadvantaged by where they live. Residents in different areas should not be required (as they are at present in rural areas) to pay through Council Tax for a greater proportion of the costs of providing the essential public services they require. Council Tax is a property tax, and the amount charged is not varied by the financial circumstances of the householders.

We agree that equalisation of income should not be extended to sales, fees and charges, or other income.

The consultation paper makes some good arguments for excluding these income sources (they often do not always recover full costs; some fees are determined by central government). We assume that means parking income as well.

The RSN understands that council tax levels need to be reset within the funding formula. The scale of equalisation should be minimised, however, to ensure financial sustainability across the sector.

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

Disagree

Please provide any additional information, including any explanation or evidence for your response:

We support the use of uniform assumptions on the ‘Level of Council Tax charged’ but again we are concerned that an element of predetermination or bias is creeping in where in paragraph 4.1.6 it refers to “local authorities and their residents where they have had to take difficult decisions historically on council tax, often due to having weaker tax bases”.

The fact is that based on the 2025/26 Settlement, Council Tax per head will, on average, be 19.54% (circa £117) higher in rural areas than in urban areas (£718.10 compared to £600.72). Service levels are nevertheless lower in rural areas for example reduced or non-existent bus services, levels of social care services in some instances, sport, cultural and leisure services, libraries cover a wider geographical area, so residents have to travel much further to access them. So, the assertion that it is often those authorities with weaker tax basis that have been having to take difficult decisions historically on council tax, is rejected.

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

Partially

Please provide any additional information, including any explanation or evidence for your response:

The RSN supports equalisation using notional rather than actual council tax levels, but the percentage equalisation is crucial in this respect.

RSN supports partial rather than full equalisation of council tax within the funding formula. There is precedent for only partially equalising council tax and good arguments for doing so again in 2026-27. It allows councils to keep some of their taxbase growth, and provides an ongoing incentive to build more

housing, something that ministers want local authorities to deliver. It is also right that authorities should be allowed to retain some of the increases in Band D that they have levied on their residents.

Ultimately, any decisions on equalisation have to take into account the effect on individual local authority budgets. Many of our member authorities are already facing severe financial pressures, and excessive equalisation could leave some of them facing a section 114 determination.

5. Resetting the business rates retention system

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

Disagree

Please provide any additional information, including any explanation or evidence for your response:

The RSN does not support proposals for a full baseline reset in 2026-27, with further regular resets after that. The impact of a baseline reset on some authorities would be very damaging. Many authorities – particularly district councils – have built business rates growth into their budgets, and removing those resources in 2026-27 could have catastrophic consequences for the financial health of these authorities, and on the services they deliver.

It is essential that any surplus arising from the reset remains within the sector, and the RSN's view is that the surplus should be distributed taking account of both "needs" (e.g. the new SFA) and business rates growth. The surplus itself has been built up from the growth achieved in individual authorities, and it is reasonable that these authorities continue to benefit from that growth, at least in a limited way. Such an approach could also help to manage the financial impact on local authorities.

The level of turbulence from the reset will be significant and needs to be factored into transitional arrangements. The RSN would strongly support including the effects of the baseline reset within the transitional arrangements. For some authorities (particularly many shire district councils), not including the reset within damping could be financially catastrophic.

6. The New Homes Bonus

13 Do you agree or disagree we should enable and encourage local authorities to support housebuilding in their areas through the Local Government Finance Settlement?

Agree

Please provide any additional information, including any explanation or evidence for your response. :

The RSN would support proposals to continue a housebuilding incentive within the local government finance settlement. We agree that the current New Homes Bonus is out-of-date and needs to be refreshed. But there is a good case for continuing to incentivise housebuilding, and to do this as part of the funding system. Allowing councils to keep their council tax growth, both through a reformed NHB, and from partial equalisation, will encourage (and enable) authorities to build more housing.

7. Implementing changes and keeping allocations up-to-date

14 What measures should we use to support local authorities to move to their updated funding allocations? Please check the options you agree with (if any)

Blend in updated allocations over several years

Please provide any additional information, including any explanation or evidence for your response:

Some form of transitional support will be essential in 2026-27. The RSN would support a comprehensive transitional scheme that has a wide coverage, and covers Core Spending Power, business rates retention, specific grants, and New Home Bonus.

The transitional scheme needs to be focused on the impact that the funding changes have on individual local authorities. The department will need to develop a methodology for assessing the impact on authorities, and this will need to be developed with local government. It is essential that local authorities have confidence that the changes in funding will not undermine the financial sustainability of individual authorities.

Any transitional support will have to be phased out over a period of time. It would be unacceptable for damping to be frozen in the funding formula. Transitional support should be phased-out over time – although it is important that financial sustainability is given greater priority to having a time-limited approach. A fixed period for transition is likely to cause excessive financial distress to some local authorities.

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

Agree

Please provide any additional information, including any explanation or evidence for your response.:

Our member authorities would prefer certainty in their funding allocations over the period of the next spending review. Updates to data should be made when the funding formulas themselves are being periodically updated.

A solution might be to use projections to calculate future years' funding allocations, but this should only be done where there are recognised national datasets (e.g. population projections).

8. Reviewing demands on local government

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

If you have views, please share these and any supporting explanation or evidence.:

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

Agree

Please provide any additional information, including any explanation and evidence.:

The RSN supports the proposals to simplify the funding system. Where possible, grants should be paid via Revenue Support Grant (RSG). Funding allocations of transferring grants should be preserved.

The New Burdens principal is important. Payments should fully reflect the additional costs of different types of authority. It is not enough for the funding for new burdens just to be of sufficient quantum at the national level.

The department should be open with local government about the grants that it is considering rolling into the settlement and outline the principles that it will apply (e.g. about distribution and future changes in funding). It should also share any criteria that it is using to determine grants should be rolled in.

9. Sales, fees and charges reform

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

Agree

Please provide any additional information, including any explanation and evidence.:

Though the shift in accountability from central to local government is blunted by remaining statutory requirements and potential central conditions over the impact on vulnerable individuals, working people and businesses.

10. Equalities impacts of the proposals in this consultation paper

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

If you have views, please share these and any supporting explanation or evidence.: