

Sparse Group Meeting (Fair Funding)

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12 January 2026



Timescale and questions

- 14 January 2026 deadline for consultation responses:
- <https://www.gov.uk/government/consultations/provisional-local-government-finance-settlement-2026-to-2027>
- Purpose of a response to a consultation (specific responses, communicate within organisation and to similar councils, get a change made)
- 4 weeks – not long enough, and first time authorities have actually seen officials numbers and exemplifications
- What can you expect to change? Very unlikely anyone gets less in the final – so if action has to be taken it will be to put more money in.
- 13-14 – additional rural funding.
- 16-17 – transition grant for counties.
- Not much in terms of money, but it is always additional
- Needs groundswell of MPs and a threat to the vote to get any traction. Is this likely?

Questions

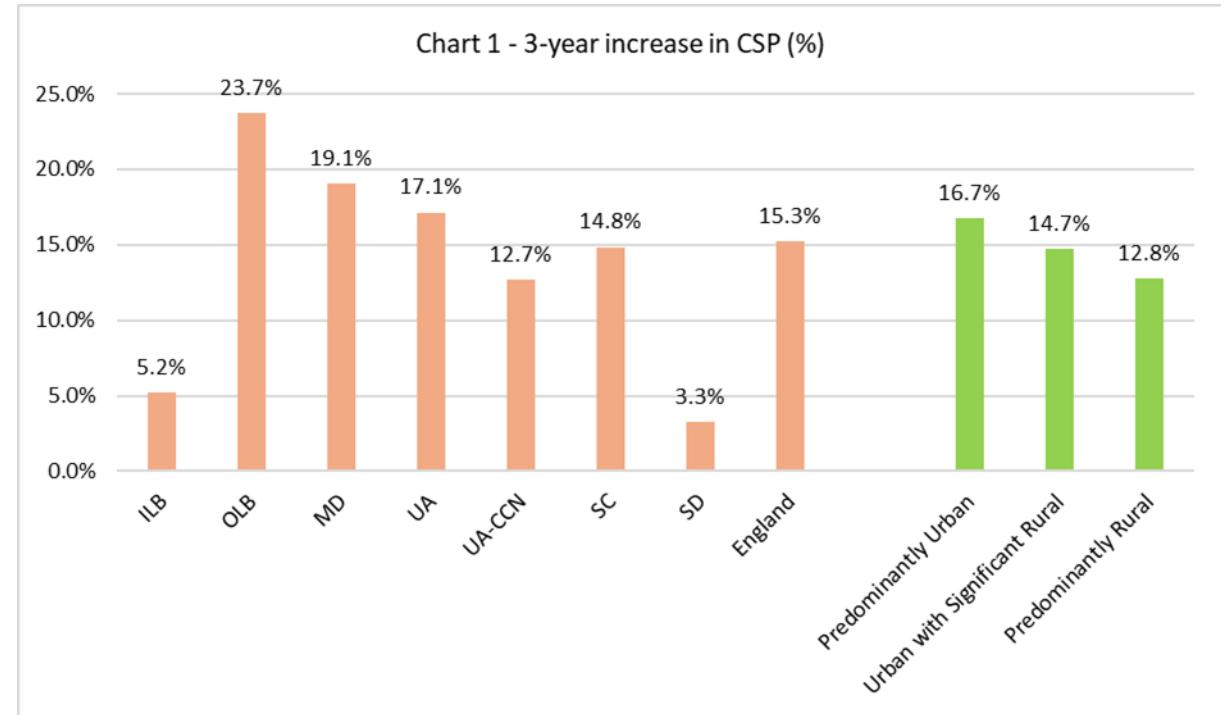
- **Question 1: Do you agree or disagree with the government's proposals for distributing the total Fair Funding Allocation across the multi-year Settlement period from 2026-27?** This encompasses the approach to Baseline Funding Levels, Revenue Support Grant, the Adult Social Care Relative Needs Formula distribution, the additional funding for local services, the approach to the Local Authority Better Care Grant, and the method for calculating tariffs and top-ups.
- **Question 2: Do you agree or disagree with the government's proposed transitional arrangements?**
- **Question 3: Do you agree or disagree with the proposed package of council tax referendum principles?**
- **Question 4: Do you agree or disagree with the government's proposed approach to distributing funding for the Families First Partnership programme via the final version of the Children and Young People's Services (CYPS) relative needs formula?**
- **Question 5: Do you agree or disagree with the government's proposed approach of continuing the IDB support grant for 26-27 but seeking an alternative solution from 2027-28?**
- **Question 6: Do you agree or disagree with the government's proposal on Mayoral Strategic Authorities in the Local Government Finance Settlement?**

Question 1: Do you agree or disagree with the government's proposals for distributing the total Fair Funding Allocation across the multi-year Settlement period from 2026-27?

- Formulas and explanatory notes – transparency, robustness, accuracy
- 2022-based population projections (vs mid-2024 estimates, winners/ losers)
- Remoteness
- Council tax equalisation
- 2025 IMD and inclusion of housing costs
- Continuation of Recovery Grant
- Home-to-School Transport (HTST)
- Rolled-in BRRS income
- BRRS baselines (and BR pools)
- LA BCG
- Consolidated grants
- RNF weightings
- Other issues from the Summer Consultation

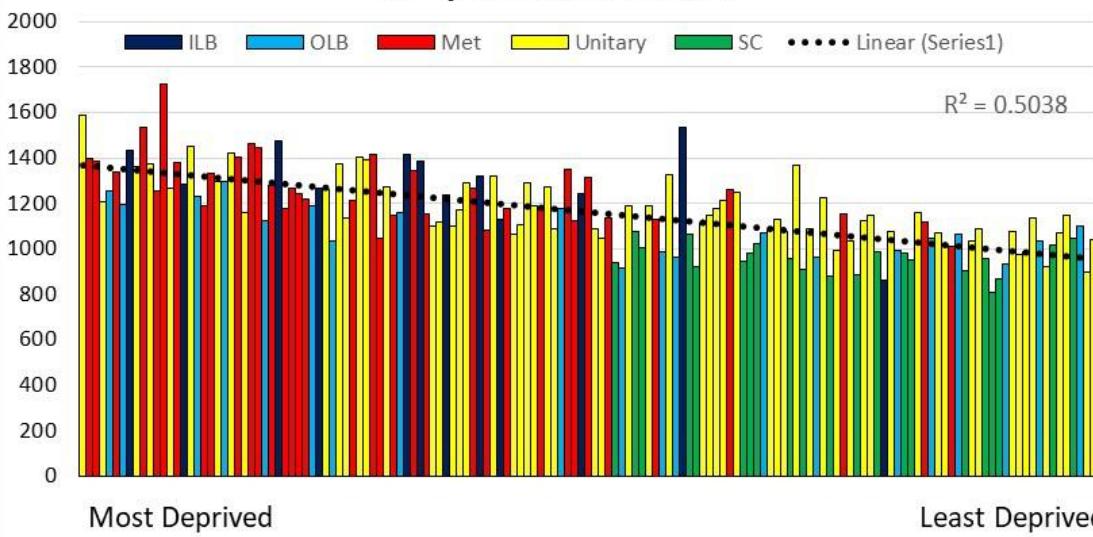
Overall change in Core Spending Power (25-26 to 28-29)

- **The rural-urban split.** PR increase is 12.8%, PU increase is 16.7%. Clear shift away from rural (remoteness). Some “losing” rural unitaries (e.g. Westmorland and Furness).
- **Winning areas** – Outer London, most Mets, some unitaries (e.g. Luton)
- **Metropolitan authorities** – broadly positive and good at the top end. But a surprising number of low increases. Some helped by the Recovery Grant Guarantee (e.g. Rochdale, South Tyneside) but some left out (Trafford, Stockport). <https://www.newstatesman.com/politics/uk-politics/2025/12/northern-labour-mps-feel-like-idiots-over-council-funding-cuts>
- **Inner London** – some expectation of reduction in funding but not much to challenge in the proposals (density?). “**The six**” – challenge the £150 Band D increase (unreasonable, arbitrary)
- **Districts are a very mixed group.** Urban districts with TA doing well. High-growth districts in pools very well. Others, not so much.
- **Fire** – improved and the real-terms floor helps.

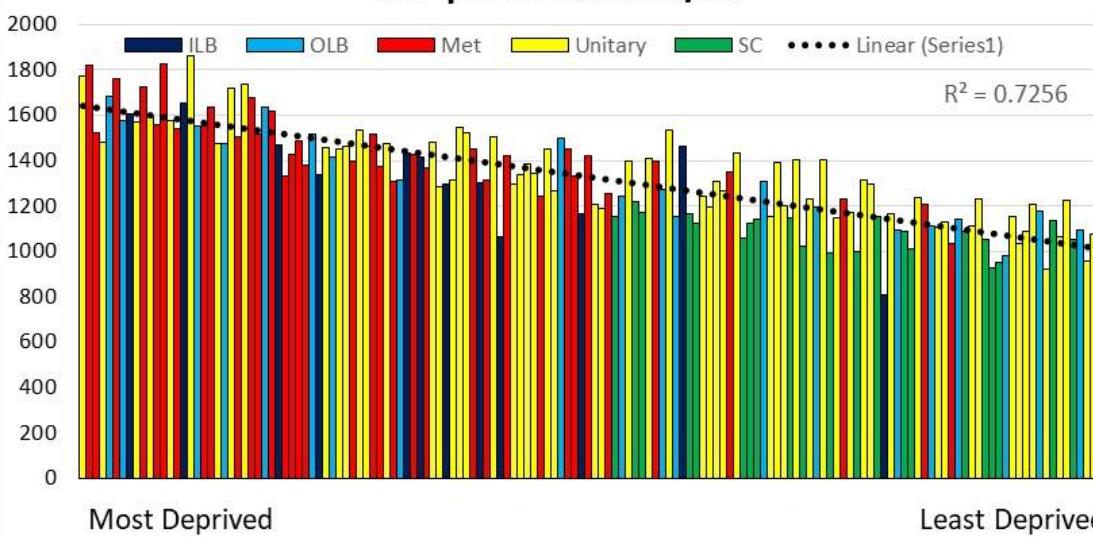


- **Where is the political challenge going to come from?**
- **What are the challenges on technical grounds? (taxbase, population, remoteness)**

CSP per head 2025/26



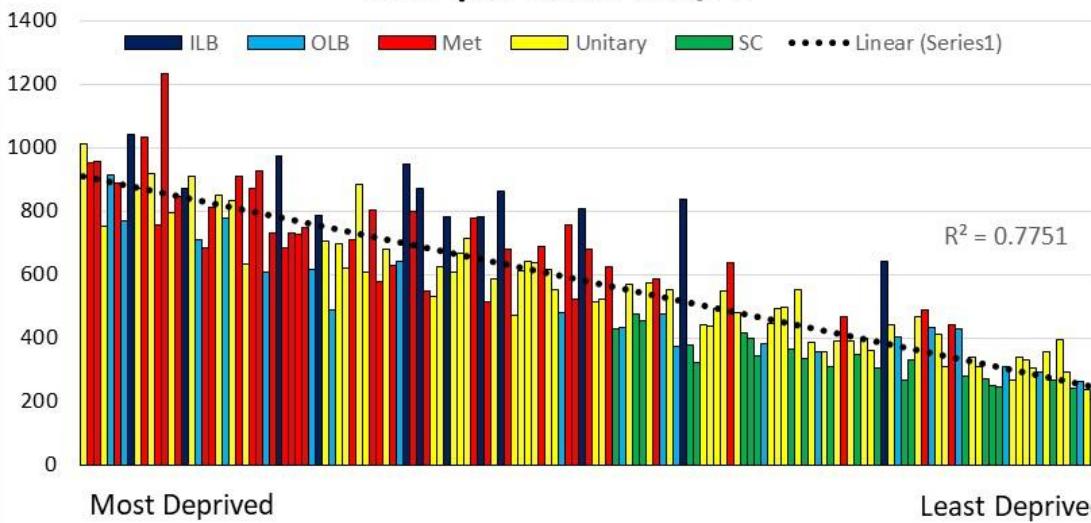
CSP per head 2028/29



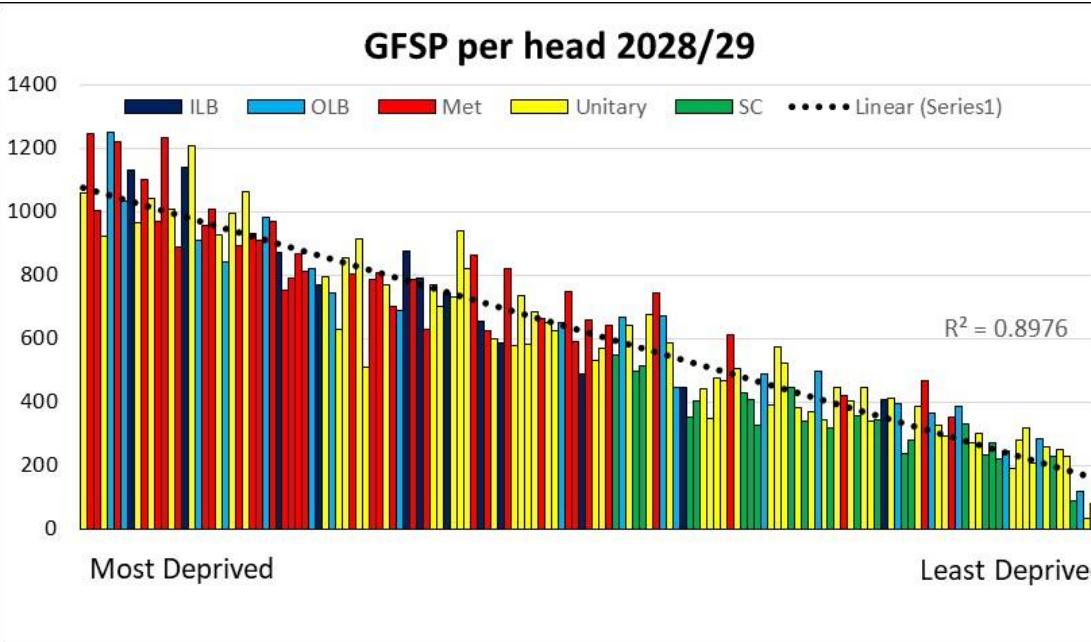
CSP by IMD ranking: Upper Tier

- Comparing CSP per head in 25/26 with 28/29.
- 28/29 shows a more even distribution against line of best fit with far fewer outliers above the line.
- This would support an assertion that funding is fairer.
- OLBs way below the line in 25/26 are now much closer to best fit line.
- But shows the losses to a number of ILB (and Knowsley) that were well above the line in 2025/26.

GFSP per head 2025/26



GFSP per head 2028/29

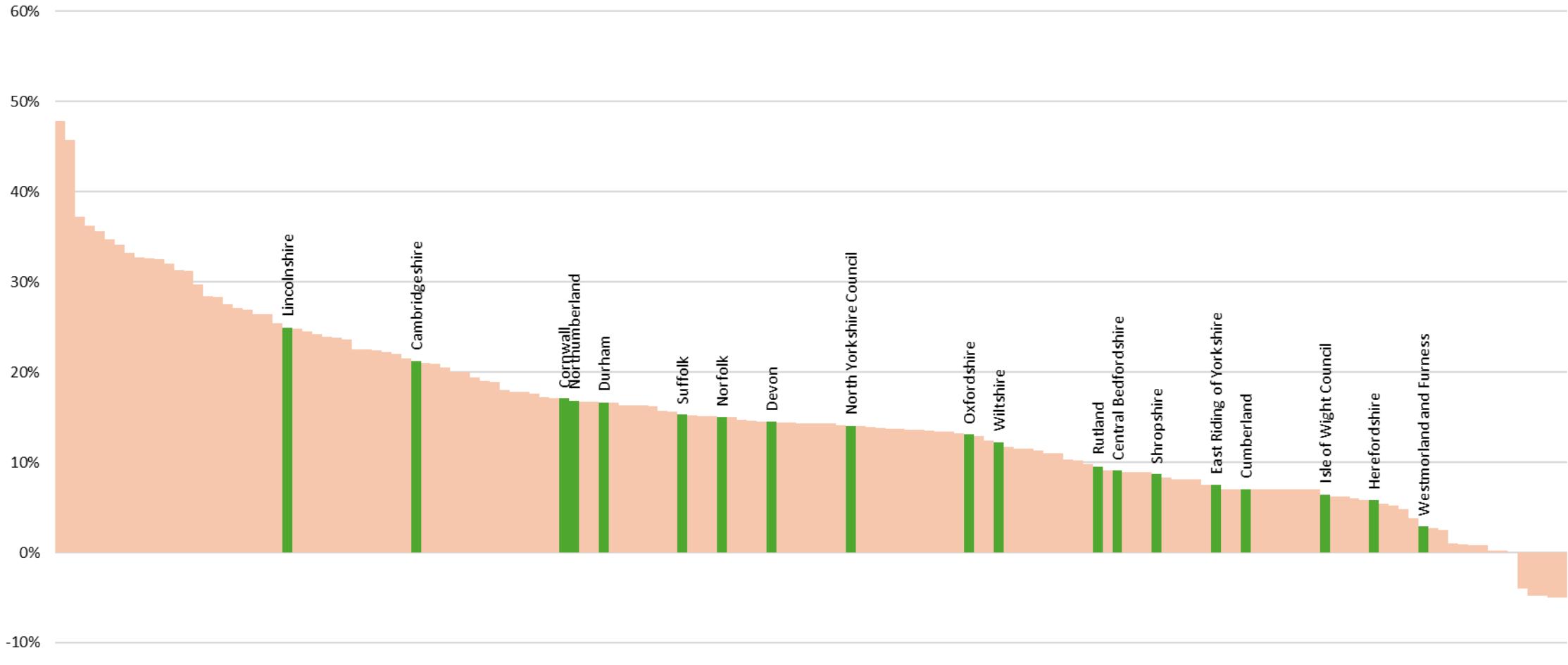


Government Funding by IMD ranking: Upper Tier

- Comparing Government Funding per head in 25/26 with 28/29.
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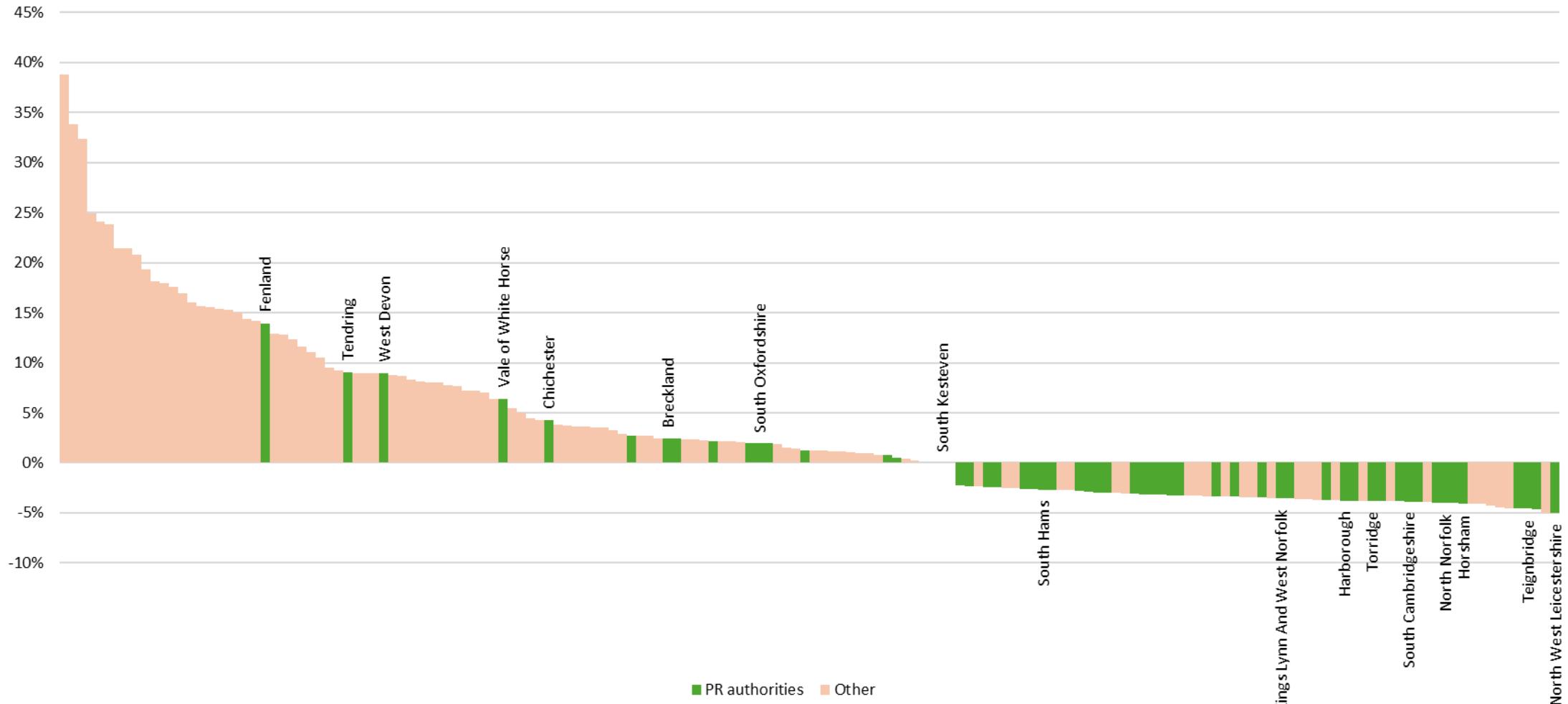
Overall change in Core Spending Power (25-26 to 28-29) UT

Core Spending Power (2026-27 to 2028-29) - UT



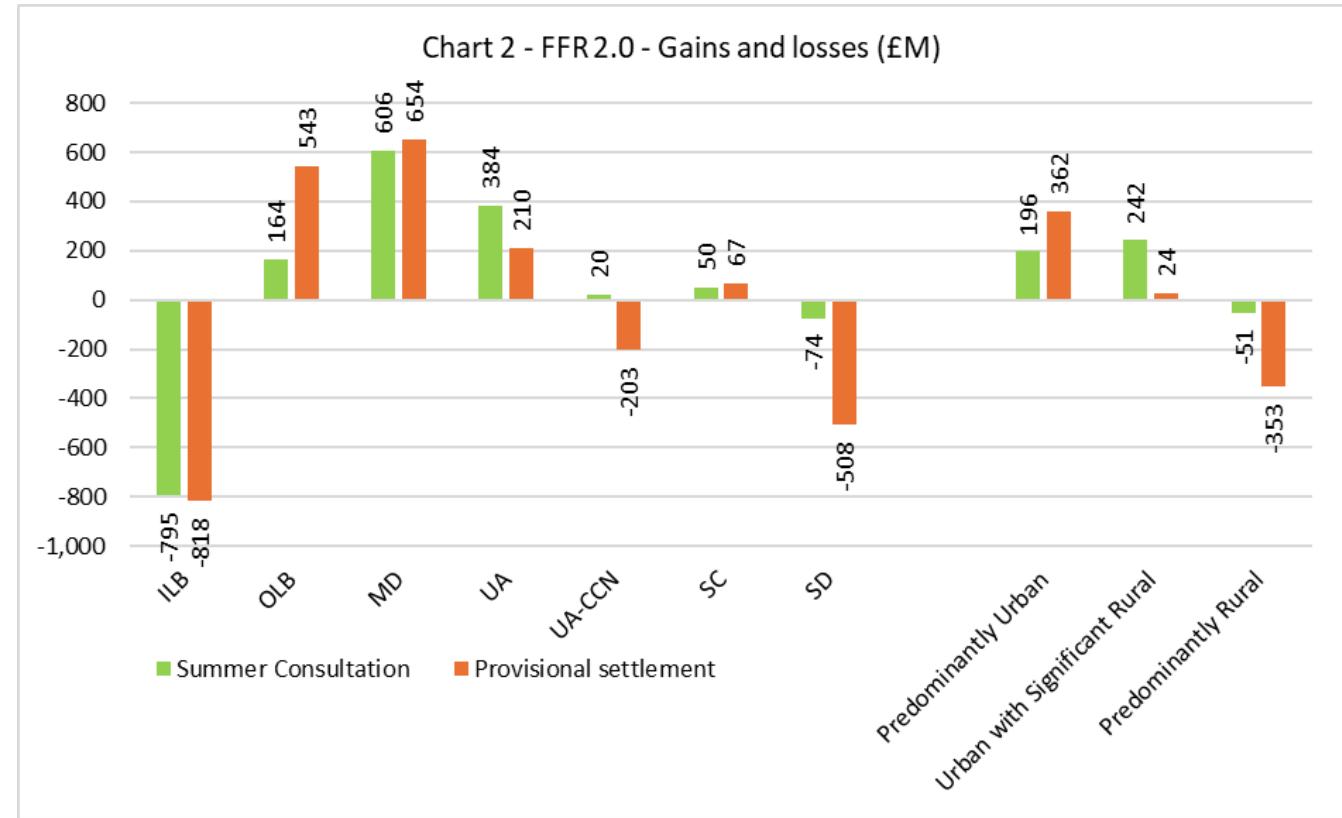
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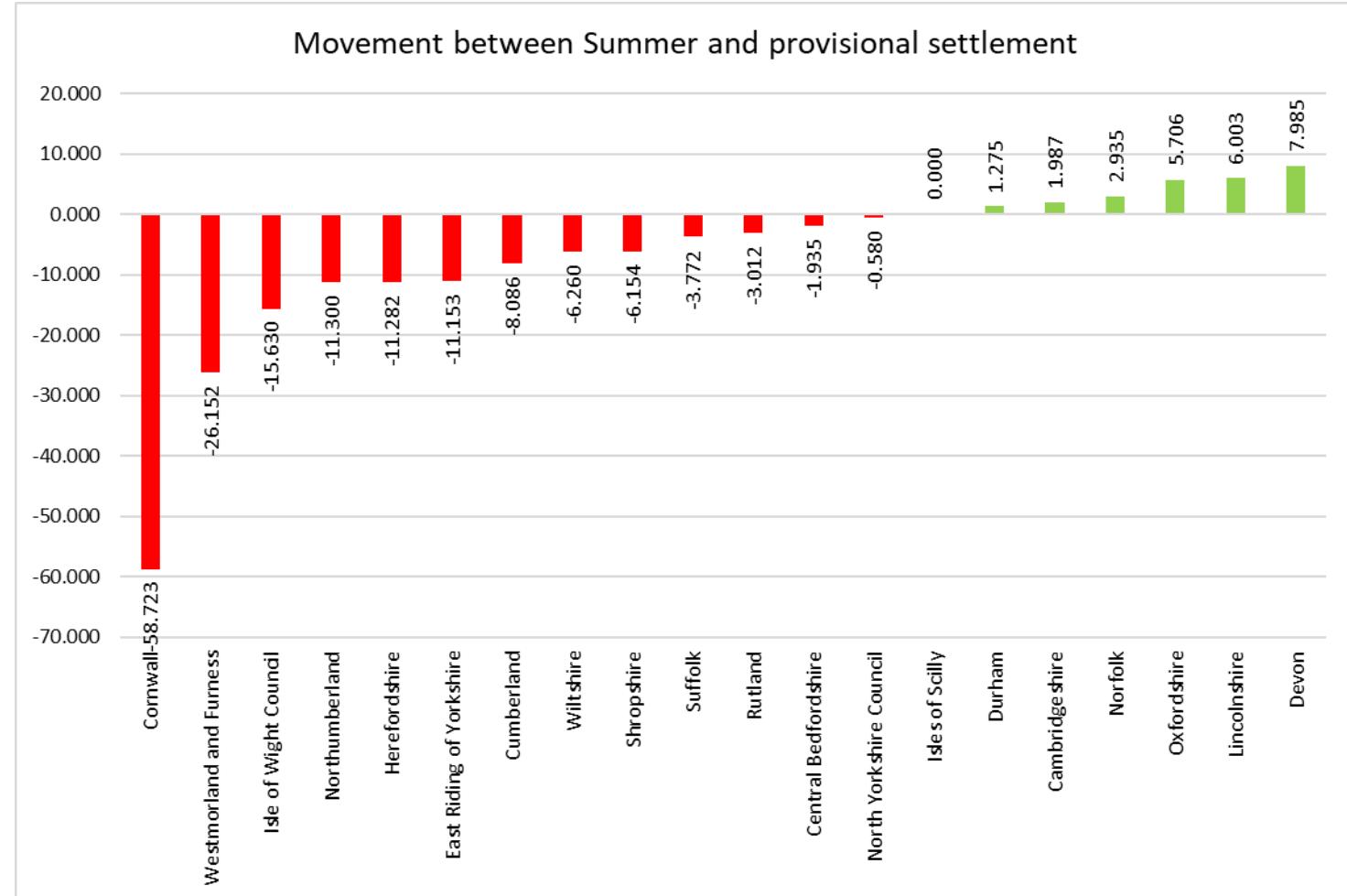
Movement compared to the Summer consultation

- Shows where ministers have made choices
- “it is difficult to see a principled basis for these decisions other than to achieve an overall allocation more in line with the government’s subjective judgement”, IFS ,
<https://ifs.org.uk/articles/immediate-response-local-government-finance-policy-statement>
- Further shift away from rural
- 2025 IMD and IDACI, Remoteness, Recovery Grant, HTST, changes in funding floor calculations
- Unlikely to be a significant issue in the responses or the political reaction – but important (to us) to see where ministers have made changes.



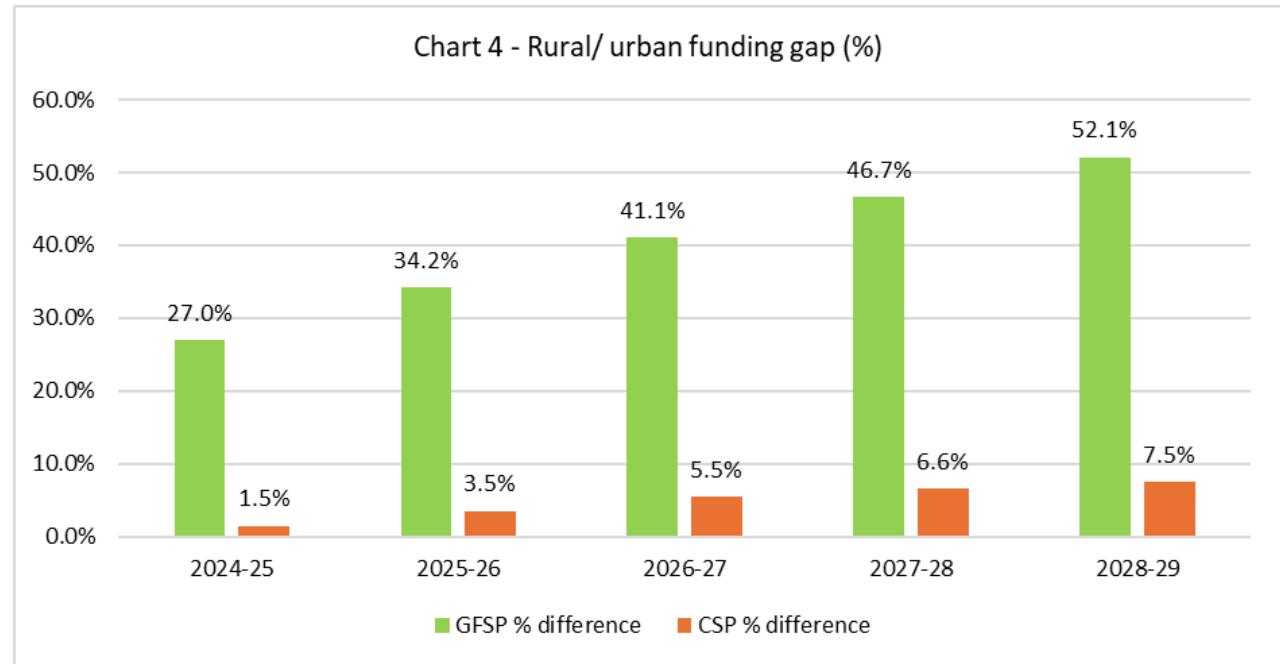
Movement compared to the Summer consultation

- Analysis of movements in upper-tier authorities
- Very significant reductions in those unitaries with the highest remoteness scores
- Note Cornwall losing £58m
- Others very significant in percentage terms as well
- Impact on shire counties is offset by the favourable changes in the Foundation Formula weightings between district and county service

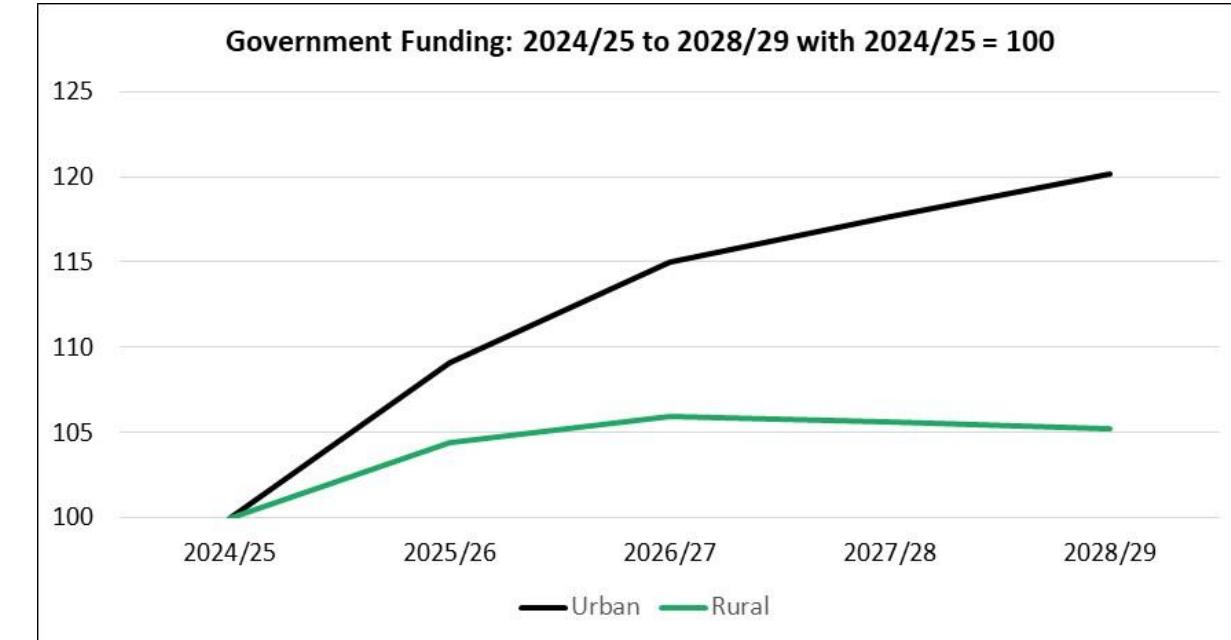
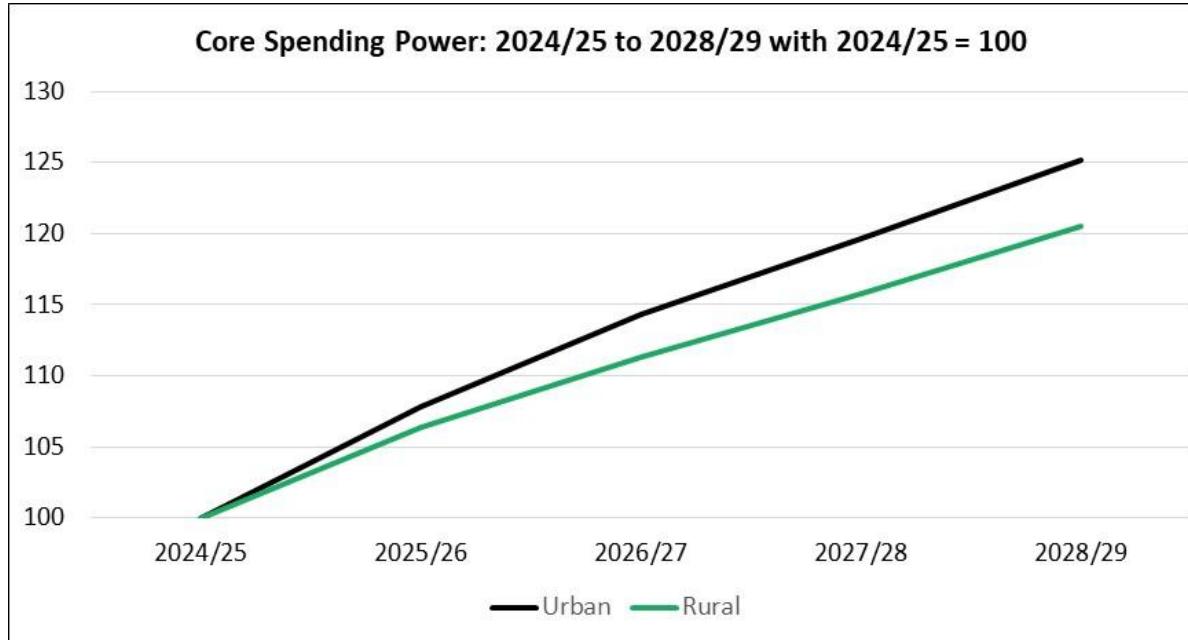


Rural/ urban funding gap

- Key objective of RSN is to close the funding gap
- Remained fairly steady for past 15 years (helped by the RSDG)
- Clear widening over the next 3 years and in 2025-26 (removal of RSDG)
- CSP gap increases from 1.5% in 2024-25 to 7.5% in 2028-29
- GFSP gap increases from 27.0% in 2024-25 to 52.1% in 2028-29
- Rural authorities are losing-out from the overall CSP settlement
- And they are then expected to fund an increasing share of the CSP increase from council tax
- By the end of this period in 2028-29, urban authorities will be receiving GFSP per head of £700.43 compared to only £460.50 in rural authorities



Rural/Urban classification change in CSP



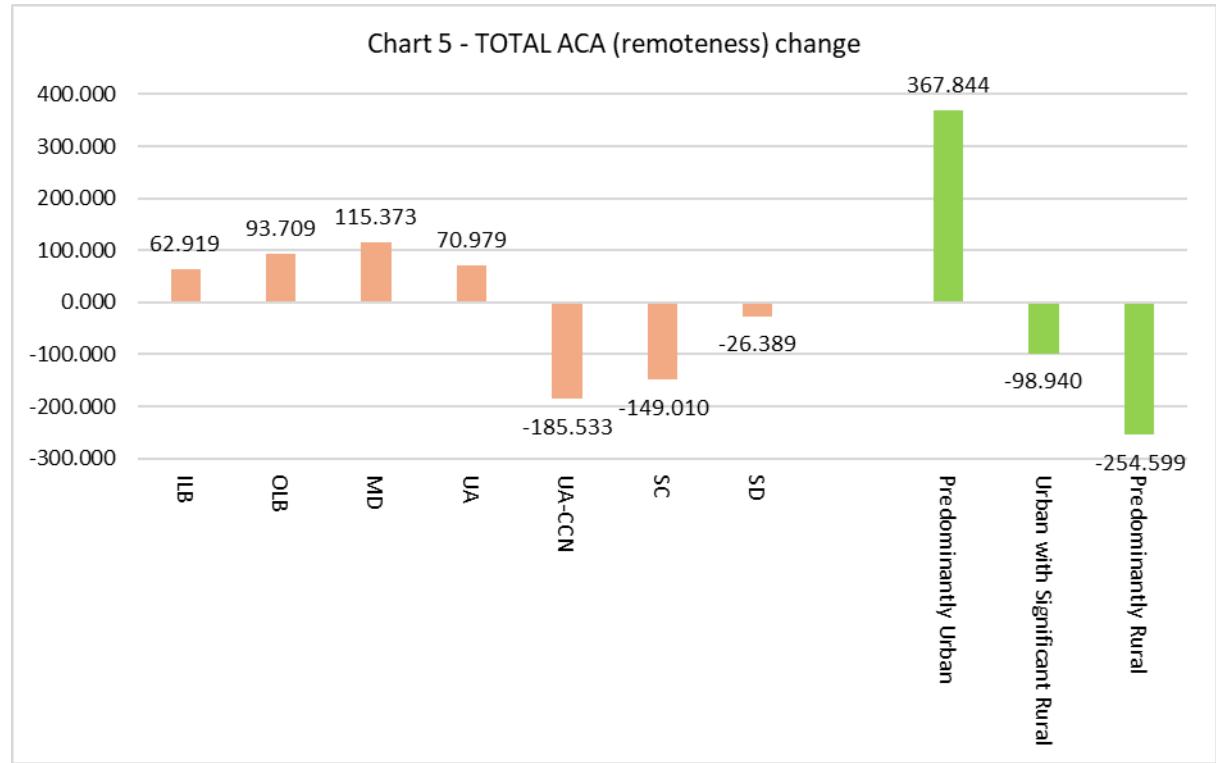
- Rural authorities are amongst the biggest losers in terms of CSP and government funding changes over the next three years.
- IMD2025, Recovery Grant favouring urban much more and the loss of RSDG last year compounded by removal of remoteness in the 3 year settlement.

Quality of supporting information and evidence

- December 2024 consultation: new funding system will use the “best possible objective analysis and evidence”.
- Ministerial statement on 17 December 2025: “We will introduce an evidence-led system of determining need”.
- MHCLG has provided “explanatory notes” rather than the data and calculations themselves
- “allow experts in local government to understand the calculation and review it.”
- Without the actual data, it is not possible to check that correct data has been used, or that calculations are accurate
- Specific issues around the population datasets, and also visitor and commuter data
- Generally lacking in transparency, particularly in the large formulas for children’s and (to a lesser degree) adult social care.

Remoteness

- Decision to remove Remoteness from the Area Cost Adjustment (ACA) in every RNF (except ASC)
- “compelling theoretical case for including this adjustment”
- Research undertaken by MHCLG produced weightings for the dispersal and traversal indicators, but not for remoteness
- MHCLG asked authorities for evidence to support weighting – how strong was this evidence?
- Given research by MHCLG we would have expected a non-zero weighting in every RNF
- Can authorities ask to see underlying research, and basis of decision to remove remoteness? Is there a case for challenge?



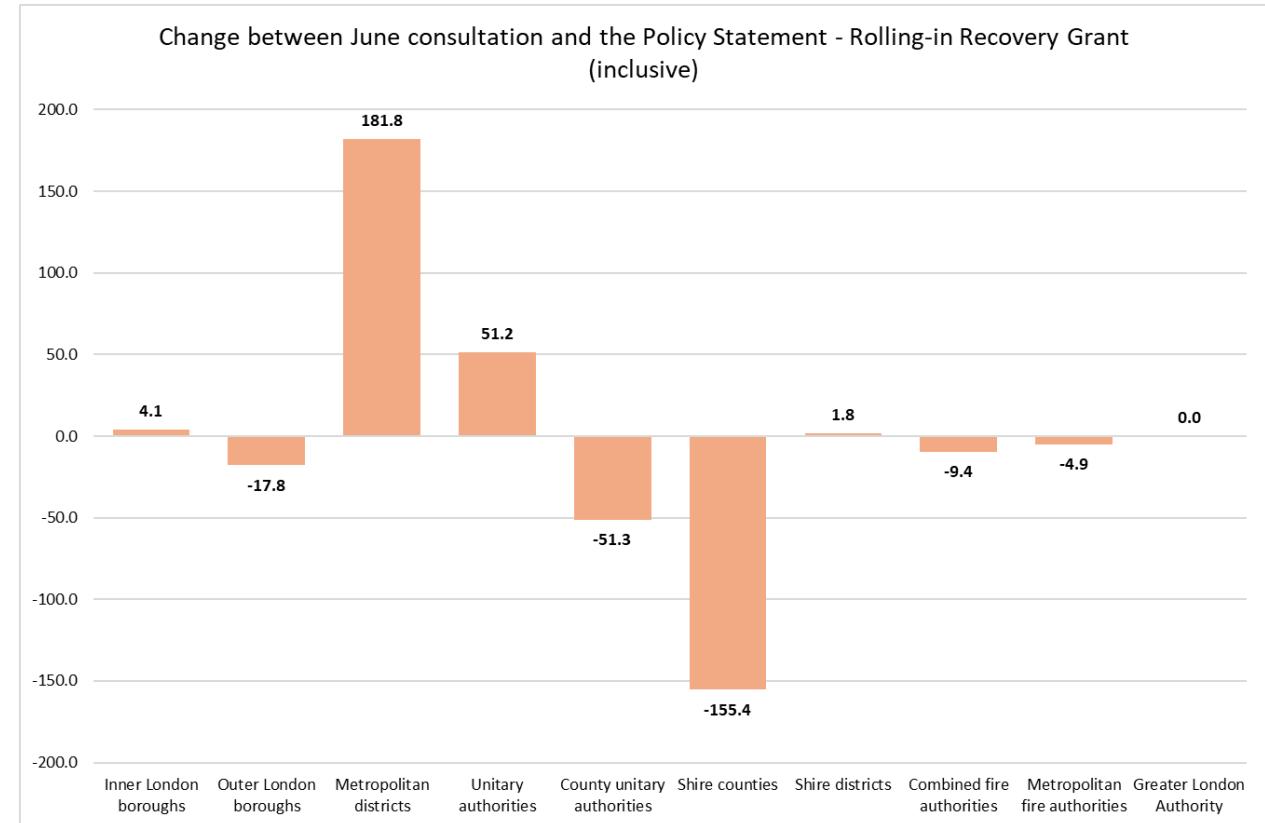
Local authority	Rural urban	TOTAL ACA (remoteness) change	TOTAL ACA (remoteness) change (%)
Isle of Wight Council	Predominantly Rural	-15.679	-7.7%
Cornwall	Predominantly Rural	-57.204	-7.2%
Westmorland and Furness	Predominantly Rural	-17.426	-5.6%
Herefordshire	Predominantly Rural	-10.175	-4.4%

Further action on remoteness...

- The technical case was very strong for the inclusion of remoteness, and we are aware of sufficient evidence to support a non-zero weighting in every RNF.
-
- These are the questions that RSN would like answers to before the final settlement is confirmed next month:
 - MHCLG has undertaken statistical analysis in previous and drew the conclusion that remoteness was statistically significant and should be included in future funding formulas. It said that there is a “compelling theoretical case for including this adjustment”. What analysis has MHCLG undertaken in recent years to establish the statistical case for remoteness? Can this analysis be shared with RSN and rural authorities?
 - We understand that there was insufficient evidence from this analysis to weight remoteness within the ACAs, and that further evidence was required from local authorities to support a ministerial judgement. What evidence did MHCLG consider and take into account? Can this evidence be shared with RSN and rural authorities? Is there a written evaluation of this evidence, and can it be shared with RSN and rural authorities?

Continuation of Recovery Grant

- Recovery Grant introduced in 2025-26 as a one-year grant – “to get councils back on their feet” (Jim McMahon, 18 December 2024). “one-off”.
- Heavily skewed towards urban authorities. Only £21m (or 3.6%) of the grant payments are to Predominantly Rural authorities. Of these, only two are upper tier authorities (Cumberland £1.5m, Durham £13.9m). 21 shire district councils also received Recovery Grant payments, although these were mostly small payments. 94.6% is paid to Predominantly Urban authorities (£568m out of £600m)
- FFR was supposed to replace ad hoc funding arrangements; opportunity to use an evidence-based approach
- Methodology is out-of-date (old IMD), and is flawed (cut-offs) – OK for a one-off, but not for 4 years
- Double-weights deprivation (already included within Foundation Formula)



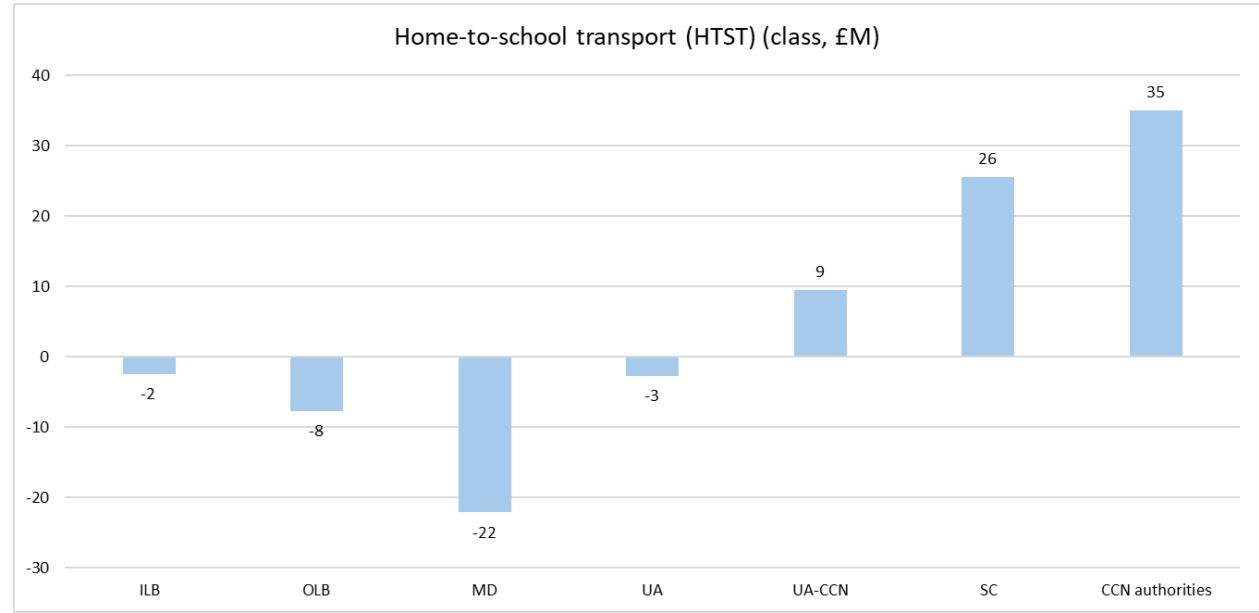
2022-based population projections

Class	Mid-2024 population estimates	2026 population projection	2027 population projection	2028 population projection	Variance (2026)	Variance (2028)
London boroughs	9,089,736	9,284,300	9,303,947	9,332,957	2.1%	2.7%
Metropolitan districts	12,566,058	12,448,928	12,496,199	12,542,234	-0.9%	-0.2%
Shire counties	19,992,284	19,856,181	19,948,950	20,038,832	-0.7%	0.2%
Unitary authorities	16,972,023	16,706,062	16,767,818	16,826,801	-1.6%	-0.9%

- Not clear which version of the ONS projections have been used
 - not confirmed yet by MHCLG (2018-based population projections)
- Assume population projections used within RNFs is correct
- Impact of using projections compared to latest mid-year estimates
- Alternative would have been to commission 2024-based population projections (similar to 2013-14 settlement)
- Variances between latest mid-year estimates and population projections is significant for many authorities.
 - Oxfordshire – 763,000 in 2024 MYE and 720,000 in 2028 PP
 - Cambridgeshire – 710,000 in 2024 MYE and 676,000 in 2028 PP
 - Many authorities with highest recent population growth has largest gap between MYE and projections.
 - Overall, 2028 PP is 1.1% higher in PR authorities than the 2024 MYE

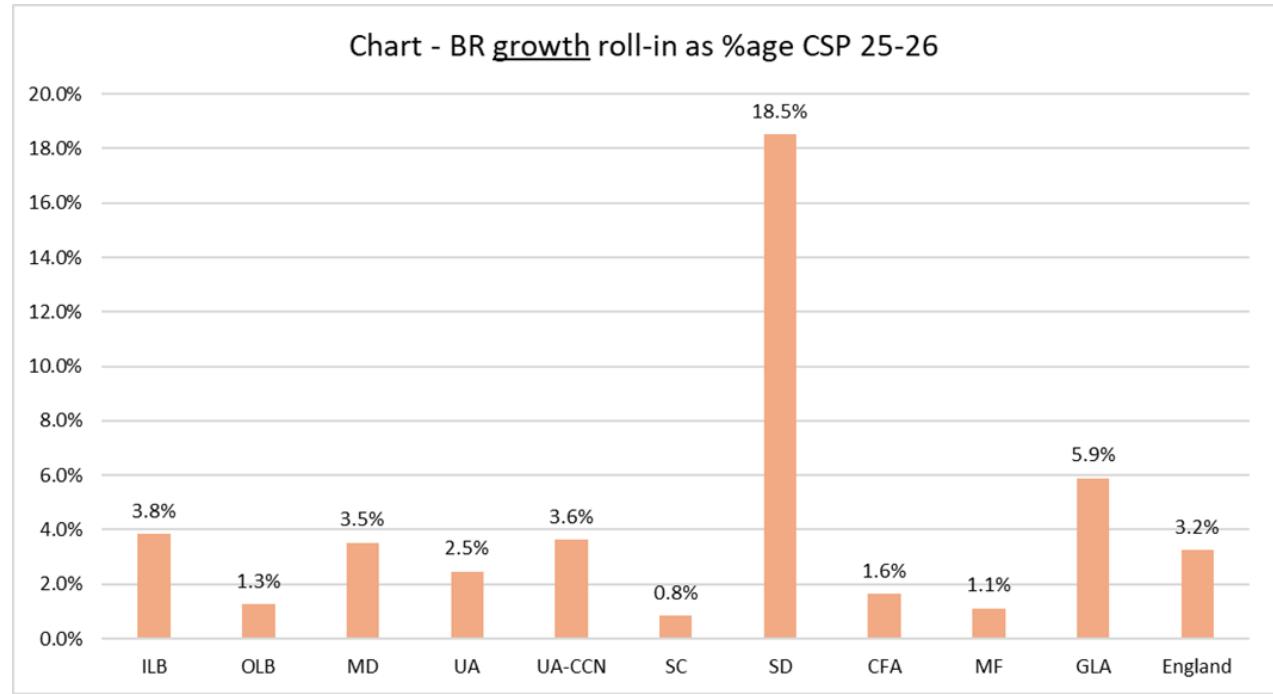
Home to School Transport RNF

- Cap on journeys of 20 miles has been replaced by 50-mile cap
- Justification for capping at 50 miles is reasonable (excludes outliers, few authorities had journeys above 50 miles)
- How reliable is the data? Can authorities check?
- Favours county authorities with sparser geographies (Norfolk, North Yorkshire, etc) -but gain for some is very small (e.g. Westmorland and Furness)
- Remoteness was not in the HTST ACA in June, so no negative impact of removal on county authorities



Rolled-in BRRS income

- BRRS income roll-in includes pooling and pilots gains
- Pooling gains allocated to pool members based on levy payments (i.e. to tariff authorities)
- Unfair and a better approach was easily achievable
- Hugely increases 2025-26 baseline for some authorities (esp districts but also City of London)
- Principle is to give every authority a baseline that reflects their actual income in 2025-26 – but these authorities did not ever have all the pooling gains
- Rationale is not clear: it has created dysfunctional and more-expensive funding floors
- Important point for county councils – but very beneficial for some high-growth district pool members



BRRS baselines

- Business Rates Baselines (BRB). Full reset in 2026-27 based on 2026 RV. May want to challenge full reset but it has been policy for over a decade. Focus on next reset! Predictable, partial, rolling resets in future?
- Baseline Funding Level (BFL). Reasonable approach but complicated and very late.
- BR pools. Some authorities still pursuing (deadline 14 January to confirm): any takers?
- BR pools. Update to the MTFP model. “Pool” tab now picks up inputs using a hidden tab until we have the NNDR1 in February/ March

Other Summer consultation issues

- **Highways Maintenance RNF.** There were some outstanding issues about the impact on rural authorities (unexpected changes not explained)
- **Foundation Formula** – weighting of deprivation (previous MHCLG analysis indicated between 0.4% and 4.0%). Wider question about the “correct” weighting for deprivation – political choice to move towards stronger correlation.
- **Resident and non-resident population.** Decision not to give equal weight to non-residents. But outstanding questions about the datasets used.
- **Tier splits** for London Boroughs (set at 93.1% and GLA at 2.3%)

Question 2: Do you agree or disagree with the government's proposed transitional arrangements?

- Objective was to eliminate damping over funding period – not achieved
- Bulk of transition is undertaken using 3-year phasing (25-26 baseline is very important, interaction with funding floors)
- Funding floor cost – very expensive, and cost increases over 3 years
- Funded from top-slice not from scaling-back (scaling means those with highest gains pay most, rather than those with the highest needs)
- Some councils caught in the middle – below average CSP increase, but not getting funding floor
- Inconsistency – dropped floor (95%), Recovery Grant Guarantee, real-terms protection (GDP Deflator) (decisions are arbitrary, not linked to affordability or 3-year transition)
- Affordability and financial sustainability (real-terms and cash-terms protection)
- Cliff edge (some authorities significantly above funding target)

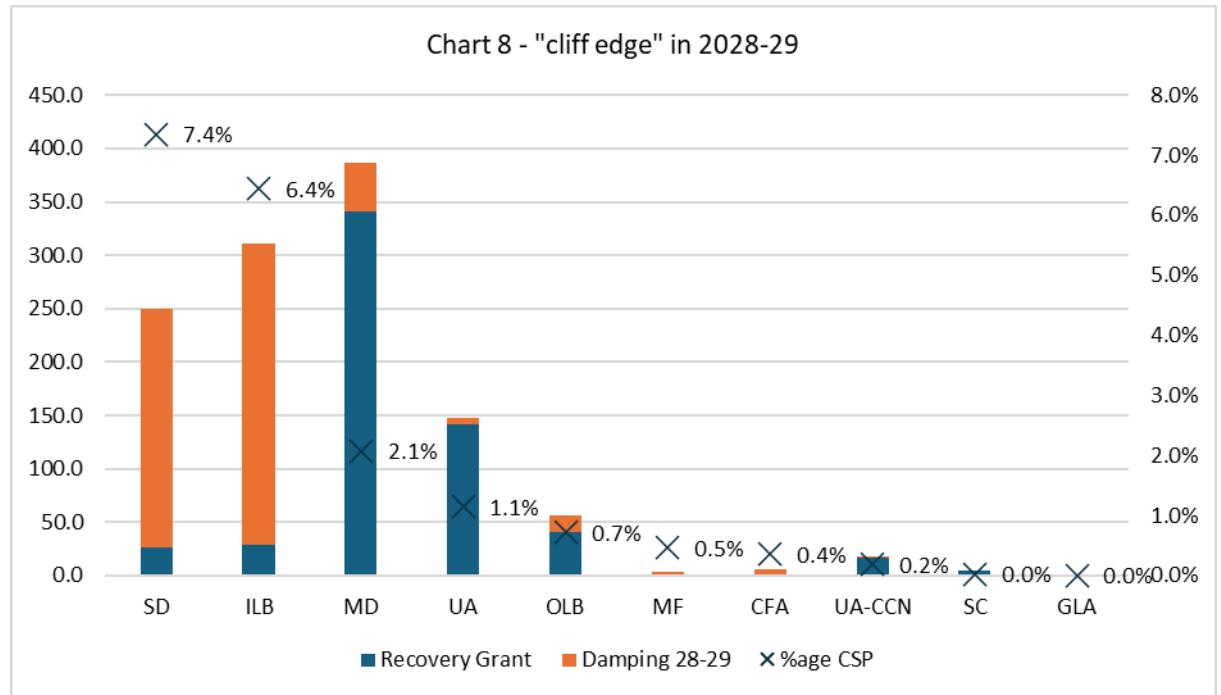
Funding floor allocations

Tier/ class	Criteria	Protection		100% income protection floor	95% income protection floor	Fire and Rescue real-terms floor	Recovery Grant Guarantee	Total	
Recovery Grant Guarantee	Authorities receiving Recovery Grant in 25-26 (excl shire districts)	Real-terms protection (105% in 26-27, 106% in 27-28 and 107% in 28-29)		2026-27 £M	40.5	103.9	2.5	148.8	295.7
Fire authorities	All authorities	Real terms protection (TBC)		2027-28 £M	91.1	179.6	5.8	113.3	389.8
Upper tier	<15% above funding target	Cash-terms protection		2028-29 £M	143.3	296.2	9.1	98.6	547.2
Lower tier (shire districts)	<15% above funding target			2026-27 No of LAs	38	38	5	22	
Upper tier	>15% above funding target, low Band D	95% protection (i.e. -5% floor in 2026-27, 0% in following two years)		2027-28 No of LAs	39	64	5	14	
Lower tier (shire districts)	>15% above funding target			2028-29 No of LAs	39	70	5	13	

- Total cost of funding floors £1.3bn over 3 years and increasing over time
- 95% floor pulls in more authorities over time (district councils)
- Predominantly Rural (PR) authorities receive only £226m (18%) of the £1.2bn payments for funding floors over the next 3 years
- These funding floor payments are concentrated in Predominantly Urban (PU) authorities (£969m over 3 years)
- It is notable that none of the upper-tier authorities who lost so much from the removal of the remoteness uplift receive any funding floor support.

Cliff Edge

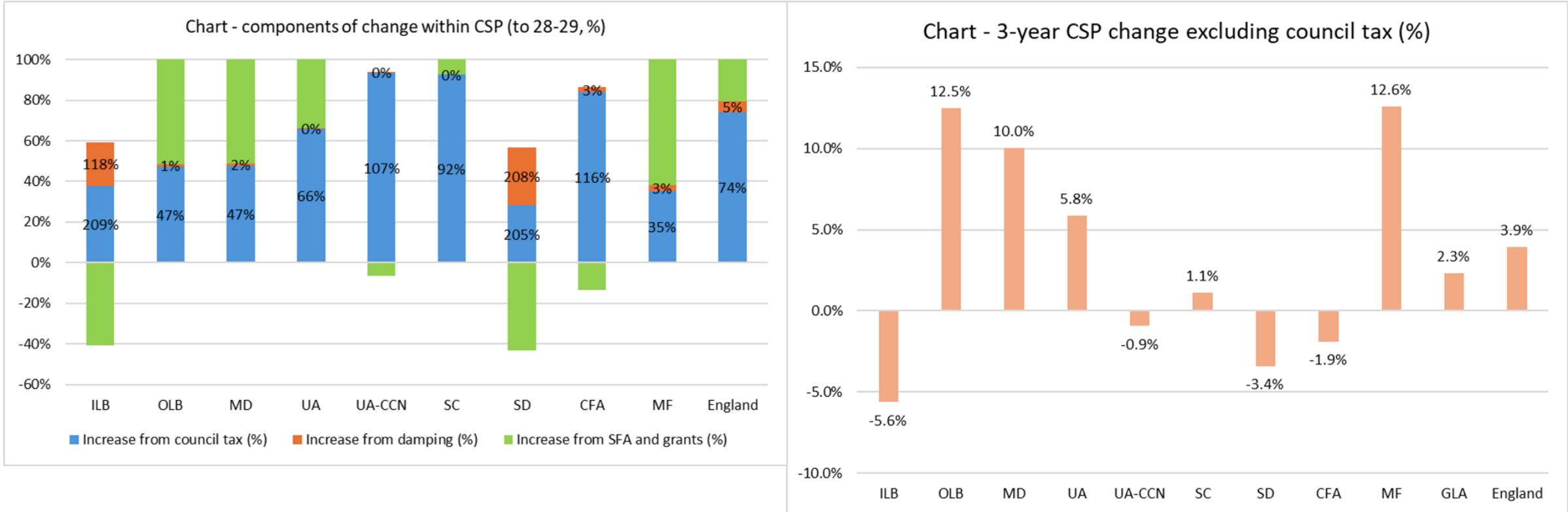
- “We know councils are concerned about what happens at the next spending review and we will continue to work closely with them to avoid cliff edges in funding.”
- Consultation in December 2024: “temporary Transitional Arrangements”, “we propose moving authorities to their updated allocations over several years”
- Some councils (esp inner London boroughs and shire districts) will be substantially above funding target in 28-29
- Some shire districts could also have further business rates growth by 2028-29
- Very unlikely that these authorities can be brought in line with any realistic funding target in the foreseeable future – implies permanent damping
- Issue for Mts with Recovery Grant is different – it based on a measure of needs (if not the one in the FFA). These Mts better served by addressing FFA.
- Will LGR make the problem go away in shire districts?



Question 3: Do you agree or disagree with the proposed package of council tax referendum principles?

- Views on the thresholds themselves (local determination, political considerations, affordability)
- Reliance on council tax increases (CSP increases without council tax)
- Components of change
- The £150 council tax issue – what is it worth to other authorities?
- Second-homes premium – included within the taxbase projections

CSP change without council tax increase



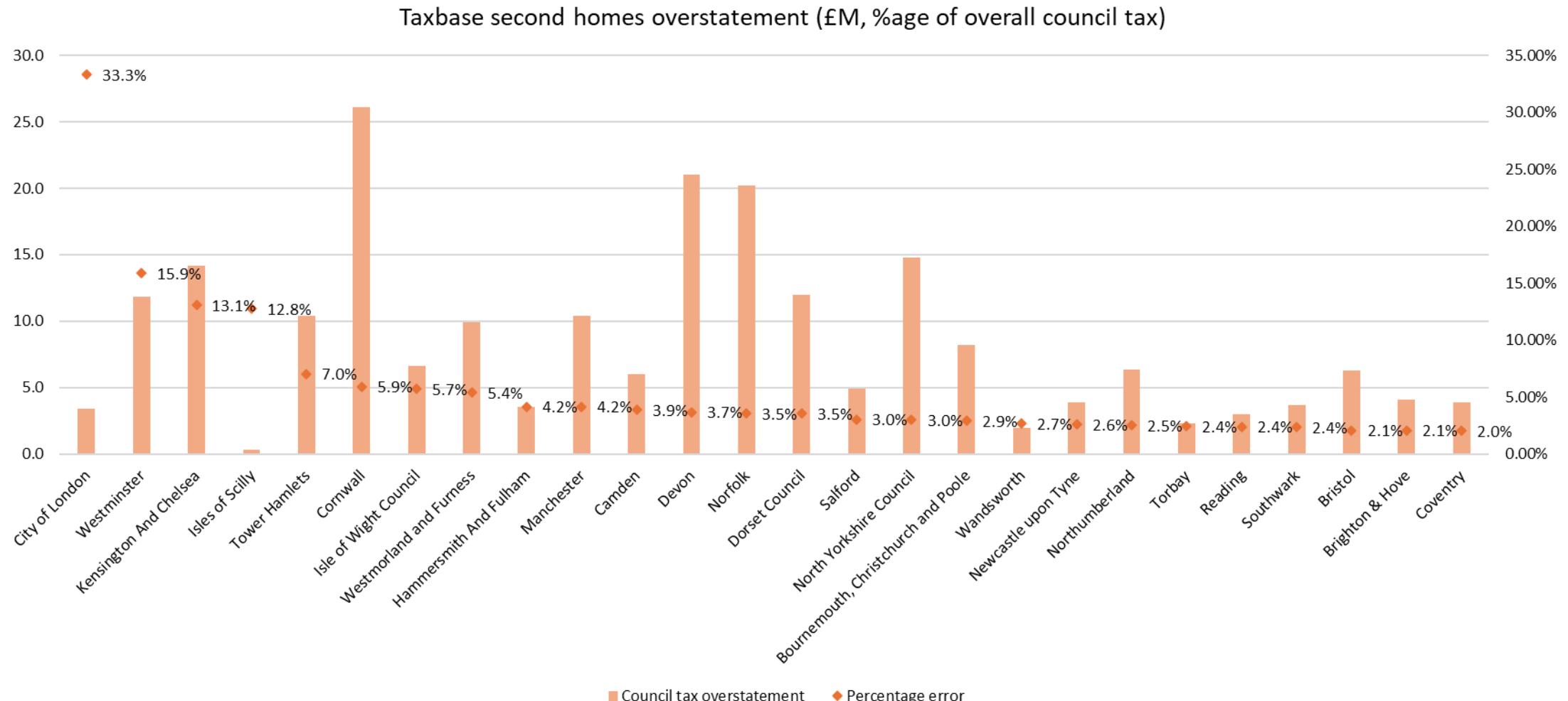
- CSP increases very reliant on assumed increases in council tax (74% of increase funded by council tax)
- Can either present as proportion of your increase, or show CSP increase without council tax uplift
- Ministers wanted outcome of settlement to reflect ability to generate council tax income

Second-homes taxbase projections

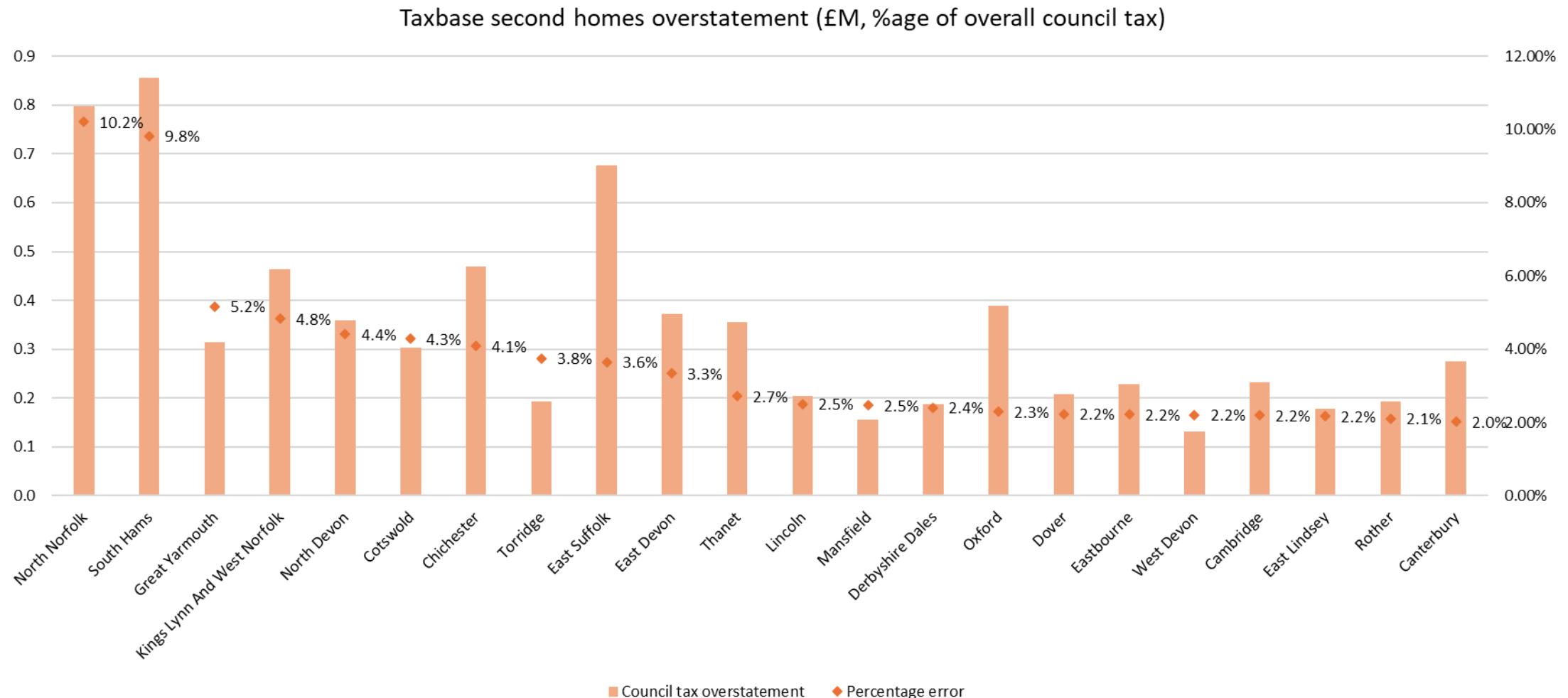
- Taxbase projections used within CSP are based on change in between 2021-22 and 2025-26 (4-year movement).
- Not adjusted for the introduction of the second homes premium in April 2025
- Clearly wrong not to adjust but...
- Presentational issue for authorities above funding floor (has overstated their CSP increase)
- Affects actual funding floor payments for those below threshold – these are mostly inner London boroughs and some shire districts
- Westmorland and Furness would be below funding floor (by about £1.1m).
- Could be expensive – additional funding or scale everyone else back?

Local authority	Class	Revised council tax	Percentage error
Inner London boroughs	ILB	61.9	4.08%
Outer London boroughs	OLB	18.3	0.55%
Metropolitan districts	MD	53.9	0.83%
Unitary authorities	UA	58.9	1.04%
County unitary authorities	UA-CCN	91.9	1.80%
Shire counties	SC	143.2	1.17%
Shire districts	SD	16.1	1.04%

Second-homes taxbase projections (UT, above 2% ctax)



Second-homes taxbase projections (LT, above 2% ctax)

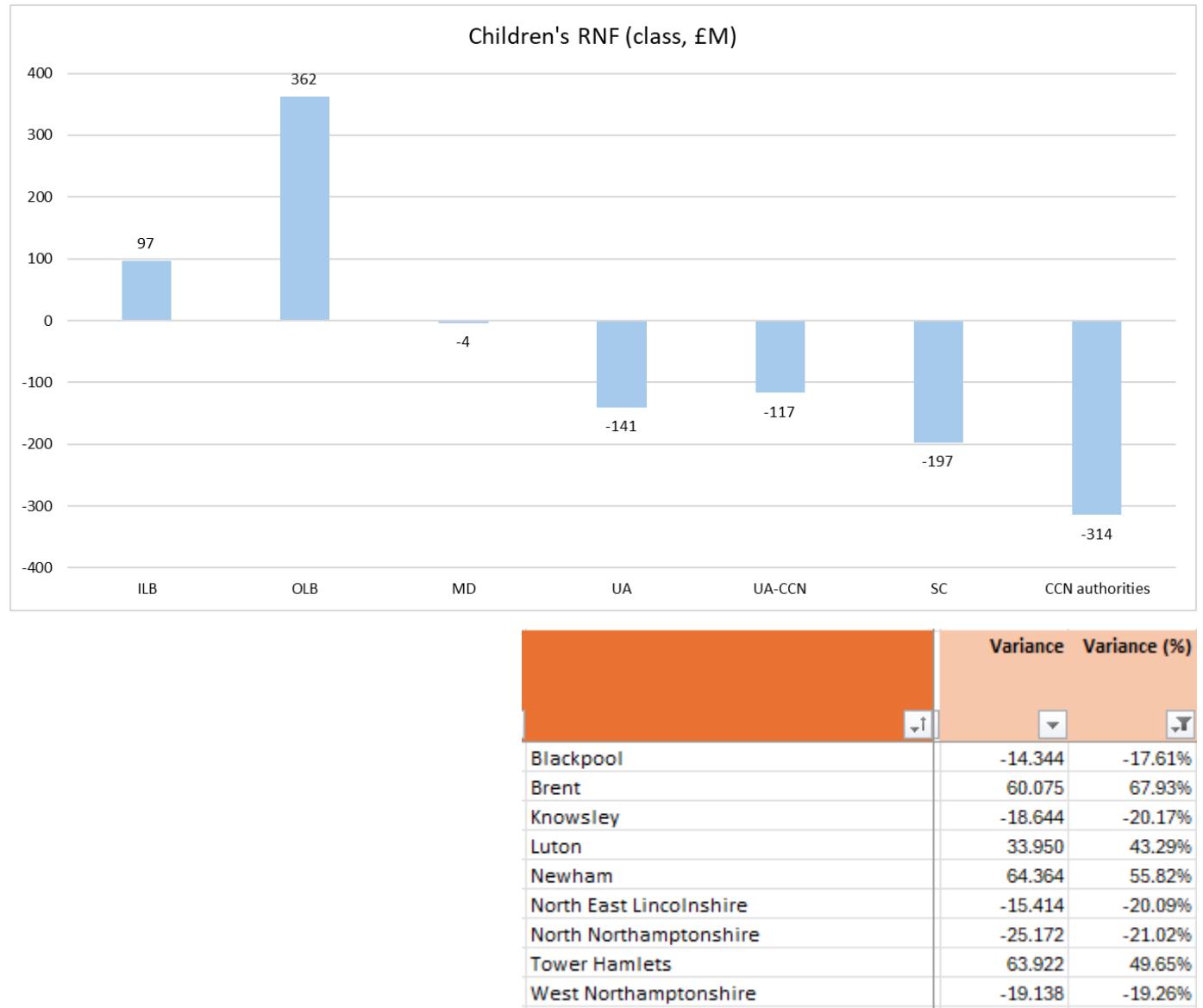


Question 4: Do you agree or disagree with the government's proposed approach to distributing funding for the Families First Partnership programme via the final version of the Children and Young People's Services (CYPS) relative needs formula?

- More transparency and explanation required from DfE about the formula and its impact
- Appears to be less able to predict expenditure than the old formula
- Changes since the Summer
- Using updated IDACI (based on 2025 IMD, after housing costs)
- Some indicators arbitrarily removed (ethnicity, parental education)

Children's RNF

- Gains in London, particularly outer London (gains of £362m)
- Movements at individual authority level are extreme: some London boroughs increasing by more than 50% compared to June; some county unitaries and Mts reducing by 20% compared to June
- Neutral in the Mts – but significant reduction in resources in county areas
- Is this largely driven by the new IDACI numbers?
- Remoteness has an impact on some county authorities (although largest reductions are not those with the highest remoteness scores)



Question 5: Do you agree or disagree with the government's proposed approach of continuing the IDB support grant for 26-27 but seeking an alternative solution from 2027-28?

- Important issue for some councils with Internal Drainage Boards (IDBs)
- Additional funding made available in previous settlements (only £5m, from 23-24 onwards) and distributed late in the budget-setting process
- Support plans to longer term arrangements
- DEFRA and MHCLG commissioning research into IDB funding and costs
- Outcome will be a new funding model

Question 6: Do you agree or disagree with the government's proposal on Mayoral Strategic Authorities in the Local Government Finance Settlement?

- Not clear what the consultation is asking
- Introduction of integrated settlements, with some settlement amounts being distributed to strategic authorities
- Specific Mayoral Capacity Funding
- BR enhanced arrangements already confirmed (Autumn Budget) – many areas not in the original pilot round will want this extended to every area with a mayoral strategic authority
- Future work on the full inclusion of MSAs in BRRS (tier split?)

Final settlement

- Final settlement – likely timing and parliamentary debate (every final settlement between 3-7 February since 2020-21)
- Chances of material changes in final settlement?
- Changes to taxbase projections, query on population projections
- Remoteness
- Challenge from MPs in metropolitan authorities? Possibly from county and rural MPs?