

BRIEFING NOTE

Local Government Funding Consultation – Fair Funding Review 2.0

The consultation published by the Government on 20 June 2025 outlines proposed reforms to local government funding in the UK, including consultation details, changes in needs assessments, and the impact on various authorities.

- Consultation period: June 20 2025 - August 15 2025
- Known as Fair Funding Review 2.0, linking to 2018 consultation
- Policy Statement to be released in Autumn 2025, detailing the government's response and final policy positions
- Provisional local government finance settlement expected by year-end

The Government states that the 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
- transitional arrangements and keeping allocations up-to-date
- 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.

Documents relating to this can be found at

- written statement, [here](#).
- the consultation documents, [here](#).
- the government response to the first consultation, [here](#).

Changes in Funding Distribution

- significant shifts in funding distribution, with notable changes in "needs" assessments affecting various local authorities
- shift in needs assessments and funding from Inner London and shire districts to shire counties and unitary authorities
- Metropolitan districts to receive a larger share of needs, but increases may be minimal
- Significant changes anticipated in funding for 2026/27

Multi-Year Settlement for Local Authorities

- Multi-year settlement for 2026/27 to 2028/29
- First multi-year settlement since 2016/17
- Provides certainty for financial planning, but some authorities may face significant cuts

Simplifying funding formula

- Grants from across government will be brought into large ringfenced consolidated grants, delivered as part of the Settlement. Anticipated to be 4 ringfenced consolidated grants – Homelessness and Rough Sleeping Grant, Public Health Grant, Crisis and Resilience Grant and Children, Families, and Youth Grant
- End of competitive bidding between local authorities for grants

- Shift towards outcome based accountability for local authorities
- Seeks to roll in current grants which are part of the existing settlement into Revenue Support Grant (RSG), include New Homes Bonus, Recovery Grant, 3 adult social care grants, Children's Care Prevention Grant and maybe NI Contribution. Also other grants outside the Settlement that cannot be placed into a suitable consolidated grant

Approach to accessing demand

- Details of formula to be used for each service area provided
- The number of Relative Needs Formulas (RNFs) will be reduced from 15 to 9
- Full details of "needs" assessments published to assess demand
- Proposed formulas and control totals available for each authority
- Enables estimation of funding shares for local authorities

Area Cost Adjustment (ACA)

- accounts for differences in the cost of delivering local government services in both urban and rural areas when determining funding allocation
- ACA to be updated to include accessibility and remoteness adjustments, which will benefit rural authorities
- Each authority will have its own ACA reflecting local cost variations, moving away from regional groupings
- Aims to compensate for variations in unit costs

Council Tax Equalisation Plans

- 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
- The government proposes 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
- Full council tax equalisation planned for 2026/27
- 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
- This will be based on an assumed or "notional" level of Council Tax for all authorities, not local income
- "Notional" Council Tax level will be set at the average Band D level of Council Tax in England. The consultation paper indicates that this will be around £2,000 in 2026/27
- A "resource adjustment" will be applied to account for differing abilities of councils to raise income from council tax
- The taxbase used for equalisation will include all the deductions for mandatory discounts, exemptions and disregards
- Discretionary discounts (e.g. second-home premium) will not be deducted (i.e. councils continue to retain the benefit of additional income from these sources, without any equalisation)
- A deduction will be made for council tax support f(CTS) for working-age people. It was recognised that the cost of CTS is linked to deprivation. The deduction will be made using a formula (population-weighted IMD score/ proportion of total population that is working age, i.e. 18-64) and not the actual cost of CTS in individual authorities, which varies according to local policy and well as the underling pressures
- The Government intends to apply a uniform collection rate assumption for all authorities (estimated to be set at 95.9%). Consideration was given to using a formula because areas with higher levels of deprivation tend to have lower collection rates., but this

approach was dismissed, largely because the government “wants to retain a clear incentive for all authorities to reduce the avoidance of council tax”

- The impact of equalisation will be hugely important to the outcome of the funding reforms. The reforms are a package that will include the impact of equalisation, the new needs assessments, and the baseline reset. These all need to be taken together to come up with overall figures for each local authority
- No adjustment will be made to equalisation for any income from sales, fees and charges, or from parking income. Therefore authorities will continue to benefit from income raised from these sources
- The government confirms that there are “no plans to reform council tax”. *To be clear the above Council Tax equalisation relates to the approach to accounting for Council Tax income in the allocation of government funding and as mentioned above this is a key focus of funding reform proposals*

Business Rates Retention System (BRRS)

- The consultation paper confirms that there will be a full business rates baseline reset in 2026/27. Any surplus from the reset (estimate to be at least £1.5bn) will be “allocated based on the updated Settlement Funding Assessment”.
- There was a separate consultation on the reset earlier this year.
- Views are invited about changes to the levy, safety net and future resets.

Ending of New Homes Bonus (NHB)

- NHB will be abolished in 2026/27 as planned, and the funding from NHB (£270m) and the funding will be returned to the core settlement distributed via the updated Settlement Funding Assessment
- The Government has concluded that NHB was an “ineffective incentive”

Transitional arrangements

- Transitional support package proposed to mitigate funding for certain authorities, ensuring no cash-terms reductions in overall funding
- Transition to occur over three years, with bespoke arrangements for affected authorities facing significant losses

Specific Arrangements for Unique Authorities

- Separate grant allocation for the Isles of Scilly
- Discussions planned with the GLA regarding significant RNF reductions
- Potential bespoke arrangements for other authorities with unique circumstances

Special Educational Needs and Disabilities (SEND) Deficits and Future Reforms

- Government plans to extend the override for SEND deficits until the end of 2027/28
- Further details on reforms to be announced later in the year

Sales, Fees and Charges

- invites views on modernising and increasing flexibilities on sales, fees and charges, whilst minimising impact on service users.
- Sets out 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.