Division(s): N/A

CABINET – 15 July 2025

Budget & Business Planning 2026/27 - Fair Funding Review 2.0

Report by the Executive Director of Resources and Section 151 Officer

RECOMMENDATION

1. **The Cabinet is RECOMMENDED to:**

   a) Note the report and annexes;
   b) Delegate the approval of the response to the Fair Funding Review 2.0 consultation to the Executive Director of Resources and Section 151 Officer in consultation with the Cabinet Member for Finance, Property and Transformation.

Executive summary

2. The report provides an overview of the proposals included in the "Fair Funding Review 2.0" consultation, which was published by the Ministry of Housing, Communities and Local Government (MHCLG) on 20 June 2025.

3. Based on the proposals it is anticipated that the council would see an increase in funding through the Settlement Funding Assessment as a result of the proposed Relative Needs Formulae and Area Cost Adjustment. However, this will be offset by the impact of resource equalisation based on the level of Band D council tax. The government is expected to publish a local government finance policy statement alongside a response to this consultation at the end of September/early October 2025. This is expected to provide more detail on individual local authority funding allocations ahead of the local government finance settlement expected at the end of November 2025.

4. The 46 questions contained in the consultation are included at Annex 1. Further analysis from the County Council Network and the Society of County Treasurers is awaited before the council's response will be completed. Therefore, it is recommended that the council's response to the consultation is delegated to the Executive Director of Resources and Section 151 Officer in consultation with the Cabinet Member for Finance, Property and Transformation..

Introduction

5. On 20 June 2025, the Ministry for Housing Communities and Local Government (MHCLG) published the "Fair Funding Review 2.0" consultation. This is open for eight weeks and will close on 15 August 2025. The government is expected to publish a local government finance policy statement alongside a response to this consultation at the end of September/early October 2025.

6. The government's intention is that the consultation marks the next step in introducing a fairer funding system that targets money where it is most needed, in partnership with local government. This up-to-date approach will use the best available evidence to take account of the different needs and costs faced by local authorities in urban and rural areas, and the ability of individual local authorities to raise Council Tax. This is intended to be a fairer and simpler approach overall, with fewer formulae, whilst also proposing that in certain high-cost areas, like temporary accommodation and home-to-school transport, bespoke formulae are justified.

7. The seven principles for funding reform are simplicity, transparency, dynamism, sustainability, robustness, stability, and accountability. In that context the government is seeking feedback on the following:

    - A new transparent, fair distribution methodology, bringing together the approach to relative need, cost and resources.
    - Proposals to simplify the local funding landscape so that local authorities can plan more effectively.
    - Proposals to reduce the number of relative needs formulae (RNF) which calculate a share of need for each local authority for a particular service or group of services.
    - How to account for differences in the cost of delivering local government services in both urban and rural areas when determining funding allocations.
    - The proposed approach to accounting for local resources by setting an assumed level of Council Tax.
    - The longer-term approach to the business rates retention system, including the design of future resets, the approach to the levy rate and safety net, and pooling arrangements for local authorities. This builds on the previous consultation which ran from 8 April to 2 June 2025 which set out a 'reset' of the business rates retention system as a core part of distributional reform
    - Ending the New Homes Bonus.
    - Transitional arrangements while implementing funding reform.
    - The role the Local Government Finance Settlement could play in funding Strategic Authorities, how to treat emerging unitary authorities in a reformed funding system, and the reduction of unnecessary burdens on local government.
    - Views on modernising and increasing flexibilities on sales, fees and charges, whilst minimising impact on service users. This includes a

proposed framework for updating fees and charges and longer-term options for devolving certain fees to local authorities, which balance fairness with the need for fees and charges to better meet the cost of delivering services.

8. The government's intention is to implement the changes for 2026/27, with transitional arrangements in place for three years (subject to consultation).

9. Alongside the consultation the government has also announced an extension to the High Needs Dedicated Schools Grant statutory override, which currently ends on 31 March 2026, to 31 March 2028. The government also intend to commence a phased transition process which will include working with local authorities to manage their SEND system, including deficits. Further information on this, and a White Paper on SEND reform is expected later in the year.

10. Annexes are attached as follows:

Annex 1:	Consultation questions
Annex 2:	Summary of funding formulae from 2013/14 alongside the proposed new formulae

Determining Local Authority Funding Allocations

11. The government proposes to calculate updated local authority funding allocations by bringing together: an updated assessment of relative need; a resources adjustment; and transitional arrangements.

12. The overall relative need share for each local authority will be determined by a series of Relative Needs Formulae (RNFs), which assess differences in demand for services between local areas.

13. A 'resource adjustment' will direct funding towards places that are less able to meet their needs through locally raised income.

14. The **Settlement Funding Assessment (SFA)** will be the relative needs share allocation less this resources adjustment.

15. To determine each local authority's final funding position, the government is proposing to apply transitional arrangements to create a **New Spending Power** for each council. This will be made up of:

    Settlement Funding Assessment (SFA) ± transitional arrangements + Council Tax income

16. It is possible that the updated SFA would find that an area has the resources to fund all its assessed need through increases in local Council Tax and therefore would receive a zero allocation. The government is considering the consequences of zero allocations within the updated SFA and possible

mitigations to avoid any local authority's SFA reducing to zero. It is not currently anticipated that the council would receive a zero allocation.

Funding Simplification

17. In 2025/26 over 300 grants were awarded to local government from across government departments. Many of these had specific conditions, and sometimes reporting requirements attached.

18. From 2026/27 the government proposes to bring together grants from across government into large ringfenced consolidated grants delivered as part of the settlement. Many of these will support prevention and service reform.

19. The intention is that including these in the settlement will provide multi – year certainty over as much funding as possible. This will be supported by a shift towards outcome - based accountability for local authorities.

20. Consolidated grants will bring together existing grants, which fund similar services and strive for the same broad outcomes, into a single fund delivered through the Settlement with simplified conditions of use. Each consolidated grant will be delivered as a single ringfenced Section 31 grant and will have a bespoke distribution. Where appropriate, distributions will be consulted on as part of the 2026/27 Provisional Local Government Finance Settlement. This is effectively an interim step between the current fragmented approach and rolling the grants into SFA. The four consolidated grant streams for 2026/27 are:

    Homelessness and Rough Sleeping Grant
    This will bring together funding for all homelessness and rough sleeping revenue funding.

    Public Health Grant
    The Public Health Grant will be consolidated alongside other service-specific grants to create a wider Public Health grant, delivered as a separate grant within the Local Government Finance Settlement in 2026/27.

    Crisis and Resilience Grant
    This will enable local authorities to build the financial resilience of their communities and assist those facing financial crisis, incorporating Discretionary Housing Payments.

    Children, Families and Youth Grant
    This will consolidate the Children's Social Care Prevention Grant and the Children and Families Grant, alongside further investment in children's social care reform. The government will explore whether additional grants for children, families and youth services can be consolidated within this grant.

21. All existing settlement grant funding will be rolled into Revenue Support Grant (RSG) and will be distributed using the Settlement Funding Assessment. This will include funding for Adult Social Care (Market Sustainability and Improvement Fund (MSIF), and Local Authority Better Care Fund (BCF) Grant), the Social Care Grant and Children's Social Care Prevention Grant. It is also assumed that the Employers National Insurance Contributions grant will be rolled in.

22. The three social care grants will be rolled into the SFA – but only the MSIF and Social Care Grant will be paid via Revenue Support Grant. The Local Authority Better Care Fund grant will be paid via section 31 grant (funded from a top-slice of Revenue Support Grant (RSG), so that it can continue to be pooled with the NHS through the Better Care Fund arrangements.

23. The inclusion of adult social care grants in the Settlement Funding Assessment will be accompanied by a published adult social care 'notional allocation' for each local authority. This 'notional allocation' will set out the government's expectation for how much local authorities should spend on adult social care, considering local authority expenditure, alongside income and funding available, for adult social care.

24. The government will also develop new accountability arrangements, that will describe how they intend to work with local government to ensure that this funding supports delivery of the government's ambitions for adult social care. Further details on accountability and assurance will be set out alongside the provisional Local Government Finance Settlement.

Approach to Assessing Demand

25. Relative needs formulae (RNFs) calculate how much 'need' a local authority has relative to other authorities for a particular service or group of services. The formulae do not calculate the amount of money required for a local authority to deliver this service. Instead, each local authority is given a 'share' of the need.

26. Since 2013/14, the Local Government Finance Settlement's core distribution has used 15 RNFs that encompass a range of service areas. The formulae have been used within the Settlement Funding Assessment (SFA) to help determine the distribution of Revenue Support Grant (RSG) and set each local authority's Baseline Funding Level (BFL).

27. The updated formulae proposed for inclusion take a comparable number of services areas into account and merges these into a smaller number of RNFs. Annex 2 compares the 2013/14 formulae to the proposed new formulae which are summarised in the table below.

Social care formulae	• Adult social care (older adults and younger adults) • Children's and young persons' services

Non-social care formulae	• Foundation Formula (upper and lower tier) • Fire and rescue • Highways maintenance • Home to school transport [1] • Temporary accommodation

28. The consultation notes that separate formulae for adult and children's social care services are critical to support the sector to deliver responsibilities which represent their largest costs.

29. The new Children and Young People's Services (CYPS) formula aims to better reflect how the need for services is spread across local authorities resulting in a fairer allocation of resources. An interim version of the CYPS formula was used for the first time in 2025/26, to distribute the new Children's Social Care Prevention Grant.

30. The government's intention in updating the formula is to fund local authorities based on their anticipated need for children's services, rather than assessing need based on historical service use. The CYPS model does this by assessing the combination of child and neighbourhood characteristics that most accurately predict whether a child will engage with social care.

31. Each individual formula is assigned a weight; to help determine the impact a formula has in the overall calculation. These are collectively known as the control totals and they reflect the scale of national expenditure on the service area(s) assessed by the formula. The combination of weighted RNFs is then used to determine an overall share of need for each local authority. To arrive at control total weights, the government proposes using revenue outturn (RO) data to explain net current expenditure by local government across services.

32. The impact of the proposed formula for **Adult Social Care**, which appears to be an updated formula with updates advised by the Personal Social Services Research Unit (PSSRU) is important as this will distribute a very large share of the funding within SFA, and also £9.6bn in specific grants that will be rolled into SFA.

33. The new formula for **Highways Maintenance** is based on road length and traffic flow data. The current RNF has a higher weighting for urban roads (x2), there is a top-up for non-resident population, and for winter maintenance. The proposed changes to the formula generally favour rural rather than urban authorities.

34. The new formula for **Home to School Transport** (HTST) will provide specific funding for both mainstream and SEND home-to-school transport (HTST). The proposed formula for mainstream HTST is based on the number of pupils and the distance travelled (capped at 20 miles). For SEND

[1] Post 16 travel is covered by the Foundation Formula.

HTST, there is a proxy formula based on anticipated number of pupils with EHCPs, and the average distance travelled. Both formulas are largely based on distance (which is appropriate) but will favour county areas, where distances travelled for HTST will be further.

35. As a result of the proposed RNFs and shares of the national control totals the council's needs assessment would increase from 0.8348% using the 2013/14 formulae to 0.9255% from 2026/27. The split across the formulae is shown in Table 1 below:

	2013-14			NEW		
Service Specific Formula	Share of RNF	Control Totals	Share of Total	Share of RNF	Control Totals	Share of Total
Adult Social Care Relative Need Formula	0.9549%	36.2%	0.3459%	1.1050%	37.5%	0.4148%
Children and Young People's Services Relative Need Formula	0.9413%	17.8%	0.1672%	0.7975%	23.2%	0.1848%
Foundation Formula	0.4464%	29.6%	0.1321%	0.6346%	27.1%	0.1721%
Fire & Rescue Relative Need Formula	1.0817%	4.9%	0.0527%	1.1470%	4.3%	0.0493%
Highways Maintenance Relative Need Formula	1.1841%	3.3%	0.0394%	1.5712%	3.2%	0.0503%
Home to School Transport Service Relative Need Formula				1.6713%	3.2%	0.0541%
Temporary Accomodation Relative Need Formula				0.0000%	1.4%	0.0000%
Capital Financing (2013)	1.1874%	8.2%	0.0975%			
Total Needs Assessment			**0.8348%**			**0.9255%**

36. All the RNFs will use the latest mid-year population estimates (2023). These are based on the 2021 Census, which was heavily affected by population movements in the COVID pandemic. Funding allocations will be fixed for 3 years and will not be updated each year with the latest data. This means that the government will want to use population projections (based on those produced by the ONS) and also taxbase projections.

37. The consultation sets out that the government expect the vast majority of councils with social care responsibilities will see their Core Spending Power increase in real terms over the multi-year Settlement, with most councils seeing it increase in cash terms.

Approach to Assessing Cost

38. As well as variations in need there will be differences in the cost of delivering local government services between different areas because of differences in local labour markets and rurality, for example. Because of this the government are proposing to continue to apply an Area Cost Adjustment (ACA) to the Relative Needs Formulae to account for differences in the costs of delivering services.

39. The Government have reviewed previous versions of the ACA and are proposing to incorporate the following adjustment factors:

- Rates Cost Adjustment (RCA) – aims to measure the difference in the cost of property rates / rents between local authorities. This reflects the variation between areas in the cost of using equivalent premises due to differences in local supply and demand factors;

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

40. It is anticipated that every authority will have its own ACA, instead of being included in a regional grouping.

Council Tax equalisation and the notional Council Tax level

41. Paragraph 6.2.2 of the consultation sets out that the government has an important role as an equaliser for local government income, directing funding towards the places that are less able to meet their needs through locally raised income. The objective of equalisation is to make funding available in such a way as to enable all local authorities to provide the same level of service to their residents.

42. To equalise for the Council Tax base of a local authority, it is proposed to set an assumed or 'notional' level of Council Tax for all authorities. The government is proposing to set a notional Council Tax level that achieves the objective of full equalisation.

43. To fully equalise against the Council Tax base, the notional Council Tax level would be set at the average Band D level of Council Tax in England for authorities in scope of these reforms (c. £2000 in 2026/27). Where there are multiple tiers of local government the consultation proposes to uniformly apply the average tier split in multi-tier areas to the measure of Council Tax in the resources adjustment. Using this methodology the Band D Upper Tier share in 2024/25 for England would be 84.4% and the Fire Tier share would be 4.6%.

44. The council's Medium Term Financial Strategy agreed in February 2025 assumes a Band D of £1,987.66 in 2026/27 assuming a council tax increase of 3.99%. At the 4.99% referendum limit for 2026/27 set out in the Spending Review 2025 this would increase to £2,006.78. Assuming an 89.0% share of £2,000 for the Upper and Fire Tiers set out in the consultation the comparative notional Band D for 2026/27 would be £1,780.00 Since the council's Band D would be £207.66 (or 10.4% at 3.99%) or £226.78 (or 11.3% at 4.99%) above the notional band D the council would expect to lose

grant funding through resource equalisation based on the amount of council tax generated above the notional Band D.

45. No adjustment will be made to equalisation for any income from sales, fees and charges, or from parking income.

46. More generally the government has confirmed that there are no plans to reform council tax.

Business Rates Retention System

47. Local authorities expected to retain growth in business rates from a baseline of April 2013 up until the point of a business rates reset. This was originally planned for April 2020 but did not take place. A core part of the funding system proposed in the consultation is a full reset of the Business Rates Retention System in 2026/27.

48. The government's aim is to ensure funding is targeted where it is needed most and restore the balance between aligning funding with need and rewarding business rates growth. The local share (the percentage share of locally collected business rates that will be retained by local government) will continue to be subject to redistribution across local government via 'top-ups' and 'tariffs', which will be updated at the Reset.

49. The consultation on Local authority funding reform which ran from 8 April to 2 June 2025 proposed a methodology to remeasure the income each local authority expects to collect from business rates at the start of the new reset period. The government is now considering the responses within its work on establishing new Business Rates Baselines and will publish a response to this consultation in due course.

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

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

52. To help them drive growth the government is considering whether Mayoral Strategic Authorities should eventually receive a direct share of business rates through the Business Rates Retention System. Engagement will take place over the forthcoming multi-year Settlement period to co-develop a new offer with view to implementation thereafter.

New Homes Bonus

53. 2025/26 will be the final year the New Homes Bonus is paid in its current format. The funding (£290 million nationally in 2025/26), will be returned to the core Settlement, and allocated according to the updated assessment of needs and resources.

54. The council received £1.1m funding from the Homes Bonus in 2025/26. The Medium Term Financial Strategy agreed in February 2025 assumes this falls out in 2026/27 so there is no change to existing assumptions.

Transitional Arrangements and Keeping Allocations up to Date

55. The government will begin implementation of updated funding allocations at the 2026/27 Settlement, alongside a business rates reset with the new allocations phased in over the three years of the multi-year Settlement. This will align with the Spending Review period (2026/27 to 2028/29).

56. To support local authorities to move to their new allocations in a sustainable way, the government are inviting views on a package of transitional arrangements available over the multi-year Spending Review period. Where funding reduces, the government expect that service transformation supported by the use of funding held in reserves, will be required to support the move to the new funding allocations.

57. The consultation includes a proposal for a 0% (cash flat) funding floor so authorities would not suffer cash-terms reductions in overall funding over the period of the multi - year settlement. Any protection offered through a funding floor will assume local authorities use their full council tax flexibility (ie. they would set the Band D council tax at the referendum limit).

Local Government Reorganisation

58. Areas such as Oxfordshire developing reorganisation proposals will need to do so in light of the funding reform proposals set out in the consultation and will need to have regard to the impact of these proposals on both existing and new local authorities.

59. Where two tier areas seek to reorganise into a single unitary authority, the government proposes that allocations of the predecessor authorities are combined to determine the allocation of the successor authority.

60. Where there are proposed boundary changes, including where an area is divided into more than one unitary authority, the government proposes to provide guidance to support areas to determine an appropriate division of allocations locally.

61. It is important that areas determine allocations locally because local authorities hold the information needed to assess the level of need and resources at a sub-local authority level, for example information on social care demand within a county area. This means local authorities are best placed to use this information to determine the appropriate share of funding between successor authorities.

62. The government is proposing to provide guidance to areas on how to determine the division of funding locally. Local authorities will need to ensure that proposed funding splits are financially sustainable for the new unitary authorities. Guidance is also important in recognition of the fact areas are developing proposals at the same time as government is delivering much needed reforms to the funding system. Additionally, the guidance would ensure that there is a consistent approach to the division of funding allocations across all reorganisation areas, recognising that this is the most significant local government reorganisation in decades. This guidance will set out how the government expects areas to use the information they hold to determine local allocations and provide clarity on how Council Tax harmonisation will affect allocations to new unitary areas.

63. The final decision on the division of allocations between successor authorities will sit with the Secretary of State, and will ultimately be subject to Parliamentary approval through the annual Local Government Finance Settlement process. This approach will apply to all funding delivered through the Settlement.

Staff implications

64. There are no staffing implications arising directly from this report. Further information will be shared through the budget and business planning process.

Climate implications

65. Climate Action is a policy priority for Oxfordshire County Council. There are no climate implications arising directly from this report. Changes to funding may impact on the council’s ability to support non – statutory expenditure but further information is awaited later in the year.

Equality and inclusion implications

66. There are no equality and inclusion implications arising directly from this report. A high level assessment of the broad impact of the revenue budget proposals will be included as part of the published information later in the year.

Risk management

67. Risks and opportunities to the council and the level and use of reserves and balances will be considered as part of the budget and business planning process.

Financial implications

68. The Council is required by law to set a balanced budget for 2026/27 before 1 March 2026. Alongside this, there is a requirement under Section 25 of the Local Government Finance Act 2003 for the Chief Finance Officer to prepare a statement on the robustness of the budget estimates and the adequacy of reserves. This report sets out a summary of the Fair Funding 2.0 consultation and the potential impact on the council's funding for 2026/27 onwards. Further funding information is awaited later in the year and action will need to be taken to balance planned expenditure with the future funding.

69. The extension to the Statutory Over-ride for High Needs DSG means the negative reserve is likely to increase to over £200m by 31 March 2028. Further information expected later in the year will need to set out how this can be managed and what action needs to be taken to ensure the on-going financial sustainability of the council.

Comments checked by:

Ian Dyson,
Director of Financial & Commercial Services

Legal implications

70. The response to a government consultation is an executive function. The cabinet is requested to delegate completion of the Council's response to the Fair Funding Review 2.0 consultation to the Executive Director of Resources and Section 151 Officer in consultation with the Cabinet Member for Finance, Property and Transformation. The subject matter of the consultation is the review of how local authorities are funded in future years.
Comments checked by:

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July 2025

Annexes:

Annex 1:	Consultation Questions
Annex 2:	Summary of formulae that were included in 2013/14 alongside the new proposal