

Title of Report	FAIR FUNDING REVIEW	
Presented by	Cllr K Merrie Finance and Corporate Portfolio Holder PH Briefed: Yes	
Background Papers	None	Public Report: Yes
		Key Decision: No
Financial Implications	There are no financial implications arising from this report.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	Section G2 of the Council's Constitution 'General Delegations to Designated Officers, paragraph 10.1, states that responses to consultations can be submitted after consultation between the Strategic Director and Portfolio Holder.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	There are no staffing and corporate implications arising from this report.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To provide Members with details of the Council's response to the Government's Fair Funding Review 2.0 consultation issued on 20 June 2025.	
Reason for Decision	Cabinet is responsible for monitoring and reviewing issues relating to the implementation of strategy and policy as set out in Section E of the Council's Constitution. Given the potential significant impact on the Council's finances, Cabinet need to be informed as it moves into its budget setting phase for the 2026/27 financial year.	
Recommendations	THAT CABINET <ol style="list-style-type: none"> 1. NOTES THE COUNCIL'S RESPONSE TO THE FAIR FUNDING REVIEW AS SET OUT IN APPENDIX ONE 2. NOTES THE DISTRICT COUNCIL NETWORK (DCN) RESPONSE AS SET OUT IN APPENDIX TWO AND NOTE THAT THE COUNCIL WILL CONTINUE TO WORK WITH DCN TO LOBBY FOR A FAIRER FUNDING SETTLEMENT. 	

	3. NOTES THE LOCAL GOVERNMENT ASSOCIATION RESPONSE AS SET OUT IN APPENDIX THREE.
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1.0 BACKGROUND

- 1.1 The Government's 'Fair Funding Review 2.0' is a national process that looks again at how local councils in England receive their funding. It was introduced to address differences in funding and to make the distribution of money fairer between councils. The consultation, launched on 20 June 2025, asks councils and organisations to give their views on the proposed changes. The main aim is to design a clearer and more sustainable way of sharing out funding that considers the needs of different areas.
- 1.2 The proposals outlined in the Consultation present major implications for the Council's finances. While a shortfall in the Medium-Term Financial Plan has been expected for some time, pending the outcome of this review, the extent of the projected funding reduction will place significant strain on the Council's financial stability with an estimated loss in funding of £2m. This is in addition to the funding gap of £0.6m already estimated for 2026/27.
- 1.3 Despite transitional arrangements being implemented to support 'shocks' to the funding methodology, the Council is one of a number of councils that, unlike the majority, will experience a significant reduction in funding. This financial challenge is further compounded by the withdrawal of New Homes Bonus funding—a source of income the Council has relied upon for several years, and which is worth £0.7m in 2025/26. The combined effect of these changes creates considerable pressure on the Council's finances and accentuates the difficulty of maintaining services and meeting strategic priorities.
- 1.4 The Government expects that this gap could be filled from reserves that the Council has carefully set aside to support its capital programme and other Council Delivery Plan objectives.
- 1.5 The Council has historically adopted a strategy of using growth in business rates to support its capital programme, thus reducing reliance on borrowing and saving on debt costs. However, in light of the anticipated funding reductions, it is now expected that these business rates reserves will need to be drawn upon to help mitigate immediate pressures. This situation necessitates a comprehensive review of the Council's capital programme pipeline projects, to ensure that reserves are not unduly depleted and financial sustainability is maintained. The alternative is a return to borrowing to finance capital schemes, however, this would reintroduce a revenue burden at a time when the Council is striving to balance its budgets without further reliance on reserves.
- 1.6 The Government also expects councils to maximise Council Tax increases to address funding pressures. However, the Council's ability to do so is constrained by special expenses—a factor not fully considered by Government. The Director of Resources has formally communicated these limitations to Government, requesting that flexibility around Council Tax increases be afforded to councils affected by such constraints.

2.0 THE FAIR FUNDING REVIEW 2.0 CONSULTATION

- 2.1 The Fair Funding Review 2.0 is a comprehensive government consultation document detailing proposed reforms to how local authorities are funded in England. The review focuses on the Local Government Finance Settlement from 2026-27 onwards, aiming to overhaul a system that has, by the Government's own admission, left councils across the country grappling with outdated allocation formulae, acute financial pressures, and limited flexibility.
- 2.2 Over recent years, councils have faced significant challenges, including increased demand for services, spiralling costs, and the consequences of a broken funding system. The current funding formulae have not been meaningfully updated for over a decade, leading to inequities and instability. The Government's vision is for a modern, fair, and sustainable system that delivers for communities and restores trust between central and local government.
- 2.3 The consultation is being led by the Local Government Finance Directorate within the Ministry of Housing, Communities and Local Government (MHCLG). It ran for eight weeks, from 20 June to 15 August 2025, and covers a wide range of topics including:
- Determining local authority funding allocations
 - Funding simplification and consolidation
 - Measuring differences in demand for and cost of services
 - Assessing locally available resources
 - Business Rates Retention System
 - The New Homes Bonus
 - Transitional arrangements and updating allocations
 - Devolution, reorganisation, and wider government reform
 - Sales, fees, and charges reform
 - Design of relative needs formulae
 - Equalities impacts
- 2.4 Feedback was invited online, by email, or by post. The Government indicates that responses and supporting evidence will be instrumental in shaping final policy decisions, with outcomes to be published in autumn 2025.

Funding Allocation Methodology

- 2.5 The Government proposes a new transparent methodology based on three pillars:
- **Relative Need:** A share-based system using updated Relative Needs Formulae (RNFs) for key service areas. The number of formulae is reduced from 15 to 9, including for adult social care, children and young people's services, highways, fire and rescue, home-to-school transport, and temporary accommodation.
 - **Resources Adjustment:** Adjustments to account for a local authority's ability to raise income via Council Tax, using a notional average Band D level (£2,000 in 2026-27) to achieve 'full equalisation' across authorities.
 - **Transitional Arrangements:** Phased implementation over three years, accompanied by income protection measures (funding floors), financial flexibilities, and support for authorities facing significant change.

Funding Simplification

- 2.6 The review aims to radically consolidate and simplify the hundreds of grants given to local government, reducing administrative burdens and competitive bidding. At least four major consolidated grants are proposed for 2026-27:
- Homelessness and Rough Sleeping Grant,
 - Public Health Grant,
 - Crisis and Resilience Grant, and Children, Families and
 - Youth Grant.
- 2.7 Adult social care grants will be included in the updated Settlement Funding Assessment, with notional allocations and enhanced accountability.

Needs and Cost Assessment

- 2.8 The new system employs fewer, more targeted formulae and incorporates updated drivers and data. It proposes sophisticated adjustments for the cost of service delivery, including:
- Rates Cost Adjustment (RCA) – property costs
 - Labour Cost Adjustment (LCA) – wages and staffing
 - Accessibility and Remoteness Adjustments – travel times and isolation factors, especially relevant for rural areas
- 2.9 Weights for each adjustment are calculated using national statistics and expenditure data, aiming to reflect real differences in costs.

Resource Equalisation

- 2.10 Council Tax remains the central measure of local resources. The Government proposes to fully account for mandatory discounts and exemptions, proxy the impact of Working Age Local Council Tax Support, and apply a uniform collection rate assumption. These measures aim to ensure authorities with weaker tax bases receive appropriate funding.

Business Rates Retention System

- 2.11 A full reset of the Business Rates Retention System will occur in 2026-27, with updated baselines and safety net provisions. There will be increased protection in the first year post-reset, gradually scaled back over the settlement period. The Government plans to simplify the levy structure and may review pooling arrangements.

Ending the New Homes Bonus

- 2.12 The review proposes to discontinue the New Homes Bonus after 2025-26, returning its funding to the core Settlement and distributing it according to need rather than simple housebuilding performance. This would mean a loss of funding of £0.7m. The Government commits to supporting housebuilding through other means, aiming for 1.5 million new homes during this Parliament, for which detail is still awaited.

Transitional Arrangements

- 2.13 To ensure a smooth transition, allocations will be phased in over three years. Funding floors will protect most councils from cash reductions, and additional flexibilities may be offered to support local decision-making and service transformation.

Devolution and Reorganisation

- 2.14 The Government's ambition is for consistent, unitary local authority structures, supported by Strategic Authorities with greater powers and direct access to funding. Reorganisation proposals are encouraged, with guidance on determining new allocations and dividing resources locally.

Consultation Questions

- 2.15 The document is structured around key consultation questions relating to each major proposal, inviting detailed feedback on methodology, impacts, and preferred approaches. These include views on formula design, cost adjustments, the role of Council Tax, transitional arrangements, funding simplification, and equalities impacts.

Next Steps

- 2.16 The Fair Funding Review 2.0 represents a significant shift in the local government funding landscape, promising a simpler, fairer, and more transparent system. If implemented as proposed, it will deliver multi-year certainty for councils, enable more strategic planning, and better match resources to local need. The Government invited robust engagement from stakeholders, with a final policy statement and provisional settlement due in autumn 2025.

3.0 THE COUNCIL'S RESPONSE IN SUMMARY

- 3.1 The consultation was a highly technical document spanning over 100 pages. It explores the complexities of local government finance in detail, presenting a range of intricate proposals and technical methodologies, as outlined above, for stakeholder feedback. The Council submitted its response on 11 August 2025, a copy of which is shown at Appendix One.
- 3.2 The following paragraphs provide a summary of the Council's formal response, highlighting its positions on the key issues raised within the extensive review.
- 3.3 The Council raises serious reservations about proposals that could leave some authorities with no core funding at all, warning that such measures risk undermining financial stability and deepening disparities within local government. To address this, the Council recommends robust protections—such as funding floors and a gradual, transitional rollout—to help councils avoid sudden shocks and secure a dependable flow of resources.
- 3.4 While the Council supports the simplification of grant streams, it underscores the necessity for complete transparency in detailing which grants will be consolidated and which will remain distinct, with particular emphasis on provisions for homelessness and temporary accommodation.
- 3.5 Furthermore, the Council stresses the importance of timely communication regarding grant allocations to minimise uncertainty during the budget-setting process.
- 3.6 The Council is in favour of the proposed temporary accommodation funding formula but recommends that this formula be subject to continuous review and retain the flexibility needed to respond to local pressures, especially in areas experiencing high demand.

- 3.7 With respect to special expenses and Council Tax, the Council argues that setting notional Council Tax at the national average fails to reflect local realities, particularly where special expenses are concerned. This approach is viewed as diminishing spending power and neglecting statutory deductions. The Council therefore calls for a review of the referendum principles that limit increases in Council Tax.
- 3.8 The Council also supports incorporating mandatory discounts and exemptions in taxbase calculations and acknowledges the value of statistical methodologies for Working Age Local Council Tax Support, provided these measures are continuously monitored.
- 3.9 The Council strongly supports phased reductions and robust funding floors to prevent destabilisation of council budgets and to protect vital services, and is critical of proposals that would require the use of reserves to cover operational funding gaps.
- 3.10 Regarding the New Homes Bonus, the Council prefers a gradual withdrawal and advocates for alternative mechanisms to continue recognising councils that have facilitated housing growth, as opposed to an immediate cessation of the bonus.
- 3.11 The Council requests increased flexibility in Council Tax setting and the use of multi-year deficit budgets, but emphasises that such flexibilities should be temporary, closely monitored, and crafted to safeguard vulnerable groups and essential services. Any new local government flexibilities, the Council argues, should be accompanied by strong mechanisms for accountability and community engagement.
- 3.12 On technical and formula-related issues, the Council generally supports the inclusion of projections for residential population, Council Tax, and taxbase in future funding allocations, utilising methodologies established by the Office for National Statistics. The Council agrees with the proposed design of the Foundation Formula and the use of weighted measures to account for daytime inflows of population. As a lower tier authority, the Council does not comment on the formulae related to social care, fire and rescue, highways, or home-to-school transport.
- 3.13 The Council is also supportive of a review and reduction of unnecessary statutory duties, particularly in the areas of planning and data reporting, to lessen administrative burdens. It agrees that certain fees should be updated prior to devolving responsibility to local government and calls for 'new burdens' funding where fees are devolved.
- 3.14 The Council draws attention to the adverse impact that reduced funding and increased Council Tax will have on low-income households, people with disabilities, ethnic minorities, and those living in rural communities. Given that North West Leicestershire is a rapidly growing district, experiencing significant increases in population, housing, and employment, the Council maintains that funding reductions would be especially detrimental in this context. The Council urges the Government to carry out detailed equality impact assessments and to ensure robust transitional protection for groups at greater risk of disadvantage.
- 3.15 In conclusion, the Council recommends a phased and equitable introduction of any funding changes, with strong transitional protections for councils most affected by reductions in core spending power. It emphasises the need for transparency, timely communication, and flexibility in the allocation of grants and funding. The Council further calls for ongoing recognition and reward for those authorities that have demonstrated growth and prudent financial management, and insists that the new funding arrangements must not serve to widen inequalities or disadvantage protected groups within the community.

4.0 DISTRICT COUNCIL NETWORK AND LOCAL GOVERNMENT ASSOCIATION

- 4.1 Both the District Council Network and the Local Government Association have responded to the consultation separately and a summary of both responses is set out below. The detailed District Council Network response is shown in Appendix Two, whilst the Local Government Association response is shown at Appendix Three.

District Council Network (DCN) Summary of Response

- 4.2 DCN asserts that the consultation proposals risk imposing real-terms reductions in spending power for the majority of district councils. This is particularly troubling given the rising demand for district services and the essential role these councils play in delivering frontline, place-based and preventative services. The response highlights that the reforms could undermine financial sustainability, especially in rural areas, and penalise councils that have actively driven growth and housing development.
- 4.3 A key issue raised is the proposed full reset of the business rates baseline, which DCN estimates could result in a net loss exceeding £200 million in 2026–27. The organisation recommends a phased reset over five years and a redistribution of surplus funds based on historical growth. DCN also opposes the removal of the New Homes Bonus, arguing that it incentivises housebuilding and helps councils manage the costs associated with new developments.
- 4.4 The response supports the introduction of a separate formula for Temporary Accommodation (TA), acknowledging its significant cost pressures. However, DCN contends that the proposed formula underfunds district councils and calls for a revised methodology.
- 4.5 Concerns are also raised about the treatment of new burdens funding. DCN argues that rolling these into the main settlement risks failing to reimburse councils adequately for costs incurred due to government mandates. The organisation insists that funding for weekly food waste collections should remain a separate grant in accordance with the New Burdens Doctrine.
- 4.6 DCN calls for greater financial flexibility, including the ability for councils to set fees and charges locally and reform council tax referendum principles. The response supports a 0% cash funding floor for all councils and warns against creating disparities in transitional protection. It also opposes the use of unreliable population and taxbase projections in funding allocations.
- 4.7 Regarding local government reorganisation, DCN supports adjustments for new unitary authorities but urges additional funding to support the transition. The response also advocates for the simplification of statutory duties and the devolution of fee-setting powers to local authorities.
- 4.8 Finally, DCN expresses concern that the proposed funding changes could disproportionately affect individuals with protected characteristics, particularly in areas facing significant reductions in resources.

Local Government Association Summary of Response

- 4.9 The Local Government Association (LGA) welcomes the Government's initiative to reform local authority funding formulas, recognising the need for a system that better reflects local needs and resources. However, the LGA emphasises that transitional

protection must be robust, shielding councils from both real-terms and cash-terms reductions in funding during the implementation phase.

- 4.10 While the proposals include positive elements such as multi-year settlements and grant simplification, the LGA expresses concern that the suggested transitional arrangements, particularly the cash flat floor, do not adequately account for inflationary pressures. In the absence of new funding, the LGA calls for additional financial flexibilities to help councils manage ongoing pressures.
- 4.11 It also endorses the use of notional council tax levels and population projections. However, there are concerns about the removal of certain funding blocks and the potential reduction in consolidated grants.
- 4.12 Regarding formula design, the LGA supports the use of updated data and population projections for adult social care, while expressing reservations about the effectiveness of the Low-Income Adjustment.
- 4.13 The LGA also supports greater local control over fees and charges, including planning and transport levies, and calls for full localisation of sales, fees, and charges. It further recommends reducing unnecessary statutory duties to alleviate administrative burdens.

5.0 FINANCIAL IMPLICATIONS

- 5.1 Recently, the Government reached out to a group of district councils and London Boroughs anticipated to be hit hardest by changes to the local government funding formula. The new approach which includes the business rates reset, revisions to the main funding formula, and scrapping the New Homes Bonus will roll out gradually over three years, in line with the Spending Review period:
 - Year 1: One-third of funding will be determined by the new model, with the remainder based on the old system.
 - Year 2: Two-thirds of funding will shift to the new method.
 - Year 3: The new funding model will be fully in effect.
- 5.2 There's also a proposed "0% cash minimum funding floor," which should, in theory, prevent any cash reductions in council funding over this period.
- 5.3 However, for councils with the biggest gap between their current and target funding shares under the new system, the transitional arrangements will be less generous, and they won't benefit from the 0% funding floor. Although the Fair Funding consultation suggested this would impact only a small group, it's become clear the effect will reach further than expected.
- 5.4 For the Council, one of roughly forty expected to see a significant funding drop after the business rates reset, with previous strong growth in rates -this means a projected 5%-7% reduction in core spending power (about £2 million in lost revenue for the Council), mostly impacting on the Council in the first year, 2026/27.
- 5.5 After that, the Council will likely be working with a cash flat funding position. While that might offer some stability, it doesn't factor in inflation or allow room for investment in new priorities. The Council will have to focus on rebuilding its business rates base to compensate for the shortfall over time.

- 5.6 The Council has been working with DCN and the Government to raise its concerns about both the scale and the timing of the funding changes and the adequacy of the proposed transitional arrangements. The Government's view is that councils who benefited in the past should have planned accordingly, but the Council along with the authorities affected have argued that the size and timing of the cuts make it difficult to avoid cuts to services, especially given ongoing pressures on local government finances.
- 5.7 The Council will have to wait until the Provisional Settlement later this year, which will clarify the final financial implications. Other councils facing similar cuts have echoed the Council's concerns, particularly about the impact of sudden funding reductions on high-need areas and vulnerable communities. The LGA and DCN are pressing for strong protection and more flexibilities to make sure the funding system reflects local needs rather than penalising councils for historic business rate success.

Policies and other considerations, as appropriate	
Council Priorities:	A well-run council
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	<p>The proposals outlined in the Fair Funding Review 2.0 raise significant equality and diversity concerns, particularly for councils serving high-need and vulnerable populations. As the transitional arrangements are less generous for those with the largest funding gaps, there is a risk that communities already experiencing disadvantage could face disproportionate reductions in support and services.</p> <p>The projected loss of core spending power may impact the Council's ability to deliver inclusive and accessible services and could inadvertently widen existing inequalities if mitigating actions are not taken.</p>
Customer Impact:	The Fair Funding Review 2.0 proposals are expected to have a noticeable impact on service users—residents and communities who rely on council-provided services.
Economic and Social Impact:	This reduction in available funds may force councils to make difficult decisions about how to allocate resources, potentially resulting in reduced services.
Environment, Climate Change and Zero Carbon:	None
Consultation/Community/Tenant Engagement:	None
Risks:	The transitional measures, including a proposed

	<p>“0% cash minimum funding floor,” do not apply to councils with the largest gap between current and target funding shares. This exposes these councils to abrupt funding reductions, contrary to earlier consultation assurances that few would be affected.</p> <p>Councils must focus on rebuilding their business rates base to offset lost funding. This places pressure on local economic development and may divert attention from other vital priorities.</p> <p>Councils must wait for the Provisional Settlement later in the year to confirm the financial implications. The uncertainty complicates effective planning and budgeting, increasing the risk of reactive, rather than strategic, decision-making.</p>
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