



**REPORT of
CHIEF FINANCE OFFICER**

**to
STRATEGY AND RESOURCES COMMITTEE
24 JULY 2025**

FAIR FUNDING 2.0: THE FUTURE OF COUNCIL FUNDING

1. PURPOSE OF THE REPORT

- 1.1 To provide Members of the Committee with an update on the recently published government consultation regarding the future approach to funding councils in England ("The Fair Funding Review 2.0; A consultation on the government's proposed approach to local authority funding reform through the Local Government Finance Settlement from 2026-27."¹)

2. RECOMMENDATIONS

- (i) That the Committee discusses the key points of the consultation, and the outline provided of proposed responses to come from Maldon District Council (MDC);
- (ii) That the Committee approves the proposed approach to finalising the MDC response, noting the deadline for submissions is 15 August. The proposed approach is below:
 - (a) that MDC submits responses aligned to other sectoral responses that may be expected in due course from the bodies such as the District Council Network, the Local Government Association, and other local councils in Essex for examples.
 - (b) that the proposed draft responses to all questions are shared with the committee members before submission electronically, on the basis that the subject matter is already largely confirmed and so in-person discussion will not be necessary.

3. SUMMARY OF KEY ISSUES

3.1 Key aspects of the consultation document

- 3.1.1 The consultation was published on 20 June 2025. Responses are to be returned to the Ministry of Housing, Communities and Local Government (MHCLG) by 15 August 2025.

¹ [The Fair 5Funding Review 2.0 - GOV.UK](https://www.gov.uk/government/consultations/the-fair-funding-review-20)

- 3.1.2 The consultation extends to 125 pages across 13 chapters. 46 consultation questions are set out. (A summary of the key points in each chapter is shown below, and **APPENDIX 1** provides a summary of the consultation questions.)
- 3.1.3 **The stated objective of government is to better align needs, costs, and resources.** While this is a laudable objective under any circumstances, the simple translation into practical considerations in for Maldon council is that resources will be reduced in the coming years. This is because the council tax yield in the local area is approximately 13% higher than the England average, meaning that this council is better able to raise more resources more quickly than other councils elsewhere.
- 3.1.4 Early indications communicated via the District Council Network (DCN) are that districts in general should anticipate that their resources allocated by government will fall by between 5% and 7% between 2025/26 and 2026/27, with the subsequent two years being characterised as ‘flat cash’ (i.e. no cash growth, and so all inflationary pressures will be required to be absorbed locally). This is summarised below.

Table 1 - indicative resourcing position for MDC arising from the consultation

Indicative Funding	2025/26	2026/27	2027/28	2028/29
Core Spending Power	£9.4m	£8.8m	£8.8m	£8.8m
Notes	<i>Current position</i>	<i>Current position less 6%</i>	<i>Flat cash (shadow year for new unitary)</i>	<i>Flat cash (first year of new unitary)</i>

- 3.1.5 The table below summarises the key points in each section of the consultation. It is notable that the majority of the consultation questions relate to chapters 12 (the design of the Relative Needs Formula (RNF) calculations), 9 (the transition arrangements), and 6 (the resources adjustment). The RNF details and the resource adjustments will have the biggest impacts and the transition arrangements will describe how these impacts are phased in across three years.

Table 2 - summary of the consultation content

	Section of the consultation	Key points	Questions
1	Summary of the government's proposed approach	<ul style="list-style-type: none"> • Simpler approach – fewer grants; less competitive bidding. • Intention to more closely align need and funding. • Reset of business rates. • Confirmation of new plans for previous New Homes Bonus funding. Updating ‘Relative Needs Formula’ information to better inform needs and funding decisions; prioritisation of areas such as Temporary Accommodation and Home to School Transport. • Implementation of the new funding arrangements progressively over three years, from next year. • Alignment to Local Government Reorganisation (LGR) to support new structures for more efficient local government. 	NA
2	Determining local authority funding allocations	<p>Focus on the Settlement Funding Assessment ((SFA) – see 3.5 ff below for information on this).</p> <ul style="list-style-type: none"> • Needs are proposed to be calculated through a series of ‘relative needs’ formulas. Area Cost Adjustments (ACA) are applied in respect of local factors such as differences in wage rates (see 	1-2 (4%)

	Section of the consultation	Key points	Questions
		<p>chapter 4)</p> <ul style="list-style-type: none"> Resources are proposed to be measured based on the council tax base multiplied by the 'average' council tax. Allocations over the coming three years will be phased in using thirds with the new calculations being progressively introduced. 	
3	Funding simplification	<ul style="list-style-type: none"> Simplification of overall grant system Removal of competitive bidding processes Inclusion ('rolling in') of currently separate grants into Revenue Support Grant, including grants for adult social care 	3 (2%)
4	Approach to Assessing Demand	<p>Use of 'Relative Needs Formulae' (RNFs), updated for most recent data including population, deprivation, etc. RNFs:</p> <ul style="list-style-type: none"> Social care (adults and children's) Fire and rescue Highways maintenance Home to school transport Temporary accommodation <p>Area cost adjustment for rates/rents, labour costs, accessibility, and remoteness.</p>	4-6 (7%)
5	Approach to Assessing Cost	Development of Area Cost Adjustment (ACA) model.	7-9 (7%)
6	Approach to Resources	<p>Development of a Resources Adjustment</p> <ul style="list-style-type: none"> Aims to support fairer distribution of funding (i.e. redistributive) through - Council tax equalisation (consideration of taxbase, collection rates, mandatory and local discounts and exemptions, premiums, working age adults receiving Council Tax (CT) support) Assumption on tier splits 	10-16 (15%)
7	Running the Business Rates Retention System	Full reset in 2026/27; redistribution in line with demand, cost and resources assessments. Increase to the safety net threshold to support authorities through the reset. Consideration of future pooling arrangements. Future periodic resets. Relationship of business rates retention system to strategic authorities and their objectives.	17 (2%)
8	The New Homes Bonus (NHB)	Will end in 2025/26. £290m of current funding to be returned to core settlement. Government will continue to seek delivery of 1.5m homes through the life of the parliament, e.g. through planning reforms, devolution of powers to Mayors, investment in social and affordable housing.	18,19 (4%)
9	Transitional arrangements and keeping allocations up-to-date	Multi-year settlement will be set for 2026-27, 2027-28, and 2028-29, incorporating the measures shown above.	20-27 (18%)
10	Devolution, local	<ul style="list-style-type: none"> Fairer funding (resources being redistributed to where they are needed, rather than retained where 	28-30 (7%)

	Section of the consultation	Key points	Questions
	government reorganisation and wider reform	<p>they are generated)</p> <ul style="list-style-type: none"> Reset of business rates; repurposing of funds currently supporting NHB Funding simplification – reduction in total number of grants; consolidation within existing grants (e.g. Revenue Support Grant (RSG)); removal of competitive bidding processes (such as for UK Shared Prosperity Fund (UKSPF)) Revised needs and resources assessments using latest RNF data Phased implementation over three years Supporting local government reforms 	
11	Sales, fees and charges	<p>Many centrally controlled charges have not been uprated for inflation. Full cost recovery on services such as building control, planning, and alcohol licensing is often not possible. Service sustainability must be balanced with service user protections. Reforms proposed include devolution, legislative updates, no reform.</p>	31-34 (9%)
12	Design of relative needs formulae	<p>Proposed design of new RNFs.</p> <p>Adults Social Care (ACA)</p> <ul style="list-style-type: none"> Split working age from older adults (18-65 and 65+; split 52:48) Link to local factors such as deprivation and demography (age) Use most recent data Apply ACA, plus low income adjustment and population growth projections <p>Children's social care</p> <ul style="list-style-type: none"> Likelihood of engagement with social care (Child in Need (CIN)/Looked After Children (LAC)) Latest national data, deprivation, population Removal of ethnicity variable Weight to CIN, LAC, care-leavers <p>Foundation formula (non-social care; waste, libraries, planning etc)</p> <ul style="list-style-type: none"> Daytime population (i.e. include commuter population, tourists, as well as residents) Use Index of Multiple Deprivation (IMD) Split upper/lower tiers, with ACA applied <p>Fire and Rescue (Not Applicable, but includes coastline length, sparsity/density; planned more comprehensive review)</p> <p>Highways Maintenance</p> <ul style="list-style-type: none"> Road length and traffic volume <p>Home-to-School Transport (HTST)</p> <ul style="list-style-type: none"> Mainstream + Special Educational Needs and Disabilities (SEND) (SEND with higher weighting – 6.6:1) Considers rurality, distance to school Upper Tier ACA 	35-45 (24%)

	Section of the consultation	Key points	Questions
13	Equalities impacts	National formula changes have a big impact, but local impact on residents and service users are largely defined by local decisions on resource allocation. Further consultation and engagement is sought.	46 (2%)

3.2 Background detail on the SFA calculation

- 3.2.1 Settlement Funding Assessment (SFA) includes a number of different funding sources: Retained business rates; Revenue Support Grant (RSG); top-up or tariff. The total of retained business rates (Non-Domestic Rates (NDR)) and RSG are largely defined elsewhere. The top-up or tariff is determined through comparison of a target level of local funding with the level of NDR + RSG. If NDR and RSG is less than the target funding a top-up is allocated. If NDR + RSG is more than the target funding a tariff is applied. This is the mechanism through which government can influence the overall level of funding received by each council.
- 3.2.2 Government can also influence overall Council funding through the composition of the RSG. These proposals include options to include more funding streams within the RSG calculation.
- 3.2.3 Under the proposed formulation of councils' funding, SFA will be based on the share of funding indicated by the needs assessment process and reduced by the resources adjustment which reflects local ability to raise funding (domestic and non-domestic taxbase).

3.3 Council tax – 'band D charge' vs. 'yield'

- 3.3.1 Council tax can be assessed in a range of ways. Most commonly, taxation levels are considered based on the 'Band D' charge. This compares the level of the charge levied between different councils.
- 3.3.2 Council tax can also be considered based on the council tax base, usually described in terms of overall numbers of properties within each band (gross values) or after reduction for specific discounts and exemptions (net values). This enables comparison between different councils based on the number of properties (gross or net) in each band. The profile of local council taxbases can vary significantly between different councils, with lower or higher numbers in different bands. In Maldon, most properties are in bands D or E. In Birmingham, most properties are in either band A or Band B. Such differences mean that different councils have very different abilities to raise funds from local tax payers – in some areas, a 2.99% increase on all charges can lead to a greater than 2.99% overall gain as more properties are Band D or above; in other areas the same 2.99% increase on all charges may only yield an overall gain of around 1.5% as most properties are in bands A or B.
- 3.3.3 The consultation describes 'average' council tax as the new notional rate against which local resources can be compared. 'Average' council tax is calculated by taking the total collected amount of council tax ('net collectible debit') divided by the taxbase. The result is the 'average' council tax yield per property, by contrast with the value of the charge. It has the advantage of describing the local ability to raise tax resources with some clarity (which band D charge values cannot).
- 3.3.4 Figure 1 shows how average council tax in Essex varies. The England average is £1,770 (2025/26 values). Thurrock, Harlow, Southend, and Tendring have average

levels below the England average. 9 Districts have average council tax above the England average, meaning that they can generate more resources more quickly than others at or below the average. The highest is Uttlesford, which is 30% higher than the England average. Based on the referendum threshold of 2.99% for districts, the average increase in England is worth £50 per property per year; in Uttlesford this figure is almost £70 per property per year. Across 10,000 properties (and most districts have a council tax base several times that size), the difference is £159,000 (£690,000-£531,000).

3.4 Fees and charges

3.4.1 The consultation devotes chapter 11 to fees and charges considerations. It, rightly, highlights the need to balance local funding requirements with the cost of living pressures on residents, and suggests a number of ways that government could intervene (or recommend policy frameworks) to help navigate this.

3.4.2 However, the consultation also sets out (para 11.1.2) that “a number of significant sources of fee revenue are set by central government, and have not been adjusted in line with inflation for a number of years or decades”. It could be argued that government has answered its own question on this matter; that local fees and charges are better managed locally than nationally.

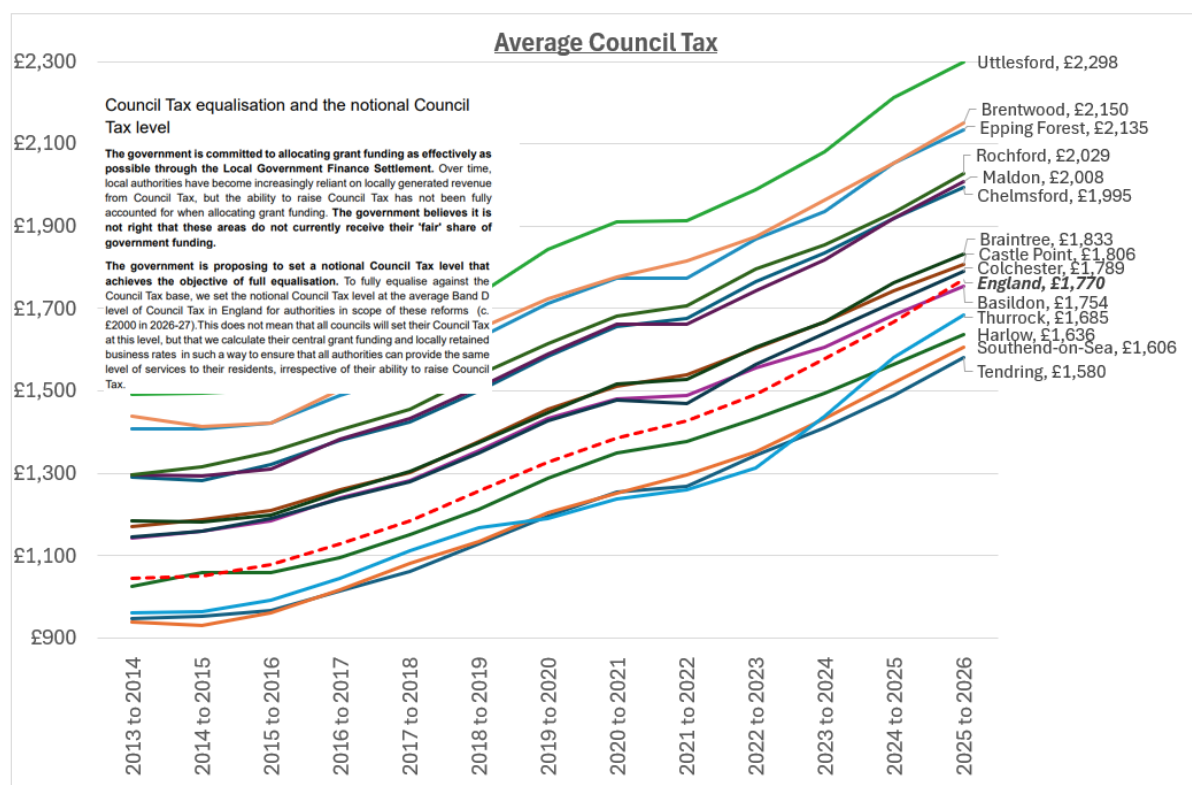


Figure 1 - Average Council Tax in Essex

3.5 Possible Responses

3.5.1 The District Council Network have flagged that the measures proposed in the consultation, particularly the use of deprivation and population measures will move

funding “away from small towns and rural areas towards bigger cities”². Certainly, the use of the Resource Adjustment, the inclusion of deprivation measures, the rolling-in of grants to RSG, and the removal of NHB all point to funding being moved away from districts.

- 3.5.2 At the time of writing, clear responses are not yet available from bodies such as the Local Government Association (LGA), the County Council Network, London Councils, and the Special Interest Group of Municipal Authorities (SIGOMA) (metropolitan boroughs outside London), or the ‘SPARSE’ (Sparsity Partnership for Local Authorities Delivering Rural Services) network of councils providing services in areas with low population densities. As these bodies share draft responses (in the usual way), MDC can incorporate elements of their responses into our own.

4. SUBMITTING THE RESPONSE

- 4.1 Given that the response will not lead to a direct impact on the council (the consultation responses will require collation, and the first likely outcome of the consultation will be the Local Government Funding Policy statement expected in November), it is not recommended that an in-person meeting of the Committee is arranged to finalise the response. Also, the response is to a set of clear consultation questions, rather than to a situation which may be emerging, or otherwise volatile, possibly with a direct financial impact. Therefore, it is proposed that the response can be finalised remotely by members of the Committee in advance of the deadline.
- 4.2 It should be noted that the format for responses is the use of the government website, which will probably limit responses to text (i.e. not charts or tables).

5. IMPACT ON PRIORITIES AS SET OUT IN THE CORPORATE PLAN 2025 - 2028

5.1 Delivering good quality services.

- 5.1.1 Appropriate representation to government on the best financial interest of the residents of Maldon is part of ensuring the Council maximises available resources to support our residents.

6. IMPLICATIONS

- (i) **Impact on Customers** – None directly arising from this report.
- (ii) **Impact on Equalities** – None directly arising from this report.
- (iii) **Impact on Risk (including Fraud implications)** – None directly arising from this report.
- (iv) **Impact on Resources (financial)** – Only indirectly arising from this report.
- (v) **Impact on Resources (human)** – None directly arising from this report.

² [Slashing preventative services and home-building incentives won't solve councils' funding crisis | District Councils' Network](#)

- (vi) **Impact on Devolution / Local Government Reorganisation** – None directly arising from this report.

Background Papers: None.

Enquiries to: Ben Jay, Chief Finance Officer.