

Local authority funding reform consultation response

Question 1

Do you agree with the government's objective to allocate grant and retained business rates income in a way which accounts for differences between local authorities in demand for services, the cost of delivering services and ability to raise council tax locally?

Question 1 response

CIPFA agrees in principle with the above but the execution of this cannot be oversimplified and each of the elements adds a layer of complexity. The interplay between funding and need requires a transparent framework informed by relevant data and there must be consideration given to the ability to raise money locally. Questions such as how the system measures demand to include both met and unmet demand must be considered to ensure any approach is sustainable. Most importantly, any planned reforms to funding will not result in long-term financial sustainability for local authorities unless there are parallel reforms to the expectations and demands placed on local authorities and these expectations are adequately funded. Regardless of how funding is allocated, CIPFA remains of the view that the overall quantum is insufficient to meet the demands from the current statutory and legislative obligations faced by local authorities.

It is difficult to see how this approach looks beyond the delivery horizon of local government to the broader place-based delivery model that would be required for government to deliver on its five missions. CIPFA would support a move towards a more outcomes-based approach with funding.

CIPFA supports the ambition to target resources at those areas and communities that have greatest need. It is important that in doing this the government does not create perverse and unintended consequences. In particular, the new funding arrangements must not disadvantage authorities that have reduced demand for service by investing in prevention-focused initiatives and changing working practices. Government should be aware of and avoid such scenarios.

There is an explicit assumption in the government's proposals that council tax will be increased to the referendum limit as calculated under core spending power. Government should be transparent that this will be the case and that a funding gap will exist if a local authority introduces a lower taxation level. Although it is raised in Question 18, it should be noted that this question also does not explicitly mention a council's ability to raise other income which may provide greater freedom to address funding need.

Question 2

In addition to the areas included in this consultation, are there elements of the local government finance system that are not fit for purpose and require improvement and reform? If so, please provide information on reforms required and why.

Question 2 response

CIPFA is deeply concerned by the ongoing reliance on exceptional financial support (EFS) within the sector. Its prevalence within the sector (19 councils approved to receive EFS, with that number likely to rise dramatically in 2025/26 and 2026/27) means that it can no longer be considered exceptional. Covering recurring day-to-day revenue expenditure through capitalisation directions is unsustainable and represents poor financial management and most significantly poor value for money to the taxpayer. Our experience with the sector shows that this is leading to increased borrowing and consequently greater instability within the sector, and the government must urgently rethink its current position.

Local authorities are also facing significant financial pressures relating to delivery of services for children and young people with special educational needs and disabilities (SEND), including provision of home-to-school transport. Research has identified a nationwide SEND deficit currently exceeding £3bn across English councils and this is projected to rise to £8bn in 2026/27. These deficits are not accounted for in the

government's £22bn budget gap due to the use of a statutory override. This is further complicated as it results in local authorities experiencing cash flow difficulties, putting them in the position where they are having to borrow to cover day-to-day spending.

CIPFA, the LGA and Solace have recently published [Reforming the local government funding system in England](#). Within this document we urge the government to consider immediate interventions to address systemic issues where the current finance system is not fit for purpose. This includes the introduction of timely, multi-year financial settlements for councils, more clarity on system reform and reforms that can improve council tax. Each of these recommendations is intended to support the introduction of a sustainable funding system that is fit for purpose.

System reforms include:

- Provide general rather than ring-fenced grant funding.
- Reduce the fragmentation of government funding.
- End the use of competitive bidding to allocate grant funding.

Council tax reforms include:

- Increasing council discretion over rate setting.
- Increasing flexibility over discounts and exemptions, to improve revenue raising opportunities.

In addition, funding for children's and adults' social care is also not fit for purpose. CIPFA's [Financial Resilience Index](#) shows that on average councils with social care responsibility are now spending 78% of their funding in this area.

- Expenditure on adult social care totalled £23.8bn in 2022/23 – an increase of 26% since 2018/19.
- The number of children in need has risen in the last decade, increasing by 7% to over 403,000 in 2023 costing £13.3bn.

For children's social care, rising demand for residential care placements, combined with a poorly functioning market for provision of those placements, have driven significant cost increases and funding has been unable to match these rising costs. The level of demand for these services is far outstripping the funding provided to deliver them.

Question 3

Do you agree that the suggested principles should inform our approach to updating local authority funding allocations?

Question 3 response

CIPFA would agree to the principles, but we recognise that it is the detail that sits underneath these principles that will result in success or failure. In addition to the principles included in the consultation, we welcome the government's intention to include accountability as a key principle. Recognising that the implementation of these reforms may take time and given the current levels of financial distress being experienced by an increasing number of local authorities, CIPFA would advise the government to prioritise stability within the sector in the immediate term.

Question 4

Do you agree with our proposal to use the best available evidence and most up-to-date data in the assessment of need, including using the most recent census data?

Question 4 response

While CIPFA agrees in principle, it is important to consider several issues around data integrity.

The question talks about the use of available evidence, which would suggest some data is not available. Should the government be considering these gaps and working to fill them in a way that is proportionate and does not become too burdensome to authorities, recognising the need to tie them into the timeline for these new reforms? While it is also addressed in question 15 CIPFA would like to note that there is a balance to be met between the most up-to-date information and providing the sector with certainty and consistency. Constant readjustment to funding levels would not be supportive of financial planning principles and undermine local authorities' ability to plan for the long term.

The recent government plans for devolution and local government reorganisation must be reflected in any new funding reform. How is the data going to be reflected in the new structures and what formulas will be used to aggregate that data?

The population census is every ten years and the next one is due in 2031. This places a burden on those authorities where population changes have been considerable over the ten years. In addition, the patchwork of data sources across local government finances should be reviewed on a regular basis to ensure high quality returns are maintained.

Question 5

Do you agree with our proposal to simplify the assessment by reducing the number of Relative Needs Formulae? If you disagree, please explain why and which service areas you are concerned about.

Question 5 response

CIPFA would recognise that there is a balance to be struck between simplicity and less accuracy on the one hand and complexity and greater granularity on the other. CIPFA is in favour of simplification in general as this aids greater transparency. However we suggest that government produces a number of worked examples to allow the sector to understand the formulae and the implications of this change before settling on an approach.

The proposed relative needs formulae cover most of the major areas of demand that have historically caused significant pressures for local authorities. However, government should also consider how it will capture and respond to new or emerging demand in existing service areas. A recent example would be homelessness where demand has increased significantly and rapidly in a number of places.

Question 6

For the children, young people and family services formula, do you agree that the variables set out are the right ones to consider in an assessment of relative need? If you recommend the addition or removal of variables, please provide supporting evidence and recommend a suitable dataset.

Question 6 response

CIPFA understands that this is based on the on the recent independent review of children's social care which seems appropriate. Wherever possible assessment of need and funding should be based on a solid evidence base.

The government should also consider how it will incentivise preventative action and manage unmet need where children do not receive any provision. In our recent publication *Managing Demand* there are a number of case studies on work being done in local authorities to identify children who are on the edge of care, for example *Achieving for Children* who determine common factors for children and young people who are likely to enter the care system and provide early intervention. In 2023/24 this led to a saving of £1.5m as seven individuals avoided the care system.

CIPFA would also recommend that the government look to refresh the work done in the Troubled Families Programme which used a variety of national and local datasets to evaluate and track the progress of families involved in the programme. Some of the key datasets included:

- Police National Computer (PNC)
- National Pupil Database (NPD)
- Work and Pensions Longitudinal Study (WPLS).

These datasets were used to assess various aspects such as worklessness, financial exclusion, education, health, crime, and anti-social behaviour among the families.

Question 7

Do you agree that the government should consider updating the data in the fire and rescue services Relative Needs Formula?

Question 7 response

CIPFA would agree that this should remain a bespoke calculation.

Question 8

Do you agree we should assess differences in cost using an area cost adjustment based on the structure of 2024 ACA? If not, please provide evidence for alternative approaches.

Question 8 response

CIPFA supports the concept of area cost adjustment.

Question 9

Do you agree that (other than locally retained business rates) we should only adjust for council tax when assessing local resources? If you do not agree, please include details of what other sources of income you think should be included (if any), and how the government should adjust for them.

Question 9 response

CIPFA has understood this question to be about the inclusion of sales fees and charges which in 2022/23 generated over £12bn in income for councils. Despite the significance of this funding stream, councils do not have the ability to set fees for many crucial areas of their activity, and for this reason CIPFA supports giving councils more flexibility over revenue generation.

Recognising the controversial nature of this income stream, which is not equally distributed across the country, CIPFA agrees that government should not adjust for them. There is a risk that any adjustment would not improve the overall quantum of funding for the sector and the complexity of recording and capturing this information would run contrary to the principle of simplicity set out in this consultation. This income is also

generated across streams that include investments, and it would be extremely concerning to CIPFA if there were any incentivisation of high risk/high return investments.

Question 10

Do you agree that we should measure council tax income by making uniform assumptions on the level of council tax charged by local authorities and factors which determine their ability to raise council tax?

Question 10 response

While we understand that the current government has no intention to reform council tax, we would see this as a missed opportunity to address this historical anomaly. CIPFA is concerned with the reliance on this form of taxation which is regressive.

Our publication on funding reform provides more detail on these concerns, but council tax's growing importance to councils' budgets, partly due to the introduction of the adult social care precept, means that in the absence of alternative funding streams, failing to raise the council tax rate annually will have substantial implications. However, raising the rate perpetuates the cycle as it further reinforces the importance of council tax in councils' funding baselines and amplifies the need for future council tax increases.

The growing importance of council tax as a funding source also means that the weaknesses in the tax are more problematic and pronounced. For example, council tax raises different amounts of money in different parts of the country but this is unrelated to need. It is also based on 1991 property values that have to date not been subject to a revaluation. Our CIPFA 2024 [Council tax survey](#) found that households in the Northeast will pay £420 more for an average Band D property in council tax in 2024/25 than those in Greater London.

Making uniform assumptions on the level of council tax income without considering the implications of other factors will not support the ambition of long-term sustainable finances. Areas with low levels of council tax income are often more deprived and have less control over their ability to raise income through this way. Some of the disparity could be reflected in historic decisions made around council tax rises and other factors include differences in the council tax base. CIPFA is concerned that oversimplification will adversely affect some areas and therefore suggests that modelling this approach would be beneficial.

Question 11

To what extent should we adjust for council tax when determining local authority allocations (ie what assumption should we make on council tax level)?

Question 11 response

CIPFA agrees that allocations should be adjusted for council tax but considers that this question should be framed against the backdrop of ensuring long-term stability. This stability will not be achieved if the funding from government is reduced as council tax rises. CIPFA wants to make it clear that the quantum is not enough. This question should also link to a discussion regarding council tax flexibilities and other income raising powers.

Question 12

Do you agree transitional arrangements should account for a business rates reset? If not, please explain why.

Question 12 response

CIPFA agrees that transitional arrangements should be in place and that Government are specifically aware of the needs of district councils. This reset cannot be seen in the absence of the wider context of local government reorganisation and devolution and any transitional arrangements must work within this context. Without proper stable and sustainable funding models, newly created local and strategic authorities will find significant time and resource is used looking backwards at resolving legacy issues and not forwards at the delivery of the government's missions.

Question 13

Do you agree or disagree we should enable and encourage local authorities to support housebuilding in their areas through the local government finance settlement? Please provide any explanation or supporting evidence for your view.

Question 13 response

The finance settlement should be based on fair allocation of funds based on (data-driven understanding of) need. CIPFA does not support the use of the settlement to specifically drive individual policy priorities if there is not a proven local need. Funding must follow need, or risk skewing the funding envelope to the detriment of areas where other unrelated services are desperately needed.

CIPFA wishes to reiterate its support for house building to tackle the housing crisis that affects many parts of the country. However, the government should look at the provision of support for the housing sector as a whole and this should not be confined to the funding settlement. Planning legislation and infrastructure investment also play a key role in housebuilding. In our publication [Investing in Council Housing](#) CIPFA identified concerns regarding the use of housing benefit to subsidise the private sector, putting forward an argument that this money would be better redirected into local authority social housing where there is better security of tenure and more affordable rent.

It should also be recognised that house building is not only about funding but also about capability and capacity within the organisation and the ability to source affordable and suitable land. The broader economy also impacts house building and access to skilled workers also impacts developers.

Question 14

What measures should we use to support local authorities to move to their updated funding allocations?

Question 14 response

When the updated funding allocations are announced CIPFA would expect that there will be winners and losers. The objective of these reforms is ensuring long-term financial sustainability for the whole sector and therefore it is important that transitional protection is included so that this transitional period ensures a stable financial base for all authorities. Again, CIPFA would reiterate that this transitional protection cannot be seen in isolation of the significant reorganisation that is planned over the same timeframe.

Question 15

Do you agree we should keep funding allocations up-to-date dynamically by using the most up-to-date data possible? If so, how?

Question 15 response

CIPFA would agree in principle that up-to-date data is preferable and that decisions should be based on the most recent and best available evidence. However this should be set in the context of a multiyear settlement

where there needs to be consistency of funding. Constant readjustments would be unhelpful and not consistent with good financial management principles or the principle of stability included in this consultation.

CIPFA does however recognise that there will be exceptional circumstances, and this may need a more reactive approach. We think the proposals to revisit the government's approach to new burdens and section 31 grants may be an opportunity to add some dynamism to funding over the life of a multi-year settlement while providing the certainty that the sector wants and needs.

Question 16

What are the most excessively burdensome activities or requirements for councils, which if changed, could significantly free up local government capacity?

Question 16 response

CIPFA would note that this question is too broad to answer in detail in this consultation and requires separate detailed consideration. However, matters that should be reviewed are:

- funding systems
- relationships and bureaucracy with other system partners
- local audit
- unintended consequences as a result of policy initiatives
- reporting
- competitive grant applications
- budget readjustments following unscheduled/late funding changes.

Question 17

Do you agree with our proposals to reduce the number of grants and New Burdens payments issued to local government?

Question 17 response

CIPFA agrees that a reduction in the number of grants would be welcome. However greater clarity around new burdens is required as the lack of funding to support national change has a detrimental impact on councils.

Question 18

Do you agree or disagree that the government should provide local authorities with greater control over sales, fees and charges? Please provide supporting evidence, considering specific fees where greater control would be of most benefit, and expected impacts on charge-payers.

Question 18 response

CIPFA agrees that the government should provide local authorities with greater control over sales, fees and charges. Within our publication [Reforming the local government funding system in England](#) we have addressed by requesting greater flexibility. In 2022/23 sales, fees and charges generated over £12bn in income for councils, roughly similar to the amount generated through the retained business rates system.

But despite the significance of this funding stream, councils do not have the ability to set fees for many crucial areas of their activity such as planning. To address this the government should:

- fully localise sales, fees and charges, including road user charges and workplace parking levies
- give councils the flexibility to set planning fees at a local level so that can they cover their full costs relating to planning. This would help to future-proof the sector and ensure planning departments can continue to support the delivery of much-needed new homes, including the affordable homes and infrastructure that the country needs.

Question 19

Do you have any views on the potential impacts of the proposals in this consultation on persons who share a protected characteristic?

Question 19 response

The impact of proposals on persons who share protected characteristics is difficult to comment on without more detail.