

## Response to Fair Funding consultations 2.0

A submission by:  
The Chartered Institute of Public Finance and Accountancy

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**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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## Introduction

CIPFA welcomes the government's intention to introduce a more transparent, needs-based formula that better aligns funding with councils' assessed spending requirements. However, it should be recognised that there will be winners and losers and that the sectoral landscape will be further complicated by local government reorganisation. Government should acknowledge this altered local government landscape in future plans and engage closely with the sector.

CIPFA has said before that funding is only part of the solution for sector long-term sustainability, which must be multi-faceted. The interplay between funding and need requires a transparent framework informed by relevant and timely data. CIPFA notes that even within this consultation government does not adhere to this data principle resulting in financial planning and forecasting challenges.

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.

CIPFA would draw attention to the current 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 which is projected to rise to £8bn in 2026/27.

CIPFA is concerned by the increasing reliance on council tax to address funding challenges and the explicit assumption in the government's proposals that council tax will be increased to the referendum limit as calculated under core spending power. We point out that this is a tax and government should be transparent about its intentions with the sector and public.

While we understand that the government has no intention to reform council tax as part of the fair funding reform process, we see this as a missed opportunity. CIPFA is concerned by the continued and growing reliance on this form of taxation which is regressive and in need of reform. The growing importance of council tax as a funding source also means that the weaknesses in the tax are and pronounced. CIPFA calls on the government to be brave and set out a clear ambition to reform this income stream and look to alternative sources of funding.

Regardless of the funding streams, CIPFA remains of the view that the overall quantum of local government funding is insufficient to meet the demands imposed by current statutory and legislative obligations on local authorities. Thirty authorities are now in receipt of Exceptional Financial Support (EFS), representing approximately 10% of the sector. CIPFA reiterates that EFS must only be considered a temporary solution by government while funding reform and change is introduced and a pathway to long-term stability is established.

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 in the immediate term and recognises that this may require the use of short-term flexibilities. CIPFA would be pleased to engage further with government in these talks but considers discussions that question the fundamental principle of in-year balance short-sighted and unhelpful.

## Key messages

- CIPFA remains of the view that the overall quantum of local government funding is insufficient to meet the demands imposed by current statutory and legislative obligations on local authorities.
- Government must address pressures in the system; funding reform in isolation is not enough.
- CIPFA calls on the government to be brave and set out a clear ambition to reform council tax and look to alternative sources of funding.
- CIPFA would want the government to prioritise stability within the sector in the transition period and avoid the risk of service failure.
- Government must recognise the broader altered sector landscape in its future plans and must engage closely with the sector.
- CIPFA reinforces its position that relevant and timely data are essential for good decision making and government must recognise this when considering the reform timetable.
- CIPFA would be pleased to engage further with government in talks about flexibilities but considers discussions that question the fundamental principle of in-year balanced budgets short-sighted and unhelpful.
- CIPFA recommends that the reorganisation agenda and the funding reform agenda remain closely aligned to ensure there are no unforeseen consequences.

### Question 1. What are your views on the updated SFA resulting in zero allocations, and the use of mitigations to avoid zero allocations?

#### Response Question 1

Mitigations should be carefully designed to ensure that all local authorities receive a baseline level of funding to maintain service delivery and financial stability.

However, CIPFA recognises the possibility that with the updated SFA an area that has the resources to fund all its assessed need through increases in local council tax could be in a position where it would receive a zero allocation.

With demand pressures high and increasing, CIPFA would find it unlikely that any local authority would be able to function effectively on council tax-raised income alone. Therefore CIPFA agrees that mitigations be used to avoid zero allocations.

### Question 2. Do you agree with how the government proposes to determine the Council of the Isles of Scilly's Settlement Funding Assessment?

#### Response Question 2

No response.

### Question 3. Do you agree with the government's plans to simplify the grant landscape?

#### Response Question 3

CIPFA supports the simplification of the grant landscape as it can reduce administrative burdens and increase transparency. We welcome the current progress being made in this area such as the reduction in competitive bids. We have advocated for these simplifications via recent consultations and in the evidence provided to the housing, communities and local government select committee and the Public Accounts Committee.

### Question 4. Do you agree with the formulae for individual services the government proposes to include?

#### Response Question 4

CIPFA agrees with the principle that there should be individual service formulae and that the data underpinning the formula should be up to date. The formulae should also reflect the main drivers of demand.

CIPFA recognises that individual authorities will have their own perspectives on the formulae.

### Question 5. Do you agree with the areas of need the government proposes to no longer include in the assessment through the Foundation Formula?

#### Response Question 5

CIPFA agrees this is a reasonable approach.

Question 6. Do you agree with the government's approach to calculating the control total shares for the relative needs formulae?

Response Question 6

CIPFA agrees this is a reasonable approach to calculating control total shares.

Question 7. Do you agree with the Labour Cost Adjustment (LCA) and Rates Cost Adjustment (RCA) equations set out in this chapter?

Response Question 7

CIPFA would support the inclusion of adjustments for labour and rates costs, as these are significant factors in the cost of service delivery. However, we recognise that across the country there may be further discussion on the fairness of the calculation.

Question 8. What are your views on the proposed approach to the Area Cost Adjustment (ACA)?

Response Question 8

CIPFA would support the use of Area Cost Adjustments to reflect the varying costs of delivering services in different areas.

Question 9. Do you agree or disagree with the inclusion of the Remoteness Adjustment?

Response Question 9

CIPFA would agree with the inclusion of a Remoteness Adjustment, as we recognise that rural areas may face higher costs due to their location.

Question 10. Do you agree with the government's proposal to set a notional council tax level at the national average level, to achieve the objective of full equalisation?

Response Question 10

CIPFA agrees with a notional level but calls on the government to be brave and set out a clear ambition to reform council tax and look to alternative sources of funding.

Moving to full equalisation will result in some authorities seeing a fall in their funding. It is essential that they are protected and services not put at risk.

Question 11. Do you agree with the government's proposal to fully include the impact of mandatory discounts and exemptions in the measure of taxbase?

Response Question 11

CIPFA would support the inclusion of mandatory discounts and exemptions in the measure of taxbase. This approach ensures fairness and accuracy, as these factors are outside the control of local authorities and impact their ability to raise revenue.

Question 12. Do you agree with the government's proposal to use statistical methods to proxy for the impact of Working Age Local Council Tax Support in the measure of taxbase?

Response Question 12

CIPFA would agree with using statistical methods to proxy the impact of Working Age Local Council Tax Support. This method balances the need for accuracy with the need to avoid creating perverse incentives for local authorities to alter their support schemes.

Question 13. What are your views on the proposed statistical approach to proxy for the impact of Working Age Local Council Tax Support?

Response Question 13

CIPFA would support the proposed statistical approach, as it uses robust and well-evidenced factors to estimate the impact of Working Age Local Council Tax Support. This approach ensures that funding allocations reflect the varying needs and circumstances of different local authorities.

Question 14. Do you agree with the government's proposal to assume that authorities make no use of their discretionary discount and premium schemes in the measure of taxbase?

Response Question 14

CIPFA would agree with this proposal, as it promotes simplicity and fairness. Assuming no use of discretionary schemes avoids linking local policy decisions directly to funding allocations.

Question 15. Do you agree with the government's proposal to apply a uniform council tax collection rate assumption to all authorities?

Response Question 15

CIPFA would support a uniform council tax collection rate assumption. This approach maintains an incentive for all authorities to maximise their collection rates and ensures that funding allocations are not unduly influenced by local variations in collection efficiency. The level of that uniform collection rate must be realistic and proportionate.

Question 16. Do you agree with the government's proposal to split or allocate the resource adjustment in multi-tier areas according to the average share in council tax receipts in multi-tier areas?

Response Question 16

Using the average share in council tax receipts provides a robust approach that treats similar authorities equally, so CIPFA supports this proposal.

Question 17. Noting a potential trade-off of an increased levy charged on business rate growth for some local authorities, do you agree that the level of Safety Net protection should increase for 2026-27?

Response Question 17

CIPFA would support increasing the level of safety net protection for 2026/27. This measure would provide additional security for local authorities facing significant financial risks, ensuring stability during the transition to the new funding system.

Question 18. Do you agree with the government's proposal to end the New Homes Bonus in the LGFS from 2026-27 and return the funding currently allocated to the Bonus to the core Settlement, distributed via the updated Settlement Funding Assessment?

Response Question 18

CIPFA would support ending the New Homes Bonus and reallocating the funds of £290m to the core Settlement. This approach ensures that funding is distributed based on need and resources, allowing authorities to ensure local priorities are supported.

Question 19. What measures could the government use to incentivise local authorities to specifically support affordable and sub-market housing?

Response Question 19

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 report [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.

Question 20. Are there any further flexibilities that you think could support local decision-making during the transitional period?

Response Question 20

CIPFA would be pleased to engage further with government in talks about flexibilities such as the use of ringfenced grants but considers discussions that question the fundamental principle of in-year balanced budgets short-sighted and unhelpful.

Question 21. What are the safeguards that would need to go alongside any additional flexibilities?

Response Question 21

This would need to be reflective of the flexibilities.



Question 22. Do you agree or disagree that we should move local authorities to their updated allocations over the three -year multi-year Settlement?

Response Question 22

CIPFA supports moving authorities over a transition period. There may be merit in considering a limited annual reduction where significant funding reduction occurs. CIPFA would be willing to consider this option should other stakeholders agree.

Question 23. Do you agree or disagree that we should use a funding floor to protect as many local authorities' income as possible, at flat cash in each year of the Settlement?

Response Question 23

CIPFA supports a funding floor to protect against sudden losses, but it must be transparently funded and not undermine the principle of needs-based allocation.

Question 24. Do you agree or disagree with including projections on residential population?

Response Question 24

CIPFA supports the use of robust projections to ensure allocations remain dynamic and responsive. However, projections must be based on independent, high-quality data subject to review.

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.

Question 25. Do you agree or disagree with including projections on council tax level?

Response Question 25

While the principle of using projections is understandable, this raises questions around the concept of council tax being a locally determined and flexibilities around level of increase. CIPFA would reiterate our call for a fundamental review of council tax.

Question 26. Do you agree or disagree with including projections on council tax base?

Response Question 26

CIPFA agrees with this projection.

Question 27. Please provide any additional information, including any explanation or evidence for your response and any views on technical delivery. If you agree, what is your preferred method of projecting residential population, council tax level and council tax base?

Response Question 27

No response.

Question 28. Do you agree with the above approach to determining allocations for areas which reorganise into a single unitary authority along existing geographic boundaries?

Response Question 28

CIPFA agrees with combining predecessor allocations for reorganisations along existing boundaries. This is administratively simple and supports continuity.

The work on reorganisation is continuing to evolve and CIPFA recommends that the reorganisation agenda and the funding reform agenda remain closely aligned to ensure there are no unforeseen consequences. CIPFA is willing to support discussions to support this aim.

Question 29. Do you agree that, where areas are reorganising into multiple new unitary authorities, they should agree a proposal for the division of existing funding locally based on any guidance set out by central government?

Response Question 29

CIPFA supports local determination with central guidance. However, there must be independent validation and an appeals process where agreement is not reached.

Question 30. Do you agree that the government should work to reduce unnecessary or disproportionate burden created by statutory duties?

Response Question 30

CIPFA supports a review into the statutory duties of local authorities.

Question 31. Do you agree with the proposed framework outlined at paragraph 11.2.3 for assessing whether a fee should be changed?

Response Question 31

CIPFA supports increased flexibility for raising fees and charges. The suggested framework is useful but may also benefit from the inclusion of a discussion on inflationary factors. CIPFA considers that local authorities are best placed to make local decision.

Question 32. The government invites views from respondents on how best to balance the need to maintain fee values and the original policy intent of the fee whilst minimising cost of living impacts for service users.

Response Question 32

CIPFA recognises the difficulty in achieving this balance but would advocate that local authorities are well placed to make these types of decisions and could provide the necessary assurance.

Question 33. Do you agree that the measures above provide an effective balance between protecting charge payers from excessive increases, while providing authorities with greater control over local revenue raising?

Response Question 33

A national baseline with local variation is a pragmatic approach. CIPFA would like further information on where the service cost levels would be sourced and would they be consistent with other formula.

Question 34. Do you agree that we should take action to update fees before exploring options to devolve certain fees to local government in the longer term?

Response Question 34

CIPFA agrees with updating fees first, followed by devolution. This allows for a structured transition and avoids destabilising local budgets. However, the under-lying objective should be to move towards greater flexibility at a local level.

Question 35. Do you agree or disagree that these are the right Relative Needs Indicators? Are there any other Relative Needs Indicators we should consider? Note that we will not be able to add additional indicators for a 2026-27 update.

Response Question 35

CIPFA supports the proposed indicators and agrees that more recent data will improve the accuracy of where funding is targeted. Future updates should consider incorporating client level data but this should not delay current work. Client level data is helpful in understanding care journeys but we agree it should not delay progress. In future we consider that health data such as the number of people diagnosed with dementia may be helpful.

Question 36. Do you agree or disagree with including population projections in the ASC formula, when published, that have been rebased using Census 2021 data?

Response Question 36

CIPFA agrees that the funding should reflect the most up-to-date population data.

Question 37. Do you agree or disagree with our proposal to include a Low-Income Adjustment (LIA) for the older adults component of the ASC RNF model?

Response Question 37

CIPFA agrees that the government should continue to include a low-income adjustment in the calculation, however as the consultation notes in 12.1.27 there is limited data and so CIPFA recommends that additional work is done to improve this evidence.

At this point we would like to reiterate our concerns about the fact that the index of multiple deprivation to be used in the calculation of the formulae is not available until later, which impacts the ability of local authorities to plan.

Question 38. Do you agree or disagree that the overall ASC RNF should combine the two component allocation shares using weights derived from the national ASC net current expenditure data on younger and older adults (in this case 2023 to 2024)?

Response Question 38

CIPFA considers this approach pragmatic but further consideration should be given to the impact of local authority performance. We are also aware of discussions around the cost of supporting those over 85 which may require additional consideration by stakeholders.

Question 39. Do you agree that ethnicity should be removed as a variable in the CYPS formula?

Response Question 39

CIPFA understands that there is no clear evidence as to how ethnicity plays a role in demand and on current understanding it has a negligible impact, therefore we agree it makes sense to remove it. However, should this change this would need to be reconsidered.

Question 40. Do you agree overall that the new formula represents an accurate assessment of need for children and family services?

Response Question 40

CIPFA agrees with the government's proposed approach. Routine updating with the latest data is good practice.

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 as we have said in previous consultation responses this should be set in the context of a multi-year settlement. Constant readjustments would be unhelpful and not consistent with good financial management principles or the principle of stability included in this consultation.

Question 41. Do you believe that the components of daytime population inflow should be weighted to reflect their relative impact on demand for services?

Response Question 41

CIPFA agrees that populations flow should be weighted.

Question 42. Do you agree with/have any comments on the design of the Foundation Formula?

Response Question 42

The foundation formula now includes deprivation, which CIPFA supports; however we note that the removal of other cost drivers will impact individual authorities so this must be captured elsewhere to avoid funding being removed from the system.

Question 43. Do you agree with/have any comments on the design of the Fire and Rescue Formula?

Response Question 43

CIPFA recommends this should remain a bespoke calculation.

Question 44. Do you agree with/have any comments on the design of the formula for Highways Maintenance?

Response Question 44

CIPFA broadly agrees with the simplified approach but would recommend that the sector has engagement with the Department for Transport to ensure that the data sources are sufficiently robust to support the allocation of funds.

Question 45. Do you agree with/have any comments on the design of the formula for Home-to-School Transport?

Response Question 45

CIPFA would recommend that home to school transport be formally reviewed in order to ensure that the policy outcomes are achieved. We would refer government to work currently being carried out by the National Audit Office.

Question 46. Do you have any views on the potential impacts of the proposals in this consultation on persons who share a protected characteristic?

Response Question 46

The reforms suggested in this consultation will lead to changes to public sector funding as a result of significant redistribution. Across the country local authorities may face a reduction of resources that will require them to transform services delivery, remove access or alter eligibility criteria.

Ongoing assessment of equality impacts will be critical to ensuring people sharing specific protected characteristics experience limited impact.