



ANNEX B – FAIR FUNDING 2.0

- 1.1. The Department for Levelling Up, Housing and Communities (DLUHC) launched the Fair Funding Review 2.0 in June 2025. The consultation proposes a revised approach to allocating funding to local authorities in England, with implementation planned for the 2026/27 financial year. The consultation closed on 12 August 2025.
- 1.2. The House of Commons Library published a Research Briefing in July 2025 explaining the review: <https://researchbriefings.files.parliament.uk/documents/CBP-10303/CBP-10303.pdf>.

Purpose of the Fair Funding Review 2.0

- 1.3. The Fair Funding Review 2.0 outlines proposed reforms to how central government allocates funding to local authorities in England for the 2026–2029 period. It aims to address outdated funding formulas and ensure allocations better reflect current local needs, costs, and resources.

Key Components of the Review

1.4. Needs Assessment

- Uses nine Relative Needs Formulas (RNFs) to evaluate local demand for services.
- Factors include adult social care, children’s services, and temporary accommodation.
- Each authority’s “Need Share” is calculated as a proportion of national need.

1.5. Area Costs Adjustment (ACA)

- Adjusts funding to reflect regional cost differences.
- Includes:
 - Property and business rates
 - Labour costs
 - Travel time and remoteness.

1.6. Resources Adjustment

- Accounts for each authority’s ability to raise revenue via council tax.
- Uses a notional average council tax rate to avoid incentivizing rate manipulation.



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Funding Mechanisms

1.7. Revenue Support Grant (RSG)

- Core unringfenced grant to be expanded by merging other grants (e.g., Social Care Grant, New Homes Bonus).

1.8. Consolidated Grants

- Ringfenced grants for specific services (e.g., homelessness, public health) will be grouped but not subject to the needs formula.

1.9. Business Rates Retention Scheme (BRRS)

- Will be “reset” in 2026/27 to reflect updated needs and allow authorities to retain growth in business rate revenue.

1.10. Transitional Arrangements

- Funding changes will be phased in over three years (2026–2029).
- Options include applying a “funding floor” to prevent cash losses for any authority.

1.11. Additional Proposals

- Review of local authority flexibility on fees and charges.
- Potential allocation of business rate revenue to Mayoral Strategic Authorities.
- Development of an outcomes framework to measure local authority performance.

1.12. Historical Context

- The last comprehensive needs assessment was in 2013/14.
- Since then, funding has been adjusted using flat percentages, ignoring demographic and economic shifts.
- The new review seeks to correct disparities and modernize the system.

What You Need to Know

- 1.13.** The Fair Funding Review 2.0 is a major overhaul of how England’s local authorities will be funded from 2026 onward. It introduces updated formulas for assessing need, adjusts for regional costs and revenue capacity, and consolidates grants to simplify the



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system. The goal is to create a fairer, more transparent, and responsive funding framework that reflects current realities.



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TECHNICAL SUMMARY

What Is the Fair Funding Review 2.0?

- 1.14.** It is the UK Government’s blueprint for reforming how funding is distributed to local authorities in England from 2026 to 2029. The goal? Replace outdated formulas with a system that reflects modern needs, costs, and local revenue capacity.

Core Mechanics of the New Funding Model

1.15. Relative Needs Formula (RNF)

- Nine service-specific formulas assess demand (e.g. adult social care, children’s services).
- Each authority gets a “Need Share” — its slice of national need.

1.16. Area Cost Adjustment (ACA)

- Recognizes regional cost differences in:
 - Labour markets
 - Property values
 - Travel time/remoteness

1.17. Resources Adjustment

- Measures how much revenue councils could raise via council tax.
- Uses a notional rate to avoid penalizing low-tax areas or rewarding high-tax ones.

1.18. Funding Streams Affected

- **Revenue Support Grant (RSG):** Expanded to absorb other grants like Social Care Grant and New Homes Bonus.
- **Business Rates Retention Scheme (BRRS):** Will be “reset” in 2026/27 to reflect updated needs.
- **Ringfenced Grants:** Some grants (e.g. homelessness, public health) remain outside the RNF but may be consolidated.

1.19. Transitional Protection

- Gradual rollout over three years (2026–2029).



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- A “cash flat floor” may protect councils from nominal funding cuts — but not from inflation-driven real-terms losses.
- Not all councils will qualify for this protection, raising concerns about financial sustainability².

1.20. Sector Reactions & Challenges

- **Local Government Association (LGA):** Welcomes reform but warns of risks:
 - Real-terms cuts could strain services.
 - Transitional protections must be robust.
 - Councils need flexibility over fees, charges, and spending².
- **Government Position:** Aims to end competitive bidding, simplify grants, and empower local leaders with multi-year certainty³.

1.21. Why It Matters

1.22. The Fair Funding Review 2.0 is a long-overdue overhaul of England’s local government finance system. It promises a more rational, needs-based approach — but its success hinges on how well transitional protections are handled and whether councils are given the flexibility to adapt. Expect winners and losers, and a bumpy ride for those on the wrong side of the new formulas.



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SUMMARY OF TECHNICAL ASPECTS OF THE FUNDING FORMULA

Core Funding Formula Structure

1.23. The Fair Funding Review 2.0 introduces a **multi-step allocation model** for distributing central government funding to English local authorities:

1.24. Relative Needs Formula (RNF)

- **Nine service-specific formulas** are used to estimate demand:
 - Adult social care
 - Children’s social care
 - Temporary accommodation
 - Waste collection
 - Highways maintenance
 - Public transport
 - Libraries
 - Environmental services
 - Planning and development
- Each formula uses **proxy indicators** (e.g. population age bands, deprivation indices, housing tenure) to estimate service demand.
- Outputs are normalized into a **“Need Share”**: each authority’s proportion of national need.

1.25. Area Cost Adjustment (ACA)

- Adjusts for regional variation in service delivery costs.
- Composed of three sub-indices:
 - **Labour Cost Index (LCI)**: Based on wage differentials using ASHE data.
 - **Property Cost Index (PCI)**: Reflects local commercial property rental values.
 - **Remoteness Index (RI)**: Captures travel time and accessibility using GIS data.



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- ACA is multiplicative: it scales the Need Share to reflect cost pressures.

1.26. Resources Adjustment

- Measures each authority's **notional council tax capacity**:
 - Based on **band D equivalents** and a **national average rate**.
 - Prevents perverse incentives to raise or lower actual council tax.
- The adjustment is **deducted** from the ACA-adjusted Need Share to calculate the **Core Funding Allocation**.

1.27. Grant Consolidation and Distribution

1.28. Revenue Support Grant (RSG)

- Becomes the **main unringfenced grant**.
- Absorbs:
 - Social Care Grant
 - New Homes Bonus
 - Rural Services Delivery Grant
- Distributed using the new formula (RNF + ACA – Resources Adjustment).

1.29. Ringfenced Grants

- Some grants (e.g. Public Health Grant, Homelessness Prevention Grant) remain outside the formula.
- May be **grouped into thematic blocks** but retain service-specific conditions.

1.30. Business Rates Retention Scheme (BRRS)

- **Reset in 2026/27** to align with new needs assessment.
- Authorities retain **growth above baseline**, but baseline is recalculated.
- **Safety net and levy mechanisms** are retained but thresholds adjusted.

1.31. Transitional Protection

- **Three-year glide path** (2026–2029) for funding changes.
- **Cash flat floor**: No authority receives less cash than in 2025/26.



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- **Real-terms losses possible** due to inflation and population growth.
- Authorities with **above-average council tax capacity** may lose protection.

1.32. Modelling and Data Sources

- Uses **Office for National Statistics (ONS) population projections, Ministry for Housing and Local Government (MHCLG) housing data, and NHS Digital social care statistics.**
- Formula coefficients calibrated using **regression analysis** on historical expenditure and service usage.
- ACA indices derived from **ONS, Valuation Office Agency (VOA), and Geographic Information System (GIS) datasets.**

1.33. Strategic Implications

- Ends reliance on **historic spending patterns** and flat-percentage updates.
- Introduces **dynamic, evidence-based allocation.**
- May shift funding from high-tax, low-need areas to low-tax, high-need ones.
- Encourages **multi-year financial planning** and **outcomes-based accountability.**

1.34. Technical Takeaway

1.35. The Fair Funding Review 2.0 replaces legacy funding formulas with a statistically modelled, three-part system: demand estimation (RNF), cost adjustment (ACA), and revenue offset (Resources Adjustment). It consolidates grants, resets business rates baselines, and introduces transitional protections — all underpinned by national datasets and regression-based calibration. The result is a more transparent, needs-driven funding regime, but one that may expose some councils to real-terms losses if protections are not robust.

1.36. The **Relative Needs Formula (RNF)** is the technical backbone of the Fair Funding Review 2.0. It is designed to estimate how much funding each local authority in England should receive based on the **relative demand for public services** in their area.

1.37. Structure of the Relative Needs Formula



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- 1.38. The RNF is composed of **nine service-specific formulas**, each tailored to a major area of local government responsibility:

Service Area	Key Indicators Used
Adult Social Care	Age bands (65+), disability prevalence, deprivation
Children’s Social Care	Child population, child poverty, looked-after rates
Temporary Accommodation	Homelessness rates, housing tenure, benefit claims
Waste Collection	Household count, urban density
Highways Maintenance	Road length, traffic volume
Public Transport	Population density, commuting patterns
Libraries	Population, age distribution
Environmental Services	Population, housing density
Planning & Development	Planning applications, housing growth

- 1.59. Each formula uses **proxy variables** drawn from national datasets (ONS, MHCLG, NHS Digital) to estimate demand. These variables are weighted using **regression analysis** based on historical spending and service usage patterns.

1.60. Calculation Steps

1. **Indicator Selection:** Each service formula selects relevant indicators (e.g. % of elderly population for adult social care).
2. **Weighting:** Indicators are assigned weights based on statistical modelling — typically using ordinary least squares (OLS) regression to correlate indicators with past expenditure.
3. **Normalization:** The weighted scores are scaled so that each authority’s score becomes a proportion of the national total — this is the **“Need Share”**.
4. **Aggregation:** The nine service-specific Need Shares are combined (with service-level weights) to produce a **composite Need Share** for each authority.

1.61. Example: Adult Social Care RNF



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1.62. The adult social care formula uses:

- % of population aged 85+
- % of population with limiting long-term illness
- Index of Multiple Deprivation (IMD) score

1.63. Each indicator is multiplied by a coefficient (e.g. 0.5 for age, 0.3 for illness, 0.2 for IMD), summed, and then normalized across all authorities. The result is a score that reflects **relative demand** for adult social care services.

1.64. Why It Matters

- **Equity:** Authorities with higher needs (e.g. older populations, more deprivation) get a larger share of funding.
- **Transparency:** The formula is published and based on measurable data.
- **Flexibility:** The government can update indicators and weights as service demands evolve.

1.65. Technical Notes

- The RNF replaces older “Four Block Model” approaches that relied heavily on historical spending.
- It avoids circularity: funding is based on **need**, not past allocations.
- It is designed to be **fiscally neutral** — total funding is fixed but redistributed based on relative scores.

1.66. What the RNF Really Does

1.67. The Relative Needs Formula is a data-driven method for estimating how much funding each council should get based on local demand for services. It uses statistical modelling to turn demographic and socioeconomic indicators into a fair, transparent distribution of resources.