

CCN

COUNTY COUNCILS NETWORK

Consultation Response

*Provisional local government
finance settlement 2025 to 2026*

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January 2025

Executive Summary

- **When the Autumn Budget was published, CCN welcomed the additional £1.3bn in new core funding for local authorities, but outlined concerns that the NICs rise and increase in the NLW could provide a significant additional burden on local government if this was not properly funded.** CCN are very concerned that the quantum announced in the Provisional Settlement to meet these costs is not sufficient, putting a further additional cost on council finances.
- **In responding to the Provisional Settlement, CCN outlines its deep concerns over the introduction of the new 'Recovery Grant'.** It will be distributed using a funding formula skewed towards urban deprivation and ability to raise council tax. By targeting the £600m Recovery Grant on metropolitan and urban councils, the government is ignoring the fact deprivation is not the only driver of councils' costs nor the key indicator of which councils are under the most financial distress. Instead, it is demand and market failure across adult and children's social care and special educational needs services that are pushing councils in all regions and of political control to the brink.
- **CCN disagree very strongly with, and challenge, the proposed methodology and underlying rationale for the distribution of the Recovery Grant.** The government have outlined that the rationale for these distributional decisions within the settlement is based on increasing 'the efficiency of our funding by targeting money towards areas with greater need and demand for services'. **But there is no evidence that the distribution in the settlement is more efficient or more robust, nor that it better reflects expected patterns of cost and demand facing councils.** Indeed, evidence presented by PwC demonstrates the opposite of government assertions.
- **Therefore, despite a further £200m increase in funding for social care since the announcement of the policy statement, the combined impact of the proposed distribution of resources in this settlement and additional unfunded costs, CCN member councils are in worse position than before the Autumn Budget.** As a result, county and rural councils will have to make more service reductions next year, including to care services, with extremely difficult decisions to balance their budgets next year.
- **Equally as concerning is that this approach sets a precedent for proposed funding reforms which will be finalised later this year.** Those changes are potentially going to result in some very substantial changes in the distribution of funding, and they need to be developed in partnership with local government. This process has to be evidence-based and transparent if the funding changes are going to be accepted within the sector. The funding reform consultation sets out principles that should be applied to developing new funding formulas, including transparency and the use of robust data. These principles should be applied to the new grants created in 2025-26 as well.
- **CCN is also concerned that there is excessive council tax equalisation within the settlement:** £240m in Social Care Grant, a further £75m deduction in the Children's Social Care Grant, and effectively an adjustment for council tax within the Recovery Grant as well. This piecemeal approach to equalisation disadvantages many of our members, and puts pressure on them to increase council tax.

Introduction

1. The CCN represents 37 English local authorities that serve counties. The 20 county and 17 county unitary authorities that make up CCN are the largest part of the local government family. They represent all four corners of England, from Cumbria to Cornwall, Durham to Kent, North Yorkshire to Suffolk, Derbyshire to Essex.
2. The essential services our members provide touch on the everyday lives of residents and businesses across 86% of England's landmass and 47% of its population. The areas represented by our members constitute 38% of local government expenditure; 44% of total public expenditure (£201bn); and generate just under half of all tax revenues (£255bn). The economies of our areas contribute 39% of Gross Value Added (GVA) and 42% of all employment.
3. CCN welcome this opportunity to respond to the consultation on the provisional local government settlement 2025/26. We would also draw attention to the responses of our members and also the Society of County Treasurers (SCT) given the pressures that we have identified, which will also be reflected in their own individual responses.
4. Below we set out detailed responses to the individual consultation questions. Before this, we set out our overview response to the settlement, including on the continuing financial challenges facing our member councils as a result of the provisional settlement.

Overview

5. In the lead up to the Autumn Budget, CCN set out extensive and wide-ranging evidence on the financial position of its member councils. This showed that councils are facing uncontrollable spending pressures far outpacing the expected and planned rise in core funding, resulting in a risk that councils provide little more than care services by the end of the decade in order to avert financial insolvency.
6. Analysis carried out by PwC, which used funding projections from Pixel Financial Management, both commissioned by the CCN, suggested that CCN members faced a funding gap of £20.3bn over the next five years.¹ This included a baseline funding gap of £1.6bn, rising to £6.7bn by the end of the parliament. This funding gap was fueled by rising demand and costs in just three service areas: adult social care, children's services, and home to school transport. Together, they account for 83% of the total increase in costs councils are projected to be spending on services by 2030, with this even higher in CCN member councils at 89%.
7. This core revenue pressure comes alongside special educational needs and disabilities services (SEND) deficits amounting to £2.7bn for CCN member councils in 2025/26, rising to £3.8bn by 2026/27.² While outside the scope of this consultation, we continue to urge the government to provide immediate clarity on how the government intends to manage deficits when the statutory override expires in March 2026.
8. There were welcome measures announced at the Autumn Budget that would help ease some of these pressures, not only on CCN members but on wider local government, with the £1.3bn in new core funding for councils; additional investment of £1bn in special educational

¹ The Outlook for Council Finances (2024) County Councils Network
<http://www.countycouncilsnetwork.org.uk/download/5462/?tmstvt=1727882351>

² <https://www.countycouncilsnetwork.org.uk/send-deficits-risk-bankrupting-almost-three-quarters-of-englands-largest-councils-by-2027-with-government-urged-to-take-action/>

needs; the extension in the Household Support Fund; funding for roads, social housing, local buses; and funding from the introduction of Extended Producer Responsibility.

9. The overall increase in funding provided in the 2025-26 settlement for local government is welcome, particularly in the context of the constraints on public spending. CCN recognises the priority that has been given to local government funding, and particularly to the funding of social care and we hope this continues into the spending review next year.
10. However, these additional funds needed to be looked at within the context of not only previously mentioned funding shortfalls and rising demand/costs, but unexpected increases in the Employers' National Insurance Contributions (NICs) and National Living Wage (NLW), which have significantly increase costs for councils.
11. Analysis by CCN and the SCT shows that the costs of the NLW increase will be £454m next year for county and rural unitary authorities, while the direct and indirect cost of the NICs rise will amount to £488m for their councils alone. These findings on NICs impact on council budgets is in-line with analysis by the Local Government Association (LGA), which estimates there will be a £637m increase in direct NICs costs, and a further £1.13bn increase in indirect costs.
12. It is therefore clear that given this evidence, the funding that is being made available for local government of £515m will fall well short of the amount required, adding significant pressure on services, particularly in the social care sector. Government has based the total funding provided on estimates of direct costs only, and has underprovided on this according to most external estimates. It has then allocated this inadequate sum according to a measure of total (direct and indirect) costs - producing even larger shortfalls in provision. Moreover, there is an inequity of partially funding direct costs but not indirect of the NICs rise. Many county authorities have developed more efficient commissioned models in social care and are fully bearing the costs of NICS impacting those services, whereas internal models will be at least funded for NICs.
13. In responding to the Provisional Settlement, CCN outlines its deep concerns over the introduction of the new 'Recovery Grant', which will allocate almost half of the new grant funding in this settlement. It will be distributed using a funding formula skewed towards urban deprivation and ability to raise council tax.
14. **Therefore, despite a further £200m increase in funding for social care since the announcement of the policy statement, the combined impact of the proposed distribution of resources in this settlement and additional unfunded costs, CCN member councils are in a worse position than before the Autumn Budget.** As a result, county and rural councils will have to make more service reductions next financial year, including to care services, with extremely difficult decisions to balance their budgets next year.
15. **CCN disagree very strongly with, and challenge, the proposed methodology and underlying rationale for the distribution of the Recovery Grant.** Without any clear supporting evidence, the funding distribution has been skewed towards authorities with high levels of deprivation. It is also regrettable that at the same time the government has chosen to end the Rural Services Delivery Grant, which was vital for some county and rural councils in recognising the additional costs to councils of delivering important services over large rural areas.

16. The government have outlined that the rationale for these distributional decisions within the settlement have been based on increasing *'the efficiency of our funding by targeting money towards areas with greater need and demand for services'*.³ **But there is no evidence that the distribution in the settlement is more efficient or more robust, nor that it better reflects expected patterns of cost and demand facing councils.** Indeed, evidence presented by PwC demonstrates the opposite of the assertions made at the settlement.
17. As shown in the table below, total spending need will rise faster in CCN member council areas compared to metropolitan boroughs between 2024/25 and 2029/30. Moreover, a pre-settlement CCN members faced an estimated baseline funding gap as a percentage of total spending need next year larger than metropolitan boroughs at 5.9% compared to 4.5%. CCN member councils have a larger funding gap as a percentage of spending compared to metropolitan boroughs in all the forecast scenarios contained within the analysis.⁴

Table 1: Estimated rise in total spending need 2024/25 to 2029/30: PwC, 2024

	2024/25	2029/30	% increase
CCN Councils	25,879	33,199	28.3
Metropolitan Boroughs	14,585	18,499	26.8

18. By targeting the £600m Recovery Grant on metropolitan and urban councils, the government is ignoring the fact deprivation is not the only driver of councils' costs nor the key indicator of which councils are under the most financial distress. Instead, it is demand and market failure across adult and children's social care and special educational needs services that are pushing councils in all regions and of political control to the brink.
19. This response outlines further reasons why we believe the proposed distribution of the Recovery Grant is flawed, while being clear that there is a need high quality evidence, not assertion, and for that evidence to be shared in a transparent and timely manner. **CCN urges the government to publish the evidence that backs up ministerial decisions to target funding so specifically.** With our previous analysis showing county authorities have a larger funding gap than metropolitan boroughs next year, our councils deserve a fairer share of the resources announced through the Provisional Settlement.
20. The approach that ministers have taken in this settlement is concerning, and provides worrying precedents for the proposed funding reforms, which will be finalised later this year. This will potentially going to result in some very substantial changes in the distribution of funding, and they need to be developed in partnership with local government. The process has to be evidence-based and transparent if the funding changes are going to be accepted within the sector. We cannot have major changes in funding distribution in 2026-27 that are based on political instinct rather than hard evidence and the best available techniques.
21. There has been a growing trend within Whitehall of developing new funding formulas without consulting with local government or being transparent about the methodology that has been used. This includes not sharing the full calculations used to derive funding allocations. Examples of poor practice within the settlement are the new Recovery Grant and the Children's Social Care Prevention Grant, and outside the settlement, the funding for the Extended Producer Responsibility payments.

³ <https://www.gov.uk/government/publications/local-government-finance-policy-statement-2025-to-2026/local-government-finance-policy-statement-2025-to-2026>

⁴ The Outlook for Council Finances (2024) County Councils Network
<http://www.countycouncilsnetwork.org.uk/download/5462/?tmstv=1727882351>

22. The funding reform consultation⁵ sets out principles that should be applied to developing new funding formulas, including transparency and the use of robust data. We would expect that these principles would be applied to new grants created in 2025-26 as well. If they are good principles (which we would agree with), then they should be applied in all cases. There is a risk that the lack of transparency and engagement with the sector will result in sub-optimal formulas and even formulas that have serious errors in them.
23. As a general principle within the settlement, there is excessive council tax equalisation: £240m in Social Care Grant, a further £75m deduction in the Children's Social Care Grant, and effectively an adjustment for council tax within the Recovery Grant as well. This piecemeal approach to equalisation disadvantages many of our member authorities, and puts pressure on them to increase council tax.
24. **It is imperative the government listens carefully to the responses to this and other consultation responses and reacts accordingly to properly take into account the needs of county and unitary councils.**

Question Responses

Question 1: Do you agree with the government's proposals for the Settlement Funding Assessment, including payment of Revenue Support grant and the basis of calculation of tariffs and top ups, in 2025-26?

25. We support the approach taken to updating the elements within the Settlement Funding Assessment (SFA), as well as the top-ups and tariffs. We also support the methodology used for compensating authorities for freezing the small business rates multiplier (cap compensation payments under-indexation).
26. This approach was introduced by the previous government and was based on sound technical principles. It is welcome that these principles have been continued into the latest settlement, and we hope that they continue to be used.

Question 2: Do you agree with the government's proposals to roll grants into the local government finance settlement in 2025-26?

27. We support the overall principle of simplifying the funding system and increasing the number of grants that are paid via Revenue Support Grant (RSG). This approach will help local authorities to forecast their future funding, reduce the administrative burden on authorities, and give them more control over how these resources are used.
28. As far as we can tell, the methodology used for rolling-in the grants, and adjusting for previous years, has been correctly applied.
29. Some principles should also be established about how these funds will be distributed in 2026-27 and beyond. We assume that they will be distributed using the most appropriate formula within the new SFA – but some clarity would be helpful, because changes in funding distribution will negatively affect some authorities.
30. It would also be helpful if MHCLG published a full list of the potential grants that are in-scope for rolling into SFA in 2026-27.

⁵ <https://www.gov.uk/government/consultations/local-authority-funding-reform-objectives-and-principles>

Question 3: Do you agree with the proposed package of council tax referendum principles for 2025-26?

31. Local authorities themselves are in a better position to understand how this balance works locally, and CCN has consistently called for the referendum threshold to be removed. It is worth noting that for many CCN authorities, they are very reliant on council tax growth; if they do not increase their Band D by 5% (or achieve the projected taxbase increases), they will not achieve the CSP increase set out in the settlement. We also welcome the decision to extend the £5 threshold to all Fire authorities. The increase in threshold from 2.99% to £5 is very helpful for our colleagues in county Fire Authorities.

Question 4: Do you agree with the government's proposals to introduce the Recovery Grant for 2025-26?

32. As outlined above, CCN strongly opposes the methodology used to distribute £600m via the Recovery Grant. It is clearly skewed towards metropolitan authorities, and away from county authorities. The results are stark:
- CCN member authorities, which are major social care authorities, under substantial financial strain, received only £20m from the Recovery Grant, only 3.4%; only three of our member authorities received any payment (Cumberland £1.5m, Durham £13.9m, Lancashire £5.0m).
 - In contrast, only 3 of the metropolitan authorities did not receive a payment (Solihull, Trafford, Stockport), and metropolitan authorities received 57% of the total, £341m.
 - Shire districts received a higher amount in absolute terms (£26m) than CCN member authorities.
33. CCN's primary concern about the Recovery Grant is that it only uses deprivation to distribute funding. As set out above, whilst CCN has accepted in the past that deprivation is a cost driver, it is by no means the only cost driver, and there are others that are also important. The range of drivers is reflected in the current "needs" assessments, with appropriate weightings. We object to the use of deprivation to determine "needs" to the exclusion of other cost drivers.
34. We also have substantial concerns about the process used to determine the new formula. There was no prior consultation on the methodology used to distribute this substantial amount of funding. There was no discussion about the methodology, whether it was suitable for this funding stream, or whether there was an alternative.
35. The resulting formula has some very serious technical deficiencies, which could have been addressed if there had been prior engagement and consultation with local government. In our view, the excessive focus on deprivation has also caused significant problems in the formula:
- **Use of Index of Multiple Deprivation (IMD).** IMD has rarely been used to distribute funding, and was not designed to distribute funding but to measure relative levels of deprivation. As such, the range between the most- and least-deprived local authorities is far greater for IMD than for proper measures of the

relative need to spend between local authorities (where a wider range of cost drivers have been taken into account).

If we take the two most- and least-deprived upper-tier local authorities, Blackpool has an IMD score (weighted for population) that is 6.1 times higher than Wokingham's.⁶ But, if we look at, say, the 2013-14 Needs Assessment, Blackpool's total "needs" are only 1.8 times higher. The Needs Assessment is a more robust measure of the relative spending needs and takes into account a full range of spending indicators. By using IMD, the government is vastly overstating the relative difference in spending needs between authorities, and is only using one element of the variation in spending needs.

Indeed, MHCLG has expressed concerns of its own about the use of IMD in a funding formula. In a 2017 technical paper⁷, it said:

"[IMD] scores are made up of composites, which ... could potentially reduce transparency, especially if some of the underlying indicators used seem less relevant."

The composite approach used in IMD has been designed to measure relative deprivation and not relative spending needs. CCN would challenge the transparency of the methodology and the use of the overall IMD score. We would also agree with the MHCLG technical paper that some of the indicators are not relevant (e.g. crime domain).

"the weighting for the variables within the domains are pre-determined, and some may see this as potentially inflexible for our purposes, and also lacking in transparency". Again, the approach taken by MHCLG lacks transparency.

"income and employment indices which would most likely be used". If these are the most suitable indices within the IMD, why were these not used alone? Why were other domains added into the distribution? Can MHCLG publish the evidence and analysis that was used to select the whole IMD rather than the income and employment indices? Why is the crime domain included when police authorities are excluded from the Recovery Grant?

"One possible drawback of using the IMD is timing". The 2019 IMD has been used, which is based on data from 2016-17. This is barely more up-to-date than the current SFA, which was last updated in 2013 (and used projected data for 2014-15). Benefits data within the IMD is from 2015-16 (before the roll-out of Universal Credit), and the Census data is from 2011 (the same as the SFA).

⁶ Blackpool: IMD score 45.0, population-weighted IMD score 6,355,003. Wokingham: IMD score 5.8, population weighted IMD score 1,037,655.

⁷ <https://www.local.gov.uk/sites/default/files/documents/NR%20TWG%2017-05%20Discussion%20paper%20regarding%20the%20approach%20to%20Deprivation%20in%20the%20Fair%20Funding%20Review%20by%20DCLG.pdf>

- **Tier splits** in the “needs” formula in the Recovery Grant was calculated using the net current expenditure for shire county and shire districts. Was any adjustment made for shire county councils with a fire function? Fire authorities did not receive any Recovery Grant, so this should have been excluded from the tier split. Similarly, the taxbase shares were split using the county and district Band D levels. Were these adjusted for the fire element within county Band D?

There is a fundamental misconception in the way that the tier splits have been determined in two-tier areas. The tier split for county councils is 89% for taxbase and 83% for needs, with the districts getting 11% of taxbase and 17% of needs. This penalises county councils because they fund a higher share of their expenditure from council tax. This is a function of the pressure to increase council tax to fund adult social care rather than an expression of differences in deprivation or council tax-raising ability. In a two-tier area, the district council and the relevant part of the county council have the same IMD score and the same taxbase per head: surely the tier split should therefore be the same for both needs and taxbase?

- The **3% cap** applied in the Recovery Grant is arbitrary and demonstrates that the methodology that has been used is excessive in the amounts that it distributes to authorities with the highest levels of deprivation (and lowest shares of taxbase). What was the basis of the 3%, other than to generate politically reasonable allocations? If the methodology is robust (which we challenge), then why was it thought reasonable (and efficient) to favour those authorities whose original allocations were initially below the 3% threshold against those who were initially above? For instance, in the first allocation round, Bradford receives 10 times more than Bury (using our calculations); but in the final allocation receives only 7 times more. Can this be justified by any of the evidence that MHCLG has available? Does this not demonstrate that the methodology is deficient? Surely the shares derived from the original distribution should have been used in the final allocations rather than re-running the distribution?

36. MHCLG has taken a very secretive approach to developing this formula, and has not given authorities the opportunity to challenge and check the approach that is being developed. As a result, there appear to be serious deficiencies in the methodology. With proper consultation in advance, the more serious deficiencies could have been addressed. And whilst CCN might still not have liked the outcome, the methodology would at least have been more robust.
37. Overall, SFA would have been a more suitable method of distributing the additional £600m funding. It takes into account a wide range of “needs” assessments, which are properly weighted, together with an assessment of the ability to generate council tax income. The formulas, weighting, and tier splits have all been subject to consultation and checking. Both the Recovery Grant and SFA use out-of-date data, but SFA is a better and more robust methodology than the contrived formula used for the Recovery Grant.
38. It seems odd to have adopted a new grant methodology that is unlikely to last for more than one year, and which will be replaced when the Fair Funding Review is implemented in 2026-27. Would it not have been simpler (and more efficient) to have used existing

formulas, and then to have used the development process in the FFR to create a more robust and transparent way of distributing funding?

Question 5: Do you agree with the government's proposals on funding for social care as part of the local government finance settlement in 2025-26?

39. The methodology used to distribute the Social Care Grant is reasonable and follows the methodology used in previous years.
40. The Adult Relative Needs Formula (RNF) is an outdated formula. CCN would prefer an updated formula based on the independent research undertaken by the University of Kent. This formula has been available for use since before the 2018 consultation paper, and we estimate would give CCN member authorities a higher share of the ASC funding.
41. We understand the principle of equalising part of the ASC precept. The increase from £160m in 2024-25 to £240m in 2025-26 has not been explained or justified. The approach to equalisation within the settlement appears to be piecemeal and haphazard; and it is not clear whether the ACS precept is also being equalised elsewhere within the settlement.

Question 6: Do you agree with the government's proposal to allocate £250 million in a new Children's Social Care Prevention Grant to invest in family help?

42. CCN welcomes the additional funding but strongly disagrees with the methodology used to distribute the grant. The methodology appears to be based on research that was undertaken by LG Futures together with an assessment of the ability of each local authority to generate council tax income.
43. It is not clear from the methodology note how much the "interim" RNF is based on the LG Futures work, and whether changes have been made. We assume some changes have been made (the note says the RNF "builds on" the original work). What are the changes and what effect do they have on allocations? What is the evidence that ministers have used to support the changes in the formula? Can the original research now be shared with local authorities?
44. Transparency is important in developing formulas, both so that authorities can see the basis for decisions, but also to ensure that serious errors are not made in the development of formulas. Not sharing evidence, data and calculations can have serious consequences and is not good practice.
45. Once again, the piecemeal application of council tax equalization is excessive, complicated and lacks transparency. Why has an amount of £75m been selected for equalisation? Is this based on an assessment of the Band D increase that relates to children's services, or is it entirely based on ministerial judgement?

Question 7: Do you agree with the government's proposals for New Homes Bonus in 2025-26?

46. CCN reluctantly agrees with the proposals to extend New Homes Bonus (NHB) for a further (final) year. This grant has gone well beyond its sell-by-date and should have been scrapped and replaced before now. We await the government's consultation on its replacement later this year.

Question 8: Do you agree with the government's proposals to repurpose grants in order to target funding where it is needed most in 2025/26?

47. CCN does not support re-purposing grants in the 2025-26 settlement. There has been no advance consultation (other than the Policy Statement shortly before the settlement), and no evidence that the new distribution is more efficient or effective than the old one.
48. CCN supported the additional funding that was made available to rural authorities in the **Rural Services Delivery Grant (RSDG)**, and we strongly oppose its abolition in 2025-26. It provided important funding to those authorities with the highest levels of sparsity and rurality.
49. In the 2013-14 settlement (the last time the funding formula was updated) there was an acceptance that rural authorities should have higher levels of funding; but these increases were largely wiped-out by the damping that was introduced in that year. RSDG (or its predecessor) was introduced to compensate for these changes not being fully implemented in 2013-14. Whilst there were weaknesses with the distribution used in the RSDG (it did not distribute funding widely enough across rural authorities), its existence was based on research evidence, and its shortcomings in terms of distribution methodology could have been remedied. The result is that those CCN authorities losing the RSDG now have the lowest increases in CSP in England (Herefordshire +2.4% and Shropshire +3.1%).
50. **Services Grant** was distributed using 2013-14 SFA, and therefore had a reasonably robust distribution of funding. The basis of distribution was more robust than the alternatives that have been used within the settlement (e.g. Recovery Grant, CPSCG). It would have been preferable (and helped with local authority financial planning) if ministers had kept the Services Grant until it could be replaced by a new formula in 2026-27.
51. CCN does not have such strong views about the **Minimum Funding Guarantee (now the Funding Floor)**. This was a short-term measure to protect authorities with low Band D increases (shire district, Fire authorities), and, in particular, those losing New Homes Bonus. Whilst we understood the rationale for the MFG, its design was technically deficient, and CCN would be looking for much better designed transitional support in 2026-27 and beyond.

Question 9: Do you have any comments on the impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please identify which protected characteristic you believe will be impacted by the proposals, and provide evidence to support your comments.

52. CCN does not have any comments on this question.