CCN
THE VOICE OF COUNTIES

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# POLICY ESSENTIALS:
## FINANCE & REORGANISATION

# ABOUT

The County Councils Network (CCN) represents 39 county and unitary councils across England. We are a councillor-led, cross-party organisation that works on behalf of our member councils and their communities to ensure they have a strong voice with national government, and to help deliver positive change for those authorities and the residents they serve.

The CCN aims to articulate the challenges and opportunities of its member councils, alongside their priorities, to the government and other key organisations. This is primarily done through original and impactful research across areas such as adult social care, children's services, housing and planning, and local government finance.

Building on our **Guide to CCN**, our updated series of **Policy Essentials** aims to give county and unitary councillors a short and concise overview of the most important policy issues facing their councils. This includes an overview of the key service responsibilities of councils; why it is a national advocacy priority for CCN; key developments in the national policy landscape; and CCN's key policy positions and advocacy priorities.

This Policy Essentials is focused on **Local Government Finance and Reorganisation**. For more information on our policy work in this area, contact:


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# How does local government finace operate?

**County and unitary councils in England are funded through a combination of locally-raised income and funding from central government. Although county and unitary councils have different responsibilities, the overall funding framework is broadly the same.**

The main annual mechanism for distributing funding to councils is the Local Government Finance Settlement (LGFS), which is published each year by central government. The settlement sets out each council's Core Spending Power (CSP), an estimate of the total resources available to support council services.

Core Spending Power is not a cash grant. Instead, it is a calculation that brings together several different funding sources:

- central government grant funding, including Revenue Support Grant and redistributed business rates. These are included within the LGFS, which is voted on annually by Parliament. The settlement seeks to take account of councils' relative needs and their ability to raise income locally;

- council tax, which is raised locally on residential properties. Councils may increase council tax by up to 2.99% each year. County and unitary councils may also levy an additional Adult Social Care precept of up to 2%. Increases above these limits are permitted only if approved by residents through a local referendum;

- business rates, which are paid by occupiers of non-domestic properties. Business rates are collected by local authorities, which retain a proportion of the income raised locally, with the remainder redistributed nationally. The rate at which business rates are levied is set by central government.

In addition to the LGFS, county and unitary councils receive funding from other government sources outside the LGFS. Some of the largest of these grants are ring-fenced, meaning they must be spent on specific services and provide little local discretion. The most significant ring-fenced grants are the Dedicated Schools Grant, which funds local authority maintained schools, and the Public Health Grant. Because these grants are ring-fenced, they are excluded from Core Spending Power.

Councils also receive capital funding for investment in areas such as transport, housing, and regeneration, as well as other specific grants to support services including housing and skills.

Where central government places new duties, requirements, or higher standards on local authorities, it is expected to provide the funding necessary to meet the additional costs. This principle is known as the New Burdens Doctrine.

Councils are legally required to set a balanced budget each year. Where councils consider the financial pressures they face to be unmanageable, they may apply to central government for Exceptional Financial Support (EFS). This support is provided on an exceptional basis to enable councils to set balanced budgets and may be subject to conditions, including an external assurance review.

Councils receiving Exceptional Financial Support are often permitted by government to increase council tax beyond the standard referendum thresholds, including above the usual combined limit of 4.99%, without holding a local referendum.

# What is the national policy context for council finances?

For a number of years, county and unitary councils have faced unprecedented and sustained financial pressures. These pressures are driven by rising service demand, persistently high inflation, and a funding system that has failed to keep pace with underlying need.

Despite funding uplifts in recent years - particularly for adult social care – county and unitary councils are finding it increasingly difficult to balance their budgets. This is the case even after delivering substantial savings and efficiency programmes and raising council tax close to the maximum levels permitted each year.

CCN and others have consistently argued that the local government funding formula is outdated and no longer reflects relative need. In response, the government launched the Fair Funding Review in 2016, intended to update the indicators and weightings used to distribute funding more fairly. The current government relaunch of this work - Fair Funding Review 2.0 – was completed in December 2025, with its outcomes used to determine local government grant allocations. This was used as the basis for the three-year Local Government Finance Settlement covering the period 2026–29.

Draft proposals were published for consultation in summer 2025. CCN broadly welcomed elements of these proposals where they were evidence-based, particularly the recognition that remoteness increases the cost of delivering services across large rural areas - many of which are served by CCN member authorities.

However, significant last-minute changes were introduced when the final Local Government Finance Settlement for 2026–29 was announced. Chief among these was the removal of remoteness as a funding factor across all service areas except adult social care. In addition, the government chose to retain a £600m Recovery Grant over the settlement period - a grant that overwhelmingly benefits urban councils.

Taken together, these decisions are estimated to have redistributed a further £500m away from county councils to more urban areas. As a result, county and unitary councils report that they have little option but to continue increasing council tax for the foreseeable future. Funding for essential local services is becoming increasingly reliant on residents through local taxation, rather than sustainable and needs-based national funding.

# What are the key financial pressures facing CCN councils?

CCN analysis shows that as a result of recent reforms:

- CCN member councils face a rapidly growing funding gap. **The gap is projected to rise from £2.7bn in 2026/27 to £4.9bn by 2028/29, creating a £11.3bn cumulative shortfall over the three-year settlement**. This reflects a structural mismatch between rising demand and available funding, with county authorities accounting for almost half of the national funding gap.

- Spending pressures are increasing significantly, driven by demand-led services. **Costs are projected to increase by around 23% (over £7bn) between 2025/26 and 2028/29 in CCN member councils**, driven primarily by rising demand in adult social care, children's services and SEND, alongside inflation and workforce cost pressures.

- Government funding is not keeping pace with costs. **New grant funding will cover only around 2% (£133m) of additional costs in county areas**. This equates to around **2p of government funding for every £1 of new cost pressures faced by CCN member councils**, compared with approximately 42p per £1 for urban metropolitan borough councils. This leaves councils heavily exposed to rising service demands without sufficient national support.

- Council tax is expected to carry the majority of the burden. **The funding system relies heavily on council tax, with over 90% of funding increases in county areas coming from local taxation**, based on assumptions of sustained annual rises that are widely considered unrealistic and unsustainable. Without council tax rises over the next three years, **35 of the 39 county and rural unitary authorities would see a real-terms reduction in funding**.

- Financial sustainability is increasingly at risk. **With additional pressures such as £8bn in projected SEND deficits, councils face mounting financial strain** and will increasingly need to cut services, rely on council tax increases, or seek exceptional financial support to remain viable.

# What is the national policy context for reorganisation ?

The government is reorganising local government in England by replacing remaining two-tier council systems with single-tier unitary authorities. This will have major financial implications for the remaining two-tier areas.

The programme follows the 2024 English Devolution White Paper and is being delivered under the Local Government and Public Involvement in Health Act 2007. Councils were invited into the process in February 2025 and were required to submit proposals against a statutory criteria, showing how new authorities would improve service delivery, financial sustainability, strategic leadership, and local accountability, while avoiding the fragmentation of services such as social care. The criteria included a 'guiding principle' that new unitary authorities should aim to serve populations of 500,000 or more.

Final proposals were submitted by November 2025 and consultations have now taken place on all the proposals received by government. Following a ministerial decision on Surrey in November 2025, further decisions were announced for new unitary structures in Essex, Hampshire, Norfolk and Suffolk in March 2026, while proposals for Sussex were deferred for further consultation. The government intends to make the remaining decisions on which proposals to implement by July 2026. New councils are expected to become operational in April 2028 following shadow elections in 2027.

While CCN supported the decision for two unitary authorities to be created in Surrey, CCN have argued that the recent decision to create 15 new unitary councils across Essex, Hampshire, Norfolk and Suffolk were clearly at odds with the government's own statutory criteria. The network outlined that with 12 of the 15 proposed new authorities substantially below the 500,000 population threshold, with these areas now facing the prospect of widespread disaggregation of care services and unprecedented levels of complex boundary changes. CCN warned that these ministerial decisions will inevitably end up costing local taxpayers more while causing greater upheaval to services for the most vulnerable.

Since the announcement, CCN has been seeking further information to justify the basis of the decisions and the implications for evaluating proposals submitted by the 14 remaining areas, including the unprecedented decision from government to not proceed with any local proposal in Sussex and put forward their own top-down plan.

# What does CCN research show on the impact of reorganisation?

- The Government Devolution White Paper cited 2021 PwC/CCN research for the savings that were achievable through reorganisation. It stated that £2.9bn of savings could be achieved over five years if a single unitary council were created in each of the 21 two-tier areas. In 2025 PwC/CCN updated this research with the most recent data and analysis. This showed:
    - **That £2.9bn of net savings over five years was still achievable if the remaining 21 two-tier areas were all single unitary councils**.
    - **Creating 29 new unitary councils with an average population 678,000 would deliver a net-saving of £1.85bn over five years**. A recurring permanent annual saving of £496m could be delivered after five years.
    - **Replacing the two-tier system in England with 58 new unitary authorities with an average population of 340,000 would result in a *net-cost* of £845m over five years**. It would result no long-term efficiency savings.
- Separate research by Newton for CCN showed:
    - **New unitary councils with populations substantially below 500,000 people will increase the price councils pay for care, putting further financial costs on these under-pressure services**. Modelling suggests that if all new unitary councils had a population below this figure, this would result in additional unit costs of between £180m and £270m annually solely as a result of reductions in purchasing power. In contrast, if all new unitary councils had a population above 500,000, it would reduce care fees by £65m a year across England.
    - **Splitting county councils into smaller local authorities will require hundreds of new senior roles as councils already grapple with a shortfall in care staff**. Modelling shows that if all new unitary councils had a population of below 500,000, this would result in a requirement of between 500 – 1,100 additional management and senior roles in care services – which the CCN warns will be impossible to fill. In contrast, if all new unitary councils had a population of above 500,000, fewer senior managers than are currently in place will be required, saving those areas money to reinvest in care services

# What are CCN's key policy positions and advocacy priorities?

**CCN's Business Plan 2026/27** sets out the network's priorities for local government finance and reorganisation over the coming year. In this area, CCN will continue to lead national advocacy on the financial sustainability of county and unitary councils, ensuring funding reform reflects the scale and complexity of delivering services across county areas. CCN will also strongly hold the government to account for its decisions on reorganisation, advcacting for the creation of sustainable new councils. In particular we will:

- **Advocate for a sustainable and fair funding system for CCN member councils**, continuing to highlight the scale and uniqueness of financial pressures (including rurality and service delivery costs) through robust analysis and national advocacy.
- **Influence future funding reforms and settlements**, building on our Fair Funding Review advocacy to ensure rural service delivery costs are better recognised, commissioning research and making the case for funding formulas that reflect geography, scale, and infrastructure pressures in county areas.
- **Shape and support local government reorganisation (LGR)**, advocating for evidence-based decisions, ensuring reforms support long-term financial sustainability, and providing practical support to councils on implementation and transition.
- **Promote efficiency, transformation, and public service reform**, supporting councils to drive savings, improve outcomes, and deliver value for money in a constrained fiscal environment, including sharing best practice and working with strategic partners.
- **Influence the review of local government statutory duties**, identifying opportunities to simplify responsibilities, reduce cost burdens, and enable more effective service delivery.

**Read more about all our advocacy and research in the CCN Business Plan & Work Programme 2026/27.**

# Reports

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- Provisional Local Government Finance Settlement 2026/27: CCN consultation response
- CCN: Local government reorganisation – evaluating the financial impact of population thresholds.
- Newton – Local Government Reorganisation – analysing the impact on people services (2026)

# Press Releases

- 25 March 2026 – Local government reorganisation decisions: CCN responds
- 9 February 2026 – Millions of residents in county areas face sweeping council service cuts as government funding covers just 2p in every £1 of new costs
- 10 October 2025 - 'Make or break' for social care as councils warn of a 'triple whammy' of risks from government reorganisation plans