From:	Brian Collins, Deputy Leader John Betts, Interim Corporate Director – Finance
To:	Policy & Resources Committee 10th September 2025
Subject:	**Fair Funding 2.0 Consultation**
Classification:	**Unrestricted**

Summary:

This paper sets out:

- **The key elements of the government's consultation on reforms to local authority funding**
- **KCC's policy position that informs our response**
- **The next steps**

KCC supports the general principles which underpin the proposals in the consultation but we do not agree with everything and there are some aspects where the Council believes the arrangements could be further improved. We agree with the government that demand for, and cost of, local authority services have increased significantly, and both the overall quantum and the current funding arrangements are not fit for purpose. The current funding arrangements are complex and out of date and a review of the system is long overdue. An eight-week period for such a significant topic is not adequate although we recognise the urgency if reforms are to be introduced alongside the re-introduction of multi-year settlement for 2026-29 which we agree is essential to give councils certainty and stability over future plans.

Recommendations:

Policy and Resources Committee is asked to NOTE and COMMENT on KCC's response to the consultation.

1. Introduction

1.1 As reported to Policy & Resources Committee in July, the government launched a consultation on substantial reforms to the funding arrangements for the local government sector on 20th June 2025. The consultation ran until 15th August 2025. KCC has submitted a response which has been agreed with the Deputy Leader, which in many ways reflects the views of other county councils, but also includes comments on issues specific to Kent. We are expecting the government to publish a policy statement outlining its response and principles for the revised funding arrangements in September/October 2025.

1.2 The consultation is a key step towards delivering the government's reform to target funding where it's most needed taking into account different needs, costs and ability to raise funds though Council Tax in different areas. The government's intention is a simpler and fairer approach to determining local authority funding.

1.3 The consultation covered the funding arrangements under the following sections. In total there were 46 separate questions (KCC's responses to each are included in appendix A to this report):

- **Determining local authority funding allocations** - Calculation of Settlement Funding Assessment (SFA) and new Spending Power based on an updated methodology for relative needs and relative resources
- **Funding simplification** - Principles for consolidation of separate existing grants and rolling grants into Revenue Support Grant (RSG) within SFA. It is important to distinguish that SFA is the methodology by which grant amounts are determined and RSG in the means of payment from central government
- **Measuring differences in demand for services** – Proposed new and updated Relative Needs Formula (RNF) sub blocks for the main service areas
- **Measuring differences in the cost of delivering services** – Proposals to reflect differences in the cost of delivering local government services in both urban and rural areas within funding allocations
- **Measuring differences in locally available resources** – Proposals to equalise resources from council tax
- **Running the business rate retention system** – Longer-term approach to business rate retention including updates to reflect resets in rateable values, levies on growth and safety net protection for reductions, and future pooling arrangements
- **The New Homes Bonus** – Proposals to abolish the current New Homes Bonus and how to incentivise authorities for new housing development
- **Transitional arrangements and keeping allocations up to date** – Additional flexibilities and phasing in the new allocations during implementation, floor protection, and updating of population and council tax levels
- **Devolution and, local government reorganisation and wider reform** – Funding for Strategic Authorities within local government finance settlement, the funding arrangements for new unitary authorities, and reduction in burdens on local authorities
- **Sales, fees and charges** – Modernising and increasing flexibility over charges whilst ensuring affordability for service users
- **Design of relative needs formulae** - Details of the measures proposed to be used within the RNF for individual service sub blocks
- **Equalities impacts**

2. Determining Local Authority Funding Allocations

2.1 This section dealt with the government's proposals to calculate updated local authority funding allocations by bringing together: an updated assessment of relative need; a resources adjustment; and transitional arrangements.

2.2 The proposals include an overall relative need share for each local authority determined by a series of Relative Needs Formulae (RNF), which assess differences in demand for and cost of services between local areas. The proposed 'resource adjustment' would direct funding towards places that are less able to meet their needs through locally raised income. The resulting Settlement Funding Assessment (SFA) is the relative needs share allocation less this resources adjustment.

2.3 It is possible that the updated SFA calculation could find that an area has the resources to fund all its assessed need through increases in local Council Tax and therefore would receive a zero allocation. The government is considering the consequences of zero allocations within the updated SFA and possible mitigations to avoid any local authority's SFA reducing to zero.

2.4 Although KCC is unlikely to be one of those authorities with a possible zero SFA, in our response we do not think it appropriate than any authority should have a zero or negative SFA. We have recognised that local tax payers rightly expect their Council Tax should be spent on local services and would not accept moving Council Tax to other areas of the country. Since the vast majority of local authority services are statutory, it is reasonable to expect an element of funding comes from national taxation through the local government finance settlement, rather than all funding coming from Council Tax, which would be the case if an authority had a zero SFA.

2.5 A new **Spending Power** will be made up of the SFA +/- transitional arrangements + locally raised council tax based on each authority's ability to raise council tax up to the maximum allowed without a referendum. The spending power is a measure of the resources potentially available to a local authority, although the decision on annual Council Tax levels remains a local decision and as such the spending power is only a notional calculation. We note that the plans do not include reforms to Council Tax even though there are inherent flaws with the current Council Tax arrangements (not least the regressive nature of the tax and lack of local flexibility for English councils available to devolved administrations elsewhere in the UK) and that Council Tax has increasingly been used to plug gaps in local authority funding.

3. Funding Simplification

Consolidation

3.1 In 2025-26 over 300 grants were awarded to local government from across government departments. Many of these had specific conditions, and sometimes reporting requirements attached. From 2026-27 the government proposes to bring together grants from across government into larger ringfenced consolidated grants delivered as part of the Local Government Finance Settlement. Many of these will support prevention and service reform. The intention is that including these in the settlement will provide multi–year certainty over as much funding as possible. This will be supported by a shift towards outcome-based accountability for local authorities.

3.2 Each consolidated grant will be delivered as a single ringfenced Section 31 grant and will have a bespoke distribution. Where appropriate, distributions will be consulted on as part of the 2026-27 Provisional Local Government Finance Settlement. This is effectively an interim step between the current fragmented approach and the eventual rolling in of further grants into SFA. The four consolidated grant streams for 2026-27 are proposed to be:

- Public Health Grant - The Public Health Grant will be consolidated alongside other service-specific grants to create a wider Public Health grant, delivered as a separate grant within the Local Government Finance Settlement in 2026-27.
- Children, Families and Youth Grant - This will consolidate the Children's Social Care Prevention Grant and the Children and Families Grant, alongside further investment in children's social care reform. The government will explore whether additional grants for children, families and youth services can be consolidated within this grant.
- Crisis and Resilience Grant - This will enable local authorities to build the financial resilience of their communities and assist those facing financial crisis,

incorporating Discretionary Housing Payments (and we presume Household Support Fund although this is not expressly mentioned in the consultation).

- Homelessness and Rough Sleeping Grant - This will bring together funding for all homelessness and rough sleeping revenue funding except for the proposed temporary accommodation funding to be included within SFA. This grant is unlikely to apply to KCC as it allocated to lower-tier and unitary authorities which have housing responsibilities.

Rolling in grant into Revenue Support Grant

3.3 The consultation proposes that all of the remaining existing separate grants currently included in the Local Government Finance Settlement will be rolled into RSG and distributed using the SFA relative needs and resources formula. This will include funding for Adult Social Care (the Market Sustainability and Improvement Fund [MSIF] and the Local Authority Better Care Fund Grant) and the Social Care Grant. It is also assumed that the Employers National Insurance Contributions grant, business rate compensation and Recovery Grant will be rolled in although these are not expressly mentioned in the consultation.

3.4 The three social care grants will be rolled into the SFA methodology – but only the MSIF and Social Care Grant will be paid via Revenue Support Grant. The Local Authority Better Care Fund grant will be paid via Section 31 grant (top-sliced from RSG), so that it can continue to be pooled with the NHS through the Better Care Fund arrangements.

3.5 The inclusion of adult social care grants in the SFA will be accompanied by a published adult social care 'notional allocation' for each local authority. This 'notional allocation' will set out the government's expectation for how much local authorities should spend on adult social care, considering local authority expenditure, alongside income and funding available, for adult social care.

3.6 The government will also develop new accountability arrangements, that will describe how they intend to work with local government to ensure that this funding supports delivery of the government's ambitions for adult social care. Further details on accountability and assurance will be set out alongside the provisional Local Government Finance Settlement.

3.7 In KCC's response we agree with the proposed simplification of the funding arrangements outlined above alongside multi-year settlements. We recognise that the current system is overly complex and blurs accountability. We have also been critical of the previous timing of grants which has led to a drip-feeding of funding which restricts medium term financial planning. As with the response outlined in paragraph 2.4 we are concerned that the resource equalisation could result in some authorities receiving zero allocations. We have suggested that any departmental grants that remain outside of the consolidation and SFA arrangements should be notified on a multi-year basis and that consolidated and new grants should be subject to full, transparent and timely consultation.

4. Approach to Assessing Demand

4.1 Relative needs formulae (RNF) calculate how much 'need' a local authority has relative to other authorities for a particular service or group of services. It is important to note these measure relative not absolute needs, and the formulae do not calculate the amount of money required for a local authority to deliver this service. Instead, each local authority is given a 'share' of the need.

4.2 Since 2013-14, the Local Government Finance Settlement's core distribution has used 15 separate RNFs that encompass a range of service areas. The formulae have been used within the SFA to determine the distribution of RSG and set each local authority's Baseline Funding Level (BFL) for retained business rates.

4.3 The updated formulae proposed for inclusion take a comparable number of service areas into account and merges these into a smaller number of RNFs. Appendix B shows a comparison of the 2013-14 formulae to the proposed new formulae which are summarised in the table below.

Social care formulae	• **Adult social care (older adults and younger adults)** • **Children's and young persons' services**
Non-social care formulae	• **Foundation Formula (upper and lower tier)** • **Fire and rescue** • **Highways maintenance** • **Home to school transport** [1] • **Temporary accommodation**

4.4 The current formulae uses data that is over a decade old, and in some instances uses information from 2001 national Census. Consequently, updating the data is essential.

4.5 The **Adult Social Care** (ASC) proposed formula includes changing the current variables and weightings as well as updating the data. The proposals draw upon independent research undertaken by the Personal Social Services Research Unit at the University of Kent and include more detailed data at a smaller geographic level, up to date data e.g. from 2021 Census, as well as improved indicators of need. The ASC formula is particularly important as it allocates a large share of current SFA and a national total of £9.6bn of social care grants being rolled into SFA.

4.6 The **Childrens and Young People's** (CYPS) formula is based on extensive development and support from academic partners. The formula is based on a combination of individual child and neighbourhood characteristics to predict engagement with social care for Children in Need (CIN), Children Looked After (CLA) and care leavers. This research upon which the formula has been based has not been published.

4.7 The new formula for **Highways Maintenance** is based on road length and traffic flow data. The current RNF has a higher weighting for urban roads (x2) and includes top-ups for non-resident population and for winter maintenance. The proposed changes to the formula generally favour rural rather than urban authorities.

4.8 The new formula for **Home to School Transport** (HTST) will provide specific funding for both mainstream and Special Educational Needs (SEND) home-to-school transport. The proposed formula for mainstream HTST is based on the number of pupils and the distance travelled (capped at 20 miles). For SEND HTST, there is a proxy formula based on anticipated number of pupils with Education and Health Care Plans (EHCPs), and the

1 Post 16 travel is covered by the Foundation Formula.

average distance travelled (again with a 20 mile cap). Both formulas are largely based on distance (which is appropriate) and favour county areas, where distances travelled for HTST will be further.

4.9 The individual sub blocks include an area cost adjustment to reflect the different cost of providing services in different areas (covered in the next section) and are weighted according to the scale of overall national spending in each service area to determine overall need assessment. KCC's share of the proposed new RNF is shown in table 1 which overall provides KCC with 2.3% of the national total i.e. this provides KCC with a greater national share than the current RNF in table 2 (2%).

Table 1 – Kent's Share of Proposed RNF

	Adults	Childrens	Foundation Upper	Fire and Rescue	Highways	Home to School	Foundation Lower and Temp. Accomm.	Overall Weighted
Weighting	37.54%	23.18%	14.76%	4.30%	3.20%	3.24%	13.78%	
KCC Share	2.79%	2.73%	2.70%	0.00%	2.61%	4.43%		2.31%

Table 2 – Kent's Share of Current RNF

	Childrens RNF	Adults RNF	Highways RNF	EPCS RNF	Capital RNF	Total RNF
Kent	2.53%	2.57%	2.56%	1.02%	2.78%	1.99%

4.9.1 In KCC's response we agree with the streamlining of services within RNF and that these cover the main service areas where there are spending differences between authorities. We support the principle that separate formulae are only included where there is strong case that this improves the overall effectives of assessment of needs. Our only issue is why there is no separate assessment for waste collection and disposal/recycling. We support the recognition of additional costs of delivering services in large relatively sparse geographic areas and do not support recognising service costs associated with high population density. We have raised concerns that legacy capital financing costs are no longer reflected, as the cost of servicing borrowing taken out under the previous Supported Borrowing regime is still a fixed cost for those authorities until such debt matures. We are concerned about the lack of statistical analysis or evidence of the impact of deprivation and the measure used (Index of multiple Deprivation – IMD) is not suited to use to determine relative needs.

5. Approach to Assessing Cost

5.1 As well as variations in need there will be differences in the cost of delivering local government services between different areas because of differences in local labour markets and rurality, for example. The government are proposing to continue to apply an Area Cost Adjustment (ACA) to the Relative Needs Formulae to account for differences in the costs of delivering services.

5.2 The Government have reviewed previous versions of the ACA and are proposing to incorporate the following adjustment factors:

- Rates Cost Adjustment (RCA) – aims to measure the difference in the cost of property rates / rents between local authorities. This reflects the variation between areas in the cost of using equivalent premises due to differences in local supply and demand factors
- Labour Cost Adjustment (LCA) – aims to measure the difference in the cost of labour between local authorities. This reflects the fact that authorities will need to compete with other potential employers to secure and retain suitable skilled staff
- Accessibility Adjustment – aims to measure the impact of the difference in travel time to provide services on the cost of labour. There are two measures within this adjustment - a dispersal adjustment factor (longer journeys to reach households) and a traversal adjustment factor (longer journeys between households). They are measured using journey time data and combined with the LCA, since they are measures of additional labour cost.
- Remoteness Adjustment – aims to measure the impact of separation from larger concentrations of service users.

5.3 The accessibility adjustment for labour costs and the remoteness adjustments are the main changes from 2023-24 ACA and generally benefit local authorities serving large geographic areas with dispersed populations. Every authority will have its own unique ACA, instead of being included in a regional grouping.

5.4 In KCC's response we agree with the proposed changes in ACA. The council has consistently argued that there is ample evidence of the additional costs of providing services in county areas. Our only further enhancement is that we think there should also be a top up for areas with long coastlines, particularly for peninsular areas due to lack of competitiveness due to the inability to share services or suppliers across local authority borders in the same way as land borders. Coastline length is included in the relative needs for Fire and Rescue services, and we believe it is also a factor affecting cost of other services in a county like Kent which should be reflected within relative needs.

6. Council Tax equalisation and the notional Council Tax level

6.1 The government believes there is a role as an equaliser for local government income, directing funding towards the places that are less able to meet their needs through locally raised income. The objective of equalisation is to make funding available in such a way as to enable all local authorities to provide the same level of service to their residents.

6.2 The government is proposing that Council Tax equalisation is based on an assumed or 'notional' level of Council Tax for all authorities. The government is proposing to set a notional Council Tax level that achieves the objective of full equalisation. This notional Council Tax level would be set at the average Band D level of Council Tax in England for authorities in scope of these reforms (c. £2,000 in 2026-27). Where there are multiple tiers of local government the consultation proposes to uniformly apply the average tier split in multi-tier areas to the measure of Council Tax in the resources adjustment. The proposed Upper Tier share in 2024-25 for England would be 84.4%.

6.3 Basing the resource equalisation on a notional tax level effectively equalises funding to take account of differences in the Council Tax base i.e. the proportion of dwellings in different tax bands and impact of mandatory discounts and exemptions but not differences due to local decisions on Council Tax charges. The government is proposing to use a formula to determine a proxy for the impact of working age Local Council Tax Support i.e. this would exclude the discretionary element of local schemes. The proposals assume that all authorities make no use of discretionary discounts and premiums. The proposals assume 100% collection rate.

6.4 Kent's Council Tax base is relatively lower than other South East councils due to larger number of dwellings in the lower bands. Table 3 shows the distribution of the total number of dwellings before discounts and exemptions by each band. This shows the average dwelling in Kent is in Band C.

Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	% Below Band D	% Band D and Above	Most Common Band	Median Band
10.0%	18.5%	27.2%	20.1%	11.6%	6.8%	5.2%	0.5%	55.7%	44.3%	Band C	Band C

6.5 In KCC's response we disagree with the proposed full Council Tax equalisation as this should only relate to statutory services, and it should remain a local decision on spending on non-statutory services, striking a balance between spending and local taxation levels. However, we do agree with the principle that equalisation should be based on a notional level of council tax (we have previously been critical of the changes introduced in 2016 with equalisation based on individual tax levels in each authority which was introduced with no prior consultation or notification). We agree that the equalisation should include impact of mandatory discounts (although we think the proxy for working age local council tax is too complex and could be based on assumed impact of national default scheme) and exemptions, and local discretionary decisions should not be included in the equalisation calculation. We do not agree with the assumption of 100% collection rate as this is unlikely to ever be feasible and collection rates should be based on national average.

7. Business Rates Retention System

7.1 Under the current business rates retention arrangements local authorities retain a share of local growth in business rates above a baseline established in April 2013. This baseline was based on the current relative need and resources formula compared to historic local shares of business rates. Authorities where the baseline is more than share of business rates receive a top-up, and authorities where baseline is less return a tariff to offset top-ups at a national level.

7.2 The baselines (and consequently top-ups and tariffs) have been uplifted each year in line with inflationary increases in the national multiplier (with a separate compensation grant for freezes in the multiplier and additional relief) and have been recalculated to reflect revision to rateable values but have not been reset to reflect changes in relative needs and resources. The consultation proposes a full reset of the Business Rates Retention System in 2026-27 to align with changes in relative needs and resources and further planned changes in business rates including the introduction of further classes of multipliers, making temporary relief arrangements permanent, and triennial review of rateable values.

7.3 The level of risk and reward local authorities are subject to within the Business Rates Retention System will largely be determined by the level of protection provided to local authorities experiencing drops in their business rate income from the Safety Net, the levy charged on business rate growth above funding baselines, and whether local authorities are able to share risk and reward through pooling arrangements.

7.4 The government has proposed further periodic resets to ensure funding allocations are kept up-to-date while providing future funding certainty to local authorities. To help them drive growth the government is considering whether Mayoral Strategic Authorities should eventually receive a direct share of business rates through the Business Rates Retention System. Engagement will take place over the forthcoming multi-year Settlement period to co-develop a new offer with view to implementation thereafter.

7.5 In KCC's response we feel there is insufficient justification for increasing the level of protection through the safety net, and that the cost of safety net protection should be contained within funding from levies on growth. We are concerned about suggestions that pooling will not continue, as this has worked well to share the impact of risks and rewards in local areas, especially in two-tier areas.

8. New Homes Bonus

8.1 The government is proposing that 2025-26 will be the final year the New Homes Bonus is paid in its current format. The government does not believe the New Homes Bonus is an effective incentive. The current funding (£290 million nationally in 2025-26) will be returned to the core Settlement and allocated according to the updated assessment of needs and resources. The government is seeking views on alternatives to incentivise local authority housing growth and specifically to support affordable and sub-market housing.

8.2 KCC received £1.9m funding from the Homes Bonus in 2025/26 (Kent districts received a total of £7.7m). The current Medium Term Financial Plan agreed in February 2025 already assumes this grant ceases in 2026-27 so there is no change to existing planning assumptions.

8.3 In KCC's response we agree the New Homes Bonus should cease and funding transferred into the core Settlement through relative needs and resources. The Council has consistently challenged the basis of New Homes Bonus, which includes an arbitrary threshold for growth (above which grant is allocated), the split of resources in two-tier areas (with 80% allocated to lower tier authorities and 20% to the upper tier) and the use of Council Tax growth creates a significant lag between planning approvals and delivery of new housing. We believe housing incentives should be bespoke and sit outside of the core Settlement, although there is a case for excluding new housing from the relative resource adjustments until any future resets between multi-year settlement periods as a short-term incentive.

9. Transitional Arrangements and Keeping Allocations up to Date

9.1 The government will begin implementation of updated funding allocations at the 2026-27 Settlement, alongside a business rates reset with the new allocations phased in over the three years of the multi-year Settlement. This will align with the Spending Review period (2026-27 to 2028-29) which provides an additional £3.4bn of additional grant funding over the three-year period.

9.2 To support local authorities to move to their new allocations in a phased sustainable way, the government are inviting views on a package of transitional arrangements available over the three-year multi-year Spending Review period. Where funding reduces, the government expects that service transformation supported by the use of funding held in reserves, will be required to support the move to the new funding allocations.

9.3 As well as the phased implementation, the consultation includes a proposal for a 0% (cash flat) funding floor so authorities would not suffer cash-terms reductions in overall funding over the period of the multi-year settlement. Any protection offered through a funding floor will assume local authorities use their full council tax flexibility (i.e. they would set the Band D council tax up to the referendum limit) although to keep Council Tax levels affordable the government expects councils to consider all levers at their disposal to manage balanced budgets before making requests for Council Tax referendum flexibility.

9.4 In KCC's response we agree with a time-limited phased introduction as previous damping arrangements were not time limited which led to previous distribution of funding being baked into allocations and the objectives of reforms never fully achieved. We support continuing flexibilities to use capital receipts to fund revenue spending but only in limited circumstances. We do not support allowing councils to borrow to fund revenue spending. We have commented that the reform of Council Tax is long overdue, the previous funding arrangements have led to a wide divergence in Band D charges with London authorities able to raise much lower charges than other areas. We believe that devolution of additional powers to local authorities is key to unlocking additional flexibilities and to reduce reliance on Council Tax increases as a way of funding increased costs and demands on local services (however we do not necessarily believe that a Strategic Mayoral Authority should be perquisite for devolution).

9.5 We do not believe an arbitrary cash floor is appropriate. If there is to be additional protection for some councils this should be separately funded and not at the expense of assessed needs and resources for all other councils. We do not agree that population, notional Council Tax levels or taxbase data should be based on projections and data should be fixed for the entire multi-year period between resets (as forecasting errors could more than negate any smoothing of transition that projections are designed to achieve).

10 Local Government Reorganisation

10.1 Where two-tier areas seek to reorganise into a single unitary authority, the government proposes that SFA allocations of the predecessor authorities are combined to determine the allocation of the successor authority.

10.2 Where there are proposed boundary changes, including where an area is divided into more than one unitary authority, the government proposes to provide guidance to support areas to determine an appropriate division of allocations locally. This guidance would aim to ensure a consistent approach across all reorganisation areas but would allow for local data and intelligence to be used. It is important that areas determine allocations locally because local authorities hold the information needed to assess the level of need and resources at a sub-local authority level, for example information on differing levels of social care demand and costs across the county area to ensure that proposed funding splits are financially sustainable for the new unitary authorities.

10.3 The final decision on the division of allocations between successor authorities will sit with the Secretary of State and will ultimately be subject to Parliamentary approval through the annual Local Government Finance Settlement process. This approach will apply to all funding delivered through the Settlement.

10.4 In KCC's response we agree with arrangements for reorganised areas, However, it is essential that government guidance is sufficiently flexible to ensure the principal objective that new authorities start from a relatively financially sustainable position. We have advised that significant and urgent reforms are needed to the arrangements for assessing and supporting children with Special Educational Needs and Disabilities, including home to school transport, given spending pressures and budget deficits in many areas which are currently subject to a statutory override due to expire at the same time as new councils are likely to take over responsibility.

11. Sales, fees and charges

11.1 Income from sales, fees and charges is not taken into account in the relative resources adjustment. However, the government is looking to introduce some reforms to balance the challenging financial position of local authorities and affordability of fees for individuals. These reforms will look to update nationally set fee levels via secondary legislation and devolving control of fee setting for other services to local councils.

11.2 In KCC's response we agree with the proposed framework and have suggested that one possible solution to the financial challenge facing local authorities from increasing demand for and cost of local authority services would be to fully recover the cost of some services through income so that limited resources from central government and local taxation can be better targeted. We agree that a balance needs to struck to protect service users from excessive increases. However, we have commented that we have not seen any assessment of ability to pay to underpin the decision in the Spending Review to maintain Council Tax referendum levels at 5%.

12. Proposed design of relative needs formulae

12.1 The consultation includes details of the proposed measures of relative needs to be included in RNF. These are generally based on relevant age population with additional weighing and add-ons for specific characteristics such as welfare support claimants, household circumstances derived from National Census, deprivation, free school meals, child health, parental qualifications, daytime/nighttime population inflows, road length and traffic volumes, average travel distance to school. The consultation includes a number of technical annexes for the individual RNF calculations. Appendix C sets out all the measures for each RNF.

12.2 In KCC's response we agree with the proposals for older persons social care RNF, children and young people's RNF, and highways maintenance RNF. We do not agree with the proxy measures used for younger person's adult social care RNF as these do not adequately reflect the client group and we have suggested that the government already holds up to date person level information in the Adult Social Care Client Level Dataset which could be used as a more accurate measure.

12.3 As per the response set out in section 9 of this report we disagree that annual population projections should be used in the calculation and data should be consistent for entire multi-year period. We accept that the Foundation formula RNF for all other services should be based on population, but we are concerned about the weighting applied to, and the measures used for, deprivation. We fully agree with the inclusion of a home to school transport RNF based on pupil population and travel distance but do not support an arbitrary 20-mile cap. We think there should be consideration of a further adjustment to the home to school transport formula to reflect net movement of out of area looked after children with EHCPs if transport costs are not able to be recouped from the home authority.

13. Next Steps

13.1 The government has said they intend to publish a policy paper setting out the proposed arrangements for 2026-29 multi-year settlement following the consultation in September/October. This announcement should enable us to better model the impact on KCC's grant settlement as the consultation itself did not include detailed modelling. In the meantime we will be updating the funding assumptions in the 2026-28 existing Medium Term Financial Plan to include the additional funding announced in the Spending Review but based on the current distribution.

13.2 On 5th August KCC launched its own consultation on the budget strategy for 2026-27 budget consultation 2026-27. This is based on a presumption that the recent trends continue, and the Council will face increased spending in the coming year in excess of the resources from central government and local taxation leaving a gap of circa £50m (3.3% of 2025-26 net revenue) to be found from savings and income. The consultation seeks views on where savings should be found and on Council Tax levels. The consultation is open for 8 weeks until 29th September. This forecast gap will change as s result of Fair Funding 2.0 decisions although it is highly unlikely any gain will fully close the gap and further savings/income will still be needed to balance 2026-27 budget and plans for subsequent years.

14. Financial Implications

14.1 At this point in time it is reasonable to presume that under the current Fair Funding 2.0 proposals, KCC would receive an increased share of the resources available in the Local Government Finance Settlement. Not least because as outlined in section 4 of this report, the Council's overall weighted share of RNF is higher than the current arrangements. However, the Government have not produced any exemplifications alongside the consultation. Further, any gains on the relative needs share will need to be tempered by the impact of the relative resources adjustment and will be phased in over the three-year period through transitional arrangements. Those Authorities "losing" from these proposals will also lobby intensely for further changes. So, it is not possible right now to assign, with any degree of certainty, what any financial gain to the Local Authority may be.

14.2 The consolidation of departmental ringfenced grants is likely to impact on the Council's overall net budget requirement. Currently the net budget is reduced by the income received from ringfenced grants to offset spending, but income from RSG and other funding in the Local Government Finance Settlement is not offset and is treated as funding towards the net budget requirement along with Council Tax and retained share of business rates. We intend to maintain this approach with the grants rolled into RSG (allocated via SFA) continuing to be treated as funding and income from consolidated grants announced in the settlement and any other ringfenced grants outside the settlement treated as income to offset spending.

15. Legal Implications

15.1 The Council is required by law under the Local Government Finance Act 1992 to set a balanced budget for 2026-27 before 1st March 2026. There is a separate requirement under Section 25 of the Local Government Finance Act 2003 for the Chief Finance Officer to prepare a statement on the robustness of the budget estimates and the adequacy of reserves. The Fair Funding 2.0 consultation does not change these legal requirements although it will impact on the funding available to the Council towards balancing the budget and ultimately local decision on Council Tax levels.

16. Equalities Implications

16.1 As set out in the Council's response to the consultation there is no specific evidence of impacts on those with protected characteristics but given the scale of local authority services, and the heavy bias on spending to support the most vulnerable it is essential that the formulae used to determine funding allocations are based on up to date data and are the best measures to reflect need. The draft budget 2026-27 and medium term financial plan 2026-29 will include a published Equality Impact Assessment.

17. Data Protection Implications

17.1 None.

18. Appendices

Appendix A – Individual Consultation Responses
Appendix B – Comparison of RNF Sub Blocks
Appendix C – Components of RNF Sub Blocks

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