

Report to: Lead Member for Resources and Climate Change

Date of meeting: 12 August 2025

By: Chief Finance Officer

Title: Fair Funding Review 2.0 Consultation Response

Purpose: To provide an update on the impacts of the Fair Funding Review 2.0 consultation and set out the Council's proposed response.

RECOMMENDATIONS:

The Lead Member for Resources and Climate Change is recommended to:

(1) Approve the proposed consultation response; and

(2) Delegate authority to the Chief Finance Officer to make any further minor amendments and to submit the final response by 15 August 2025.

1. Background

1.1 The government has issued its latest consultation paper on the funding reforms, known as the Fair Funding Review 2.0 (FFR2.0). It is an 8-week consultation, running from 20 June 2025 to 15 August 2025 and respondents are asked to answer 46 questions on the range of proposals. The link to the consultation is found at: <https://www.gov.uk/government/consultations/the-fair-funding-review-20>.

1.2 The fair funding review has been a long time coming, with the current formula dating back to 2013/14. The Council has lobbied for many years for the government to reform local government funding, so welcomes the simplification of the overall funding system, the plan for a multi-year settlement, and the fact that formulae to assess needs are being updated. However, the impact of the draft proposals in FFR2.0 is expected to be detrimental to East Sussex County Council (ESCC), with a modelled loss of grant funding in the region of £18m by the end of the multi-year settlement to 2028/29.

2. Supporting information

Approach

2.1 The FFR2.0 proposals cover 2 main aspects: an update of councils' assessed needs, which includes an adjustment to reflect the differing ability of each council to raise council tax income; and a simplification of the overall funding system, with many specific grants rolled into the settlement. What the review does not provide is additional local government funding, but it will see the reallocation of existing funding.

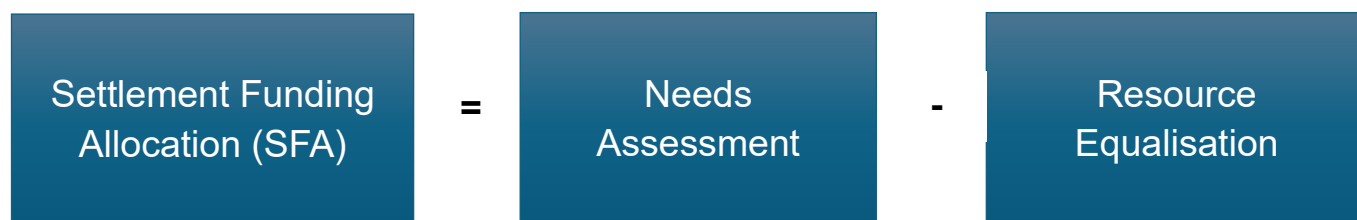
Updating Needs

2.2 The government has updated the **relative needs formulae (RNFs)** used to assess each authority's needs compared to all other authorities. The number of RNFs factors is proposed to be reduced from 15 to 9. Each RNFs factor is derived using data on the potential drivers of activity and/or demand in each service.

2.3 An **Area Cost Adjustment** is applied to reflect the differing cost of providing services in different local authority areas. This is based on local wages, cost of accommodation and office space, and a remoteness adjustment.

2.4 This is then weighted using expenditure **control totals** broadly derived from the total Revenue Outturn (RO) financial returns provided by all authorities, to ensure that services where expenditure has grown the fastest will have a larger share of needs.

2.5 A **resources adjustment** is then applied to the Weighted Needs Shares to account for differing ability to raise Council Tax, rather than the rate that is actually charged in practice (this is explained further in paragraphs 2.16 to 2.18). The final Settlement Funding Allocation (SFA) comes together as below:



Simplification of the Overall Funding System

2.6 The government wants to simplify the overall funding system. It has identified around 300 specific grants that are paid to local authorities, from which it wants to create a series of **consolidated grants**.

2.7 All the specific grants currently included within Core Spending Power (CSP) will be rolled into the SFA, including the New Homes Bonus, Recovery Grant, Minimum Funding Guarantee (MFG), the 3 social care grants, and the Children's Social Care Prevention Grant.

Impact – Updates to Assessed Needs

2.8 The changes to the RNFs include:

- Updated formulae for Adult Social Care and Children and Young People's Services;
- A new bespoke Home to School Transport formula;
- An updated Highways Maintenance formula;
- A new Temporary Accommodation formula;
- The abolition of specific formulae related to environmental and cultural services, flood defence, coastal protection, and concessionary fares;
- The specific formulae in the bullet point above to be replaced by 2 simplified foundation formulae (one for upper tier and one for lower tier authorities).

2.9 Analysis of the needs assessments shows that there is going to be a considerable shift in needs away from inner London and from shire districts, and towards the shire counties and unitary authorities. This increase in the needs of shire counties results from the inclusion of the new Home to School Transport RNF, the new Highways formula, based on road length and traffic flow data, and the addition of an accessibility adjustment and a remoteness factor within the Area Cost Adjustment, to compensate authorities with less access to markets.

2.10 Despite a projected increase in assessed needs of shire councils, there is likely to be significant variation between councils depending on local factors.

2.11 For East Sussex, modelling suggests a small overall increase in need, with increases in the Children and Young People's RNF, due mainly to the inclusion of the Home to School Transport Service RNF, and an increase in Highways Maintenance due to changes in the way the formula is calculated,

2.12 This will be partially offset by a fall in the assessed need for Adult Social Care due to a shift towards younger adults and away from older adults (e.g. the inclusion of a 16-24 years age group and a reduction in the weighting of over 65s) and a fall in the Foundation Formula has reduced due to the removal of specific flood defence and coastal protection formulae, with a simplified formula using daytime visitors and deprivation.

Impact – Resource Equalisation

2.13 While ESCC's assessed need is projected to increase under the proposals, this does not mean that councils' SFAs will be higher. As set out in paragraph 2.5, the government are proposing to apply a resource equalisation to each authority's assessed needs to arrive at a final settlement figure.

2.14 The government are proposing to move to full (100%) council tax equalisation. This is achieved by applying a notional council tax band D equivalent of £2,000 to each authority's council tax base, deducting this from their total assessed needs (the product of its relative needs as a share of the quantum of local government core spending power) to arrive at a settlement funding allocation figure. The actual council tax levied and raised by each authority is not relevant to the calculation.

2.15 By using this notional rate of £2,000 across all authorities, councils like ESCC, whose council tax base is relatively high compared to its assessed needs, will lose out after the deduction is applied. This can be explained using the example in Table 2 below.

Table 1: Example of how SFA can differ between 2 authorities with the same assessed need but differing council tax bases

	Total Assessed Needs (£m)	Council Tax Base (Band D equivalent)	Notional Rate (£)	Deduction (£m)	SFA (£m)
Council 1 (low base)	200	50,000	2,000	(100)	100
Council 2 (high base)	200	75,000	2,000	(150)	50
	400			(250)	150

Net Gains and Losses - Modelled

2.16 It is important to stress that the changes that have taken place to the system of local government funding since 2013/14 are numerous, varied and complex, so assessing the impact of the proposed reforms is very difficult, and any prediction must be viewed as a broad indicator rather than an exact figure.

2.17 Nevertheless, supported by work undertaken by both our funding advisors and other local authorities, we have estimated the impacts of the reforms to be a net loss between £12m and £18m by 2028/29, or 2% and 3% of the combined settlement and rolled in grants for 2025/26. There are transitional arrangements, set out in paragraph 2.19 below.

2.18 Other gains or losses will be affected by the impact of the Business Rates reset, equalisation of the Adult Social Care (ASC) precept within the social care grants that are rolled into SFA, and other rolled in funding streams, such as the New Homes Bonus.

Transitional support, phasing and keeping allocations up to date

2.19 In response to authorities that lose funding, the government is proposing a package of transitional support, which will mean no authority suffering a cash-terms reduction in overall funding and transition will take place over the 3-year spending review period (2026-27 to 2028-29). A loss of £18m would, therefore, be phased at £6m per year.

2.20 The government has also proposed to keep allocations up to date each year by using:

- Residential population (in the needs assessment);
- Council Tax level (in the resource equalisation); and
- Council Tax base growth (in the resource equalisation).

3. Consultation Response

3.1 While there are 46 questions in total, they can be grouped into various themes within the consultation and a summary of ESCC's proposed responses are set out below. The full proposed responses to the 46 questions are set out in Appendix 1.

Simplifying of funding landscape (Questions 1 – 6)

3.2 ESCC broadly welcomes the simplification of the local government funding landscape and the end to competitive bidding. However, there is a concern that the rolling in of grants to the SFA will mean ESCC lose specific funding as it becomes subject to a SFA allocation that is less favourable.

3.3 ESCC generally agrees that the new 9 formulae cover the main cost drivers, but have some reservations about how these are calculated, which are picked up later in the response. In particular, the inclusion of a Home to School Transport RNF is welcome and should move towards addressing key cost pressure in East Sussex. ESCC also welcomes the new Highways Formula. On the other hand, the loss of specific formulae related to Flood defence and Coastal Protection, to be replaced by simplified Foundation Formulae based on numbers of visitors and deprivation, is a concern to the Council.

Area Cost Adjustment (Questions 7 – 9)

3.4 The government are proposing to update the Area Cost Adjustment (ACA) to the Relative Needs Formulae to account for differences in the costs of delivering services. This comprises a Labour Cost Adjustment (LCA) to measure the difference in the cost of labour between local authorities, Rates Cost Adjustment (RCA) to measure the difference in the cost of property rates / rents between local authorities, an Accessibility Adjustment to account for the impact of the difference in travel time to provide services, and a Remoteness Adjustment to reflect the cost of separation from larger concentrations of service users.

3.5 ESCC does not agree with the approach to ACA because a key aspect, the LCA, is flawed. The LCA is based on median wages as a proxy for the labour costs faced by the county. Median wages in East Sussex are approximately 90% of the national average, which will reduce ESCC's relative needs share once the ACA is applied.

3.6 However, the operational cost of social care is not aligned to local median wages, so ESCC's assessed need is lower than the true cost of the fees paid to providers to support adults and children with social care needs. The Council would urge the government to use a more sophisticated approach to the labour cost adjustment based on industry sector wages – in particular health and social care sector in the ASC and Children and Young People's RNFs.

3.7 However, ESCC agrees with the inclusion of the Remoteness Adjustment. For example, published hourly homecare rates in the most rural areas of ESCC are 49.8% higher than the lowest rate in the County at £35.96 per hour compared to £24.00 per hour.

Resources Equalisation (Questions 10 – 16)

3.8 ESCC believes that a 100% equalisation is grossly unfair. ESCC would strongly favour a partial equalisation – for example 85%. Opting for an 85% equalisation, as had been proposed and lobbied for by The Society of County Treasurers during the initial consultation, would reduce impact of the resources equalisation and leave councils with a high tax base relative to their needs (such as ESCC) with a higher SFA.

3.9 100% equalisation means many authorities, including ESCC, will see their overall settlements reduce significantly (assuming overall core spending power increases in line with the Spending Review), despite recognition of increased need. This is destabilising to the system, will risk the financial sustainability of affected authorities, and impact services provided to residents.

3.10 The council tax base should also be adjusted to reflect council tax collection rates. The assumption that these are 100% does not reflect reality and means the resources deduction will be far greater than the amount of council tax that could realistically be collected at the notional rate.

3.11 ESCC would also urge that the government to recognise that council tax is a local tax. Residents expect their council tax to be spent locally, and recognition that it is a local tax is required to maintain trust between residents and local authorities. The current system is already complicated, and excessive equalisation just makes the connection between the council tax they pay and the level of local services even more opaque and harder for residents to understand.

3.12 If council tax equalisation is to be at 100%, based on a council's tax base, then councils should be given greater flexibility on setting council tax otherwise the argument that areas with a high base are more able to mitigate the loss of grant funding is completely undermined.

Transitional Arrangements, Phasing and Keeping Allocations Up to Date (Questions 20 – 27)

3.13 ESCC welcomes the multi-year settlement and broadly agrees with transitional arrangements and a funding floor to protect the impact on authorities who will see reductions in the SFA.

3.14 While ESCC generally agrees with keeping allocations up to date to reflect changes in need, this must be balanced against the desire for certainty of funding allocations to help strategic financial planning. The government could consider a stepped approach when material changes (e.g. over 10%) are seen in areas. Also, flat population growth figures are not reflective of need in areas such as East Sussex, where growth in the older population (and a reduction in the working age population) has resulted, and will continue to result, in increased need that would not be reflected in future allocations based on total population figures. ESCC would prefer an age-related population growth factor to be used.

3.15 ESCC strongly disagrees with projecting changes to the council tax rate to inform the resources adjustment over the settlement period. Council tax rates are a local decision, and residents do not expect this to affect government funding levels. If future funding is impacted based on an assumed rate of council tax (whether that be the referendum principles or historic decisions), this will undermine future decisions on council tax and removes any link between the amount of tax paid by residents and the services they receive.

3.16 Regarding the growth in the council tax base and updating the resource equalisation, while there is a logic in reflecting the growth in the base, using historic growth figures creates an inherent inaccuracy in the base, and exaggerates the impact of a 100% equalisation, which ESCC is strongly opposed to.

Sales, fees and charges reform (Questions 31 – 34)

3.17 The government is seeking views on how changes to fees and charges could be taken forward in a proportionate way across the multi-year Settlement.

3.18 ESCC would support any move to increase flexibility for raising fees and charges and would urge the government to progress with any review that prioritises increasing flexibility and trusting local authorities to set the right fee levels that recognise effects on demand, businesses and financial sustainability, to ease the financial strain on local government. Local authorities are best placed to know how to balance the need to maintain fee values and the original policy intent of the fee whilst minimising cost of living impacts for service users, so emphasis should be on devolving decision-making to local

authorities as much as possible – for example, by allowing means testing of Home to School Transport and Concessionary Fares.

Technical Questions on Individual RNF (Questions 35 – 45)

3.19 Councils have been asked to comment on the factors used in the calculation of individual formulae. This is a detailed and complicated part of the consultation, so below is a summary of the issues or concerns ESCC has with aspects of the RNFs.

Adult Social Care RNF

3.20 ESCC feels strongly that the disproportionate cost of supporting the very old population (i.e. over 85s) has not been taken account of in the ASC RNF. ESCC has the largest number of over 85s in the country, and one of the oldest populations in the UK, and the corresponding rate of dementia and other chronic health conditions inevitably has a drastic impact on the cost of care to meet the statutory Care Act duties, and yet the ESCC assessed need for ASC has dropped by 3.4%.

3.21 A suggested addition to the formula would be the incorporation of average population age as a factor. Whilst this is somewhat incorporated in both the older adult and younger adult RNF calculations by the adjustments for over 80 years of age (an increase) and for the age group 16-24 (a decrease) it does not reflect that having a consistently older population impacts on the complexity of both population splits, particularly the amount of family support available for the older working age population and the complexity of care required for a generally older population.

Foundation RNF

3.22 It is noted that deprivation is now included as a factor in the foundation formula, which is consistent with the government's targeting of deprivation. As East Sussex is in the least deprived third of LAs in the country, this has been detrimental to ESCC, who has seen its foundation formulae needs assessment drop by 3.3%. However, other factors related to deprivation have been applied to other areas of the formulae – notably the use of median wages for the Area Cost Adjustment, where ESCC's lower wages will have reduced ESCC's assessed needs. A more consistent approach to deprivation and local wages would have been fairer and avoided ESCC losing out twice.

3.23 The removal of specific formulae related to flood defence and coastal protection is also detrimental to ESCC and would prefer these cost drivers to be captured in some way in the new Foundation RNF.

Highways RNF

3.24 ESCC broadly agrees with the simplified approach to the Highways RNF, with some caveats. The key limitation of this approach is that it assumes that historic spend across local authorities is broadly proportional to historic need. It does not account for current road conditions, the conditions of other assets such as bridges or the backlog of repairs across the country.

Home to School Transport RNF

3.25 While the addition of a specific Home to School Transport RNF is welcome, ESCC does not agree with its calculation. The 20-mile capping risks underfunding authorities like ESCC where long-distance travel is often a necessity rather than choice, with around 10% of journeys over 20 miles. These longer journeys are often the most expensive, supporting Alternative Provision and Education Otherwise than at School. ESCC would prefer a tiered weighting system that reflects the cost of longer journeys, rather than excluding them from the calculation.

3.26 The straight road formula discounts ESCC's rural roads and appears quite reductive for a big county. It doesn't reflect the reality of ESCC's transport networks and East Sussex has limited direct routes, especially to special schools. ESCC would prefer to use actual road distances or a weighted proxy that accounts for rurality and/or travel time.

3.27 ESCC does not know how the figure of Special Educational Need and Disability (SEND) travel costing 6.6 times more than mainstream travel was arrived at, nor whether it accounts for regional variation. If ESCC includes public transport (freedom passes) in its costs, the difference is greater than 6.6 times the cost. This will understate the complexity of provision especially for children who need medical support on transport. There should be consideration of rurality, need for children who travel on their own, personal assistants or nurses, specialist vehicles, and longer travel times.

4. Conclusion and reasons for recommendations

4.1 The Council has considered the government's proposed funding reforms, which are likely to mean a loss of settlement funding for 2026/27. While aspects of the reforms are welcome, ESCC has concerns with some of the proposals and how this will impact the Council's financial position over the settlement period. ESCC hopes that the response, together with those of other authorities within the Council's networks, will be reflected in the government's policy statement and final settlement due before the end of 2025.

4.2 The proposed response set out at Appendix 1 is in draft format. Further work continues in consultation with other local authorities and network bodies.

4.3 The Lead Member for Resources and Climate Change is therefore recommended to:

- Approve the proposed consultation response; and
- Delegate authority to the Chief Finance Officer to make any further minor amendments and to submit the final response by 15 August 2025

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Background Documents:

None

Local Members:

All