

# Fair Funding Review 2.0

## Rural Fair Funding

### National Rural Conference

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15 September 2025



# Fair Funding 2.0

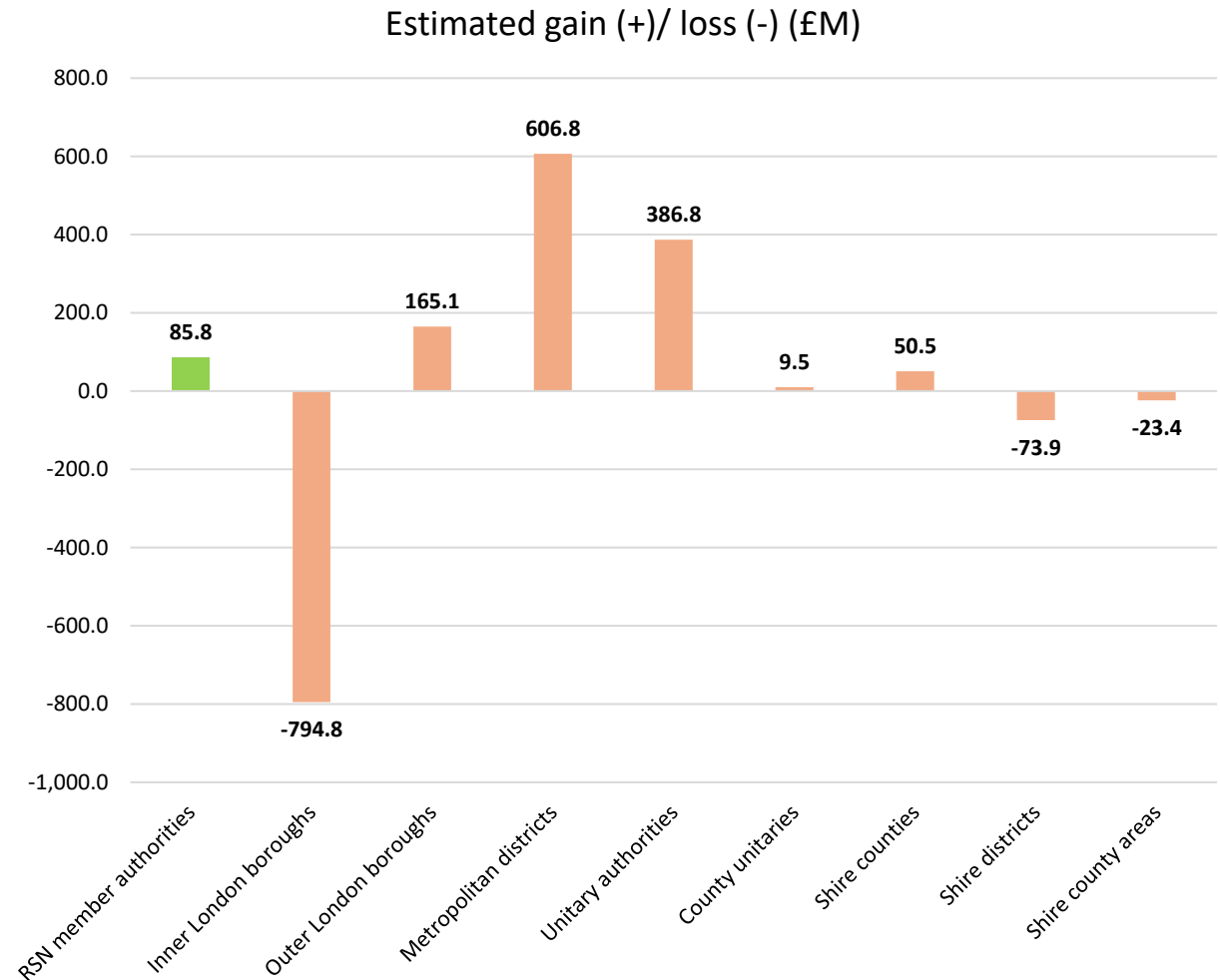
- Consultation link: <https://www.gov.uk/government/consultations/the-fair-funding-review-20/the-fair-funding-review-20>
- Response to the consultation – 15 August 2025 (8-week consultation)
- Major funding reform, with changes in funding distribution (Relative Needs Formulas), updated data (population), council tax equalisation, and a full baseline reset
- Largely based on the previous government’s Fair Funding consultation (December 2018)
- But with full council tax equalisation and children’s social care formula – otherwise largely the same
- Broadly positive for rural authorities, although not all will gain from the proposals
- Impact on individual authorities is a complex mix of each of the funding changes

# Has Fair Funding 2.0 taken rural pressures into account?

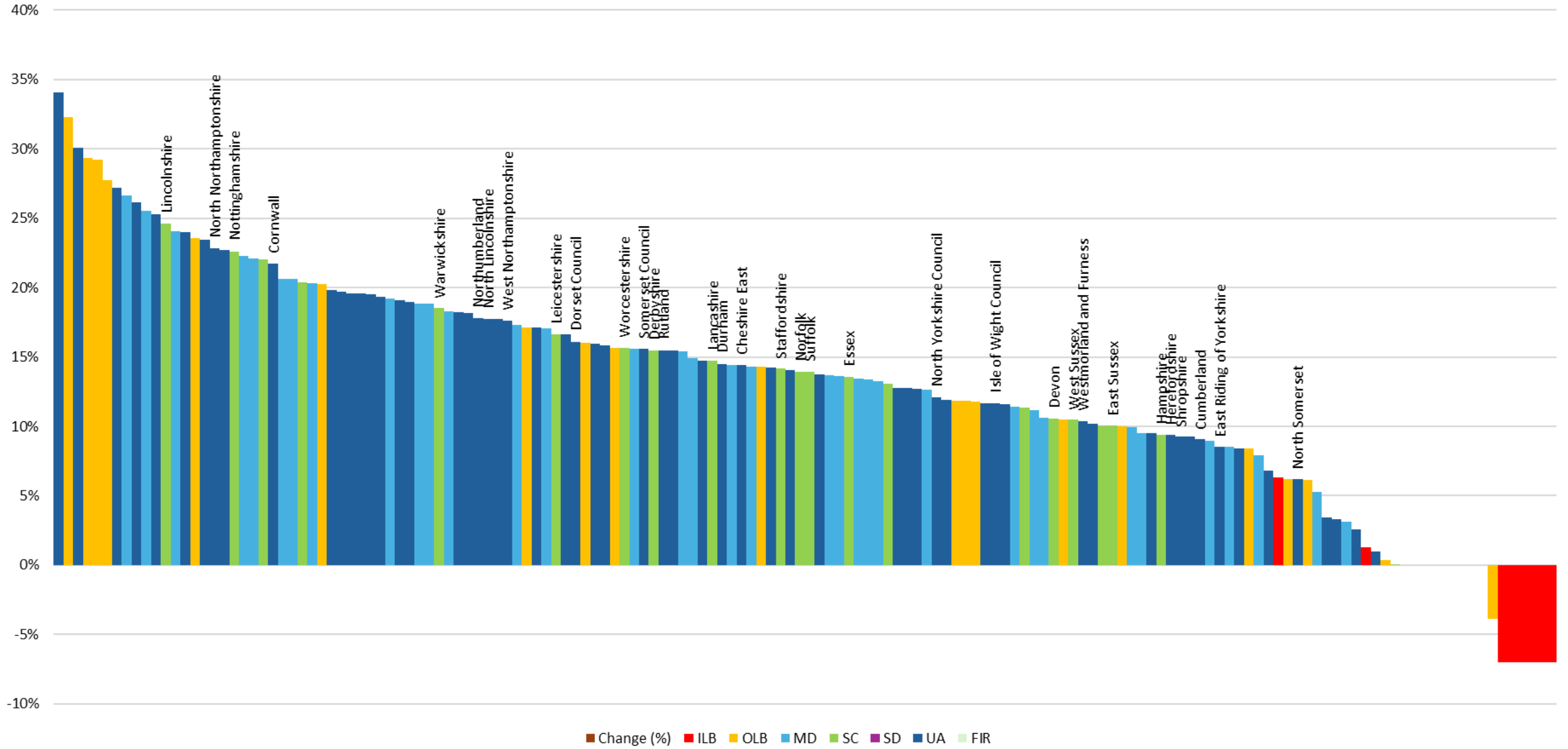
- Ministers have been saying the right things:
  - *“adjusting for the costs of remoteness faced by rural communities”*
  - *“different needs and costs faced by local authorities in urban and rural areas”*
  - *“especially those with popular natural attractions, can also face heightened service demands due to high tourist volumes.”*
- New Accessibility and Remoteness elements within the Area Cost Adjustment (ACA) – compensate rural authorities for higher unit costs (travel time, market dysfunction)
- Removal of the sparsity (and density) indicators from the children’s, adult social care and EPCS formulas
- Is this a good bargain? On balance, yes. Density always distributed much more than sparsity. But: it narrows the definition of rural cost (unit cost and not demand). And limits future scope for ministerial discretion
- Impact of abolishing sparsity indicators is most significant in very sparsely-populated rural district councils – and compounds the loss from RSDG

# Estimated gains and losses – before phasing and damping

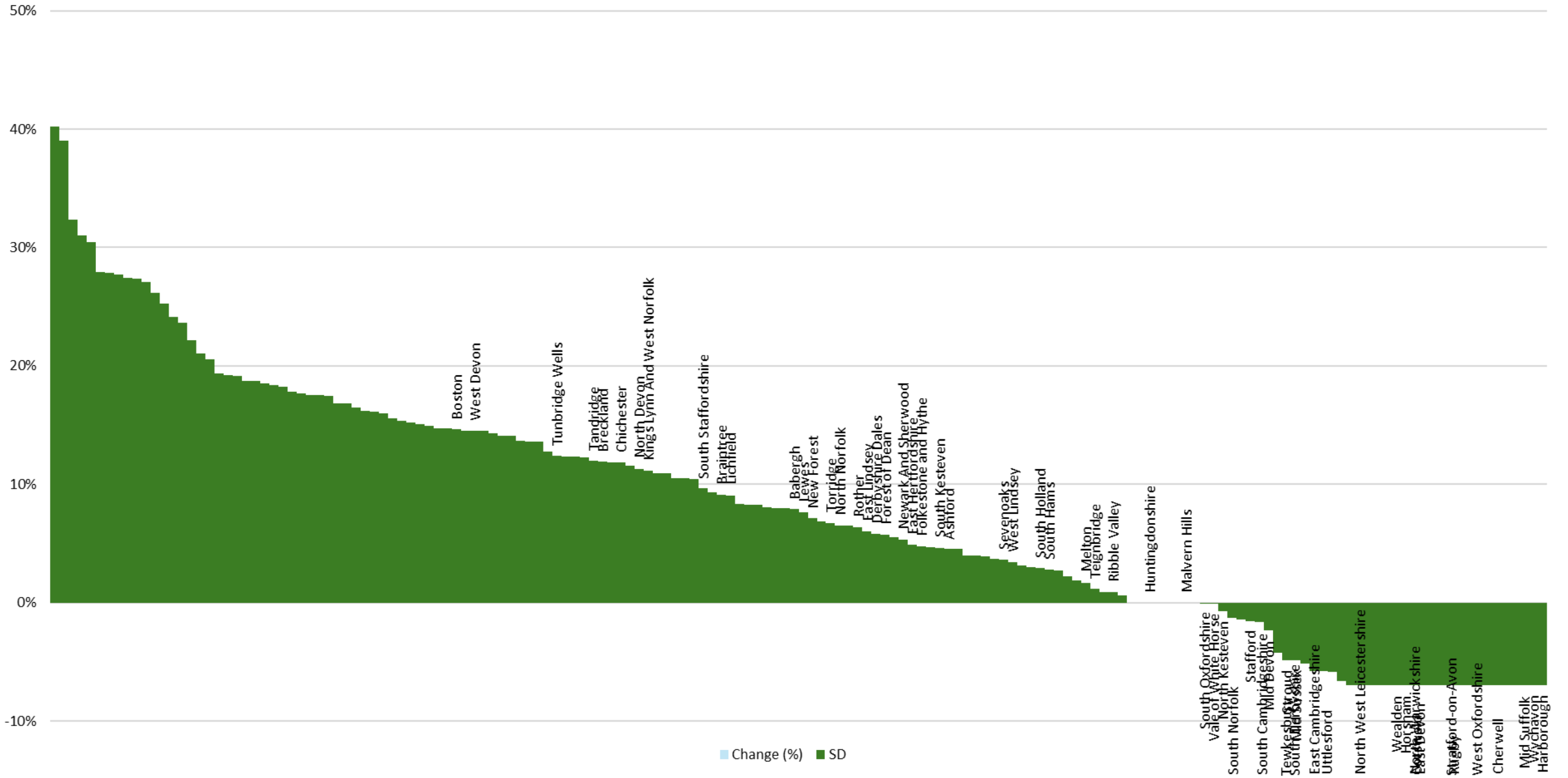
- Estimates are based on Pixel modelling
- Feedback from MHCLG that these are broadly in the right area – but not confirmed. Estimates will change between now and provisional settlement.
- Substantial movement in funding from inner London towards metropolitan areas.
- Very substantial losses in funding in inner London, largely expected. Gains in outer London, with some boroughs gaining massively.
- Metropolitan authorities have largest cash gains – but 6 have cash losses (Gateshead, Sefton, South Tyneside, Sunderland, Trafford and Wigan) and response is underwhelming
- Gains overall for county authorities, and particularly in rural areas. Broadly neutral overall in county areas, but gains (+£85.8m) in RSN member authorities.
- There were further losses from abolition of Rural Services Delivery Grant (RSDG) in 2025-26 (£110m), not included here



### Core Spending Power (CSP), 3-year change, Upper Tier only (% of CSP)



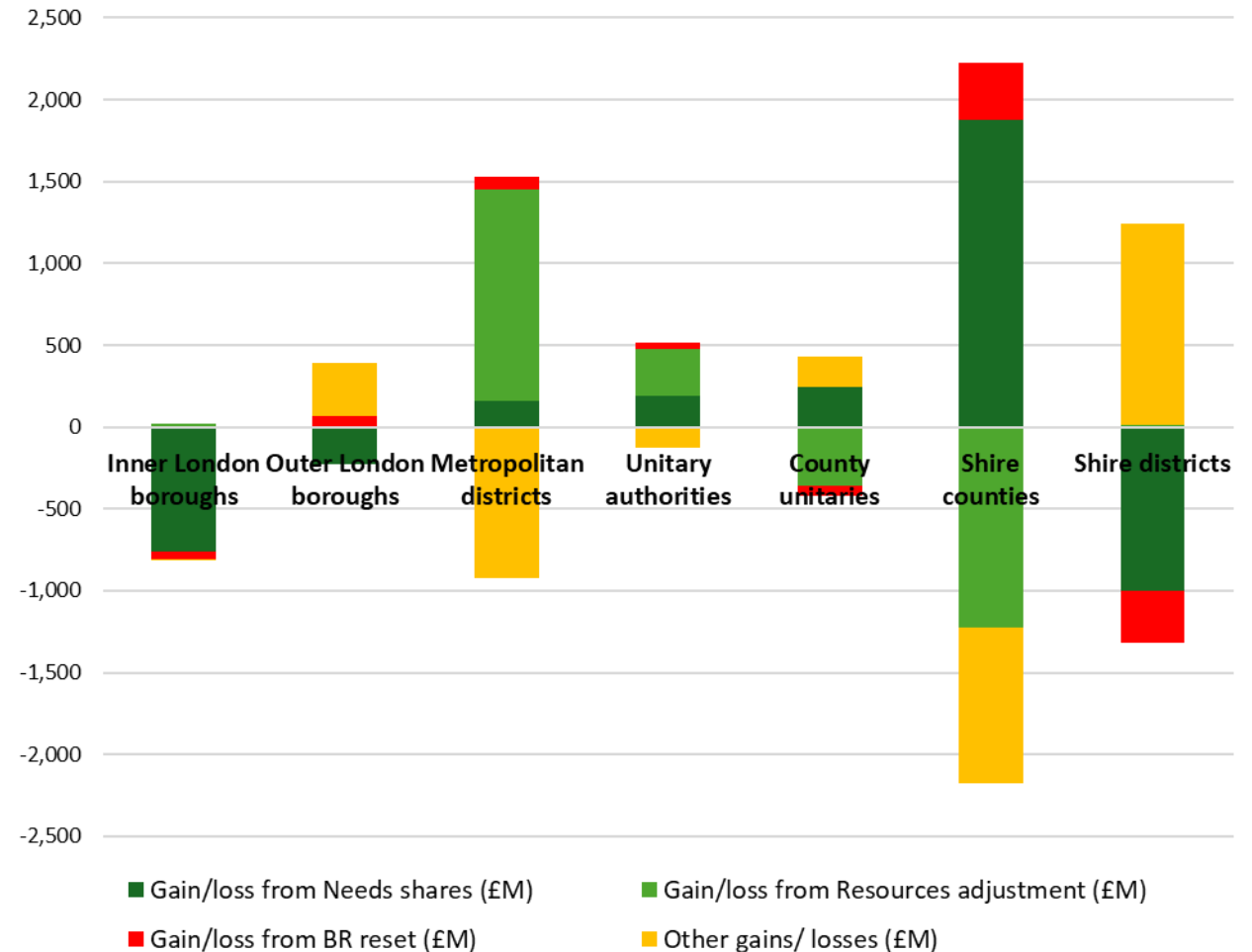
# Core Spending Power (CSP), 3-year change, Shire Districts only (% of CSP)



# Movement in funding

- **Counties:** major gains from “needs” shares, offsetting losses from equalisation. Largest gainer from business rates reset.
- **Mets:** major gains from council tax equalisation, but much less from “needs”. Gains from business rates reset also very small.
- **Inner London:** losses are driven almost entirely by reduced “needs” share.
- **Outer London:** gains overall but gains from “other” and BR reset offset reduced “needs” share.
- **Shire districts:** losing from “needs” and business rates reset, but gaining on “other”. Also neutral on council tax equalisation.
- What is in “**other**”? Changes in RNF weightings, loss of ASC grants (ASC precept equalisation), baseline effects (13-14 damping, negative RSG), 16-17 cuts, etc

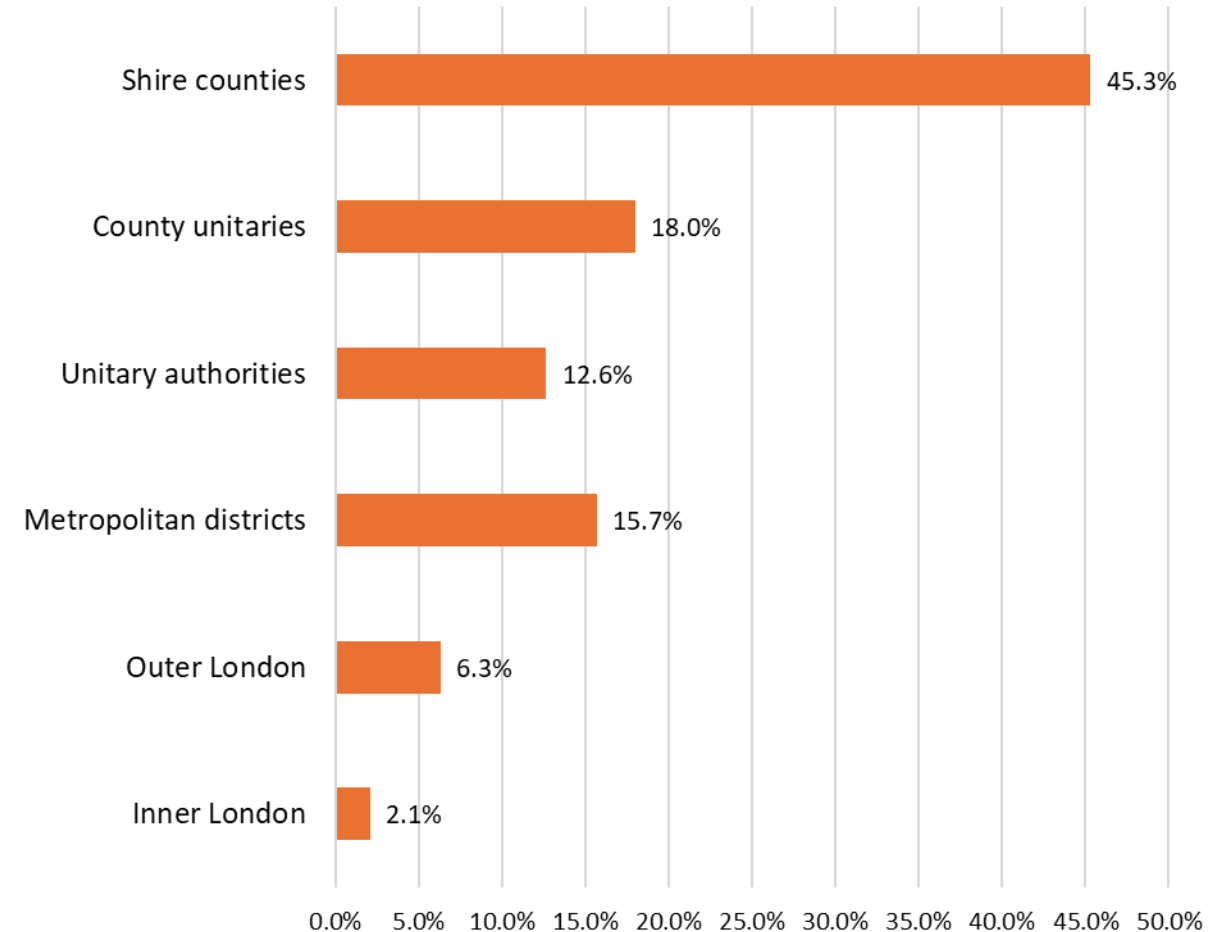
Movement in funding, by class (£M)



# Home-to-school transport

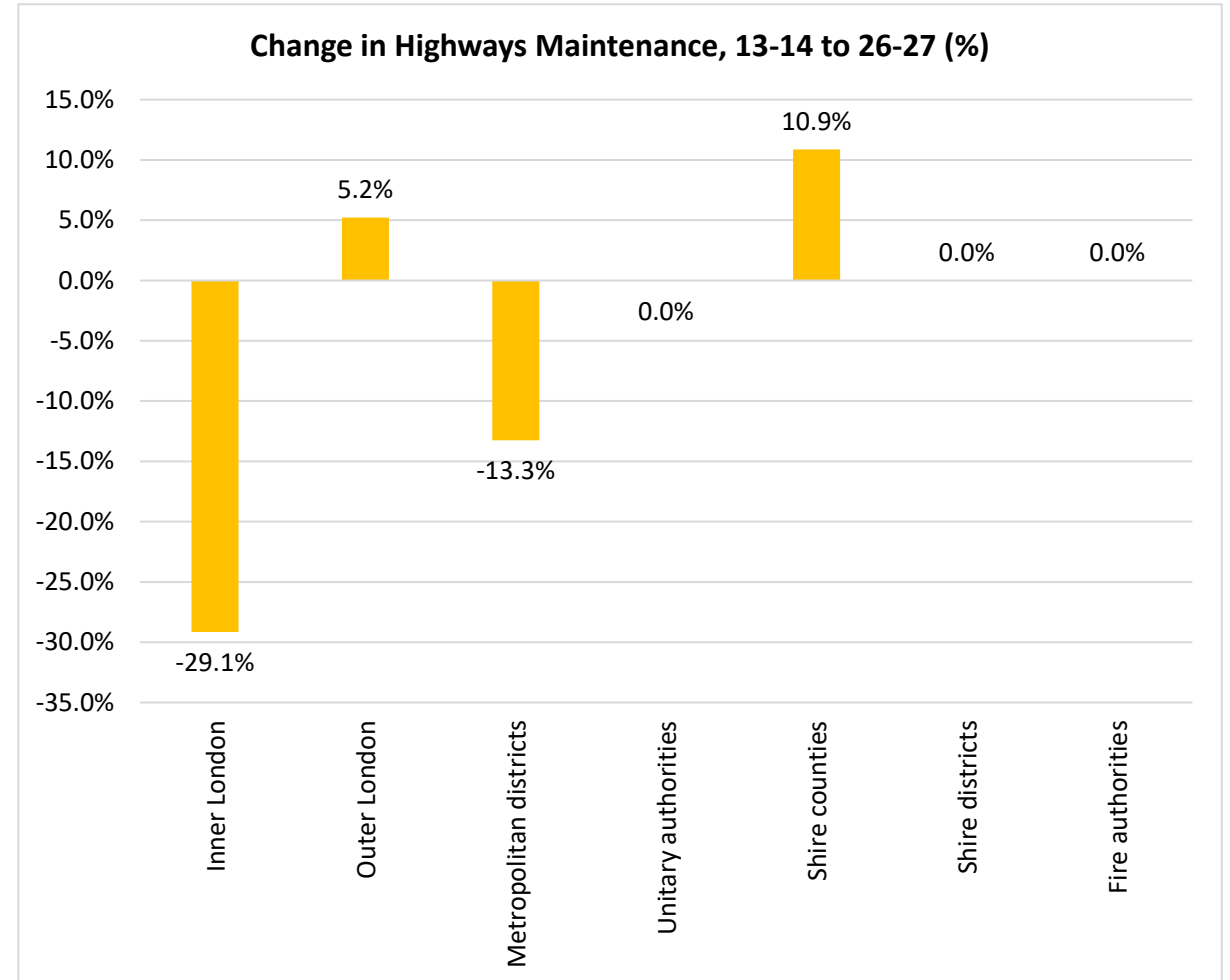
- New formula distributing 3.24% of total “needs”, out of 26.4% of children’s funding
- Equivalent to £2.3bn of “needs” funding (part-funded from council tax), compared to expenditure of £2.0bn (per s251 in 2023-24)
- **County authorities receive 63.3% of the funding from the HTST RNF – this is a significant “win” for county authorities**
- **~45% of the HTST funding is in rural areas (RSN member authorities)**
- Distribution is based on “average distance to school”
- Capped at 20 miles (straight-line distances adjusted for approximate road distances), and from 2 miles (for under-8s, and 3 miles for other pupils)
- **Is this cap reasonable, and to what extent, if any, does it disadvantage the most-rural/ sparse counties?**

Home-to-school transport (HTST), share (%)



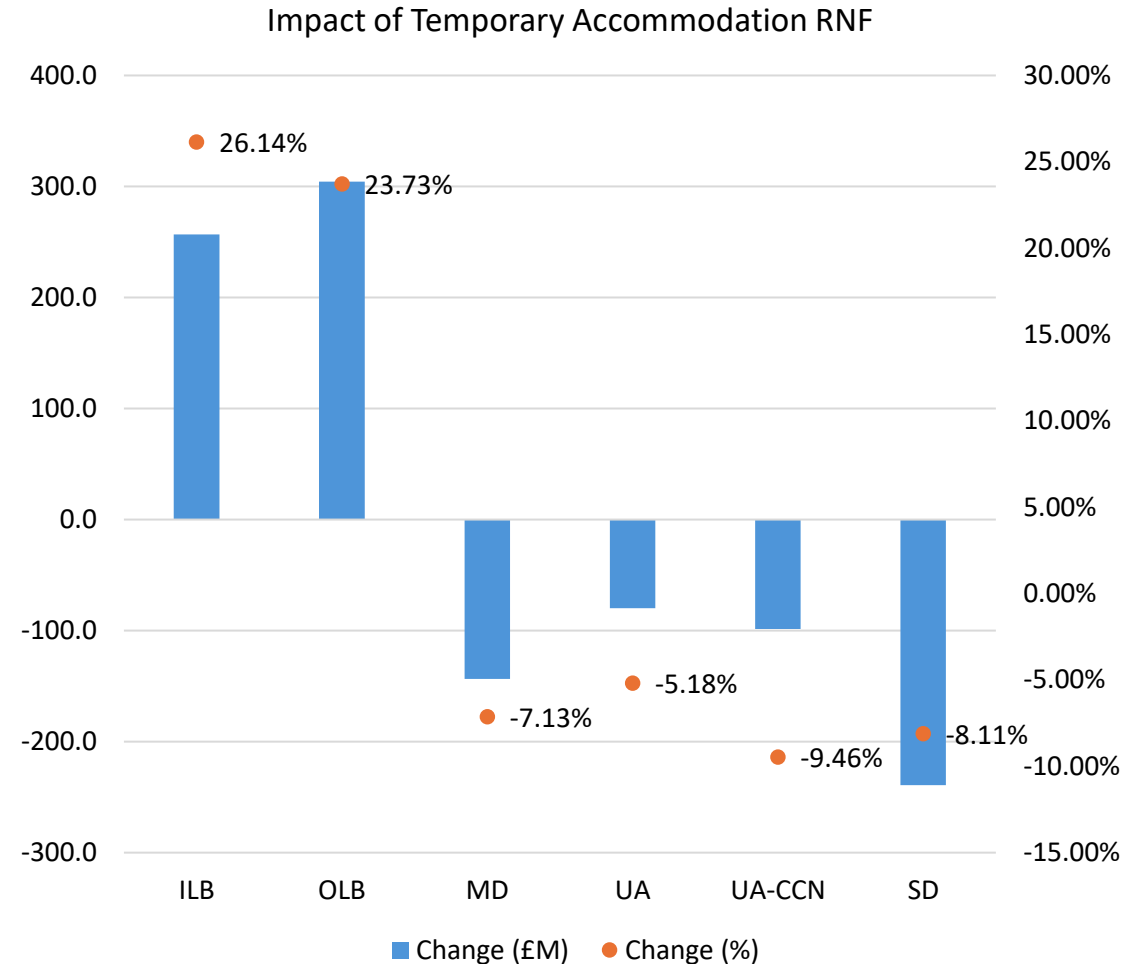
# Highways maintenance RNF

- “natural log of traffic flow divided by road length”
- No urban weightings (moves around £50m from London and £70m from Mets, and moves it to county areas, +£156m). RSN authorities gain £133m from removal of urban factors
- No winter maintenance top-up. Rural authorities lose £22m. But losses are concentrated in northern counties (North Yorkshire -£3.1m, Cumberland -£2.0m)
- Movements at authority level are huge, and not always predictable (e.g. Cambridgeshire, where there is a reduction in RNF (from 1.61% to 1.41%))



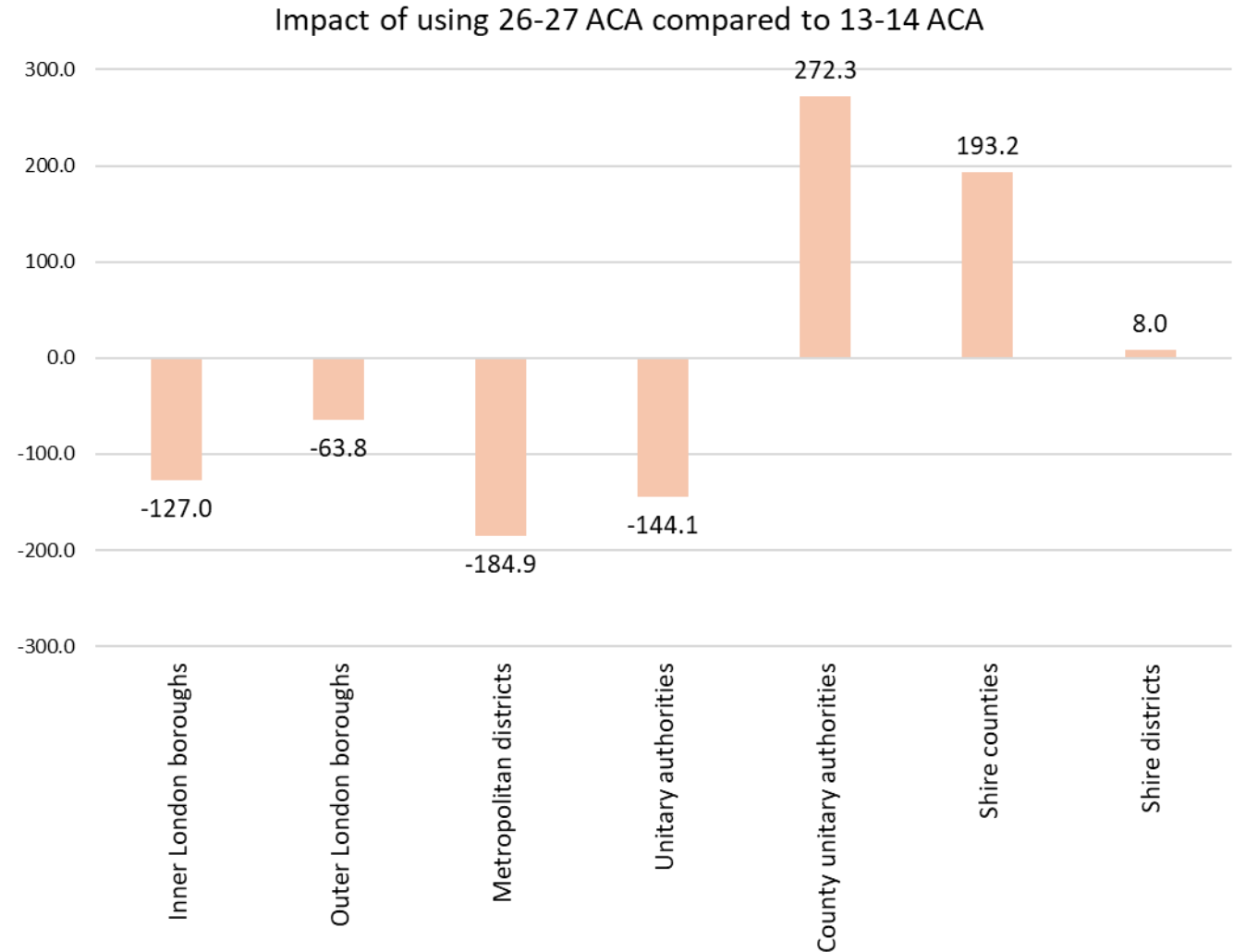
# Temporary Accommodation RNF

- New RNF for temporary accommodation and homelessness within the SFA
- Temporary accommodation: actual TA numbers (which “has as strong correlation with historic TA spend”)
- Particularly high demand in London (70% of TA RNF), followed by other urban areas
- Few shire districts benefit, the only ones being: Basildon, Crawley, Eastbourne, Epsom and Ewell, Harlow, Hastings, and Worthing
- Unusual for actual activity data to be used in a funding formula (usually a proxy indicator would be identified); not a methodology that can be repeated

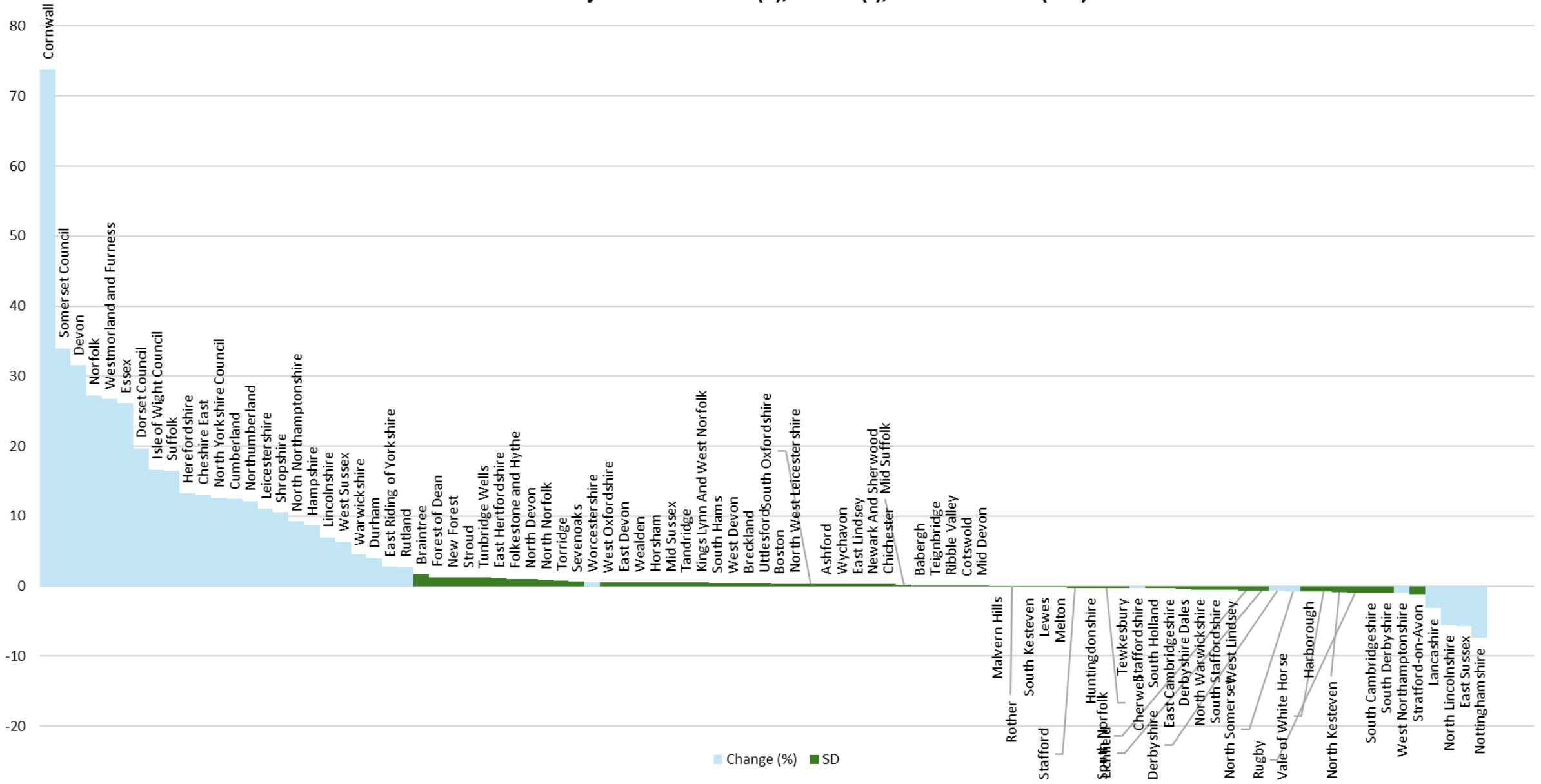


# Area Cost Adjustment (ACA)

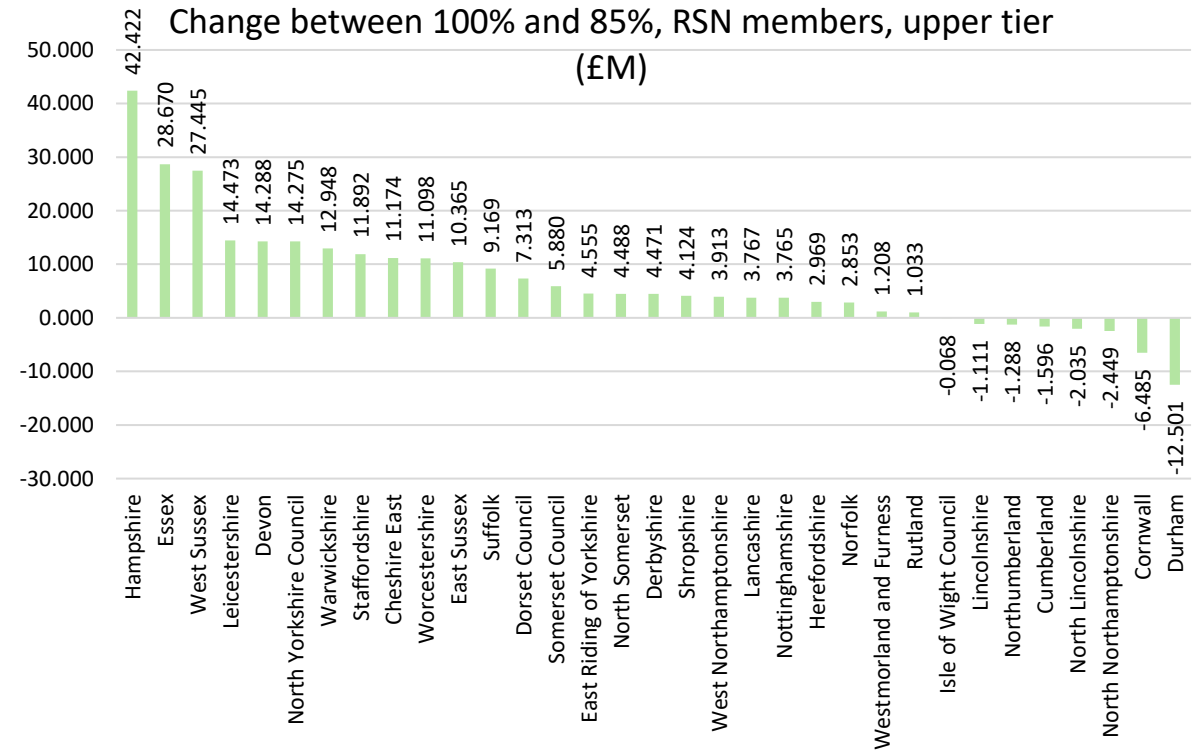
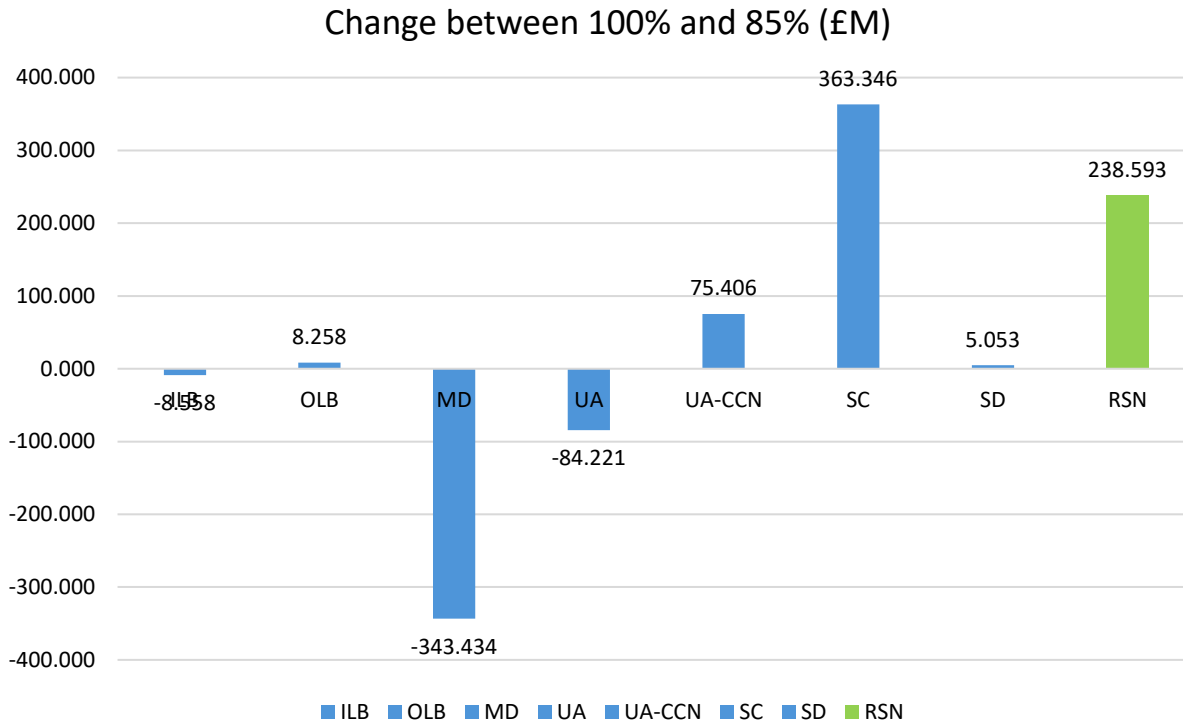
- ACA values are updated (Labour and Premises), with separate ACA factors for every authority (instead of sub-regions)
- New add-on for travel times (traversal, dispersal), plus additional Remoteness adjustment. Not possible to separately identify the impact of each element, but there is a **clear movement of ACA funding from London and the Mets to county areas (+£506m to county authorities)**
- Suggests significant weighting on the travel times and remoteness add-ons.
- Estimate that the sparsity indicator is currently worth at least £725m – but we should compare the overall package, and not just like-for-like replacement of one indicator with another



### Area Cost Adjustment - Gains (+), losses (-), RSN members (£M)



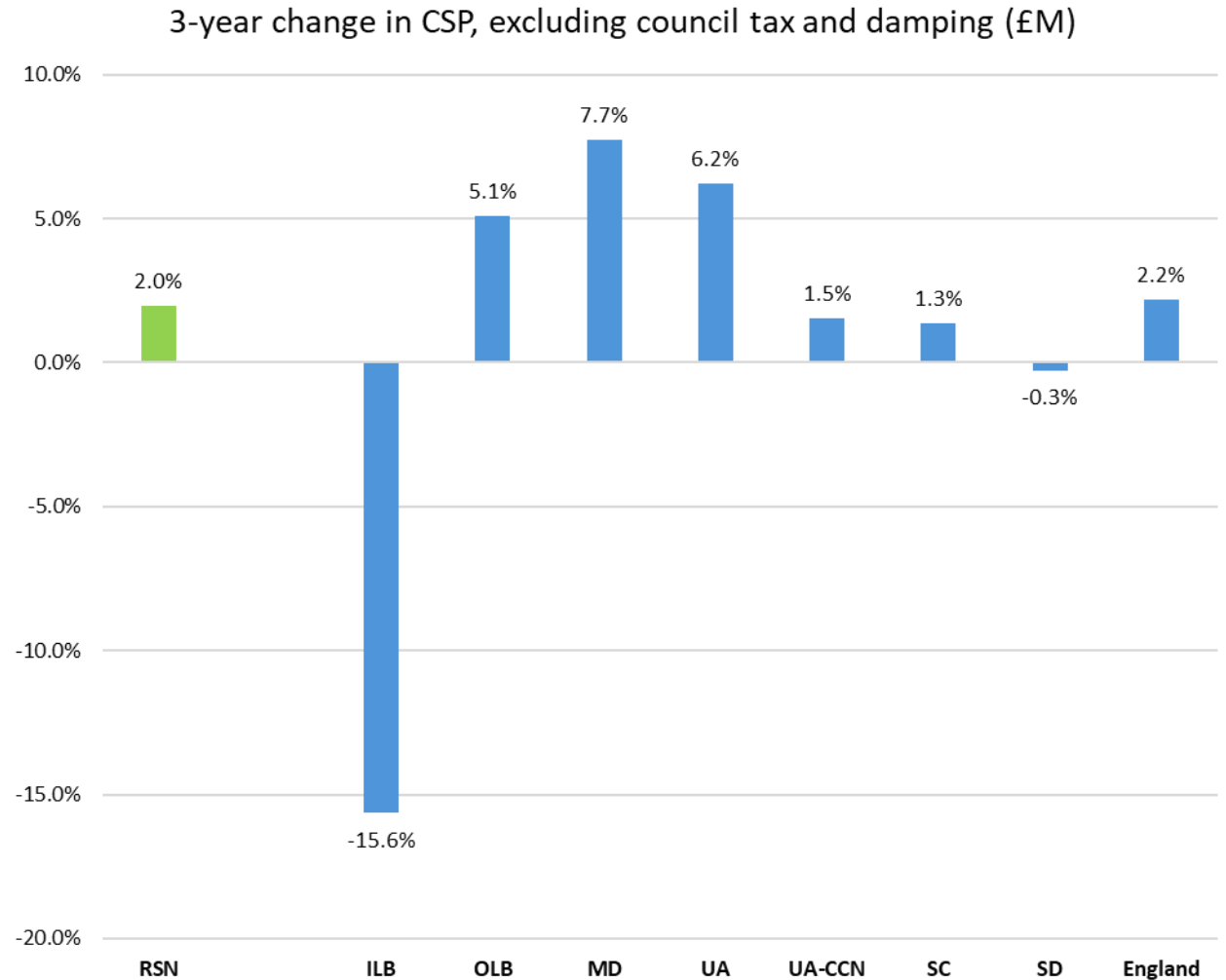
# Impact of 85% equalisation instead of 100%?



- Aggregate gain in resources with 85% equalisation for rural authorities overall. All but 8 upper-tier RSN members would gain from 85% equalisation
- Put forward technical case to reduce scale of equalisation (e.g. collection rate at actual levels rather than 100%, minimise assumed Band D)
- Case for partial equalisation is based on giving local authorities some incentive to grow their council tax base

# Reliance on council tax

- Proposed settlement assumes every authority increases Band D in line with the maximum (4.99% for upper-tier, 2.99% for lower tier)
- Without council tax rises of 5% over the next three years, 28 of the 33 upper-tier RSN authorities would see a real-terms reduction in funding, and 51 out of 60 district council RSN authorities.
- Estimated new government grant will fund just 9% of the £4.4bn increase in costs of providing services in county and rural areas over the next three years,
- Increase in grant funding for metropolitan authorities will fund half of the total £2.4bn increase in estimated costs of providing services in these areas
- Assumed annual real-terms growth is anything above 2.5% per year.



# RSN Response – Overall Position

- RSN broadly welcomed the proposals – current funding distribution is significantly out-of-date
- Some of the proposed changes are favourable to rural authorities, many aspects cannot support
- RSN supports the changes in the ACA that recognise the specific additional unit costs in rural areas – but would have preferred current arrangements to remain
- Support concept of moving towards flatter formulas is a good one, as outlined in the 2018 consultation – but ministers have introduced too large a weighting for deprivation (IMD)
- RSN did not support abolishing the Rural Services Delivery Grant (RSDG) in 2025-26. This grant should have been rolled into the SFA baseline in 2026-27, with its distribution preserved

# What might change?

- Ministerial changes could have an impact on direction of travel – currently unknown.
- Pressure from metropolitan authorities to improve their funding share
- Further data updates (mid-2024 population estimates, 2025 IMD, etc)
- Which formulas will require further work? Foundation Formula, Remoteness, Adult Social Care

# Next steps and timelines

- Autumn Budget is much later than anticipated, and this pushes back the provisional settlement and other statements
- Policy Statement with key funding announcements will be late October/ early November (instead of late September)
- Comprehensive response to the Fair Funding 2.0 consultation also late October/ early November
- Data updates (mid-2024 population estimates, Index of Multiple Deprivation 2025, etc)
- No formal process for challenging formulas and research
  
- Autumn Budget (Wednesday 26 November 2025)
- Provisional settlement (“usual timings”, i.e. mid-December?)
- Final settlement (February 2026)