Fair Funding Review 2.0 – updated funding disaggregation model for LGR

Cambridgeshire

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LGR criteria for new unitaries

- The English Devolution White Paper (18 December 2024) outlined proposals for unitary authorities in remaining 21 two-tier county areas

- Key criteria: “new unitary councils must be the right size to achieve efficiencies, improve capacity and withstand financial shocks”, and that “for most areas” this will be a minimum population of 500,000.
- But government will consider options for unitaries with lower populations, “on a case-by-case basis”, and it is assumed this means with populations of around 350,000 and above

- “Proposals should be for sensible economic areas, with an appropriate taxbase which does not create an undue advantage or disadvantage for one part of the area.”
- “Proposals should be for a sensible geography which will help to increase housing supply and meet local needs.”

Pixel LGR disaggregation model

- Our original version of the model disaggregated funding for 2025-26 based on the current distribution of funding. Funding in 2025-26 is largely based on the 2013-14 Relative Needs Formulas (RNFs), with subsequent changes in the overall quantum of funding and the relative reliance on council tax.
- Since then, MHCLG has published its Fair Funding 2.0 consultation paper, which will change the distribution of funding in 2026-27. together with the Spending Review 2025, it provides a reasonable basis for forecasting funding for local government over the next 3 years (2026-27, 2027-28, and 2028-29).
- Pixel has separately developed forecasts for existing authorities based on the Fair Funding 2.0 consultation (see Pixel's MTFP model, v5.16.7). We have used this forecasting model as the basis for disaggregating funding to new unitaries in future years.
- To disaggregate funding for 2026-27, we have recalculated the Relative Needs Formulas (RNFs) and Resources Deduction for the county council, and allocated these amounts to each district within the county. We have then been able to build up funding allocations for any proposed unitary within the county.
- District and unitary funding allocations can be allocated directly to each proposed unitary, and do not need to be further disaggregated.
- Our model provides funding estimates for 2025-26 (baseline, using current distribution) and 2026-27, 2027-28 and 2028-29. Any new unitaries will be implemented in either 2027-28 or 2028-29.

Fair Funding 2.0

- The Fair Funding 2.0 consultation paper was published on 20 June 2025: https://www.gov.uk/government/consultations/the-fair-funding-review-20

- It provides Relative Needs Formula (RNF) shares for 8 separate services. 5 are upper-tier formulas, which apply to the county council: adult social care (which can be split between younger adults and older people), children's services, foundation formula (upper tier), highways maintenance, fire and rescue, and home-to-school transport. 2 are lower-tier formulas and only apply to district councils: foundation formula (lower tier) and temporary accommodation.

- We have split the county formulas between the district councils using, where possible, the actual datasets that have been used by MHCLG to calculate the RNF shares. Not all the data is available, and not all the formulas can be replicated. In the following slides we explain how alternative approaches have been used to fill the gaps. When more information becomes available, we will refine the model.

- The Resources Deduction can be calculated using the relative taxbase shares, and the appropriate tier splits for county and districts.

- Where there is currently no standalone fire authority, we assume that a new fire authority will be created, and we have calculated the RNF and Resources Deduction for a new standalone fire authority.

- We have estimated the phasing of gains and losses over 3 years, in line with the proposals in the consultation paper. We have not recalculated the payments from the damping floor, but have assumed these will be allocated to the appropriate unitary authority (these only apply to district councils, so there is no need to disaggregate them).

- **<u>Overall, the disaggregation between the proposed unitaries assumes that there is no change in the overall quantum of funding within an area.</u>**

Disaggregation of RNFs in 2026-27

- We have calculated the county RNFs for each district based on the proposed RNF in the consultation paper. We have then apportioned the county council's RNF using these shares.

- **Younger adult social care**. All the benefits and Census data is available from NOMIS.

- **Older people social care**. Needs data and council tax data is available. We have not recalculated the Low Income Adjustment.

- **Children's Services**. It is not possible to recalculate the new children's RNF because child-level data is not publicly available. We have used the existing 2013-14 RNF values to redistribute the county's new 2026-27 children's RNF.

- **Highways maintenance**. Highways lengths are not available at district level, so we have apportioned highways lengths based on population. We have assumed that traffic flow is the same in every district. Ideally we would have district-specific data for these two datasets. Highways RNF distributes only 3.2% of overall RNF so under- or over-allocations here are unlikely to be material.

- **Foundation Formula (upper tier)**. We have used the 2019 Index of Multiple Deprivation (IMD) and will update when the 2025 version is available. Data on commuters is available from the 2021 Census. Visitor data is published by VisitBritain but only to the county level; instead, we have applied the visitor data used in the 2013-14 RNF, which has been published for individual district areas.

- **Home-to-school transport (HTST)**. Data on travel distances is not available for each district. Instead we have used population multiplied by area (km2) to reflect both demand (population) and distance. This is not perfect but produces plausible results. We can adjust the weightings if required.

- **Temporary Accommodation/ Foundation Formula (lower tier)**. There is already a published RNF for each district and unitary.

- **Mid-2024 population estimates** have been used throughout. The latest data has been used, except where an alternative data source has been specified in the Fair Funding 2.0 consultation paper.

Transitional support and damping

- **Phasing of gains and losses**. One-third of gains and losses will be applied in 2026-27, two-thirds in 2027-28, and the full changes in funding in 2028-29.

- We have estimated the gains and losses for the county council, districts councils and any relevant unitary authorities. County gains and losses have to be recalculated for each district. We have done this by:

  - Calculating the share of Settlement Funding Assessment (SFA) for county services for each district based on the current basis of distribution (i.e. using 2013-14 RNFs to calulcate a share of 2025-26 SFA)

  - Calculating new shares of SFA using the new RNFs and new SFA.

  - Scaling the gains and losses to the actual county amounts

  - Applying one-third of the gains or losses in year 1, and two-thirds in year 2

- Phased gains and losses for existing district councils have been allocated to the relevant unitary authority.

- We have not recalculated the payments from the **damping floor**. The floor ensures that no authority's Core Spending Power (CSP) falls in cash terms in any of the next 3 years (floor is set at 0%). Some shire district councils (with the highest losses) will have a -7% floor in 2026-27, and 0% in the remaining two years. No county council or unitary authority is expected to get any damping payments from the floor.

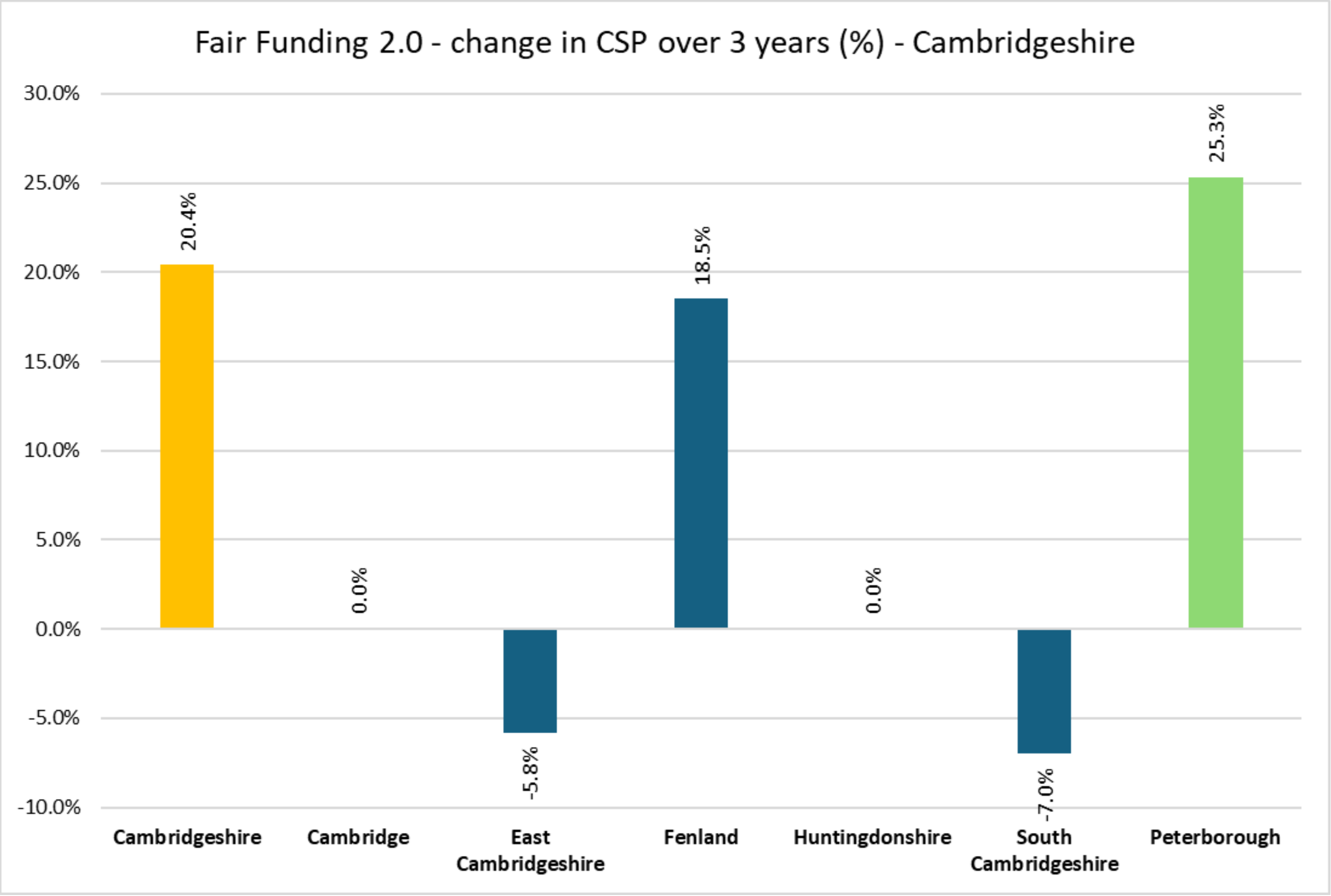
- For any amounts of damping expected to be paid to shire district councils, we have assumed these will simply be allocated to the new unitary authorities. The alternative would be to recalculate damping floor payments but this would result in different amounts to those available in the settlement.

Assessment of population and financial scale

- There are 132 single-tier councils in England, of which 70 have been in existence since 1974 (London boroughs, metropolitan authorities), and 62 have been created in various waves since the late 1990s
- We have compared a the potential unitaries in Cambridgeshire to these existing single-tier councils.
- The government has particular concern about whether new unitaries will be sufficiently large to deliver social care services. New unitaries will want sufficient scale to be financially viable, but not to be over-exposed to these demand-led service pressures.
- We have used our modelling to:
    - Show whether the proposed unitaries are similar to existing single-tier councils in England in financial size, both overall and for the major services.
    - Show whether the proposed unitaries have a reasonable balance of funding and “needs”.
    - Show whether the proposed unitaries’ sources of funding are sound and sustainable.
- Part of this assessment will also have to take into account actual expenditure, and how that expenditure will be disaggregated between the proposed unitary authorities. This is outside the scope of our work and is being undertaken by a third party.
- In theory, there could be a mismatch between spending and funding, although in practice a new unitary authority will have to manage its new budgets so that they are affordable within the funding envelope that is available.

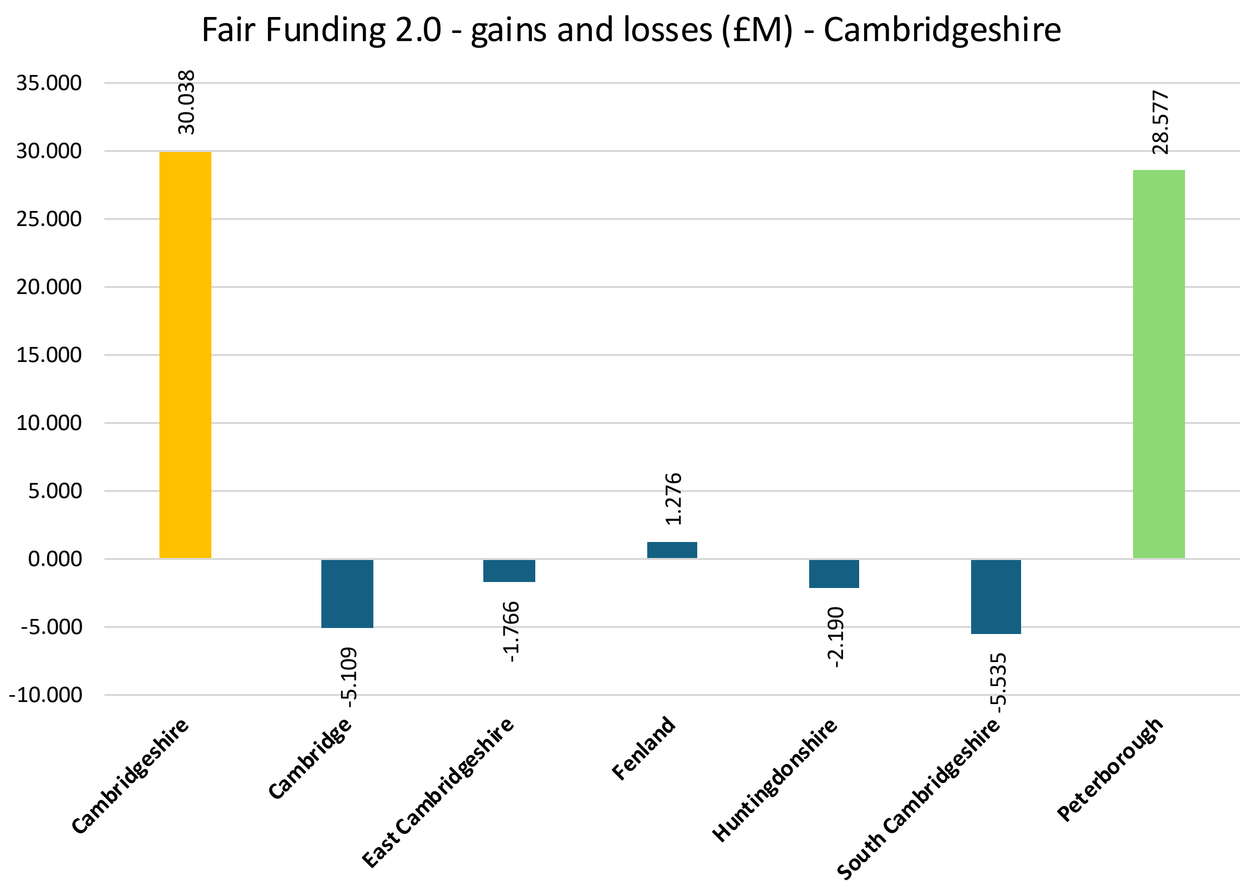
Fair Funding 2.0 – impact on existing LA structure

- The impact of the Fair Funding proposals is very varied within Cambridgeshire.
- We expect Peterborough to gain very substantially from the funding reforms, with a cumulative increase in CSP over the next 3 years of 25.3%. This is almost double the average 3-year increase for unitary authorities (16.2%).
- The increase for Cambridgeshire County Council is 20.4%, above the average for shire county councils.
- Apart from Fenland, all four district councils in Cambridgeshire are expected to lose from the reforms, with cumulative cuts in funding (post-damping) of 5.8% (East Cambs) and 7.0% (South Cambridgeshire). Both these two councils will have a -7% floor in 2026-27, followed by 0% in the next two years. Cambridge and Hunts lose from the funding reforms, but remain at the 0% funding floor over the next 3 years.
- Fenland's increase in CSP is more than double the district average (+7.7%).
- The allocation of these gains and losses across the proposed unitaries will have significant financial implications for the growth in resources over the next 3 years.



Fair Funding 2.0 – impact on existing LA structure

- Converting these gains and losses into cash values, we can see that the gain for the County Council and Peterborough is similar (£30m and £28m respectively).
- Our modelling also indicates similar cash losses in Cambridge City and South Cambridgeshire (-£5.1m and -£5.5m respectively). Losses are smaller in East Cambs and Hunts (-£1.7m and -£2.2m).
- Fenland's gain is relatively small in cash terms (£1.3m).
- Overall, we can see that the gains in the County Council and Peterborough will dominate in terms of the change in funding. But some of the losses – particularly in Cambridge City and South Cambridgeshire – will influence outcomes.
- A further point is that the gains in the County Council are not necessarily evenly distributed – and our modelling distributes these changes in county-level funding based on the underlying demographics.



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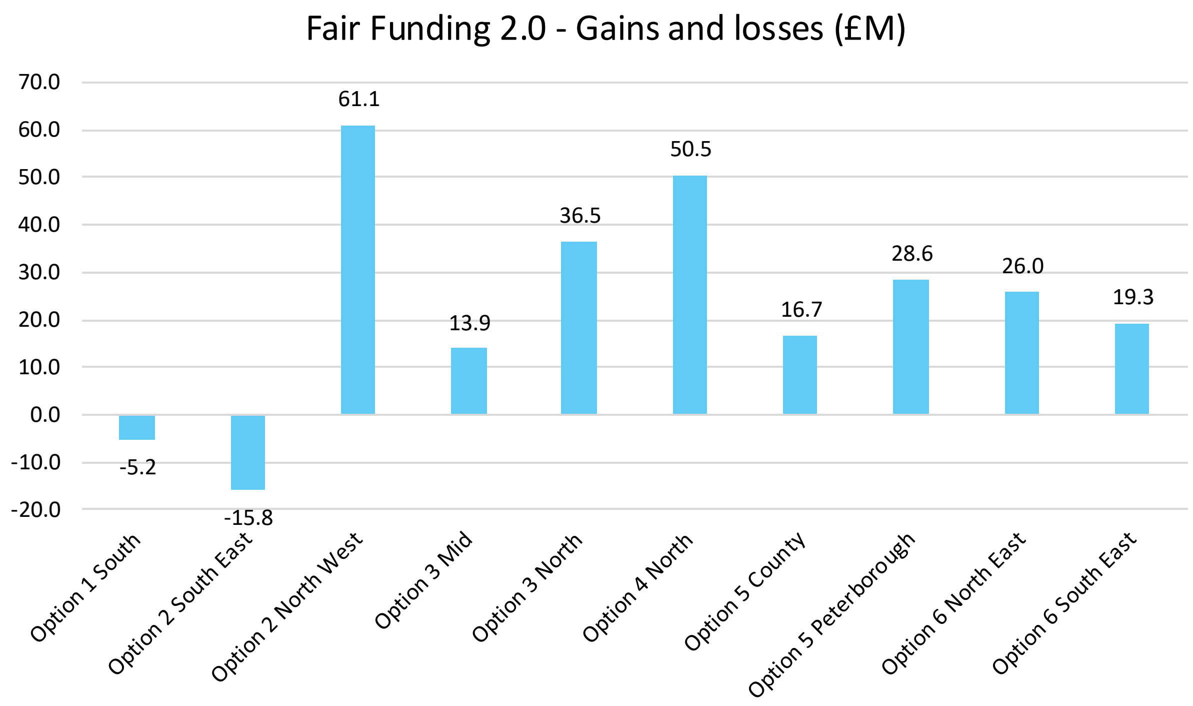
Cambridgeshire proposals

LGR scenario	Unitary name	Constituent authorities	Population
Option 1	**South**	South Cambs/Cambridge City	318,504
	Mid (adjusted)	Hunts/Fenland/East (adj)	347,562
	Peterborough (adjusted)	Peterborough (adj)	253,016
Option 2	**South East**	East/South Cambs/Cambridge City	409,970
	North West	Hunts/Fenland/Peterborough	509,112
Option 3	**South**	South Cambs/Cambridge City	318,504
	Mid	Hunts/ East Cambs	277,532
	North	Fenland/P'boro	323,046
Option 4	**South**	South Cambs/Cambridge City	318,504
	North	East Cambs/Fenland/Hunts/P'Boro	600,578
Option 5	**County**	Cambs County Unitary	699,573
	Peterborough	Peterborough	219,509
Option 6	**North East**	East Cambs /Fenland/P'Boro	414,512
	South West	Hunts /South Cambs/Cambridge City	504,570

Fair Funding 2.0 – impact on proposed unitary structure

- The largest gains in funding are those that include Peterborough. (Option 2 NW, Option 3 North, Option 4 North) Gains are largest where Peterborough is combined with other districts with gains (e.g. Fenland).
- But there is a substantial difference between options 4 North (Hunts and East Cambs) and 6 North East (East Cambs alone). Both Hunts and East Cambs are losing as districts – but the Hunts area gains from the changes in funding for the County Council.
- Only the Option 1/ 4 South loses from the reforms (losses are largest when East Cambs joins Cambridge City and South Cambs).
- Combined Cambridge City/ South Cambs with Hunts (Option 6 SE) results in overall gains (+£19.2m). Option 6 has two relatively balanced options, in terms of funding gains/ losses.



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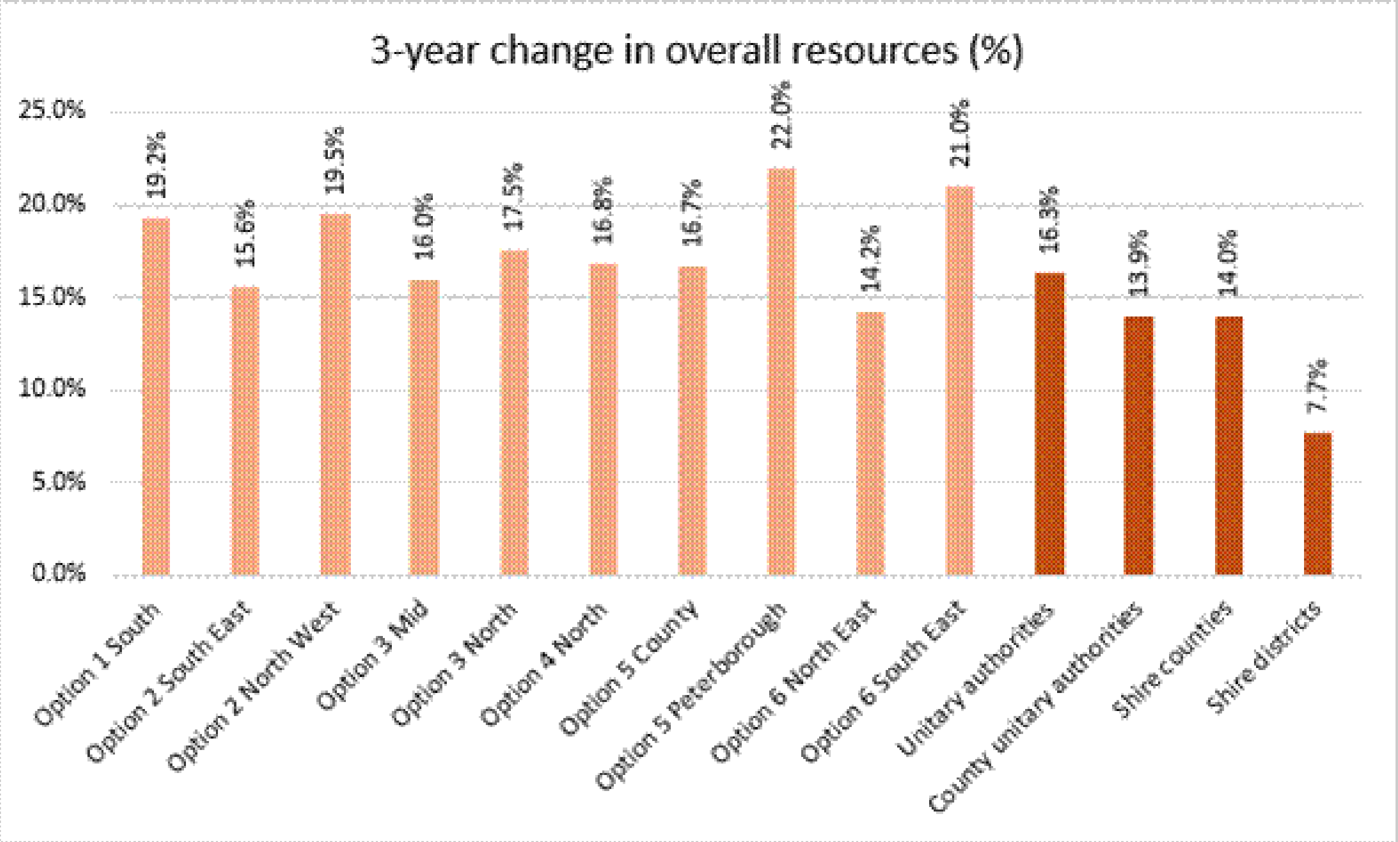
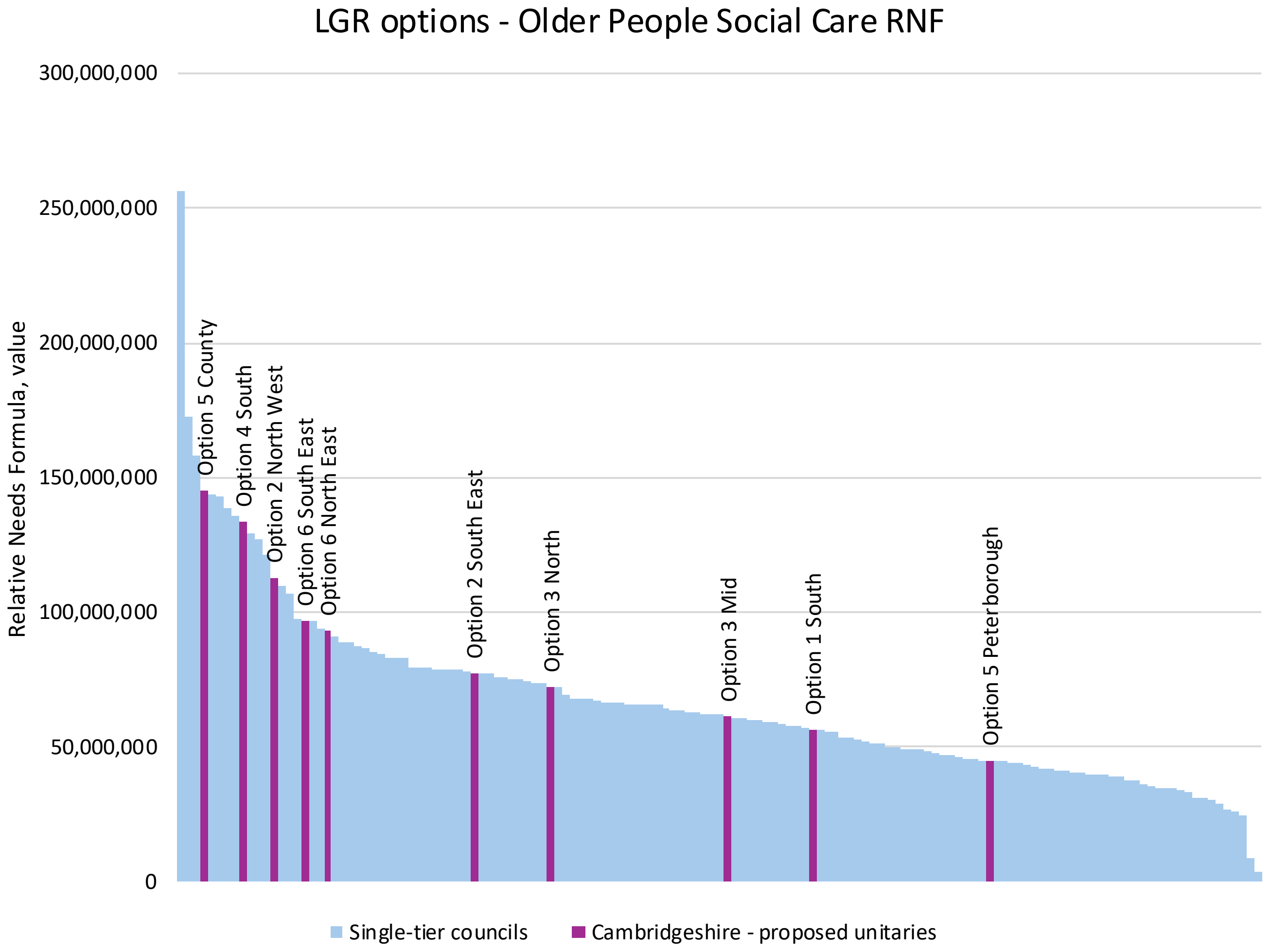
Fair Funding 2.0 – impact on proposed unitary structure

- Converting these funding gains/ losses into future changes in overall resources (Core Spending Power) shows a more benign picture. All the proposed unitaries would have increases in excess of the average for county unitaries/ county councils, and all but three would exceed the unitary average.
- The reasons are (a) the losses are damped over 3 years, and are not particularly significant; and (b) any funding losses are more than offset by council tax growth (Band D/ taxbase) and increases in funding quantum.
- As a result, none of the proposed unitary options has projected resources that are a cause for concern. Those options with the largest funding cuts in the previous slide (option 1 South and 2 South East) have healthy increases in resources over the next 3 years.



Fair Funding 2.0 – Older People RNF

- RNF represents the relative needs for older people's services in each single-tier authority, and is broadly analogous to the relative scale of expenditure in each authority
- Scale is also a function of the demographic structure of the county (relatively large numbers of older people)
- Most of the unitary options in Cambridgeshire would have substantial older people's social care services, based on the new RNF
- The exceptions are: Peterborough (based on current boundaries), Option 1 South (Cambridge, South Cambs), Option 3 Mid (Hunts/ E Cambs).
- <u>The relative scale (size) for all the options is higher than those we had modelled using the current Adult RNF.</u>



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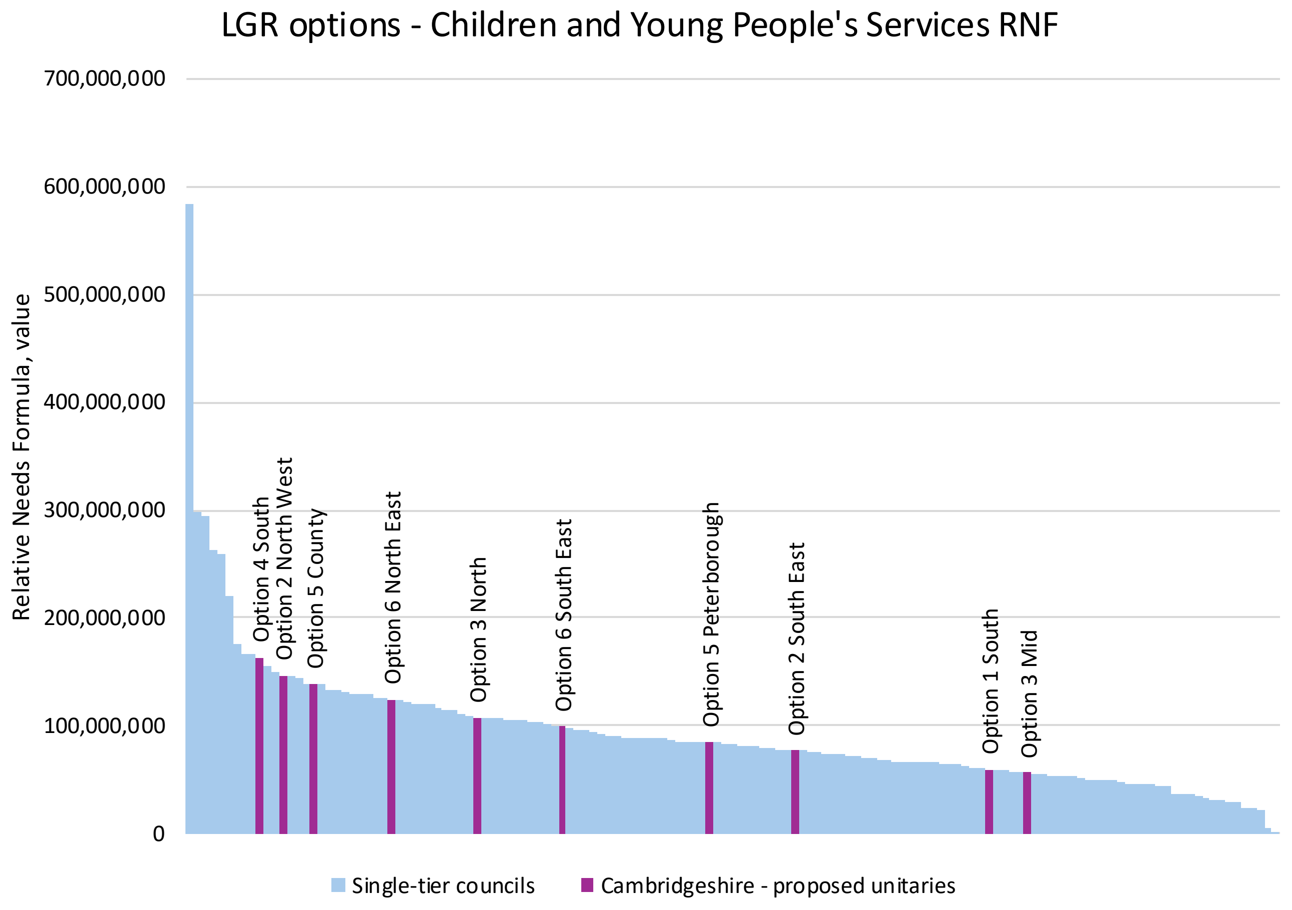
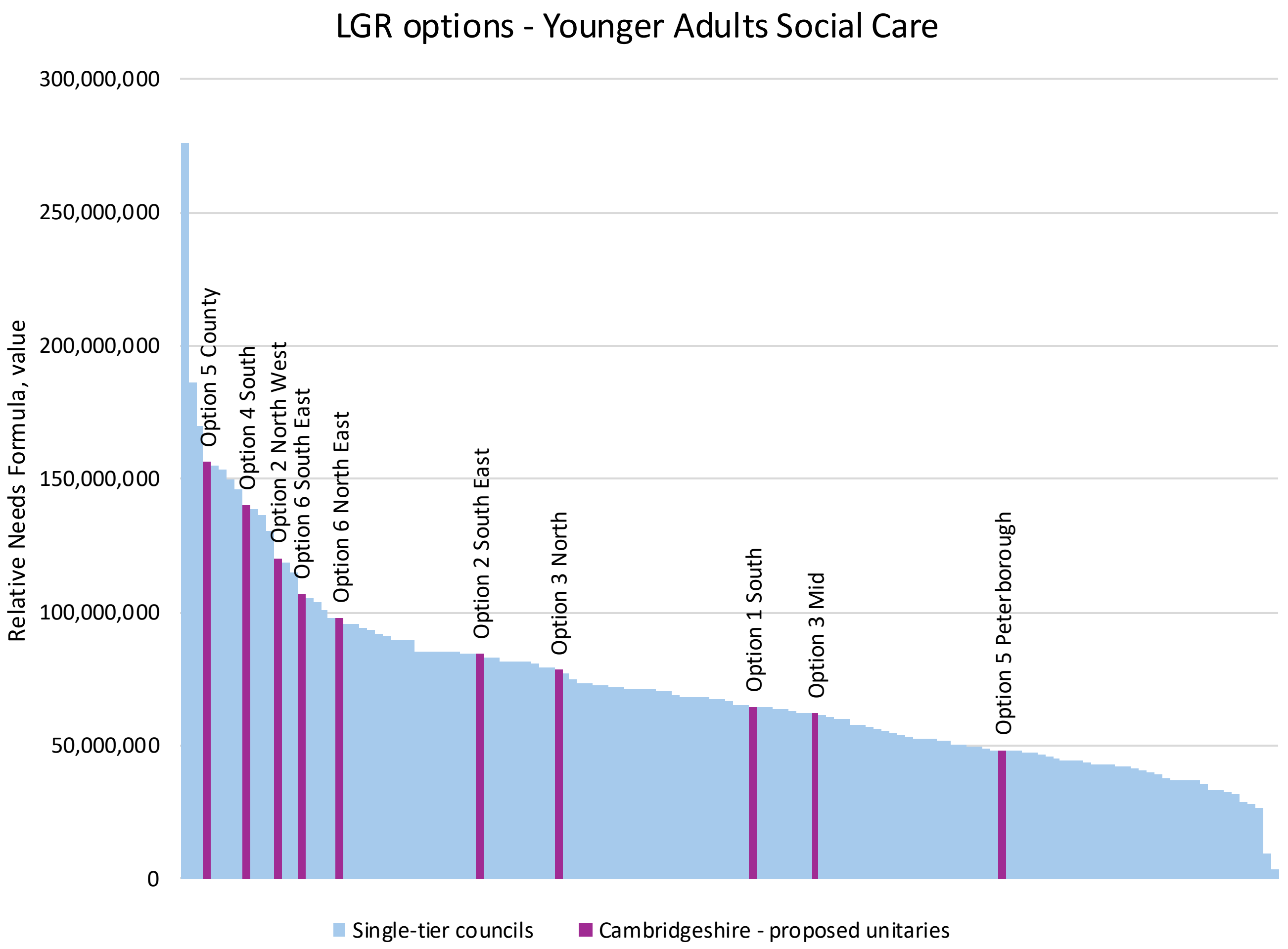
Fair Funding 2.0 – Children's Social Care RNF

- Children's services are smaller relative to other single-tier councils, albeit with most above the average
- The smaller relative size of children's social care in Cambridgeshire reflects the demographic structure of the county (fewer children relative to the population as a whole)
- Most of the unitary options in Cambridgeshire would have substantial children's social care services, based on the new RNF.
- Options 2 SE, 1 South, and 3 Mid would have smaller scale. Peterborough would be above-average in terms of scale.



Fair Funding 2.0 – Younger adults RNF

- Most of the unitary options in Cambridgeshire would have substantial younger adult's social care services, based on the new RNF
- Options 1 South and 3 Mid, together with Peterborough, would have smaller scale for this service.



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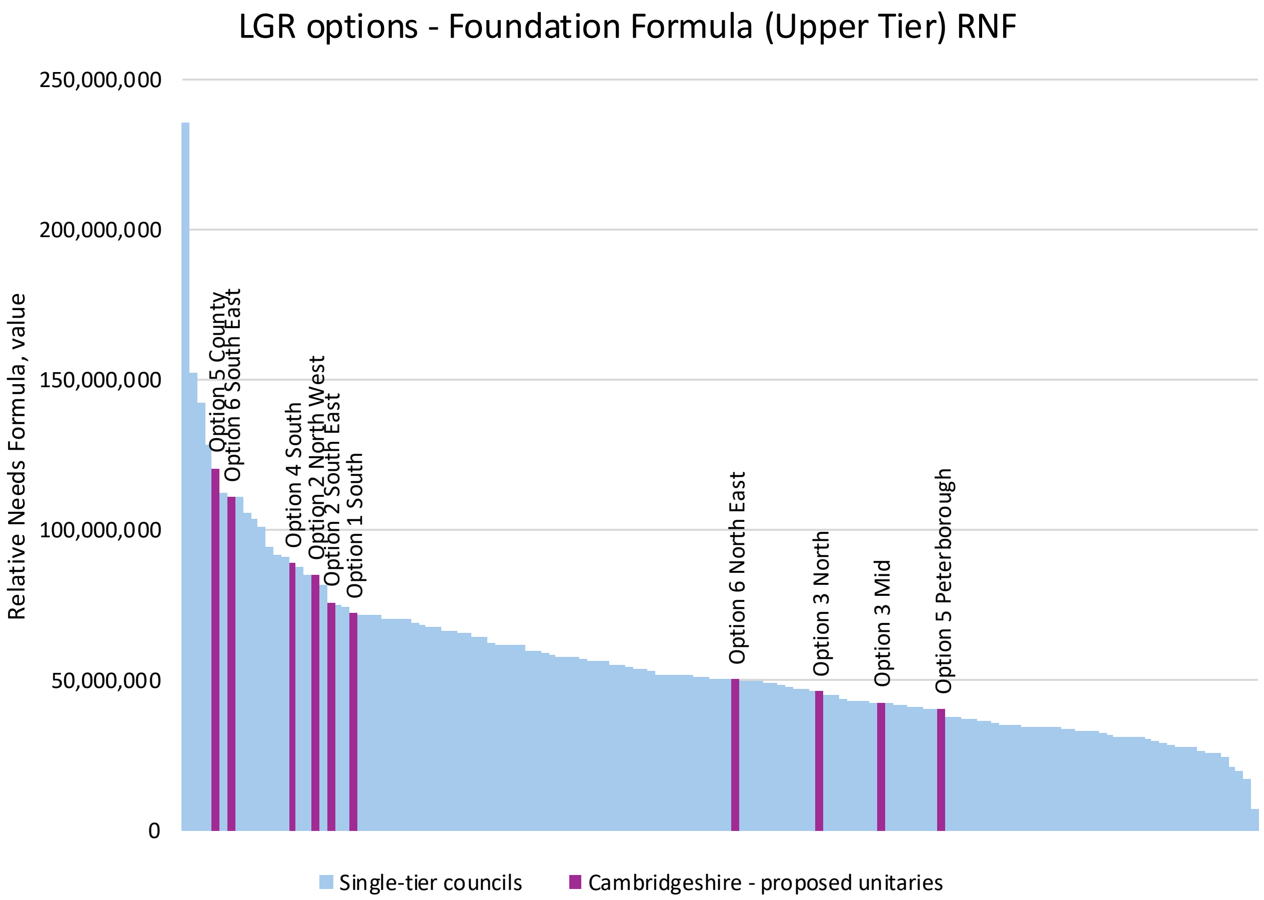
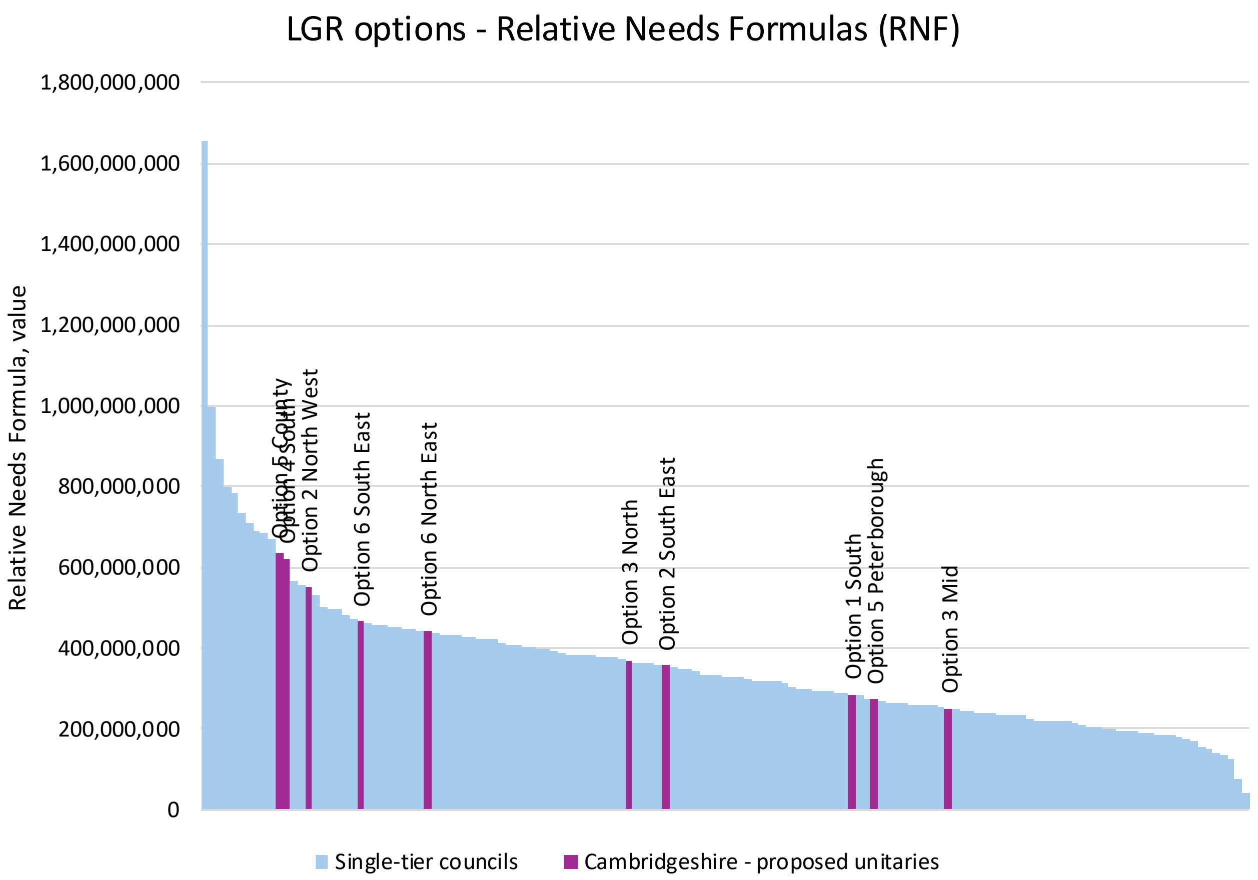
Fair Funding 2.0 – Foundation Formula RNF

- The Foundation Formula is the main non-social care formula within Settlement Funding Assessment (SFA)
- It covers a wide range of county services, including: Waste disposal, public transport, libraries, leisure, planning and central services
- Many of the potential unitaries would have above-average size services, particularly those including South Cambridgeshire/ Cambridge
- Foundation Formula RNFs suggest smaller scale in some of the “northern” options, either because of smaller overall populations (e.g. Peterborough) or relatively low RNFs per head for these areas (e.g. lower commuters, visitors).



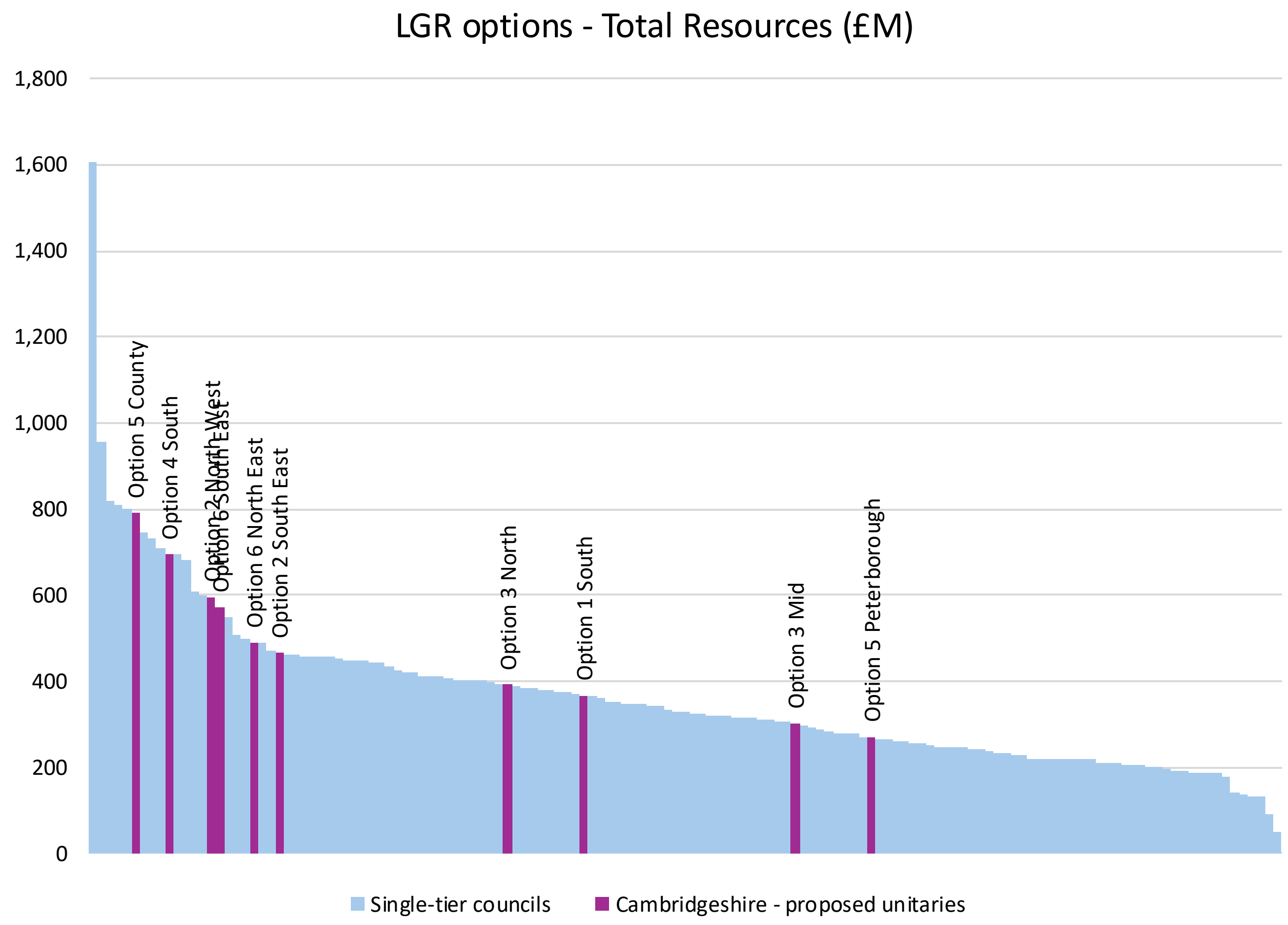
Fair Funding 2.0 – Overall RNF

- Most of the unitary options in Cambridgeshire would have substantial overall needs, based on the new RNF.
- Only 3 options would have below average scale based on overall RNF (Option 1 South, Option 5 Peterborough, Option 3 Mid).
- All the options have a higher relative RNF than the analysis based on the current RNFs. In that analysis, some of the options (Option 1 South, Option 3 Mid) were in the lower quartile – whereas they are now closer to the median.



Fair Funding 2.0 – Total Resources

- Overall resources includes actual council tax (and business rates) as well as SFA and government funding.
- All of the unitary authorities proposed for Cambridgeshire would be relatively large compared to the existing single-tier authorities in England.
- The exceptions would be Option 3 Mid and the existing Peterborough. Option 1 South would have an above-average scale in terms of overall resources.
- All the unitaries proposed for options 2 and 4 would have substantial financial scale, and would be in the upper quartile compared to other existing single-tier authorities.



Conclusions

- **Fair Funding gains and losses**. These are unevenly distributed within the county. Peterborough (together with Fenland) would generate much larger gains in the south of the county. Whilst the County Council gains from the funding reforms (~£30m), the expected outcomes for most shire districts is less good, particularly in the south of the county.

- **3-year growth**. Overall change in resources over the next 3 years appears to be much more healthy, with our modelling suggesting that every individual proposed unitary will have above-average increases in overall resources, and real-terms growth.

- **Key service scale**. Most of the proposed unitaries would have key services that are of sufficient scale, with the only exceptions those in Option 1 South and Option 3 Mid. For all the options, though, the latest RNFs indicate a larger scale than those that we calculated based on the 2013-14 RNFs.

- **Overall RNF** ("needs", spending) and **overall resources** show much more substantial financial scale than the individual service RNFs. This is because of these measures take into account council tax and business rates revenues.