

THE FAIR FUNDING REVIEW 2.0 & COUNCIL TAX MODERNISATION

Consultation – June 2025



I. SUMMARY

- I.1. On 20 June 2025, the Secretary of State for Housing, Communities and Local Government (MHCLG) delivered a Written Ministerial Statement which announced the launch of two consultations:
 - ‘The Fair Funding Review 2.0’, covering progress of the Government’s work on funding distribution reform as well as other local government finance-related issues, which runs for 8 weeks to 15 August 2025; and
 - ‘Modernising and improving the administration of council tax’, which runs for 12 weeks to 12 September 2025.
- I.2. The Fair Funding Review 2.0 is a government consultation launched to reform the way local authorities in England are funded through the Local Government Finance Settlement, starting in 2026-27. Its stated aim is to create a simpler, fairer, and more transparent funding system that better reflects the current needs, costs, and resources of local areas.
- I.3. The review proposes updated methodologies for assessing relative need, adjusting for local revenue-raising capacity, and consolidating fragmented grants into a streamlined framework. It also outlines transitional arrangements to support councils through the changes and invites feedback from stakeholders to shape the final policy.
- I.4. As a city with a relatively low council tax base and high levels of need - particularly in areas like adult social care, children’s services, and temporary accommodation - Plymouth has historically been disadvantaged under the current system. The proposed reforms aim to direct funding more fairly, based on up-to-date assessments of need and local revenue-raising capacity.
- I.5. The consultation **does not include provisional allocations at local authority level**. We anticipate analysis will become available to help understand the relative impact locally, however this will remain as indicative until the consultation is considered and the announcement of the provisional finance settlement this autumn.
- I.6. The separate consultation on council tax explores reforms to make council tax administration fairer, more efficient, and better aligned with modern expectations. Key proposals include simplifying billing processes, reviewing discounts and exemptions, improving collection practices, and ensuring the system is more responsive to local needs and taxpayer experiences. The government’s intended outcome is to reduce administrative burdens on councils and enhance transparency and fairness for taxpayers.
- I.7. Officers will review the impact of the proposals for Plymouth and provide analysis and insight to inform a consultation response on behalf of Plymouth City Council.

2. THE FAIR FUNDING REVIEW 2.0

- 2.1. The Fair Funding Review 2.0 announcement on 20th June **confirmed a move to a three-year settlement from 2026-27**.
- 2.2. The consultation proposes a new approach to calculating local authority funding through the Settlement Funding Assessment. The main elements of the new funding formula are the Relative Needs Assessment and the Resource Adjustment, which work together to

determine the level of funding for each local authority. The aim is to ensure funding is distributed fairly and transparently.

- 2.3. The formulae used to assess local authorities' current needs, which have remained relatively unchanged for over a decade, are to be updated to achieve the government's aim of targeting money where needs are highest. The review introduces a streamlined set of nine Relative Needs Formulae, replacing the previous 15.
- 2.4. The Resource Adjustment applies a standardised "notional" Council Tax level - set at the national average - to each authority's tax base (measured in Band D equivalent dwellings). This allows the government to equalise funding across areas with different revenue-raising abilities.

The resource adjustment accounts for mandatory discounts and exemptions, for example relief provided to students and military personnel, which are outside local control. Discretionary discounts and premiums are assumed to be unused to maintain fairness and simplicity.

Under the proposals, authorities with weaker tax bases would receive more central funding, while those with stronger tax bases would receive less

- 2.5. To reduce complexity and improve flexibility, the government plans to consolidate over 300 existing grants into a smaller number of core funding streams. This includes rolling many grants into the Revenue Support Grant and creating four new consolidated grants focused on homelessness, public health, crisis resilience, and children's services.
- 2.6. The Social Care Grant, Local Authority Better Care Grant and Market Sustainability and Improvement Fund are proposed to be included within the Settlement Funding Assessment. This will result in changes to the Council's funding allocation in respect of social care, and we will need to determine the impact of this shift alongside the overall funding changes.
- 2.7. Whilst it is not mentioned in the consultation, it has been indicated that the Recovery Grant will be rolled into the funding allocated via the new formula, as it was badged as a one-off grant for 2025-26.
- 2.8. The Spending Review confirmed funding to reform the Special Educational Needs and Disabilities (SEND) system. Further detail in the Fair Funding announcement detailed a planned phased transition process - working with local authorities to manage their SEND system, including deficits - alongside an **extension to the Dedicated Schools Grant Statutory Override until the end of 2027-28**.

Further details will be set out in the Schools White Paper and the provisional Local Government Finance Settlement, both to be issued in the autumn.

- 2.9. A full reset of the Business Rates Retention System is due to be implemented in 2026-27. This will realign funding with updated needs assessments while maintaining incentives for local economic growth. Adjustments to the safety net and levy rate are also proposed to manage risk and reward more effectively.
- 2.10. The government is also reviewing the framework for local authority fees and charges, with the potential to update outdated rates or devolve fee-setting powers. The goal is to ensure services are financially sustainable while protecting users from excessive costs.
- 2.11. To support local authorities through the transition, the government proposes a three-year phased implementation of the new funding model. This includes a potential funding floor to protect councils from cash losses and additional flexibilities to support service transformation and financial planning.

3. MODERNISING AND IMPROVING THE ADMINISTRATION OF COUNCIL TAX

- 3.1. The consultation proposes to change the default number of instalments for the payment of Council Tax bills from ten to twelve. There will be flexibility to allow taxpayers to choose to continue with ten instalments, however the intention is that twelve instalments will help households manage their finances more effectively by spreading payments evenly across the year.

- 3.2. To improve public understanding of how council tax is spent and what support is available, the government have proposed changes to enhance bill design and explanatory materials. They also propose to instruct councils to more effectively signpost their local council tax support (LCTS) schemes.

There will be a focus on digital-first communication, and the benefits this can bring to taxpayers, whilst ensuring safeguards remain in place for digitally excluded residents.

- 3.3. Definitions of disregards are proposed to be modernised, with “Severe Mental Impairment” being renamed to “Significant Cognitive Impairment” to reduce stigma and align the definitions with the Welsh Government’s updated terminology.

The eligibility thresholds for apprentices and carers have not been updated since 2006, so there are plans to review these, alongside exploring national consistency for discretionary disregards, e.g for care leavers.

- 3.4. The government is concerned that current enforcement practices can be aggressive and counterproductive. Proposals include extending the timeframe before full-year liability is triggered (currently seven days), introducing a cap on liability order costs, encouraging welfare checks and early debt advice referrals, and developing statutory guidance on fair and proportionate enforcement.

The consultation also seeks views on whether there should be other methods available to residents to pay their council tax and whether it could be more efficiently and fairly collected.

- 3.5. MHCLG acknowledges that some households could be paying more than they should for council tax, due to incorrect bandings. The current process for challenging council tax bandings is complex, as part of the consultation views are being sought on how to simplify and improve access to banding reviews.

- 3.6. Many of the current requirements around council tax administration and billing are outdated, and the same as when council tax was introduced, for example the requirement to issue notices in newspapers and to supply paper bills. The consultation focused on how these communications can be modernised while ensuring accessibility.