



Local Government Finance
Ministry of Housing, Communities
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Via email

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Contact: Barry Khan
Date: 31 January 2025

Dear Sir/Madam

Proposed claim for Judicial Review on the decision of the Ministry of Housing, Communities and Local Government on the local government finance settlement 2025 to 2026 for North Yorkshire Council and the removal of the Rural Services Delivery Grant

This is a letter before claim, pursuant to the Pre-action Protocol for Judicial Review.

Proposed claim for judicial review

The claim is directed to the Ministry of Housing, Communities and Local Government and [His] Majesty's Treasury, being the relevant authorised government departments for the purposes of the Crown Proceedings Act, and to the Chancellor of the Exchequer and the Secretary of State for Housing Communities and Local Government as the Ministers of the Crown responsible for those departments.

We understand the appropriate address for service for all those parties to be via the Treasury Solicitor, Government Legal Department, 102 Petty France, London SW1H 9GL.

The proposed claimants

The North Yorkshire Council is the Claimant in this matter.

The defendant's reference details

We do not have these details, but in addition to the addressee, we have sent a copy of this letter by e-mail to the person within the Government Legal Department.

Since the matter is urgent, we expect and ask the recipients to forward the letter immediately to any other person who should appropriately be dealing with it.

Details of the claimant's legal advisers

Our details and reference are given on the letter above. The matter is being dealt with by Barry Khan, Assistant Chief Executive (Legal and Democratic Services) North Yorkshire Council and being advised by Leading Counsel James Goudie KC. We are content to accept service by email addressed to barry.khan@northyorks.gov.uk

Details of the matter being challenged

The immediate proposed challenge is to the basis of the consultation and proposed decision of the local government finance settlement 2025 to 2026 under S78 and paragraph 5 of Schedule 7B to the Local Government Finance Act 1988 ("the 1988 Act") for North Yorkshire Council and the removal of the Rural Services Delivery Grant which is grant conferred by Section 31 of the Local Government Act 2003 as stated in the Government's policy statement on 28th November 2024. Although the Local Government Finance Settlement decision has not been confirmed, the timescales do not allow time for a letter before action to be issued before proceedings are issued if Government proceed as indicated in their provisional statement.

Details of any Interested Parties

Apart from the Secretary of State as just mentioned, the removal of the Rural Services Delivery Grant may directly affect a number of rural local authorities and the local finance settlement affects all local authorities.

Since it is not practical to serve any claim upon all those persons, our client's present intention (should it become necessary to commence proceedings) is to serve the claim formally upon the Local Government Association as an Interested Party, and to seek a direction from the Court that this shall be treated as sufficient compliance with the CPR. We will of course consider any other steps which you think ought to be taken in this respect.

The issues

Introduction

The Rural Services Delivery Grant was introduced by Government in 2013/14 in recognition of the extra costs of delivery of services for individuals that are spaced out over large areas, including such additional costs as higher volume of fuel and extra staff required to cover such a geography. There was a recognition that the cost of delivery of everyday services such as homelessness, planning, recycling, social services and refuse collections is greater in rural areas. Last year the total fund was £104,645,256 for which North Yorkshire Council was granted circa £14.3m – see [Rural Services Delivery Grant Determination 2024 to 2025 - GOV.UK](#). The removal of this funding will have a negative impact on the residents of North Yorkshire and will hit families and pensioners the hardest.

This grant has been used to support various services including:

- Transport: Maintaining bus services in areas with low population density.
- Social Care: Providing care services to dispersed and aging populations.
- Infrastructure: Upkeeping extensive rural road networks.
- Community Services: Supporting libraries, community centres, and local initiatives across large geographical areas.
- Financial Shortfalls.
- Other council Services and without this funding, councils may need to cut or reduce services, adversely affecting rural communities. The Rural Services Network has suggested that the average cost of delivering public services in rural areas is 20-25%

higher than in urban areas. For example social workers, refuse collectors have to drive greater distances to deliver services compared to other urban areas. In addition the nature of service providers in rural areas limits competition and significant higher costs.

- Reducing Council Tax Increases: To compensate councils for additional costs. North Yorkshire Council will increase council tax, placing additional financial burdens on residents who already face higher living costs and lower wages compared to urban areas.

The Claimant considers that the decision to change the basis of the local government settlement and remove the Rural Services Delivery Grant has been based on Wednesbury irrational decisions, lack of appropriate consultation and failure to demonstrate regard to the public service equality duties.

The persistent underfunding of rural areas challenges the sustainability of essential services in North Yorkshire and also neglects the fundamental principle of equity in public funding. Recent research commissioned by the Rural Coalition stresses the vast economic potential of rural England, which could contribute an additional £9 to £19 billion annually in tax revenues. Rural areas are vibrant economic hubs critical to our national prosperity. It is imperative that the government reconsiders its approach and ensures that funding allocations genuinely reflect the needs and challenges of all areas, including rural communities.

Each financial year the Secretary of State has to lay before Parliament a Local Government Finance Report as provided by the Local Finance Act S78 and S78A as amended and Schedule 7B paragraphs 4 and 5.

This report then needs to be considered by a resolution of the House of Commons.

The Claimant is concerned regarding the impending Secretary of State's decision on the basis set out in this letter.

Statements made on 28th November 2024: Local Government Finance Policy Statement 2025 to 2026

In its Local Government Finance Policy Statement 2025 to 2026 published on 28th November 2024 (see [Local government finance policy statement 2025 to 2026 - GOV.UK](#)) it was stated:

“The government is clear in its commitment to tackling the issues that matter most to rural communities. On average, places with a significant rural population will receive around a 5% increase in their Core Spending Power next year. This real-terms funding increase demonstrates how this government stands behind rural councils, and is in addition to over £300 million in new income for areas with a significant rural population in 2025-26 through guaranteed pEPR payments, as well as at least £250m in additional SEND (high needs) funding next year, and further funding for transport and homelessness services.”

“In this context, funding from the Rural Services Delivery Grant will be repurposed through improved methods to target funding toward areas with high need and service demand, whilst investing in the priority services people care about such as adult and children's social care. The government believes that the Rural Services Delivery Grant is outdated and does not properly assess rural need. A large share of predominantly rural councils receive nothing from the Rural Services Delivery Grant. This is clearly not right, and the government is keen to hear from councils about how best to consider the impact of rurality on the costs of service delivery, and demand, as part of our longer term consultations on local authority funding reform. We are clear though, that our focus on the services that people rely on, such as social care, where pressures have grown across the country in recent years, will deliver for rural areas just as it will for the whole country.”

The Claimant in terms of core spending power without the assumed Council Tax increases would be £4.7m worse off in cash terms if the Defendant proceeds on the basis of the draft Settlement without any further mitigation.

Statement made on 18th December 2024 by Jim McMahon, Minister of State for Local Government and English Devolution

Mr McMahon stated on the 18th December (see [Written statements - Written questions, answers and statements - UK Parliament](#)):

“The proposals we announced on 28 November – a new £600 million Recovery Grant, a new Children’s Social Care Prevention Grant, additional funding for social care, and repurposing the existing Rural Services Delivery Grant and the Services Grant – lay the foundations for fundamental reform by allocating new funding through improved formulas in 2025-26 and investing in priority services...

“Today’s consultation is on objectives and principles. The consultation will give councils, sector organisations and the public the opportunity to contribute to the government’s proposals. We will consider all representations to develop our understanding of the drivers of need, including the impact of rurality. This reform is about spending taxpayers’ money as efficiently as possible, but it is also about the impact it will have on real people’s lives and local authorities’ ability to deliver for their citizens.”

It would appear that the £105m Rural Services Delivery Grant has been repurposed to contribute for some of the following:

1. £600m Recovery Grant
2. £250m Children Social Care Prevention Grant
3. £680m Social Care Grant
4. Additional funding into the Local Settlement

In the Ministerial Statement it was stated that: *“The Government is clear in its commitment to tackle the issues that matter most to rural communities. We are focusing on the services that people rely on, such as social care, where pressures have grown across the country in recent years. This will deliver for rural areas just as it will for the whole country. In this context, funding from the Rural Services Delivery Grant will be repurposed through improved methods to target funding towards areas with greater need and demand for services, whilst investing in the priority services people care such as adult and childrens social care.”*

However due to the lack of transparency with regard to the formulas used by the Defendant it is unclear how this fund has been repurposed to the Claimant and how Government are fulfilling their policy statement of meeting rural needs. If the ‘re-focussed’ RSDG monies were paid out through the social care grant the Claimant has only received an increase of circa £0.9m (or £0.5m if passported through the Children’s Social Care Prevention grant) which in both cases is a reduction of over £13m. However, the provisional Settlement lacks transparency so it is not possible to identify the way in which it has been repurposed. For example, if the majority of the Rural Services Delivery Grant has been repurposed through the Recovery Grant, the Claimant would receive no additional funding. Despite the legitimate expectation that the Claimant will tackle the issues and pressures facing rural communities, the proposed Settlement fails to appropriately consider this.

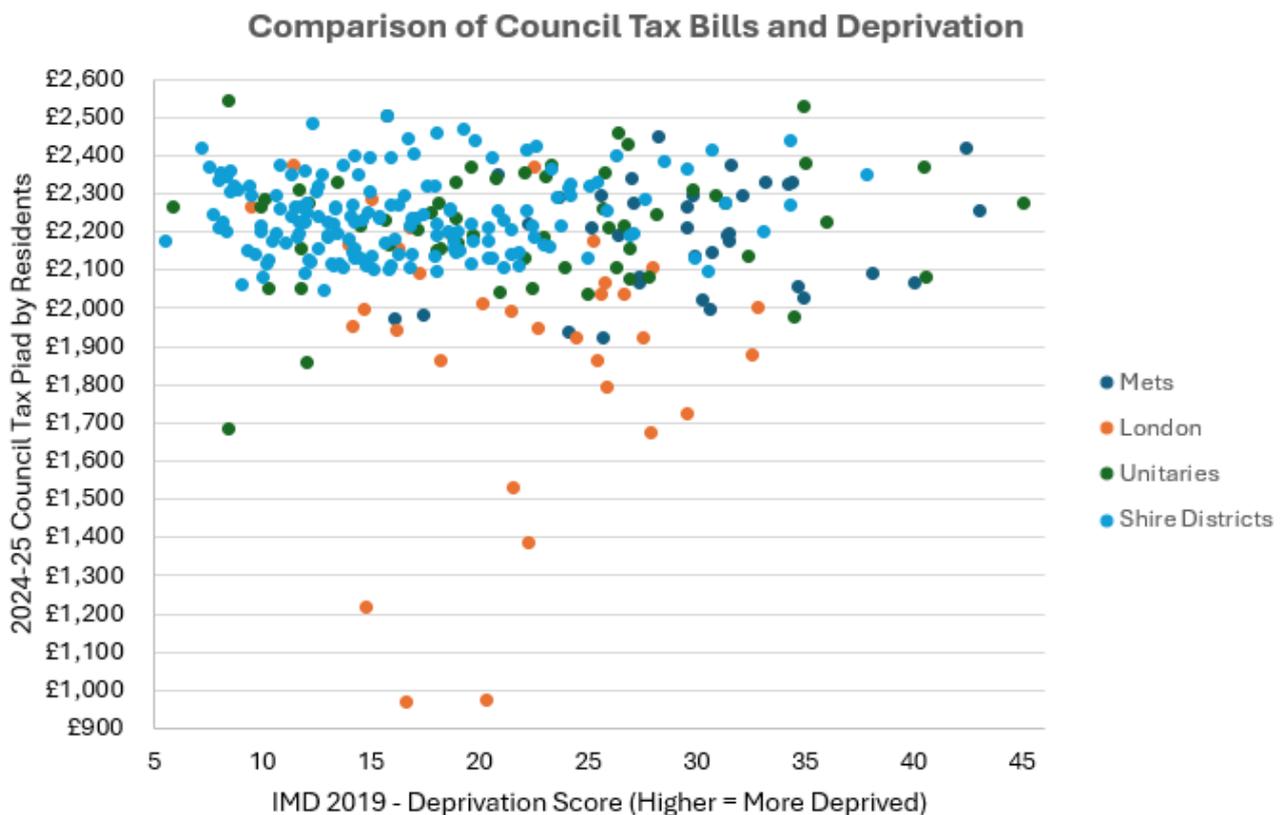
Further in the provisional Settlement it was stated *“7.2.3 The Government will guarantee that no local authority sees a reduction in their core spending power in 2025 to 2026 after taking into account the increase in Council Tax levels by acquiring a funding floor. This funding floor assumes that local authorities will use their Council Tax flexibility.”*

It is considered that the consultation is based on an incorrect set of baseline assumptions, a lack of evidence and is not based on rational information and appropriate due consideration has not been taken into account in determining the new Settlement figure for the Claimant.

An example of this is in the consultation (albeit for the settlement for the year after), where it is stated in paragraph 1.1.2 [Local authority funding reform: objectives and principles - GOV.UK](#):

“1.1.2. The link between funding for local authorities and need for services has broken down, contributing to worse outcomes and higher Council Tax bills on balance in more deprived places. “

This statement is made without any evidence. By plotting council tax billing levels and deprivation, it produces the following graph:



The R-squared value on the plot above is 0.001 (where 1 = perfect correlation and 0 = no correlation) and, similarly, a regression analysis shows that there is a p-value of 0.585 (a commonly used threshold for significance is for p-values less than 0.05). The starting point for this consultation is therefore fundamentally flawed, particularly where the document purports to be “objectives and principles”. There is a failure to under the need of rural areas and the extra cost of delivering those services.

In addition it is stated in paragraph 7.2.1 that:

“The government proposes to repurpose the Rural Services Delivery Grant, which was worth £110 million in 2024-25. The Rural Services Delivery Grant does not properly account for rural need and a large number of predominantly rural councils receive nothing from it – that’s clearly not right and a sign we need to allocate funding more effectively. The government is keen to hear from councils about how best to consider the impact of rurality on the costs of service delivery, and demand, as

part of the [consultation on the principles of local authority funding reform](#) that launched on the 18 December”.

In relation to Recovery Grant the Consultation states “The grant will support places where, weighted by population, deprivation outweighs council tax raising ability. The grant is intended to be highly targeted, meaning that not all authorities will receive an allocation.”

It would appear that there are inconsistencies in approach, namely it is stated that “*The government believes this grant is outdated and does not properly assess rural need*” but despite this recognition of need there is no attempt to address rural need. The targeted nature of Rural Services Delivery Grant is cited as a criticism yet Recovery Grant is deliberately “highly targeted”.

Rural needs are recognised yet it is proposed that the existing Rural Services Delivery Grant is ceased immediately and a later review is suggested to “consider the impact of rurality on the costs of service delivery, and demand, as part of the [consultation on the principles of local authority funding reform](#)” whereas the Recovery Grant is introduced immediately and does not have to await the local authority funding reform.

Leading Counsel has advised that the shorter consultation period for the 2025/26 Settlement for such significant changes is inadequate to implement the proposed finance settlement for the Claimant. It is noted that in previous years, Government has consulted with the sector earlier in the process on more fundamental changes for example fair funding proposals, social care PSSRU and existing formulas for RNF. The Claimant therefore has a legitimate expectation that such fundamental changes would have been consulted upon earlier so that conscientious consideration could be given to the Claimant’s concerns and appropriate regard could be had to the public services equality duties of the impact to those with protected characteristics in rural areas.

A new grant, Children’s Social Care Prevention Grant, has been introduced and a new “interim” formula has been used. This formula has not been fully explained and there has been no evidence provided as to why the existing formula for children’s services is deficient and it can only be assumed that the results were not deemed to be helpful so a new formula has been devised. Historically government has consulted with the sector on major changes to allocation formulae in advance of any proposed application of this formulae (ie not in the provisional or final local government settlement). The fact that the Defendant has done a short interim consultation to remove the Rural Services Delivery Grant this year and doing a fuller consultation for next year shows that not enough time or thought has been provided to conscientiously consider the responses of the consultation or the impact on NYC losing circa £14m of grant despite the cost of delivering services is more expensive in large rural areas.

Transitional relief has become a regular feature of funding settlements in order to avoid turbulence and to assist those who have been hit with more extreme fluctuations. In this provisional finance settlement the minimum funding guarantee was reduced from 4% to 0% and the funding guarantee also takes into account an assumed level of council tax increase. In essence the transitional relief has been discarded in this year’s provisional Settlement.

Consultation process

(a) 4 week Consultation on the Local Government Finance Settlement:

The Minister of State for Local Government English Devolution made a statement on 28th November 2024 publishing the details of the Local Government Finance Settlement. He stated that the Autumn Budget announced £4 billion in additional funding for local government services, £1.3 billion of which will go to the Settlement. Overall the provisional Settlement will ensure that local government received a real terms increase in core spending power of around £3.2% along with other statements.

Section 78(5) of Local Government Finance Act 1988 states that before making a determination the Secretary of State shall consult such representatives of local government as it appears to him to be appropriate and obtain the Treasury's consent.

The Government carried out a four week consultation process from the 18th December 2024 until 15th January 2025 on the provisional Local Government Finance Settlement (see [Consultation: provisional local government finance settlement 2025 to 2026 - GOV.UK](#)).

In this consultation it was stated that:

- The Rural Services Delivery Grant, which was worth £110 million in 2024-25, will be repurposed. The government believes this grant is outdated and does not properly assess rural need;
- The Services Grant will also be repurposed to direct funding where it is needed most and further simplify the system, by removing a grant which has significantly reduced in value in recent years.

North Yorkshire responded to this consultation as shown in Appendix 1.

(b) Consultation on local authority funding reform:

There is a separate consultation on Local authority funding reform: objectives and principles (see [Local authority funding reform: objectives and principles - GOV.UK](#)). This commenced on 18th December 2024 and finishes on 12th February 2025 which allows a greater amount of time for the public sector to respond to such fundamental changes and gives Government a greater amount of time to conscientiously consider those responses.

The basis of this letter before action is solely on the Settlement for 2025/26 but it is helpful to consider the basis of this additional consultation for future years to attempt to understand Government's rationale for the provisional Settlement for 2025/26.

This consultation recognises that the cost of delivering the same services may vary between local authorities and that there are possible differences in costs of delivering services in urban or rural areas. "There is a long history of considering variation in the costs of delivering services, both for local government and across other public services. The current system distinguishes between Relative Needs Formulae, which determine demand for services, and Area Cost Adjustments which seek to account for factors that affect the relative costs of delivering local services."

The consultation states:

3.1.4. In line with our objective to measure differences in the cost of providing services, and the principles of robustness and sustainability, we propose continuing to measure cost differences by applying Area Cost Adjustments. ACAs will be applied to Relative Needs Formulae, and will ensure that we are accounting as accurately as possible for the costs when calculating funding allocations.

3.1.5. The government proposes continuing to assess the same factors as the 2024 ACA, which seeks to account for relative cost differences facing both rural and urban areas – in line with the principle of dynamism, we will ensure our approach is informed by the latest data and evidence. We are inviting views on this approach and whether we should account for any other factors which could affect cost, as well as any evidence for including these. The 2024 ACA assesses three factors which affect the cost of providing services:

i) **A 'Rates Cost Adjustment', to reflect the variation between areas in the cost of using equivalent premises.** This draws on the Valuation Office Agency database of property valuations, controlling for the effects of building characteristics known to affect valuation.

ii) **A 'Labour Cost Adjustment', to reflect the fact that authorities will need to compete with other potential employers to secure and retain suitably skilled staff.** This is calculated using data from the Office for National Statistics Annual Survey of Hours and Earnings, controlling for local factors such as industry, occupation, age and gender.

iii) **The Labour Cost Adjustment accounts for 'Accessibility', which measures the impact of travel time as a result of longer distances and traffic congestion in all local authorities, including in rural areas.** Labour productivity is likely to be lower in areas with longer journey times because authorities will have to pay their staff for more hours to deliver similar services. The 2024 ACA identifies two robust measures to account for the additional costs associated with Accessibility: 'Dispersal', measuring journey times between groups of households to service 'hubs'; and 'Traversal', measuring journey times between groups of households.

3.1.6. When considering differences in the costs of delivering services between authorities, one approach to considering this is the possible differences between rural and urban areas. Our proposed approach outlined above will capture differences in cost, including as a result of travel times through the Accessibility adjustment. We are inviting respondents to share any evidence of additional costs authorities face relative to other authorities (above those captured in the approach outlines above) as part of this consultation, particularly as a result of delivering services in urban or rural areas.

3.1.7. **Given the relative cost of delivering services will differ across different services, we will tailor Area Cost Adjustments to each service area.** Some local government service areas are more affected by labour costs, whereas others are more affected by the cost of property. Whilst the structure of ACAs could remain the same as summarised above, the weighting of the factors could be amended to reflect the different impact of costs on different services.”

From the above it can be shown that Government are considering taking into account the various factors that relate to the cost of delivering services in urban and rural areas to be able to make an informed decision on public sector finance reform. However such consultation and consideration is lacking from the consultation and consideration for the 2025/26 provisional Settlement.

The Consultation for the year after currently remains open (the deadline for responses is 12 February 2025) and it will of course be the obligation on the Secretary of State to consider responses to the consultation properly and with an open mind before deciding whether and in what form to proceed with regard to Settlement for future years.

However it is submitted that the combined effect of the government's policy statement and draft settlement proposals for North Yorkshire Council is to remove the totality of the Rural Services Delivery Grant and to reduce the budget of the council by circa £14m has already been predetermined and therefore this letter before action has been drafted to identify the Council's concern and to notify that proceedings will have to be issued as a matter of urgency as soon as a decision is made (assuming the proposal is implemented without any mitigation for the Claimant) given the short period of time in which the Council will have to approve its budget for 2025/26.

1. Preliminary, and pre-emption of the Consultation

The Claimant considers that the consultation has been inadequate and there has been unlawful predetermination on the following basis:

- (a) The consultation appears to be calculated to pre-empt the outcome of the Consultation, and at the very least would cause a fair-minded observer to conclude that the Consultation was not being conducted with an open mind. Leading Counsel considers there has not been adequate time to consult with local authorities in making such a drastic change to the Settlement for 2025/26 as it impacts the Claimant.
- (b) There is no evidence for deprivation to be linked to costs and therefore it would appear to have been chosen as a proxy for need to predetermine the outcome. Deprivation/need is already captured in the Settlement Funding Assessment and there is no justification why that has not been used.
- (c) It would appear that the decision to fund the new Recovery Grant (which has not been consulted on), which is six times the size of the Rural Services Delivery Grant has been predetermined and other grants are proposed to be ceased without notice to enable to provide the finances for this grant.
- (d) The technical note describing the Recovery Grant has details missing which make it impossible to model and provide transparent responses to the consultation.

2. The irrationality of "the decision", and related issues

The Claimant makes the following points in this respect.

- (a) The purpose of the Rural Services Delivery Grant was to recognise the additional costs of services for geographically large areas where the cost of delivery of services in rural areas is more expensive than in other urban areas. The removal of the whole grant and the replacement of a proposed settlement which sees North Yorkshire Council lose potentially over £14m is irrational. It will leave countryside communities with less resources despite their identified needs. North Yorkshire has a high population of older people and leaves a multi-million pound shortfall in the budget which is already under immense pressure. The Government has announced it is cutting the grant in advance of a spending review without considering the full impact on rural communities or those with protected characteristics in those communities. Due regard has not been had for the demands of care of older people, working age adults and children and young people in rural areas. The proposed funding arrangements has failed to recognise the unique challenges of providing services across a very large rural area with its challenges across social care, special educational needs and transport.
- (b) The repurposed Recovery Grant heavily favours urban localities who receive over 7 times more of this grant than predominantly rural areas.
- (c) The Recovery Grant is distributed by an algorithm rather than a formula and includes arbitrary cap/uplift without explanation in addition it uses Index of Multiple Deprivation which has never been used previously in any formula. Index of Multiple Deprivation is made by a third party to arbitrarily apportion weight to the various measures which does not provide robust enough checks and balances to base allocations on. There are measures included in the Index of Multiple Deprivation which are outside the control of local authorities.
- (d) There is no evidential basis provided for stating that deprivation is a key driver for costs and no evidence for ignoring rurality as part of the allocation.
- (e) The proposals do not themselves contain any transitional provisions or proposals of how to reduce the impact of such a decision. The Grants have been issued for the

past 10 years and there is no consideration of such a dramatic change to allow the Council to mitigate against such a decision.

- (f) The decision is irrational as there is a wholly unjustifiable mismatch between the Government's apparent ultimate policy intention of recognising the additional costs of delivering services in rural areas to their proposed funding. This mismatch is demonstratable by the proposed impact on North Yorkshire Council, as being the largest geographical council in the country with the largest rural area and the impact of the proposals is to reduce the overall funding by such a significant amount.

3. Failure to have due regard to the public sector equality duty

- (a) The provisional Settlement and the removal of the Rural Services Delivery Grant has a significant impact for those with protected characteristics in a rural setting within North Yorkshire. For example due regard to the impact of being elderly and disabled within a deeply rural area of North Yorkshire and the additional cost to the Council in providing services in those areas has not been evidenced. Using deprivation as an indicator of demand for services, therefore does not consider the ageing population and the additional demands that demographic place on services, for example in rural areas, over a quarter of the population is aged 65 and over compared with around a sixth of the urban population.

4. The need for an urgent stay

- (a) The present situation is hugely unsatisfactory in that North Yorkshire Council needs to set its budget on 14th February and the final Settlement is due to be announced potentially next week. The Council therefore needs an urgent stay for the removal of the funding that is equivalent to the Rural Services Delivery Grant for North Yorkshire, reflecting the concerns of the process undertaken to date.
- (b) The only way in which to put it right is for there to be recognition of the additional drivers of cost for the Claimant's geography and the Rural Services Delivery Grant to be reinstated for North Yorkshire Council or for the equivalent funding to be provided until proper consultation and consideration has been given to a new formula funding process.
- (c) At the very least, you should consent to a reinstatement as a temporary measure, so that the issues we have raised can be properly addressed.
- (d) If you do not consent, the Claimant's position in relation to an application to seek a stay and/or an interim declaration on an urgent basis is reserved.

Details of the action that the defendant is expected to take

The principal required action is to confirm that the Secretary of State for the Ministry of Housing, Communities and Local Government and, so far as necessary, HM Treasury, will continue to fund North Yorkshire Council to the equivalent amount of circa £14m. This will allow for Government to consider appropriate mitigation prior to its more detailed review for future years.

ADR proposals

Given that the urgency of the decision requested for the Council to set its budget, we cannot at present see how the issues can be resolved by ADR, but we will consider any suggestions which you may have in this respect.

Details of information and documents sought

We ask for immediate sight of any equality impact assessment with regard to the removal of the Rural Services Delivery Grant and the proposed Local Government Settlement, in particular to the impact of those people with protected characteristics in rural areas.

Address for reply and service

By email to the writer, barry.khan@northyorks.gov.uk

Proposed reply date

In view of the urgency, we ask you to respond prior to the announcement of the final Settlement but in any event no later than seven days.

We look forward to hearing from you as a matter of urgency.

Yours faithfully

SIGNATURE REDACTED

Assistant Chief Executive Legal and Democratic Services and
Monitoring Officer

Copy to: The Treasury thetreasurysolicitor@governmentlegal.gov.uk
Government Legal Department newproceedings@governmentlegal.gov.uk
Joanna Killian, Local Government Association Joanna.killian@local.gov.uk

APPENDIX 1: NORTH YORKSHIRE COUNCIL'S RESPONSE TO THE CONSULTATION for 2025-2026

CONSULTATION QUESTIONS

Question 1: Do you agree with the government's proposals for the Settlement Funding Assessment, including payment of Revenue Support Grant and the basis of calculation of tariffs and top ups, in 2025-26?

Yes.

However, as the SFA takes account of Council Tax as part of its distribution formulae we would question the use of council tax equalisation for other funding streams.

Question 2: Do you agree with the government's proposals to roll grants into the local government finance settlement in 2025-26?

No

We generally support the simplification of funding and the moves towards less ring-fencing of grants. However, in the case where the grant distribution varies significantly from core allocation methods, there is a danger that the drivers of need are under-represented in a generalist formula and this is likely to be the case with the Extended Rights to Home to School Transport grant.

This area must therefore be seen in the context of the core funding formulae and we believe that areas such as home to school transport are now so significant that they require separate recognition as a block in the core funding settlement which is better able to reflect need.

Question 3: Do you agree with the proposed package of council tax referendum principles for 2025-26?

Yes but this is a qualified yes and only in the context of the current council tax referendum regime where local authorities are, in reality, capped at the referendum thresholds. North Yorkshire has always advocated that any decisions on council tax increases should be decided by individual councils to reflect the circumstances of their own area.

Council tax has the advantage of being resilient and relatively straightforward to administer but in its current form remains a significantly regressive form of revenue raising and is based on excessively outdated data. Higher levels of council tax do not, for example, necessarily correlate with affluence:

Authority Type	Band D Council Tax*	Median Wage (£)
Inner London	1,629.21	909.29
Outer London	2,085.82	647.88
Metropolitan District	2,188.45	591.53
Unitary – Urban	2,204.62	621.95
Unitary – Rural	2,257.86	583.25
Shire Council	2,239.51	591.68
North Yorkshire	2,282.95	546.40

**Based on Average Band D Council Tax for a dwelling occupied by two adults*

It is also important to recognise that higher current levels of council tax income typically reflect lower levels of other government funding because of issues with existing distribution formulae. This means, therefore, a greater dependence on council tax to cover demand and cost pressures. To then bake this unfairness in through inclusion in distribution formulae without a thorough overhaul of the system and data seems perverse.

We are also concerned about statements that appear to underpin the department's approach to the settlement such as "The link between funding for local authorities and need for services has broken down, contributing to worse outcomes and higher Council Tax bills on balance in more deprived places." We would be interested in the department's evidence base for this statement as our analysis shows that there is absolutely no correlation between deprivation and value of council tax bills (either up or down).

As a result, North Yorkshire would strongly support a review of the operation of council tax as part of the wider reforms of local authority financing. Rather than simply "equalising" council tax by reducing grant allocations to higher taxbase councils we would argue that it would be fairer for lower taxing councils to be able to increase their levels, particularly where median wages are higher as exemplified above.

Question 4: Do you agree with the government's proposals to introduce the Recovery Grant for 2025-26?

No.

We feel strongly on principle that it is inappropriate to introduce a completely new formula at the Provisional Settlement without prior consultation. We also strongly feel that IMD scores are too arbitrary and unsuitable to be the key basis for allocation of such significant funds (as evidenced by their rejection by previous funding formula reviews including by MHCLG themselves).

It is noticeable that the approach here is completely at odds with the approach taken towards rural financial pressures where the existing grant has been axed immediately and the review of rurality is subject to the review of local government funding in order to review evidence etc. In the Finance Policy Statement you are critical that Rural Services Delivery Grant only goes to the most rural and yet Recovery Grant only targets those with the highest average levels of deprivation. North Yorkshire also has some highly deprived wards, notably on the coast, but neither gets financial recognition for that through the Recovery Grant or the rural premium now that you have axed Rural Services Delivery Grant. This inconsistency does not inspire confidence that an evidence based and fair approach is being taken to reflecting "need" and different levels of cost to deliver service. It feels like this approach was taken to fit a political decision rather than being an objective and transparent process reflecting real understanding of the factors that drive council budget pressures. This does not bode well for open and collaborative working ahead of the proposed major changes to local authority funding.

Metropolitan districts undoubtedly face significant need for extra funding but that is also true of most councils, particularly those with upper tier responsibilities.

Question 5: Do you agree with the government's proposals on funding for social care as part of the local government finance settlement in 2025-26?

Yes.

Additional funding for social care is greatly welcomed; we have seen significant levels of both demand and cost pressures.

As well as the existing, and well documented, pressures on care budgets there will also be an impact of the changes to employers' national insurance. Our initial estimates point to anticipated extra costs from this source alone of almost £4m which will consume more than 60% of the extra funding.

As with our response to Q3. We are further concerned about the application of council tax equalisation as part of the allocation methodology including an apparent assumption that council tax levels are higher in areas of deprivation which is not in any way supported by the evidence.

Question 6: Do you agree with the government's proposal to allocate £250 million in a new Children's Social Care Prevention Grant to invest in family help?

Yes.

We strongly support a focus on prevention which we see as vital in tackling some of the demand pressures in the system and therefore we welcome funding for this purpose. However, we again have deep concerns about the opaque approach to the allocation formulae and whether that properly, and fairly, reflects the focus on prevention. In the past we would have expected to have had this formula shared and consulted with the local government community. This further erodes confidence about objectivity and whether a fair evidence-based approach is being taken. It is also unclear how this will incentivise councils to be good at prevention and there is a real risk that there are unintended and perverse incentives.

Question 7: Do you agree with the government's proposals for New Homes Bonus in 2025-26?

Yes.

Whilst there is significant doubt about its effectiveness in driving the level of house building it seems appropriate to maintain the current methodology and funding ahead of a more fundamental review of local government financing.

However, it is unclear why the government has decided to maintain the NHB methodology but has not maintained the Rural Services Delivery Grant methodology or Minimum Funding Guarantee ahead of the whole system changes which for some councils have a very much more significant financial impact.

Question 8: Do you agree with the government's proposals to repurpose grants in order to target funding where it is needed most in 2025/26?

No.

North Yorkshire has no issue with the *principle* of the appropriate repurposing of grants to target funding as priorities develop but the decision to end these grants was not only completely unexpected but also financially extremely significant.

The plan to end Rural Services Delivery Grant had not been flagged in advance and its loss is a major financial hit for the council (the equivalent of almost 3% on council tax, in effect absorbing all of the referendum-limited increase in general council tax). It is inexplicable why this funding was removed at such short notice given it would form part of the overall funding review for 2026/27 onwards. This grant was designed to recognise the well-evidenced additional costs of providing services in highly rural areas so to pull it with no replacement funding of any kind seems an arbitrary and damaging decision. As identified above, this approach is completely at odds with the approach taken to Recovery Grant and deprivation and it therefore appears to be politically motivated, particularly when the minimum funding guarantee was reduced to 0% to effectively end any transitional relief.

Question 9: Do you have any comments on the impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please identify which protected characteristic you believe will be impacted by the proposals, and provide evidence to support your comments.

Yes. Those who live and work in rural areas are now likely to be detrimented. North Yorkshire treats "living in a rural area" as a local protected characteristic given the challenges they face. Government also had previously committed to ensuring that policy was "rural proofed" yet this settlement has singled out rural areas for reduction in grants.

Question 10: Do you agree with the government's proposal to not extend the IFRS 9 statutory override beyond its current end date of 31 March 2025? Please specify the financial impact, if any, on your council and any implications with respect to financial sustainability.

Yes.

North Yorkshire has supported the statutory override since its inception in 2018. However, the proposal to not extend the IFRS 9 statutory override beyond its current end date of 31 March 2025 does not have a financial impact or any implications with respect to financial sustainability for the Council. North Yorkshire Council does not have a significant exposure to pooled investment funds. As at 30 September 2024 the Council had placed investments totalling £15.9m in 4 Property Funds (2% of Treasury Management Investments).

In addition, North Yorkshire Council has maintained a prudent financial management approach to unrealised gains/losses on property fund investments. The council recognises that property funds are long term investment and valuation can rise as well as fall over the period they are held. In order to mitigate any potential future loss the council sets aside monies equivalent to any movement in the value of property funds in a useable reserve until the units are sold. As a result, a decision to not extend the statutory override does not have a budgetary/financial impact on the council as any movements in valuation of funds are already factored into the councils financial planning.