

LGR, final accounts, SEND

Adrian Jenkins/ Dan Bates

10 June 2026



Overview

- **LGR Disaggregation model (Adrian)**
- Current disaggregation model based on district boundaries plus future models based on parish boundaries
- Recreation of the key Relative Needs Formulas (RNF) – children’s, adult social care, foundation formula

- **Final accounts – latest update, incl SEND deficit forecast (Dan)**

- **SEND and High Needs Deficit Grant (Adrian/ Dan)**

LGR Funding Disaggregation Model

- Latest version available on Pixel website: <https://pixelfinancial.co.uk/subscribers>
- Model is based on the multi-year settlements for 2026-27, 2027-28 and 2028-29, and works on the basis of existing district boundaries
- Disaggregation of Needs/ Resources now based on final settlement (with disaggregation of 2025-26 SFA to allow for phased FFA shares)
- Recreation of the key Relative Needs Formulas (RNF) – children’s, adult social care, foundation formula
- Significant input from Essex County Council for children’s and adult social care RNFs
- LGR announcements by ministers for Suffolk, Norfolk and Hampshire are on the basis of parishes, and this might also be extended to further counties in later announcements
- Briefing notes on website about funding disaggregation and systems disaggregation in complex multi-unitary LGR

Historical context

- Proposed structure for unitaries in 2028-29 is very different from the pattern in previous LGR rounds
- Over the past decade, new unitaries have been created in 6 counties, three of which became single county unitaries and three two-unitary counties. New fire authorities were created in two of these counties (Northants, Cumbria).
- The pattern of new unitaries in 2009 was similar, albeit 6 of the 8 counties were single county unitaries. New fire authorities were not created in any of these areas.
- A county has not been split into more than two unitaries since the multi-unitary split in Berkshire in 1998. In that reorganisation, 6 unitaries were created, all of which were on existing district boundaries (so there was no district disaggregation).
- No new local government boundaries have been created since 1974 (all have followed existing district and county boundaries).
- In 2028-29, the government is proposing creating **17 new authorities (including 3 fire authorities)**. In comparison, only 21 new authorities (including fire authorities) have been created over the last two decades.
- Plus potential for reorganisation in **all remaining counties (so actual numbers of new unitaries could be considerably greater than this)**
- Proposals for 2028-29 are at a scale and complexity that has not been experienced in recent years

Pixel Fair Funding model

- The work we have done on the RNFs has relevance beyond the LGR Funding Disaggregation model
- Previously, we had struggled to replicate the RNFs – but our modelling is now reasonably close to the outputs in the settlement. Better outcome than we had expected – with help Essex CC!!
- Recreation of the key Relative Needs Formulas (RNF) – children’s, adult social care, foundation formula – covering between 75% and 87% of the Needs distribution
- **More understanding of the formulas, how they have been created/ calculated, and how they distribute funding**
- **Pixel Fair Funding model will be refreshed in the coming months, and will be used to forecast future funding levels (from 2029-30 onwards)**
- **If we can unpick the RNFs, then we can refresh them for future years**
- Some analysis today to show variation at district level within a county – which has implications for how the RNFs are distributed between existing authorities

LGR Funding Disaggregation

CCN – 9th June

Introduction – ECC position

Overview of the local situation at Essex County Council:

- 15 local authorities in Essex, merging into five unitaries from the 1st April 2028
- Deprivation and wealth varies significantly across 14 areas of Essex, as does rurality and demographics

Differing views in how to disaggregate both funding and expenditure from day 1

- Requires a strong base model for disaggregation, to limit impact of ‘cliff-edges’ if local agreements are completely misaligned with the government actual model
- If funding is refreshed in 2029/30, this could have significant consequences for the future unitaries
 - Inability to balance the budget
 - Forced to issue S114 notices and request EFS

Getting the messaging and modelling right are both important to ensure a smooth transition through LGR

- Early confirmation and adoption is vital to ensure all parties are aware of their future funding envelope
- Enables a robust strategic decision-making process 12-18 months before the ‘go-live’ date

Overview of the Fair Funding Review Allocations

The calculation of the 2026/27 local government finance settlement funding formula has undergone substantial changes, broken down clearly by the following graphic from the government's original FFR consultation:



There are descriptions of the methodologies used by government in the fair funding review publications and Annexes provide details of the datasets and calculations used

- **Government has not officially published their workings**, nor have they been open and transparent about the process

Adult Social Care RNF Continued

Guidance notes sourced from the FFR 2.0 Consultation Appendices (annex E) and the Final Settlement Technical Notes

4.2 Proposed older adults component

The proposed older adults component of the ASC RNF value is calculated as follows using local authority-level data:

- i. 22.42 plus
- ii. 14.88 multiplied by the proportion of people aged 65 or over who are Personal Independence Payment, Disability Living Allowance, or

- Attendance Allowance claimants, plus
- iii. -12.73 multiplied by the proportion of household reference persons aged 65 or over living as a couple, plus
- iv. 12.99 multiplied by the proportion of people aged 65 or over who are aged 80 or over, plus
- v. 25.95 multiplied by the proportion of people aged 65 or over who are Pension Credit claimants aged 80 or over, plus
- vi. -9.12 multiplied by the proportion of household reference persons aged 65 or over who own their home outright multiplied by the proportion of all dwellings in Council Tax bands A to E, plus
- vii. -18.32 multiplied by the proportion of household reference persons aged 65 or over who own their home outright multiplied by the proportion of all dwellings in Council Tax bands F to H

The result of the above multiplied by:

- i. ACA for adult social care, multiplied by
- ii. number of people aged 65 and over with a supported residents adjustment, multiplied by
- iii. low income adjustment

4.1 Proposed younger adults component

The proposed younger adults component of the ASC RNF value is calculated as follows using local authority-level data:

- i. 6.15 plus
- ii. 19.06 multiplied by the proportion of people aged 18 to 64 who are Universal Credit (No Work Requirements) or Employment Support Allowance or Personal Independence Payment, Disability Living Allowance or Attendance Allowance* claimants, plus
- iii. -3.06 multiplied by the proportion of household reference persons aged 16 to 64 living in one-family households, plus
- iv. -6.15 multiplied by the proportion of the people aged 16 to 64 who are aged 16 to 24

The result of the above multiplied by:

- i. ACA for adult social care, multiplied by
- ii. number of people aged 18 to 64 years

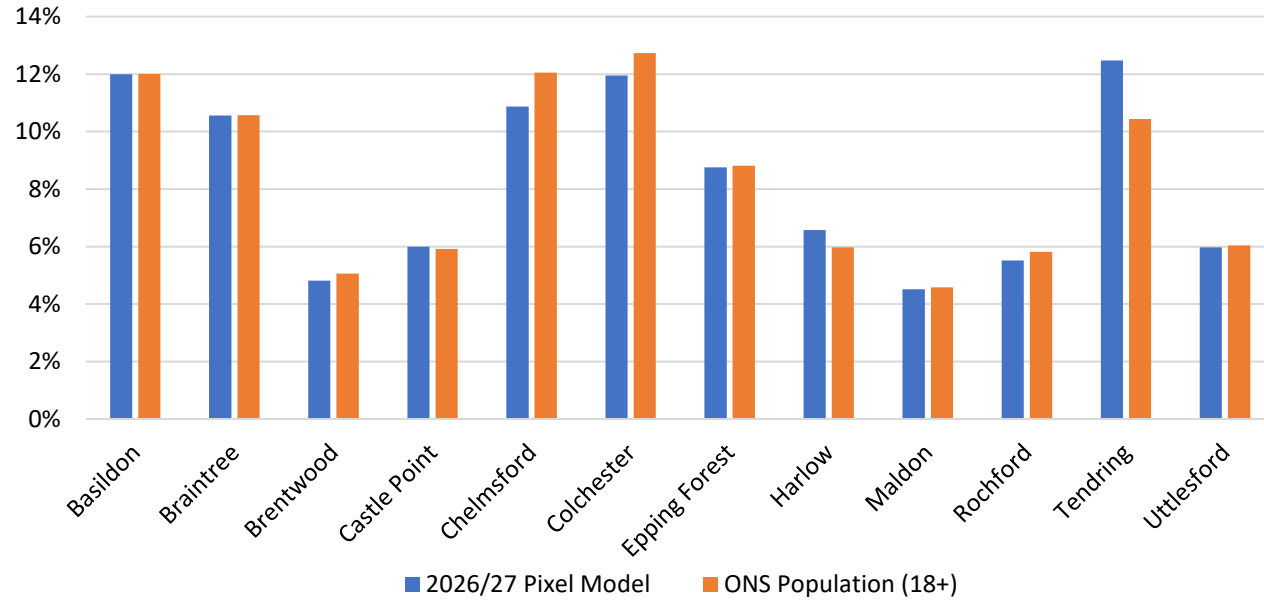
All datasets are (somewhat) accessible via ONS, Nomis, or Stat-Xplore

Minor limitation is understanding the exact dates to use when reproducing the methodology used by govt.

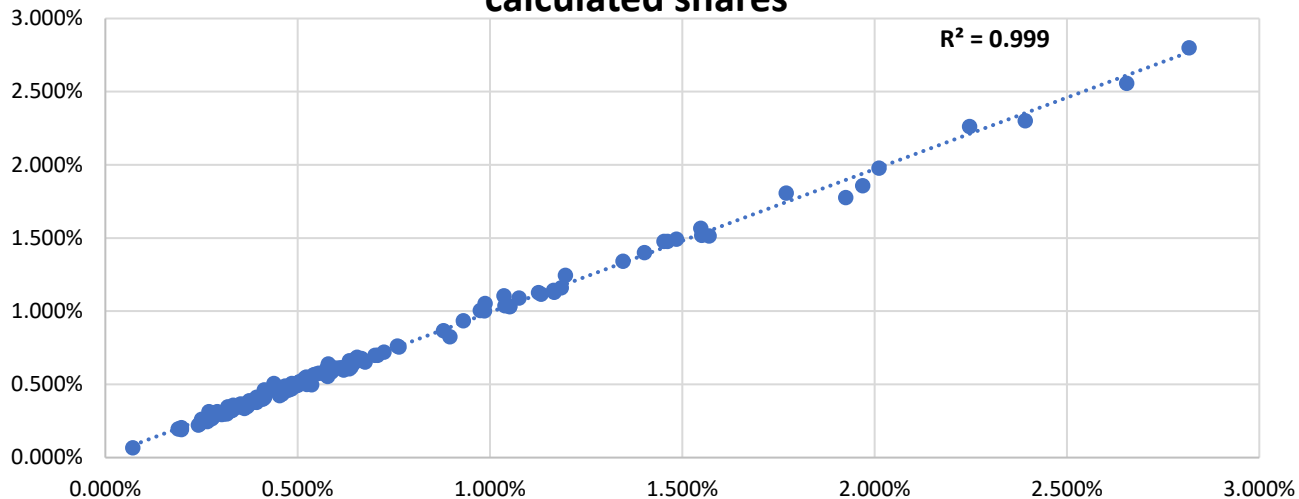
However, for the purpose of funding disaggregation, this is **unlikely to cause significant variances**

Adult Social Care RNF

Adults Relative Needs Formula - ECC Disaggregation



Correlation between final settlement shares and Model calculated shares



The Adults Relative Needs Formula is one of the most well documented and easy to reproduce formulas in the recent model

The adults RNF is the largest element of the formula (46% for county councils)

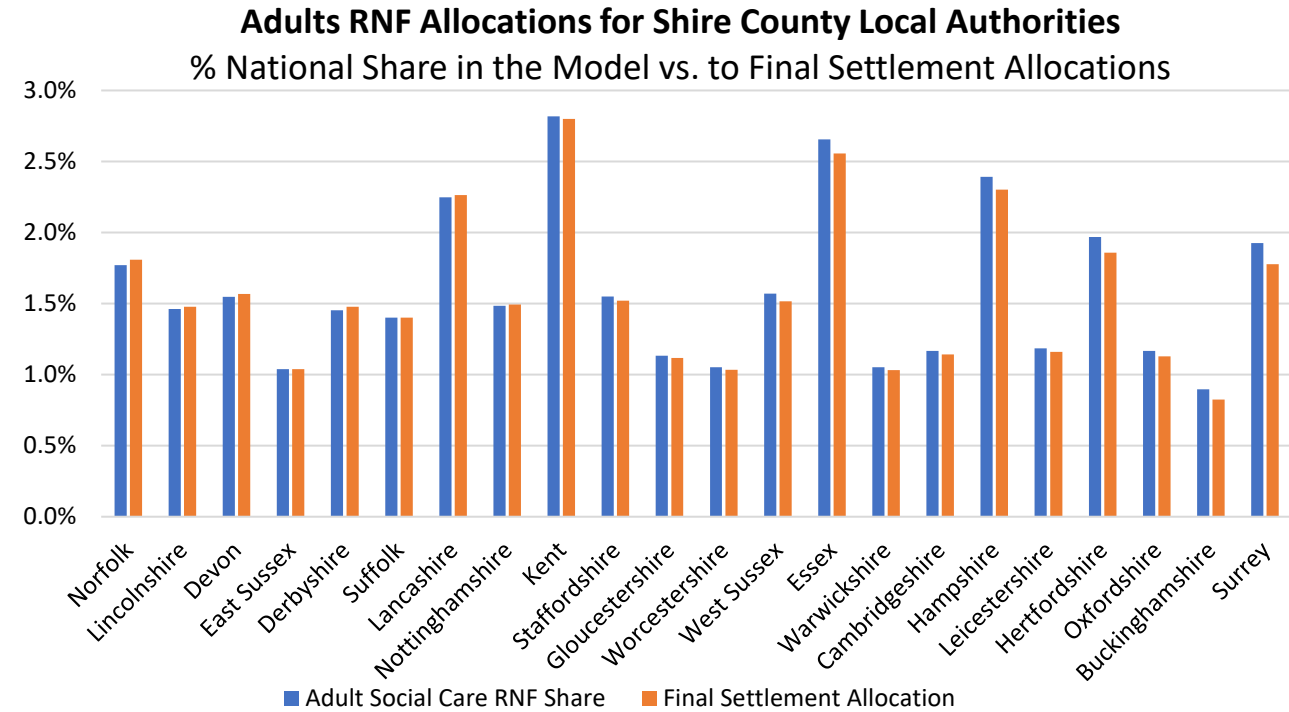
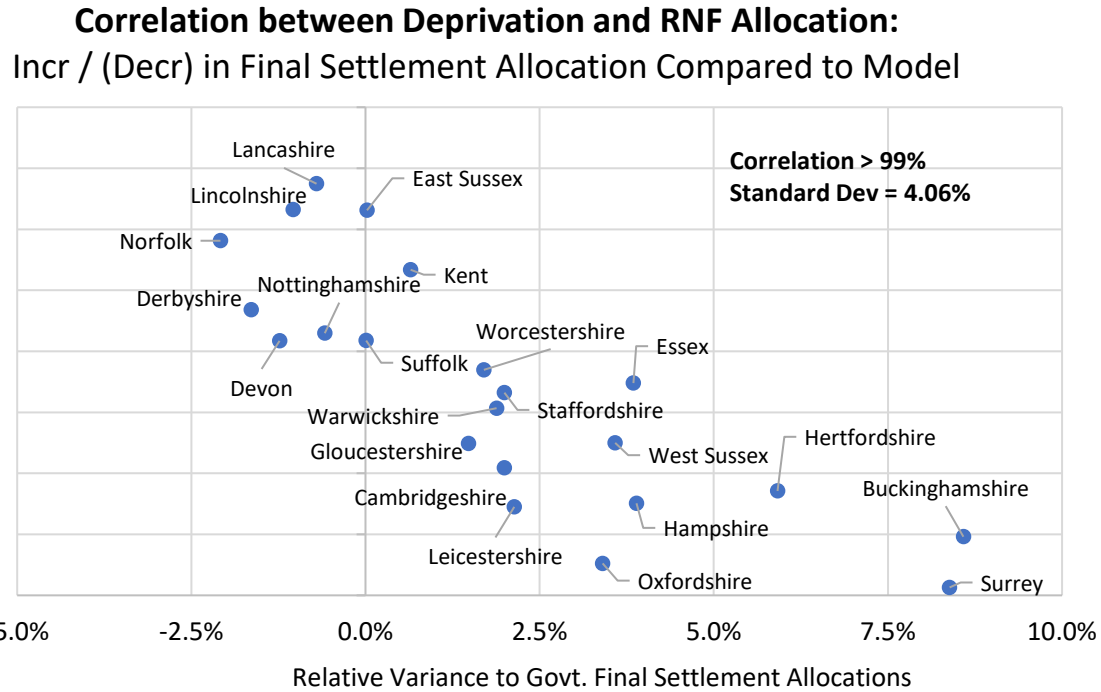
All elements of the calculation are **thoroughly explained** in the consultation notes

ONS and Stat-Xplore stats record care home residents as living in the district of their care home, not their previous place of residences

All datasets are (somewhat) accessible via ONS, Nomis, or Stat-Xplore, mostly at a district level

Minor limitation is understanding the exact dates to use when reproducing the methodology used by govt. However, for the purpose of funding disaggregation, this is **unlikely to cause significant variances**

Adult Social Care RNF – Shire County Analysis



- The Adults Relative Needs Formula in our model has **minimal variance to the national model**, particularly when analysing Shire County Authorities
- Limited variance **provides greater reassurance that our assumptions are correct**
 - Easier to drill-down into district results, and aggregate back up to the future LGR unitaries for disaggregation
- **For future unitaries that require disaggregate below the district-level, disaggregation will prove more challenging**
 - Many of these dataset can be drilled-down into wards. However, this increases complexity and increase variability risk

Children and Young People RNF Continued

Metric	Service area	Resource weight
CIN	(1) Child, young people and family support services, (2) Safeguarding triage: assessment, case management, and commissioning, (7) Youth justice	48.7%
CLA	(3) Residential Care for Children Looked After & (4) Fostering for Children Looked After	40.6%
Ceased	(5) Supporting legal permanence in alternative families; (6) Care leaver services	10.6%

Guidance notes sourced from the FFR 2.0 Consultation Appendices (annex F) and the Final Settlement Technical Notes

The regression can be replicated; However, some datasets are not publicly available at a LA or LSOA level

We are limited as some datasets are either not published nationally (E.G. Free School Meals), or we do not know the exact parameters used by govt to form these datasets

However, this is unlikely to cause significant variances

Model parameter estimates	Child in Need	Child Looked After	Ceased Care
Intercept	5.2823	7.2105	-8.2758
Free School Meals eligible (FSM)	2.2679	2.4190	2.5209
Gender (ref='Male')	0.1171	0.0917	0.0209
Age 8-9	0.0117	0.0952	-0.2331
Age 10-11	0.0799	0.2215	-0.4116
Age 12-13	0.2527	0.4438	-0.2873
Age 14-15	0.4323	0.7264	-0.0117
Age 16-17	0.5978	1.0824	0.4709
Income Deprivation Affecting Children Index (IDACI)	2.5444	3.8912	2.4879
Poor health	5.1238	5.0618	0.6947
Overcrowded households	0.6764	0.3659	-0.4297
Population Density	0.0000	0.0000	0.0000
Travel time	0.0065	0.0135	-0.0198
FSM*Age 16-17	0.3075	0.3802	-0.4663
FSM*IDACI	1.7723	2.9115	-1.8687

Children and Young People RNF

The Children and Young People's Services RNF is the second largest formula in the model (28%)

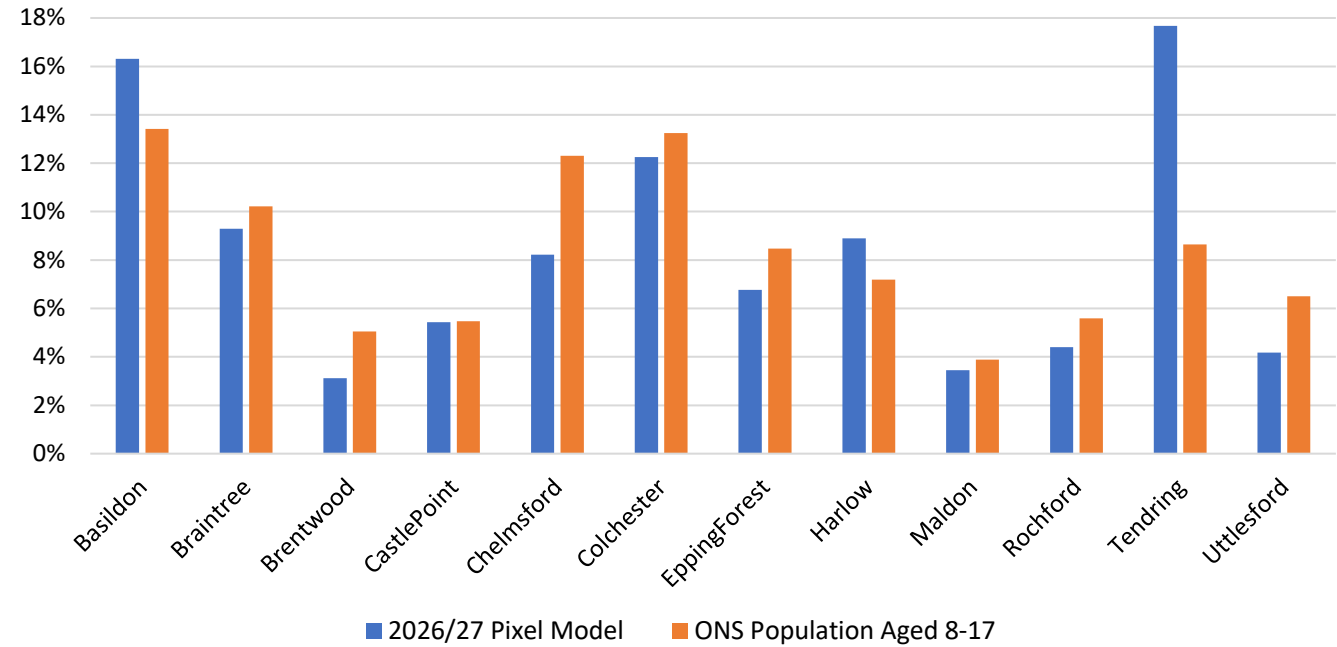
The formula itself is **incredibly complex but well explained** in the consultation (*Annex F*)

Large mathematical regression is used to calculate the probability of children in need of care per local authority

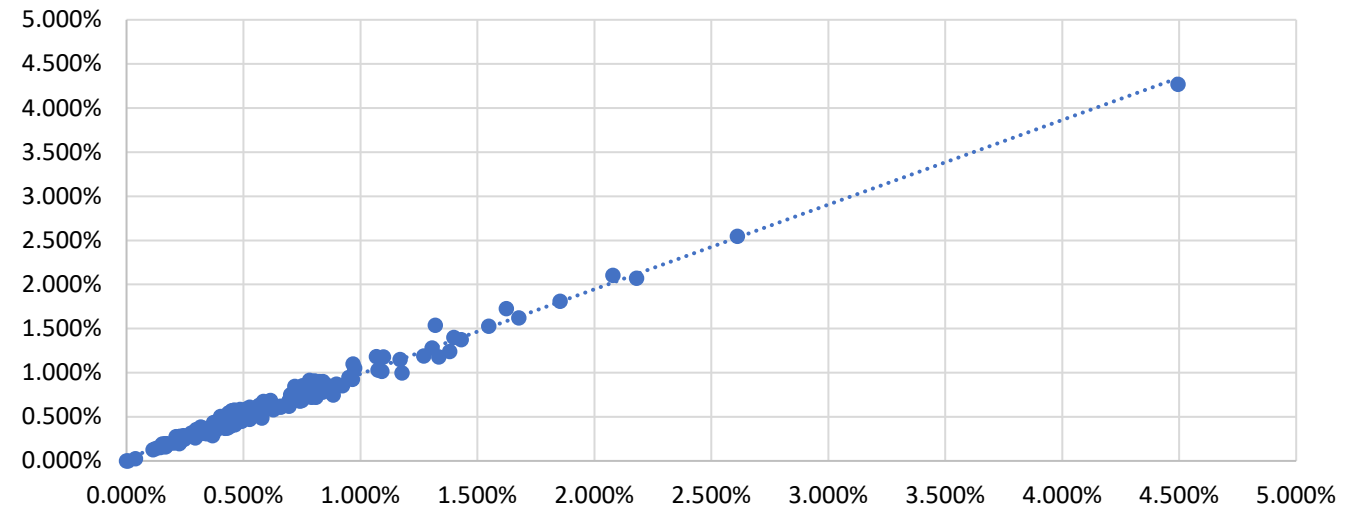
One of the most complex elements of the fair funding model. **The majority of datasets can be found via Nomis and the ONS website**

While not as accurate as the Adults RNF, the Childrens RNF model remains very close to the national distribution ($R^2 = 0.993$)

Children and Young People's Services RNF Disaggregation

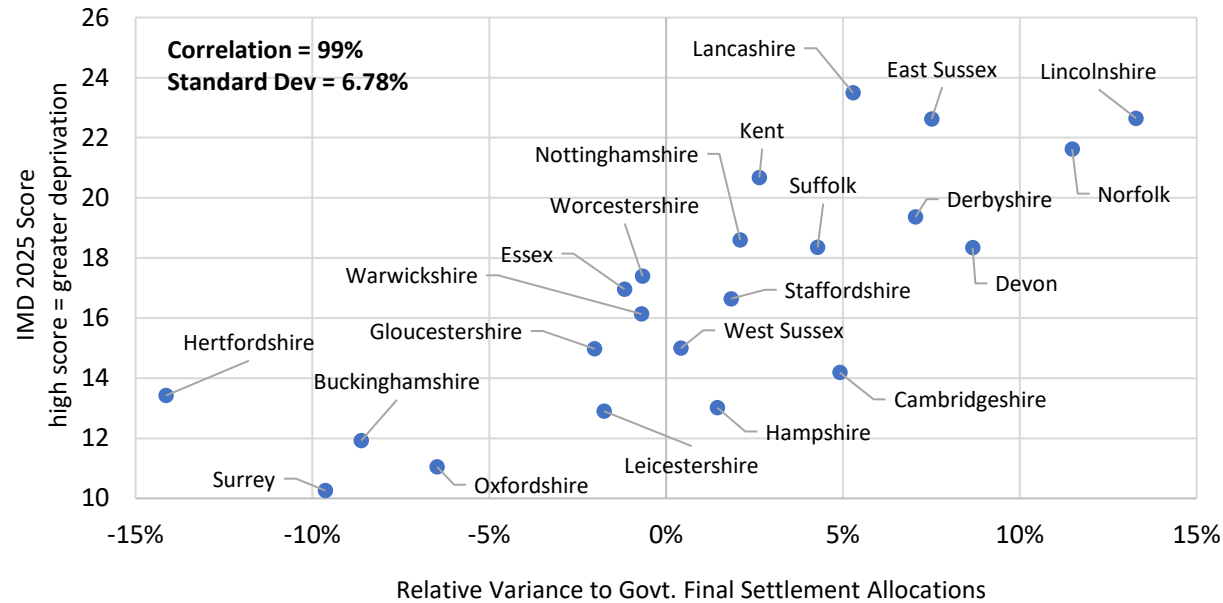


Childrens RNF Correlation between the Latest Model vs. the Final Settlement Allocations

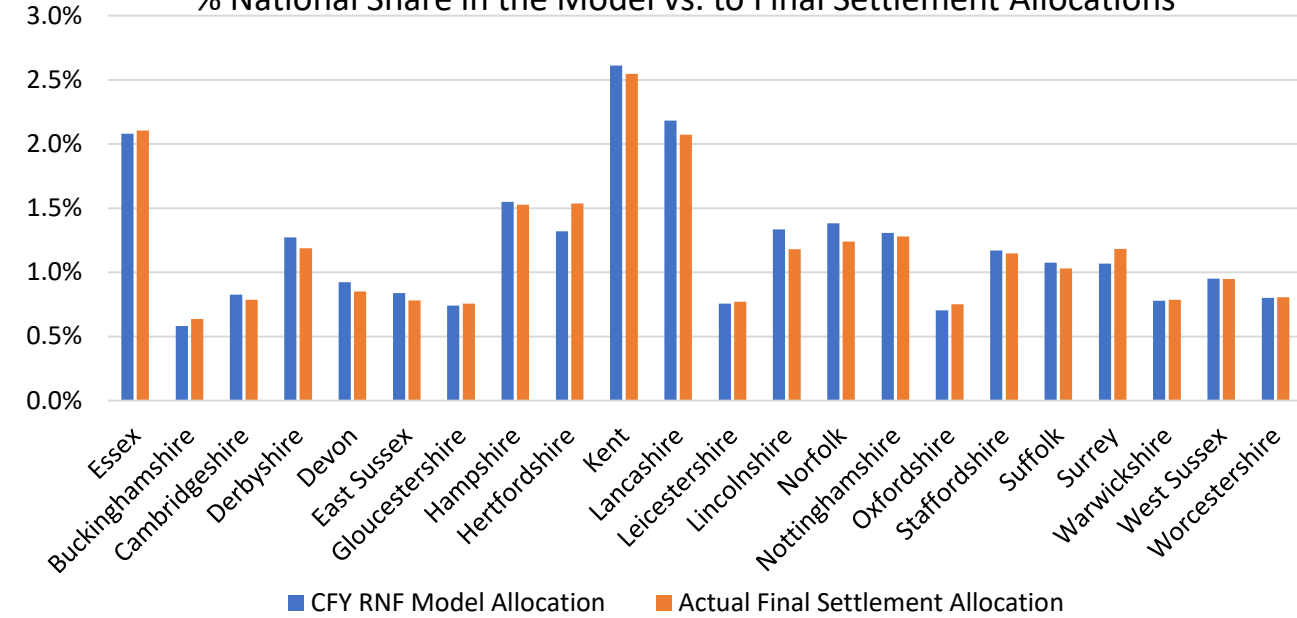


Children and Young People RNF – Shire County Analysis

Correlation between Deprivation and RNF Allocation:
Incr / (Decr) in Final Settlement Allocation Compared to Model



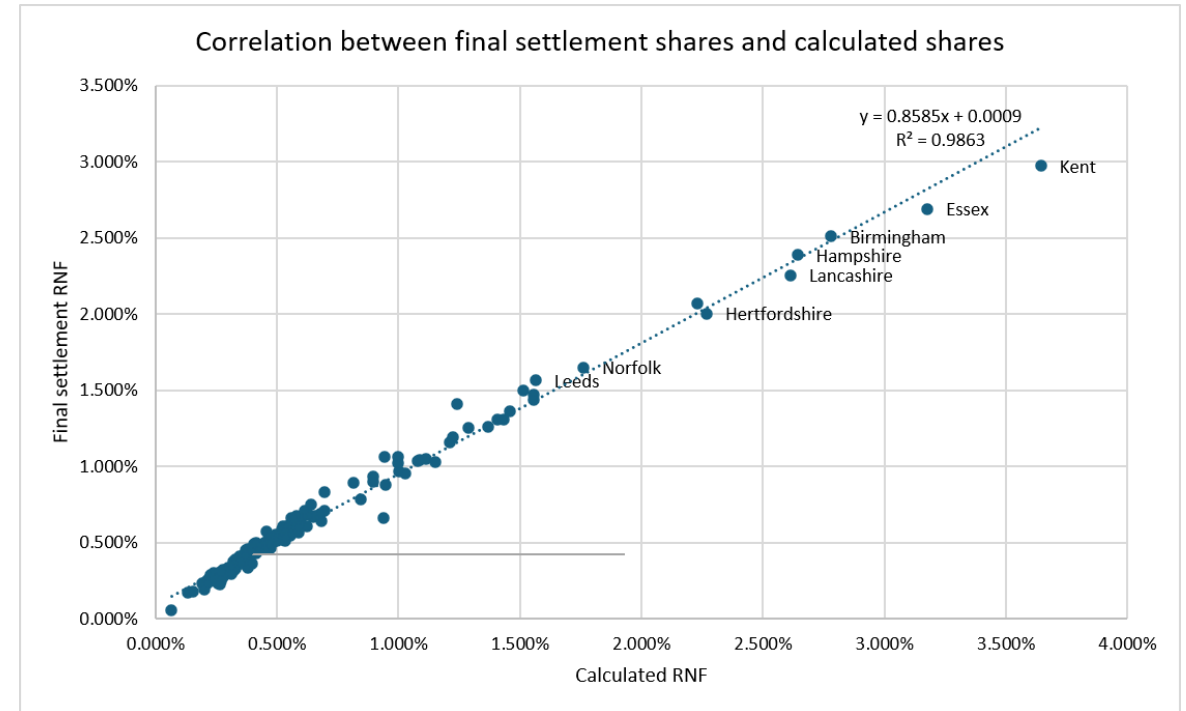
Children's RNF Allocations for Shire County Local Authorities
% National Share in the Model vs. to Final Settlement Allocations



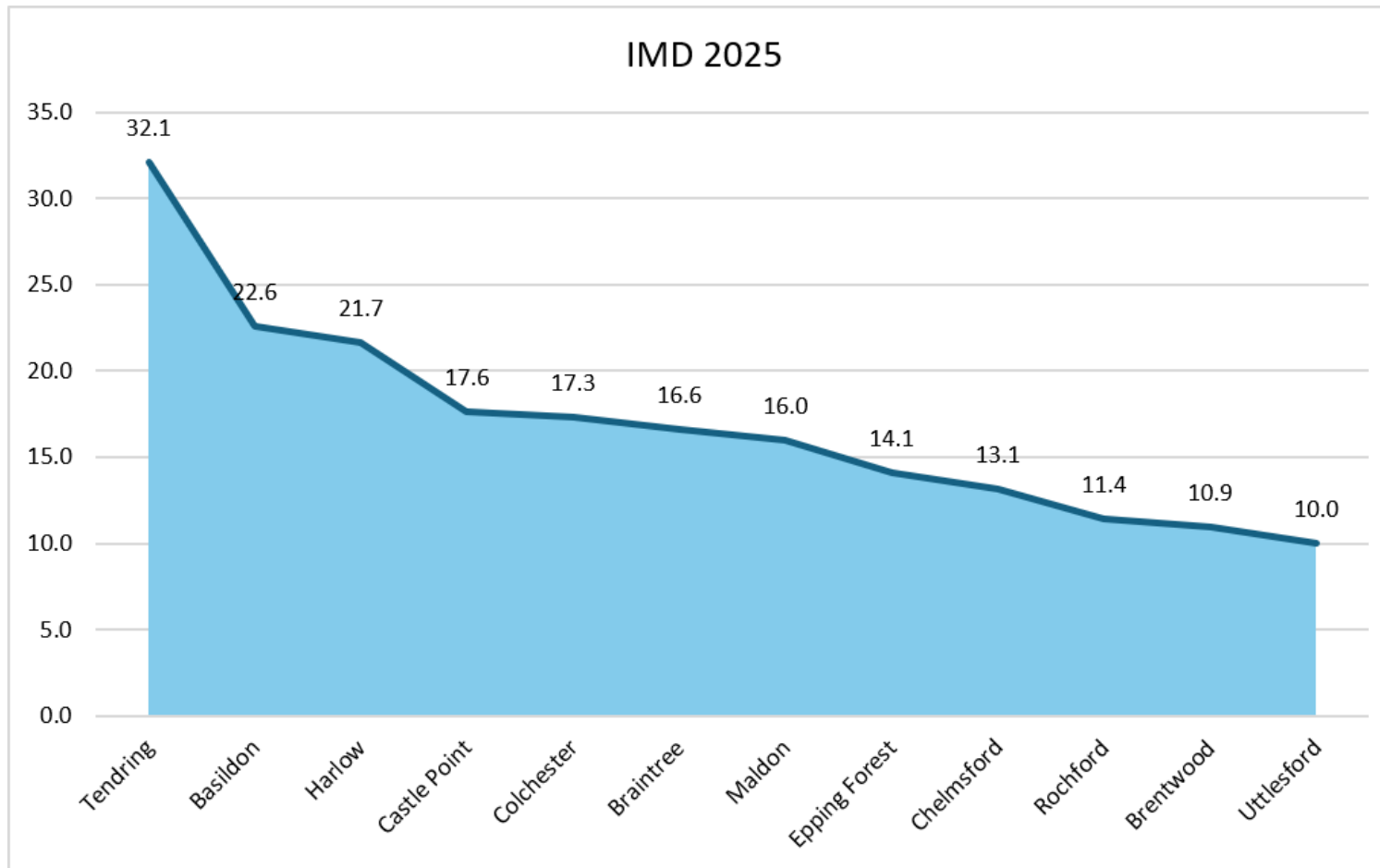
- Children and Young People Services **RNF distribution is slightly more varied** than the Adult's model, but **still very strong**
 - Standard Deviation = 6.78%; Correlation = 99% ; Larger range in variances from final settlement allocations
- Complex mathematical regression that requires a probability calculation for every child per LSOA region
- Replicating this element of the model is much more complex, mathematically, than the Adults RNF or other. However, the datasets required are more granular – LSOA, rather than district level
 - Enables greater certainty for authorities disaggregating at a ward or parish level for LGR

Foundation Formula

- Reasonably successful recreation of the Upper Tier Foundation Formula – **r-squared is lower (0.9863)** than for either children's or ASC RNFs
- **Mid-year population estimates (2024), IMD 2025, and Area Cost Adjustment** – available from settlement
- **Net in-commuters** – derived from ONS commuter data. Authorities with net outflows set at zero.
- **Day visitors and overnight visitors** – not possible to obtain data from sources given in the settlement so have had to use data from previous settlements.
- Potentially some significant under- or over-allocation, both at upper-tier level (e.g. high visitor numbers) and potentially some larger counties
- Risk of misallocation for UT Foundation Formula for district-level disaggregation

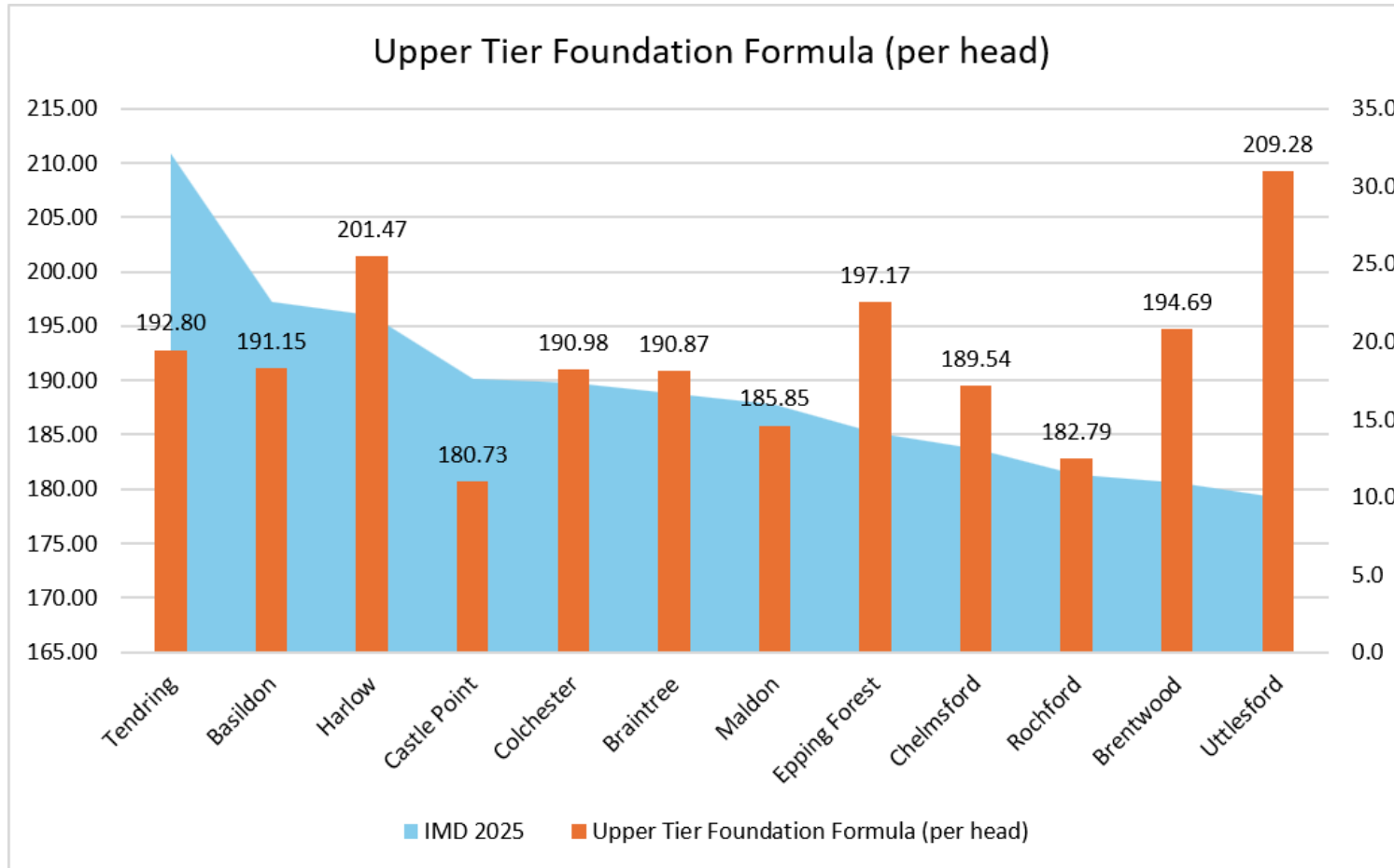


Comparing RNFs per head with IMD 2025



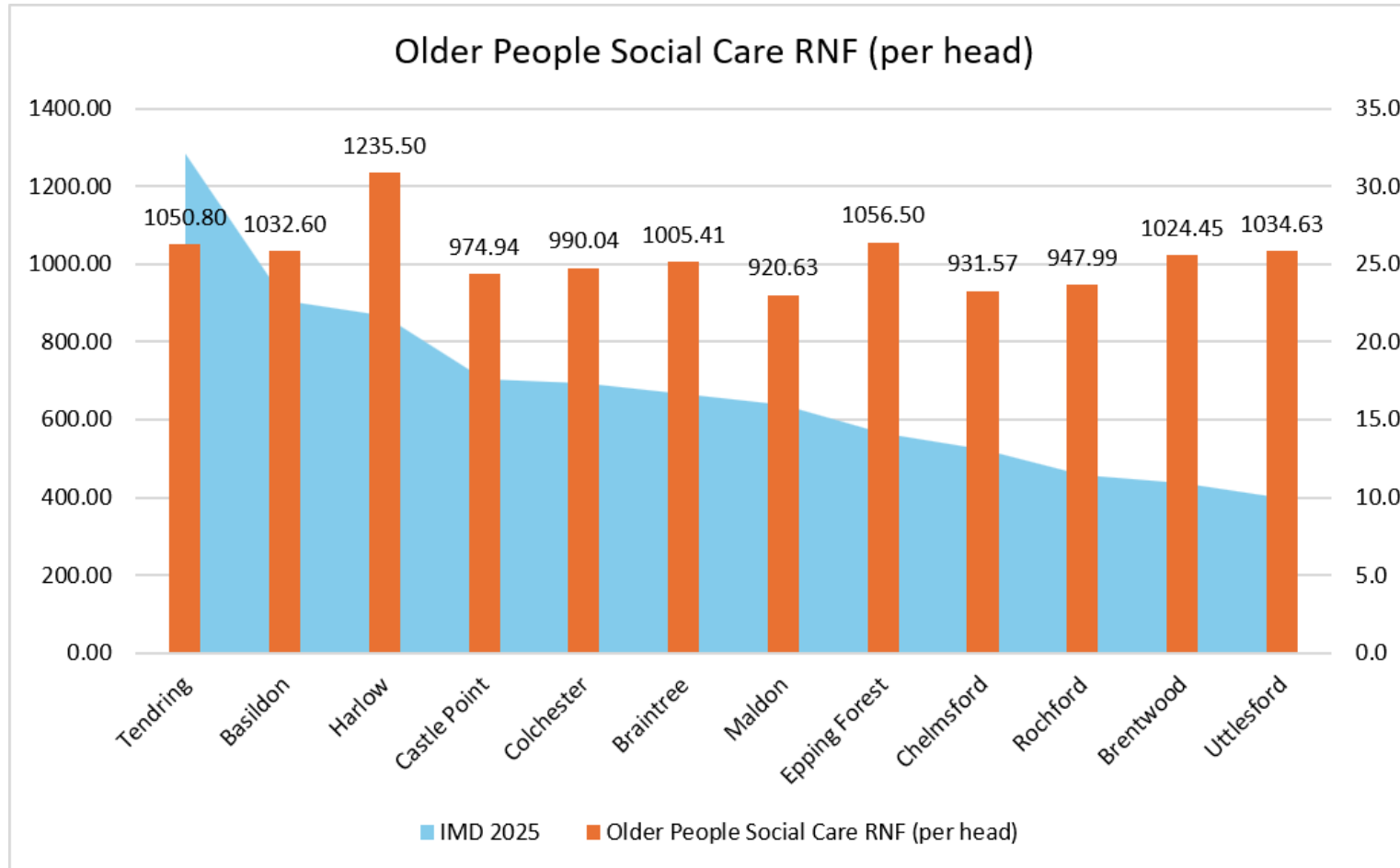
- Looking at Essex CC as an example (12 districts)
- IMD 2025 ranges from 32.1 in Tendring to 10.0 in Uttlesford

UT Foundation Formula RNFs per head vs IMD 2025



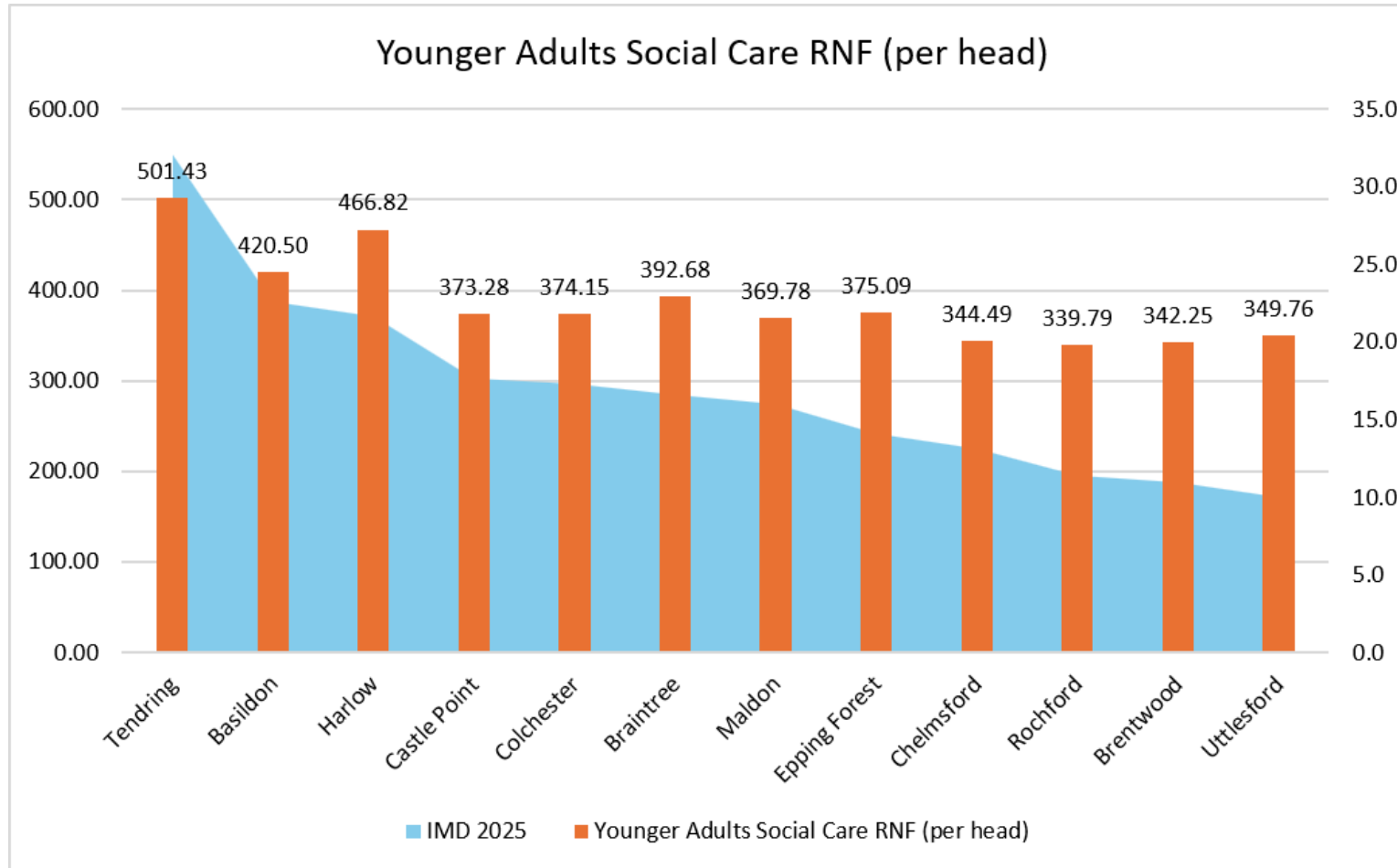
- No relationship between IMD and UT FF per head
- Commuter and visitor flows have a very significant impact, and appear to overwhelm impact of IMD 2025
- E.g. Stansted airport in Uttlesford

Older People Social Care RNFs per head vs IMD 2025



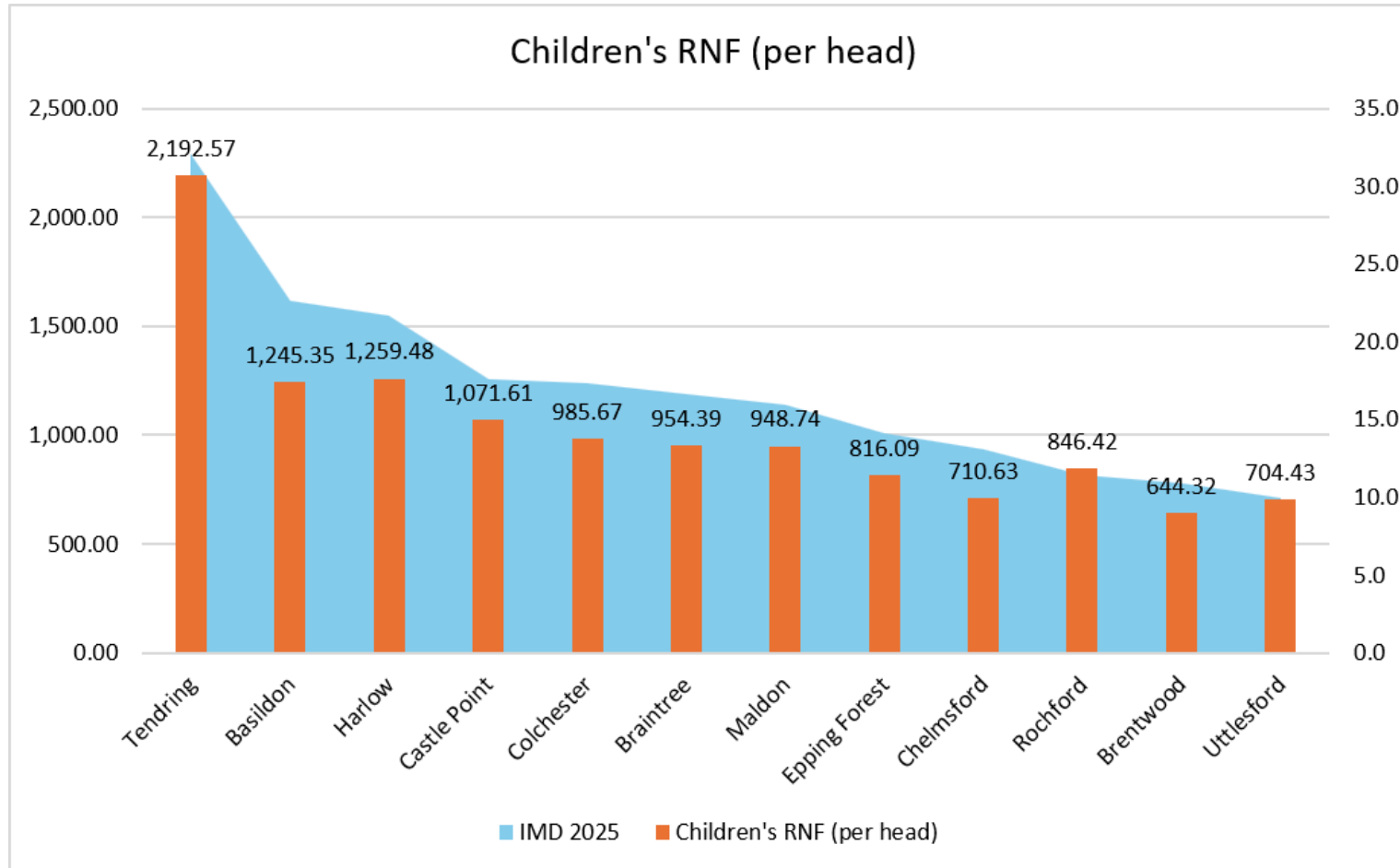
- Limited relationship between IMD and Older People RNF per head
- RNF per in most districts is within a narrow band (£920 and £1,056 per head)
- Takes into account demographic characteristics (particularly age profile)
- But also ability to self-fund care

Younger People Social Care RNFs per head vs IMD 2025



- Stronger relationship between IMD and Younger Adults RNF per head, with most-deprived areas having the highest RNF per head
- But disaggregated RNF per head is relatively flat (at around £350 and £390 per head) for all authorities with lower IMD, despite wide range in scores
- RNF introduces more benefits and deprivation-related factors

Children and young people's RNFs per head vs IMD 2025

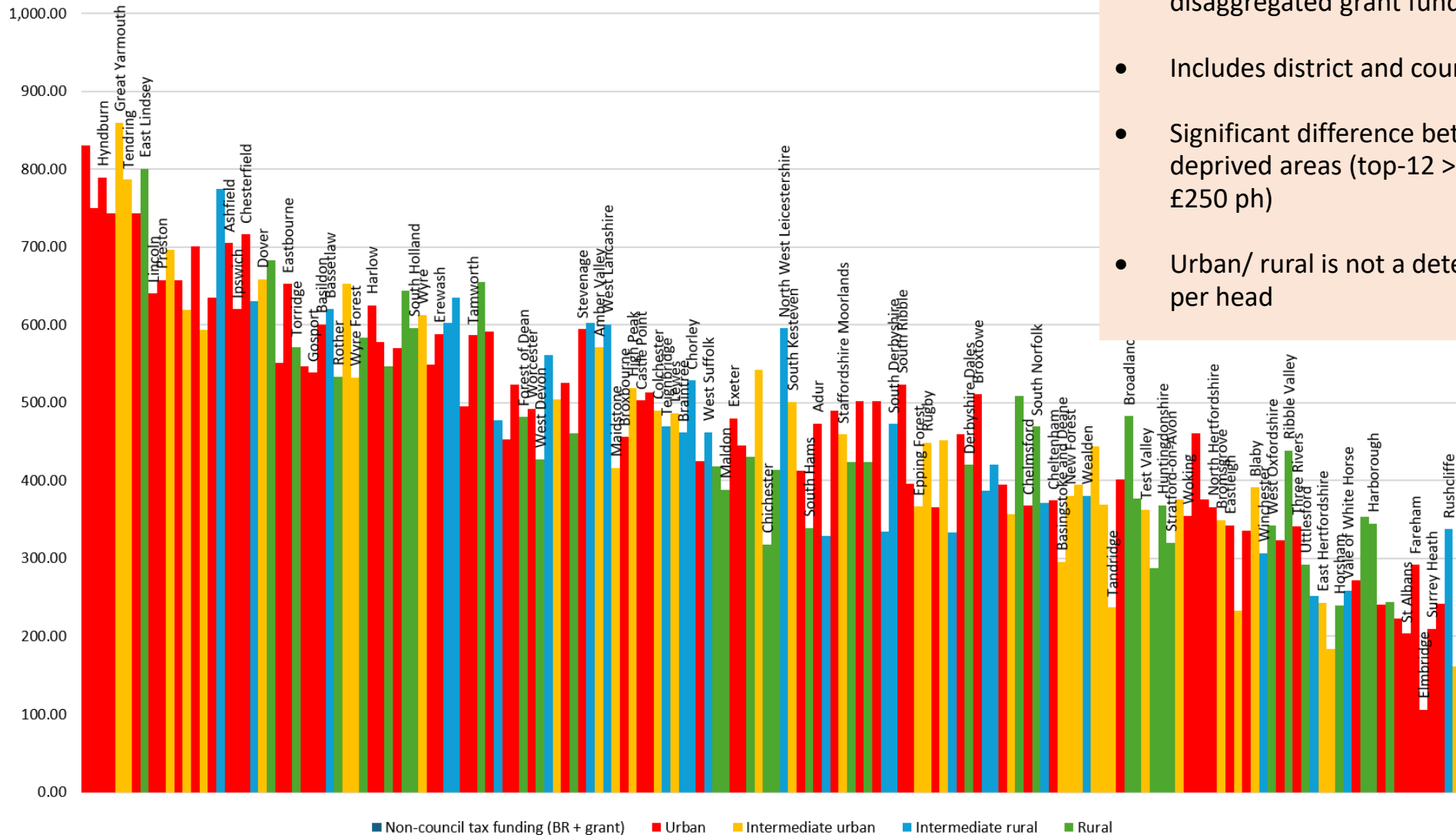


- The model required to calculate the Children's RNF is huge – for all upper-tier authorities the model is 300MB

- Very strong relationship between IMD and Children's RNF per head, with most-deprived areas having the highest RNF per head
- Free School Meals, IDACI, qualifications, children in poor health, housing occupancy, and population density
- RNF calculated at LSOA level and aggregated to upper tier authorities (or to district in our model)
- Statistical functions within the formula emphasise the impact of deprivation on outcomes – much more so than in any other RNF
- Explains some of the outcomes in the FFR2.0 and the settlement

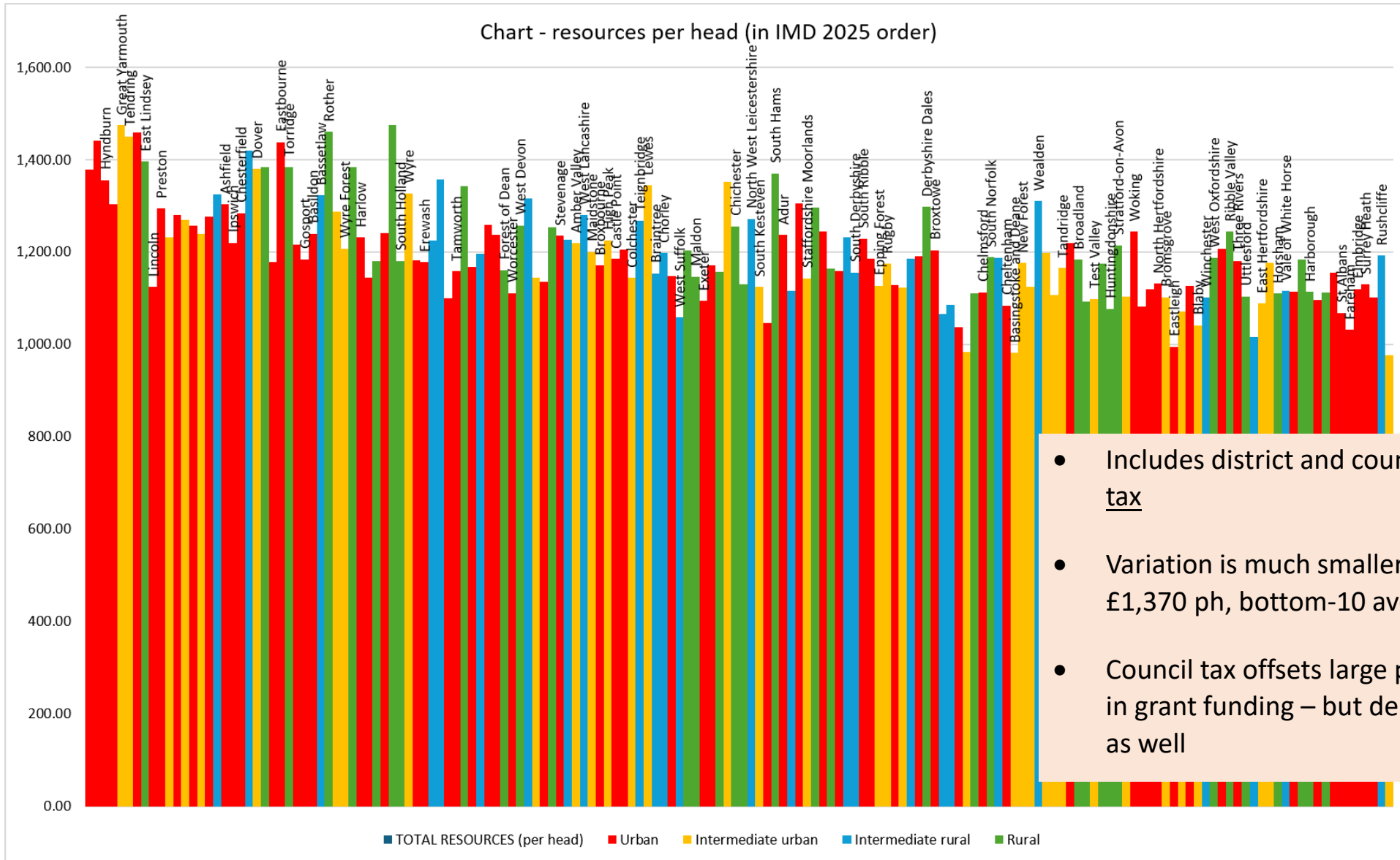
Overall county/ district grant funding for all “districts”

Chart - grant funding per head (in IMD 2025 order)



- Strong relationship between IMD and disaggregated grant funding to each district area
- Includes district and county funding
- Significant difference between the least and most deprived areas (top-12 > £700 ph, bottom-12 < £250 ph)
- Urban/ rural is not a determinant of grant funding per head

Overall county/ district resources for all “districts”



- Includes district and county funding and council tax
- Variation is much smaller (top-10 averages £1,370 ph, bottom-10 averages £1,100 ph)
- Council tax offsets large proportion of variation in grant funding – but depends on Band D levels as well

Implications for funding distribution

- There is no clear link between deprivation (as measured by IMD 2025) and distribution of RNFs to district level
- Only children's RNF has a clear link (very strong correlation) – outcomes per head can largely be explained by deprivation
- For other RNFs, other factors are driving the distribution at district level
- Foundation Formula has a particularly weak relationship with deprivation (IMD 2025), despite IMD being a key feature of the RNF. Visitors and commuters appear to be much more important factors.
- Older people RNF driven by other factors, such as demography (proportion of older people) and scale of self-funders

- **Calculated RNF values at district level can be extreme – whereas there are offsetting characteristics in county areas**
- **This has the potential to “allocate” funding to areas in ways that are unexpected and not necessarily similar to the way spending is distributed**
- **Analysis helps our understanding of the RNFs, particularly childrens and Foundation Formula, where we had previously struggled to replicate the RNF distribution**

Settlement Funding Assessment – other elements

- We have not been able to replicate some RNFs because data is not available:
- **Temporary Accommodation.** Available at district level so can be aggregated to new unitaries where they are based on district boundaries. Will be more challenging where unitaries are based on parishes.
- **Home-to-school transport.** Allocations only available at county level so proxies will be needed to disaggregate funding. We have used a combination of population and area.
- **Highways Maintenance.** RNF can be replicated but it is highly dependent on being able to split highways lengths and traffic flow to the new structure.
- These are **relatively small RNFs** compared to children's, ASC and Foundation Formula (TA = 1.74%, HTST = 3.12% and Highways Maintenance = 2.98%)
- **Resources Adjustment.** This can be fully replicated, including the Working-Age LCTS adjustment. There will be issues for new unitaries based on parish boundaries.

Funding disaggregation on non-district boundaries

- This has not been attempted before (at least not since 1974!)
- **Same principles apply – but much more complicated and risk of material error is much greater**
- Some datasets are not available at ward or parish level (particularly parishes)
- Modelling becomes more unstable and vulnerable to errors and/ or incorrect data
- Likely that modelling will be based on estimated or inferred data
- Disaggregation model is significantly larger and modelling has to be done on case-by-case basis (not possible to have a single model that can be used by all authorities)
- **Is it possible to translate the parish boundaries into wards? Does this make much difference in terms of data or outputs?**
- **Pixel is adapting the LGR Funding Disaggregation Model for use in counties where boundaries are based on parishes – we will share cost of developing model between all areas wherever we can**

Is the proposed funding disaggregation deliverable?

- **More optimistic than we were 6 weeks ago – we now have much better outcomes for the key RNFs (including children’s, ASC and Foundation Formula), covering 75% of the Needs distribution)**
- Even here, though, we cannot be fully confident that we have the correct datasets and that our calculations accurately reproduce the RNF distributions – they are close but the variations at district level could be material.
- We have not been able to disaggregate Temporary Accommodation, Home-to-School Transport and Highways Maintenance
- The risk is higher where (a) county funding is disaggregated to small areas (e.g. county FFA distributed between up to 5 new unitaries) and (b) parish boundaries are used
- There is still significant risk of inaccurate funding disaggregation, and material levels of under- or over-funding for new unitaries
- For the first time, authorities will also have to disaggregate local taxbases (council tax, business rates), and Council Tax Support payments
- **Our view is that funding disaggregation is technically possible but will require significantly more work, and much more engagement from central government**
- **Gaps in data and understanding of formulas open-up greater potential for local challenge and disagreement**
- **Parish-based disaggregation remains a huge risk with considerable amounts of uncertainty**

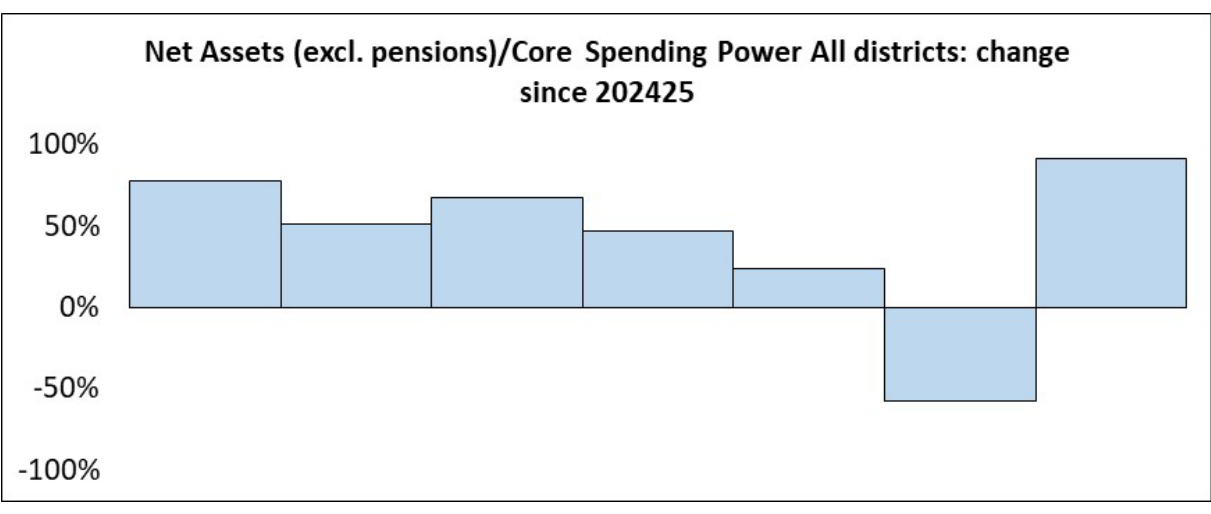
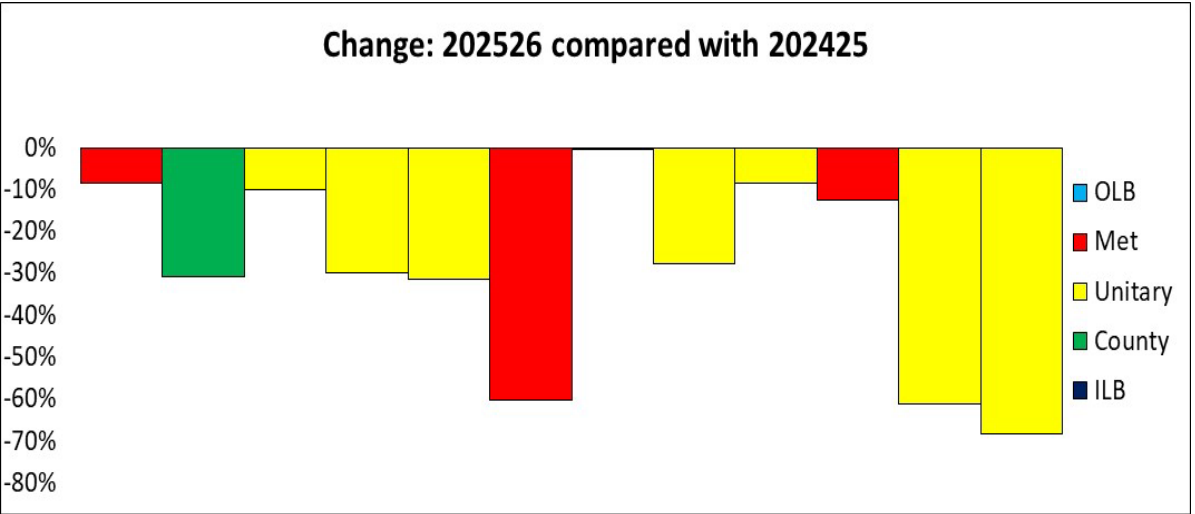
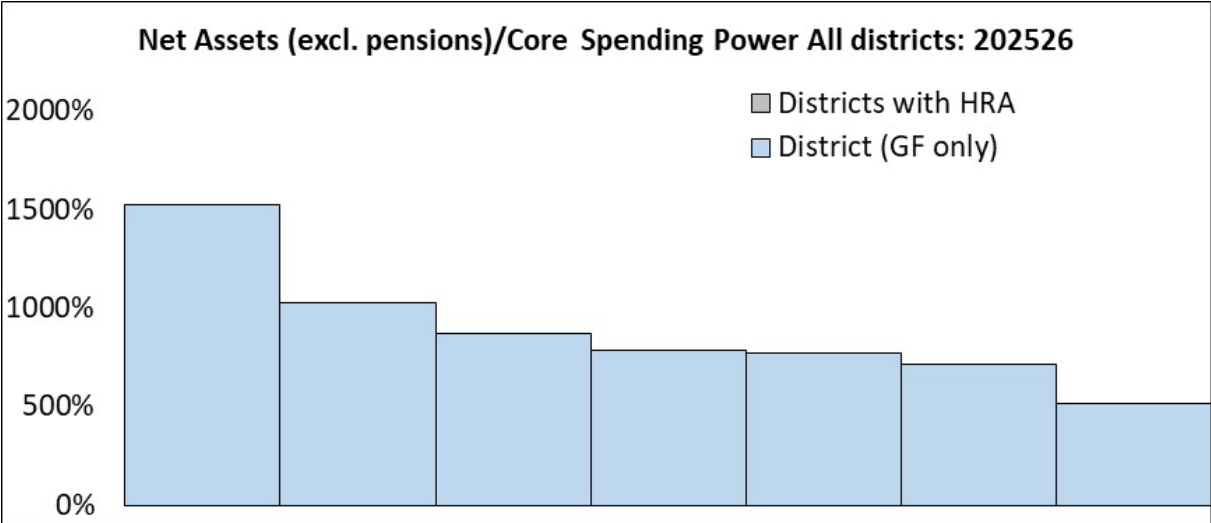
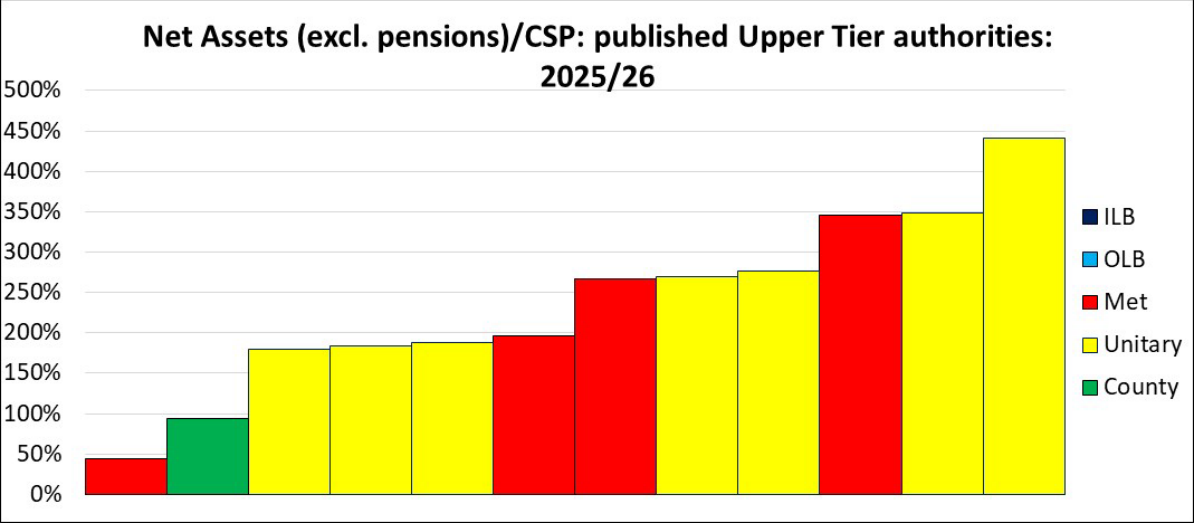
First Analysis of 2025/26 published accounts

Dan Bates
10 June 2026

Balance Sheet health trends

- 18 local authorities have published 2025/26 accounts to date.
 - 7 districts
 - 6 unitaries
 - 4 mets
 - 1 county council
- So the following analysis is based on 6% of English local authorities and should, therefore, be treated with some caution.
- However, there are already some clear trends that provide early conclusions on the state of financial resilience in local government.

Net Assets / Reserves – Size of Balance Sheet



Shrinking Upper Tier Balance Sheets

Expanding District Balance Sheets

	Upper Tier			Districts		
	2024/25	2025/26	Change	2024/25	2025/26	Change
Usable Revenue Reserves *	832,777	875,501	5%	238,779	256,078	7%
Usable Capital Reserves	617,050	681,617	10%	67,879	57,741	-15%
HRA Reserves / Schools Balances	162,820	153,840	-6%	0	0	-
Usable Reserves	1,612,647	1,710,958	6%	306,658	313,819	2%
Capital Equity Reserves	5,748,932	5,548,167	-3%	631,865	678,765	7%
DSG Adjustment Accounts	-209,355	-389,754	86%			-
Collection Fund Adjustment Accounts	-1,522	-18,747	1132%	3,155	6,833	117%
Other Adjustment Accounts	-386,796	-341,932	-12%	-2,379	2,057	-186%
Unusable Reserves	5,151,259	4,797,734	-7%	632,641	687,655	9%
Total Balance Sheet Reserves & Net Assets	6,763,906	6,508,692	-4%	939,299	1,001,474	7%
Current Resources	1,401,770	1,302,457	-7%	309,813	320,652	3%
DSG/URR	25%	45%	77%			
Need to Borrow	6,706,972	7,029,565	5%	234,872	243,806	4%
Debt Gearing	54%	56%	4%	27%	26%	-2%
External Borrowing	4,440,138	4,858,647	9%	55,795	47,574	-15%
Internal Borrowing	2,266,834	2,170,918	-4%	179,077	196,232	10%

Balance Sheet comparison

Upper Tier and districts based on:

- 6 unitaries
- 4 mets
- 1 county
- 7 districts

* Upper tier usable revenue reserves boosted by £113m of EFS - if this is removed then upper tier URR fall by 8%.

	Upper Tier			Districts		
	2024/25	2025/26	Change	2024/25	2025/26	Change
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Balance Sheet comparison

URR up for both UT and districts but UT increase includes £113m of EFS.

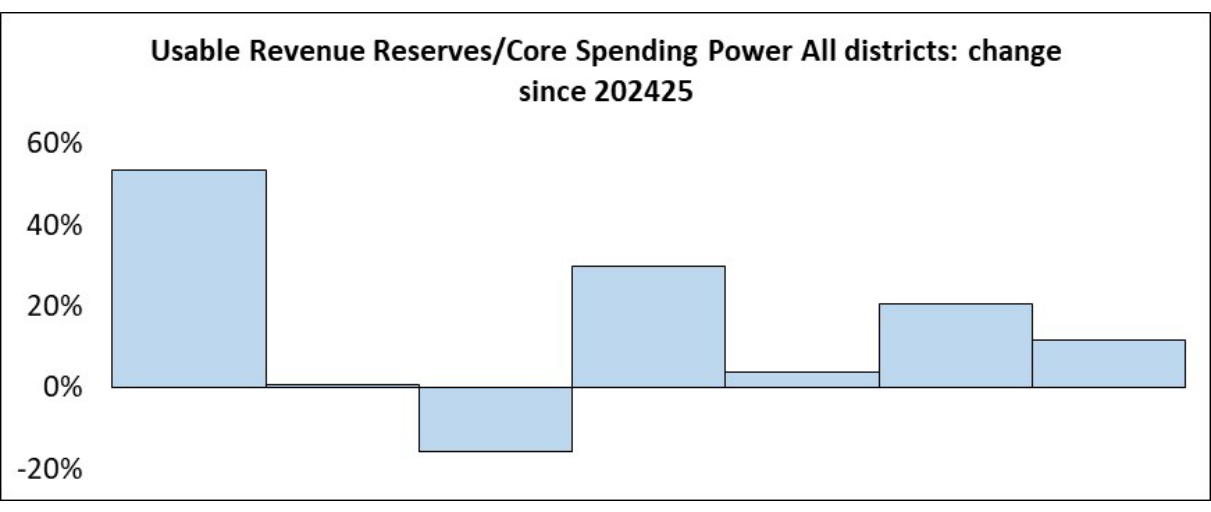
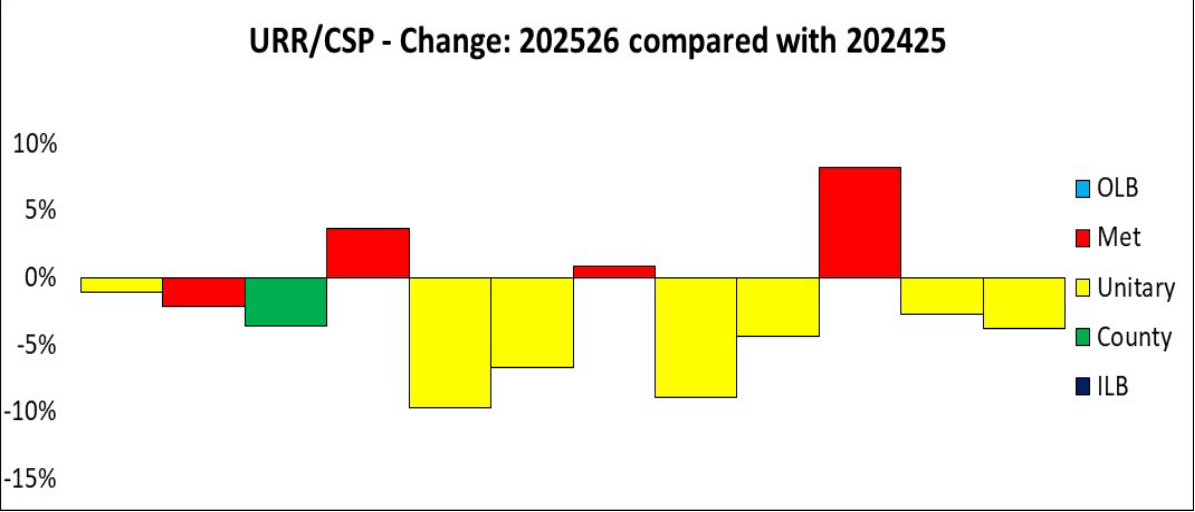
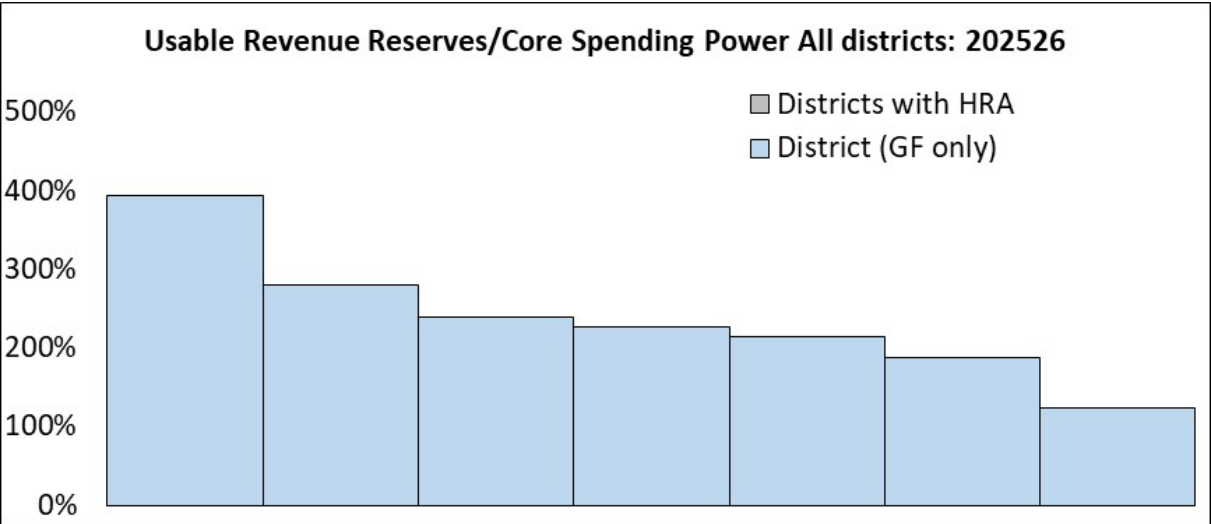
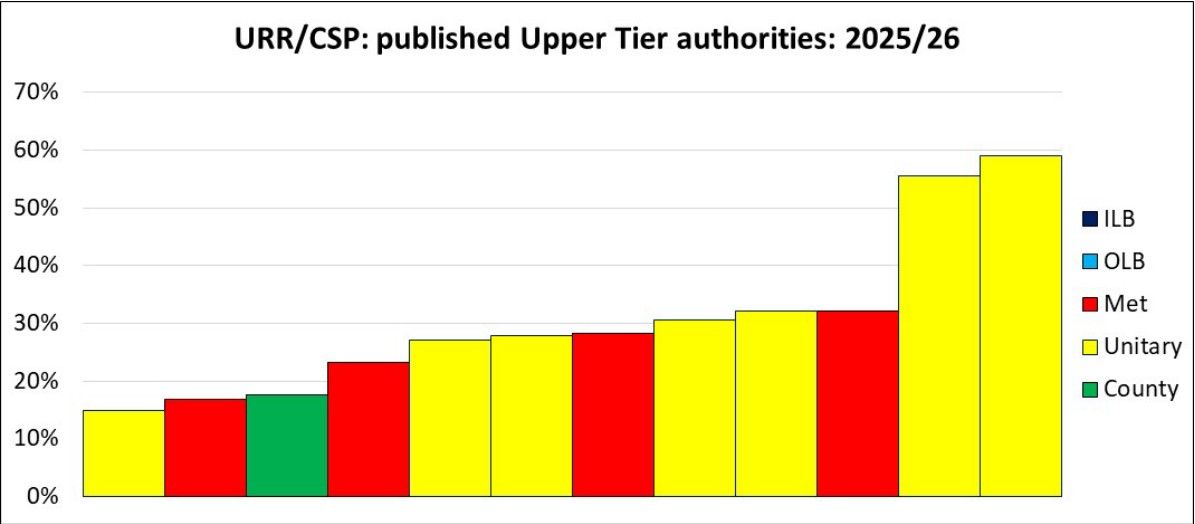
DSG deficits have increased by 86%.

Current resources decreased in UT. Increased in districts.

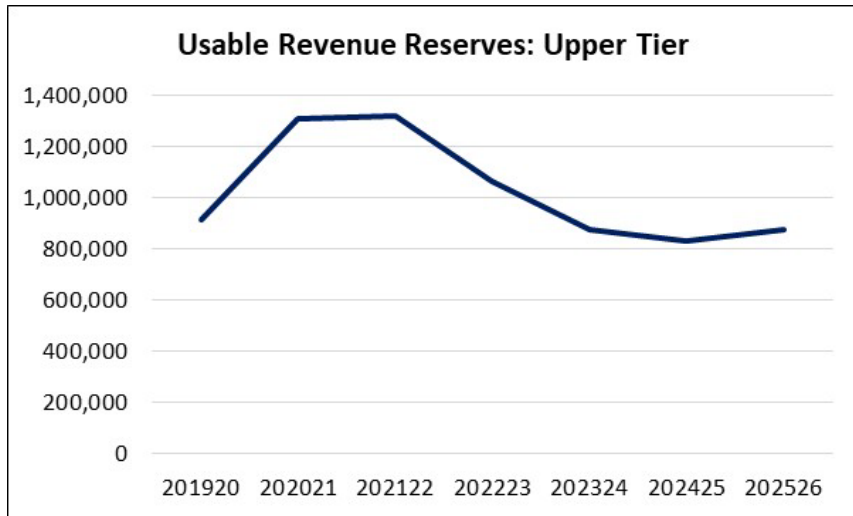
Internal borrowing has reduced significantly in UT and increased across districts. Big increase in UT external borrowing.

* Upper tier usable revenue reserves boosted by £113m of EFS - if this is removed then upper tier URR fall by 8%.

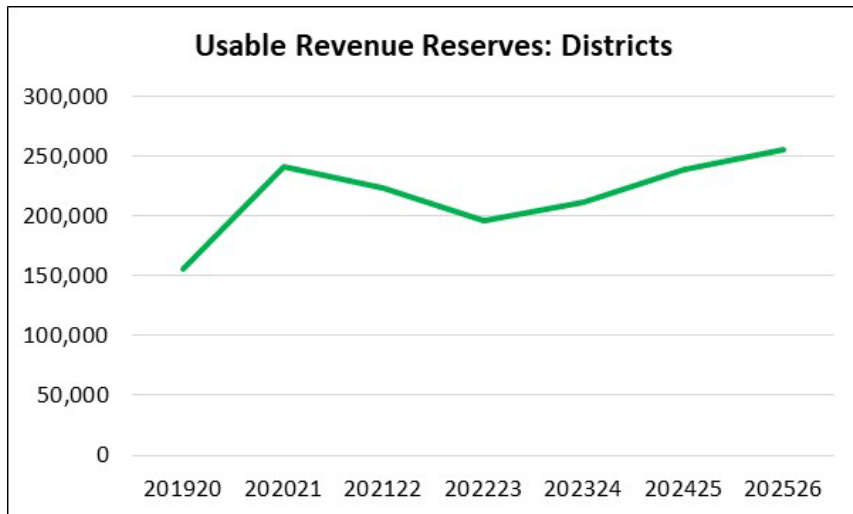
Usable Revenue Reserves



Usable Revenue Reserves



- The most used measure of financial health and resilience.
- Graphs show URR in money terms (ie. not as % of CSP) for the published authorities since 2019/20.
- Early signs that the significant annual reductions of upper tier URR are slowing down. But is this EFS?
- Early signs are that district URR will continue they steady increase of the last few years.



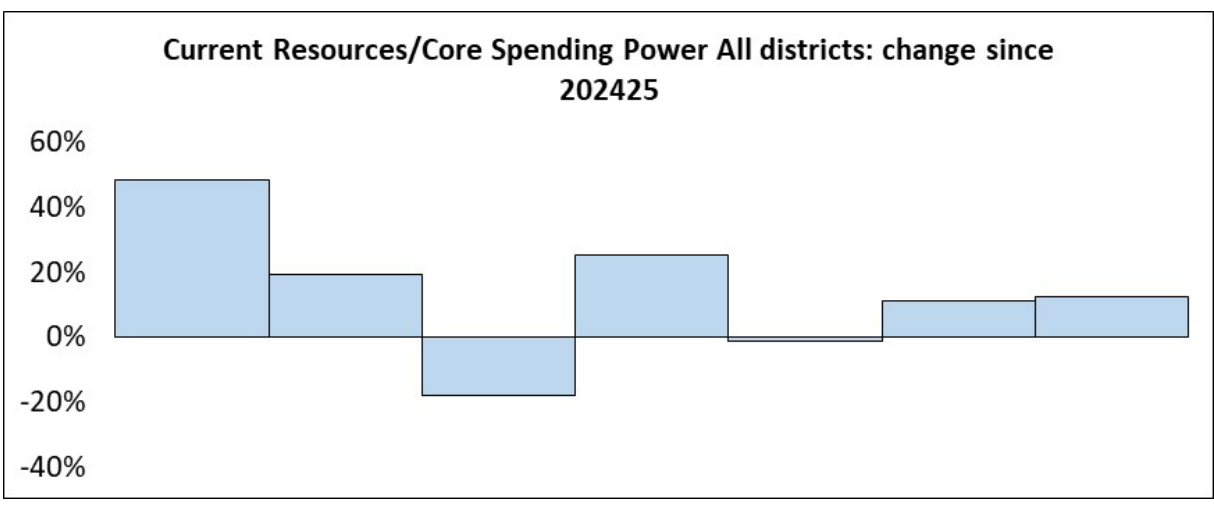
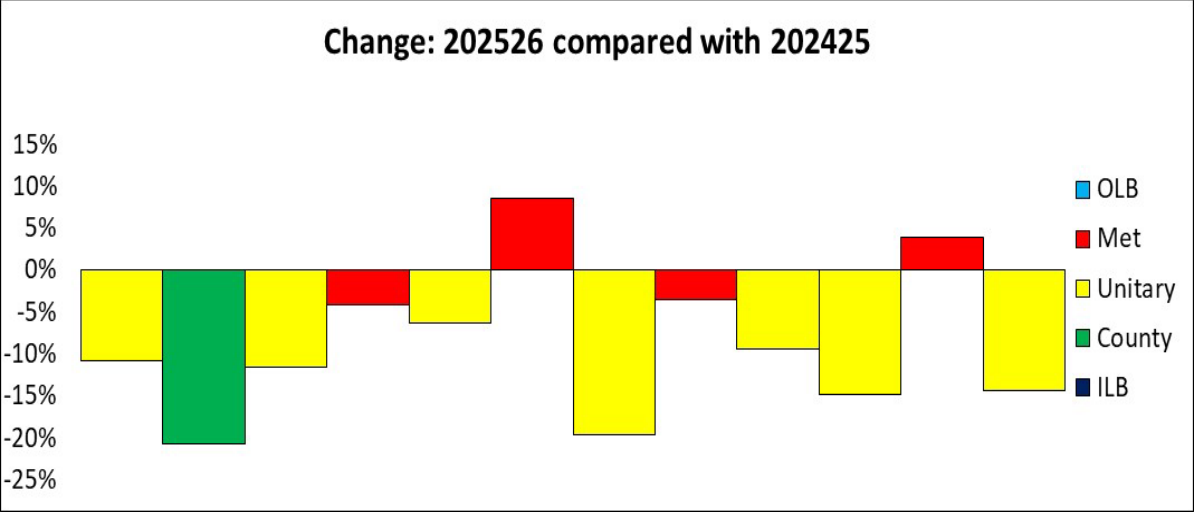
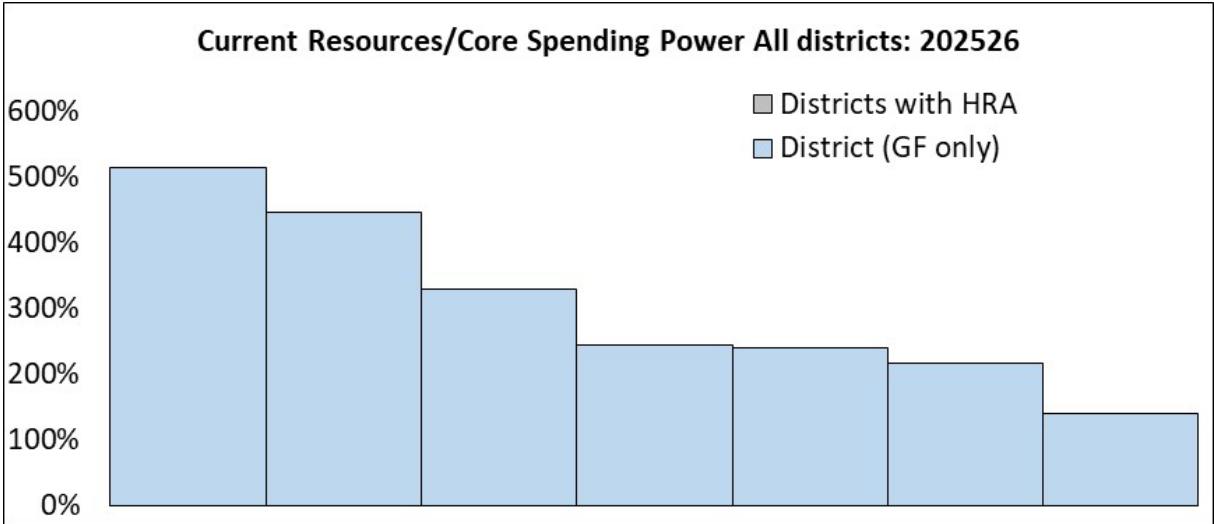
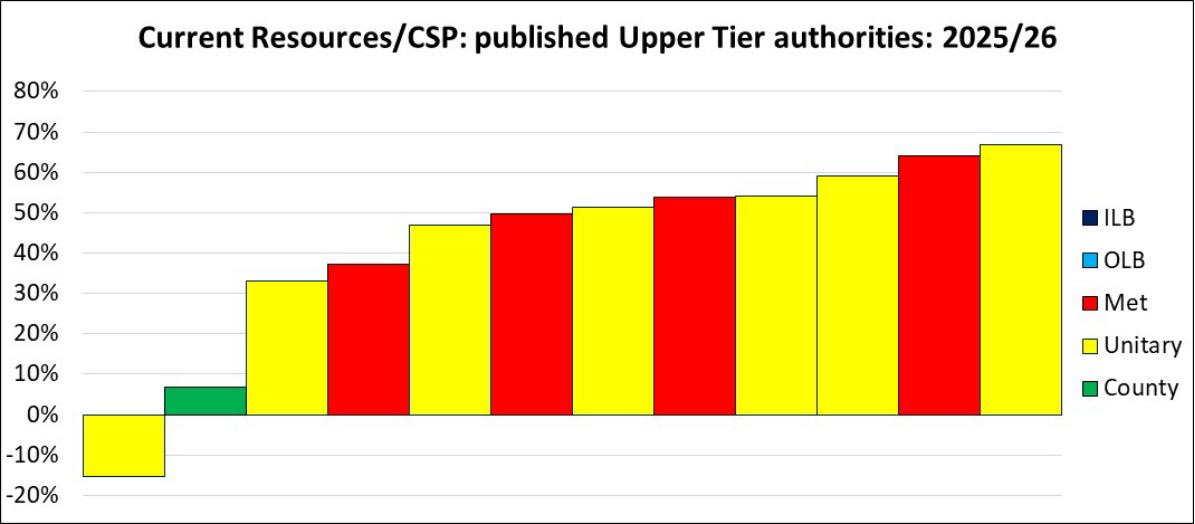
Upper Tier

- Reducing usable revenue reserves (8% down after EFS) including HRA reserves/schools balances.
- and
- Increasing DSG deficits
- equals
- **Reducing Current Resources**

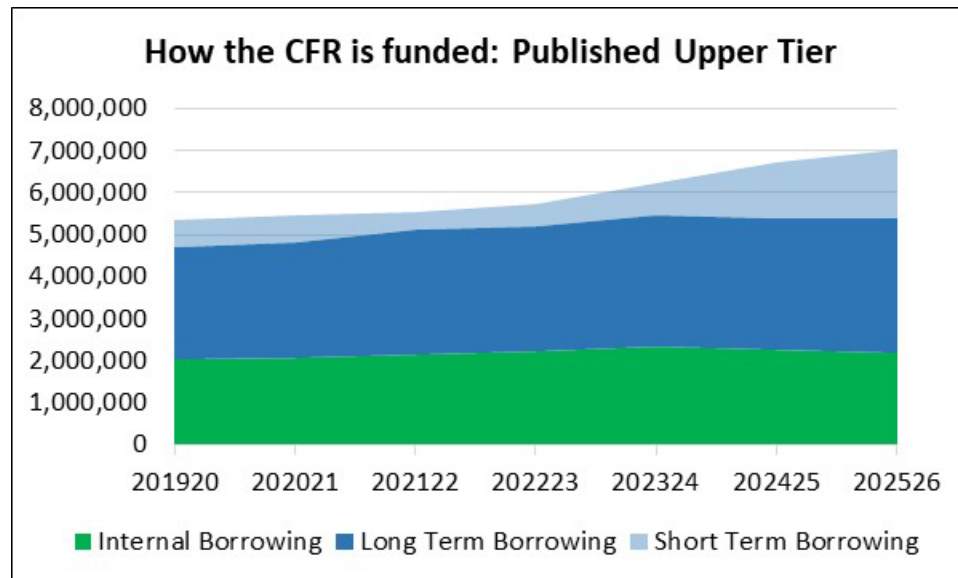
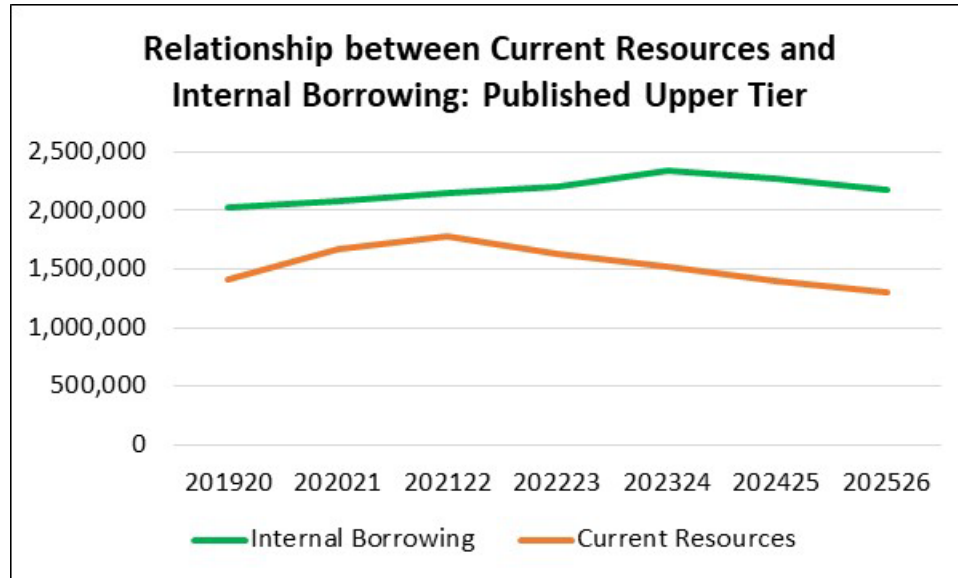
Districts

- Increasing usable revenue reserves (7% up).
- equals
- **Increasing Current Resources**

Current Resources

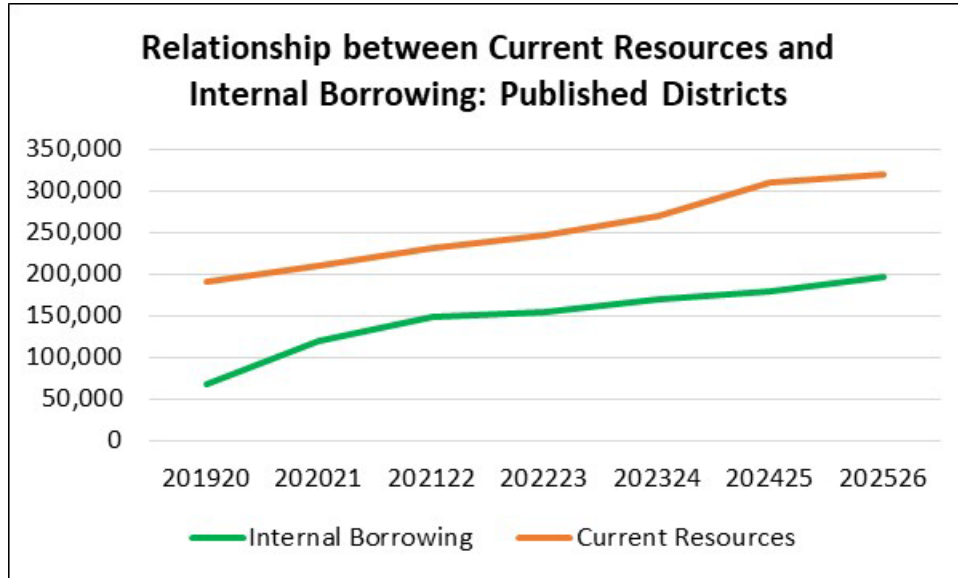


Current Resources & Internal Borrowing: Upper Tier

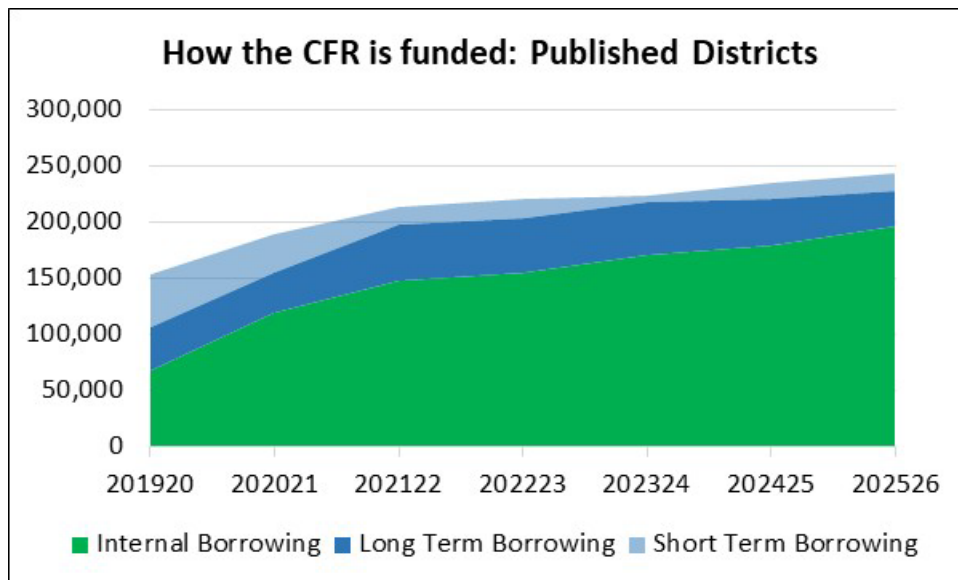


- Downward pressure on reserves and an increase in DSG deficits have combined to squeeze cash backed resources on the balance sheet and these have reduced over the last four years – orange line on the top graph.
- This correlates to a reduction in internal borrowing – green line on the top graph.
- And also a significant increase in external borrowing, particularly short-term borrowing – light blue shaded area on bottom graph.
- Making upper tier authorities more susceptible to the volatility of interest rates.

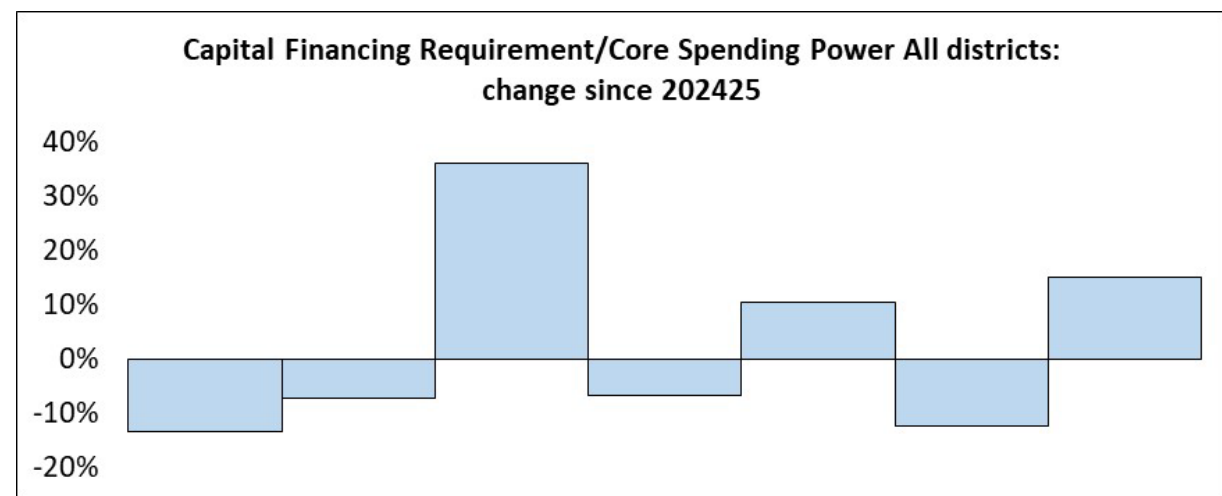
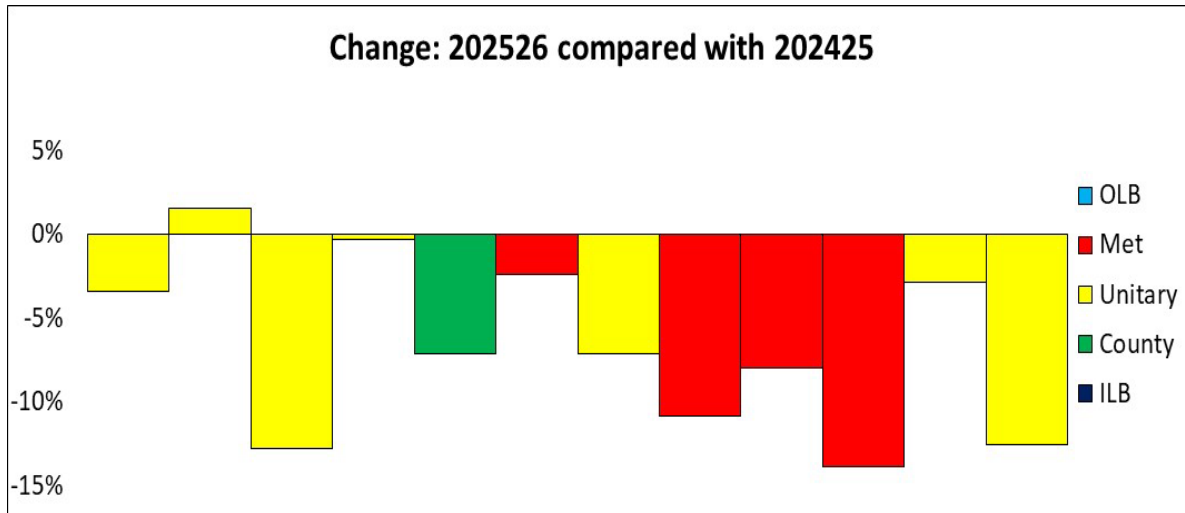
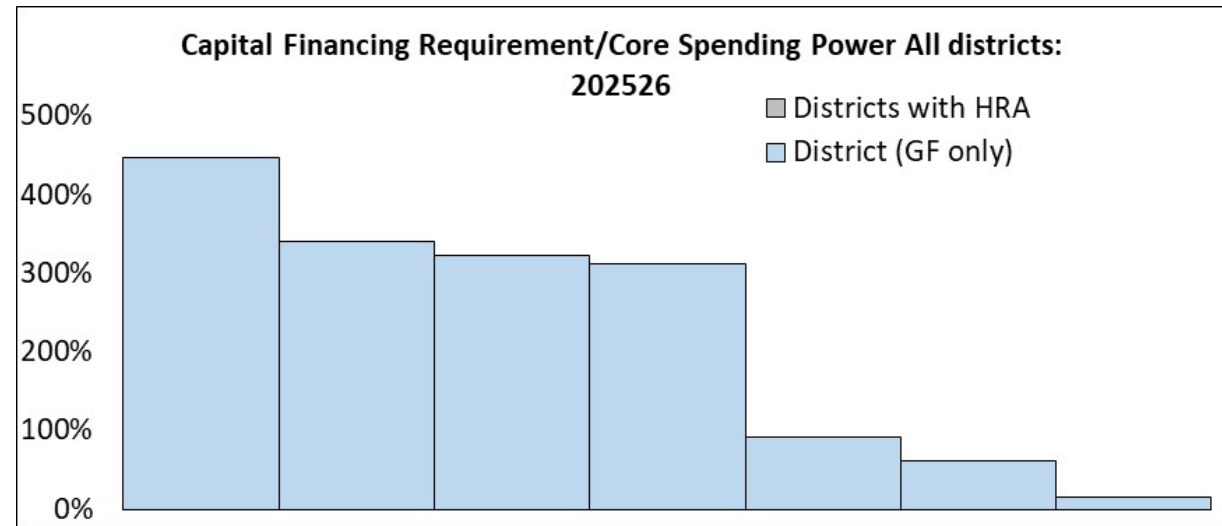
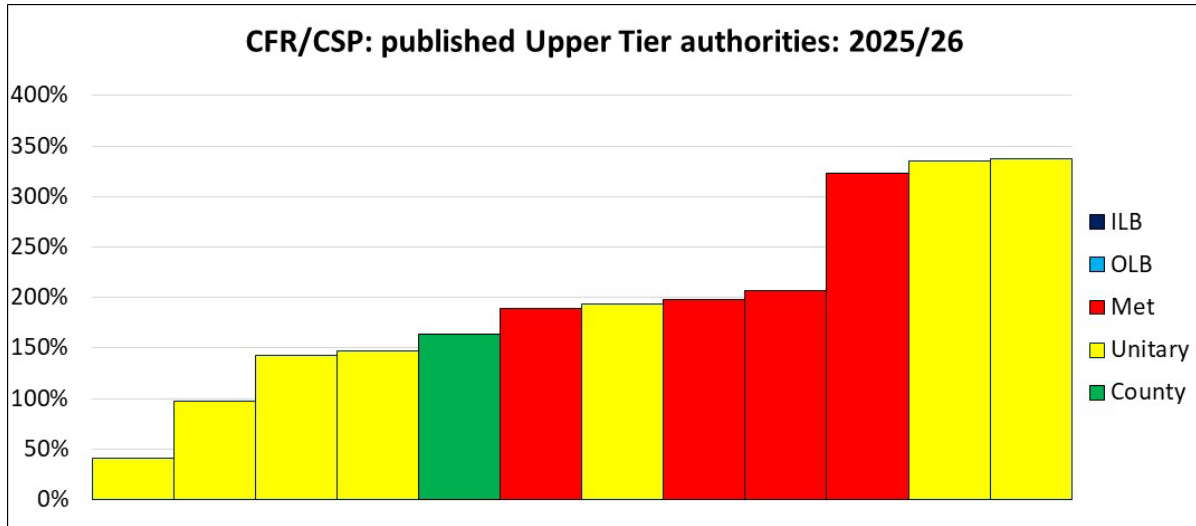
Current Resources & Internal Borrowing: Districts



- Same correlation between current resources and internal borrowing for districts.
- As resources have increased then so has internal borrowing.
- In fact, the majority of CFR funded from internal borrowing for those districts that have published.
- Making most districts far less susceptible to the volatility of interest rates.

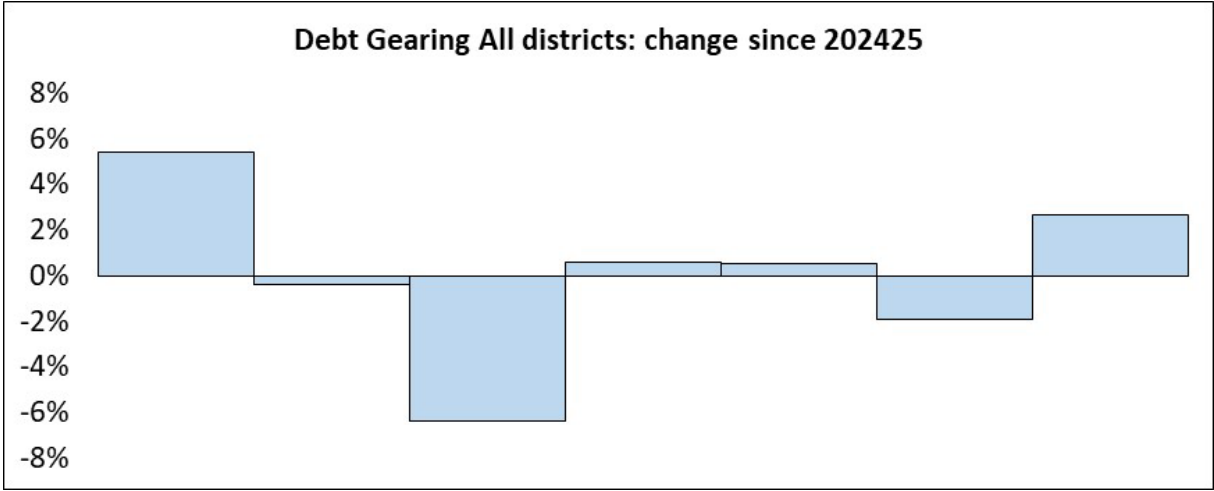
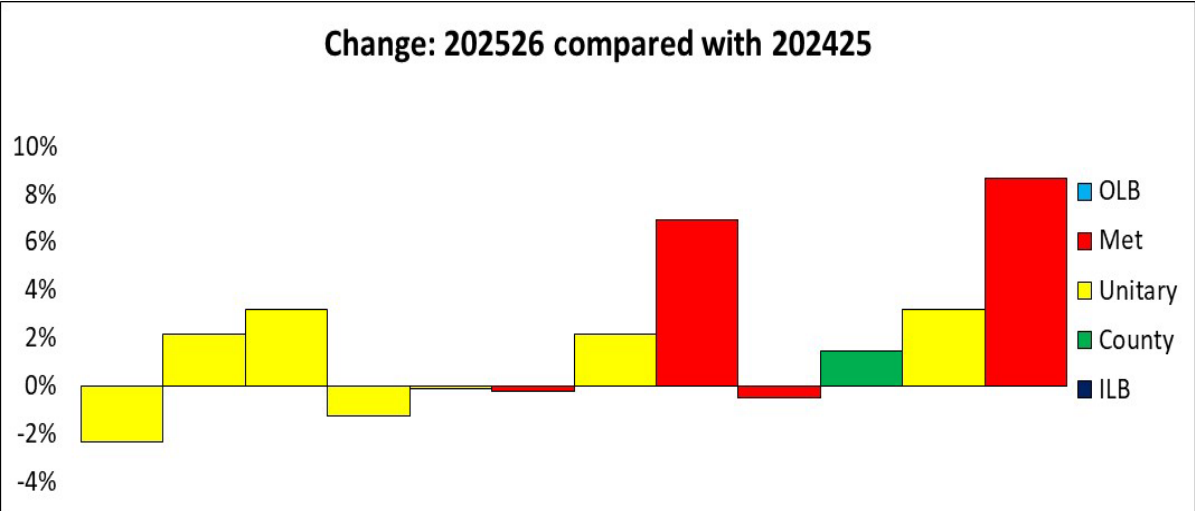
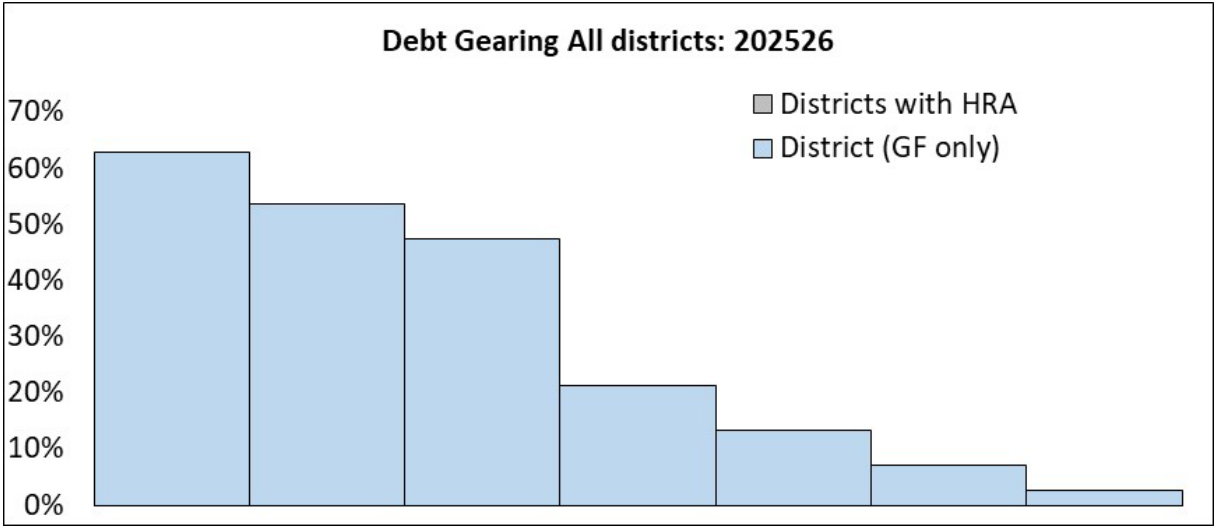
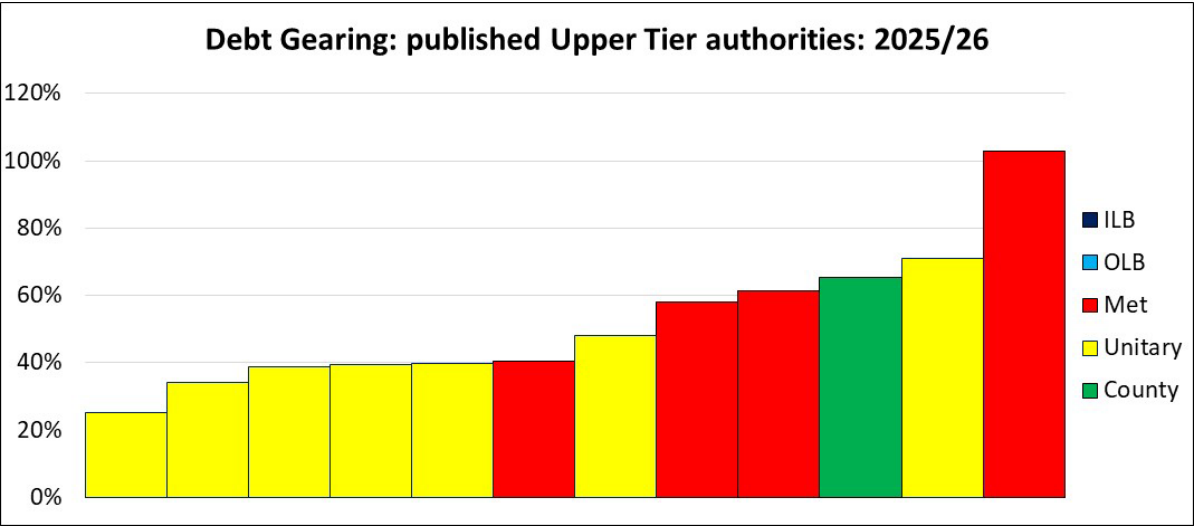


Capital Financing Requirement



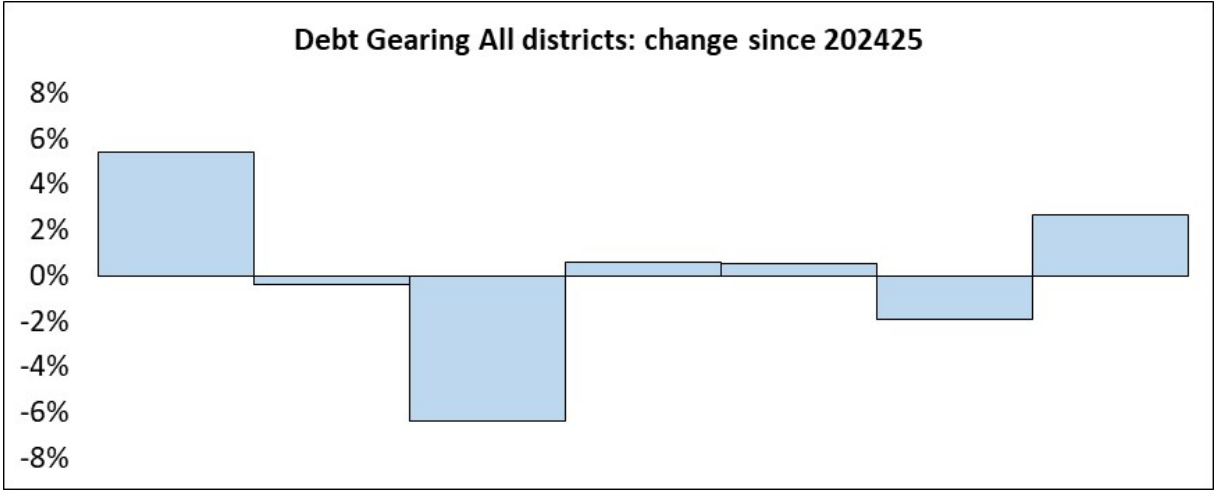
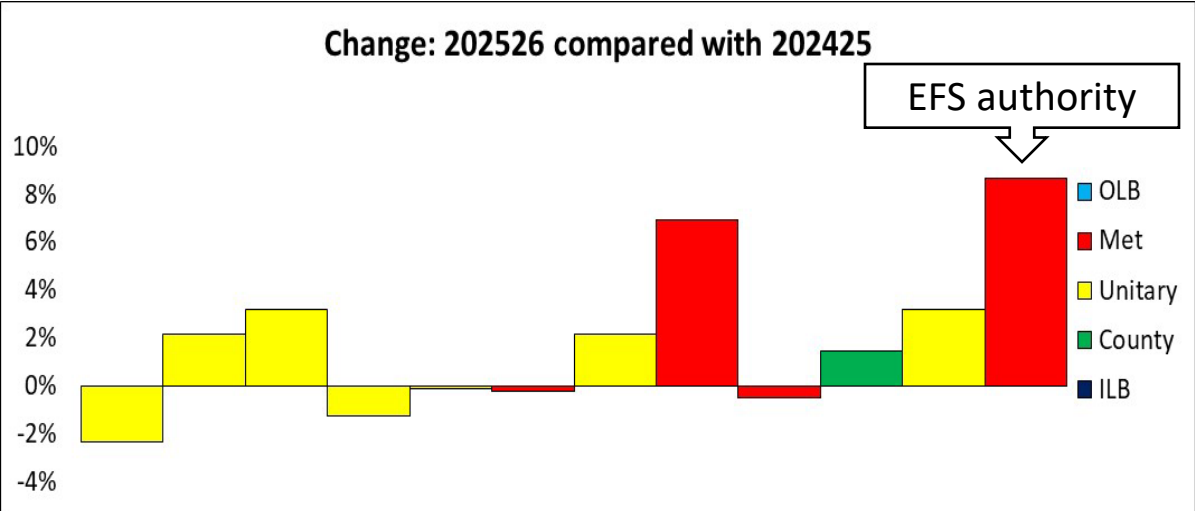
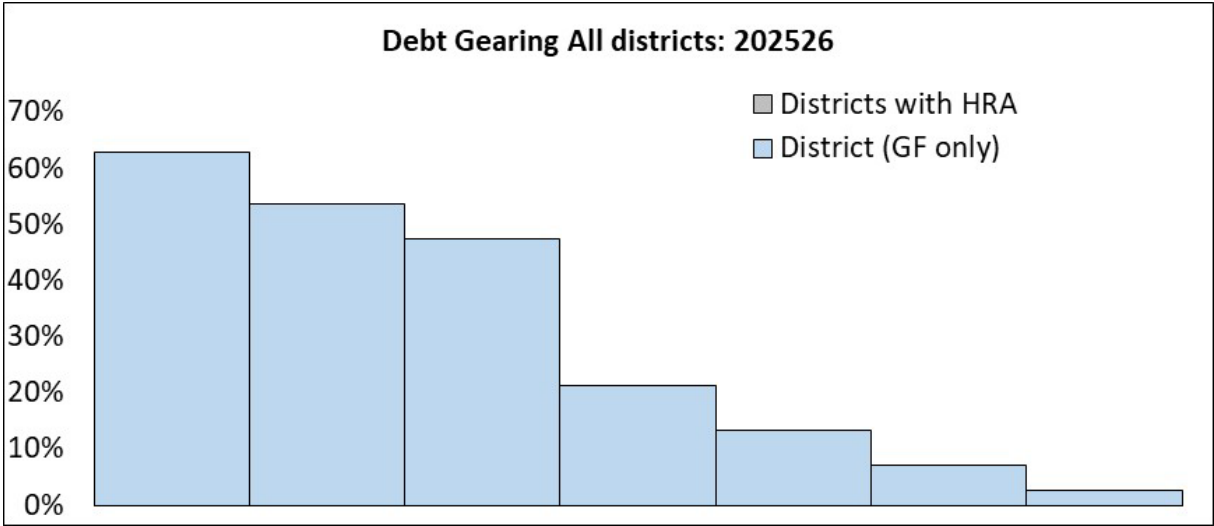
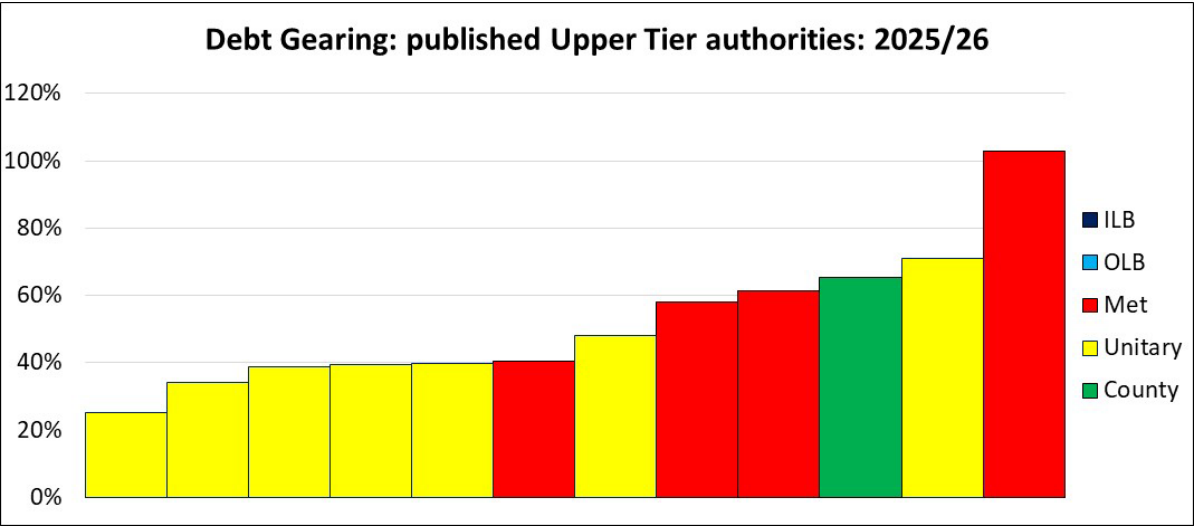
Need to borrow is actually reducing as a proportion of Core Spending Power across most authorities that have published.

Debt Gearing



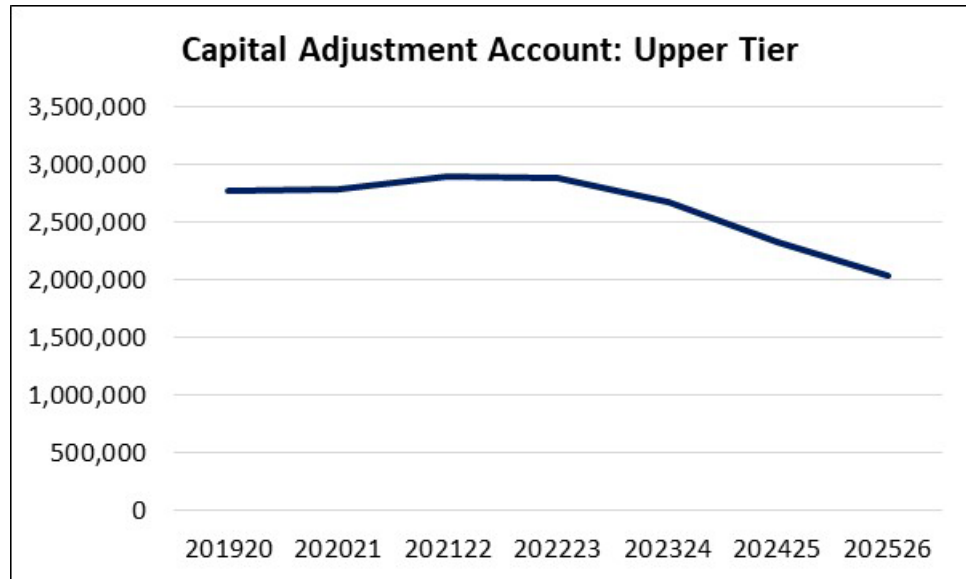
But debt gearing is increasing for many authorities which means that equity is reducing for those authorities.

Debt Gearing: Long Term impact of EFS



EFS is effectively boosting URR for relevant authorities but is also impacting on the need to borrow.

Capital Health



- Overall debt, as measured by the CFR, is not increasing significantly.

• Though for upper tier debt gearing is increasing due to reducing equity – this warrants more investigation.

- The bigger capital health risk arises from the funding of debt for upper tier with significant increases in short term borrowing at a time when interest rates are expect to tick up.
- High needs stability grant should provide a significant cash injection to (hopefully) rescue this position.

Early conclusions

- The analysis shown is based on only 18 authorities which have published 25/26 accounts so these conclusions should be treated with caution.
- There are continuing signs of financial stress for upper tier authorities and much less so for districts.
- More evidence of downward pressure of upper tier usable reserves and DSG deficits continuing to accelerate.
- Exceptional Financial Support (which is no longer exceptional) is providing a short-term lifeline for some authorities but potentially with a heavier cost in the longer term via increased borrowing.
- Sustainability of upper tier internal borrowing severely tested and significant increases in short term borrowing at a time of volatile interest rates.
- The High Needs Stability Grant should provide significant relief.

LGR & Financial Health and Resilience

Dan Bates

10 June 2026

LGR criteria

Sensible Geography	A proposal should seek to achieve for the whole of the area concerned the establishment of a single tier of local government.
Efficiency and Resilience	Unitary local government must be the right size to achieve efficiencies, improve capacity and withstand financial shocks.
High Quality Public Services	Unitary structures must prioritise the delivery of high quality and sustainable public services to citizens
Local Views	Proposals should show how councils in the area have sought to work together in coming to a view that meets local needs and is informed by local views.
Supporting Devolution	New unitary structures must support devolution arrangements.
Community Empowerment	New unitary structures should enable stronger community engagement and deliver genuine opportunity for neighbourhood empowerment.

Population:

500,000

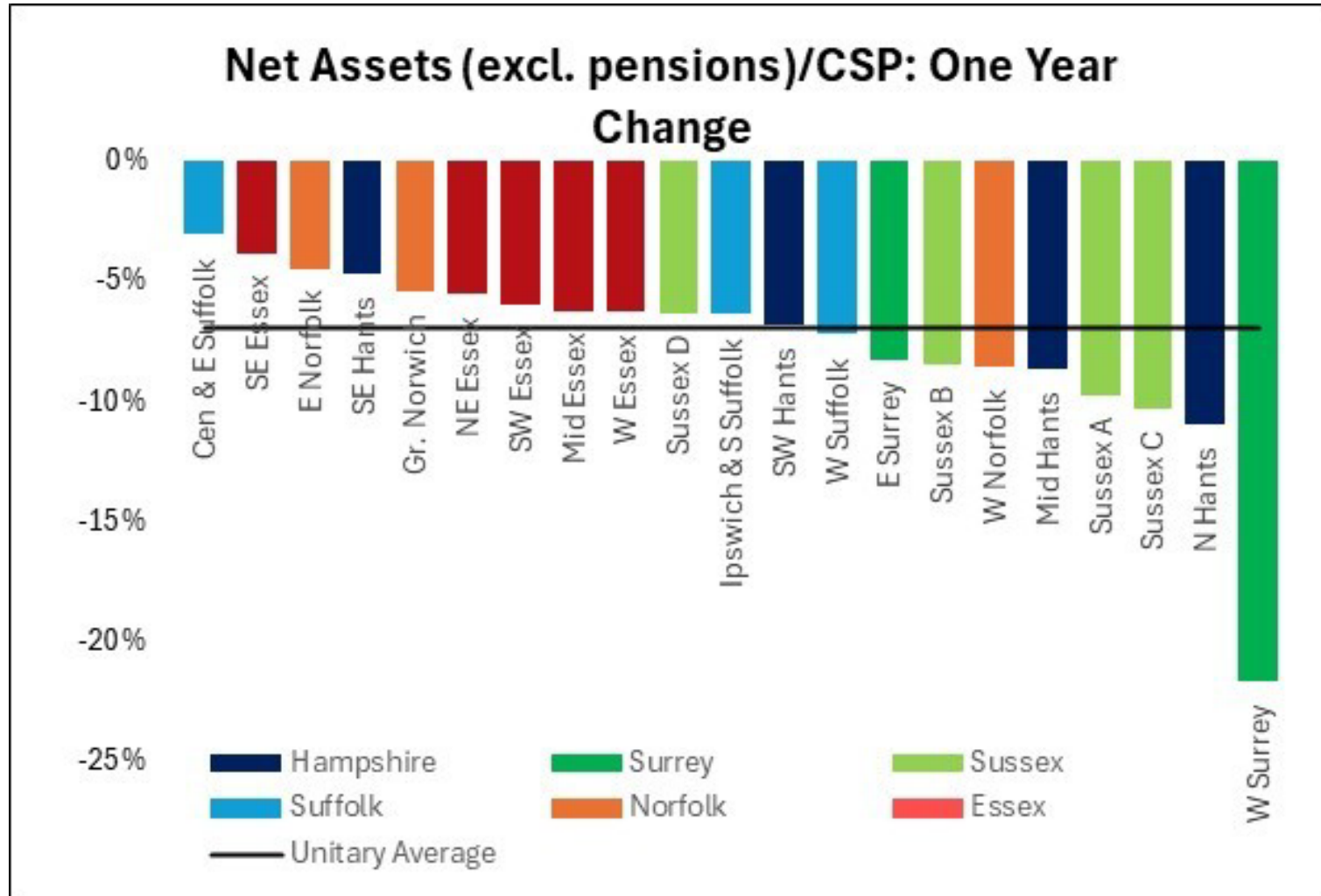
DPP decisions

- At odds with the initial mood music on LGR.
- Half million population was a **MASSIVE RED HERRING!**
- Sensible geography, as it turned out, was the major criteria used to justify decisions.
- The Secretary of State (and the politics) has also changed an awful lot since the initial consultation.
- With the exception of Surrey, the Government has chosen the greatest number of new unitaries proposed in each of the DPP areas.
- In my opinion, West Sussex council approached the exercise in the most positive manner. But the Government has amended this proposal with, in my opinion, little understanding of the financial sustainability issues arising from their decision.

Financial sustainability of the new unitaries

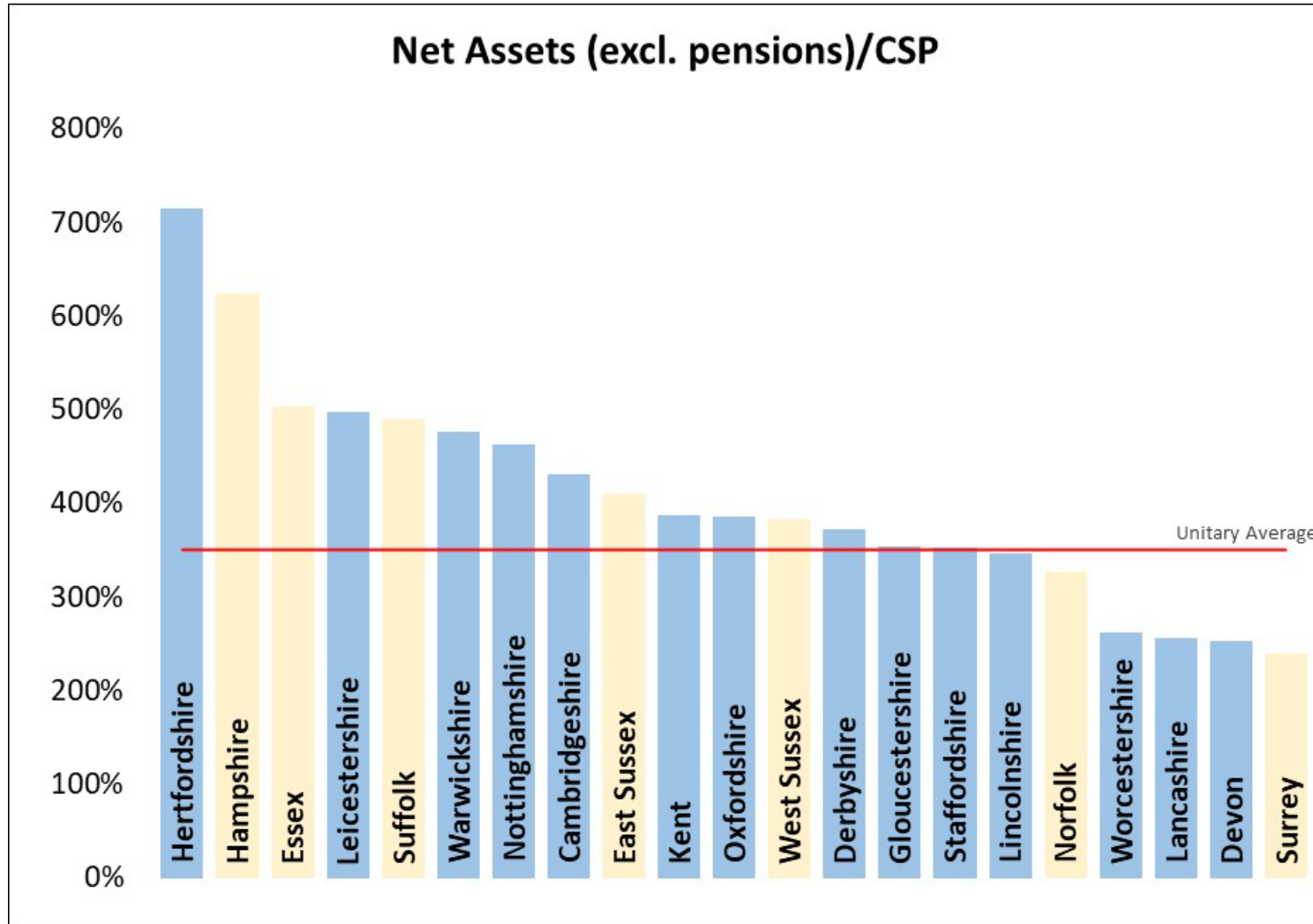
- We will look at
 - Net Assets and Reserves – size of the Balance Sheet.
 - Usable Revenue Reserves – most often used measure of financial health.
 - DSG deficits – present problem but one that should be saved by the High Needs Stability Grant.
 - Need to Borrow – Government’s favourite capital health barometer!
 - Internal Borrowing and Current Resources – additional perspective on capital health.
- We will use data from the audited 2024/25 accounts for all two-tier areas in England.

Net Assets and Reserves



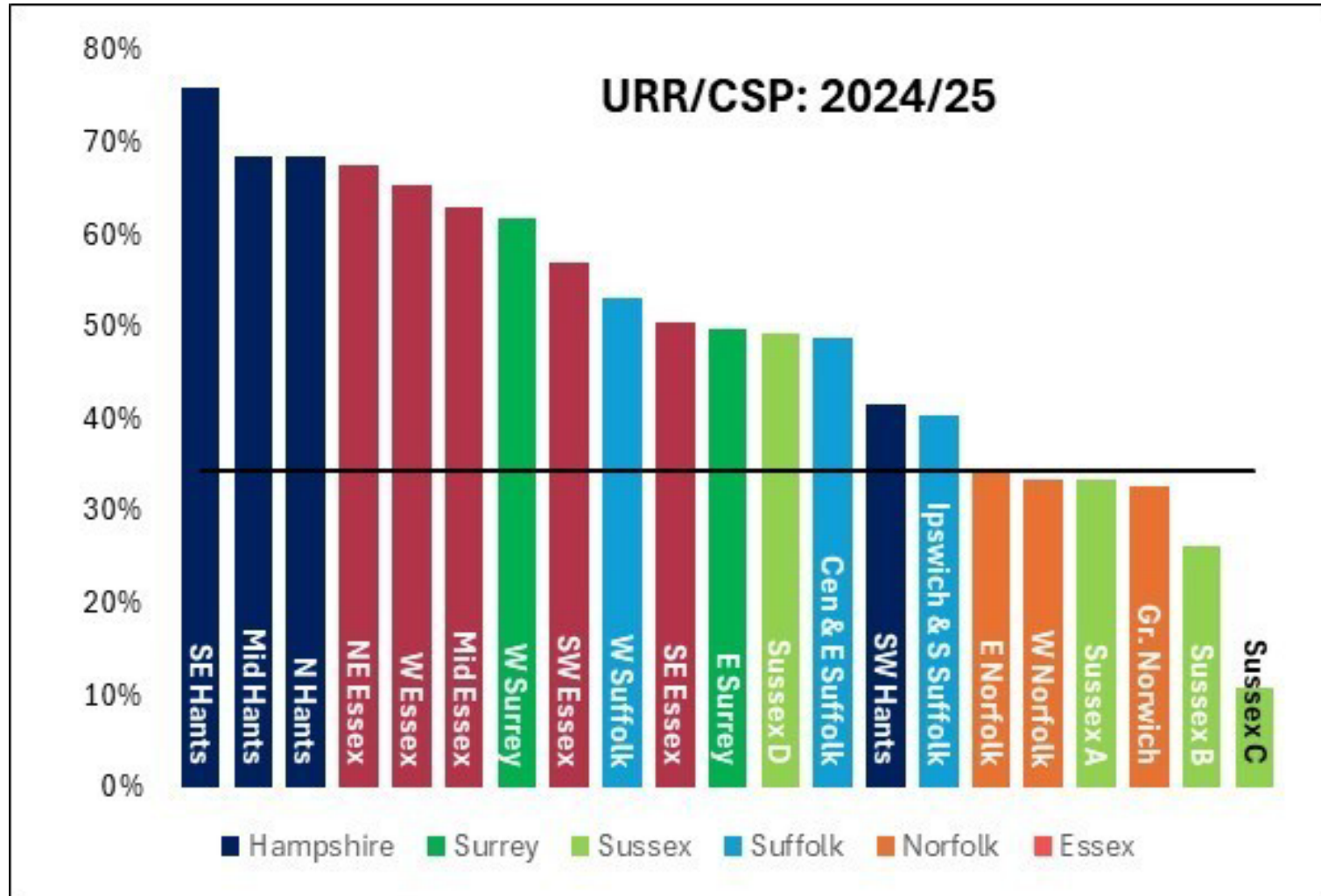
- Balance sheets are shrinking.
- Due to downwards pressure on upper tier usable revenue reserves, accelerating DSg deficits and for some authorities capital issues in terms of downward revaluation of non current assets.

Net Assets and Reserves



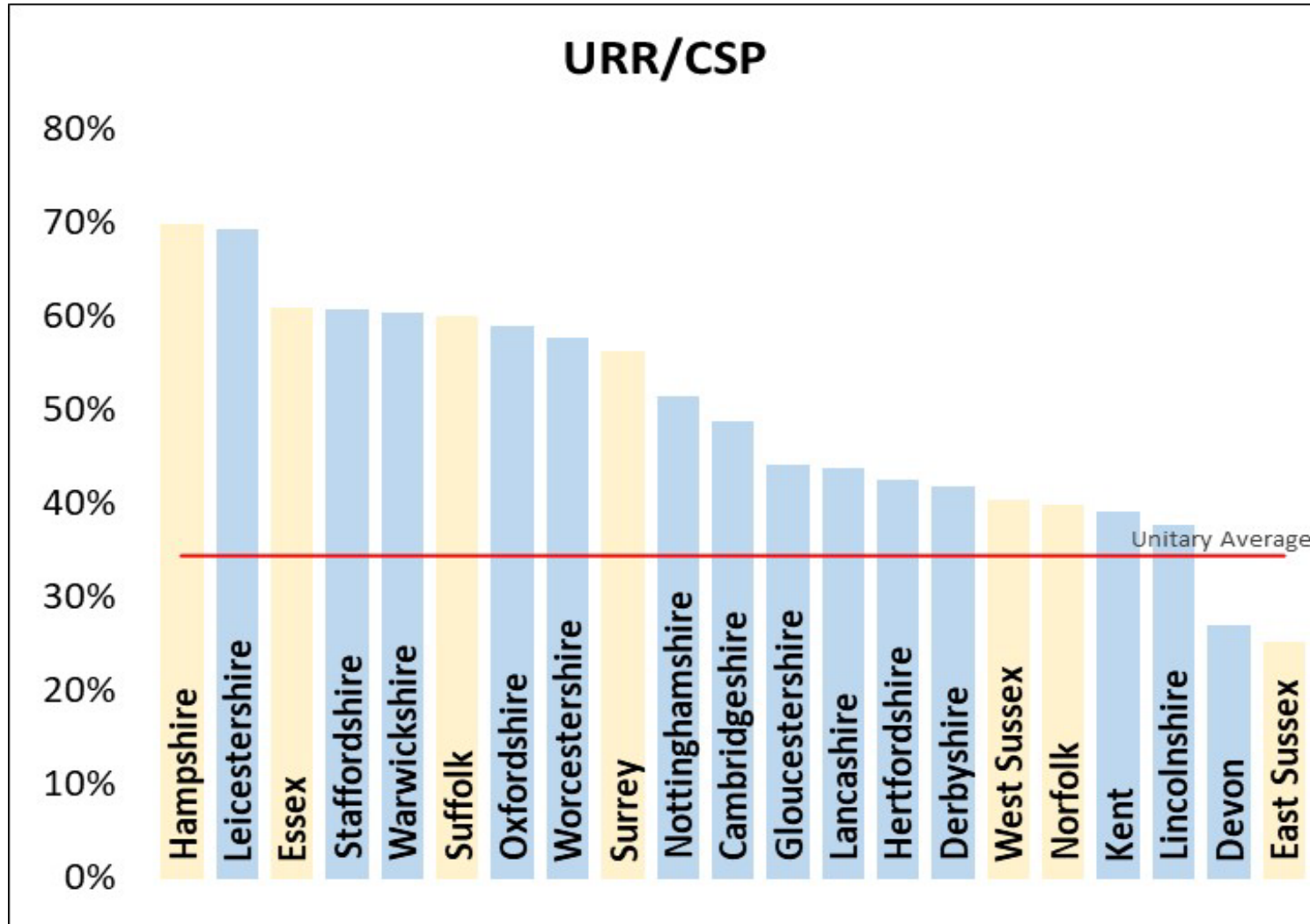
- Graph shows collective size of balance sheet across all LGR areas in 2024/25.
- So includes counties, districts and relevant unitaries.
- Quite a range in collective balance sheet sizes across the 21 county areas.

Usable Revenue Reserves



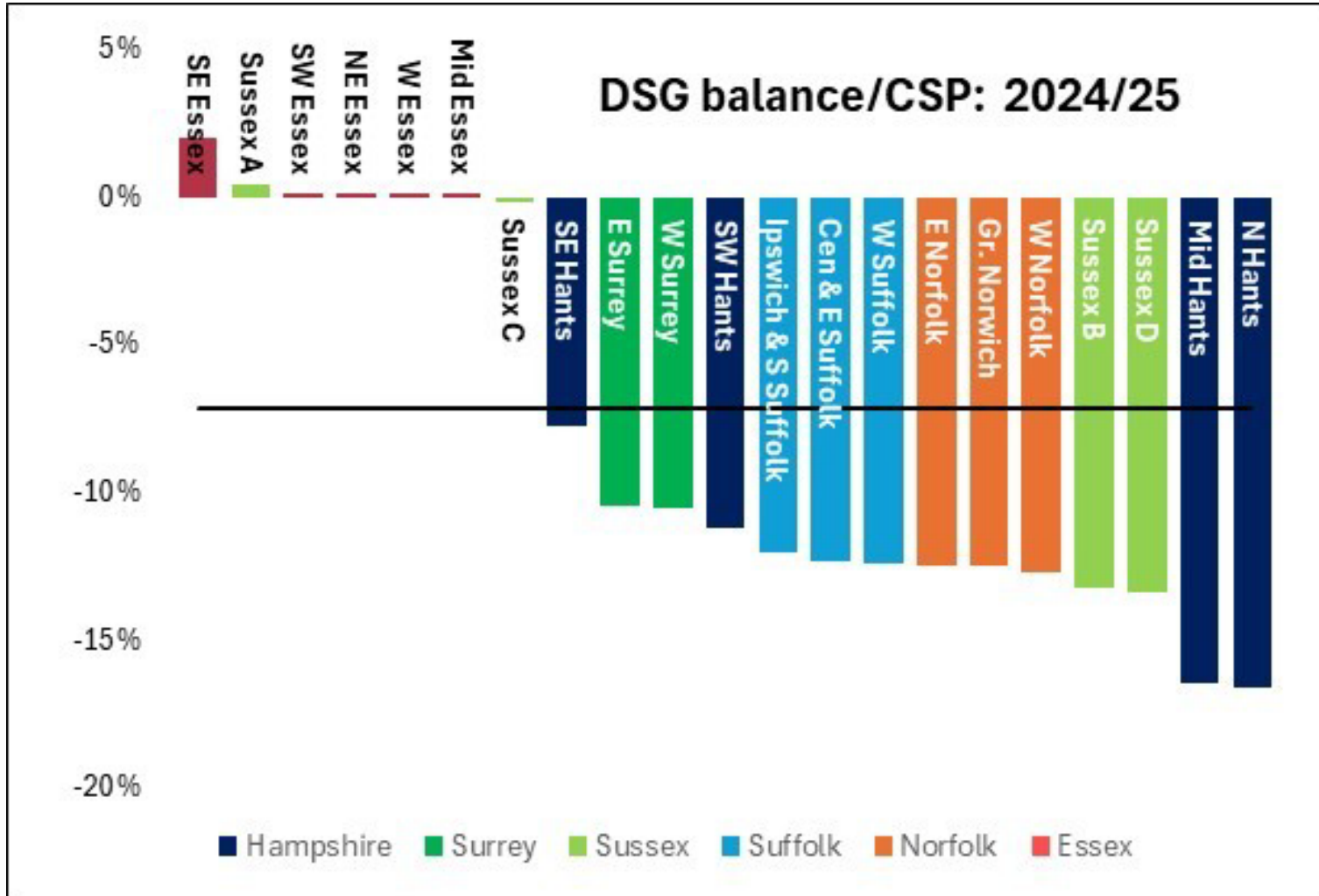
- Some of the new unitaries will struggle for usable revenue reserves from day one.
- Sussex C – the extended Brighton unitary will have very low starting URR.
- Sussex B – the Government’s changed proposal for West Sussex will also have lower levels of URR. West Sussex’s submission were significantly more balanced between the two West Sussex unitary proposals.

Usable Revenue Reserves



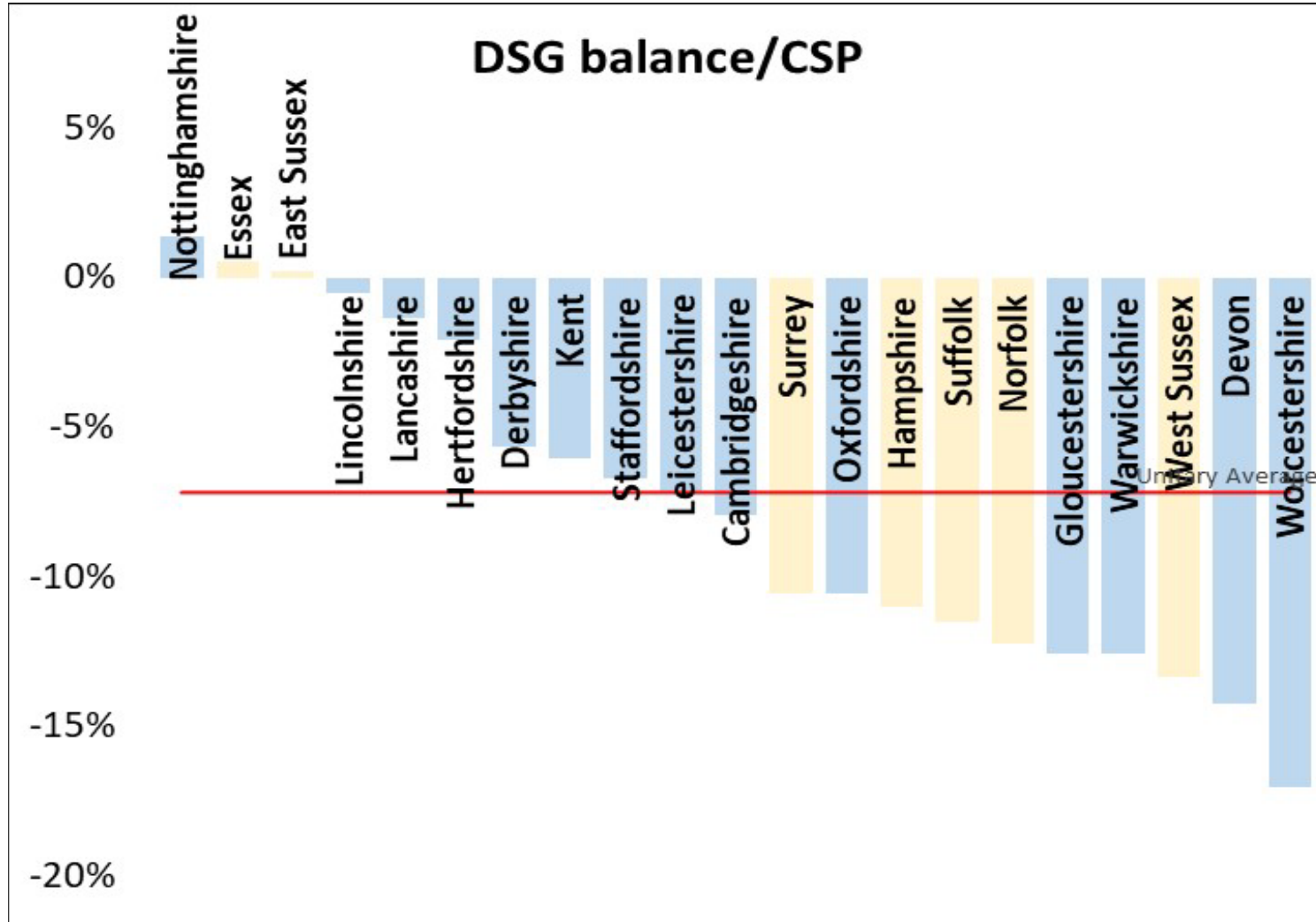
- Most two tier areas have URR levels which are higher than the existing unitary average – this is mainly due to high levels of district reserves.
- However, analysis suggests that new authorities in Kent, Lincolnshire and Devon will probably start with lower levels of URR.

DSG deficits



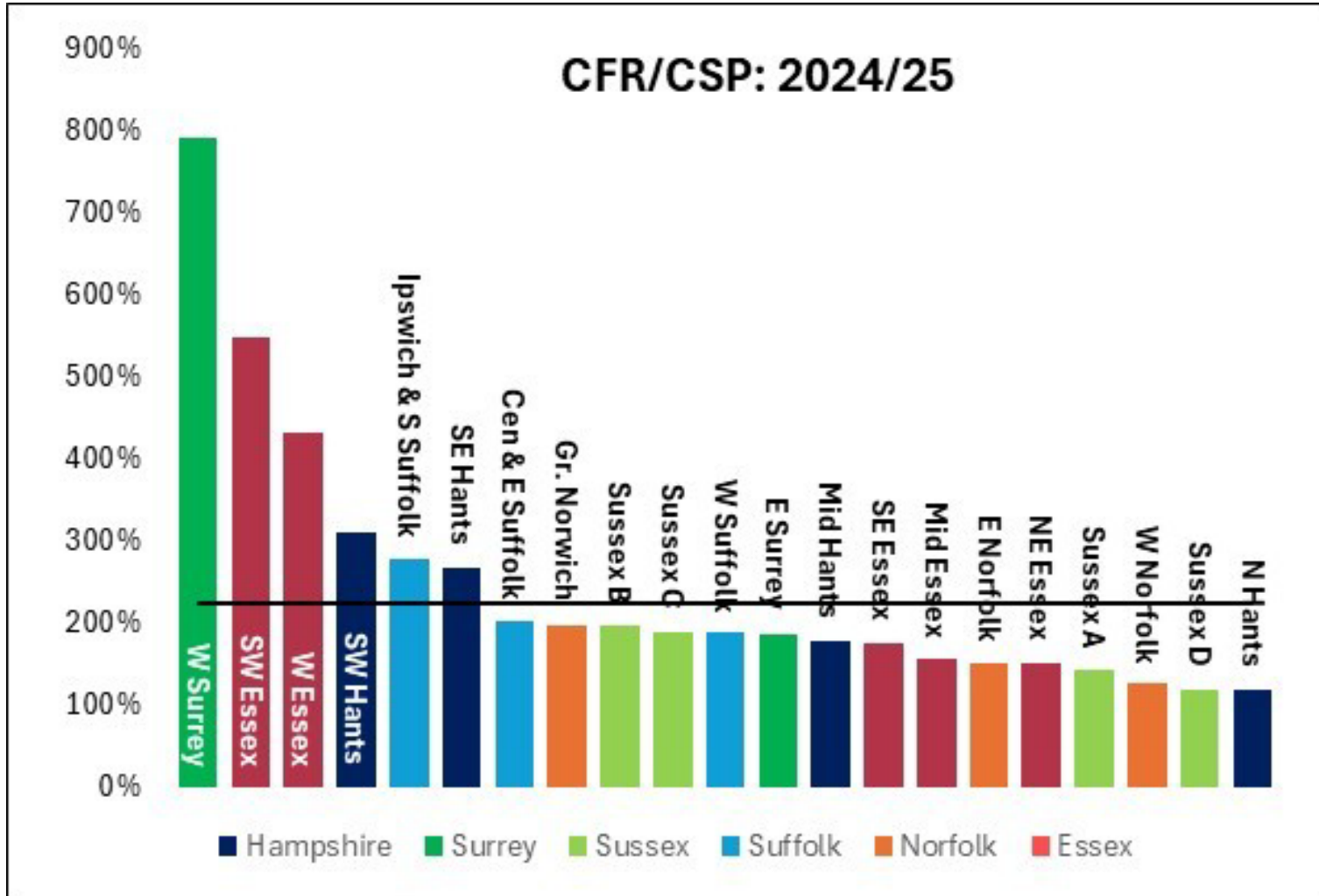
- DSG deficits will be significant for some of the proposed unitaries (with the exception of East Sussex and Essex).
- However, this problem should be significantly addressed by the receipt of High Needs Stability Grant.

Dedicated Schools Grant Deficits



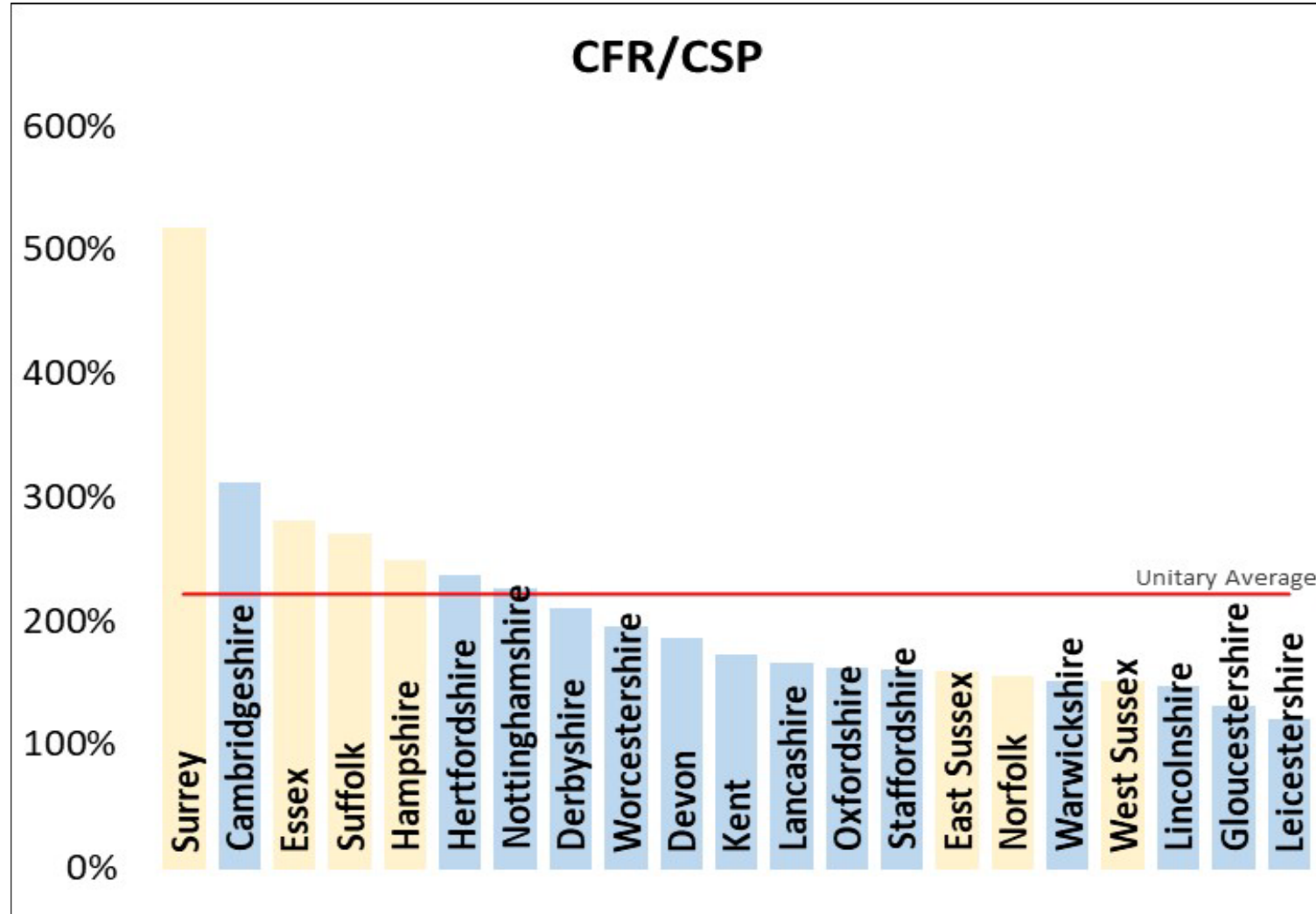
- The problem needs to go away!
- As it would have seriously impacted the financial health of a good number of the proposed LGR authorities.

Need to Borrow



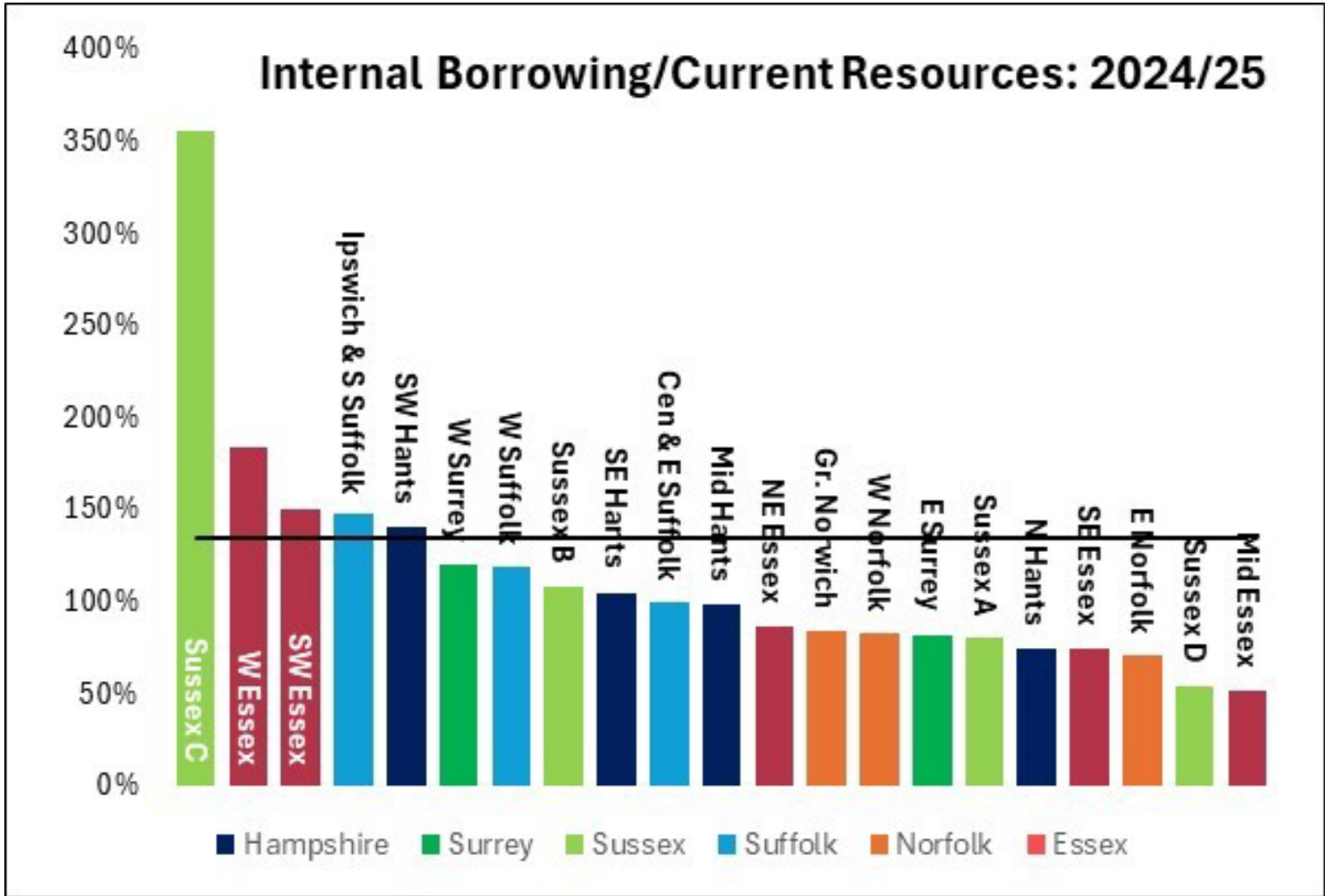
- West Surrey will take over high debt levels at Woking, Spelthorne and Runnymede as well as a share of the relatively high (for a County) Surrey County Council debt. Half a billion of West Surrey's debt might be written off.
- SW Essex will assume the Thurrock debt.
- Most proposed new unitaries will have lower than unitary average levels of debt.

Need to Borrow



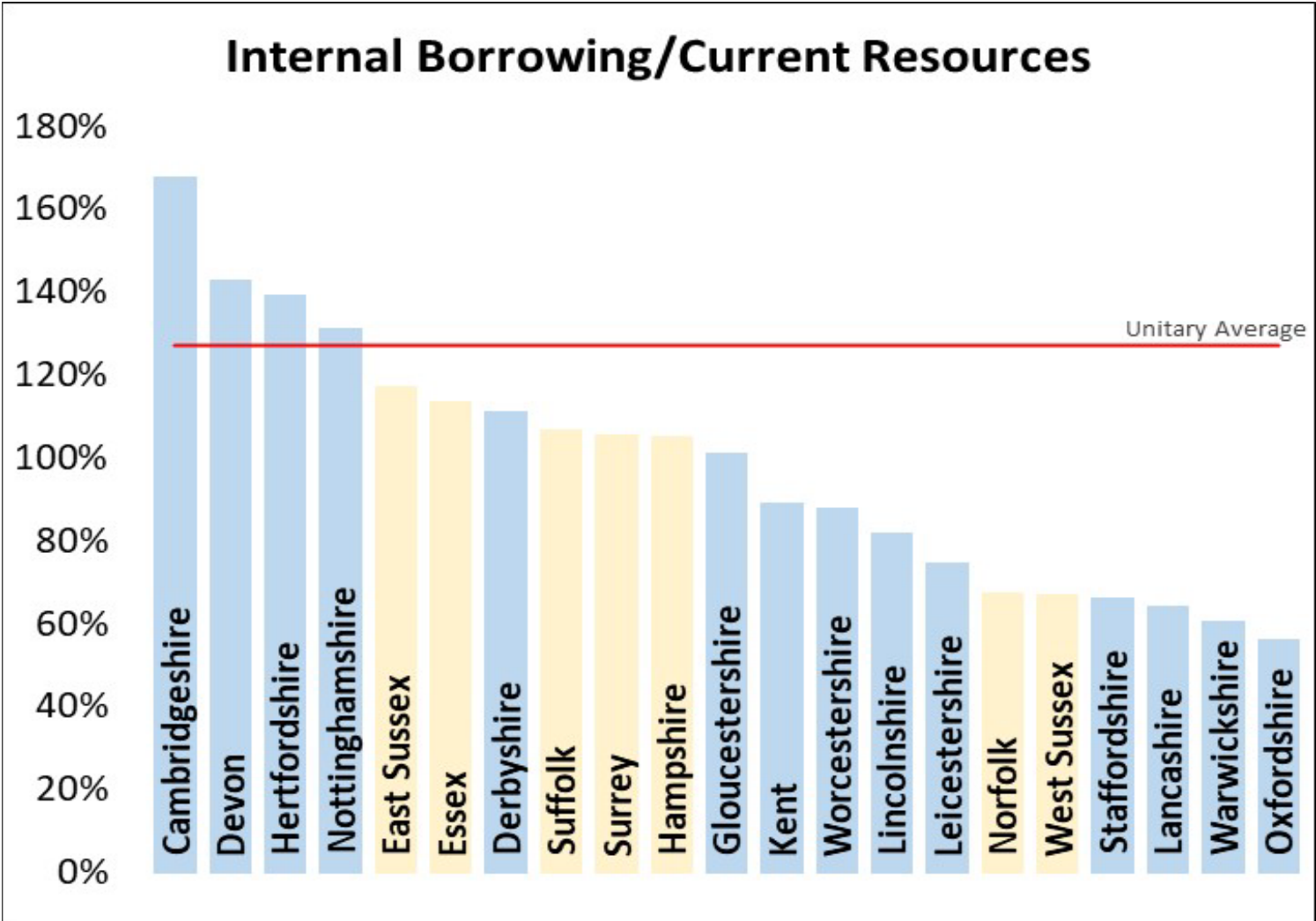
- High levels of debt across Surrey and Thurrock is well reported.
- Generally, debt is lower across most county areas – County Councils tend to have lower levels of debt compared to upper tier.
- Suggests that there might be borrowing headroom to absorb EFS if required.

Current Resources and Internal Borrowing



- Interestingly, West Surrey with very high levels of debt does not have issues in respect of internal borrowing sustainability. This is because, it has higher than average levels of URR and much of its debt is already locked in long term.
- Analysis suggests that the new Brighton unitary might need to externalise debt in the short term. It has low DSG deficits so will not receive much HN Stability Grant.

Current Resources and Internal Borrowing



- No significant issues with respect to internal borrowing in the remaining 15 county areas and I would expect the High Needs Stability Grant to considerably increase current resources during 2026/27 which should shore up internal borrowing sustainability.

LGR financial sustainability conclusions

- Some of the proposed unitaries will commence with challenging levels of financial health.
- West Surrey and South West Essex's debt levels are well reported but there are other proposed authorities that will struggle from day one including two Sussex authorities proposed by the Government.
- Challenges remain across the fifteen County areas awaiting decisions but the High Needs Stability Grant should provide significant relief across most of these areas.
- I will look at this again using the 2025/26 areas and will be developing a similar analysis when all accounts are published.

SEND

- Not an area Pixel has focussed on for a number of years
- Now a very significant funding stream for local government – so we have undertaken some analysis
- Not going to build High Needs Deficit Grant into the MTFP model – it is grant funding but is too closely linked to actual expenditure rather than independent formulas

SEND – overview

- Huge growth in financial pressure on SEND and rapidly rising number of EHCPs
- Estimate that deficit (as at 31 March 2026) is ~£5.5bn – but could be ~£6.5bn given scale of increases and uncertainty
- Without statutory override many councils would not be financially viable
- High Needs Stability Grant announced in February 2026. 90% write-off of historic deficits at 31/3/26, with payments of ~£5bn
- Latest proposals massively increase the resources paid to councils – but questions about distribution of funds
- What is the short-term impact on local authority finances? What is the impact on local authority balance sheets? What is the residual cost that authorities will have to fund?
- High Needs Stability Grant will continue to be paid in 2026-27, 2027-28 and 2028-29 – with longer-term plan in place after that.
- What is likely to happen to high-needs deficits over this period? What is the residual cost that authorities have to fund?

Context

- The Institute for Fiscal Studies (IFS) said the SEND system has “become financially unsustainable over recent years. The number of pupils with SEND, and in particular those with EHCPs, has rocketed since around 2018”.
- “Spending on special educational needs in England: something has to change”, Luke Sibieta/ Darcey Snape, IFS, December 2024 <https://ifs.org.uk/publications/spending-special-educational-needs-england-something-has-change>
- In 2024, the National Audit Office (NAO) said, “If unreformed, the SEN system is financially unsustainable”.
- “Support for children and young people with special educational needs”, NAO, Oct 2024 <https://www.nao.org.uk/reports/support-for-children-and-young-people-with-special-educational-needs/>
- A recent report by CCN/ ISOS said that 60% of authorities report that deficits will be larger than usable reserves (by March 2029). 55 out of 95 responses said their SEND deficits would cause bankruptcy if the statutory override were to end (without direct funding). <https://www.countycouncilsnetwork.org.uk/councils-warn-send-system-faces-total-collapse-without-major-reform-to-services/>
- Funding has not kept pace with demand or expenditure. IFS commented that “funding rises have not always been sufficient to close in-year deficits, let alone pay down the accumulated high-needs debts”.

Interim solutions?

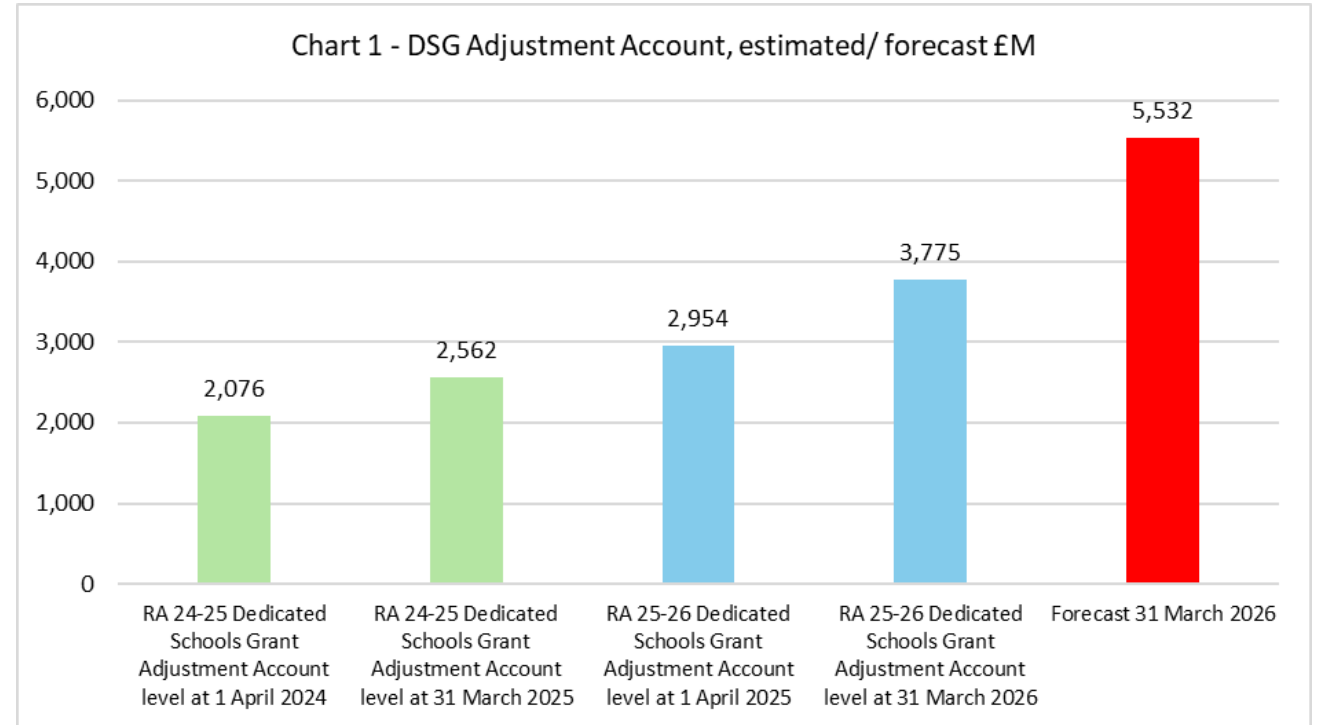
- **Statutory Override.** Introduced in 2020. Short-term fix that was initially supposed to end in March 2023, was extended to March 2026, and has now been extended further to March 2028. Unfunded deficits on balance sheet – but not counted against unallocated reserves. Without statutory override, many authorities would have had to issue s114 notices.
- **Safety Valve.** Introduced in 2021. Agreed with 38 authorities. Additional grants in return for plan to reduce or eliminate deficits. Programme already ended (1 April 2026), and now effectively replaced by High Needs Deficit Grant.
- **High Needs Deficit Grant .** Announced alongside the final settlement, February 2026. Will “resolve” (i.e. pay off) 90% of local authorities’ Dedicated Schools Grant (DSG) High Needs deficits accrued to the end of 2025-26.
- MHCLG estimate that the payment will be “over £5 billion”. Payments will be made to any authority with a SEND deficit (subject to the approval by DfE of a local SEND reform plan. Authorities will still have to finance the remaining 10% of the costs . Statement by Alison McGovern MP <https://questions-statements.parliament.uk/written-statements/detail/2026-02-09/hcws1315>

Estimated SEND deficit

- **Government forecast:** High Needs Deficit Grant will be around £5bn – which suggests that the deficit will be some £5.5bn at the end of 2025-26.
- **IFS (2024 report):** concluded that the “cumulative local authority deficits of £8bn” by 2027-28, and that “this should be the default assumption for the public finances”.
- **These forecasts are, however, based on data reported by local authorities a year ago.**
- **Forecasts based on the SCT/ ALATs survey:** forecast is higher. This survey estimated that the cumulative deficit is already £4bn (by the end of 2024-25), and that in-year deficit is £2bn in 2024-25. The in-year deficit is forecast to rise to £4.4bn in 2028-29, and that the cumulative deficit would be £17.8bn. It estimated that writing-off accumulated deficits by March 2026 would be £6.6bn.

Pixel forecast of SEND deficit (1)

- Using publicly-available data: RA (budget) returns (24-25 and 25-26), financial accounts (2024-25), latest published forecasts
- RA and financial accounts data is broadly in line (some timing differences) – but now a year out of date
- 24-25 RA: £2.1bn deficit as at 1 April 2024, with forecast in-year growth in deficit of £500m
- 25-26 RA: £3.0bn deficit as at 1 April 2025. £900m increase in 1 year. £400m larger increase than anticipated.
- 25-26 RA: Forecast deficit as at 31 March 2026 is £3.8bn, an increase in in-year deficit of £800m.

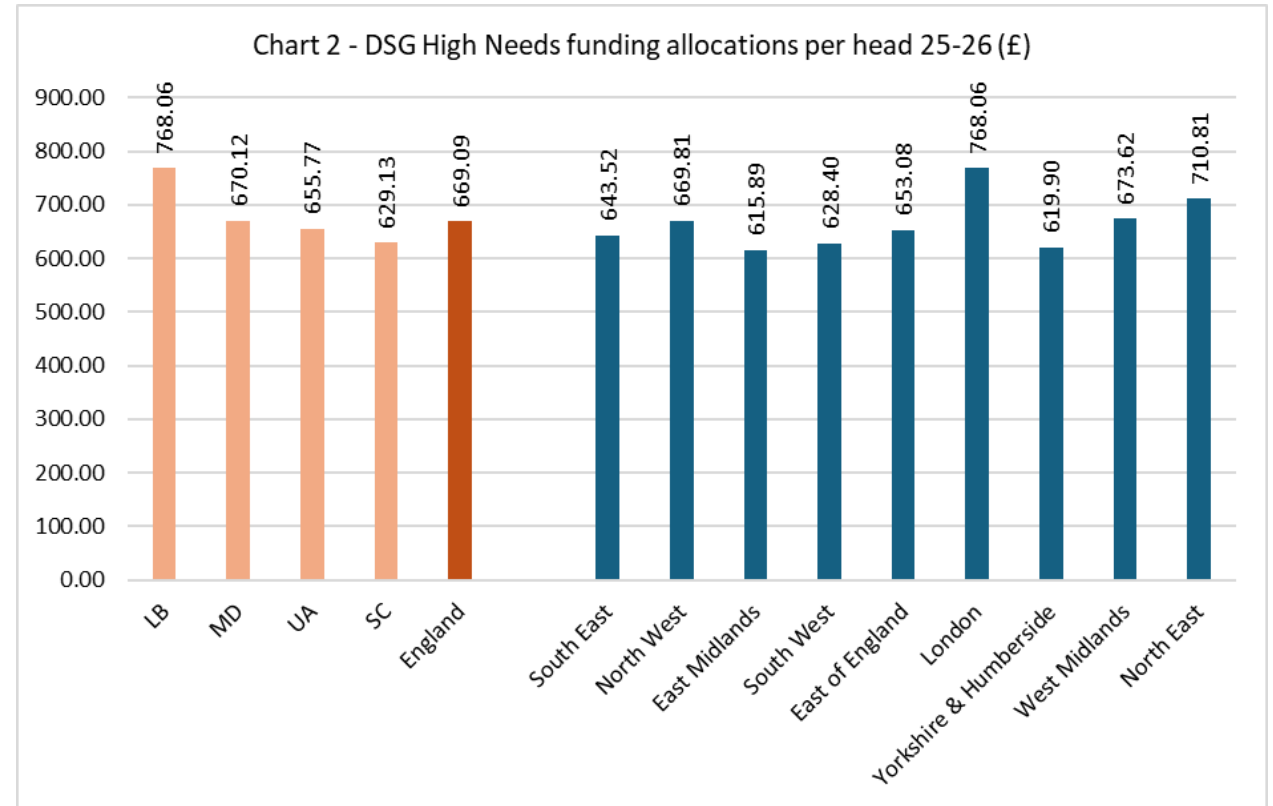


Pixel forecast of SEND deficit (2)

- Forecast made by local authorities 12 months ago now seems too low (only £3.775bn)
- Always risky to forecast based on trend rates, especially when there is still an emerging pressure
- Local authorities are starting to publish their forecasts for the deficit (as at 31 March 2026)
- Based on a sample of authorities, average increase in forecast deficits for 2025-26 is 90% (range: minimum increase 14%, maximum increase 183%)
- Significant uplift, and an increase in the growth rate of the deficit (30% in 2024-25, 90% in 2025-26)
- Suggests High Needs Grant Deficit payment of about £5.0bn+, broadly in line with Government forecasts
- Lower than that in the latest CCN/ ISOS report (£6.6bn by end of March 2026)
- Our forecast – at £5.5bn – is £1.1bn lower, but given the rapid and uncertain increase in SEND costs, the deficit could easily be in line with the higher figure
- Authorities would be left to fund around £500m of the deficit in 2025-26 (which would still be subject to the Statutory Override)

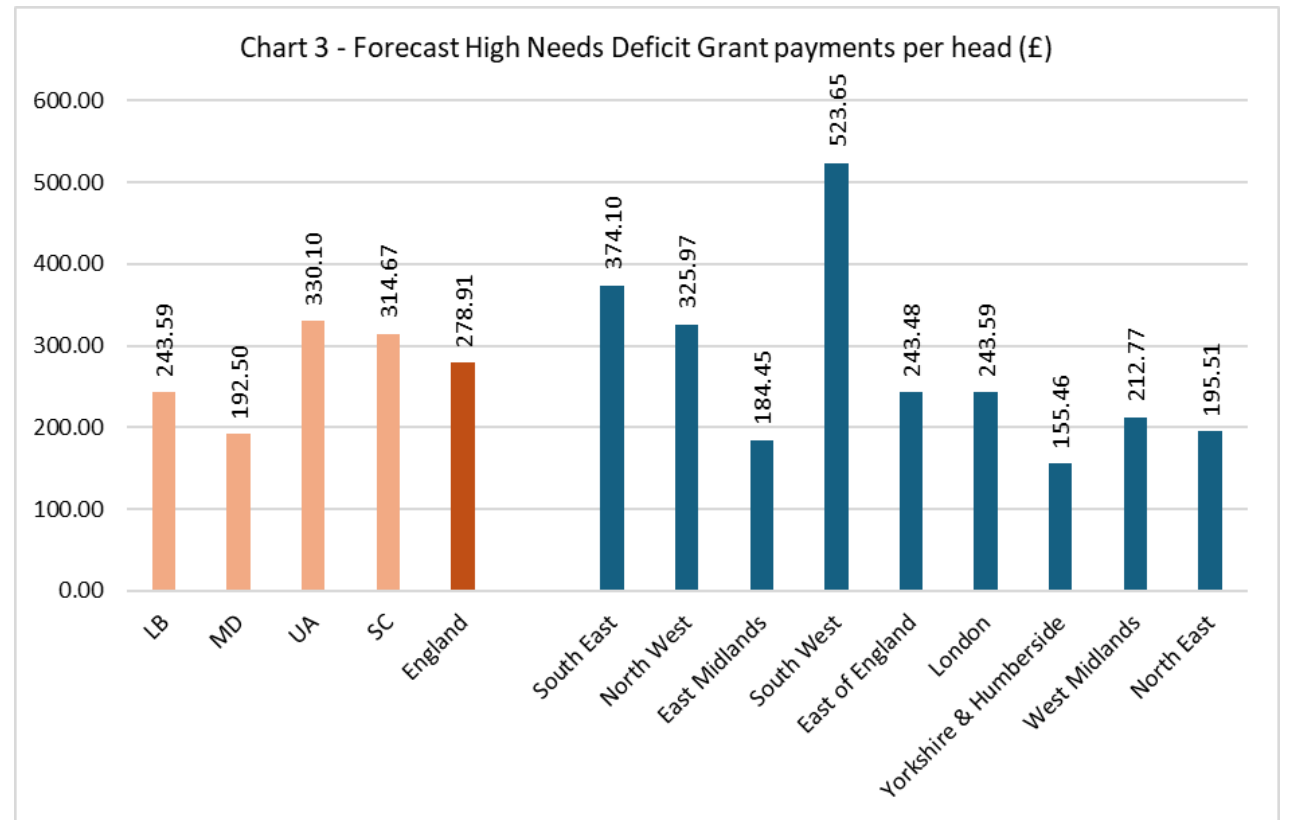
Local variations (DSG High Needs funding)

- National Funding Formula (NFF): basic per-pupil amount, proxies for need (e.g. deprivation, child health), and a component based on historical spending in 2017-18
- Funding per head is highest in London (£768 per head compared to £669 nationally). Metropolitan authorities have higher average funding per head than unitaries or shire counties, largely because of the higher needs-based indicators
- Does NFF reflect the factors that are driving expenditure on SEND and high-needs pupils? Incidence of high-needs deficits might point to where there is under-funding – but no clear relationship
- “better understanding of these drivers will be an important element of better allocating funding in accordance with need”, IFS



Local variations (forecast deficit per head)

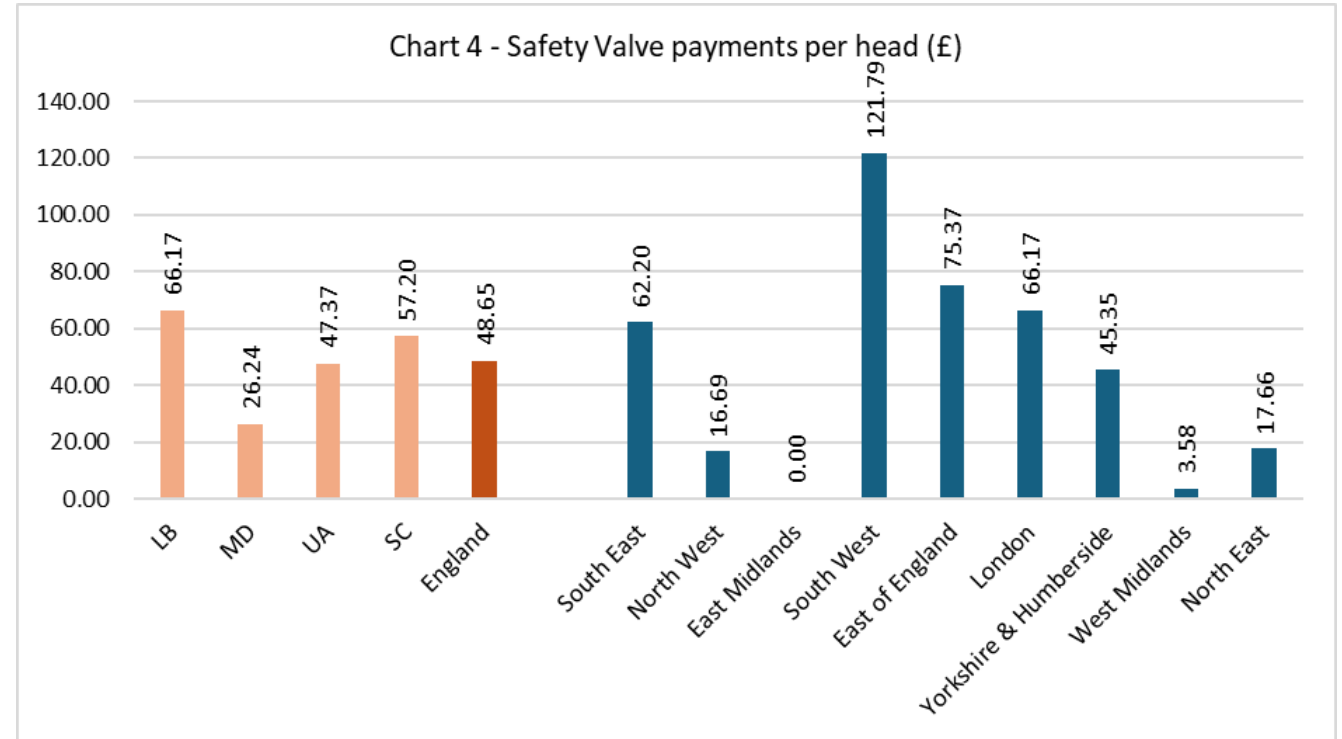
- Higher deficit per head in county and unitary authorities (£314 and £330 per head respectively compared to average of £278)
- Lower in Mets (£192 per head) and London (£243 per head)
- Some evidence that deficits are lower in authorities with higher funding per head – but correlation is weak. But regional variation is very significant and not wholly explained by funding levels
- Deficit per head is almost twice national average in South West; South East and the North West the only other regions above average per head
- Average deficits per head lower in East Midlands, Yorkshire and North East
- **Distribution of HNDG will be on this basis for 2025-26 – but might change as deficit grows over next 3 years**



No other major grant to local government has ever been paid out on the basis of actual expenditure

Local variations (Safety Valve payments)

- Safety Valve payments of £829m to end of scheme
- Distribution is related to neither high-needs funding or to deficits
- Highest in South West (similar to deficits) but also high in South East, London and East of England
- Very low in North West, despite very high levels of deficit – and no payments at all in East Midlands
- Concern that payments have been too discretionary and not sufficiently distributed to northern and Midlands authorities



High Needs Stability Grant

- Payments based on the deficit as at 31 March 2026
- Payment made during 2026-27 (Autumn?)
- 90% of deficit paid (“resolved”) based on the outstanding deficit
- Guidance says the calculation of the deficit will take into account various sources, including: Section 251 data, draft and published DSG notes, revenue outturn data and published accounts (financial accounts ought to be the prime source)
- Government estimate is payment of “over £5bn”, broadly in line with our estimate (~£5.0bn)
- Safety Valve payments taken into account when calculating High Needs Stability Grant payments (i.e. deficit is grossed-up for the Safety Valve payments)
- Addresses financial pressures from financing deficit (based on the CCN/ISOS survey, it is estimated that the cost of servicing the SEND deficit is £326m in 2025-26, and scaled-up would be £984m by 2028-29)
- Authorities still have to fund 10% of accumulated deficit (and 10% of future deficits)

Long-term financial cost

- High Needs Stability Grant will be payable in 2026-27, 2027-28, and 2028-29. Government is considering alternative approaches for 2029-30 onwards to put SEND on a sound financial footing (following 2027 Spending Review)
- Costs of SEND will continue to escalate over the near future, and that, even with the 90% grant funding, local authorities will be responsible for considerable costs. Latest CCN/ ISOS report concluded that “EHCPs is speeding up”
- Expectation that Government will continue to fund 90% of newly-created high-needs deficits in 2026-27, 2027-28 and 2028-29. Based on our forecasts these could still be very substantial amounts for authorities to fund:
- **Cumulative national deficit forecast to be £9.6bn in 2026-27, £13.7bn in 2027-28, and £17.8bn, of which local authorities have to fund £1.0m (10%) – no formal decision or announcement on future grant payments but it is very likely that there will continue to be a similar grant in place in future years**
- **By 2028-29, the cumulative grant payment will be £16.0bn, and local authorities will be funding £1.8bn**
- High Needs Deficit Grant (at 90%) is itself only a short-term remedy - If underlying growth rates in the cost of SEND cannot be checked, then an alternative funding approach will have to be developed, with central government taking on a greater share (or all) of the costs and risks

Local Government Reorganisation (LGR)

- Deficit will have to be split between the new unitaries (potentially into as many as 5 new authorities, e.g. Essex)
- Given the scale of the task, and financial consequences, could be a contentious exercise!
- Is there sufficient data available to calculate the deficit (now and for deficit arising from previous years?)
- Newly-created authorities will have to put in place arrangements to deal with 10% of the deficit, in same ways as other authorities

Conclusion

- High Needs Deficit Grant averts the immediate financial crisis for many local authorities
- But the underlying financial pressures continue – and the residual cost for local authorities could again become very significant, even with the High Needs Deficit Grant
- Total grant payments are likely to be around £5bn in 2025-26 – and a cumulative total of £16bn over 4 years (if the grant continues).
- This is a very significant amount of funding that is distributed based on actual expenditure and not necessarily based on underlying needs
- It is a major (and very expensive) policy failure

Future events

- **Pixel benchmarking (existing subscribers)** – webinar for existing subscribers to the benchmarking service. The webinar will outline the significant recent updates (e.g. incorporating Local Outcome Framework). Andrew will send out joining details to existing subscribers for a webinar on **10 June 2026, at 3pm**. If you are interested in subscribing to the benchmarking service, please contact Andrew on Andrew.Cross@localgovbi.com
- **Pixel benchmarking** – webinar for any authority who is interested in the benchmarking service, setting out how the service works and the latest developments. **Wednesday 24 June 2026** (link for registration will be released shortly).
- **Pixel MTFP model update** – we are currently working on an updated version of the MTFP model. This model will be available in early July and we will hold a webinar alongside its release. **Wednesday 8 July** (link for registration will be released shortly).
- **CIPFA Conference** – we will be at the CIPFA conference this year (15-16 July, in Olympia in London). If you are at the conference, please come along to see us in person!