



Ministry of Housing,
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Sir Geoffery Clifton-Brown
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LOCAL GOVERNMENT FINANCIAL SUSTAINABILITY HEARING FOLLOW UP

Dear Sir Geoffery,

Following the Committee's hearing on Local Government Financial Sustainability on Thursday 3 April, I am writing to set out further information as agreed on the following subjects:

1. National Insurance Contributions
2. Local elections

I am also including a clarification on the following topic discussed at the hearing:

3. Local audit

1. National Insurance Contributions

I committed to write to the Committee to set out the approach we have taken to employer National Insurance Contributions (NICs).

At Autumn Budget 2024, the Government set aside funding to support the public sector with the additional cost of employer NICs. The total support funding for the whole of the public sector amounted to £4.7 billion in 2025-26, inclusive of Barnett Consequentials. This funding was based on an estimate of the proportion of employer NICs receipts paid by public sector organisations, using the Office for National Statistics' classification of the public sector boundary. This approach to estimating the cost of similar measures for public sector organisations is in line with the approach taken under the previous government. The total £4.7 billion support funding was allocated to departments and other public sector employers based on each employer's total share of headcount, wage and salary costs.

Individual departments and public sector employers then took local decisions about how to allocate their share of the total support funding. MHCLG ministers chose to allocate this funding using a measure of local authority net service expenditure. This approach taken by MHCLG ministers sought not to penalise local authorities for their local decisions, whilst ensuring the proportional share each council received would best reflect their share of the total NICs impacts.

MHCLG ministers announced their distribution methodology at the provisional Local Government Finance Settlement in December, and published a methodology note. The methodology took the net service expenditure data from the published Revenue Outturn data collection from 2023-24. The expenditure data used covered all major service areas budgeted for within the local authority General Fund. The data excluded expenditure within education and police services because employer NICs support for these services was due to be provided by the Department for Education and the Home Office respectively.

During the provisional Local Government Finance Settlement consultation period, MHCLG ministers heard representations from local authorities that the methodology – though based on an expansive measure of local authority service expenditure – ignored some key areas of expenditure within locally run housing services. In response, ministers refined their approach by taking account of local authority housing costs that can sometimes be captured outside of the General Fund through the dedicated Housing Revenue Account. The Committee may have seen the Institute for Fiscal Studies described the overall approach to distributing employer NICs funding as “sensible”.

I hope the explanation above provides some reassurance to the Committee that the Government conscientiously considered the pressures facing local government in 2025-26 and acted swiftly to ensure support was provided for employer NICs funding based on a reasonable and transparent funding methodology.

2. Local elections

We agreed I would share further details about the timetable for local elections in light of the Government's current local government reorganisation programme.

The precise dates for implementing new unitary councils will depend on the proposals that are submitted by the areas 21 areas which have been invited. Government will take decisions on implementing any reorganisation proposals, and if the necessary legislation is agreed by Parliament, officials will work with the area to move to elections to new ‘shadow’ unitary councils as soon as possible.

In Surrey, we are working to move to elections to new shadow unitary council(s) in May 2026 with the new local council(s) going live in April 2027. In areas that are part of the Devolution Priority Programme and undertaking local government reorganisation, the Statutory Instrument laid before parliament postponed the May 2025 local elections for one year to May 2026, and following that we are working to

move to elections to new shadow unitary councils in May 2027. We then aim to have those new local councils going live in April 2028.

3. Local audit

Finally, I would like to make a clarification regarding the first local audit backstop. This was in December 2024, not February 2025, and it covered financial years up to and including 2022/23, not just financial year 2022/23.

I hope the above provides clarity to the Committee on the subjects discussed at the hearing.

Yours sincerely,

SARAH HEALEY

A handwritten signature in dark ink, appearing to read 'Sarah Healey', with a stylized flourish at the end.