

Meeting needs or missing needs?

Assessing the proposed changes to the
Children and Young People's Services
relative needs formula

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Executive Summary

As part of the UK government's proposed approach to local authority funding reform through the Local Government Finance Settlement (LGFS) from 2026-27, a revised model for determining need and distributing funding for Children and Young People's Services (CYPS) is under consultation. The Department for Education (DfE) is leading on updating the CYPS relative needs formula, which creates the most significant funding shifts in the entire local government funding reform proposal. The new model calculates expected need using child level data and Lower Super Output Area (LSOA) level data. This is a unique method for predicting need, using multi-level regression analysis as opposed to a more traditional weighted factor-led approach.

Research by the National Children's Bureau and Public Alchemy, commissioned by London Councils, has analysed the proposed changes to the CYPS relative needs formula. This research has focused on the potential impact of the proposed changes to the CYPS relative needs formula and identifying the ways in which the formula could be strengthened and updated to better reflect the needs of children, young people and families.

This research found that:

- The overall robustness of the proposed CYPS relative needs formula is questionable. The proposed approach is a new and unique way to calculate need, with limited prior testing. Not all of the proposed metrics are clearly correlated with need. Further still, there has been a significant change in the formula's methodology, leading to substantial changes in the distribution of resource. In this context, we would expect there to have been significant engagement with the sector in order to scrutinise, test and refine the formula, but this research suggests that this has been limited.
- The proposed formula uses a child health metric, which is a subjective measure that this research argues does not accurately capture need, making it an unreliable measure of children's health in an LSOA. An alternative metric that could be measured at a child level is special educational needs and disabilities (SEND). This metric captures a broader range of needs, is a more objective measure, can be updated annually using national datasets, and is more correlated with children's social care support needs. SEND would be a significantly more appropriate and robust metric than child health.
- A key proposed metric for measuring deprivation is the Income Deprivation Affecting Children Index (IDACI). However, IDACI does not account for housing costs when calculating deprivation and instead focuses solely on income measures. The result of this for areas with high housing costs is that the level of deprivation is not being accurately accounted for under the proposed model. We therefore propose IDACI is updated to include housing costs.

- The numbers of children accessing Free School Meals (FSM) is another proposed metric for measuring deprivation in the formula. However, this research suggests there is likely to be significant undercounting of those accessing FSM. Furthermore, as with IDACI, FSM does not take into account housing costs. To address this, and to align with the upcoming changes to FSM eligibility, we propose the metric is replaced with the number of children living in households that are in receipt of Universal Credit.¹
- Overcrowded housing was used as a metric in the initial iteration of the proposed formula, but in the second iteration it appears that this has been replaced with 'under-occupied housing'. An explanatory note for this change has not been provided. We encourage the DfE to thoroughly investigate the changes to the overcrowded housing metric between the first and second iterations of the proposed CYPs relative needs formula in order to understand the reason for these changes and to ensure overcrowded housing is accurately captured in the formula.
- Parental qualifications is the only metric relating to parental characteristics in the proposed formula. Crime data has a stronger correlation with children's social care needs than parental qualifications, reflecting that crime rates in a given area are a more accurate and appropriate way of measuring need than simply basing this on how well educated the local population are. As parental qualification is currently included in the model as a proxy for other socioeconomic factors, such as domestic abuse, crime data should be considered as a more suitable alternative.
- Based on London Councils' modelling of the changes proposed in the consultation, London local authorities could see their allocation of resources based on assessment of need reduce by almost 40%, equivalent to an estimated redistribution of £1.5 billion in resources. This research suggests the resultant impact on budgets is likely to have considerable implications for the provision of services. We recommend that, at a minimum, the implementation of any changes to local authority CYPs funding needs to be phased to ensure local authorities have sufficient time to plan and prepare for these changes.

¹ [Department for Education, 2025, Expanding free school meals: what parents need to know](#)

Recommendations

In order to ensure the new CYPS relative needs formula is robust and appropriately and equitably distributes CYPS funding to local authorities, we suggest the following recommendations are taken forwards by the Department for Education:

- 1. Refine the CYPS relative needs formula to ensure it accurately reflects the needs of children and young people and can be examined and road-tested by the sector. This should include extensive modelling and impact assessments as part of the development of these proposed changes to understand the short, medium and long-term impact on children, young people and families**
- 2. Replace the child health metric with a metric that measures SEND**
- 3. Update the IDACI formula to reflect 'true income' after housing costs**
- 4. Replace the free school meals metric with Universal Credit claimant data to account for current undercounting and future changes planned for free school meal eligibility**
- 5. Thoroughly investigate the changes to the overcrowded housing metric between the first and second iterations of the proposed CYPS relative needs formula in order to understand the reason for these changes and to ensure overcrowded housing is accurately captured in the formula**
- 6. Replace the parental qualifications metric with data on crime rates of street level crimes**
- 7. Ensure the implementation of any changes to the CYPS relative needs formula are phased**

Introduction

As part of the government's ongoing reforms to local government funding, it has committed to delivering a new distribution of core funding from 2026-27 onwards. The Ministry of Housing, Communities and Local Government (MHCLG) is proposing to use the Department for Education's (DfE) new formula for allocating Children and Young People's Services (CYPS) funding. The aim of the new CYPS relative needs formula is to distribute funding to local authorities based on their relative needs. There have been two iterations of the proposed CYPS relative needs formula, with some substantive changes being made between the first and second iterations. The first iteration² was released for consultation in December 2024 and the second iteration³ was released for consultation in June 2025. This second consultation is due to conclude on 15th August 2025.

The previous funding formula had been in use for over a decade, and the new formula would represent a significant change. As is the case currently, funding would not be ringfenced and there may be wider implications across local authority finances.

London Councils, a cross-party organisation representing the 32 London boroughs and the City of London Corporation, is concerned about the robustness of the proposed changes to the CYPS relative needs formula and the impact this would have on children, young people and families both in London and elsewhere in the country. Based on London Councils' modelling of the changes proposed in the consultation, London local authorities could see their allocation of resources based on assessment of need reduce by almost 40%, equivalent to an estimated redistribution of £1.5 billion in resources. The impact of this would be stark, with one Director of Children's Services summarising this with the message that "*Children's services will only operate a "life and limb" service*" if there was a significant decrease in their overall core funding.

London Councils raised their concerns with the DfE during the first consultation stage. They have now commissioned detailed research from the National Children's Bureau and Public Alchemy to assess the implications of the proposed CYPS relative needs formula and to further strengthen their evidence base for their response to the second consultation.

The findings of this research are applicable to how need is measured for *all* local authorities, and this research seeks to ensure that resource is appropriately allocated based on an accurate measure of need for all children and young people.

“ There are concerns around data sets, lack of consideration of key areas such as SEND, and the value of prevention does not seem to be acknowledged. Complexity also does not seem to be adequately reflected”
(Finance Lead)

² [Department for Education, 2025, Children and young people's services formula review](#)

³ [Department for Education, 2025, The Fair Funding Review 2.0](#)

The following report outlines the detailed analysis and findings of this research looking at the proposed CYPs relative needs formula. The report begins with an outline of the methodology used for this research and is then followed by a presentation of the key findings relating to the robustness of the proposed CYPs relative needs formula, the suitability of five of the proposed metrics, and an analysis of the overarching impact of a potential reduction in funding for London local authorities. The report concludes with seven key recommendations for the DfE to consider as part of their ongoing consultation on the proposed CYPs relative needs formula.

Methodology

The National Children's Bureau and Public Alchemy have used a mixed methods approach to analyse the potential impact of the proposed changes to the CYPs relative needs formula and to identify the ways in which the formula should be updated to better reflect the needs of children and young people.

Quantitative research

The quantitative research was split into two strands:

1. Initial desk-based research
2. Statistical analysis

The desk-based research focused on improving the understanding of the proposed relative needs formula methodology and the strengths and weaknesses of the new formula.

The quantitative research began with assessing the metrics in the models and determining how they are linked with a child's needs. This included identifying national datasets, drivers and variables that better reflect children's social care needs. Once this assessment of the metrics was completed, a range of demographic, educational, and socioeconomic variables were tested – both those currently in the proposed CYPs relative needs formula and other potential alternatives – to determine which best explain variation in need. This enabled the identification of stronger or more relevant predictors that could be considered in future iterations of the CYPs relative needs formula.

R squared (R^2) values

A key assessment of model metrics used in the research is the linear correlation R^2 values. This represents the strength of relationship between any given metric and children's social care needs. R^2 values vary between 0 (no correlation) and 1 (perfect correlation). Due to the complexity of children's social care drivers, metrics with $R^2=0.10$ or greater show sufficient correlation to be relevant for inclusion in the model,

with higher values preferred. This criterion is of particular importance when considering new metrics that would add value to the model.

A detailed breakdown of the quantitative research methodology can be found in the technical appendix.

Qualitative research

The qualitative research comprised of a three-stage approach to gaining insights from senior local authority officers on the new CYPS relative needs formula proposal and on the assumptions raised during the quantitative research.

1. **A qualitative survey** was created and shared with senior officers in each of the 33 local authorities in London to inform key lines of enquiry and understand the impact of a decrease in funding would have on their local authorities.
2. **Two focus groups** took place with Directors of Children's Services (DCS), Finance Leads, and other local authority children's services senior officers, with a focus on discussing and testing the findings from the quantitative research.
3. **Three semi-structured small group interviews** were carried out with three different local authorities, with DCSs and/or Finance Leads in attendance from each local authority.

The graphic below sets out the number of local authorities that were engaged with through the qualitative research, and the geographical spread of the local authorities involved.



Job titles

To protect the anonymity of those taking part in the qualitative research, some job titles have been adapted slightly to form two groups of respondents, Directors of Children's Services and Finance Leads. Whilst these titles are held by the majority of respondents, in a small number of instances those participating were senior officers in closely related roles that had job titles which could have otherwise been used to identify them.

Key Findings

Robustness of the proposed CYPS relative needs formula

“ It concerns me... the methodology and the way that this has been done...we feel like earlier engagement would have been helpful, more of a chance to influence this earlier on”

(Director of Children's Services)

Several of the key factors which drive inequality, poverty, and social care needs are not currently set to be included in the CYPS relative needs formula. This will have a direct impact on the welfare of children and young people. This report argues that by ignoring the needs of disabled children and those with special educational needs (SEN), Universal Credit claimant data, housing costs, overcrowding, and crime rates, the government is not getting an accurate picture of the needs of children and young people. The research raises concerns that this will lead to underfunding of children's services, escalation of need, and increased risk to local authority finances.

The proposed CYPS relative needs formula uses child level and LSOA data to calculate expected needs. This is a unique approach for distributing funding, having previously only been used as part of research models within the NHS or piloted by individual local authorities for providing deprivation supplements. This differs from the previous model, which used fewer metrics at a local authority level to distribute funding. This presents a fundamental change in how relative needs is being calculated.

The new model uses nine metrics for calculating expected needs. However, this research has found that not all metrics in the model are correlated with expected needs. For example, sex as a metric only has a linear correlation of $R^2 = 0.04$, which is almost no correlation. Additionally, proportions of boys and girls do not vary (excluding a few outliers) between local authorities. As sex does not deviate between local authorities, the funding would be distributed equally using this metric. Given that the purpose of the CYPS relative needs formula is to distribute funding between all local authorities in England, this metric has little, if any, relevance.

In addition to correlation with expected needs, the research also raises concerns about the strength and accuracy of some of the metrics used. This is particularly so in relation to the overcrowded housing metric, the weighting of which has changed considerably between the first and second iterations of the proposed CYPS relative needs formula, with no explanation as to why.

The accuracy of the metric for measuring free school meals is also questionable given that this research has highlighted that the number of children and young people recorded as FSM eligible is likely to be an underrepresentation. Further still, from April 2026, the eligibility criteria for FSM will be expanded to include all households receiving Universal Credit, and if the formula is not updated to reflect this, then it risks being out of date from its inception.

Given the significant funding distribution changes proposed by this new, unique, and complex formula, it is crucial the sector has the opportunity to scrutinise and contribute to its development. However, it appears that there has been limited engagement with key stakeholders in the development of the proposed CYPS relative needs formula. For instance, of the 18 local authorities that were asked about their awareness of the proposed changes to the CYPS relative needs formula and how involved they had felt in the development of the new formula, 22% said that they were not aware at all of the proposed changes and a further 44% said that they were relatively unaware of the proposed changes.

We recommend the DfE alters the proposed CYPS relative needs formula to ensure it reflects the needs of children and can be appropriately examined and road-tested by the sector. This should include extensive modelling and impact assessments as part of the development of any proposed changes to understand the short, medium and long-term impact on children and families.

Child health

“ SEND is increasingly becoming a factor in determining whether children will access support from children's social care”
(Finance Lead)

In the 2021 Census⁴, data on 'a person's assessment of the general state of their health from very good to very bad' was collected. "Child health" is the LSOA metric that takes the proportion of parents who have responded that their child's health is 'not good'. This is a subjective measure, making it an unreliable way to assess actual children's health in an LSOA. This is evidenced by the fact that just 2.7% of children were defined as having "not good health" in the 2021 Census, whereas 19.5% of children either receive SEN support or have an EHCP.⁵ Most local authorities stated that they did not use the child health metric, and if they did use this metric, it was not for determining social care needs.

⁴ [Office for National Statistics, 2021, Census](#)

⁵ [Department for Education, 2025, Special educational needs in England](#)

An alternative metric that could be measured at a child level, and is a more objective measure of need, is special educational needs and disabilities (SEND), which we suggest is measured by using the combined Education, Health and Care Plan (EHCP) and SEN support numbers to create a binary variable. SEND has similarities to the original metric of "child activity" proposed in the first iteration of the CYPS relative needs formula, which was aligned with the definition of disability under the Equality Act 2010, but is more inclusive of a broad range of needs. SEND is also arguably a more objective measure than "child health" given that the identification of SEND related needs involves triangulation of evidence across multiple sources, including parent carers as well as a range of professional services.

When asked, all local authorities agreed that neither the child activity nor the child health metric fully captures the scale, rising need, or increasing complexity of SEND. Using SEND as a metric is beneficial as it is more inclusive of the full range of special educational needs and disabilities, can be updated yearly using national datasets (rather than every 10 years via the Census), and is more correlated with expected needs than child health with a linear correlation of $R^2 = 0.21$ against $R^2 = 0.10$.

Growing areas of need such as neurodiversity and mental health were felt to be at risk of being overlooked by the child health metric but captured in the proposed SEND metric. In particular, four local authorities highlighted that the fastest growing areas of need are children and young people with SEMH needs, including Autism and ADHD, and these children and young people are unlikely to be captured in the child health criteria but would be captured through a SEND metric.

“ If we just used physical [or] mental health conditions on its own it probably would not account for where most of the growth is in the EHCPs, which is around autistic spectrum condition...I think probably EHCP status is more relevant”

(Director of Children's Services)

“ [Autistic children and young people are] quite a big group for whom we know have some really significant needs and leads to quite a lot of disadvantage for families and children”

(Director of Children's Services)

Capturing SEND through both numbers of children with EHCPs and numbers of children receiving SEN support was regarded as being important in ensuring that a broad range of needs are considered. This also aligns with the government's focus on inclusive mainstream practice, which is characterised by early intervention and prevention and may consequently see fewer children requiring support at a targeted or specialist level in the future.⁶

⁶ [Department for Education, 2025, £740 million allocated for 10,000 new places for pupils with SEND](#)

Nationally, SEND is a key area of spending for local authorities.⁷ This was further corroborated through the survey and interviews, where 10 local authorities emphasised that SEND has been a key driver of costs and has required increased funding since 2017, with increased spending in areas such as short breaks being particularly highlighted. Given the direct link between SEND and local authority spending, it is clear that SEND is a more appropriate metric for measuring need and associated costs.

Further still, developing awareness and utilisation of the role of social care services as a key partner in supporting disabled children and those with SEN has been an important aspect of the government's agenda since the inception of the Children and Families Act 2014. Pursuing this objective not only delivers better outcomes but also generates net positive gains for public finances (through increased long-term tax revenue and reduced health and social care costs as a result of early intervention and prevention).⁸ However, if we do not appropriately fund social care services to meet the needs of disabled children and those with SEN, this will become increasingly challenging.

Whilst local authorities highlighted that SEND was a more appropriate metric, six local authorities emphasised the need to ensure that this metric would also be a reliable measure following any potential changes in the Schools White Paper expected in Autumn 2025. This was a further reason as to why local authorities supported the proposal for the SEND metric to cover both EHCPs and SEN support. One potential opportunity for future-proofing this metric could be to refer to 'disabled children or those with special educational needs who are in receipt of support through a statutory plan related to their needs'.

In summary, the research highlighted that SEND is more correlated with expected needs than child health and is a key area of spending for local authorities which has increased since 2017. We recommend the child health metric is replaced by a SEND metric that includes both EHCPs and SEN support.

Income Deprivation Affecting Children Index (IDACI)

“Housing is the biggest driver of child poverty in London, so we would always argue that housing costs should be included”
(Director of Children's Services)

A key proposed metric for measuring deprivation is the Income Deprivation Affecting Children Index (IDACI). However, IDACI does not account for housing costs when calculating deprivation and focuses solely on income measures. For areas with high housing costs, this is particularly detrimental. The mean monthly private rent costs in

⁷ [Public Accounts Committee, 2025, Support for children and young people with special educational needs](#)

⁸ [Disabled Children's Partnership, 2021, The gap widens](#)

London are 57% higher than the average for England.⁹ Whilst the median income is 34.5% higher than the average for England, this still means London spends 16% more on housing than the rest of the country on average. The result of this is that the level of income deprivation in areas with high housing costs are not being accurately accounted for under the proposed formula, which will skew the allocation of funding.

All of the local authorities that participated in the research were clear that the high housing costs in London need to be fully considered within the proposed CYPs relative needs formula. Several local authorities emphasised the correlation between high housing costs in London and likelihood of need, with a Director of Children's Services saying, *"We can't overstate the fact that [housing] is a factor in pretty much every case that comes through our system"*. This is driven by high housing costs forcing families and children into poverty, with London having the highest rate of poverty in the country once housing costs are factored in.¹⁰

High housing costs are also connected to the large number of people living in temporary accommodation in London, which is further corroborated by the five local authorities who explicitly shared that they have a relatively high number of children in temporary accommodation in their area.¹¹ Further still, temporary accommodation in itself is linked to need.

"If we want to understand poverty, you have to understand the relative cost of housing and the impact that has on families and in particular the sort of small but very significant number of families that are in temporary accommodation as well"

(Director of Children's Services)

"Families are in temporary accommodation, there is massive mobility, and we have families coming in and out that we are having to assess and meet needs...there is that churn that impacts schools and...the wellbeing of children and young people so they have higher, higher...needs"

(Director of Children's Services)

In addition, five local authorities shared that there is a clear relationship between housing and schooling, with housing insecurity often leading to disrupted schooling which further exacerbates the likelihood of a child having children's social care needs. This is further supported by research from Hock et al (2024), which highlighted the significant impact that housing insecurity can have on children and young people,

⁹ [Office for National Statistics, 2024, Private rental affordability, England and Wales](#)

¹⁰ [Department for Work and Pensions, 2025, Households below average income: for financial years ending 1995 to 2024](#)

¹¹ [Centre for London, 2022, Temporary Accommodation: London's hidden homelessness crisis](#)

including children and young people experiencing acute distress, isolation and tiredness, which could in turn impact on their academic performance.¹²

It is important to highlight that whilst temporary accommodation is correlated with children's social care support in London, this trend is not reflected nationally due to London being a significant outlier with 56% of all temporary accommodation households in England.¹³ However, when we take homelessness more widely (of which temporary accommodation is one part), which is strongly correlated with children's social care needs nationally, London has 21% of households assessed as being homeless while only having 16% of the population. Whilst public data on this is not available in a format that could be used in the model, it nevertheless strengthens the position of needing to use 'true deprivation' (post housing costs) metrics in the model, such as with an updated IDACI metric.

Overall, these findings clearly demonstrate the importance of high housing costs and their correlation with children's social care needs being reflected within the proposed CYPs relative needs formula. We recommend the IDACI metric is updated to include housing costs, and in doing so to reflect income *after* housing costs, which would in turn provide a 'true deprivation' metric that accurately reflects levels of deprivation in England.

Free school meals (FSM)

“The registering for free school meals, I think always means that some families are missed out because they are not aware of eligibility or feel there is some sort of stigma attached”

(Director of Children's Services)

Like IDACI, FSM is used as a metric to measure deprivation in the proposed CYPs relative needs formula. However, the research suggests that the numbers of children identified as FSM eligible are likely to be underrepresented. Further still, as is the case for IDACI, eligibility for FSM does not reflect housing costs.

This research suggests using Universal Credit claimant data is a more accurate way to measure FSM eligibility and ensures housing costs are at least partially reflected in how deprivation is measured.

Currently, London is recorded as having 1% more registered children who are eligible for FSM than the England average.¹⁴ However, this is likely to be an underrepresentation of both deprivation and FSM eligibility, which can be seen when

¹² [Hock, E. S., Blank, L., Fairbrother, H., Clowes, M., Cuevas, D. C., Booth, A., Clair, A., & Goyder, E. \(2024\). Exploring the impact of housing insecurity on the health and wellbeing of children and young people in the United Kingdom: a qualitative systematic review. BMC public health, 24\(1\), 2453](#)

¹³ [Ministry of Housing, Communities and Local Government, 2024, Statutory homelessness in England: financial year 2023-24](#)

¹⁴ [Department for Education, 2025, Schools, pupils and their characteristics](#)

looking at the proportion of Universal Credit claimants in London. London has 17% of the adult population in England, yet it has 24% of all Universal Credit claimants.¹⁵ A London local authority participating in this research recently examined the number of children in their area who were potentially eligible for FSM but not in receipt of them and found there were 1,015 "not currently FSM eligible but 'potentially eligible' pupils" in secondary schools, compared with a total secondary school population of 10,563. If this relationship was true for all London local authorities, there would be a 10% increase in the number of FSM eligible children.

It is also important to acknowledge that London differs from the rest of the UK in relation to FSM eligibility due to the Mayor of London's scheme which provides FSM to all primary school children.¹⁶ This unique scheme is likely to have led to undercounting of those accessing FSM in London, due to families not needing to declare eligibility when they enrol their children in school as meals are provided universally.

The majority of local authorities agreed that there is likely to be underrepresentation of those accessing FSM in their local area. This was reflected by a Director of Children's Services, who said *"There is under reporting, there is no doubt about it... what we know is that many of those children coming into our system, the parents do not know that they are entitled to free school meals"*. A range of drivers for this underrepresentation were highlighted, including:

- Families frequently moving between boroughs, which was linked to population churn and high levels of migration;
- Social and cultural stigma surrounding accessing support from the state;
- A lack of understanding of rights and entitlements in relation to FSM (as well as other state benefits), particularly experienced by families who move to the UK from abroad;
- Providers being unable to meet certain religious or cultural dietary requirements, with kosher meals in particular being referenced.

Two local authorities also emphasised the importance of recognising that a lot of areas have a growing cohort of electively home-educated children, and this cohort is not reflected in FSM data. One of these local authorities shared that they have over 500 electively home-educated children in their borough and highlighted that there is a lot of need developing amongst this cohort, which is not being captured through the current metric.

In addition to this, the recent announcement¹⁷ that, from April 2026, the eligibility criteria for FSM is going to be expanded to include all households receiving Universal

¹⁵ [Nomis, 2025, Claimant count by sex and age](#)

¹⁶ [Mayor of London, 2023, Mayor announces every London primary school child to receive free school meals](#)

¹⁷ [Department for Education, 2025, Expanding free school meals: what parents need to know](#)

Credit is expected to increase the number of children eligible for FSM by over 500,000¹⁸. This would effectively mean the CYPS relative needs formula risks being out of date from its inception. This is at odds with a core principle of the government's Fair Funding Review 2.0, 'dynamism', which holds that 'the new Settlement Funding Assessment will be based on the most up-to-date data possible. To facilitate more frequent updates, as far as practicable, funding allocations will be based on data that can be updated at planned intervals'.¹⁹ Collectively, this makes the current metric proposed in the CYPS relative needs formula not only inappropriate for London, but for all local authorities.

We recommend the FSM metric is updated to use Universal Credit claimant data instead. This will not only guarantee the CYPS relative needs formula is future proofed for the upcoming changes planned for FSM eligibility, but it will also ensure the formula more accurately reflects levels of child deprivation in England when determining how to distribute funding.

Overcrowded housing

“We have extremely high housing costs...resulting in a lot of overcrowding...there is more likelihood that young people will need support and care because of the way that they are living”

(Finance Lead)

Overcrowded housing is a strongly correlated metric for children's social care needs. For instance, 2021 Census data showed children living in local authority care in England were almost twice as likely to have been living in an overcrowded household than children not living in the care of the local authority.²⁰ However, as part of the second iteration of the proposed CYPS relative needs formula, it appears 'under-occupied housing' is being used now instead of 'overcrowded housing' as set out in the initial proposal. An explanatory note for this change has not been provided, nor has the name of the metric been changed in the model.

The effect of this change is felt strongly in London, which has 14.6% of all households but 28.2% of overcrowded households and only 6% of under-occupied housing.²¹ The impact of this new 'under-occupied housing' metric is only half of the previous 'overcrowded housing' metric, resulting in a 2% decrease in the share of the formula without any clear explanation.

¹⁸ [Department for Education, 2025, Over half a million children to get free school meals](#)

¹⁹ [Ministry of Housing, Communities and Local Government, 2025, The Fair Funding Review 2.0, p.15](#)

²⁰ [Office for National Statistics, 2022, Who are the children entering care in England?](#)

²¹ [Nomis, 2021, Occupancy rating for rooms](#)

When asked, five local authorities were in agreement that overcrowding was a significant issue that they were facing in relation to housing, and this was correlated with needs in their local area. One local authority shared that overcrowding is particularly a challenge for families with disabled children and those with SEN, with overcrowded housing placing significant strain on family relationships. Another local authority's Director of Children's Services shared that *"20% of our social homes are overcrowded"*.

Overcrowded housing is strongly correlated with needs, and this must be properly reflected within the proposed CYPs relative needs formula. Therefore, we recommend the DfE thoroughly investigate the changes to the overcrowded housing metric between the first and second iterations of the proposed CYPs relative needs formula in order to understand the reason for these changes and to ensure overcrowded housing is accurately captured in the formula.

Parental qualifications

"It needs to be a little bit more enhanced than just the parental qualifications...it is a measure of that multi-generational systemic disadvantage"

(Director of Children's Services)

Parental qualifications is an LSOA metric, and the only metric relating to parental characteristics rather than a child's socioeconomic context in the proposed CYPs relative needs formula. In the Census, it is reported as five primary categories ranging from 'no qualifications' to 'level 4 qualifications and above'. The only category that shows any correlation with children's social care needs is parents with no qualifications. As this is currently included in the model as a proxy for other socioeconomic factors, like domestic abuse, it may be appropriate to consider alternative indicators. Street level crime rates, which can be measured at LSOA level, such as those related to illicit substance use, violence, or sexual offences, should be considered as a more suitable alternative. There is a clear argument that examining crime rates in a given area is a more accurate and appropriate way of measuring need than simply basing this on how well educated the local population are.

This is supported by the quantitative research, which highlights that crime data is more strongly correlated with children's social care needs ($R^2 = 0.20$) than parental qualifications ($R^2 = 0.17$), whilst also having a correlation with parental qualifications ($R^2 = 0.19$). Consequently, there is a clear argument that crime data is a more representative metric to be included than parental qualifications.

The qualitative research corroborated these quantitative findings, with only one out of the 19 local authorities mentioning parental qualifications when looking at drivers of need. In comparison, five local authorities specifically referenced the importance of

including domestic abuse as a key driver of need in their local area, with one Director of Children's Services saying, "Domestic abuse does not get enough light on it in terms of driving need, and it absolutely does".

We recommend a metric on crime rate, which has a stronger correlation than parental qualifications with children's social care needs, should be used instead of the current parental qualifications metric in the CYPS relative needs formula.

The impact of a decrease in funding for London local authorities

“ A 20% reduction in funding would inevitably impact statutory children's services. This would place children at greater risk of harm and lead to an increase in the number of children need to be in the care of the local authority"

(Finance Lead)

Any local authorities that experience a decrease in funding will have to make challenging decisions about the services that they provide to children, young people and families living in their area. This research, as well as London Councils' modelling, suggests that such challenging decisions are particularly likely to be felt by children, young people and families living in London.

The potential impact on funding

The proposed CYPS relative needs formula would result in London's share of funding reducing by almost 40% compared with the previous children's social care and youth & community services formulae. London Councils' analysis shows that 32 out of 33 London local authorities will see their share of the relative needs formula reduce as a result of the proposed CYPS relative needs formula. On average, inner London local authorities will see a 41% reduction in their share of needs, while outer London local authorities are set to see a 38% reduction in their share of needs.

It is difficult to estimate the overall impact on funding as the government has not yet confirmed how much funding will be part of the new formula and how transitional arrangements will be implemented over the next three years. However, London Councils' modelling indicates this could redistribute more than £1.5 billion of resources from London to other areas over the next three years. The modelling suggests individual London boroughs could receive £100 million less in funding over the next three years than they would otherwise receive if the new CYPS relative needs formula was not implemented, averaging £45 million across London.

In terms of the overall impact on grant funding, London Councils' modelling suggests a third of London boroughs are forecast to see their grant reduce by between 10%

and over 60%, with a similar proportion likely to see reductions of between £20m and £50m over the next three years even after the government's proposed funding floors are implemented. This framed the context for the qualitative research undertaken with senior officers from 18 London boroughs.

The impact on services

All local authorities asked were clear that even a 10% funding reduction would have a significant impact on their delivery of services for children, young people and families. There was strong consensus across all 18 local authorities asked that early intervention and prevention services will be the most heavily hit by any funding reductions, with one local authority's Finance Lead saying that *"A 10% reduction in funding would be likely to impact non-statutory services the most and have a significant impact on our ability to continue to provide preventative, up-stream work with families"*. Ten local authorities specifically referenced closures to family centres and youth hubs if they were faced with funding reductions, which is in direct contrast to the government's plans to roll out Family Hubs²² and Young Futures Hubs²³. A further six local authorities emphasised that cuts in these areas are likely to result in an increased spend in statutory services, which will almost inevitably come at a higher cost as a result of needs not being met at an earlier point in time. Local authorities were keen to highlight the strategic direction in children's social care towards focusing on early intervention and prevention, such as through the Families First Partnership programme²⁴ and accompanying Children's Social Care Prevention Grant²⁵, which they felt could be undermined by the proposed changes to the CYPS relative needs formula. One local authority summarised this by saying *"When you reduce your preventative measures, that is flying in the face of reform"*.

When asked about the impact that a 20% reduction in funding would have on services, all local authorities unanimously agreed that this would have a colossal impact on their ability to deliver services. Local authorities said this impact would not only be felt on non-statutory services, but it would also start to impact their ability to deliver statutory services.

[A 20% reduction in funding would mean] we would not be able to meet our statutory duties, and this would seriously compromise the safety and wellbeing of children in our borough"

(Director of Children's Services)

²² [Department for Education, 2025, Government revives family services, supporting 500,000 more kids](#)

²³ [Prime Minister's Office, 2025, Young Futures Hubs to launch offering vulnerable young people lifeline](#)

²⁴ [Department for Education, 2025, Families First Partnership Programme](#)

²⁵ [Ministry of Housing, Communities and Local Government, 2025, Children's Social Care Prevention Grant Determination 2025 to 2026](#)

An overarching theme in the research was that these funding reforms are occurring at a time when local authority budgets are already stretched and many local authorities have significant projected overspends, with children's social care often being a key driver of this. A recent House of Commons Committee report highlighted that nine local authorities in the last six years have issued a Section 114 notice, which notifies of severe financial distress, while none had done so in the previous 18 years.²⁶ One local authority said *"In the last two years children's services has already taken out 10% of revenue funding. This would increase to a cumulative 20% reduction [if the new CYPS relative needs formula led to a 10% reduction in funding]"*.

It is clear that seeing a sudden change in funding on this scale would be detrimental for children's services and it is crucial that the CYPS relative needs formula properly reflects the needs of children, young people and families. Whilst the research has focused on the impact that a decrease in funding will have on London local authorities, London Councils' modelling suggests that around 60 of the 152 upper tier authorities that deliver children's social care will see a reduction in their share of the formula. It would be reasonable to deduce that other local authorities outside of London who are set to see their funding reduced because of the proposed CYPS relative needs formula would see a similar impact.

We recommend the implementation of any changes to the CYPS relative needs formula needs to be phased to ensure local authorities have sufficient time to plan and prepare for these changes.

²⁶ [House of Commons Levelling Up, housing and Communities Committee, 2024, Finance distress in local authorities](#)

Recommendations

In order to ensure the new CYPS relative needs formula is robust and appropriately and equitably distributes CYPS funding to local authorities, we suggest the following recommendations are taken forwards by the Department for Education:

- 1. Refine the CYPS relative needs formula to ensure it accurately reflects the needs of children and young people and can be examined and road-tested by the sector. This should include extensive modelling and impact assessments as part of the development of these proposed changes to understand the short, medium and long-term impact on children, young people and families**
- 2. Replace the child health metric with a metric that measures SEND**
- 3. Update the IDACI formula to reflect 'true income' after housing costs**
- 4. Replace the free school meals metric with Universal Credit claimant data to account for current undercounting and future changes planned for free school meal eligibility**
- 5. Thoroughly investigate the changes to the overcrowded housing metric between the first and second iterations of the proposed CYPS relative needs formula in order to understand the reason for these changes and to ensure overcrowded housing is accurately captured in the formula**
- 6. Replace the parental qualifications metric with data on crime rates of street level crimes**
- 7. Ensure the implementation of any changes to the CYPS relative needs formula are phased**

Technical Appendix

- 1.1 To provide an assessment of the metrics currently in the model, and proposed new metrics, we first need to determine how they are linked with a child's needs. The approach determines that for any metric to be included in the final version of the model it must both shows correlation with children's social care needs and also vary between local authorities to allow for the distribution of funding.
- 1.2 To highlight the above criteria, we provide two examples. The number of chimneys in a local authority could be included in the model. This would vary between different local authorities but has no effect on whether a child is likely to need social care services. Alternatively, a metric which is highly correlated with expected need, such as number of foodbanks, could exist, but if every local authority has the same number of foodbanks, then funding would be distributed equally from this metric.
- 1.3 For assessing the correlation of a metric and children's social care needs, there were several considerations to make. Firstly, linear correlations were evaluated as the model is a linear model. Secondly, the range of correlation R^2 values is between 0 (no correlation) and 1 (perfect correlation). Due to the complex nature of children's social care needs, and the factors that drive those needs, assessment of the observed correlation values has been adjusted accordingly. While typically strong correlations would range above 0.75, for this analysis correlation values ranged from 0 to 0.4. Taking this range as a guide, metrics with correlations values below $R^2 = 0.1$ were assessed as irrelevant.
- 1.4 To determine the impact on funding any individual metric has on the funding a local authority will receive, there are two considerations. Firstly, the parameter of the metric in the model, with a positive multiplier indicating higher likelihood of need. Then we consider how a local authority's proportion of a metric compares with their proportion of the underlying population. If an local authority has a greater proportion of a metric, for example having 2% of all children of Black ethnicities but only 1% of all children, and that metric has a positive parameter value then the result would be an increased proportion of the funding.
- 1.5 All conclusions in this report are drawn from applying the above methodology to assess the model in its current state and the recommended changes.



United for a better childhood

The National Children's Bureau brings people and organisations together to drive change in society and deliver a better childhood for the UK. We interrogate policy, uncover evidence and develop better ways of supporting children and families.

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