



## Local Government Finance Settlement Part 1 – November 2025

Published on 20 November 2025, MHCLG has released the outcome of the [Fair Funding Review 2.0](#) and announced the first part of a new multi-year Settlement for local government to 31 March 2029. Details of the proposed financial Settlement [part 2] will follow later in December 2025 and will set out provisional local authority funding allocations.

Following extensive consultation with councils, ‘a renewed, modern and fairer approach to funding councils’ has been set out:

- Closing the gap: Funding allocations will now reflect true local need using [2025 Indices of Multiple Deprivation](#), population projections, and service demand.
- Certainty and stability: First multi-year Settlement in a decade, with funding floors and phased changes to protect councils during transition.
- Protecting vulnerable families: £2.4 billion for children’s social care reforms focused on prevention and de-escalation.
- Tackling homelessness and supporting domestic abuse survivors: At least £2.4 billion for a new ring-fenced combined Homelessness, Rough Sleeping and Domestic Abuse grant over three years including funding on prevention services and a move away from over reliance on temporary accommodation.
- Targeted support: £600 million Recovery Grant maintained for areas with greatest immediate needs and less ability to raise income locally.
- Fairer housing incentives: Councils keep all additional council tax from new homes – boosting local growth and home ownership.
- Simplifying the system: Cutting red tape by consolidating more than 30 funding streams into five.
- Equalising for local income: Directing funding towards the places that are less able to meet their needs through locally raised income, so residents get the same level of service.
- Council tax increases capped at 5% as previously.

### Fair Funding Review 2.0

Future fair funding for local authorities will comprise a fair assessment of need, ability to raise taxes locally, transition arrangements for those facing reduced funding and additional funding for growth, children’s services and homelessness. Whilst some councils will receive additional funds from central government, others will receive less, making them more reliant on the income they can raise locally. The settlement will cover three years.

- A fairer assessment of local need based on up-to-date data and the needs in the local area.

- Local cost adjustments will be applied to each funding formula, taking account of cost differences of delivering services across the country. A 'remoteness adjustment' within the Area Cost Adjustment will apply to the Adult Social Care Formula, but not to other formulas.
- £600 million Recovery Grant to support the most deprived local authorities which are least able to fund their own services through income raised locally will continue within the multi-year Settlement. There will also be a 'Recovery Grant Guarantee', supporting upper tier authorities in receipt of this funding with an above real-terms income increase (subject to a £35 million cap per authority across the multi-year Settlement for these authorities).
- Properly accounting for different levels of local tax so that the funding received is adjusted depending on the local council tax base.
- Future changes in population, deprivation and income generation will be accounted for in settlements.
- Incentivising house building and local economic growth: local authorities will benefit from the additional council tax raised for each new house built in their area.
- Funding is currently paid to local authorities through multiples funding streams and 30 have been consolidated to give flexibility and simplicity. £21.5bn will be delivered through four new consolidated grants as part of the multi-year Settlement, and £25.3 billion will be consolidated into the Revenue Support Grant, which is un-ringfenced funding within the core Settlement. You can see how different funding streams have been consolidated [here](#).
- Transitional arrangements will be put in place particularly to support local authorities that will receive less central government grant than previously under the new system. A range of funding floor levels appropriate to specific groups of authorities' circumstances will be used, and the vast majority of social care authorities will receive a real terms increase.

### Business Rates

Before allocating local authority Baseline Funding Levels (BFLs), the aggregate amount of business rates to be retained by local government must be measured. Recalculating the BFL amount, and apportioning it across local government, will ensure that all local authorities receive a portion of funding for core service delivery that is linked to the aggregate amount of business rates available to local government. To calculate the aggregate BFL, the same data that will calculate Business Rates Baselines will be used wherever possible. However, the aggregate BFL will also include an England-wide downward adjustment for the impact that business rates reliefs have in reducing local authority income. Once the BFL aggregate is set ahead of 2026-27, it will be fixed for three years, uprated by CPI annually.

The business rates retention system will be reset in full in 2026-27. The Revenue Support Grant will be used to smooth the impact of this over three years, and move local authorities to their new allocations in increments of one third over the three year Settlement.

### Local Government Reorganisation

At the publication of the Settlement, multi-year allocations will be set out based on existing structures. In recognition that local government reorganisation will change the structure of local authorities from April 2027, central government will set a 'funding envelope' for the new local authorities created where areas reorganise. This envelope will be set by combining the allocations of the relevant local authorities in the year(s) of the multi-year Settlement following reorganisation. It will be for areas to agree how to divide the funding where the establishment of new unitary authorities means existing local authorities are split. MHCLG will provide guidance to local authorities on how to arrive at local agreements and will set out a timeline for when these agreements must be reached.

### Mayoral Strategic Authority Funding

From 2026-27, the government will deliver Mayoral Capacity Funding through the Local Government Finance Settlement to all existing Mayoral Strategic Authorities, to ensure they receive this funding as part of a regular funding cycle. Allocations to individual Mayoral Strategic Authorities will be included in the Local Government Finance Settlement.

Mayoral Strategic Authorities will also receive funding for Homelessness and Rough Sleeping through the Local Government Finance Settlement, to enable coordination and innovative public service reform. This funding will remain as part of the Homelessness and Rough Sleeping and Domestic Abuse Grant and individual allocations will be confirmed in the Local Government Finance Settlement. For Established Mayoral Strategic Authorities this funding will also form part of their Integrated Settlement.

Where Strategic Authorities are in place, they will also have responsibility for local transport functions. As set out in the Fair Funding Review 2.0, the government will work with local authorities and Mayoral Strategic Authorities over the multi-year Settlement period to review local transport funding arrangements.

Where a Mayoral Strategic Authority receives funding for fire and rescue functions this will be paid via the Fair Funding Assessment. Updated allocations will be included in the annual update of the Local Government Finance Settlement when these functions have been transferred. We will provide transitional support to fire and rescue authorities to help support the transfer of fire functions to new Mayoral Strategic Authorities. Information on this will be provided in due course.

For more information see: <https://www.gov.uk/government/publications/local-government-finance-policy-statement-2026-27-to-2028-29/local-government-finance-policy-statement-2026-27-to-2028-29>

and the [Fair Funding Review 2.0 response](#).