

Research Briefing

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Local Government Finance Settlement 2025/26

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Summary

The Local Government Finance Settlement for 2025/26 will be debated by the House of Commons on 5 February 2025. If approved, this will set the amount of funding that local authorities in England will have available in the 2025/26 financial year.

The settlement was [published in provisional form](#) on 18 December 2024, and was open for consultation until 15 January 2025. The [final version](#) was published on 3 February 2025. All analysis in this briefing is based on the final settlement; a previous version of this briefing, published on 30 January, was based on the provisional data.

Changes to funding

If approved by the House of Commons, this settlement will make £69.4 billion of core spending power available to local authorities in England. Of this, 24% is un-ringfenced settlement funding, 14% is grants for social care, 6% is other grants, and the remaining 55% is council tax.¹ Overall core spending power in 2025/26 is £4.4 billion higher than in 2024/25, a 6.8% cash terms increase (or 4.3% when adjusted for inflation).

A number of changes to funding have been made in this settlement. Several grants have been renamed, replaced or consolidated into other grants, and some of these are distributed differently to their predecessors. The settlement also includes compensation to local authorities for the increases to employer National Insurance contributions introduced in the [2024 Autumn Budget](#).

Factors affecting changes

Authorities which provide social care will generally have larger increases in funding than those which do not. This is partly because of specific grants for social care, and partly because authorities with social care responsibilities will be allowed to increase their council tax rates by more than those without.

Changes in the level of guaranteed funding, and changes to the allocation of grants, also mean that shire districts in general will end up with less funding in real terms than in 2024/25, while metropolitan districts in particular will have the largest increases.

¹ These percentages do not sum to 100% because of rounding.

Reforms and longer-term context

The overall increase in core spending power in this settlement is broadly in line with increases in the last few years. However, in real terms, core spending power is still around 9% below where it was in 2010/11. Over the past decade, local authorities have become more dependent on council tax revenue, while un-ringfenced settlement funding has become a much less significant resource.

The government has announced that it intends to keep certain aspects of the funding system broadly the same in 2025/26 as in previous years. However, it has also begun consultations on reforming the system from 2026/27 onwards. Proposals include a reset of the business rates retention system, a move to multi-year funding settlements, changes to the relative needs formulas which govern the distribution of funding, and fewer funding streams to simplify the system.

1 Introduction to local government finances

Local authorities in England are responsible for a number of services, including social care, education, housing, and planning.² The money that they use to deliver these services comes from a mixture of locally raised taxes (particularly council tax) and central government funding. A large proportion of this money is allocated through annual finance settlements.

The provisional 2025/26 Local Government Finance Settlement [was published on 18 December 2024](#).³ The responsible department is the Ministry of Housing, Communities and Local Government (MHCLG).

The provisional settlement was accompanied by a written statement, and the minister for local government took questions on it in the House of Commons.⁴ Provisional finance settlements in the previous three years had not been debated in the House of Commons.

The provisional settlement was open for consultation until 15 January 2025, and the [final version](#) was then published on 3 February 2025.⁵ All analysis in this briefing uses data from the final settlement.

The House of Commons must approve the final settlement before it can take effect. The debate and vote will take place on 5 February 2025. The settlement applies in England only, as local government is devolved in Scotland, Wales and Northern Ireland.

² There are currently 317 such authorities, split into various types (referred to as “classes” in this briefing). See the [list of councils on gov.uk](#) (PDF) to find the class of any particular council.

³ MHCLG, [Provisional local government finance settlement: England, 2025 to 2026](#), 18 December 2024

⁴ See [HCWS342 2024-25](#), 18 December 2024, and [HC Deb 18 December 2024 cc324-343](#)

⁵ MHCLG, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025

2 This year's Settlement

2.1 How to understand the settlement documentation

The Local Government Finance Settlement distributes Revenue Support Grant and a number of other grants, some ring-fenced and some not, to local authorities in England. It also includes the amounts of each local authority's 'tariff' allocation or 'top-up' payment within the Business Rates Retention Scheme (see the Library briefing [Reviewing and reforming local government finance](#) for further information on the retention scheme).

The settlement [also includes figures for the 'core spending power'](#) available to each local authority. Core spending power is a concept created by central government, intended to represent a core sum of money over which local authorities can take spending decisions. It therefore includes funding provided through the Settlement Funding Assessment, but it also includes other grants such as the Improved Better Care Fund, the New Homes Bonus and the Social Care Grant.⁶

Core spending power also includes an estimate of the amount of money that local authorities are expected to raise through council tax, and assumes that they raise their council tax rates by the maximum permitted without triggering a local referendum in order to do this (see section 2.5 below). [An explanation of how core spending power is calculated is available](#) on the website of the Ministry for Housing, Communities and Local Government (MHCLG).

Documentation related to the settlement includes:

- The spreadsheet [Key information for local authorities](#). This contains a breakdown of the funding allocated to each local authority in respect of the Settlement Funding Assessment (SFA). The SFA comprises business rates revenue and funding from the Revenue Support Grant (RSG);
- The spreadsheet [Core spending power table](#). This includes allocations of funding from the Settlement Funding Assessment, from all of the other grants covered by the Local Government Finance Settlement, and also

⁶ Core spending power does not include some sources of income, such as income from commercial investments and from fees and charges, or income from fixed-term grants.

figures for local authorities' council tax requirement. Both this and the 'Key information' spreadsheet also include data from previous years;

- Further reports setting out allocations of funding from the [New Homes Bonus](#), [the social care grant](#), and the [children's social care prevention grant](#). This £270 million grant is to be used to roll out the Family Help programme.
- A paper explaining how the [£600 million Recovery Grant](#) has been distributed. The distribution formula measures need by calculating each local authority's current spending as a percentage of all local authorities, multiplied by the Index of Multiple Deprivation and multiplied by the local authority's population estimate for 2023. A resource calculation is then subtracted from the need calculation. This is based on the average council tax level for either county or district councils, multiplied by each local authority's taxbase. Each local authority will obtain a minimum of £10,000 and a maximum of 3% of its core spending power from the Recovery Grant.

The government said that the Recovery Grant:

...will start to correct the unfairness of the current system by putting councils in these areas on a more stable footing. The grant lays the foundations for funding reform, ahead of bringing forward more fundamental improvements to the way we fund councils, based on an up-to-date assessment of need and resources, from 2026-27. This grant will not be ringfenced, nor will we impose grant conditions on its use.⁷

- A paper explaining [the allocation of a £502 million fund](#) to enable local authorities to meet the costs of the increase in employers' National Insurance contributions at the Autumn 2024 budget (see section 2.7 below).
- A [paper explaining the operation of business rate retention](#) in areas that are permitted to retain 100% of business rate receipts locally;
- Statutory reports [setting out the 'referendum principles'](#) relating to council tax for 2025/26: that is, the thresholds above which local authorities wishing to raise council tax must obtain local approval in a referendum (see section 2.5 below).

2.2

Headline statistics

A full statistical summary of the settlement is provided in section 3 of this briefing. The key points are as follows:

⁷ MHCLG, [Consultation: provisional local government finance settlement 2025 to 26](#), December 2024, paragraph 5.1.1

- Core spending power in England as a whole increases by £4.4 billion in this settlement compared to 2024/25, to a total of £69.4 billion. This is an increase of 6.8% in cash terms, or 4.3% in real terms (adjusted for inflation).
- Most of this increase is due to higher council tax revenue and larger grants for social care.
- In general, authorities which provide social care services will experience a real terms increase in their core spending power. Those which do not provide such services (shire district authorities) generally have core spending power that is about 1% higher in cash terms than in 2024/25, which is a real terms decrease.

2.3

Other grants within the Settlement

The [core spending power table](#) lists allocations of funding by the Local Government Finance Settlement to local authorities, from the following sources:

- Settlement Funding Assessment (that is, Revenue Support Grant and retained business rates)
- Compensation for under-indexing the business rates multiplier⁸
- Council Tax Requirement
- Local Authority Better Care Grants (formerly Improved Better Care Fund and Adult Social Care Discharge Fund)
- New Homes Bonus
- Social Care Grant
- Adult Social Care Market Sustainability and Improvement Fund
- Domestic Abuse Safe Accommodation Grant
- Recovery Grant
- Children's Social Care Prevention Grant
- Funding Floor

⁸ This source of funding is provided as compensation for revenue lost to local government arising from various changes made by government to the business rates system since 2017. It includes compensation for freezing the business rates multiplier in recent financial years, and also lost revenue arising from adjustments to small business rate relief in 2017.

- Employer National Insurance Contributions Grant

The Services Grant and the Rural Services Delivery Grant have been discontinued and their funding redistributed amongst the funds listed above.

Most of the funding distributed via the Local Government Finance Settlement is not ring-fenced: that is, local authorities are not required to spend it on particular activities. The exceptions are:

- The Local Authority Better Care Grants. This merged fund will be managed jointly by local authorities and the NHS.
- The named grants related to social care: the Social Care Grant and the Market Sustainability and Improvement funding. Government will require local authorities to report against their spending of these grants, to ensure they are used for social care.
- The Children’s Social Care Prevention Grant will be ringfenced for use on the new Family Help programme.

Local authorities may spend the other funds listed above as they see fit. Government has described this type of grant as a “visible line of funding” in the past. This term conveys that the funding is intended for particular purposes but local authorities will not be obliged to spend it on those matters.

2.4

New grants and changes to grants

A £414 million [children and families grant](#) will be provided by the Department for Education. This does not form part of core spending power. It will be distributed on the same pattern as in 2024/25.⁹ It comprises a merger of several previous grant lines: Supporting Families; Supported Accommodation Reforms; Staying Put; Virtual School Heads Extension for Previously Looked After Children; Leaving Care Allowance uplift; Personal Advisor Support for Care Leavers.¹⁰ The consultation document says that this grant will be merged with the Children’s Social Care Prevention Grant from 2026/27.

The Improved Better Care Fund and the Discharge Fund will be merged into a Local Authority Better Care Grant of £2.6 billion. A [new policy framework](#) has been published for this grant. This shows that the overall Better Care Fund will be funded mostly by the NHS, which will provide at least £5.6 billion.¹¹

⁹ MHCLG, [Children and Families Grant consolidation table: final local government finance settlement 2025 to 2026](#), 3 February 2025

¹⁰ MHCLG, [Consultation: provisional local government finance settlement 2025 to 26](#), December 2024, paragraph 1.4.2

¹¹ DHSC and MHCLG, [Better Care Fund policy framework 2025 to 2026](#), 30 January 2025

The settlement consultation says that the 2025/26 financial year “will be the final year of the NHB [New Homes Bonus] in its current format”. A further consultation on the New Homes Bonus is expected in the first half of 2025.¹² The separate funding policy reform consultation says that the government is open to:

exploring allocating all Settlement funding according to our updated distribution methodology, and subject to wider spending review decisions, providing a housebuilding incentive outside of the Settlement.¹³

Local authorities in England will receive at least £1.1 billion in total in 2025/26 from the new Extended Producer Responsibility for Packaging scheme (pEPR).¹⁴ This scheme requires some organisations to pay fees for packaging supplied in the UK. The scheme has been introduced jointly by the UK government and devolved administrations. In each part of the UK, the fees paid are redistributed to local authorities in line with a formula based on estimates of the ‘efficient disposal costs’ to local authorities of disposing of packaging.¹⁵ In December 2024, DEFRA published estimates of sums from the fees that would be payable to local authorities in 2025/26.¹⁶

MHCLG will also provide a homelessness prevention grant in 2025/26 totalling £692 million. This grant is ring-fenced and is outside the local government finance settlement.¹⁷

2.5

Council tax referendums

The settlement includes planned referendum thresholds for the 2025/26 financial year. These are the amounts by which different classes of local authority may raise council tax without seeking a confirmatory referendum from their electorate (see the Library briefing [Council tax: local referendums](#)). The government has proposed the following thresholds:

- For local authorities with responsibility for social care (county and unitary authorities), a threshold of 5% or more. Council tax for general spending requires a referendum if it rises by 3% or more, alongside a maximum 2% ‘social care precept’.
- For district councils, a threshold of 3% or more, or more than £5.00 on a Band D property, whichever is the greater.

¹² MHCLG, [Local authority funding reform: objectives and principles](#), Dec 2024, paragraph 6.1.6

¹³ As above, paragraph 6.1.5

¹⁴ See DEFRA, [Extended producer responsibility for packaging: local authority payments](#), 20 Nov 2024

¹⁵ See DEFRA, [EPR for packaging: how local authority payments are calculated](#), 20 Dec 2024

¹⁶ DEFRA, [Estimates for payments to local authorities under Extended Producer Responsibility- EIR2024/2344Q](#), 20 Dec 2024

¹⁷ For details of allocations to local authorities, see MHCLG, [Homelessness Prevention Grant allocations: 2025 to 2026](#), 18 Dec 2024

- For fire and rescue authorities, a threshold of more than £5 on a Band D property.
- For Police and Crime Commissioners (PCCs), a threshold of more than £14 on a Band D property.
- For the Greater London Authority, a threshold of £18.98 on a Band D property.
- For Mayoral Combined Authorities and parish and town councils, no referendum principles.

The provisional consultation stated that local authorities could also make individual requests for higher referendum principles, in order to manage financial difficulties. This has occurred on a small number of occasions since 2020/21. The consultation stated:

...where a council in need of exceptional financial support views additional council tax increases as critical to maintaining their financial sustainability, the government will consider requests for bespoke referendum principles. Local proposals will be considered on a case-by-case basis. The government expects that additional increases would only be agreed in exceptional circumstances, and following careful consideration of a councils' specific circumstances, such as their existing levels of council tax relative to the average, the potential impact on local taxpayers, and the strength of plans to protect vulnerable people.¹⁸

The final settlement stated that the following authorities would be permitted higher thresholds:¹⁹

Authority	Additional 'headroom'	Total threshold
Bradford MBC	5%	10%
LB Newham	4%	9%
Windsor & Maidenhead Borough Council	4%	9%
Birmingham CC	2.5%	7.5%
Somerset CC	2.5%	7.5%
Trafford MBC	2.5%	7.5%

¹⁸ MHCLG, [Consultation: provisional local government finance settlement 2025 to 26](#), Dec 2024, paragraph 4.2

¹⁹ MHCLG, [Provisional local government finance settlement 2025 to 2026 consultation: summary of responses](#), 3 Feb 2025, para 5.15

2.6 Exceptional financial support

Since 2020/21, the government has received requests from individual local authorities for ‘exceptional financial support’. This consists of permission for a council either to use capital funds, or to take out borrowing, in order to bolster its day-to-day spending.

Ordinarily, local authorities may not either borrow for revenue spending or use capital funds, or the receipts from sales of capital assets such as property, to fund revenue spending. In generally accepted accounting practice, capital funding cannot be spent on revenue matters.

The government published a document titled [Guidance on flexible use of capital receipts](#) in August 2022. This details the limited circumstances in which local authorities may spend capital funds on revenue spending. Permission for ‘exceptional financial support’ allows local authorities to go outside the provisions of this guidance document.

The MHCLG website provides a list of local authorities that have received exceptional financial support, and the sums of funding available, in each financial year from 2020/21 onwards.²⁰ The documentation for 2024/25 lists nineteen authorities, with a total sum agreed of just over £1.5 billion. The 2024/25 documentation also includes additional sums agreed in 2024/25 in respect of accounting corrections for previous financial years.

This support represents permission to spend available funds in a different way. Exceptional financial support does not comprise new grant funding from the government; it is not a ‘bailout’ for local authorities.

Since the previous local government finance settlement in February 2024, no further local authorities have issued a section 114 notice. An authority’s chief financial officers are required to issue a section 114 notice if they believe that the authority will be unable to meet its expenditure commitments from its income. Further information can be found in the Library research briefing [Local authority financial resilience](#).

2.7 Employer National Insurance compensation

As a result of the increase in employer National Insurance contributions (NICs) announced at the 2024 Autumn Budget, payroll costs for local authorities will increase in 2025/26.²¹ The government intends to compensate local authorities for this increase, as they are part of the public sector. To do

²⁰ See MHCLG, [Exceptional financial support for local authorities](#), 29 February 2024

²¹ For more details on the NICs increase, see the Library’s research briefing [National Insurance Contributions \(Secondary Class 1 Contributions\) Bill 2024-25: Progress of the Bill](#).

so, it has added £515 million to core spending power in the final settlement, on top of the £68.9 billion already announced in the provisional settlement.

According to an explanatory note published alongside the final settlement, the funding will be distributed between local authorities proportionally according to their overall spending in 2023/24, excluding spending on police and education services (as compensation in these areas is being handled separately).²²

Although this increases the headline number for core spending power, the overall effect on local authority budgets is intended to be neutral. However, the Local Government Association has warned that the compensation may not be enough. Its own estimate suggests that the increase in employer NICs will directly cost local authorities £637 million.²³

²² MHCLG, [Updated explanatory note on the Employer National Insurance Contribution Grant 2025 to 2026](#), 3 February 2025

²³ Local Government Association, [Local government finance policy statement – LGA response](#), 28 November 2024

3 Statistical summary

3.1 Headline figures

The main figure given in the settlement is for core spending power, an estimate of the total amount of money that councils have available to take spending decisions. In 2025/26, core spending power across England as a whole will be £69.4 billion. This represents an increase of £4.4 billion since 2024/25, up by 6.8% in cash terms or 4.3% in real terms (that is, adjusted for inflation).²⁴

Core spending power consists of a number of different funding streams. For 2025/26, these broadly break down into four main groups:

- Settlement funding: un-ringfenced funding, itself made up of Revenue Support Grant and redistributed business rates. In 2025/26, this accounts for £16.8 billion, or 24.3% of the total for England.
- Grants for social care, in particular the Social Care Grant and the Local Authority Better Care Grant. In total, these make up £9.9 billion (14.2% of the total).
- Other grants, such as the Recovery Grant and New Homes Bonus. These account for £4.4 billion (6.3% of the total). Although provided for specific purposes, they are typically not legally ringfenced.
- Just over half of the total (£38.3 billion, 55.2%) is accounted for by council tax requirement, an estimate of the amount that local authorities could raise in council tax if they increased their council tax rates by the maximum permitted (see section 2.5 on referendum thresholds) and if their council tax base continues to increase as it has in previous years.

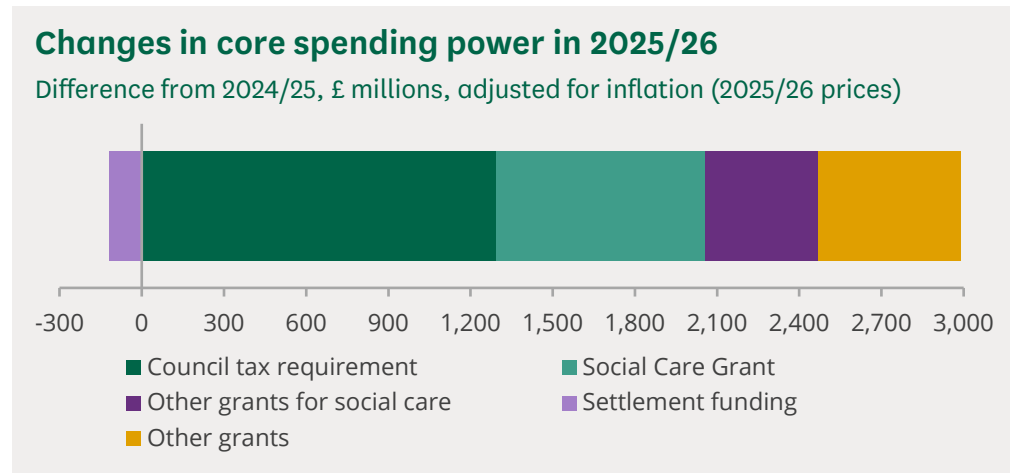
3.2 Changes since 2024/25

England-wide

Overall, core spending power in 2025/26 is 4.3% higher in real terms than in 2024/25. As the chart below shows, the largest increase was in council tax requirement, accounting for £1,296 million of the overall increase. The Social

²⁴ Real terms figures throughout this section have been calculated using [GDP deflator forecasts published by the Office for Budget Responsibility](#) alongside the 2024 Autumn Budget.

Care Grant accounted for most of the rest of the overall increase (£760 million).



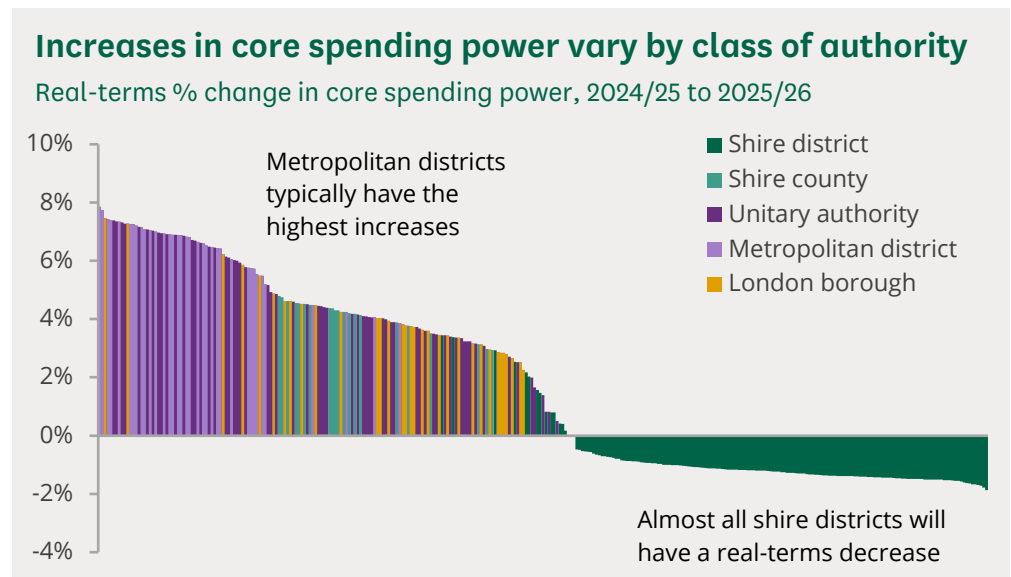
Source: MHCLG, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025

Settlement funding increased slightly in cash terms, but in real terms this was equivalent to a decrease of about £117 million.

The total for grants for things other than social care increased because of a new £600 million Recovery Grant and £502 million in compensation for employer National Insurance Contributions. The total increase was less than this (£521 million), partly because the £87 million Services Grant and £110 million Rural Services Delivery Grant from 2024/25 have both been discontinued.

Individual authorities

The bars in the chart below represent every local authority in England, arranged left to right by the real-terms change in their core spending power in 2025/26. At the far left of the chart, the largest increase was for Manchester, which had a 7.9% rise in its core spending power. At the other end of the scale, most shire districts' core spending power increased by around 1% in cash terms, which is a decrease in real terms.



Source: MHCLG, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025

In general, metropolitan districts had the largest increases (median increase of 6.8%), followed by unitary authorities (4.6%), shire counties (4.3%) and London boroughs (3.7%). Shire districts had a median decrease of 1.2%.²⁵

3.3 Factors affecting changes in core spending power

There are several reasons why local authorities may have had particularly large increases (or decreases) in their core spending power in 2025/26. Some of the main factors are as follows.

Funding Floor

The 2024/25 settlement included a funding guarantee which ensured that all local authorities would receive at least a 4% cash terms increase in their core spending power, even before any decisions were made on council tax levels.²⁶ The 2025/26 equivalent (called the Funding Floor in the settlement) was significantly less generous, ensuring only that authorities would not have a cash terms decrease if they raised their council tax levels by as much as possible.²⁷

In practice, the guarantees for both 2024/25 and 2025/26 mostly had an effect only on shire districts (which do not have social care responsibilities and

²⁵ The median is the point where half of authorities of a given class had a larger increase and half had a smaller increase (or a decrease).

²⁶ MHCLG, [Explanatory note on core spending power: final local government finance settlement 2024 to 2025](#), 5 February 2024

²⁷ MHCLG, [Explanatory note on Core Spending Power: final local government finance settlement 2025 to 2026](#), 3 February 2025

therefore do not receive funding from social care grants). This means that the lower level of funding via the Funding Floor in 2025/26 particularly affected these authorities. The median decrease in funding via this route for shire authorities was equivalent to a 2.9% real terms decrease in their core spending power.

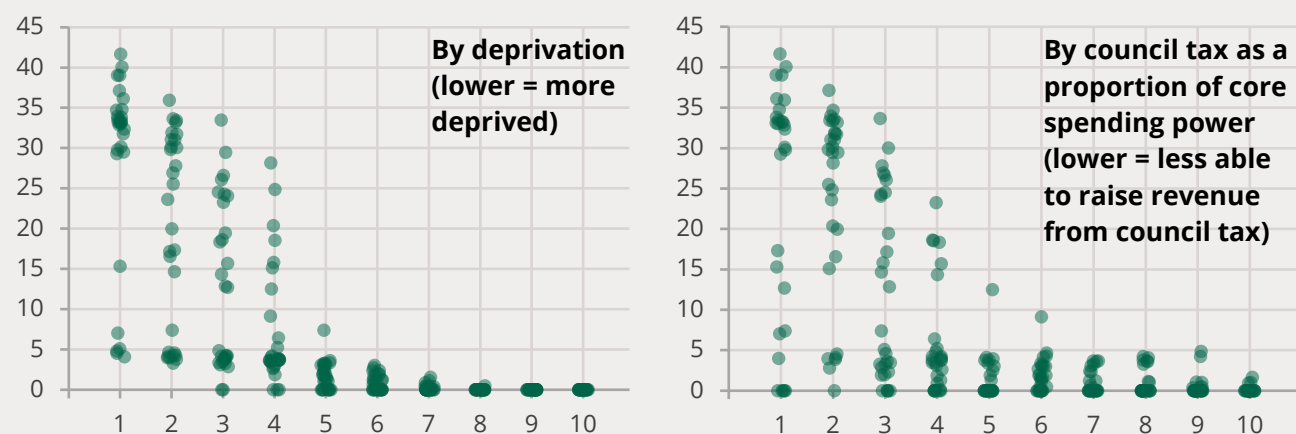
Recovery Grant and Services Grants

Local authorities received £110 million through the Rural Services Delivery Grant and £87.4 million through the Services Grant in 2024/25. In 2025/26, these grants were replaced with the £600 million Recovery Grant.

The Recovery Grant was designed to have a different distribution to the previous grants, with a specific emphasis on funding areas with higher levels of deprivation and lower ability to raise money via council tax.²⁸ As the charts below show, it largely succeeded in this aim, going almost entirely to the 40% of authorities with the highest levels of deprivation and the 40% with the lowest council tax requirement as a proportion of core spending power.²⁹

Recovery Grant mostly goes to deprived authorities with less ability to raise tax

Recovery Grant in 2025/26, £ per person, by decile of authority



Source: MHCLG, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025; deprivation deciles calculated by the Library, based on [English indices of deprivation 2019](#)

In practice, the net effect of this change was generally positive for metropolitan districts (with a median real terms increase equivalent to about 2.7% of their core spending power), and broadly neutral for all other classes of authority.

²⁸ The government published a [detailed methodology note](#) laying out the formulas it used to calculate the grant's distribution.

²⁹ Per-person figures, here and elsewhere in this section, are calculated using [ONS population estimates](#). Where these are not available for a particular year, the Library has made its own estimate based on [England-wide population projections](#).

Social care

One of the largest factors affecting changes in core spending power is whether a local authority provides social care. This is for two reasons.

First, specific grants for social care were worth around £9.9 billion in 2025/26, a roughly 10% increase compared to 2024/25. Secondly, having social care responsibilities allows authorities to raise their council tax rates by a further 2%, on top of the 3% “core principle” available to all local authorities.

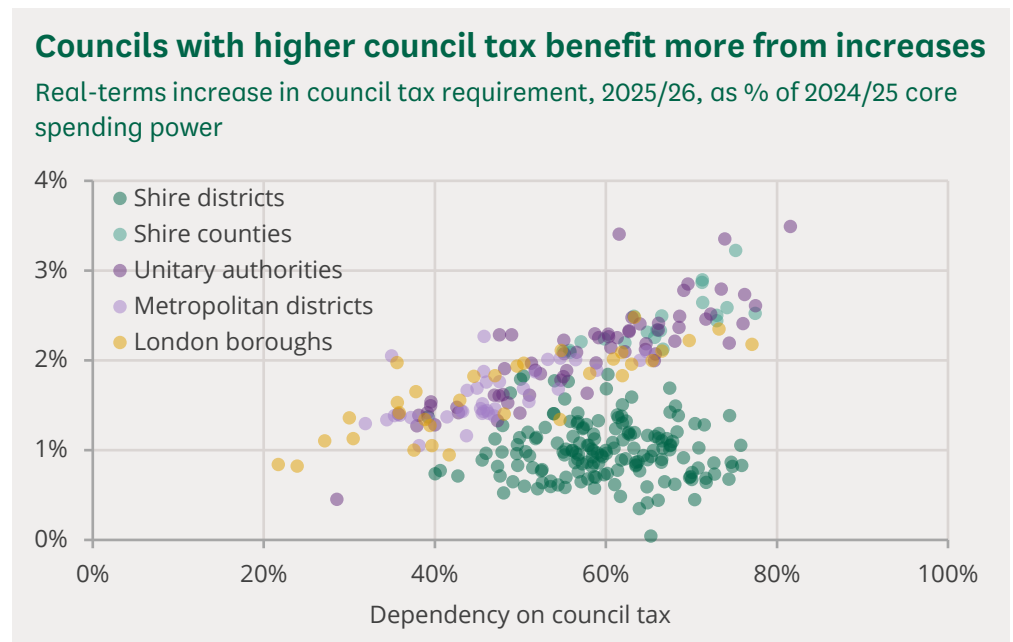
As a result, a typical (that is, median) local authority with social care responsibilities will experience a real terms increase of 3.5% in its core spending power per person in 2025/26. By contrast, a typical authority without such responsibilities will experience a decrease of 2.1%.

Existing council tax rates

Since 2012/13, local authorities have been restricted in the amount by which they can raise council tax without holding a local referendum.³⁰ Because these restrictions are set as a percentage of existing tax rates, this means that councils which already had relatively high rates of council tax tend to benefit more from this flexibility than those which had relatively low rates before the system was introduced.

As the chart below shows, this remains the case in 2025/26. Authorities where council tax makes up a relatively low proportion of core spending power (those on the left of the chart) were only able to increase the amount of council tax they received by about 1% of their 2024/25 core spending power. Authorities which relied more on council tax (those on the right) were able to benefit more from the fixed percentage increase.

³⁰ See the Library’s research briefing [Council tax: local referendums](#) for more details.



Source: MHCLG, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025

This was not the case, however, for shire districts, which tend to receive much less council tax anyway and have different restrictions on the amount that they can raise.

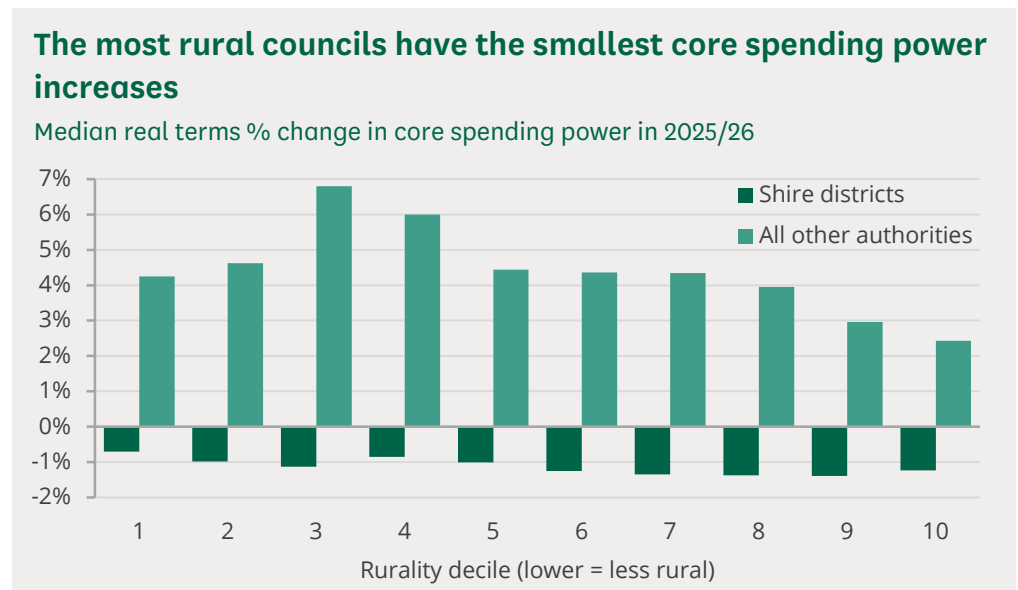
Rural councils

In the [finance policy statement](#) that preceded the finance settlement, the government said that “places with a significant rural population will receive around a 5% increase” in core spending power in 2025/26, and that this would demonstrate that “this government stands behind rural councils”.³¹

As the chart below shows, the most rural councils in England will generally have the lowest increases in core spending power between 2024/25 and 2025/26. This is largely because the Services Grant and Rural Services Delivery Grant in 2024/25 went mostly to rural councils (two thirds of the total funding from these grants went to the 30% most rural councils), whereas the new Recovery Grant (see above) will mainly go to urban councils.³²

³¹ MHCLG, [Local government finance policy statement 2025 to 2026](#), 28 November 2024

³² The most recent official [Rural Urban Classification](#) was carried out in 2011. However, it is possible to create a more up-to-date classification than this, because the ONS defines rural areas as those which fall outside a settlement with a resident population of 10,000 or more. We have therefore used this definition, along with official lookups which [associate 2021 Census output areas with 2024 built-up areas](#), to estimate an urban-rural split based on the 2021 census and 2024 local authority boundaries. Local authorities are then organised into deciles based on the proportion of their 2021 population which fell into rural areas.



Source: MHCLG, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025; rural deciles calculated using 2021 Census data (see footnote on p20)

4 Other issues affecting local authorities

4.1 Business rates reform

In 2025/26, the small business multiplier for business rates will be frozen at 49.9p in the pound, whilst the standard multiplier will increase to 55.5p. The small business multiplier is used to calculate business rates on all properties with a rateable value of under £51,000. It has been frozen since 2021.

Legislation provides that, by default, the multiplier must increase by the rate of the Consumer Prices Index (CPI) in the September prior to the next financial year. In recent years, when the government increases the multiplier by less than this amount, it has compensated local authorities for the revenue forgone (though there is no legal obligation to do this).

In 2025/26, the government estimates business rates revenue in England at £16.84 billion, and will provide £2.7 billion in compensation for under-indexing the multiplier (16% of business rates revenue). Compensation has been provided since the 2015/16 financial year, in respect of decisions in various years to under-index the multiplier.

For 2025/26, the government will compensate authorities for the freeze in the small business multiplier.

Five pilot areas will continue to retain 100% of business rates under arrangements established in 2017.³³ The settlement paper said:

As part of the government's reform of funding for local government, we will consider how a new model of business rate retention could better and more consistently support Strategic Authorities to drive growth.³⁴

4.2 Statutory overrides

At present, regulations are in force providing a 'statutory override' that means local authorities do not have to follow the requirements of [International Financial Reporting Standards \[IFRS\] 9: Financial Instruments](#).³⁵

³³ These are Greater Manchester; West Midlands; West of England; Liverpool City Region; and Cornwall. London retains 67% of business rate revenue (30% for boroughs, and 37% for the GLA).

³⁴ MHCLG, [Consultation: provisional local government finance settlement 2025 to 26](#), Dec 2024, paragraph 2.2.6

³⁵ See the [Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) Regulations 2018](#)

This requirement would oblige local authorities to report movements in the value of assets from year to year as if they were profits or losses to the local authority. Prior to January 2018, when IFRS9 was introduced, movements in asset values were not reported unless a local authority disposed of the asset.

The government had previously introduced the statutory override to apply from 2018 to 2023, following a consultation in 2018.³⁶ A further consultation was published in 2022, and the government decided to extend the override for a further two years (2023-25).³⁷ The 2025/26 settlement consultation invites views from the sector on ending the override at the end of the current (2024/25) financial year. An article from the local government finance website Room 151 quoted David Green, of the financial advisors Arlingclose, as saying that:

...local authorities will be “disadvantaged” if the statutory override expires as they will be put off investing in pooled funds, while there have also been warnings in the sector that removing the override could trigger some authorities to issue a section 114 notice if they have experienced a big loss on the value of their pooled funds.³⁸

A previous article on Room 151, in 2023, suggested that a majority of local authority treasurers would like to see this statutory override become permanent.³⁹

This statutory override is not the same as the statutory override that is currently in place relating to the Dedicated Schools Grant (DSG) and local authority financial deficits relating to SEND provision. The consultation says, in reference to that statutory override:

The government intends to set out plans for reforming the SEND system in further detail next year. This will include details of how the government will support local authorities to deal with their historic and accruing deficits and any transition period from the current SEND system to the reformed system. This will inform any decision to remove the statutory override.⁴⁰

³⁶ MHCLG, [Local authority budget setting: mitigating the impact of fair value movements on pooled investment funds](#), 8 Nov 2018

³⁷ DLUHC, [The future of the IFRS 9 statutory override: government response](#), 6 April 2023

³⁸ Jason Holland, [Government proposes end to IFRS 9 statutory override from 2025/26](#), Room 151, 18 Dec 2024

³⁹ Mike Thatcher, [Treasurer societies favour permanent extension to IFRS 9 statutory override](#), Room 151, 18 Aug 2022

⁴⁰ MHCLG, [Consultation: provisional local government finance settlement 2025 to 26](#), December 2024, paragraph 1.3.2

5 Longer-term context

5.1 2026/27 funding reform consultation

The government has said that the 2025/26 Local Government Finance Settlement will be a single-year settlement. It intends to establish a multi-year settlement for the financial years between 2026 and 2029.⁴¹

In December 2024, the government published a consultation document on options for reforming local government funding that could take effect from 2026/27. The consultation said:

Local authority funding allocations offer poor value to taxpayers both locally, with some households unfairly being asked to pay more for worse services, and nationally, as funding is allocated inefficiently through outdated formulae. This is leading to perverse outcomes, where some authorities are struggling to provide basic services whilst others are better off. To leave the system as it is would be to waste public money on deteriorating services. This government will take a new approach based on investment and reform.⁴²

The changes will include:

- Implementing the ‘Fair Funding Review’. This policy was the subject of several government consultations between 2016 and 2018. It would have conducted a new assessment of local authority relative needs, and it would then have adjusted funding allocations accordingly.

This would have been implemented by adjusting the distribution of Revenue Support Grant and other grants within the Local Government Finance Settlement.⁴³

- Implementing a ‘reset’ of the Business Rates Retention Scheme. This would comprise adjusting the redistribution of business rates revenue through the ‘tariff’ and ‘top-up’ elements of the Business Rates Retention Scheme, in line with a new relative needs assessment. A consultation on the reset is to be published in early 2025.⁴⁴

⁴¹ MHCLG, [Local authority funding reform: objectives and principles](#), 16 Dec 2024, paragraph 1.1.13

⁴² MHCLG, [Local authority funding reform: objectives and principles](#), 16 Dec 2024, paragraph 1.1.3

⁴³ The most recent consultation on the Fair Funding Review can be found at MHCLG, [Review of local authorities’ relative needs and resources](#), Dec 2018. See also MHCLG, [Fair funding review: a review of relative needs and resources](#), Dec 2017

⁴⁴ As above, paragraph 1.1.11

- There will be “transitional measures” to smooth any major changes in funding allocations to individual local authorities.
- The consultation expresses a broader objective of “consolidating funding streams to reduce the number of funding pots, providing local authorities with more flexibility to judge local priorities, meet the needs of local people, and decide how best to deliver on our national priorities”.⁴⁵ This will include exploring whether local authorities could be provided with greater flexibility on the levels of certain fees; and how to deliver a greater focus on prevention through the structure of service delivery.
- The consultation makes a longer term commitment to review how funding is provided to ‘strategic authorities’ (current and future mayoral combined authorities, and the Greater London Authority).

The funding system will continue to include a relative needs formula; an area costs adjustment, to take account of variations across England in the costs of providing services; and an allowance for the capacity of each local authority to raise council tax. The consultation says that the government is open to suggestions for improving the operation of business rates and council tax, but that a full revaluation of council tax will not take place in the current parliament.⁴⁶

A new funding system will be determined by reference to a number of principles. These are simplicity of the approach to distribution; transparency – publicly available and understandable calculations; dynamism – use of up-to-date data; financial sustainability for local authorities; robustness – good quality evidence; stability and predictability; and accountability.

5.2 Trends in local government funding

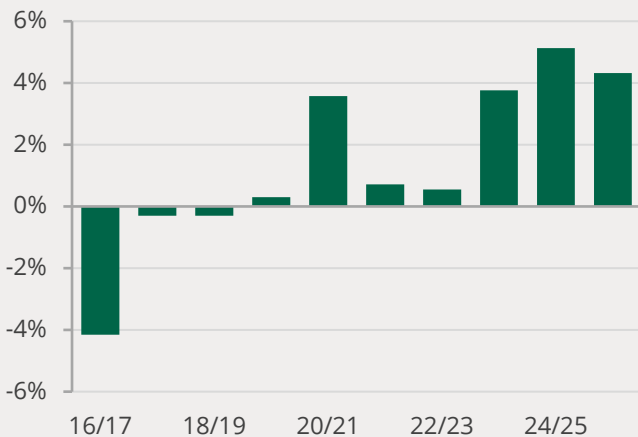
The real-terms increase of 4.3% in core spending power in the settlement for 2025/26 is largely in line with the increases of the past few years. As the chart on the left below shows, core spending power has increased in real terms in every year since 2019/20, and has increased by more than 3% every year since 2023/24.

⁴⁵ As above, paragraph 1.1.15

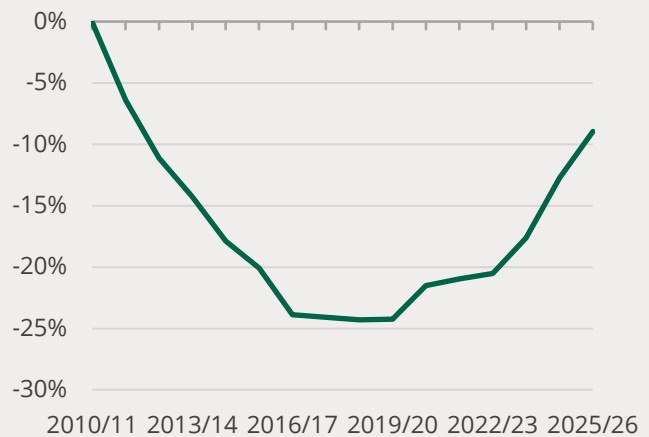
⁴⁶ As above, paragraph 1.2.3

Core spending power in England has increased but is still below 2010/11 levels

Real terms % change year-on-year



Real terms cumulative % change since 2010/11



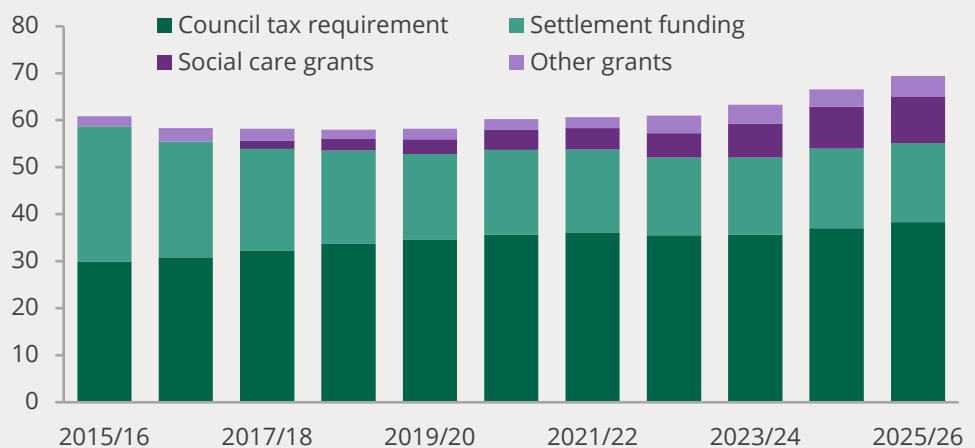
Source: MHCLG, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025, and earlier editions

However, as the chart on the right shows, this has not yet made up for the large falls in core spending power in the first half of the 2010s. As of 2025/26, the Library estimates that core spending power remains about 9.0% below its 2010/11 level in real terms.

The chart below shows that different elements of core spending power have also changed over time. In particular, settlement funding has become a much less significant proportion of the total (decreasing from 47% in 2015/16 to 24% in 2025/26), while the council tax requirement has become more significant (rising from 49% to 56% of the total over the same period).

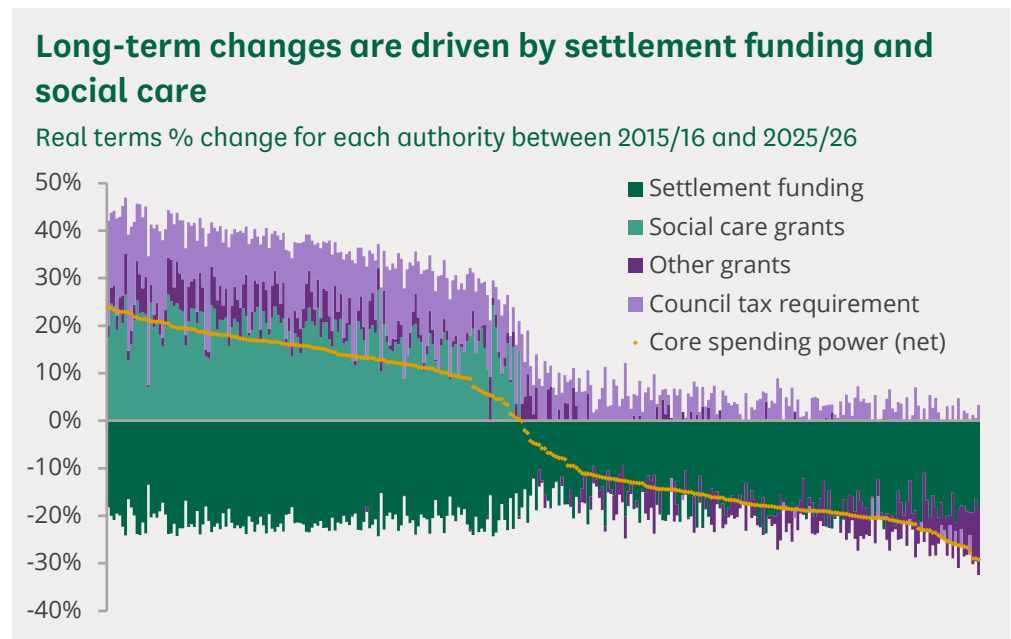
Elements of core spending power have changed over time

£ billions, England total, adjusted for inflation (2025/26 prices)



Source: MHCLG, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025

These changes have affected different authorities in different ways. In the chart below, each vertical bar represents the change in core spending power for a single local authority in England between 2015/16 and 2025/26. Authorities are ordered left to right by the overall real terms change in their core spending power over this period.



Source: MHCLG, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025

This shows that settlement funding has decreased proportionally by around the same amount for most authorities. Social care, on the other hand, is the main reason why any authority has seen an increase – with almost no exceptions, authorities with social care responsibilities have seen their core spending power increase, and those without such responsibilities have not. This is partly because of grants specifically for social care, and partly because authorities with social care responsibilities have received higher increases in council tax revenue.

Local authorities have also spent more on social care. In 2010/11, the median local authority with social care responsibilities spent about £595 per person on social care (in 2025/26 prices). By 2023/24, this had increased to £698 per person, a real terms increase of 17%.⁴⁷

⁴⁷ Library estimate, based on MHCLG, [Local authority revenue expenditure and financing](#) data

6 Further reading

6.1 Library briefings

The Library published a research briefing on the [Local Government Finance Settlement 2024/25](#), which may be helpful for comparisons with this year's settlement. For more general information on the way that local government works and is funded, please refer to the following briefings and Insights (short articles):

- [Local government in England: structures](#) (SN07104)
- [Local government finances](#) (CBP8431)
- [Business rates](#) (SN06247)
- [Reviewing and reforming local government finance](#) (CBP7538)
- [Council tax: FAQs](#) (SN06538)
- [How could the government change the business rates system?](#) (Insight, October 2024)
- [Is my council going to be abolished?](#) (Insight, December 2024)

The Library also maintains a [data dashboard on local government finances](#), including totals from finance settlements, long-term context, and data on spending.

6.2 Reactions to the settlement

The Local Government Association has published [its own briefing](#) summarising the provisional settlement for 2025/26, as well as media statements giving its opinion on the [provisional](#) and [final settlements](#).

The Institute for Fiscal Studies also published [summaries of the provisional and final settlements](#). Local government finance news website Room 151 quoted the IFS analysis and several local government finance professionals to say that [there would be “big winners and big losers”](#) from the changes introduced in this settlement.

The Chartered Institute of Public Finance and Accountancy (CIPFA) [welcomed the extra funding](#) included in the settlement, but called for long-term reforms to the system.

The Association of Directors of Adult Social Services [also welcomed the extra funding](#), but said that it would not be enough to adequately fund social care services.

The Nuffield Trust, a health think tank, [approved of both the new funding](#) and the moves towards funding reform. It also suggested that this funding would not meet the cost pressures on adult social care that were introduced as a result of changes to employer national insurance and National Living Wage increases.

The Rural Services Network's [analysis of the settlement](#) suggests that rural areas will receive less in government funded spending power (that is, core spending power excluding council tax) than urban areas, and argues that this overlooks “hidden deprivation” in rural areas.

6.3 Government response

[The government responded](#) to some of the reactions listed above in an MHCLG blog on 19 December 2024, describing them as “inaccurate”. It argued that “no council will see a reduction in their Core Spending Power, and places with a significant rural population will on average receive around a 5% increase in their Core Spending Power”.

The blog post also said that “[r]eporting of council tax increases in response to the Settlement are purely speculative”. Although it is true that local authorities have not yet announced their actual council tax rates for 2025/26, the core spending power figures included in the settlement assume that councils will raise rates by the maximum allowed under the referendum threshold.

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