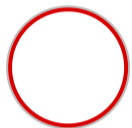


Local Government Finance Settlement 2025-26

Statement made on 3 February 2025

Statement UIN HCWS413

Statement made by



Angela Rayner

Deputy Prime Minister and Secretary of State for Housing, Communities and Local Government

Labour

Ashton-under-Lyne

Commons



Statement

Introduction

Today I laid before the House, the ‘Local Government Finance Report (England) 2025 to 2026’ and the ‘Referendums Relating to Council Tax Increases (Principles) (England) Report 2025 to 2026’. Together, the reports represent the final Local Government Finance Settlement for 2025 to 2026. I am therefore able to confirm that the Local Government Finance Settlement for 2025 to 2026 will grant councils in England access to over £69 billion in funding, which is a 6.8% cash terms increase on 2024 to 2025.

Change will not happen overnight, but this Settlement marks the beginning of the government’s commitment to rebuild and stabilise local government and run services that taxpayers can rely on. In 2026 to 2027, through the first multiyear Settlement in a decade, we will begin introducing an up-to-date assessment of councils’ funding needs and financial resources, allowing local government to plan for the long term and deliver best value for taxpayers’ money. Our consultation on local authority funding reform sets out the proposed objectives and principles of these reforms.

Fixing local government requires tough decisions, and a willingness to seize the opportunities that devolution presents. Tough decisions are needed across local government to fix the broken system we inherited. In December, we published the English Devolution White Paper, which offered a priority route to devolution and invited councils to work with us on local government reorganisation, whilst strengthening existing devolution deals. Devolving powers requires stronger foundations and effective oversight, so as part of our commitment to devolution we also need a fit, legal and decent local government. We therefore issued consultations on local audit reform and strengthening the standards and conduct framework for councils in England, which will restore trust and confidence in local government. Alongside this, unitarisation is a crucial reform programme that will streamline local government and end the two-tier premium paid by taxpayers across the country. We will continue to work in partnership with local areas as we gradually mend the broken system.

I would like to thank everyone who has engaged with our consultation on the provisional Local Government Finance Settlement for 2025 to 2026, which ran until 15 January 2025. In total, we received 227 responses. In addition, we have met with colleagues in the House and with council leaders and officers, and we are very grateful for their views on our proposals. The Minister of State for Local Government and English Devolution and I have now considered all the representations received and today we can confirm how this government will support local services, whilst beginning to put the system back on a sustainable footing.

The government’s full [response to the consultation](#) on the provisional Local Government Finance Settlement for 2025 to 2026 has been published.

Final local government finance settlement 2025 to 2026

Our fiscal inheritance means that there will be tough choices on all sides to get us back on the path to recovery, and it will take time. Today's Settlement, alongside the Budget, will deliver over £5 billion of new funding for local services over and above council tax. We have confirmed over £2 billion in grant allocations to councils, including new investments in prevention in children's social care services. We have guaranteed at least £1.1 billion in funding in 2025 to 2026 from the new Extended Producer Responsibility for packaging (pEPR) scheme, and alongside that no local authority will see a Core Spending Power reduction in 2025 to 2026. We are providing an extra £233 million for homelessness services in 2025 to 2026 outside of the Settlement, and £500 million in pothole funding.

The government is introducing a new 'Recovery Grant', worth £600 million. This is the first meaningful step towards funding reform that was not achieved by the previous government, but it is an interim measure. A full update of the funding system will take longer, which is why we have already published our consultation on the objectives and principles of funding reform from 2026 to 2027.

I am also setting out today that £60 million has been confirmed for long-term improvements over the next year, including empowering mayoral areas leading the devolution revolution and fixing the local audit system to ensure transparency. Further details of this funding will be made available in due course.

Investment in adult and children's social care services

We are taking action, with both legislation and investment, to rebuild vital prevention services and deliver overdue reforms to children's social care. The Education Secretary will deliver the Children's Wellbeing and Schools Bill to protect our most vulnerable children and crack down on excessive and exploitative profit-making. At the final Settlement, I can confirm the government's new Children's Social Care Prevention Grant will be uplifted to a total of £270 million in 2025 to 2026. This grant will use a new formula, which will allocate funding according to estimated need for children's social care services. This grant will double Settlement investment in preventative children's social care services, to over half a billion in 2025 to 2026.

With this new funding, we can confirm that we will make available up to £3.7 billion of additional funding for social care authorities via the Settlement. The funding uplift in 2025 to 2026 includes an additional £880 million allocated through the Social Care Grant. This takes the total funding in the Social Care Grant to £5.9 billion next year.

In all, the government is providing over £10 billion in grant funding for social care through the Social Care Grant, the Children's Social Care Prevention Grant, the Children and Families Grant, the Market Sustainability and Improvement Fund, and the Local Authority Better Care Grant in 2025 to 2026.

Employer National Insurance Contributions and additional measures for local government

At the provisional Settlement in December, the government announced an additional £515 million of support for local government to manage the impact of changes to employer National Insurance Contributions, introduced at the Autumn Budget. Today, I have confirmed allocations worth £502 million to councils in England. £13 million will be allocated separately to Mayoral Combined Authorities, with allocations to follow in due course.

In addition, following representations made during the consultation and in recognition of further increases to Internal Drainage Board special levies and the impact this can have on specific councils' budgets, the Internal Drainage Board Levy Support Grant will be uplifted by £2 million, taking the grant's total value to £5 million in 2025 to 2026. We will confirm allocations in due course.

Council tax

The government is committed to keeping taxes on working people as low as possible; and at the same time, is under no illusions about the fragile state of the sector and the pressures councils are facing to deliver for residents. For too long, councils have seen budgets cut and been forced to turn to excessive tax rises to continue to deliver vital frontline services.

This Settlement maintains the previous government's policy on council tax increases. As set out in the March 2024 Office for Budget Responsibility forecast, this means a 5% council tax referendum principle, made up of a 3% core principle, and a 2% principle for the adult social care precept. These principles do not force councils to set taxes at the threshold level, and exist to protect taxpayers from excessive increases. When taking decisions on council tax levels, the government expects all Councillors, Mayors, Police and Crime Commissioners and local councils to consider the impact on households.

For the vast majority of councils, alongside the government's injection of additional grant funding set out above, these principles will be sufficient to support councils in setting their budgets. But we know that the fragility in the system has left some councils in difficult positions. That is why the government said it would consider requests from councils for additional flexibility in the council tax referendum principles, where they are seeking exceptional financial support and see increases as critical to their financial sustainability.

The ability to request additional increases already existed, but this government has been clear that we intend to take a stricter approach that puts taxpayers at its heart. This means avoiding excessively high increases, and only agreeing increases where councils have comparatively low existing levels of tax and plans in place to protect the vulnerable. This has limited the number and scale of additional increases. In particular it has meant government has not agreed where councils have asked to increase council tax by a very high amount in a single year or by high amounts in successive years. This is a contrast to the approach recently taken in councils such as Croydon, Thurrock and Slough.

As a result of the 14 years of decline and instability overseen by the previous government, we know there are large numbers of councils in significant financial difficulty. This financial legacy of the previous government has resulted in a record number of councils engaging with the government about support to help them set their budgets, and a record number of these councils asking for additional council tax increases.

Having carefully considered requests from councils, the government has agreed small increases for six councils. For the 2025 to 2026 Settlement, bespoke additional council tax referendum principles will apply for Windsor and Maidenhead Borough Council (+4%), Birmingham City Council (+2.5%), Bradford Council (+5%), Newham Council (+4%), Somerset Council (+2.5%) and Trafford Council (+2.5%).

These are difficult decisions that government has not taken lightly. We recognise the importance of limited increases in helping to prevent these councils falling further into financial distress – but we have been clear this must be balanced with the interests of taxpayers.

We have agreed to a limited number of requests and in all cases have not agreed to the full amount requested. Where we have agreed, it is only for councils with amongst the lowest levels of council tax, and where we expect, even after these increases, residents will still be paying less than the average compared with similar councils. At a national level, even with these increases, the overall increase in council tax is not expected to exceed last year's.

Following confirmation of these referendum principles, it will be for individual councils to take final decisions on setting council tax in their areas, having reached agreement locally that the increases are necessary to the council's financial recovery. I have been clear to all councils that they should take whatever steps locally they consider will help to protect the most vulnerable residents from the impact of any additional increase.

The position we have confirmed today is in respect of requests for council tax flexibility. Decisions on councils' overall request for exceptional financial support will be taken and communicated ahead of local budget setting. As with previous years the government will publish details of any support once agreed.

Conclusion

This Settlement marks a turning point. We have taken the difficult decisions needed to move towards a fairer, cost-effective system. Through the 2026 to 2027 Settlement, we will introduce an up-to-date assessment of councils' needs and resources. These reforms will build on the framework set out in the previous government's Review of Relative Needs and Resources (originally Fair Funding Review), which was not implemented. Alongside this, we will reset the Business Rates Retention System, as the previous government committed to do, but again did not implement, so that authorities are fairly rewarded for new business rates growth. The government will also reduce the number of funding pots, giving councils more flexibility to focus on priority outcomes. We also confirmed at the provisional Settlement in December that 2025 to 2026 would be the final year of the New Homes Bonus in its current format, and that government will consult in the first half of 2025 on detailed proposals for arrangements beyond 2025 to 2026. These reforms will be implemented in partnership with the sector, and we are currently inviting views on our approach through the [local authority funding reform objectives and principles consultation](#), which closes on 12 February.

This Written Ministerial Statement covers England only.

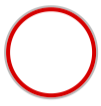
Statement from

Linked statements

This statement has also been made in the House of Lords

Ministry of Housing, Communities and Local Government >

Local Government Finance Settlement 2025-26



[Baroness Taylor of Stevenage](#)

Parliamentary Under Secretary of State

Labour, Life peer

Statement made 3 February 2025

HLWS409

Lords

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