Ministry of Housing,
Communities &
Local Government

Policy paper

Local government finance policy statement 2026-27 to 2028-29

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Applies to England

Contents

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1. Introduction

1. Local government exists to make people's lives better and improve the places where they live. Councillors, Mayors, and frontline council staff have profound positive impacts up and down the country – planning for the growth and success of their cities, towns and villages; delivering the country's much-needed new homes; and providing the vital services that communities, especially the most vulnerable, rely on.

2. But this vital work has been made much harder than it needs to be. Previous governments failed to take the difficult decisions that were needed. They recognised that the existing system is unfair, and consulted on fairer funding in 2018. But they did not act on this consultation, meaning we inherited a fragmented system which fuelled inequality and unfairness. This has left communities in the most deprived places facing higher cuts and receiving less funding for public services. Financial stability is the bedrock of good local government, but we know that rising demand and costs, a proliferation of micro-managed funding pots, and a decade of piecemeal change have left many local authorities in crisis.

3. These systemic issues cannot be repaired overnight – it is a long road to fix the foundations of local government from where we have been. B ut we are setting out how we will deliver vital reforms, bringing in a better funding system that will set up local government for a more sustainable future.

4. This government believes in treating every area fairly. Over the last year, we have consulted on plans to introduce a more transparent and evidence-led funding system that accounts for local circumstances and the costs of delivering services. This new system will target a greater proportion of grant funding towards the most deprived places that have suffered the most from cuts in recent years, because they have been less able to generate funding through local council tax and business rates compared with other places.

5. A fairer system means that local authorities in the most deprived places will now see significant funding increases, enabling them to reinvest in services that local people rely on. While some local authorities will receive less government support, reflecting an assessment of their need, we will treat these authorities fairly by bringing changes in gradually over 3 years, and providing transitional funding to help them transform local services.

6. This builds on the action we are already taking to tackle the drivers and impacts of deprivation, including extending free school meals to half a million more children; protecting households from falling into crisis; and ensuring the poorest don't go hungry in the holidays, to improve outcomes for children and young people.

7. We are clear that fairer funding is not the only reform local government needs. We remain committed to empowering local leaders to deliver for their areas. We are also significantly reorganising local government structures by ending the two-tier system and establishing new single-tier unitary authorities, focusing on outcomes and not micromanagement, and overhauling local audit, conduct and standards.

8. Growth is the key to good, functioning public services. Improving frontline public services depends on sparking economic growth, so our country can fire on all cylinders. Together, these reforms will give local leaders the tools they need to grow our towns and cities, attract investment, create good local jobs, and take advantage of the opportunities for their areas, driving economic growth and raising living standards in every region - this government's number one mission.

9. This policy statement sets out the government's plans for reforming local government finance, including the detailed proposals we intend to consult on at the provisional Local Government Finance Settlement 2026-27 to 2028-29 ('the provisional Settlement') in December 2025. Alongside this, we are publishing a full government response to the Fair Funding Review 2.0 (https://www.gov.uk/government/consultations/the-fair-funding-review-20). We will publish local authority allocations at the provisional Settlement in the usual way.

The broken funding system we inherited

10. The austerity of the 2010s was felt by communities across the country, but the worst effects were felt by those in the most deprived local authorities. The places which historically had been the most supported by government were left furthest behind – breaking the link between funding and need. Cuts to government funding meant that all local authorities became more reliant on council tax every year. The system did not take adequate account of how much income each local authority could raise. Alongside this, there was a failure to reset the business rates retention system and share tax growth as intended. This has led to unfairness for taxpayers, with many paying more for worse services, while others have paid less council tax for better services.

The first steps toward a fairer funding system

11. Undoing this damage will take time, but this government took immediate steps in our first year to make local authority funding fairer. We made over £69 billion available to local authorities at the 2025-26 Settlement, including

a £600 million Recovery Grant targeted to areas with greater need and demand for services, and less ability to raise income locally.

12. The Spending Review in June 2025 announced over £5 billion of new grant funding over the period 2026-27 to 2028-29 for local services. This includes £3.4 billion of new grant funding which will be delivered through the multi-year Settlement.[footnote 1]

The Fair Funding Review 2.0 – undoing a decade of damage

13. We have spent the last year consulting on our proposals to reform the local government funding system, to build on our first steps in the 2025-26 Settlement and update the funding system for local authorities so that it is fair. In the past year, the government published 3 consultations: the Local Authority funding reform objectives and principles consultation; the Fair Funding Review 2.0; and the Local Authority funding reform - Resetting the business rates retention system: technical consultation.

14. **A fairer assessment of local need:** we will update the funding system and the data we use to understand local authority need, no longer using data that is decades out of date. We will ensure that our understanding of need more accurately reflects the different levels of need for services in different parts of the country.

15. **Properly accounting for different levels of local tax:** the system since 2013-14 has grown increasingly out of date, resulting in areas with strong tax bases seeing grant funding increases not adjusted for their local tax revenue. We will now take full account of local authorities’ ability to raise tax as part of our assessment, to correct the unfairness in the current system that some taxpayers pay more for worse services simply because of the way the local taxes work.

16. **Building a system that is fit for the future:** to replace the stagnant system we have inherited, we will ensure the system is kept up to date using projections and regular resets so that changes in local circumstance, such as population, deprivation and income generation are properly accounted for.

17. **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, over the course of the multi-year period, and we will keep the longstanding incentives in the business rates system so that authorities continue to be rewarded for local growth.

18. **Giving authorities greater certainty:** we will deliver on our manifesto commitment to provide the first multi-year Settlement in a decade, so that local authorities can plan for the next 3 years.

19. **A simpler, less fragmented system:** we are simplifying more than 30 funding streams, worth nearly £47 billion over 3 years. Currently, this funding is paid to local authorities through a combination of the existing Settlement (where we will provide new flexibility and simplicity), and outside the Settlement by 6 different government departments (where we will provide new certainty, simplicity, and flexibility).

20. **Providing fair transitional arrangements:** we will support local authorities to manage their updated funding positions in a fair way. This includes giving the authorities that will receive less central government grant in the new system, as a result of our updated assessment of need, the time to transform services effectively.

21. **Support for local authorities that need it:** the government recognises that there will continue to be some authorities that request additional support as we work to correct the failures of the previous system. We will continue to have a framework in place for supporting those in the most difficult positions.

22. **Focusing on prevention:** we will improve outcomes for the most vulnerable residents who rely on the services where demand and costs continue to grow, including social care, by focusing on prevention and early intervention. This includes an unprecedented £2.4 billion invested into children's social care prevention and de-escalation.

23. **Public service reform:** we will continue to work across government to drive a programme of radical public service reform, centred on pooling budgets around service users and breaking through central government siloes. We will also look for ways to reduce demands on local government to empower them to deliver for communities, including through reviewing the approach to sales, fees and charges, and statutory duties.

By 2028

24. By 2028, the funding system will be fairer and simpler:

- Funding will be aligned with need and deprivation;
- Funding will be based on robust evidence and up to date data; and
- Local authorities will have greater flexibility and certainty over almost £47 billion of their income, over the Settlement period and beyond.

The policy statement

25. This policy statement sets out in further detail:

- A summary of the Fair Funding Review 2.0 proposals;
- How we are implementing the Fair Funding Review 2.0 through the Settlement and the Business Rates Retention System;
- The funding streams that will be simplified this year;
- Our approach to supporting local authorities to adjust to their grant funding levels in the new system, including transitional arrangements, Recovery Grant Guarantee, Exceptional Financial Support, and our approach to council tax;
- Our reforms to adult social care and children's services;
- Wider reforms to local government funding, covering fire services funding, waste services funding;
- The key reforms beyond funding that we are delivering to support local government; and
- The next steps on Mayoral Strategic Authority funding.

26. The consultation response (https://www.gov.uk/government/consultations/the-fair-funding-review-20) sets out in further detail the measures in the Fair Funding Review 2.0. The provisional Settlement will follow in December and will set out provisional local authority funding allocations. We will consult on these measures in the usual way.

2. Delivering the Fair Funding Review 2.0

Summary of the Fair Funding Review 2.0 proposals

27. The Fair Funding Review 2.0 set out how this government will deliver a local government funding system fit for the future. Through consultations, we have heard clear support for our aim to update the system to accurately reflect differences in needs across England. We have listened carefully to responses on our detailed approach and the government response to the Fair Funding Review 2.0 (https://www.gov.uk/government/consultations/the-fair-funding-review-20) presents further detail including a full rationale for the

amendments we are proposing as part of the creation of a new Fair Funding Assessment.

28. We have also published a provisional updated needs calculator (https://www.gov.uk/government/consultations/the-fair-funding-review-20) with further details included in in the Fair Funding Review 2.0 government response.

29. This section of the policy statement summarises the response.

A fairer assessment of local need

30. **The Fair Funding Review 2.0 will better align funding with need across the country, updating for the first time in decades the formulas we use to calculate local authorities' need for services, relative to one another.** We are simplifying our approach to the needs assessment, reducing the number of formulas from 15 to 9. These formulas will be kept up to date with the use of projections and regular resets. use data from the 2025 English Indices of Multiple Deprivation, which will now reflect income after housing costs.

31. **We will apply local cost adjustments to each formula, taking account of cost differences of delivering services across the country.** We consulted on a 'remoteness adjustment' within the Area Cost Adjustment and will apply this to the Adult Social Care Formula, but not to formulas more broadly. Further details are set out in the Fair Funding Review 2.0 response (https://www.gov.uk/government/consultations/the-fair-funding-review-20).

32. **We introduced the £600 million Recovery Grant in 2025-26 to support the most deprived local authorities which are least able to fund their own services through income raised locally.** After years of funding cuts to local government, in which the most deprived places suffered the most from cuts, the recovery is not over. Following a large number of representations on the importance of this funding, the government will maintain 2025-26 Recovery Grant allocations across the multi-year Settlement. We will also provide 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). Further detail is set out in the transition section below.

Properly accounting for different levels of local tax

33. **As well as updating our assessment of needs, the other side of the equation is updating our assessment of council resources.** The government will act as the equaliser for locally raised tax. We will also continue to use an assumed council tax collection rate of 100% to retain a clear incentive for all authorities to reduce avoidance of council tax. Local leaders remain responsible for local council tax decisions.

Incentivising local economic growth and house building

34. **We will reset the business rates retention system.** This long overdue reset will restore the balance between aligning funding with need and rewarding business rates growth. To ensure we are balancing risk and reward, we will increase the Safety Net (which guarantees a set percentage of business rates income) to 100% of local authorities' Baseline Funding Level for 2026-27, moving down to the existing level over the multi-year Settlement. Further details on the proposed approach and the methodology are included in the Resetting the Business Rates Retention System from 2026-27 policy statement (https://www.gov.uk/government/publications/resetting-the-business-rates-retention-system-from-2026-to-2027).

35. **Through our funding reforms, local authorities will be empowered as key partners in meeting housing need and helping deliver growth across the country.** We will reward local authorities for housebuilding by excluding council tax base projections from the resource adjustment. By not projecting the council tax base, any council tax income from new homes built across the multi-year Settlement will be additional, thereby rewarding authorities. Responses to the consultation agreed with our previous announcement that we will end the New Homes Bonus. It was not an effective incentive, often rewarding authorities for housebuilding that would have occurred in the absence of any incentive. Funding currently allocated to the New Homes Bonus (c.£290 million in 2025-26), will be returned to the core Settlement, and allocated according to the updated assessment of needs and resources.

Giving authorities greater certainty and a simpler system

36. **The government is simplifying more than 30 funding streams, worth nearly £47 billion across the multi-year Settlement.** Currently, these funding streams are paid to local authorities through a mix of grants within the existing Settlement, and outside the Settlement by 6 different

government departments. In the updated system, £21.5 billion of this funding will be delivered through 4 new consolidated grants as part of the multi-year Settlement package, and £25.3 billion will be consolidated into the Revenue Support Grant, which is unringfenced funding within the core Settlement.

Transitional arrangements

37. **The government wants to move decisively to a reformed system, but we have heard clearly that we need to implement funding reform in 2026-27 with transitional arrangements to allow others time to adjust.** We will therefore phase in allocations over the multi-year Settlement, and protect the income of authorities which would see losses from funding reform. We will use a range of funding floor levels appropriate to specific groups of authorities' circumstances, and the vast majority of social care authorities will receive a real terms increase.

Other local government finance reforms

38. At 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, we 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. We 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.

39. Having heard loud and clear that local government wants to see further devolution of local fees, we will conduct a review of sales, fees and charges to assess the suitability of fees for devolution where possible, in line with our commitment to protect service users. We will not change any fees in scope of our review while it is being completed.

3. Implementing the Fair Funding Review 2.0 via the Settlement

40. The Fair Funding Review 2.0 sets out the government's intention to radically reset our approach to funding local government. We will implement these proposals through the Settlement. This section sets out our intended approach to Baseline Funding Levels, Revenue Support Grant, Business Rates under-indexation compensation, and transitional protections.

41. **Calculation of 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 the forthcoming reset period, uprated by CPI annually.

42. **Phasing in reform over 3 years.** 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 and move local authorities to their new allocations in increments of one third over the multi-year Settlement. The government intends that Revenue Support Grant allocations will reflect the net position required, to ensure that a council's total Baseline Funding Level and Revenue Support Grant position moves them towards their final funding position in increments of a third each year. A portion of Revenue Support Grant allocations will continue to reflect a number of rolled-in grants retaining their existing distributions. The details of these grants, and other consolidated grants, are set out below.

43. **Transitional Baseline.** Alongside the full reset of the business rates retention system, the transitional baseline will include a measure of each local authority's current business rates income, to support authorities in moving from their current funding positions to their new funding allocations, preventing potential 'cliff edges' at the reset. The exact method to calculate current business rates income is set out in the Reset Delivery publication (https://www.gov.uk/government/publications/resetting-the-business-rates-retention-system-from-2026-to-2027), along with each local authority's business rates income estimate for these purposes. More detail on transitional arrangements is set out from paragraph 69 of this statement.

44. **Business rates underindexation compensation.** To simplify the funding system, while also ensuring local authority funding allocations are based on an up-to-date assessment of needs and resources, the government proposes that all prior business rates underindexation compensation funding will be brought into the Revenue Support Grant, including the historical funding that was not previously within scope of Core Spending Power. This funding will adopt the Revenue Support Grant

distribution and play a key role in phasing in the government's funding reforms. If future tax rate decisions do not include full inflationary uplifts, local government will be compensated via new underindexation compensation.

Business Rates Retention System

45. We are resetting the Business Rates Retention System to target funding where it is needed most. The Business Rates Retention System was designed to be periodically reset but this has not happened under previous governments. It is long overdue. In delivering the reset and running the Business Rates Retention System thereafter, the government will balance the level of risk authorities' business rates income is exposed to, and the need to reward authorities for business rates growth. The reset will also act as the mechanism to adjust the Business Rates Retention System following the 2026 Business Rates Revaluation.

46. Building on engagement with the local government sector and a technical consultation, we have published further detail on the delivery of the reset (https://www.gov.uk/government/consultations/local-authority-funding-reform-resetting-the-business-rates-retention-system) and a response to the technical consultation (https://www.gov.uk/government/consultations/local-authority-funding-reform-resetting-the-business-rates-retention-system). This includes plans for how the Business Rates Retention System will take account of new business rates multipliers. Government will bear the financial impact of new tax rates that apply to specific cohorts of properties, and local government will be insulated from costs and gains stemming from these tax policy changes.

47. Following strong support expressed in responses to the Fair Funding Review 2.0, the government is increasing the level of the Safety Net to protect 100% of authorities' set Baseline Funding Level for 2026-27. This will provide increased certainty and assurance to the local government sector when budgeting business rates income in 2026, amongst the backdrop of major business rates reforms, including the reset and tax policy changes. The Safety Net threshold will gradually move back to the current level of 92.5% for most authorities over the multi-year Settlement. We are also re-designing the levy rate for all authorities to better recognise the need to provide a meaningful reward for business rates growth; simplify the Business Rates Retention System; and continue the levy's role in funding the Safety Net. Where requested, we will proceed with business rates pooling for 2026-27. We have published more details on the future running of the Business Rates Retention System (https://www.gov.uk/government/publications/resetting-the-business-rates-retention-system-from-2026-to-2027) alongside this statement.

48. The government has committed to consider how the Business Rates Retention System could better, and more consistently, support Strategic Authorities to drive growth as part of the government's reform of funding for local government. To supplement the new statutory requirement for all Mayoral Strategic Authorities to produce a Local Growth Plan, a new offer could see all Mayoral Strategic Authorities receive a direct share of business rates through the Business Rates Retention System to help them drive growth. The government intends to work collaboratively with Mayoral Strategic Authorities and the wider sector during the upcoming multi-year Settlement period to co-develop a new offer and progress towards implementation.

4. Consolidating funding streams into a clearer and simpler system

Implementing funding simplification

49. In the current system, local authorities receive billions of pounds from grants outside the Settlement. This funding is fragmented, often uncertain or announced after local authorities have set their budgets, and comes with burdensome conditions and reporting requirements. Together, this makes it difficult for authorities to plan for the medium-term and ensure best value for money for the taxpayer. Local authorities have long called for reform of the system, and we heard this again through the Fair Funding Review 2.0.

50. We have already simplified a significant amount of capital funding. In September, we brought together the Levelling Up Fund, Town Deals, and the Pathfinder Pilots into a single Local Regeneration Fund – a key first step. This combined fund harmonises the original grants' rules, monitoring requirements, and schedules. As well as reducing bureaucracy, this will give local authorities the flexibility and certainty they need to press on with delivering local regeneration and growth projects for their communities, and ensure public money is spent where it makes the greatest difference.

51. Through the upcoming Settlement, we are going further to simplify the local government revenue funding landscape than ever before. In total, we are simplifying an unprecedented 33 funding streams, worth nearly £47 billion over the 3 years of the multi-year Settlement. This includes:

a. 23 funding streams new to the Settlement, worth almost £20 billion and currently paid by 6 different government departments. This will give local government multi-year certainty over the majority of its revenue funding. Of this, 12 funding streams worth £18.6 billion will be delivered through 4 new, ringfenced consolidated grants, which bring together funding streams supporting the same services. 11 funding streams worth nearly £1.2 billion will be consolidated directly into the unringfenced Revenue Support Grant;

b. 9 funding streams which already existed within the 2025-26 Settlement, worth £26.2 billion. Of this, 3 funding streams, worth £2 billion, will be delivered through our new consolidated grants, and £24.2 billion from the remaining 6 funding streams will be consolidated into the Revenue Support Grant; and

c. £866 million new investment in children's social care reform from 2026-27. Of this, £319 million from the Transformation Fund was announced at the 2025 Spending Review, and a further £547 million has now been confirmed. This funding will be delivered through one of the new consolidated grants: the 'Children, Families and Youth Grant.'

52. Further detail on how each funding stream has been simplified is outlined below and in the [annexed explanatory table (https://www.gov.uk/government/publications/local-government-finance-policy-statement-2026-27-to-2028-29)](https://www.gov.uk/government/publications/local-government-finance-policy-statement-2026-27-to-2028-29).

53. Funding simplification will be underpinned by the new Outcomes Framework for Local Government, which will be published in December and operational from Spring 2026. Through this framework, we will ensure public money is achieving the outcomes intended without micromanagement. The Outcomes Framework will enable outcome-based performance measurement against key national priorities delivered at a local level, and driven by local authorities as leaders of place. This approach will support the move away from ringfenced grants and siloed priorities, and encourage better joint working between local partners, central and local government, and across government, focusing on creating tangible improvements for local communities.

54. The government is also delivering on its ambition to simplify the funding landscape for Mayoral and Foundation Strategic Authorities, by consolidating funding into Integrated Settlements. Further detail on this can be found from paragraph 125.

Consolidated grants

55. As set out in the Fair Funding Review 2.0, we are setting up 4 new consolidated grants, which bring together funding streams from across government that fund similar services and outcomes. Over the 3 years of

the multi-year Settlement, these consolidated grants will be worth £21.5 billion.

56. All 4 consolidated grants will be ringfenced. We will set out more detail on these grants at the provisional Settlement, along with multi-year allocations and information on their distribution and conditions. All funding figures below are across the 3 years of the multi-year Settlement.

57. **Homelessness, Rough Sleeping and Domestic Abuse Grant (£2.4 billion).** This grant will be in Core Spending Power, with the total amount confirmed at the final Settlement. It will bring together:

a. Almost £1.1 billion for the Prevention, Relief and Staffing element of the Homelessness Prevention Grant (HPG). This funding will be distributed using the prevention and relief element of the HPG funding formula which was consulted on earlier this year;

b. Rough Sleeping Prevention and Recovery Grant (RSPARG) and Rough Sleeping Accommodation Programme (RSAP) funding, worth £879 million. This funding will be distributed using a rough sleeping and single homelessness formula developed with local authorities; and

c. The Domestic Abuse Safe Accommodation Grant, which was delivered through the Settlement in 2025-26, worth at least £480 million.

58. **Children, Families and Youth Grant (£3.1 billion).** This will bring together:

a. Funding for children's social care reform worth £2.4 billion, which will be in Core Spending Power, consisting of:

- The Children's Social Care Prevention Grant, worth £809 million;
- Families First Partnership programme funding (previously Supporting Families) within the Children and Families Grant, worth £760 million;
- New funding from the Transformation Fund announced at the 2025 Spending Review, worth £319 million; and
- Further new investment now confirmed, worth £547 million.

b. The Holiday, Activities and Food Grant (HAF), worth over £623 million. This includes funding worth £12.9 million for the 2026-27 financial year to support local authority capacity on school-age childcare across the HAF programme, wraparound childcare and new free breakfast clubs.

c. The Pupil Premium Plus Post-16 Grant, worth £41.5 million.

59. **Public Health Grant (£13.45 billion).** This will bring together funding from the existing Public Health Grant, using the same distribution approach

as in previous years, with the following funding streams. Further detail on their distribution will be published at the provisional Settlement.

a. Drug and Alcohol Treatment and Recovery Improvement Grant (DATRIG), worth £1 billion. This includes the Rough Sleeping Drug and Alcohol Treatment grant worth £185 million, which will continue to fund existing local authorities receiving this funding component, with a modest expansion to a small number of additional local authorities with high levels of need;

b. Local Stop Smoking Services and Support Grant, worth £210 million;

c. Individual Placement and Support Grant, worth £67.3 million; and

d. Existing public health funding for the Swap to Stop scheme, worth £50 million.

60. **Crisis and Resilience Fund (£2.5 billion).** This will make it easier for local authorities to provide preventative support to communities and assist people when faced with a financial crisis, by bringing together the following grants, which will end in March 2026, into one new, streamlined fund. This will not be in Core Spending Power.

a. Household Support Fund; and

b. Discretionary Housing Payments (in England).

Consolidation into the Revenue Support Grant

61. In total, we will consolidate 17 funding streams, worth £25.3 billion over the 3 years of the multi-year Settlement, into the unringfenced Revenue Support Grant. We're delivering this consolidation in the following 3 ways, with all funding streams going into Core Spending Power:

a. Consolidating funding new to the Settlement, keeping existing distributions. This is the case only where funding was previously distributed in a way that reflects very specific pressures not felt in all authorities, and so its purpose cannot be replicated if distributed by the Fair Funding Assessment instead. This funding will not be in scope of phasing in but will be in the transitional baseline for funding floors. Local authority allocations for these grants will continue to be published and will be confirmed at the provisional Settlement;

b. Consolidating funding new to the Settlement, redistributed using the new Fair Funding Assessment. These funding streams will be included in the income baseline for transitional arrangements and, as such, local authority allocations for each individual funding stream will no longer be visible; and

c. Consolidating existing Settlement funding, redistributed using the new Fair Funding Assessment. This funding will be treated in the same way as outlined in the previous paragraph.

62. By consolidating the 17 funding streams listed below into the Revenue Support Grant, local authorities will gain even more flexibility, enabling them to better respond to local priorities and innovate in service delivery. As in the previous section, all figures are across the 3 years of the multi-year Settlement.

63. **Consolidating funding new to the Settlement, keeping existing distributions:**

a. War Pensions Disregard grant (£36 million); and

b. Social Care in Prisons grant (£33 million).

64. **Consolidating funding new to the Settlement, redistributed using the new Fair Funding Assessment:**

a. Temporary accommodation funding worth £969 million over the multi-year Settlement, previously part of the Homelessness Prevention Grant. The Fair Funding Assessment includes a temporary accommodation formula to reflect this change;

b. Virtual School Head for Children with a Social Worker and Children in Kinship Care (£61 million);

c. Biodiversity Net Gain Planning Requirement (£29 million);

d. Deprivation of Liberty Safeguards Funding (£15 million);

e. Local Government Finance Data Review (<£1 million);

f. Enforcement of Location Restriction and Volume New Burdens grant (<£1 million);

g. Enforcement of Calorie Labelling Regulations New Burdens grant (<£1 million);

h. Awaab’s Law New Burdens grant (<£1 million); and

i. Social Housing New Burden grant (<£100,000).

65. **Consolidating existing Settlement funding, redistributed using the new Fair Funding Assessment.** Please note that the values associated

with the first 5 funding streams below assume that in 2025-26 they would have, without simplification, been held flat and continued to be paid as a separate grant:

a. Social Care Grant (£17.8 billion);

b. Market Sustainability and Improvement Fund (£3.2 billion);

c. Employer National Insurance Contributions (£1.5 billion);

d. New Homes Bonus (£871 million);

e. Funding Floor (£364 million); and

f. Funding from the following grants (treated as one funding stream in our totals) brought together into the Children and Families Grant in 2025-26 (worth £483 million):

i. Supported Accommodation Reforms (£284 million);

ii. Staying Put (£100 million);

iii. Virtual School Heads Extension for previously looked after children (£23 million);

iv. Leaving Care Allowance uplift (£40 million); and

v. Personal Advisors Extended Duty (£36 million).

The future of funding simplification

66. This landmark moment for funding simplification is only the first step towards a coherent and rationalised funding system, which strengthens local leadership and delivers better value for the taxpayer. We will continue work to identify funding to simplify or align with the Settlement, and where restrictive ringfences, burdensome reporting and competitive bidding requirements can be removed.

67. As part of this, we intend to consolidate the Fire Pensions and Uplift Protection grants into the Settlement in the future. The government is also looking at our capital funding to local government, where we believe funding simplification could improve the efficiency and efficacy of local public investment.

5. Transitional arrangements, recovery grant guarantee, exceptional financial support and council tax

Transitional arrangements

68. The government agrees with respondents to the Fair Funding Review 2.0 that transitional arrangements are necessary to enable local authorities to plan for changes in an orderly and efficient manner.

69. Some authorities have benefitted disproportionately from the current system. Furthermore, given the previous government consulted on funding reform, and the business rates retention system was designed to be periodically reset, many authorities have made preparations for changes, including by setting aside reserves. The proposed transitional arrangements set out below are more generous than anticipated by many authorities, since they include locally retained business rates growth accumulated since 2013-14. A full definition of the income baseline we will protect is set out at paragraph 75.

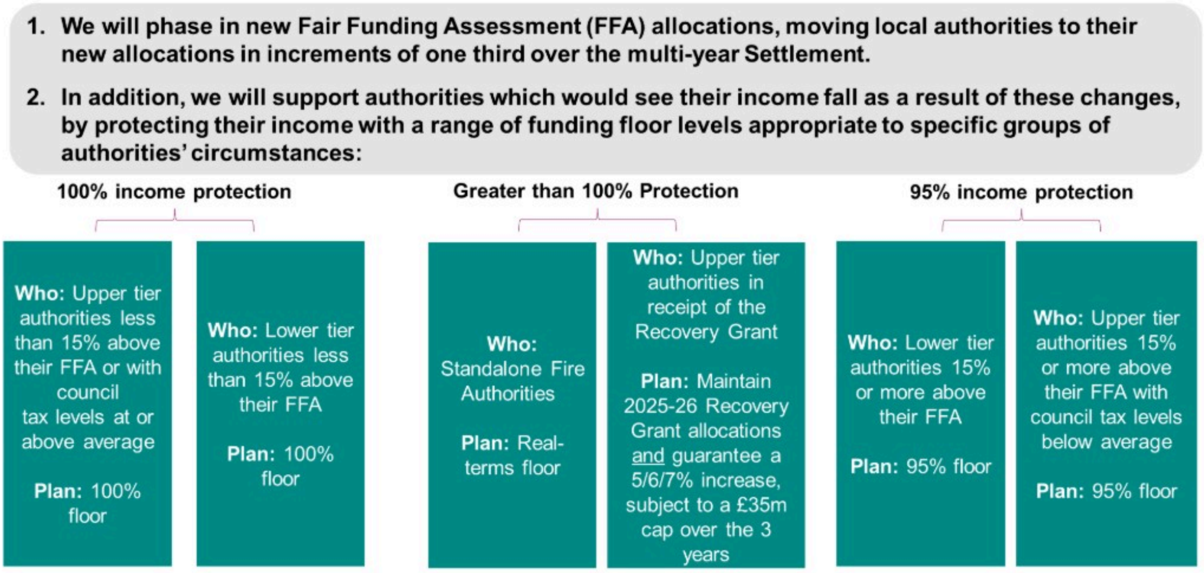
70. The current system is unfair, and there is a balance between providing transitional arrangements and moving decisively towards improved and updated allocations which are fairer for everyone. It is the government's view that local authorities with existing income furthest above their Fair Funding Assessment (as calculated by applying our assessment of relative need and resources in full in 2025-26 without any transitional arrangements), will need to accept some losses in income over the multi-year Settlement. This is necessary to ensure funding can be redirected to where it is assessed as being needed most.

71. We expect the vast majority of local authorities with social care responsibilities will see their Core Spending Power increase in real terms over the multi-year Settlement, and most other authorities will see their income increase in cash terms. However, we will apply the following transitional arrangements:

a. As set out in paragraph 42 above, we will move local authorities to their Fair Funding Assessment allocations in increments of one third over the multi-year Settlement. Further detail on how we will 'phase in' allocations is available in the government's response to the Fair Funding Review 2.0 (https://www.gov.uk/government/consultations/the-fair-funding-review-20); and

b. In addition to phasing in, for local authorities which would see their income fall as a result of changes, we will protect their income through a range of funding floor levels appropriate to specific groups of authorities' circumstances. These are set out in further detail below.

Figure 1: Summary of transitional arrangements



72. We will apply the following levels of income protection:

a. 100% income protection. For the majority of authorities (subject to the floors below), we will ensure 100% of their 2025-26 income is protected;

b. Real-terms protection. For standalone Fire and Rescue Authorities, we will provide a funding floor which protects their 2025-26 income in real-terms across the multi-year Settlement (more information on fire services can be found in paragraphs 115-119); and

c. 95% income protection. It is the government's view that local authorities with existing funding furthest above their Fair Funding Assessment will need to accept some losses in income over the multi-year Settlement. For upper tier authorities which are 15% or more above their Fair Funding Assessment, and which have council tax levels below the average, we will protect 95% of their 2025-26 income through a funding floor. For all lower tier authorities which are 15% or more above their Fair Funding Assessment, we will protect 95% of their 2025-26 income. These local authorities will still benefit from phasing in allocations over 3 years and a funding floor which ensures that 95% of their income, including locally retained business rates growth, is protected. This group will benefit from the majority of funding floor payments. We are in contact with the authorities which we expect to be eligible for 95% income protection, and will set out the position at the provisional Settlement.

73. Income will be protected at 100% and 95% of the 2025-26 income level in each year. Phasing in allocations over the multi-year Settlement will mean

some authorities eligible for this protection may not need it until 2027-28 or 2028-29. Two worked examples are provided below.

Figure 2: Worked examples of phasing in and 95% funding floor
Change in funding is presented cumulatively against the 2025-26 baseline in each scenario

	2025-26	**2026-27**	**2027-28**	**2028-29**
Authority A – initial calculation	100	96	90	85
Authority A – Income protection under the 95% floor level	N/A	95	95	95
Authority A – calculation after floor	N/A	96	95	95
Authority B – initial calculation	100	99	97	94
Authority B – 95% floor level	N/A	95	95	95
Authority B – calculation after floor	N/A	99	97	95

74. The 2025-26 income baseline will consist of:

a. Allocations through the 2025-26 Local Government Finance Settlement (except for the Recovery Grant, Domestic Abuse Safe Accommodation Grant and Children's Social Care Prevention Grant, given this funding is reserved for specific purposes, which will continue to be distributed in a bespoke way outside of the updated Fair Funding Assessment);

b. Current business rates income, including locally retained growth and s.31 grant compensation paid in connection with the Business Rates Retention System. Growth retained in enhanced retention areas and an estimate of local authority pooling benefits in 2025-26 will be incorporated. The government recognises that business rates growth has been a core component of local government income, and therefore has decided that it is necessary to protect this income through transitional arrangements. More details on the method used to measure business rates income can be found in the 2026 reset publication (https://www.gov.uk/government/publications/resetting-the-business-rates-retention-system-from-2026-to-2027); and

c. The 2025-26 allocations of grant consolidated into the Revenue Support Grant.

75. The government will continue the existing policy that any protection available through funding floors assumes local authorities use the full council tax flexibility available to them, which will be set out through the Referendums Relating to Council Tax Increases (Principles) Report at the provisional Settlement. Assuming full take up of council tax flexibility strikes a balance between allocating funding to support authorities to transition to their new allocations, and targeting funding to the places we assess as needing it most. We will also assume additional income from council tax base growth in line with each local authority's average growth over the last 5 years.

76. Local authorities will continue to be rewarded for local growth as part of this government's number one mission to promote economic growth. As is currently the case, new income from business rates growth over the multi-year Settlement will remain outside Core Spending Power, and will not be considered in calculating transitional protections.

77. The government recognises that there are a very small number of authorities which require bespoke treatment through transitional arrangements. This might be because they are an outlier in the extent to which their existing share of funding is assessed as above their Fair Funding Allocation, or because they have unique funding arrangements and responsibilities, as is the case with the Greater London Authority. We will continue to engage these authorities on transitional arrangements.

78. As a result of our funding floors, some local authorities will remain above their Fair Funding Assessment allocations by the end of the multi-year Settlement. We recognise that we will need to provide certainty to these authorities about their future funding arrangements following the end of the multi-year Settlement. Between now and the end of the multi-year Settlement, there will be another Spending Review which will determine arrangements for 2029-30 and beyond.

Recovery Grant Guarantee

79. Following a large number of representations on the importance of Recovery Grant funding, the government will maintain 2025-26 Recovery Grant allocations. This funding was targeted at the most deprived places that suffered the most from historical funding cuts. To continue their recovery, the government will provide a 'Recovery Grant Guarantee,' ensuring that upper-tier authorities in receipt of Recovery Grant see an increase of at least 5% / 6% / 7% across the multi-year Settlement compared to their 2025-26 income. This will be subject to a cap of £35 million per authority over the multi-year Settlement. The cap will ensure that we are effectively balancing funding local authorities fairly with changes that will enable continued service provision.

80. We will protect the income baseline as set out above, however we will also consider funding available through the Children, Families and Youth Grant and Homelessness, Rough Sleeping and Domestic Abuse Grant when calculating an authorities' increase for the purposes of the Recovery Grant Guarantee. Similar to the transitional protections outlined above, the Recovery Grant Guarantee will assume authorities' full take up of council tax referendum principles.

Exceptional Financial Support

81. Our reforms move funding to the places where it is most needed. However, the government recognises the challenging financial context for local authorities as they continue to deal with the legacy of the previous system. The government will therefore continue to have a framework in place to support those in the most difficult positions. The process will be similar to previous years, and we will shortly provide further technical detail to authorities on how the process will operate this year.

82. The government also recognises that local authorities seeking additional support do so for a range of reasons. This includes where they are dealing with sometimes unexpected one-off financial pressures they cannot manage in one year, or where a local authority continues to manage the impact of historical financial mismanagement or governance failures. It also includes some local authorities that need temporary support as we work to address the failings of the previous system. The government will continue to work constructively with local authorities requesting support, but remains clear that authorities should take reasonable steps locally to manage financial pressures and deliver for their residents, and only seek support in exceptional circumstances.

83. We are also clear that any support provided should be a time-limited and temporary measure, and local authorities should have clear plans to deliver the improvements and service transformation required to help them to return to financial stability over the multi-year Settlement. The government will also not hesitate to take action where there is any evidence of failure, including in the management of public money.

84. Any authority that has concerns about its ability to set or maintain a balanced budget should approach the department in the first instance, where we will treat all discussions in confidence.

Council Tax

85. The government will maintain core referendum principles as they were in 2025-26 over the multi-year Settlement. This acts as an additional democratic check and balance, giving taxpayers the final say on council tax increases greater than the principles through a local referendum. We will consult on the following referendum principles in the Provisional Settlement:

- A core council tax referendum limit for local authorities of up to 3%;
- A council tax referendum principle of up to 3% or £5, whichever is higher, for shire district councils;
- An adult social care precept of 2% for all local authorities responsible for adult social care services; and
- A core council tax principle of £5 will apply to fire and rescue authorities.
- There are no council tax referendum principles for mayoral combined authorities or town and parish councils.
- The council tax referendum principles for Police and Crime Commissioners, will be set out at the Police Funding Settlement.

86. We understand that some local authorities may be in a challenging financial position. To strike the right balance between protecting taxpayers and supporting local authorities, the government will consider local requests for council tax flexibility where a local authority is facing significant local financial difficulty and views additional council tax increases as critical to managing financial risk. This is similar to the approach taken by the previous government.

87. Taxpayers will be at the heart of this government's decision making. Therefore, as set out in the Fair Funding Review 2.0, in considering requests the government will carefully consider an authorities' specific circumstances and will take account of an authorities' tax level in relation to the average council tax levels. As set out in the consultation, the government would not agree to requests for additional flexibilities from authorities where council taxpayers are already paying more than average. We will also consider the impacts of any proposed council tax increase, including on a local authorities' ability to provide key services and on taxpayers. We expect any authority requesting an additional increase to ensure that appropriate support is put in place for vulnerable households, including reviewing the provision in their council tax reduction scheme and their discretionary discount policy for taxpayers in hardship.

88. Authorities should approach the department in the first instance as soon as possible if they are considering submitting a request to be considered for additional council tax rises.

89. The government recognises financial pressures felt by some households, and that there are examples of aggressive collection practices

inflicting misery on some residents. We have consulted on taking action to reform and modernise the administration of the council tax system to deliver a fairer and more efficient system for taxpayers and local authorities. The government is currently reviewing the consultation responses and will publish its response shortly.

Additional grant funding

90. The Spending Review in June 2025 announced over £5 billion of new grant funding over the period 2026-27 to 2028-29 for local services. This includes £3.4 billion of new grant funding which will be delivered through the multi-year Settlement.

91. Of this £3.4 billion, £900 million will be distributed using the adult social care relative needs formula. This will be broken down into £150 million in 2026-27, £250 million in 2027-28, and £500 million in 2028-29.

92. In addition to the £319 million in new funding from the Transformation Fund included at the Spending Review, we are confirming the allocation of £547 million that will be invested in children's social care prevention and de-escalation, bringing total investment in children's social care reform through the multi-year Settlement to £2.4 billion. This £2.4 billion will be allocated as £853 million in 2026-27, £853 million in 2027-28 and £729 million in 2028-29.

93. The remainder of this new funding will fund core services in every local area and the transitional protections set out from paragraph 69. The new grant funding in the Settlement, taken together with a 3% core council tax referendum principle and a 2% adult social care precept, will result in a 2.6% real terms average annual increase in Core Spending Power over the Spending Review period.[footnote 2]

Internal drainage board levy support

94. The government proposes to provide £5 million funding in 2026-27 to support those local authorities most severely impacted by Internal Drainage Board levies. The allocation of this funding will be announced in due course, following the receipt of internal drainage board levy data. We will consult at the provisional Settlement on whether this funding should continue or cease for the remainder of the multi-year Settlement.

6. Reforming social care and children's services

95. Too often, the urgent need for crisis intervention overwhelms preventative support. This model is not sustainable. It leads to higher costs, poorer outcomes and risks leaving our most vulnerable citizens without the support they need. We are instead building a future where public services are efficient, preventative, and sustainable.

Adult social care

96. We are building a National Care Service in line with the government's 3 objectives for adult social care: to improve the quality of care, join up services at neighbourhood level, and to provide people with greater choice and control that helps them to stay independent.

97. To help shape this, Baroness Casey's independent commission into adult social care will report first in 2026, setting out the medium- and long-term reforms necessary for adult social care to deliver for those who need it most.

98. We are already taking significant steps towards improving services. The Spending Review allows for an increase of over £4 billion of funding available for adult social care in 2028-29 compared to 2025-26. This includes council tax and baseline funding levels, as well as additional grant funding provided at the Spending Review. This extra £4 billion funding includes £500 million in 2028-29 to support implementation of the Fair Pay Agreement.

99. The government's 10 Year Health Plan for England published on 3 July 2025 set out that local government, the NHS and their partners will draw up neighbourhood health plans at single or upper tier authority level under the leadership of the Health and Wellbeing Board, incorporating public health, social care, and the Better Care Fund (BCF). The 10 Year Health Plan also announced reform to the BCF to focus on integrated services, and the government will shortly set out further detail on the government's approach to reform.

100. As announced in October, DHSC will launch a consultation in 2026 on the Liberty Protection Safeguards (LPS) addressing the calls for improvement to the current Deprivation of Liberty Safeguards (DoLS) and continue cross-departmental planning for LPS implementation.

101. These steps are supported by the reforms set out in Fair Funding Review 2.0, which will ensure funding is targeted where it is needed most, with simplified funding supporting local authorities to focus on priority outcomes for adult social care. As part of this, key adult social care grants will be consolidated into the Revenue Support Grant and distributed using the new Fair Funding Assessment from 2026-27. This includes the Market Sustainability and Improvement Fund; Social Care Grant; and Deprivation of Liberty Safeguards funding (part of the current Local Reform and Community Voices Grant). The Social Care in Prisons grant and War Pensions Disregard grant will also be consolidated into the Revenue Support Grant and distributed using their existing allocation methodologies.

102. This reformed, simplified funding will be accompanied by bespoke accountability and assurance arrangements to support local authorities to fund and deliver adult social care services within a more flexible funding system. Alongside the provisional Settlement, DHSC will be launching a new publication that sets adult social care priorities and expectations for local authorities from 2026-27. This will include details of an adult social care ‘notional allocation’ for each local authority from 2026-27 to 2028-29. These notional allocations are intended to be used as a reference point to support local authority budget setting and, in conjunction with adult social care priorities, to inform collective decisions about adult social care spending. The government recognises that actual spending decisions will also be influenced by local context, priorities and demands.

103. This publication and the notional allocations will also guide DHSC’s engagement with local authorities to gain better insights of decisions taken locally in budget setting, service delivery, and embedding this government’s priorities for adult social care. DHSC will work with authorities to support the transition into these new accountability arrangements.

104. Local authorities’ adult social care notional allocations will not change as a result of Better Care Fund reforms. Local authorities’ total funding available for adult social care will not be impacted by any future decisions on the amount of funding that each authority will be required to pool through the Local Authority Better Care Grant.

105. The Local Authority Better Care Grant (LABCG), alongside the Social Care Grant and the Market Sustainability and Improvement Fund, will be captured within the new Fair Funding Assessment. This will ensure that local authorities’ overall funding allocations reflect our best assessment of their individual needs, including adult social care.

106. As part of this, local authorities will continue to receive a separate, ringfenced Section 31 grant for the Local Authority Better Care Grant. This is in recognition of this grant’s unique legal role in requiring local authorities to pool funding with the NHS under the Better Care Fund framework. The 2026-27 local authority allocations of the LABCG will be the same as the grant allocations in 2025-26. Any changes to NHS and local authority

minimum contributions to pooled funding resulting from reforms to the BCF will not be introduced before 2027-28. We will therefore confirm distribution of the LABCG from 2027-28 in due course.

Children's services

107. This government is committed to investment in prevention and delivering the recommendations of the Independent Review of Children's Social Care 2022. In 2025-26 we doubled direct investment in children's social care prevention services through the Children's Social Care Prevention Grant. We will now go even further, the multi-year Settlement will make available over £2.4 billion for the Families First Partnership programme. This includes continuing the £523 million investment available in 2025-26 for each year of the multi-year Settlement; £319 million from the Transformation Fund announced at the Spending Review; and we are confirming new funding of £547 million over the Settlement, all ringfenced for spend on prevention and de-escalation.

108. This historic investment demonstrates our commitment to prevention and will support local authorities working across the safeguarding partnership with police and health to deliver children's social care reform, making a real, tangible difference to children and families.

109. This £2.4 billion will be allocated as £853 million in 2026-27, £853 million in 2027-28 and £729 million in 2028-29 and delivered as part of the Settlement's new Children, Families and Youth Grant. It will be distributed via the Children and Young Peoples' Services (CYPS) formula. Proposals for the CYPS formula, set out in Fair Funding Review 2.0, were based on robust, peer reviewed research. In response to consultation feedback on deprivation and housing costs, we will update the methodology to better reflect the needs of children across local areas, including using the latest index of deprivation affecting children. In response to calls for greater transparency, details of the formula are set out in the annex to the Fair Funding Review 2.0 government response (https://www.gov.uk/government/consultations/the-fair-funding-review-20).

110. To ensure no local authority receives a cash reduction in children's social care reform funding, we will implement a flat cash floor within this distribution.

111. But beyond new investment, this government recognises that the children's social care market is fundamentally broken. Local authorities are being pushed to the brink while some private providers continue to make excessive profits – this cannot continue. The government is closely monitoring the situation and committed to cracking down on profiteering and restoring integrity to the system. DfE are bringing forward a broad package

of measures in the Children's Wellbeing and Schools Bill, including a financial oversight regime, enhanced Ofsted powers and the power to cap profits - to transform the dysfunctional market. DfE will not hesitate to use our power to cap profits if necessary. The government will take decisive and radical action to ensure public money delivers value and care - not inflated margins.

112. The National Minimum Allowance for foster carers is central to ensuring placement sufficiency for looked after children. It is routinely uplifted each year, taking into account changes in inflation and earnings forecasts produced by the Office for Budget Responsibility, and what is affordable for local government. To support local authorities to plan their budgets in the multi-year Settlement, we will set a minimum National Minimum Allowance uplift of 2.5% per year over the next 3 years. Each year, the uplift will continue to be calculated in line with changes to inflation and earnings forecasts and will be set at this figure or 2.5%, whichever is higher. The National Minimum Allowance uplift for 2026-27 will be confirmed at the provisional Settlement. The uplifts for 2027-28 and 2028-29 will be confirmed at the Settlement each year.

113. We recognise that local authorities are continuing to face significant pressure from the impact of Dedicated Schools Grant (DSG) deficits on their accounts and that they will need continued support during the transition to a reformed Special Educational Needs and Disabilities (SEND) system. This will include working with local authorities to manage their SEND system and deficits. On 23 June, as part of the Fair Funding Review 2.0, we announced a two-year extension to the DSG Statutory Override, now due to end in March 2028. We will set out further details on our plans to support local authorities with historic and accruing deficits through the upcoming Settlement.

7. Funding other services

Fire services funding

114. Fire and rescue services play a crucial role in making our communities safer, both in prevention and in responding to emergencies.

115. We are proposing to provide a real terms funding floor to all standalone fire and rescue authorities across the multi-year Settlement. This reflects that standalone fire and rescue authorities have a unique place within the funding structures of the Settlement. As we assess their relative need for

one service area only, their funding position is more sensitive to wider changes to the needs assessment, and they have fewer flexibilities to manage budgetary pressures available to them. A real terms funding floor will support standalone fire and rescue authorities to continue providing their life-saving services.

116. Alongside this, and as outlined in paragraph 86, the government is proposing to maintain the referendum principle of £5 for fire and rescue authorities.

117. Whilst we will update the fire and rescue relative needs formula to use the most recent data available, the government recognises that the formula's underlying design was created over a decade ago and warrants further review. We will work with the Fire sector on a review of fire funding, which will take place ahead of the next Spending Review.

118. As set out in the Fair Funding Review 2.0, where a Mayoral Strategic Authority will receive 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 Settlement when these functions have been transferred. We are providing £2.1 million in transitional support funding to fire and rescue authorities to help support the transfer of fire functions to potential new Mayoral Strategic Authorities and those undergoing Local Government Reorganisation. Information on the distribution of this funding will be provided in due course. Further information on Mayoral Strategic Authority Funding is from paragraph 125 of this statement.

Waste services funding

119. Local government in England is expected to receive over £1 billion of funding in 2026-27 through the Extended Producer Responsibility for packaging scheme (pEPR), subject to modelling improvements and updates. The revenue from pEPR fees will continue to support local collection and disposal services, including recycling services, benefiting every household in the UK and stimulating investment in associated recycling infrastructure. Notice of Assessment letters containing anticipated pEPR payment allocations for 2026-27 were shared with local authorities on 4 November 2025 by the scheme administrator, PackUK.

120. The government remains committed to supporting local authorities to deliver weekly food waste collections. Ongoing funding was allocated through the Spending Review and will be provided through the Settlement, rather than as a separate new burdens grant. This funding is included within the overall uplift to local government confirmed at the Spending Review, and will be provided to local authorities through the Settlement. This approach reflects the government's wider commitment, set out in the Fair Funding

Review 2.0, to simplify the local government funding system by consolidating revenue funding across service areas and reducing the number of individual grants.

8. The wider picture for local government

121. Alongside funding reforms, government is delivering a wider reset which will radically redefine local government in England, making the system fit for the challenges the country faces today and in the years ahead, and ensuring that we have strong local leaders and local authorities ready to drive economic growth and raise living standards for working people in every region – this government's number one mission.

122. Local government is a crucial partner in achieving this mission. Economic growth cannot be made or created from central government – so that is why we are resetting local government to give local leaders the tools they need to take the decisions to grow our towns and cities, attract investment, create good local jobs, and take advantage of the opportunities for their areas.

123. As outlined, including in the English Devolution White Paper, the government's programme of local public service reform also starts from a commitment to democratic control of public services that empowers local service users and elected local leaders over central government bureaucracy. Local leaders know what is best for their areas and need to be given the freedoms to make decisions accordingly. Local government needs the right support to run the high-quality public services that communities rely on. As part of this wider reset, we are:

i. Building a relationship based on trust, outcomes and greater transparency. The new Outcomes Framework for Local Government will be published alongside the provisional Settlement, and will be operational from Spring 2026. It will set out national priorities for local areas, focussing on the key areas of local government activity that matter most for people and places, such as improving health, housing, and neighbourhoods - as well as how these priorities will help foster local economic growth. Drawn from the government's Plan for Change it will move us away from micromanaging inputs and outputs, to an outcomes-based approach for understanding how effectively these priorities are being delivered. This will strengthen the way government can support authorities and local partners, and create the right conditions for local leaders to grow local economies and deliver the best outcomes for their communities.

ii. Rewiring and standardising the local government system. We are establishing a single tier of local government with strong unitary authorities working alongside Strategic Authorities. We will put an end the two-tier system of counties and districts, which sees outdated structures fragment local economies and public services, preventing our cities and towns from driving economic growth. Our changes will put key local economic tools into one local authority and empower local decision-makers to drive the growth the country needs, including by allowing towns and cities to expand and build more homes. Previous reorganisations have shown that savings are achievable, allowing more investment in frontline public services. Strategic Authorities, which we want to see expand to cover the entirety of England, will continue to develop local economies, while taking on a crucial role in convening public services and enabling local leaders to invest in prevention. By devolving powers from central government over housing, planning, transport, skills, and employment support, we will unlock growth opportunities in every corner of the country.

Matching local economic powers with economic geographies and driving economic growth
Many local authorities as they are now do not reflect the geography of their local labour markets.

Thinktanks such as the Centre for Cities and Institute for Government suggest local government should better reflect the geography of local labour markets to better redistribute local resources and better align economic powers across actual economic geographies. This can support joined-up decision making for local economies, where infrastructure, skills and financial support is coordinated to attract inward investment and create a healthy environment for local businesses.

Productive services-exporting labour markets such as Swindon, Milton Keynes and York can benefit from most of their labour supply living within their local authority area. This is not the case for many smaller UK cities and towns.

For example, Preston's local authority footprint is more narrowly drawn. The city is home to the University of Central Lancashire's Engineering Innovation Centre, while being sandwiched between two BAE Systems plants with more than 10,000 employees. To oversee a coordinated infrastructure, skills and business support programme to optimise the productivity of this aerospace cluster, coordination across at least 4 local authorities would be required, despite all 3 sites being within Preston's functional economy (as defined by the ONS' Travel-to-work Areas).

iii. Ensuring government is accountable. To ensure these new institutions succeed, we are putting in place robust governance structures. The new Local Audit Office (LAO) will consolidate crucial functions, into a single, streamlined organisation with a clear remit. We are also building a comprehensive accountability framework that matches our devolution ambitions and exploring the introduction of a Local Public Accounts Committees model for Strategic Authorities. Finally, we are simplifying and strengthening the standards system, ensuring that any issues of misconduct are dealt with firmly and consistently in all types and tiers of local government.

iv. Supporting the people who make local government work. We are strengthening digital, data and AI capability to help local government colleagues deliver secure, resilient and smarter services, fit for 2025 and beyond. We have begun work to reduce the cyber risk and improve data sharing and are looking at scaling up the responsible use of AI across local government, starting with high-cost service areas. But local government only functions because of its talented and dedicated people. Through the Workforce Development Group, we have been engaging with the local government sector to discuss their workforce challenges - this includes considering career pathways to develop and retain talent and the challenges and opportunities presented by reorganisation. We are also reinstating access to the Local Government Pension Scheme for English councillors and mayors, bringing it back in line with the other nations of the UK and recognising their vital contribution to local leadership.

9. Mayoral Strategic Authority funding

Interaction between the Local Government Finance Settlement and Integrated Settlements

124. The Fair Funding Review 2.0 and the English Devolution White Paper set out that where a Strategic Authority takes on powers which are currently funded outside of the Local Government Finance Settlement or the Integrated Settlements, MHCLG will work with the relevant department or organisation to explore funding these functions through either the Integrated Settlement or Local Government Finance Settlement.

125. The White Paper also set out that all ‘Established’ Mayoral Strategic Authorities will be eligible to receive an Integrated Settlement. An Established Mayoral Strategic Authority’s Integrated Settlements will commence at the following Spending Review, provided a sufficient preparation period has passed. Integrated Settlements consolidate funding across multiple policy areas and departments into a single and flexible pot to support Mayoral Strategic Authorities to deliver growth, supported by a

single assurance framework, coordinated by MHCLG. [See further details on Integrated Settlements. (https://www.gov.uk/government/publications/integrated-settlement-policy-document/integrated-settlement-policy-document)](https://www.gov.uk/government/publications/integrated-settlement-policy-document/integrated-settlement-policy-document)

126. In addition to Integrated Settlements, the White Paper committed to simplify the funding landscape for all Mayoral and Foundation Strategic Authorities through the grants provided by relevant central government departments, for example through targeting and rationalising the number of local growth funds and moving away from competitions.

127. For funding lines where both Mayoral Strategic Authorities and local authorities receive an allocation, these will now be included in both the Local Government Finance Settlement and the Integrated Settlement. Through greater alignment between these mechanisms, we will create a more cohesive local government funding landscape.

Mayoral Strategic Authority funding lines

128. 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.

129. 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.

130. 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.

131. As set out above, 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.

10. Next steps

132. We will publish further information on these proposals, including local authority allocations, at the upcoming provisional Settlement in December 2025. These proposals are subject to ongoing consultation and change, followed by debate and a vote in the House of Commons in the usual way. Allocations for the final year of the multi-year Settlement may be updated following the 2027 Spending Review.

133. This will be the first multi-year funding Settlement for local government in a decade, providing the certainty local government has long called for, so they can plan and invest for the medium term.

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1. We are defining real terms throughout this statement in relation to the GDP deflator.
2. We are defining real terms throughout this statement in relation to the GDP deflator.