

The 2025/26 Provisional Local Government Finance Settlement

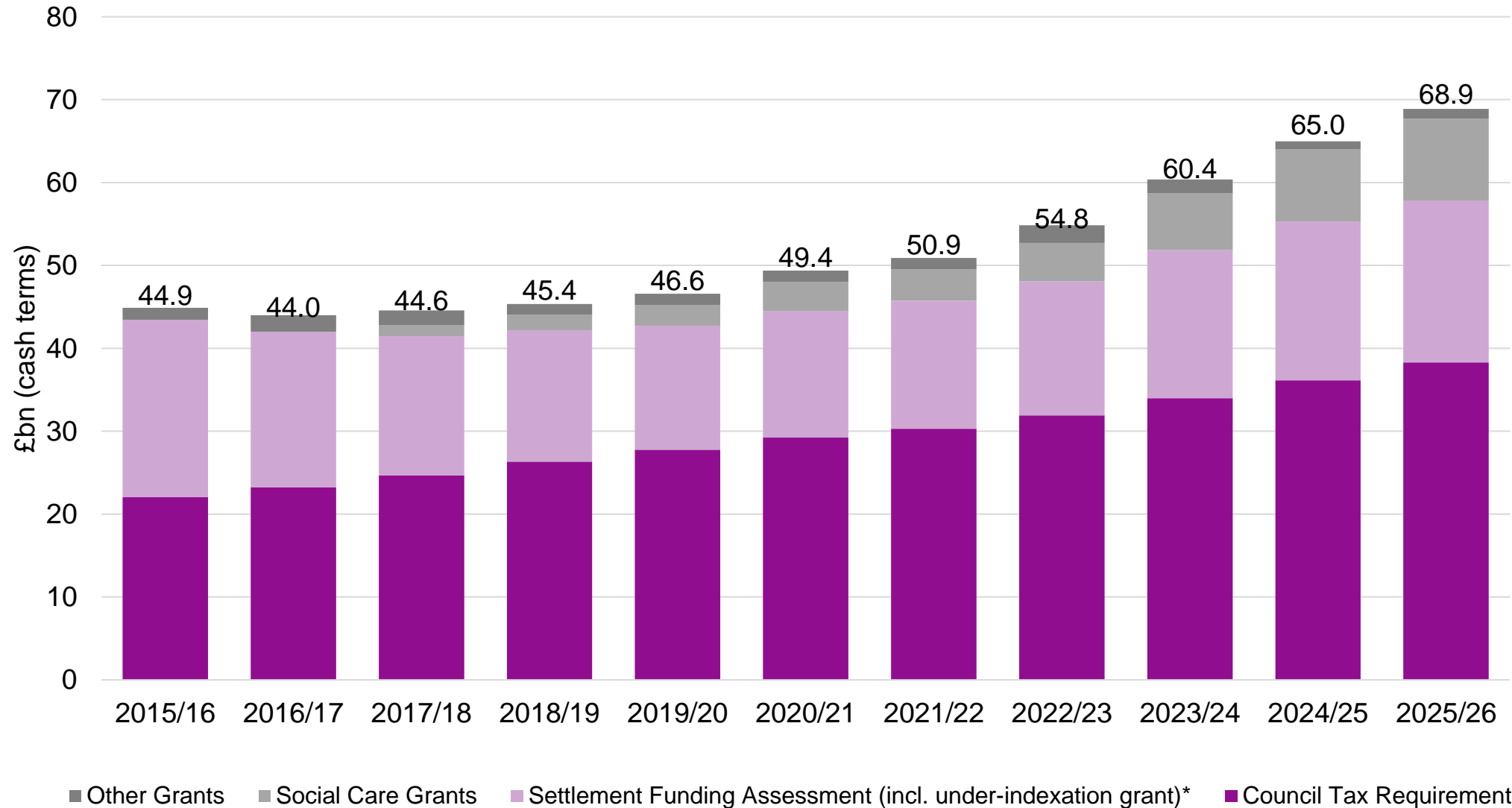
LGA Annual Local Government Finance Conference
January 2025

Nicola Morton, Head of Local Government Finance

9 January 2025

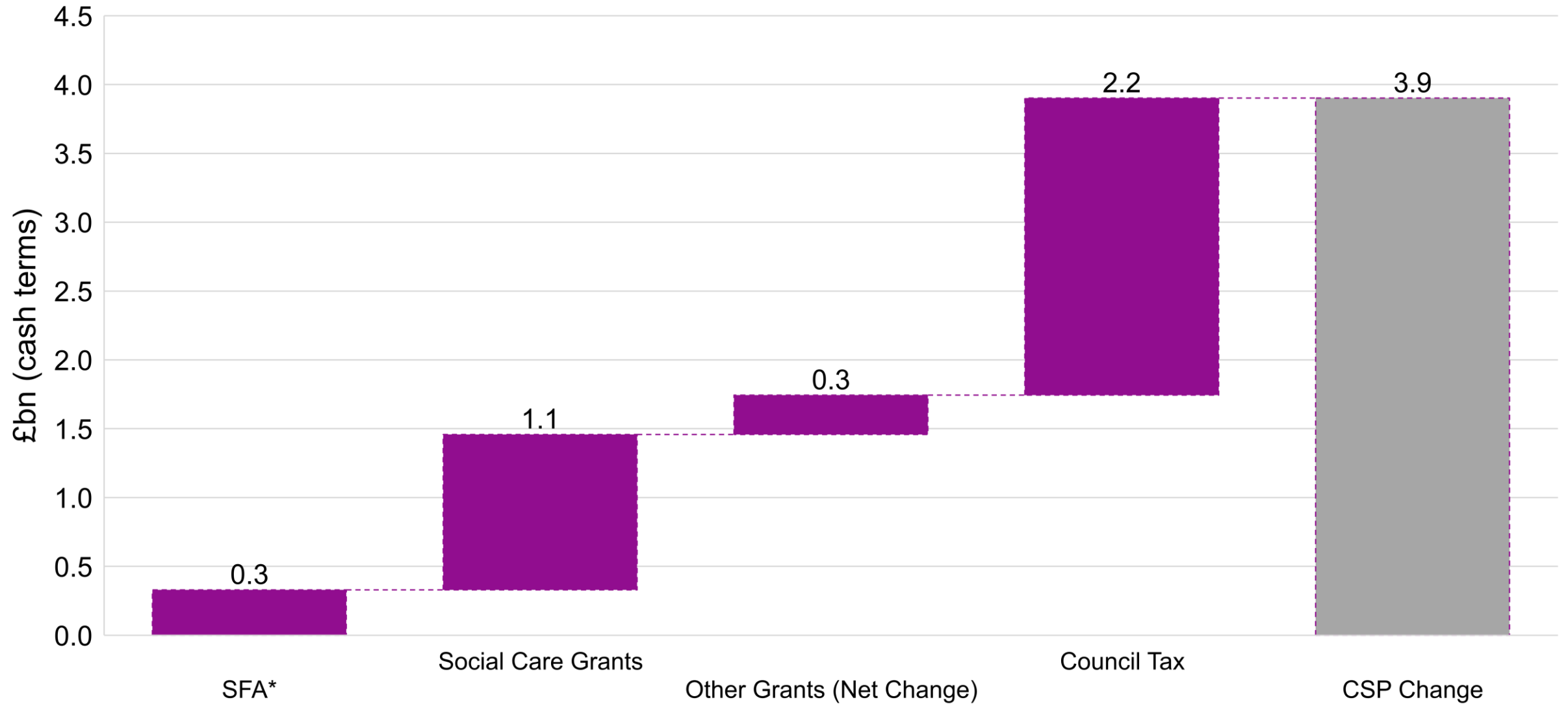
www.local.gov.uk

Core Spending Power 2015/16 to 2025/26



* Settlement Funding Assessment includes Revenue Support Grant, Baseline Funding Level and compensation for under-indexation of the business rates multiplier.

6.0% increase in Core Spending Power (CSP) in 2025/26



*Settlement Funding Assessment includes Revenue Support Grant, Baseline Funding Level, compensation for under-indexation of the business rates multiplier, and grants rolled in.

Social care grants in Core Spending Power

| Name | 2025/26 allocations | Change from 2024/25 | Distribution |
|--|----------------------|----------------------|--|
| Social Care Grant | £5.92 billion | £880 million | ASC relative needs formula & ASC precept equalisation |
| Local Authority Better Care Grant (Renamed existing funding - consolidates Improved Better Care Fund and Discharge Fund) | £2.64 billion | No change | In line with previous years, allocated using iBCF distribution methodology |
| ASC Market Sustainability and Improvement Funding | £1.05 billion | No change | ASC relative needs formula |
| Children's Social Care Prevention Grant (new grant for 2025/26 – will be increased by £13 million at final settlement) | £250 million | £250 million | Interim children's relative needs formula, including updated area cost adjustment and adjustment for ability to raise income through council tax |
| Total | £9.86 billion | £1.13 billion | |

Settlement Funding Assessment

Revenue Support Grant (RSG)

- Increases by change between September 2023 and 2024 CPI (1.7%) before grant rolled in
- No negative RSG
- Extended Rights to Home to School Transport (£54 million), Electoral Integrity Programme (£4.6 million), Island Funding (£4.2 million), Tenant Satisfaction Measures (£3.9 million), Transparency Code New (£3.6 million) rolled into RSG, maintaining existing distribution.

Baseline Funding Level (BFL) and Under-indexation Compensation

- The small business rates multiplier will be frozen for 2025/26 at 49.9p. Government will compensate local authorities up to CPI.
- The standard multiplier will rise to 55.5p
- Taken together, the increase in BFL and the multiplier under-indexation grant for 2025/26 provide an increase of 1.7%.
- Tariffs and top-ups adjusted for revaluation.

Other grants in Core Spending Power (CSP)

Recovery Grant (£600 million)

- One-off, unringfenced grant distributed using deprivation and population less the ability to raise income through council tax. Allocations capped at 3% of CSP, minimum allocation of £10,000.

New Homes Bonus (£290.0 million)

- A decrease of £0.8 million in 2025/26. No increase to threshold (stays at 0.4%). New payments will not attract legacy payments.

Funding Floor (£121.5 million)

- For 2025/26, the funding protects all local authorities from a year-on-year reduction in CSP. The funding floor assumes authorities use the maximum of their council tax flexibilities but excludes any grants rolled into Core Spending Power in 2025/26.

Domestic Abuse Duty Safe Accommodation Grant (£160 million)

- The grant has been rolled into the settlement and increased by £30 million.

Rural Services Delivery Grant and the Services Grant have been repurposed within the settlement

Council tax referendum principles for 2025/26

Adult social care
precept: up to 2%
flexibility

Shire districts:
the higher of £5 or
3% Band D

The non-police
element of the GLA
have a referendum
principle of 3%

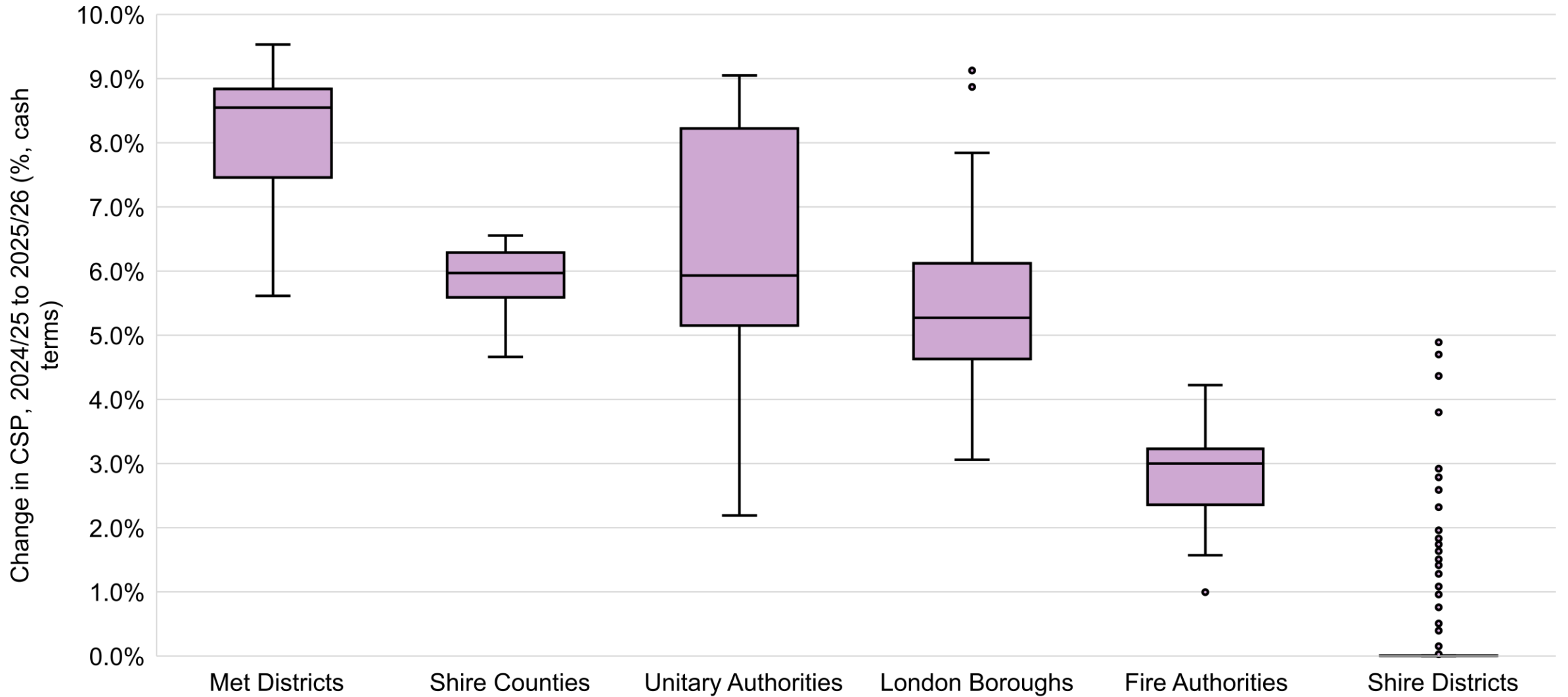
3% general
referendum limit

Fire and Rescue
Authorities will have
a principle of £5

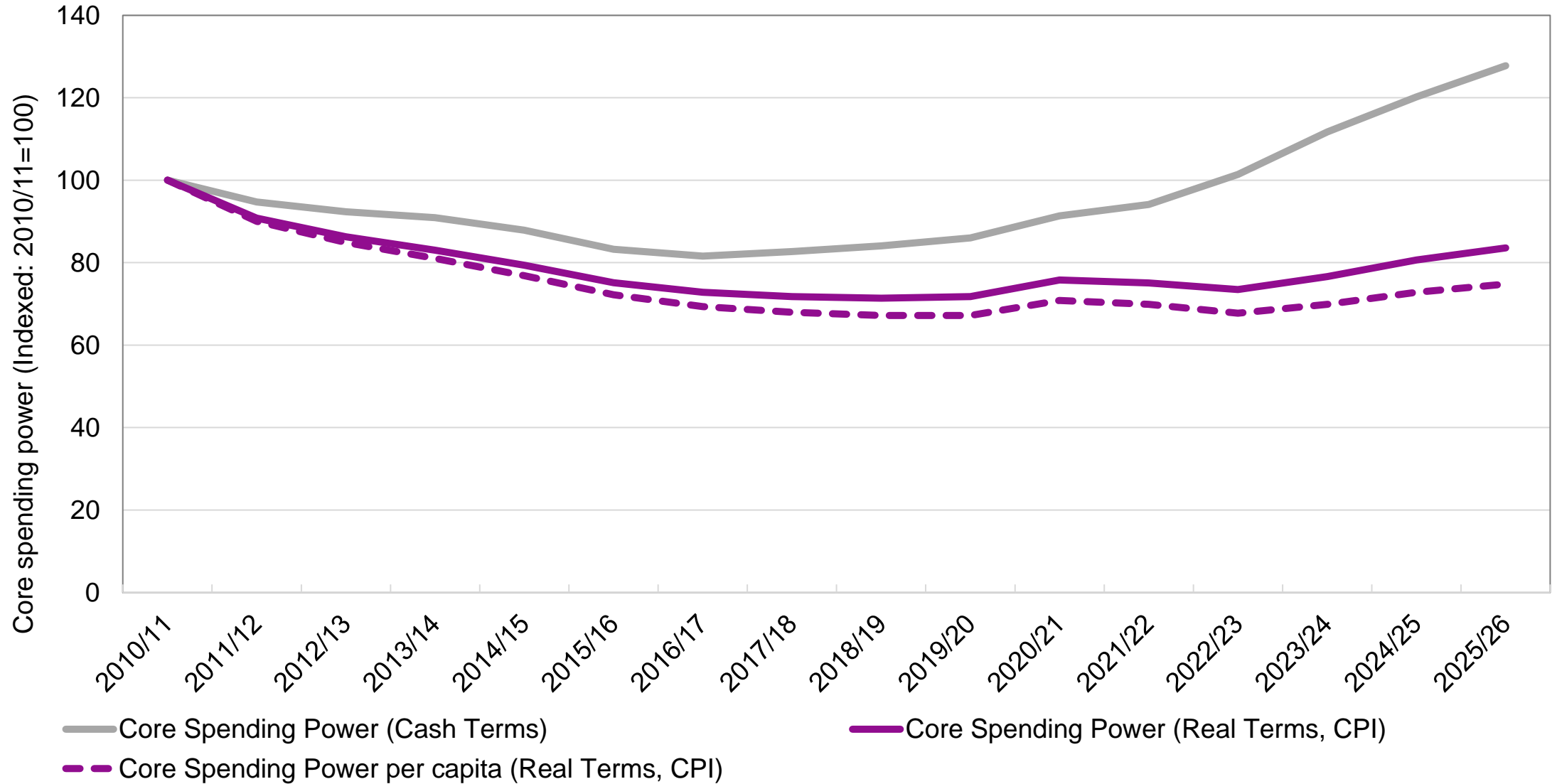
Mayoral Combined
Authorities and Town
and Parish Councils - no
referendum principles

£14 for Police and Crime
Commissioners inc.
police components of
combined authorities

Change in Core Spending Power by authority type 2024/25 to 2025/26



Change in councils' Core Spending Power 2010/11 to 2025/26



Other announcements in the settlement (1)

- £515 million of funding for the increase in employer National Insurance Contributions (NICs). Allocations will be based on 2023/24 Revenue Outturn data, and will be included in CSP at the final settlement.
- A contingency held back and will be allocated at the final settlement.
- Councils will receive a share of £100 million accumulated surplus from the business rates levy account, distributed based on current SFA distribution.
- £3 million in funding for authorities impacted by Internal Drainage Board levies.
- Continuation of an additional £4.2 million for island authorities (rolled into CSP).
- £1.1 billion of new funding outside of CSP through Extended Producer Responsibility for Packaging (pEPR).
- £1 billion for SEND and Government to set out plans for reforming the SEND system next year, which will inform any decision to remove the statutory override on DSG deficits.
- Several existing DfE children's social care grants will be consolidated into a single Children and Families Grant worth £414 million (outside CSP). Grant conditions will be published alongside the final settlement.
The grants being consolidated are:
 - The Supporting Families programme (£253.5 million); Supported Accommodation Reforms (£94.5 million); Staying Put (£33.3 million); Virtual School Heads Extension for Previously Looked After Children (£7.6 million); the Leaving Care Allowance uplift (£13.4 million); Personal Advisor Support for Care Leavers (£12.1 million).

Other announcements in the settlement (2)

- The Children’s Social Care Prevention Grant and the Children and Families Grant will be merged in 2026/27, with Government exploring further consolidation.
- Exceptional financial support scheme to continue and borrowing premium removed; Government will “consider requests for bespoke referendum principles” on a case-by-case basis.
- Government is minded not to extend the IFRS9 (pooled investments) override beyond 2025
- The Government proposes that 2025/26 will be the final year of the New Homes Bonus in its current format.
- The Government intends to ‘reset’ the business rates retention system from 2026/27.
- The Government has launched a consultation entitled “Local authority funding reform: objectives and principles”.

LGA key messages – Draft response (1)

- Welcome the increase in Core Spending Power and additional funding outside of the settlement.
- The extra funding will help councils meet some - but not all - of the pressures they face in 2025/26.
- Councils of all types will continue to struggle to balance the books next year with many having to increase council tax bills to bring in desperately needed funding but still being forced to make further cuts to services.
- £515 million for employer national insurance contributions (NICs) is positive but falls short of the £637 million we have estimated it will cost councils next year. Concern that indirect employer NICs costs, through commissioned providers, will cost councils up to an extra £1.13 billion next year.
- This is a good settlement for some councils, but others are concerned.
- Government needs to consider the views of all council types in their decision to use a different method to allocate some additional funding next year. All councils need adequate resources to provide services.
- The commitment to multi-year settlements is positive, but it must include significant and sustained increases in overall funding for councils.
- Councils stand ready to work with the Government on creating an improved and a more sustainable future funding system that works for all local government.

LGA key messages – Draft response (2)

- It is disappointing the Government has continued to rely on council tax and the social care precept, alongside grant, to fund adult social care. Council tax is not the solution for meeting long-term pressures facing high-demand national services such as adult social care.
- Shire districts should have the extra flexibility but would propose a limit of £10 rather than £5.
- Abolish council tax referendum limits, alongside the completion of the fair funding review or its equivalent.
- The New Homes Bonus (NHB) makes up a considerable part of funding for some councils, particularly shire district authorities. They will welcome the confirmation of another year's funding. Councils need clarity on the future of the NHB. Any changes should come with transitional funding to ensure that local authority services that residents rely on are not put at risk.
- Councils with high Internal Drainage Board levies will welcome the continuation of the £3 million funding.
- It is welcome that the funding from pEPR will be treated as 'additional' income in 2025/26. The HMT EPR income guarantee provides some certainty for local government to fund local waste services. In the longer-term, councils need to receive the full actual costs for delivering local waste and recycling services rather than estimates.
- We hope to see the Public Health grant announced before the final settlement and for better alignment of timing between the provisional LGF Settlement and the Public Health grant in the future.
- The IFRS 9 statutory override should be permanent or, as a minimum, extending for another five years.

Happy to take questions!