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March 2025  
SDCT Conference

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# The funding outlook and funding reform

# Introduction

- The funding outlook – the coming year and beyond
- Funding reform – the government's plans
- Funding reform – wider issues
  
- Key issues for shire districts, in the wider LG context

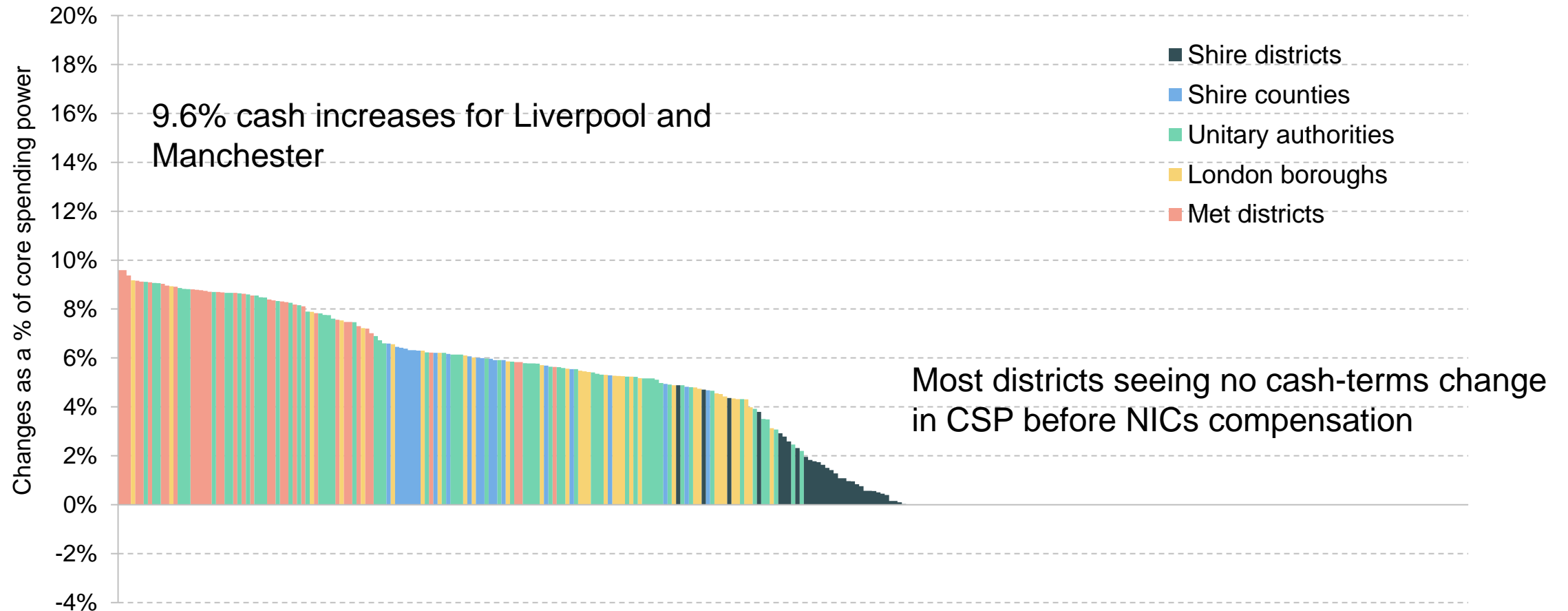


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# Council funding outlook

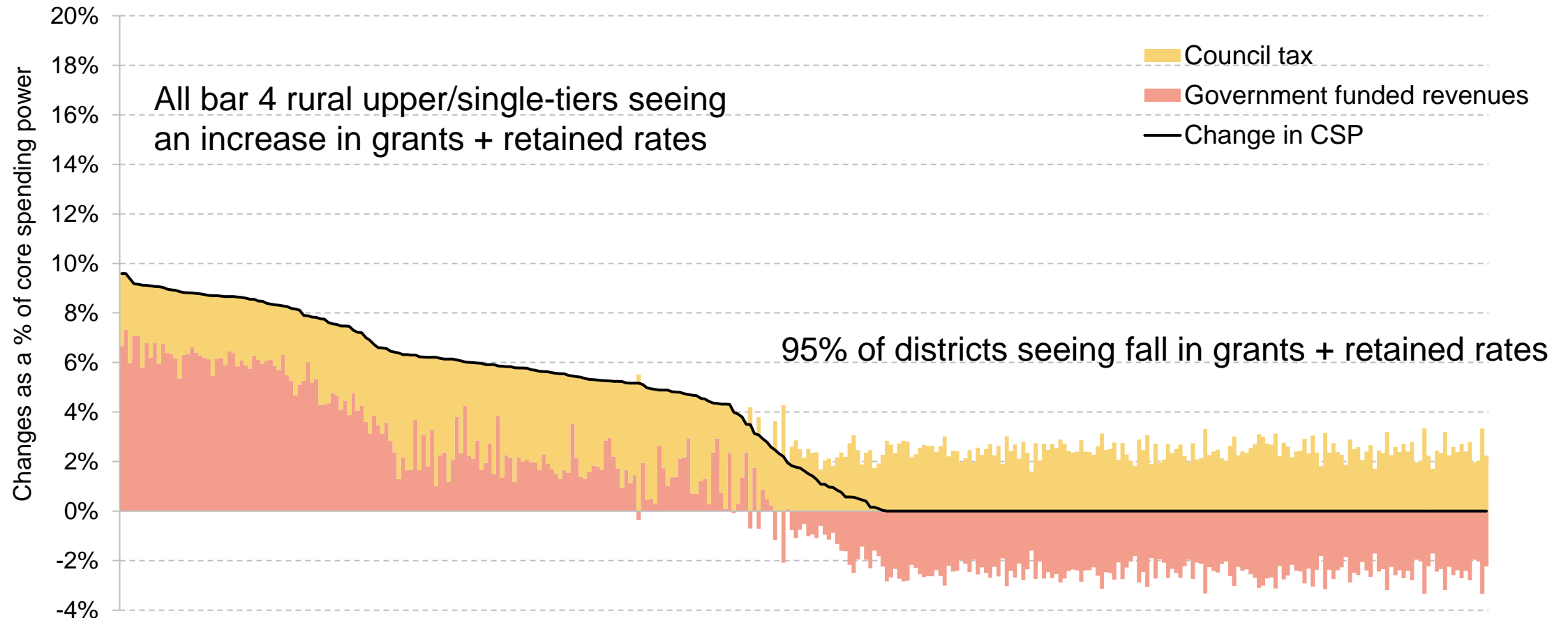
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# Most districts see no cash increase in 'main' CSP



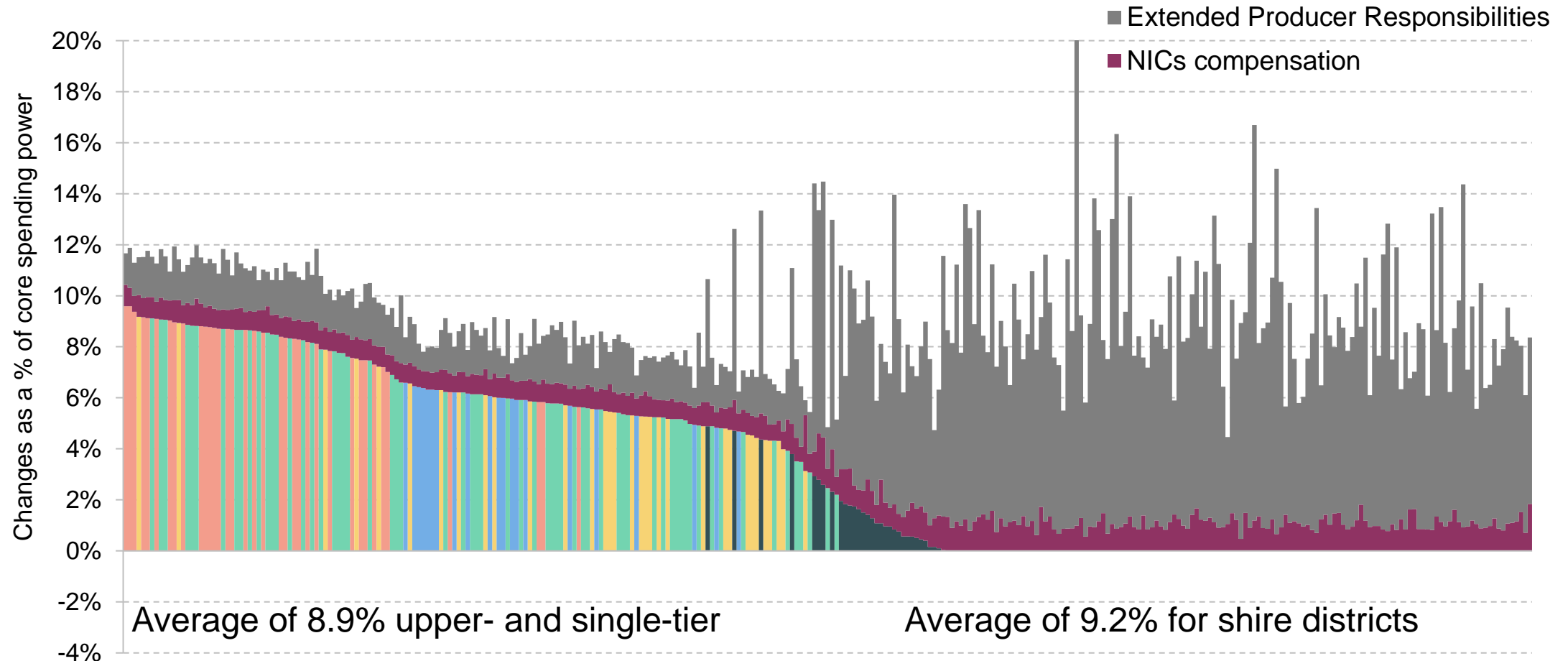
Note: Councils arranged along horizontal axis. Reflects changes in elements of CSP, excluding NICs compensation.  
Source: IFS analysis of final settlement, 2025-26.

# Nearly all districts see fall in core govt funding



Note: Councils arranged along horizontal axis. Changes in council tax revenues reflect assumed base growth and CT levels rising with referendum limits.  
Source: IFS analysis of final settlement, 2025-26.

# EPR significantly changes picture for districts

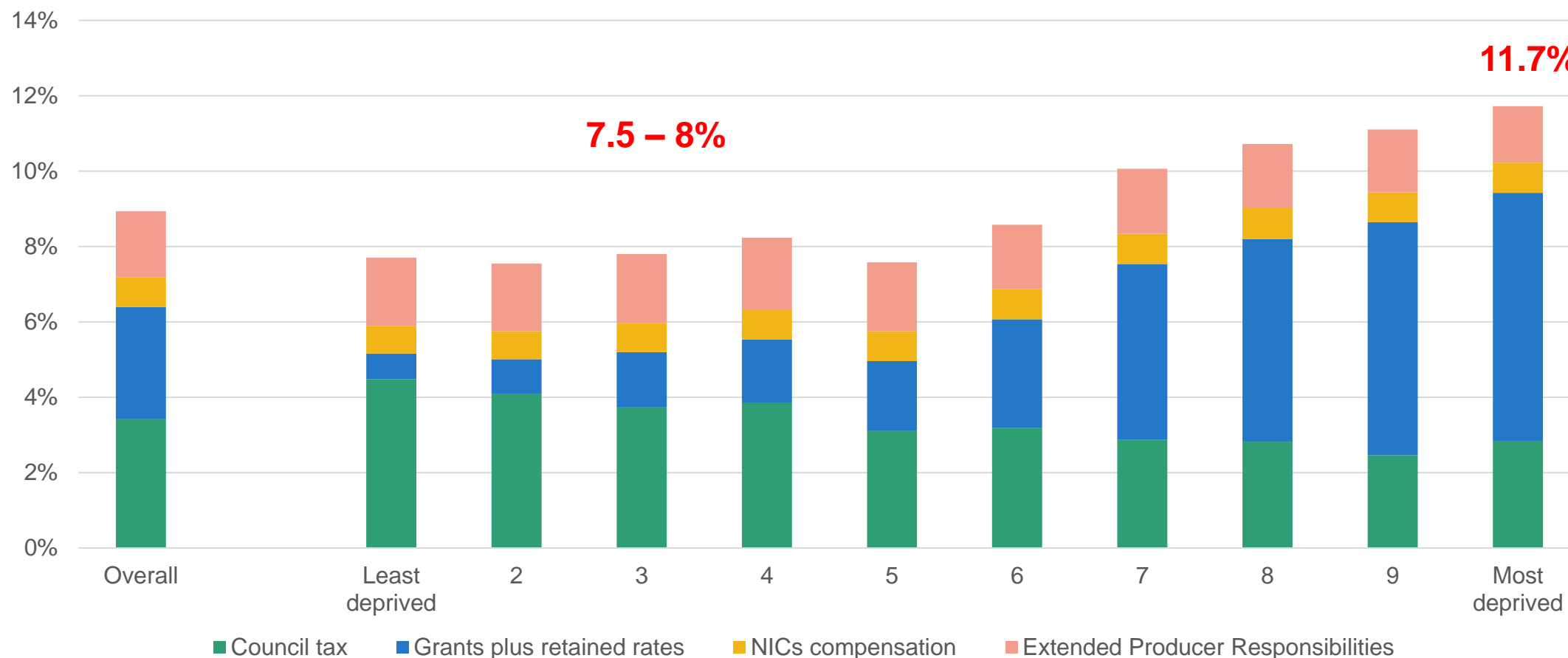


Note: Councils arranged along horizontal axis. Revenues from Extended Producer Responsibilities include per-capita share of funding provided to waste authorities, for consistent comparisons across areas.

Source: IFS analysis of final settlement, 2025-26.

# Funding highly targeted at deprivation

Change in (extended) Core Spending Power, 2024-25 to 2025-26

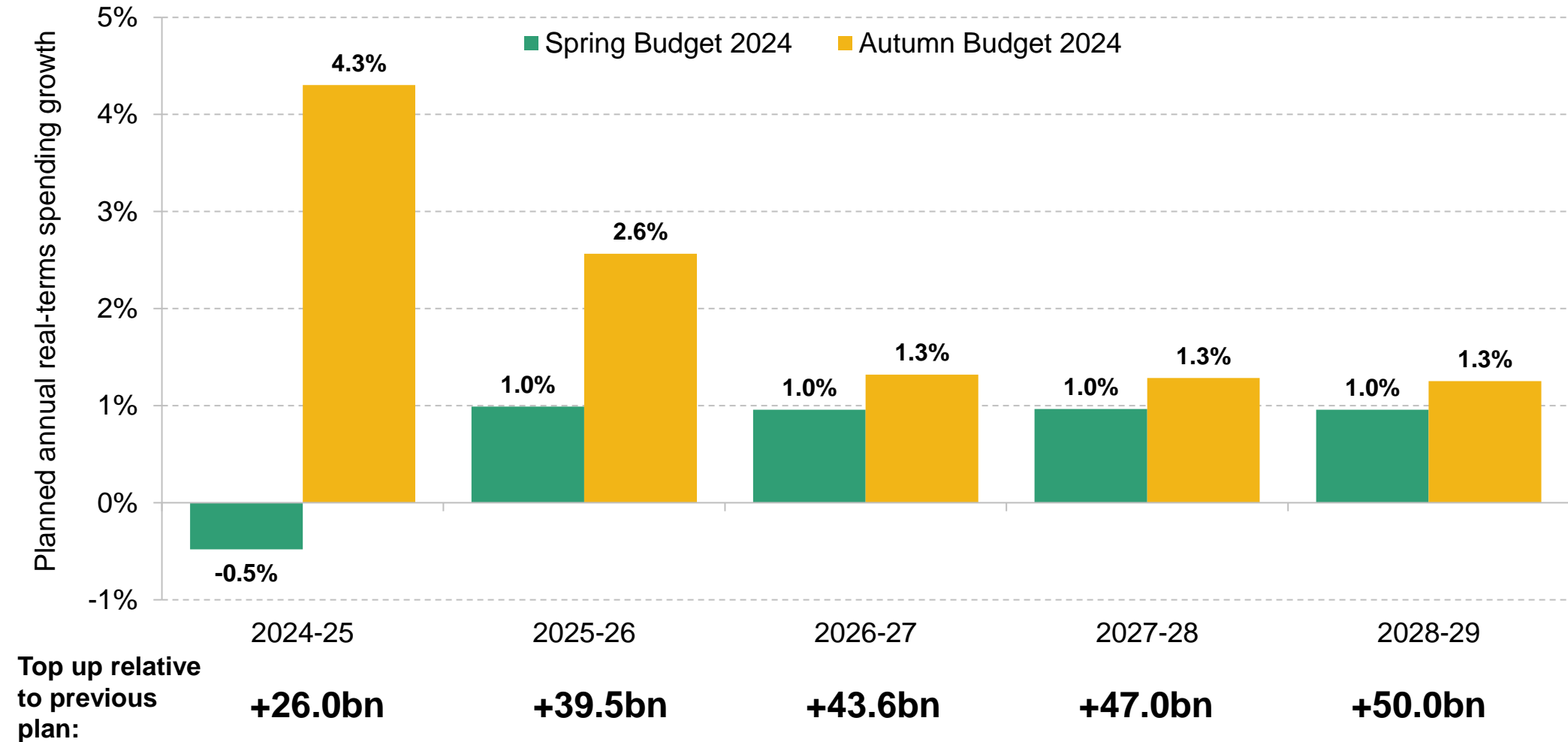


Note: Deprivation deciles are based on IMD 2019 Average Score at the upper-tier authority level.

Source: Ogden and Phillips (2024) [The 2025–26 English Local Government Finance Settlement explained](#), Figure 1, updated to reflect final settlement 2025-26.

# Looking to 2026-27 and beyond...

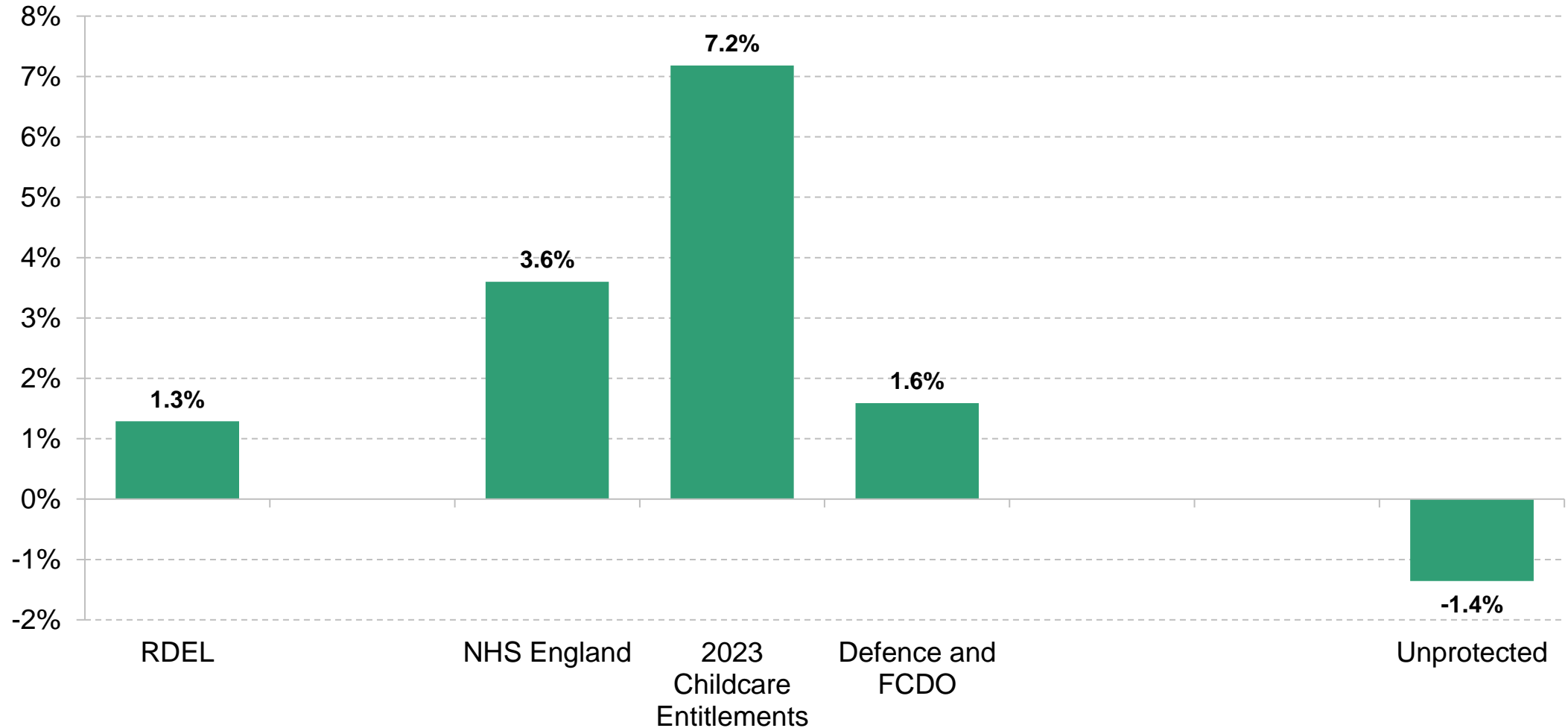
Real terms day-to-day spending growth, 2024–25 to 2028–29, plans at Spring Budget 2024 and Autumn Budget 2024





# ... shows tricky trade-offs between services

Real terms day-to-day spending growth, 2025–26 to 2028–29



# Implications for council funding

- It will be difficult for the government to further increase councils' grant funding in real-terms
  - Increased reliance on council tax for increases in funding
  - 5% council tax increases plus real-terms freeze in grants → 2% real-terms CSP increase
  - Recent years have seen spending pressures of more like 4% a year
  - Action to tackle costs and demand is vital – learning between councils will be key
- More likely that overall increase will be reduced rather than increased from 1.3% given economic and fiscal developments
- When will we know more?
  - Spring Statement next week
  - Spending Review in June
  - More detailed LGF reform consultations in summer and autumn



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# Local government funding reform – the government's plans

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# The government's plans for funding reform

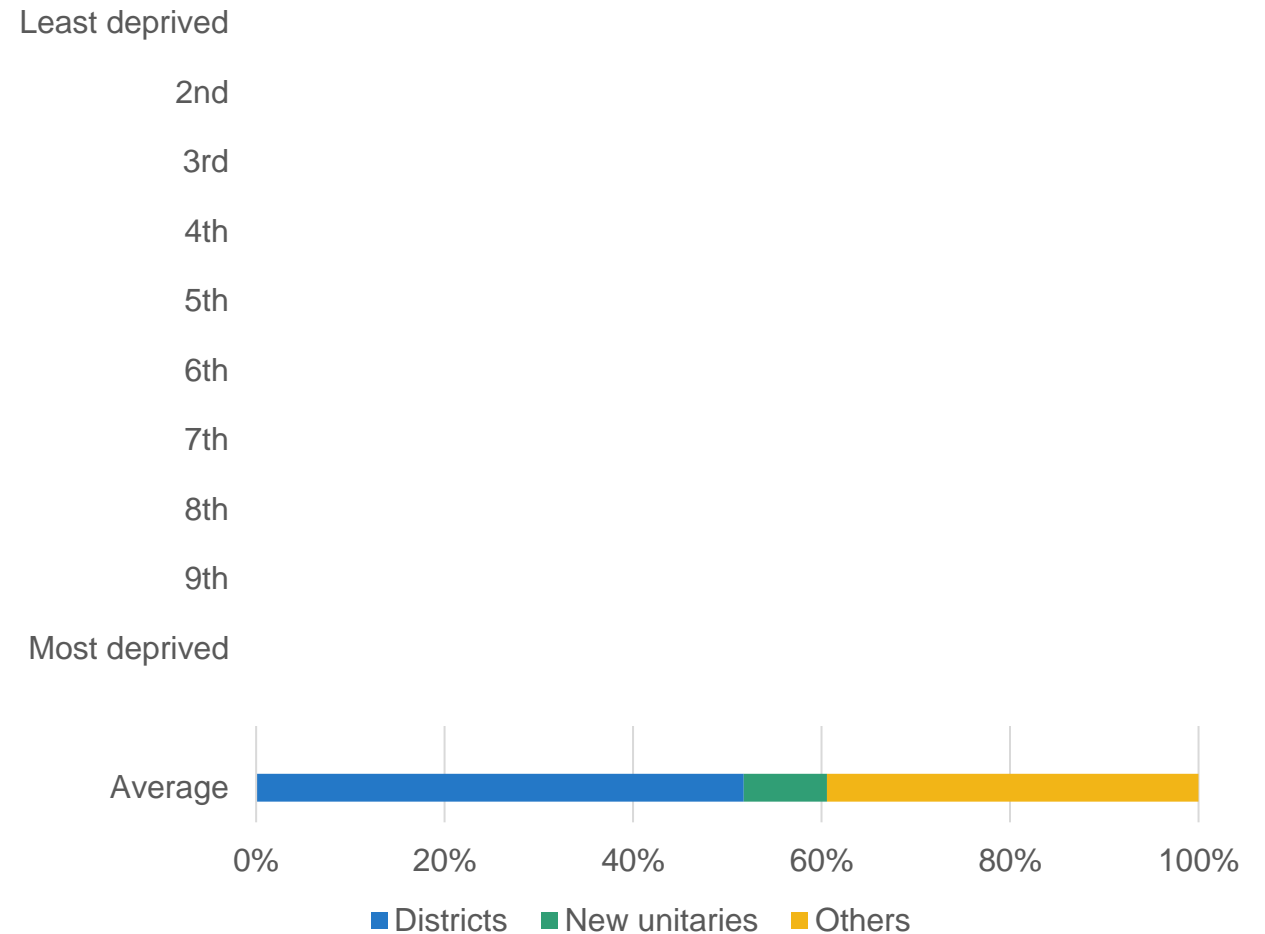


- First consultation on high-level objectives for **finance system reform**, with detail later in the year
  - Confirmed full business rates reset, beginning in 2026-27
  - New assessments of spending needs and revenue-raising capacity
  - Transition to new system over several years, with multi-year settlements
  - 2025-26 as a stepping-stone – but not on the path for everyone
- Reform is welcome – existing ‘system’ out-of-date and essentially arbitrary – but details matter
  - Trade-off between redistribution and financial incentives
  - Subjective decisions around need: what services, for whom, and to what quality?
  - Statistical analysis using sub-council level data on spending/usage helpful, but not full answer

# Issue for districts: Foundation Formula

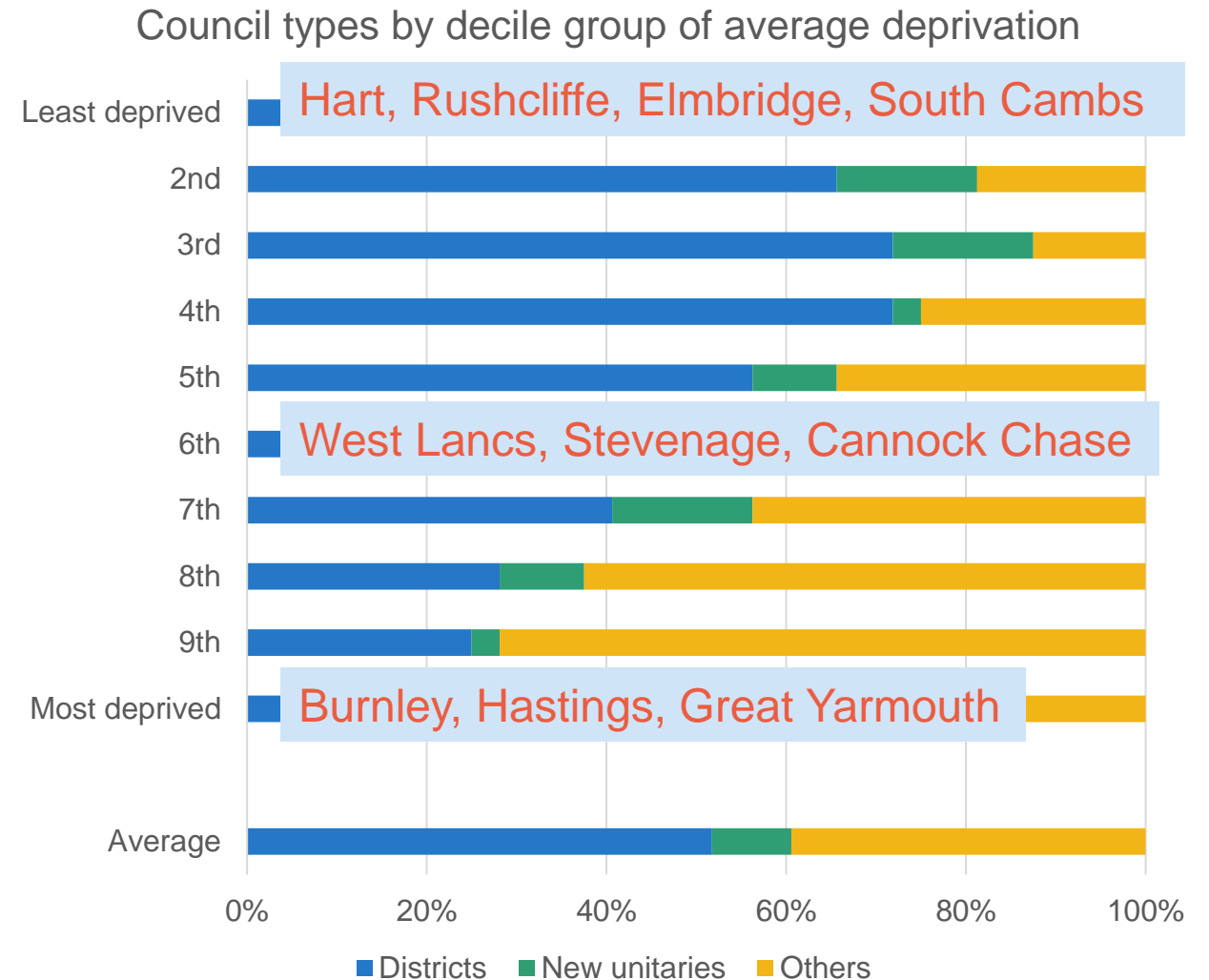
- Foundation formula will be esp. important for districts
- Broad agreement on including deprivation in the formula
  - But what weighting?

Council types by decile group of average deprivation



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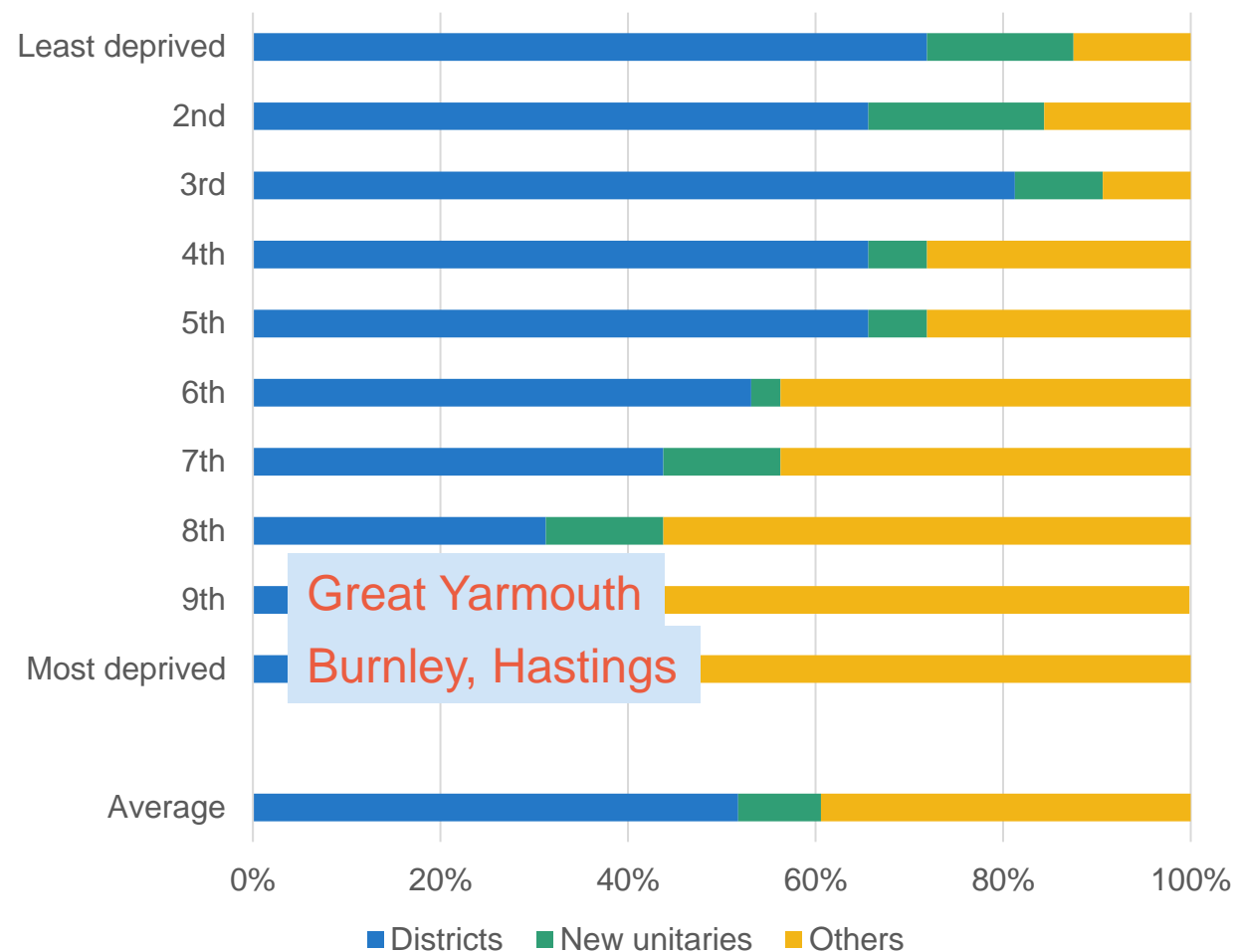
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# Issue for districts: Foundation Formula

- Foundation formula will be esp. important for districts
- Broad agreement on including deprivation in the formula
  - But what weighting?
  - And what precise measure?
- Daytime pop? Pop density & sparsity?
- No 'objective' right answer and results from statistical analysis will bake in funding system in place in year chosen
- Judgement and holistic appraisal, including sectoral input, will be key

Council types by decile group of 'deprivation extent'



# Issue for districts: weighting service blocks

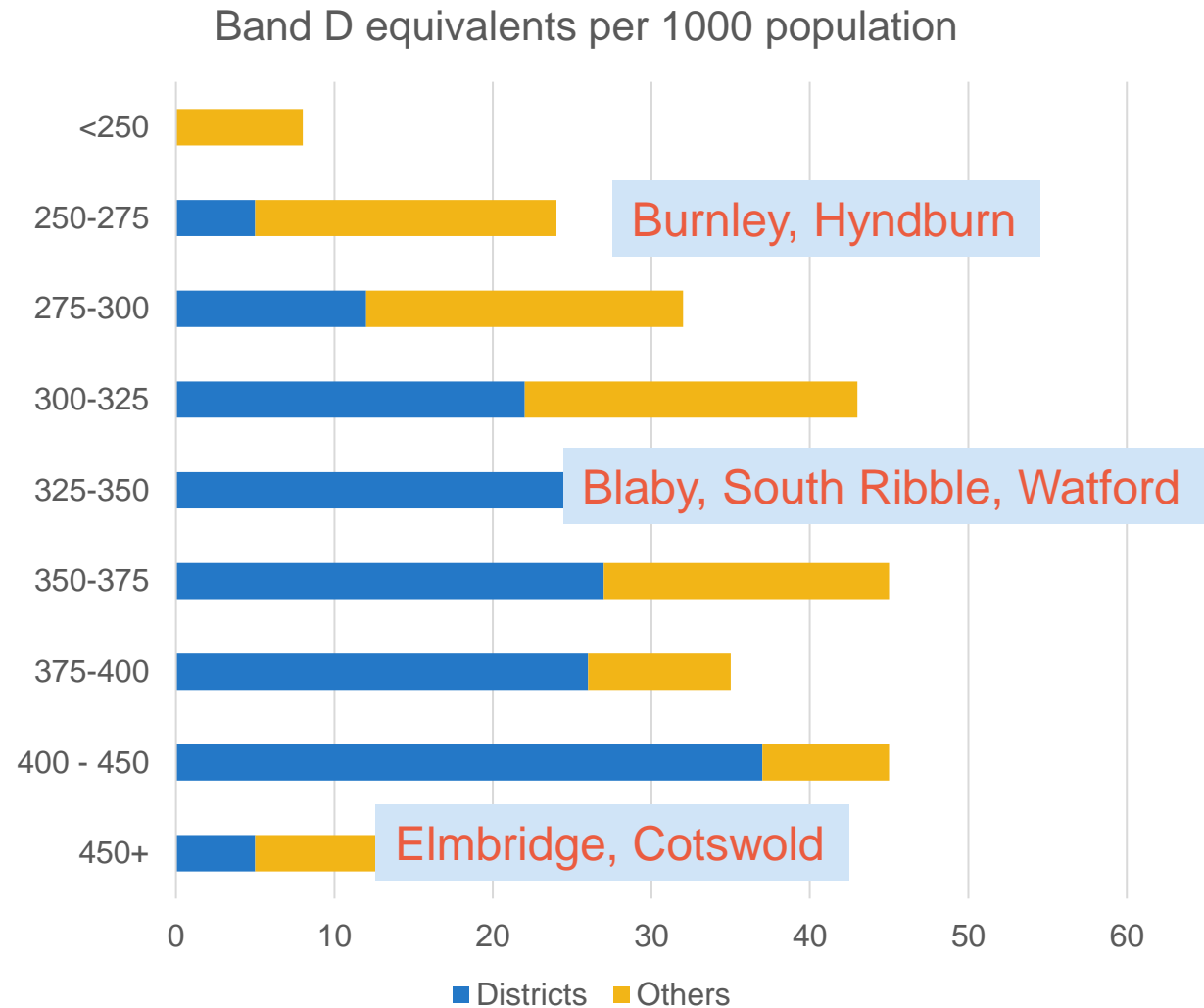
- As well as assessing the needs for different services, a decision is needed on how to weight different service blocks
- In 2013-14, lower-tier services weight in service spending need assessment was 20%
- How to choose new weight?
  - District-provided services currently amount to ~17% of net service expenditure by 'main councils' (exc. schools, fire, public health)
  - Higher or lower weight to reallocate resources?
- Removing fixed cost element esp. affects districts

Service	% spend
Adult social care	40%
Children's social care	23%
Other education	7%
Highways	4%
Other upper-tier	10%
<b>Lower/mixed-tier</b>	<b>17%</b>



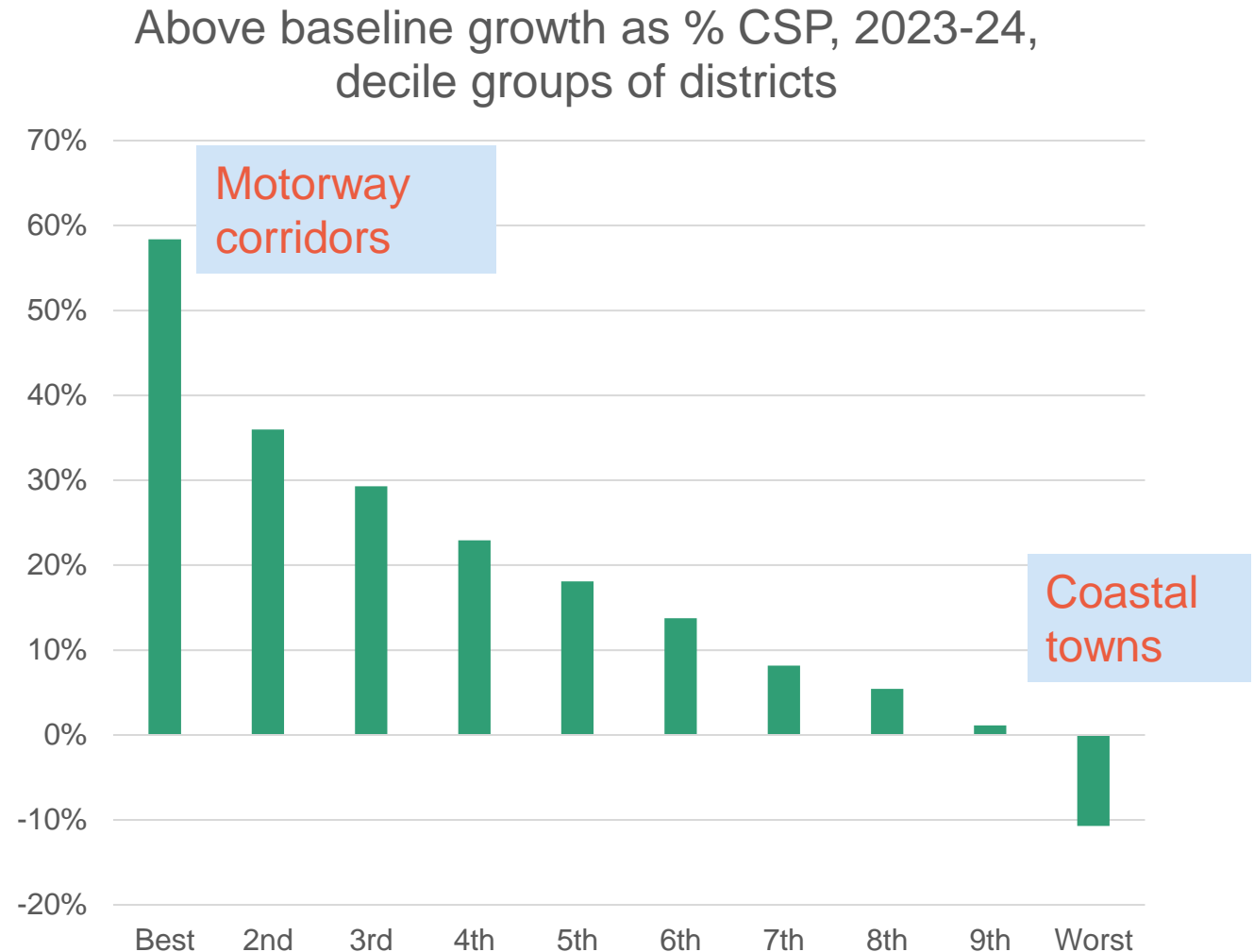
# Issue for districts: resource equalisation

- How much to assume councils can raise themselves via council tax?
  - Overall notional band D rate
  - Split between councils
- Areas covered by districts likely to typically have higher shares of tax bases than spending needs
  - On average, gain from lower notional rate – but not all
- On average, districts' CT is 11.5% of the main council total in two-tier areas
  - All gain from lower assumed rate



# Issue for districts: business rates retention

- Confirmation of a full business rate reset from 2026-27
- Retained business rates growth most significant for districts – but varies substantially across districts
- Transitional arrangements will be key, as will flexibility to respond to falls in revenues
- What retention arrangements post-2026? How frequent and full will subsequent resets be? Reset on a rolling rather than fixed basis?



Note: Deciles based on estimated above-baseline growth as a % of CSP in 2023-24. Calculation of above-baseline growth as described in Ogden and Phillips (2024) [How have English councils' funding and spending changed? 2010 to 2024](#), updated to 2023-24 using revenues outturns, and budgets when outturns are not available.

# The funding and policy context

- Reform will be taking place in a tight funding environment
  - Allocations based on up-to-date assessments of local circumstances even more important
  - Transitioning to new system even more politically and practically challenging
- Transitional arrangements will be key
  - Government proposes ‘blended’ approach, where allocation is  $X\%$  existing,  $100-X\%$  new, with  $X$  increasing until fully transitioned
  - May also want some floors and ceilings to slow down the very largest changes
- Interaction between funding reform and local government reorganization
  - Transitional arrangements
  - UT allocations & in-unitary decisions will matter more for your specific areas & functions



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# Local government funding reform – wider issues

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# Service expectations and absolute needs

- The new local government finance system will be based on assessments of how much councils need and can raise *relative* to each other
  - Absolute quantum of funding to be determined in separate Spending Review
- But ensuring sustainable local government requires funding to be consistent with expectations for range and quality of services
- And relative needs of different councils depend on those expectations and overall funding
  - Needs may be less concentrated among deprived people and areas if overall funding higher and wider range of more universal services provided
- NAO has called for a cross-government approach to council funding and service provision – understanding absolute funding needs should be a key part of this

- New burdens doctrine – government should fund new duties placed on councils
  - But lacks teeth
  - And what about existing burdens?
- Alongside assessment of absolute needs, a ‘funding sufficiency’ rule could help better align funding and service expectations
  - ‘Funding adequacy’ provision in Germany’s ‘finanz constitution’ as an example
- Role for an independent institution in the local government finance system
  - Assessment of absolute and relative spending needs
  - But ultimate decision-making should remain with government / parliament

# Revenue devolution

- English local government finances a relatively large share of its core expenditure, but has narrow range of revenue-raising powers
- Additional powers over council tax
  - Reform or abolish referendum requirements
  - Greater powers over tax base and relativities
  - Revaluation and assessment of tax base should still be done centrally
- Principles should guide new local tax powers
  - Local income tax as most promising ‘game changer’
- A ‘grand bargain’ – more empowered local government that shares the burden of raising revenue with central government?



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# Summing up

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# Summing up

- Councils see a further significant real-terms boost to funding in 2025-26
  - Highly targeted at more deprived areas and most districts seeing a real-terms fall in CSP
  - EPR a 'saving grace' for shire districts and more affluent and rural areas
- Medium-term spending and funding outlook more challenging
  - Increased reliance on council tax for increases in funding
- Reform of funding and services even more important when funding is constrained
  - But also practically and politically more difficult to implement
  - Many moving parts and choices still to be made – and further consultation

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