

<b>LONDON BOROUGH OF CAMDEN</b>	<b>WARDS:</b> All
<b>REPORT TITLE</b> The Fair Funding Review 2.0	
<b>REPORT OF</b> Director of Finance	
<b>FOR SUBMISSION TO</b>  Resources and Corporate Performance Scrutiny Committee	<b>DATE</b>  11 November 2025
<p><b>STRATEGIC CONTEXT</b></p> <p>The funding system for local government has long been recognised as being out of date and broken, having not been substantially updated since 2013/14 and featuring a growing disconnect between the availability of resources and the service needs seen in local authorities across the country. This has been reflected in the rapid growth in local authorities facing unsustainable financial challenges, with 30 local authorities requiring ‘Exceptional Financial Support’ during 2025/26.</p> <p>Given these challenges, the government has begun making a number of reforms to local government finance, including a shift to multi-year financial settlements from 2026/27 and steps to consolidate the number of grants received by local authorities. As part of this, during Summer 2025 the government launched a consultation on plans to refresh the methodology for allocating funding to local authorities through the ‘Fair Funding Review 2.0’, an ambition of successive governments over the last decade. The Council, both alone and in conjunction with its partners, responded to the consultation and engaged with key stakeholders.</p> <p>In October 2025, the government responded to the consultation and confirmed its plans for distributing funding through the upcoming three year Local Government Finance Settlement, which is expected in December 2025. This paper considers the process and the Council’s engagement in it to date, along with the potential implications for Camden over the medium term.</p> <p><b>SUMMARY OF THE REPORT</b></p> <p>This report provides an update on:</p> <ul style="list-style-type: none"> <li>• The role of the Fair Funding Review 2.0, including the context of reforms and how it links with wider government policy frameworks</li> <li>• How the Fair Funding Review will work in practice</li> <li>• A summary of the Council’s response to the consultation</li> </ul>	

- The anticipated impact of these proposals on Camden
- Next steps, including how the Fair Funding Review announcements will shape 2026/27 budget setting and the Council's medium term financial planning

### **Local Government Act 1972 – Access to Information**

No documents that require listing were used in the preparation of this report.

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### **RECOMMENDATIONS**

That the Resources and Corporate Performance Scrutiny Committee note the report.

Agreed by: Director of Finance

Date: 3 November 2025

## 1. CONTEXT & BACKGROUND

- 1.1. Local authorities across London and the rest of England have been operating in a particularly challenging and uncertain environment for the last 15 years. This has been driven by requirements to deliver existing and new duties with a reduced level of funding during the period of austerity, periods of acute volatility in inflation and interest rates and the dislocating impacts of the COVID-19 pandemic, the cost of living crisis and single year funding deals from central government which reduced councils' ability to plan effectively. Large parts of the local government sector have seen their financial resilience weaken dramatically as a result, with 30 councils receiving Exceptional Financial Support from central government during 2025/26, indicative of a funding system which is no longer functioning effectively.
- 1.2. In a November 2024 policy statement, the government recognised the need for a change in approach on local government funding, particularly to "fundamentally improve the way we fund councils and direct funding to where it is most needed".<sup>1</sup> Among the changes put forward by the new government were a move to multi-year financial settlements and work to consolidate and simplify the number of grants received by councils (along with the amount of ringfencing), welcome changes which provide greater certainty for local authorities as they plan for the medium term.
- 1.3. Furthermore, over the last decade much of the infrastructure and methodology underpinning funding allocations to local authorities has remained static. This has contributed to a growing disconnect between the availability of resources and local needs. There were attempts over this period to refresh the distribution formula, with a series of 'Fair Funding Review' consultations between 2016 and 2018 being the most prominent. This work was not finalised or agreed, meaning that the basis for allocating funding to local authorities continued to fall increasingly out of date.
- 1.4. Over the last year, the government has indicated its intentions to reform this system, and its proposals on a new funding methodology were issued for consultation in June 2025 as the 'Fair Funding Review 2.0'. These proposals are designed to determine grant allocations to councils' General Funds from 2026/27 to 2028/29.
- 1.5. The Council prepared its own response to this consultation and engaged with stakeholders across government, whilst working closely with partners across the sector as they did so too. The government is expected to release a response to the consultation in November 2025, setting out its final methodological proposals.
- 1.6. The proposals in the Fair Funding Review are expected to redirect funding away from Inner London Boroughs towards other parts of the country. However, it is crucial to note that the government has not yet finalised its

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<sup>1</sup> <https://www.gov.uk/government/publications/local-government-finance-policy-statement-2025-to-2026/local-government-finance-policy-statement-2025-to-2026>

proposals, and neither the original consultation nor the government's response will confirm the specific funding allocations which Camden will receive. These will be set out as part of the Provisional Local Government Finance Settlement in December 2025, which will establish the Council's funding position for 2026/27 to 2028/29 and form a critical part of shaping the 2026/27 budget, which will be brought to Full Council in March 2026.

## 2. THE FAIR FUNDING REVIEW 2.0

### Role of the Fair Funding Review in Government & Council Decision-Making

- 2.1. The Fair Funding Review marks an important milestone in both the government's decision making on local government funding and the Council's own budget setting and medium term financial planning. The table below outlines the most significant steps in these processes:

Date	Event	Significance
October 2024	Autumn Budget 2024	<ul style="list-style-type: none"> <li>- Sets out the government's overall tax and spend policies</li> <li>- Sets the 'envelope' for total spending across government departments</li> </ul>
June 2025	Spending Review 2025	<ul style="list-style-type: none"> <li>- Confirms spending across individual government departments from 2026/27 to 2028/29</li> <li>- Includes spending allocation for local government as a whole</li> </ul>
June – November 2025	Fair Funding Review	<ul style="list-style-type: none"> <li>- Sets out the government's methodology for allocating funding agreed at Spending Review to councils</li> <li>- Does not confirm specific allocations to individual authorities</li> </ul>
December 2025 – January 2026	Local Government Finance Settlement	<ul style="list-style-type: none"> <li>- Confirms funding allocations to individual councils from 2026/27 to 2028/29 based on Fair Funding Review methodology</li> </ul>
March 2026	2026/27 Budget & Council Tax Setting	<ul style="list-style-type: none"> <li>- Councils across the country, including Camden, determine their 2026/27 budgets</li> <li>- Settlement funding helps inform available resources for budget setting</li> </ul>

### What will the Fair Funding Review Affect?

- 2.2. The outcomes of the Fair Funding Review will shape the Council's Core Spending Power, a government measure of many of the General Fund revenue resources which a council can use to take decisions. This includes many of the grants received from central government and council tax.

Ultimately, the funding in scope for the Fair Funding Review itself covers around 35% of the Council's General Fund revenue income. A breakdown of Camden's 2025/26 Core Spending Power, and the elements believed to be in scope for the Fair Funding Review, is set out below:

**Table 1: 2025/26 Core Spending Power**

	2025/26 Settlement £000
<i>Settlement Funding Assessment</i>	
Revenue Support Grant	28,761
Business Rates Baseline Funding Level	101,812
Section 31 Compensation for under-indexing the Business Rates Multiplier	18,346
<b>Settlement Funding Assessment Total</b>	<b>148,918</b>
<i>Grants</i>	
Social Care Grant	33,849
Local Authority Better Care Grant	15,882
Market Sustainability & Improvement Fund	5,625
Children's Social Care Prevention Grant	826
New Homes Bonus	94
Domestic Abuse Safe Accommodation Grant	46
Employer National Insurance Contributions Grant	2,724
<b>Grants Total</b>	<b>59,046</b>
<b>Council Tax Requirement</b>	<b>147,776</b>
<b>Core Spending Power Total</b>	<b>355,741</b>

- 2.3. Whilst Core Spending Power does also include retained business rates, in practice the most substantive proposal affecting business rates is being considered separately from the Fair Funding Review. This is the 'reset' of the system, which would mean the Council no longer retains a share of the business rates growth accumulated since 2013.<sup>2</sup>
- 2.4. The Fair Funding Review does not directly impact funding for the Council's Housing Revenue Account or Capital Programme, nor funding for schools, which is calculated by the Department for Education via the National Funding Formula and distributed through the Dedicated Schools Grant.

<sup>2</sup> The business rates system has two major objectives around local authority funding – to ensure councils retain business rates in line with their needs and to reward those who grow their local economies with a share of the additional business rates generated. The system is designed to be periodically 'reset' to ensure that the process of matching needs to resources remains up to date, but this hasn't happened since 2013. The government now intends to do so, and a key by-product of this is that the additional business rates received by Camden since 2013 will be redistributed across the country.

2.5. Alongside the information set out in the following sections, it is also important to recognise that the government is, at the time of writing, still considering its final proposals in the light of responses received during the consultation period. Furthermore, no local authority has yet received its funding allocation, and this is not expected until the Provisional Local Government Finance Settlement in December 2025. Policy decisions on any of the following may have a material impact on the content of this report and the Council's medium term funding position:

- Model structure and component weighting
- Changes to individual needs or resources formulae
- Model inputs – such as population data or deprivation estimates
- Transitional arrangements – including 'cash floors' or the timing of any changes to grant levels

### **How does the Fair Funding Review Calculate Council Funding?**

2.6. The Fair Funding Review involves two main steps, which are explored in more detail below:

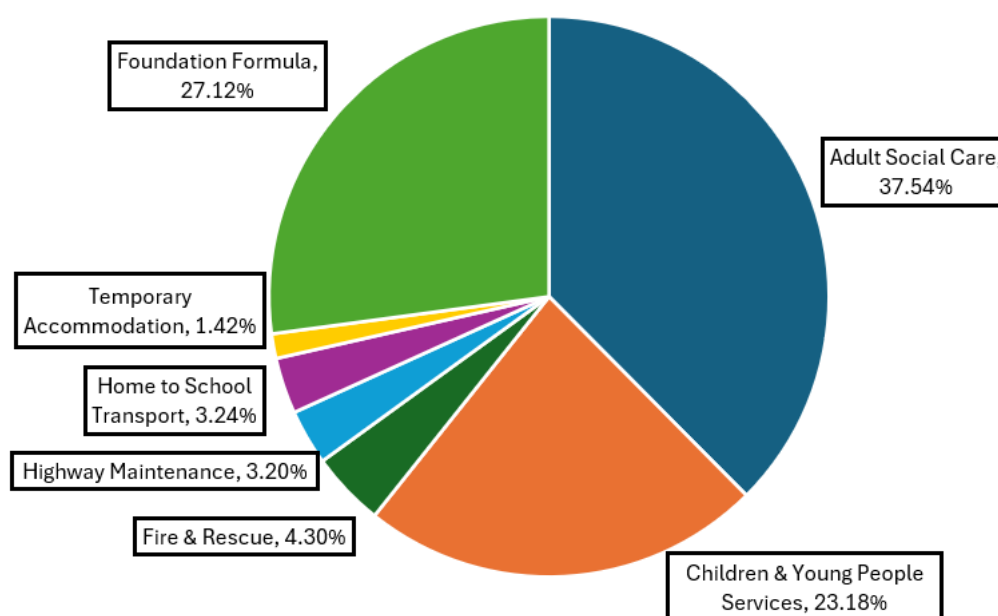
- A Needs Assessment, which considers the Council's share of national need across a series of distinct service areas
- A Resources Adjustment, which increases or reduces that share of need based on each council's ability to raise resources through council tax

2.7. It is worth noting that government decisions on public spending nationally are shaped by fiscal rules, which mean considering both spending commitments and income streams. This means that local government as a whole has a set package of central government funding. The Fair Funding Review is therefore designed to calculate a Council's *relative* need for funding when compared to the rest of the country, rather than their *absolute* need. Any changes in MHCLG policy in response to the Fair Funding Review consultation are a zero sum game, which will mean some local authorities would be 'winners' and some would be 'losers'.

### **The Needs Assessment**

2.8. The first stage of the Fair Funding Review involves the government considering what share of the total national need for services is found in each local authority area. This involves considering needs across a series of different services with different drivers of need. Chart 1 below sets out these services and their anticipated weighting in the Needs Assessment formula.

**Chart 1: Needs Assessment Weighting by Service**



- 2.9. It should be noted that the 'Foundation Formula' covers most non-social care services, including Planning, Waste Services, Leisure, Libraries, Sports & Recreation, Environmental Health, Public Transport (including concessionary travel) and Central Services. As the Council does not deliver any fire services it will have a zero needs share through the 'Fire & Rescue' formula.
- 2.10. The formulae for the individual service areas shown in Chart 1 are often highly complex and draw upon external academic research. Nonetheless, a number of common themes emerge, including a focus on deprivation and the use of population data grounded in the 2021 Census (which the Council believes likely underestimated Camden's population).<sup>3</sup> The government also consistently avoids data on actual service usage where possible, as it seeks to reduce the risk that authorities overstate their need to access a higher share of funding.
- 2.11. The Needs Assessment also includes Area Cost Adjustments. These reflect the higher costs of labour and property in some parts of the country, as well as the costs of delivering services in more remote areas and those disconnected from major markets. As the adjustment for labour costs is the most significant of these, the Area Cost Adjustments are on the whole relatively positive for London.

### **The Resources Adjustment**

- 2.12. Having established each Council's 'relative need' for funding, the Fair Funding Review introduces a second step, the 'Resources Adjustment'. This is designed to account for some local authorities having a greater ability to meet

<sup>3</sup> <https://jsna.camden.gov.uk/reports/demographics/>

their needs through council tax than others, typically as a result of having more properties in higher council tax bands.

- 2.13. Depending on a Council's share of the national council tax base, their needs share may be increased (if they have a smaller taxbase) or decreased (if they have a larger taxbase), to arrive at their final share of grant funding.
- 2.14. The Resources Adjustment is a new step, and one which is a significant contributor to the overall redirection of funding away from Inner London to other areas of the country. Inner London boroughs such as Camden have a large number of high valued Band F-H properties, whereas many other areas (including many northern metropolitan boroughs) have a much greater prevalence of lower valued Band A-C properties and very few in Bands F-H.
- 2.15. In measuring a council's taxbase, the proposed Resources Adjustment makes assumptions around the level of working age Council Tax Support each local authority should have, based on nation-wide patterns. This means the government will assume that local authorities such as Camden (which have maintained robust Council Tax Support programmes through sound financial planning) can raise more council tax than in practice, reducing their eligibility for grant funding.

### **How the Fair Funding Review & Transitional Arrangements Could Impact Camden**

- 2.16. As part of the Fair Funding Review consultation proposals, the government acknowledged that, "whilst most councils would see their funding increase over the multi-year Settlement", the unadjusted application of the formulae would lead to losses for some, and that for a "small number" of councils, these losses would be greater.<sup>4</sup> We understand that Camden is among those councils expected to face larger losses.
- 2.17. Indeed, analysis from the Institute for Fiscal Studies (IFS) notes that Camden is expected to be one of the councils which is most exposed to reductions in funding.<sup>5</sup> This is anticipated to reflect both a decline in the relative level of need in Camden under the updated 'Needs Assessment' methodology, and the new 'Resources Adjustment' assuming significant additional capacity to raise council tax.<sup>6</sup>
- 2.18. Some local authorities and other organisations have released figures showing changes in estimated levels of funding. It is important to note that any such figures are illustrative and based on a series of assumptions which could substantially change. They cannot be taken as guaranteed without a final post-consultation response from the government and the confirmation of specific allocations through the Local Government Finance Settlement.

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<sup>4</sup> Pg 80 of [https://assets.publishing.service.gov.uk/media/688237662b6fd60b7c161009/Version\\_14\\_For\\_publication\\_Fair\\_Funding\\_Review\\_2.0.pdf](https://assets.publishing.service.gov.uk/media/688237662b6fd60b7c161009/Version_14_For_publication_Fair_Funding_Review_2.0.pdf)

<sup>5</sup> Pg 6 of [https://ifs.org.uk/sites/default/files/2025-08/IFS\\_report\\_Fair-Funding-Review2\\_0\\_0.pdf](https://ifs.org.uk/sites/default/files/2025-08/IFS_report_Fair-Funding-Review2_0_0.pdf)

<sup>6</sup> Pg 14 of [https://ifs.org.uk/sites/default/files/2025-08/IFS\\_report\\_Fair-Funding-Review2\\_0\\_0.pdf](https://ifs.org.uk/sites/default/files/2025-08/IFS_report_Fair-Funding-Review2_0_0.pdf)



- 2.19. In practice, the scale and impact of any losses depends on the range of outstanding government policy decisions around the formula itself, local developments such as changes in the council tax base and the transitional mechanisms put in place to avoid immediate dramatic changes in funding. As part of the consultation document and in subsequent conversations with senior Council Officers, the government has set out the approaches to transition that it was considering. The most relevant transition mechanism to Camden is what is known as a 'cash floor', which effectively sets a maximum loss of funding that any one Council can incur.
- 2.20. We understand that the government is considering setting the floor at 7%, meaning that affected councils would not see their Core Spending Power drop by more than 7% across the period of the settlement. This would be a reduction of Core Spending Power in cash terms, with the real terms funding reduction (accounting for inflation) likely being greater. However, not all of a council's funding is captured in Core Spending Power, and there may be options around these other funding streams (such as fees and charges) to help make up some of the estimated loss.
- 2.21. Furthermore, we expect that in practice, a 7% floor would mean a more substantial decline in grant. This is because the government would likely also assume that councils would increase their council tax levels by 4.99% per year (the legal limit) to ensure Core Spending Power does not fall by more than 7% on 2025/26 levels. However, it is critical to stress that council tax decisions are solely determined by Members of each local authority as part of their budget setting process. Nonetheless, if a Council chooses not to increase its council tax by the legal limit, the government would not increase the level of grant funding to make up the shortfall, ultimately meaning fewer resources will be available to deliver services.
- 2.22. One additional transitional approach which would benefit the Council would be to backload any grant losses, which would in turn ensure that the Council's Core Spending Power falls more gradually over time and giving us greater flexibility to shape our medium term financial planning accordingly. The government has not yet commented on whether it considers this as an option.

### **Camden's Consultation Response**

- 2.23. In its response to the government, the Council recognised the importance of linking funding to local needs and the specific acknowledgement of growing Temporary Accommodation need through a bespoke formula. It also acknowledged the value of multi-year settlements, simplified grant allocations (which should reduce uncertainty and bring benefits to our medium term financial planning), along with the reduction of unnecessary burdens on local government.
- 2.24. At the same time however, it was clear that there were challenges in respect of some of the data used to construct the formula, and that more work to effectively match resources to need would be welcomed. The Council's main

challenges are set out below. Many of these points have also been noted by partner organisations working with the Council:

- **Accuracy of population data** – The Fair Funding Review proposals draw heavily on 2021 Census data throughout the Needs Assessment. The census was conducted during the pandemic and is believed to have significantly underestimated Camden’s population and commuters, students, and visitors, leading to an understatement of local need. We have argued that other estimates and assessments should be used to augment the flawed 2021 Census data to correct for these issues.
- **Accounting for housing costs in deprivation measures** – Whilst a focus on deprivation across key parts of the Needs Assessment is welcome, the measures used have limited recognition of the impact of housing costs. This has a major bearing on London. Once housing costs are included, the percentage of Camden’s children in poverty doubles to around 40%, one of the highest rates in the UK. We believe that the proposed formula should include an assessment for income after housing costs, and that the housing costs element should be given stronger weighting.
- **Accuracy and robustness of the children’s formula** – The proposed model for calculating children’s social care needs does not fully reflect how deprivation drives poorer child wellbeing (with the deprivation measure used failing to fully account for the impact of housing costs). It also contains other issues, including weaknesses around capturing child health needs. There has also been little consultation on the formula with the sector, and we would welcome challenge and scrutiny of the formula before it is used for allocating funding.
- **Overstatement of council tax raising ability** – The proposed ‘Resources Adjustment’ does not reflect a council’s ability to actually raise council tax, which is shaped by a series of decisions dating back to 1993. It also penalises local authorities with robust working age council tax support schemes such as Camden. Cuts in this provision at the scale assumed in the Fair Funding Review would risk significant hardship to the most vulnerable in our community.

- 2.25. The Council has provided a robust response to the consultation and has engaged with local MPs. Government officials have engaged with Council Officers and with partner organisations such as London Councils, and we are optimistic that the government will acknowledge some of the challenges we have raised within its final proposals.

### **Next Steps**

- 2.26. As noted elsewhere in this report, the government is currently considering responses to the consultation and is due to issue a policy statement in October or November 2025 confirming its final proposals. This will in turn influence the Council’s funding allocations for 2026/27-2028/29 through the Provisional Local Government Finance Settlement in December 2025, confirmed through the Final Settlement in early 2026. In the meantime, Officers and Members will continue to make the Council’s case to government

officials and ministers and work with partner organisations such as London Councils and Central London Forward.

- 2.27. The funding allocations derived through the Fair Funding Review's methodology and announced through the settlement will form a critical part of budget and council tax setting for 2026/27, shaping the Council's view of its financial resilience and its ability to invest. Grant allocations announced through the settlement will also be built into the Council's Medium Term Financial Forecast, which will be important in establishing any medium term budget gap and any future financial strategies.

### **3. LEGAL COMMENTS OF THE BOROUGH SOLICITOR**

- 3.1. Any legal implications are reflected in the body of the report and the Borough Solicitor has no additional comments to make.

### **4. COMMENTS OF THE DIRECTOR OF FINANCE**

- 4.1. The comments of the Section 151 Officer are incorporated in this report.

### **5. ENVIRONMENTAL IMPLICATIONS**

- 5.1. This report considers the potential impact of the Fair Funding Review on the level of central government grant funding received by the Council. Whilst the scale and timing of any change in funding is still to be confirmed, any funding losses would reduce the resources available for environmental improvement projects, with likely negative environmental consequences for air quality, climate and nature.

**REPORT ENDS**