

Funding formulae and their impact on London's public services

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1 Introduction and a brief background

The government is planning to change how it allocates resources to local government. Resource distribution – having been ‘frozen’ and based on increasingly out-of-date social and demographic data for over a decade – has seen the Ministry of Housing, Communities and Local Government (MHCLG) planning to implement a new allocation mechanism from 2026-27. Early exemplifications suggest that the London boroughs will, altogether, lose a significant share of their existing central funding; and thus will see their spending reduced. Some boroughs in outer London will gain grant and spending power; but, overall, there is a shift from London and the South to the Midlands and parts of the North. For some of the affected councils, their spending will fall to levels a third below those in 2010-11.

The local government funding formula is one of several used to allocate public service funding in England. Changes in London's ‘relative’ need to spend on council services, compared to the rest of the country, will lead to a shift of resources. At its simplest, inner London is assessed to be relatively less ‘needy’ than other parts of the country (including most of outer London) than it was a decade or two ago. If this is true for council services, it is possible that other formulae may be changed in ways that disadvantage London and its residents.

It is important to state that the local government grant system measures relative, not absolute, need to spend. Many people living in London will have significantly higher spending needs today than 10 or 15 years ago. It is possible an entire inner borough has higher spending needs today than in the recent past. But if a council elsewhere in England has needs that have grown even faster over the same period, it will have become relatively more ‘needy’. This use of relative need to determine which areas should get bigger or smaller amounts of central funding means that, if there is little extra money in the system (as is currently the case), the system simply ‘robs Peter to pay Paul’.

This paper looks how the local government funding reform is expected to impact London; and then considers how other formulae are currently working in England. It will also report where ministers have indicated they might wish to change the distribution of resources more generally.

There is a long tradition in Britain of central government using complex funding formulae to allocate resources to public services. Local government, the NHS, schools, the police and other provision are funded from the Exchequer – but with the relevant Whitehall departments using formulae to allocate money to councils, health authorities/trusts, schools and police forces.

The history of this formula-driven allocation process started in the early part of the 20th century, with the then local government ministry using simple factors to distribute money differentially between councils. Thus, a formula might allocate councils £50 per year for each primary school pupil, or £20 per older person, to account for the fact that some areas had more young or old people living in them than others. ‘Equalisation’ grants of this kind had been advocated by Sidney and Beatrice Webb (key figures in the Fabian Society) in the run-up to the First World War. With the 1960s seeing developments in computing, and an expansion of social science research, Whitehall officials adopted more complex (and thus increasingly incomprehensible) grant-distribution methods from this point onwards.

The NHS was created in 1948 – but this did not immediately lead to adopting the kinds of formulae used for local government. Only in the 1970s was the Resource Allocation Working Party created. It advocated distributing resources based on research-based formulae that took account of factors such as population size, healthcare need, deprivation and demographic variations. Much academic research was employed in an attempt to measure ‘need’, and to deliver a fairer allocation of resources from place to place. According to the NHS website, today's distribution of resources “uses a statistical formula to make geographic

distribution fair and objective, so that it ... reflects local healthcare need and helps to reduce health inequalities."

Schools' resource distribution was part of the local government funding system until 2006. This is when the government decided to introduce a formula-based allocation mechanism, which would allow schools' funding to be ring-fenced. There is now a National Funding Formula (NFF) that allocates money to local authorities based on factors such as pupil numbers, pupils' age, deprivation and area costs. There is a high needs block to reflect the requirements of young people with special needs. When councils receive funding, they must allocate this to schools using a local formula, following consultation with a local 'Schools Forum' (which includes school representatives).

The Police Funding Formula, like those discussed above, uses population, social and demographic factors, and density/sparsity measures. It had its origins in the Police Act 1964. But the police grant also reflects reported crime levels within its allocation mechanism. Fire and emergency services have their own formula within the local government funding system. It includes measures not used in other formulae – for example, coastline length, building types and fire safety costs.

The use of formula-based allocations is, in part, a reflection of how centralised England is. Although councils, the police and fire services have access to council tax income, this theoretical freedom to set local spending is controlled by capping rules determined by the government. Thus, changes in central government grant allocations annually determine what most councils can spend. In the NHS and for schools, institutions are effectively 100% dependent on grant-determined funding.

Great store has been set by successive governments on funding formulae being 'fair'. Indeed, all governments insist their resource distribution mechanisms are equitable and reasonable. However, there is much room for manoeuvre when officials advise ministers about which measures to use; which organisations to commission, to undertake research about 'need' and 'deprivation'; and how to interpret the results.

Moreover, some needs factors appear to reward failure. For example, if the NHS fails to reduce health inequality, a needs formula may give it more money. Similarly, increased reported crime within an area may result in it receiving additional grant. Politics inevitably intrudes on the pure measurement of expenditure needs. It would be naïve to imagine it would not do so.

But the formulae matter. Ministers and civil servants may consult on resource allocation mechanisms; but there is little that councils, hospitals, schools, police forces or fire brigades can do about the outcome of decisions made in Whitehall, around factors to be used in calculating their 'needs'. In recent years, and for the period covered by the 2025 Spending Review (up to 2028-29), there is a significant squeeze on public-sector budgets. As a result, changes in the distribution formulae will, in general, simply shift resources from one council, hospital, school, police force or fire brigade to another. Apparently small changes to funding formulae matter enormously to people living everywhere in England.

Ministers can also use one-off ring-fenced grants to target Whitehall funding for specific purposes; or to help areas with particularly concentrated needs. The previous government used such grants for 'levelling up'; potholes; and to replace European funding streams after Brexit. Under the current government, MHCLG is increasingly using similar targeted grants within initiatives such as 'Pride in Place'. There is even more discretion available to Whitehall in the distribution of these ring-fenced grants than the formula-driven ones.

2 Pressure for reform and change: short-term and longer-term

The resource-allocation formulae used for local public services are revised from time to time. There are three main reasons for such revisions.

- Data within the formulae need to be updated.
- The existing formula is judged by ministers (on advice from officials) to be out of date and/or to reflect needs different to those now seen as important.
- Political judgement.

There are good reasons for changing aspects of formulae. Data relating to population, deprivation, density, costs and other factors change over time. The extent to which such data can be updated depends on the frequency with which official agencies themselves generate statistics from year to year. There is a population Census every decade; but the Office for National Statistics (ONS) has, in the past, produced annual population estimates for intervening years. Government departments produce data about pupil numbers, health attributes, deprivation and so on. In some cases, these are annually revised numbers; others are published less frequently.

Unhelpfully, the ONS is currently suffering significant problems in delivering up-to-date and accurate data relating to the labour force, migration, population and other indicators. It has been the subject of a government-commissioned report into its difficulties. As a result, there are likely to be challenges to the delivery of credible data to underpin elements of the funding formulae.

The funding formulae themselves are subject to periodic revision. For example, the question of how 'spending needs' are determined will rely on research about which factors can be shown to influence the need to spend on, say, children's social care, GPs or policing. Is ethnicity a factor that can be shown to drive the need for spending? Do deprivation levels affect the pressures on GPs? Is rising crime an indication of a need to spend more on combating it? How should local housing costs be measured?

Some factors are self-evidently candidates for being an element of a funding formula. The number of children in a local authority will have a significant bearing on the need to spend on social care and schools. The overall population will influence the need to spend on public health. Miles of road are a rational starting point for measuring the need to spend on road maintenance. The number of 16-to-19-year-olds will influence the need to spend on further education and skills. And so on.

But the individuals within these populations will vary significantly in their likely need for spending to deliver comparable outcomes. For example, some young people have special educational needs; and some local residents are more likely to have higher demands for public health interventions (e.g., smoking cessation programmes). Not all roads are the same: areas with more frosty days will require more attention than those in mild locations. Areas with more non-English speakers face different service demands to those where everyone speaks English.

Academics, consultants and civil servants are, from time to time, commissioned to research the factors that impact on the need to spend. In doing so, they have long relied on backward-looking analysis of the relationship between higher/lower spending and particular demographic characteristics. However, a simple correlation between past expenditure patterns and a particular factor (for example, reported crime), may suggest causation – but it may not. High levels of crime may relate to poor-quality policing – thus, attributing it as an indicator of 'need' would effectively reward failure. But high levels of crime may also reflect a genuine need for higher spending. Judgement is required.

Deprivation has long been a key factor linked to a higher need to spend. But deprivation can be measured in different ways. Low household income, lower levels of educational attainment, housing costs in relation to income, housing conditions, ethnic minority status, crime levels, and poor health outcomes are among the many candidates to be included in a measure of deprivation. The way these factors (and others) are weighted can be influenced by research; but, again, relies on judgement. Government measures of deprivation change over time, reflecting different political and economic circumstances. Thus, for example, the government's Index of Multiple Deprivation (IMD) changed significantly in 2004, compared to 2000; and again in 2010.

Beyond efforts around the scientific measurement of expenditure need, the government makes judgements that profoundly affect the expenditure-need measurement for each area. For example, within the local government grant allocation formula, MHCLG makes prior decisions about the totals to be allocated to each service. The 'control total' (i.e., assumed overall relative need) for children's social care, adult social care and other service blocks will affect the grant received by each council.

A decision about which researchers to commission, to produce an individual service needs formula, will inevitably lead to different outcomes: no two research teams would reach the same result. Even when consultants have produced research about needs measurement, there will be decisions to be made about weightings and priorities.

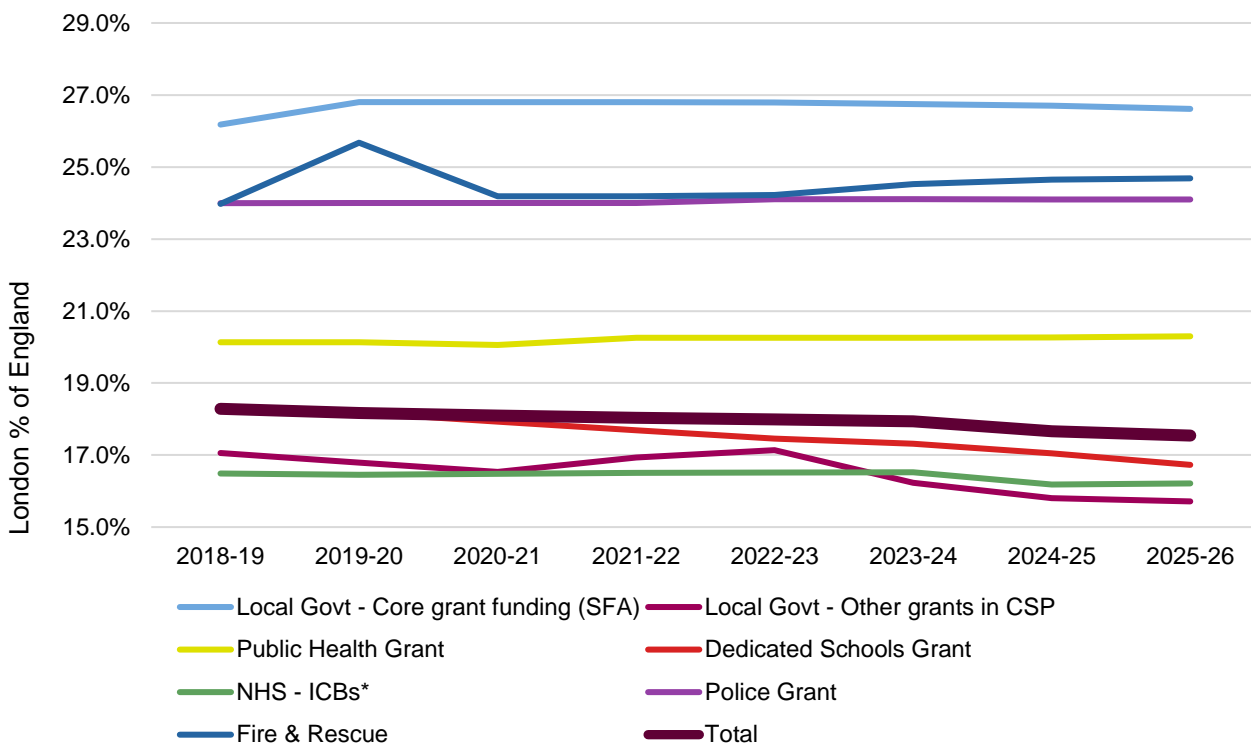
Political judgement also plays a role in pressure for reform. If ministers believe their mandate and/or electoral chances require particular changes, there is no reason civil servants should not accommodate ministerial needs. Earlier governments, and the current one have, taken an approach to the distribution of specific grants that excludes many parts of the country. For example, the previous government's Towns Fund excluded the whole of London (and many individual authorities outside the capital) from receiving any money. In a democracy, those in government rightly can make decisions to spend public money in ways that reflect political objectives – providing they can be shown to be reasonable. Even the more recent 'Pride in Place' initiative gave very little to deprived London areas. Notions of what it is to be deprived appear to be changing in England.

The measurement of expenditure need is not a pure one. It involves decisions about how much money each service will receive in total; which data to use in building up formulae; who to commission to help determine the formulae; and how to decide which way to use the formulae.

3 The existing formulae and resource distribution

Funding formulae determined by Whitehall allocated at least £44bn of funding to London's main public services in 2025-26; and over £250bn across England. The chart below shows London's percentage share of local government, public health, NHS, schools, police, and fire and rescue funding formulae since 2018-19. Apart from the dedicated schools grant (DSG), London's share has changed very little. This is largely a result of no changes, or very limited changes, to funding formulae over that period.

Figure 1: Main formula-funded public services - London % share of England - 2018-19 to 2025-26



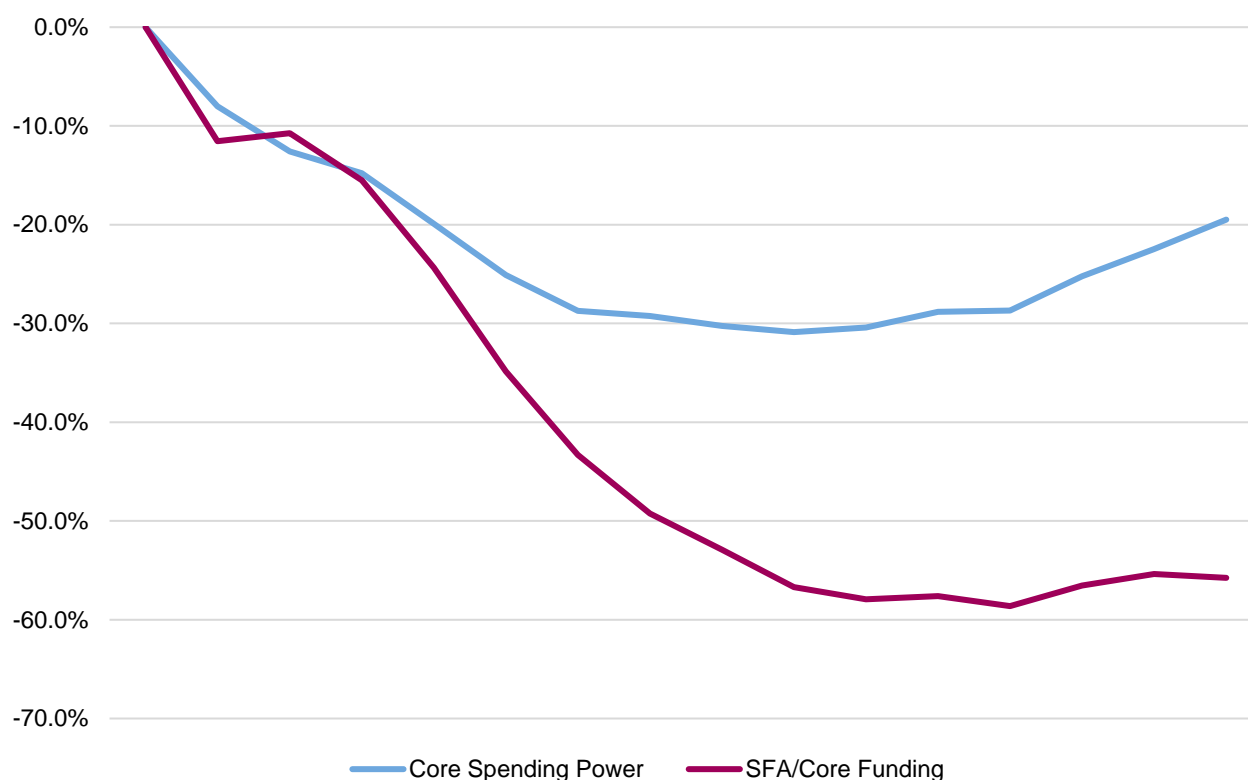
*Figure 1 shows childcare grant (CCG) allocations to 2023-24, then Integrated Care Boards (ICBs) for 2024-25 and 2025-26. Source: London Councils

However, the current government is reforming local government core funding for the first time since 2013-14. It has made signals of broader intentions to reform the funding of other services – this could have far-reaching consequences for Londoners.

Local government

Local authorities' revenue spending is funded predominantly by a combination of council tax, government grants and retained business-rates growth. Since 2011, central government has used the term "core spending power" (CSP) as a proxy for the total of these sources. The chart below shows how London boroughs' CSP has changed over that period; in 2025-26 it remains, in real terms, around 19% below 2010-11 levels, largely due to a 56% reduction in central government funding. The difference between the two lines in Figure 2 is explained by real-terms increases in council tax, particularly since 2017-18. There has also been a growth in some ring-fenced grants, most notably for adult social care, since 2016-17.

Figure 2: Real terms change in core spending power and core grant funding - London boroughs - 2010-11 to 2025-26



HM Treasury [GDP Deflator, September 2025](#)

Source: London Councils – analysis of MHCLG local government finance (LGF) settlements since 2011

As a result of London boroughs seeing larger cuts to core funding than other areas, on average, their share of CSP reduced from 15.9% to 14.6% between 2010-11 and 2025-26. When combined with the GLA, London's overall share of CSP fell from 22% to 19% over that period.

The process for allocating core funding is being updated, and simplified significantly, for the first time since 2013-14 through what the government has termed the "Fair Funding Review 2.0". This process will update how relative needs are measured; and how local resources (council tax) are "equalised". This will result in a new distribution of funding across England from 2026-27, with the new formula phased in over the next three years.

The government consultation, published in June, indicated significant changes in shares of relative need across the country. London overall, and central London in particular, are likely to see the largest reductions in shares of funding: the Institute for Fiscal Studies estimate that CSP could reduce by up to 15% for some boroughs. London Councils estimates London boroughs' collective funding could be £800m lower by 2028-29 than if the current formula continued. This would leave London boroughs' share of CSP at less than 14% of the England total; and London overall (the boroughs and the GLA) at less than 18%.

The reasons for this redistribution are complex, but key factors include:

- **the simplified structure of the formula** – from one that included 15 relative needs formulae, and numerous grants that were consolidated within the core grant in 2013-14, to a new overall needs formula with just seven components

- **a significant reduction in the use of ethnicity as a driver of need** in several of the main service formulae – notably children's services, where London's share of the formula is reducing by almost 40%
- **the use of the IMD**, in place of more specific welfare and poverty measures that were used in the 2013 formula
- **the reduced weight of population density** as a key driver of need
- **including measures of rurality within the area cost adjustment** – remoteness and travel times factors – based on judgement, rather than evidence.

While these changes have resulted from a technocratic process, they all involve political (i.e., ministerial) choices and judgements; and signal potential warning signs for other funding formulae, should they be reviewed by government.

The NHS

The NHS is funded through predominantly via the Department of Health & Social Care (DHSC) budget (totalling £196bn in 2025-26). Approximately £136bn of formula-based revenue grant goes to ICBs to deliver local health services. London's five ICBs received £22bn (c.16.2% of the total), split into:

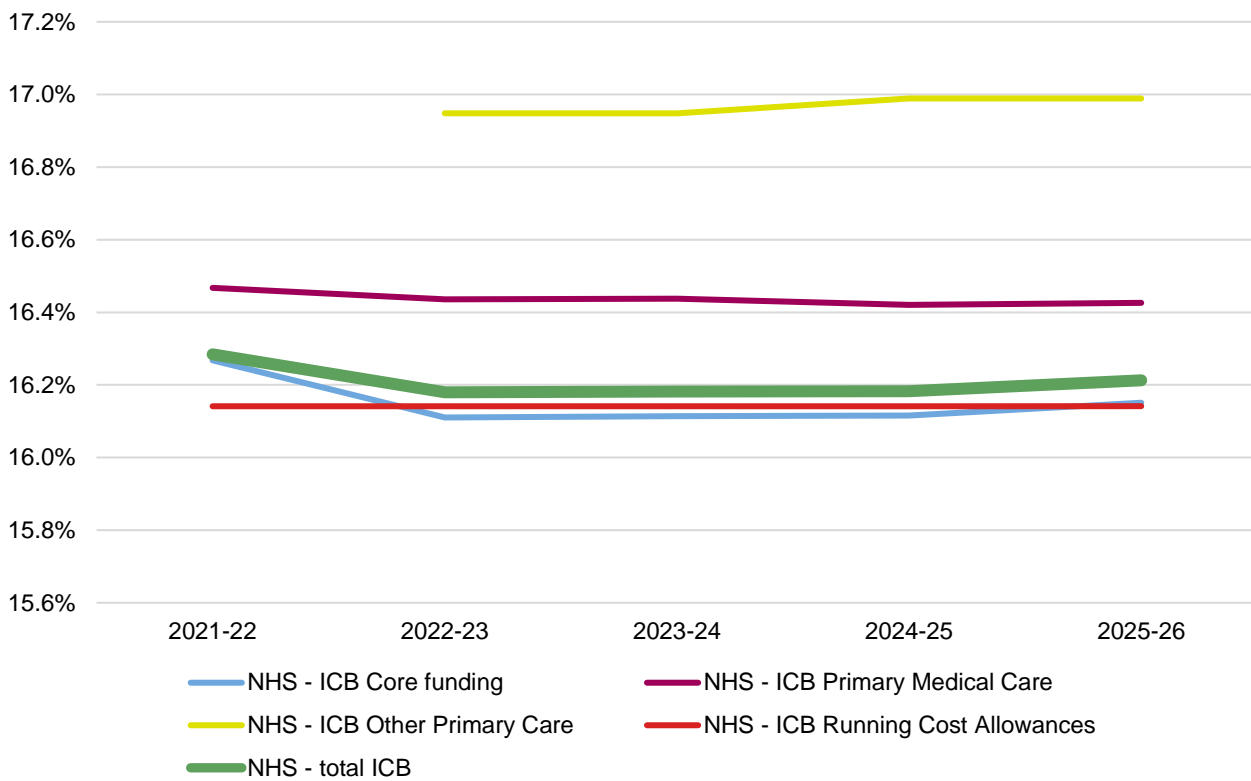
- core ICB allocations (£18.9bn)
- primary medical care (£2bn)
- other primary care (£1bn)
- running cost allowances (£141m).

The Core ICB funding formula includes a weighted capitation formula, as advised by DHSC's Advisory Committee on Resource Allocations. Key factors include age; sex; health status; and deprivation, defined as the proportion of people living in low-income households (under-60s) from an 'Indices of Deprivation income domain'. This is used rather than the overall IMD, as it has been shown to be most strongly correlated with health inequalities and extra demand for NHS services. The formula also includes an area cost adjustment – the "Market Forces Factor" – that increases funding where staff/building costs are higher, notably in London. Extra uplifts for more remote services – e.g., ambulance travel in rural areas and small A&E hospitals – have been added in recent years.

Individual GP surgeries are funded from the Primary Medical Care budget allocated via ICBs, but nationally set using the "Carr-Hill" weighted capitation formula. This provides a greater share to areas with older age, additional needs (based on morbidity/mortality measures linked to age/sex), higher turnover of patients (as care continuity is harder) and rurality. It also includes the market forces factor to reflect cost differences. Importantly, the formula does not include a direct deprivation measure.

London has received around 16.2% of total formula-drive funding consistently since the introduction of ICBs in 2021-22; and a higher share of primary medical care.

Figure 3: London % shares of England ICB funding - 2021-22 to 2025-26



NB – The first year of ICB allocations was 2021-22, so this is used as the base year

Source: [NHS England](#)

Following the publication of the NHS 10-Year Plan, the Health Secretary has indicated the intention to change how GP funds are distributed to help deprived and coastal areas, which currently receive 10% less on average than affluent areas.

A press notice, outlining the proposals in the government’s 10 Year Health Plan, stated:

“People living in working-class communities and areas where medical resources are desperately needed are set to benefit from a huge boost in support, with billions of pounds diverted to deprived areas, as the government’s 10 Year Health Plan takes unprecedented action to tackle the nation’s stark health inequalities”.¹

In an attempt “to rebuild [the] NHS in working-class communities” it appears the government intends to reallocate resources, particularly relating to GP funding. Given the proposals in the Fair Funding Review, to reduce the overall grants given to local government in London – which divert resources from London to other parts of the country – it is possible that GP funding in London could face a similar redistribution away from the capital.

Public health

Public health is funded by a ringfenced grant to local authorities, which can only be spent on public health activity. Distribution of this grant has changed very little since the service was transferred from the NHS to local government in 2013-14. Initial allocations were based on previous NHS-determined public health

¹ DHSC Press release, [Landmark plan to rebuild NHS in working-class communities](#), 25 June 2025

spending; a new formula was only partially introduced from 2014-15, which determined reformed "target shares" for grant allocations.

The formula begins with ONS population estimates for each local authority, broken down by age and sex. These populations are weighted by indicators of health need, including under-75 mortality rates, prevalence of drug and alcohol dependence, smoking, obesity, and child health factors. The formula places significant weight on deprivation, measured primarily through the IMD; and includes the Market Forces Factor area cost adjustment used within NHS funding.

Over much of the last decade, real-terms cuts to the public health grant have slowed convergence towards the 2014-15 targets. Since 2023 there have been small increases in funding distributed more evenly (with minimum per-capita uplifts). However, significant disparities remain between formula targets and actual allocations – with inner London boroughs, in particular, still above target.

DHSC has not indicated publicly that it plans to update the formula,. However, were public health funding to be reformed, London's higher starting point (the city receives 20% of overall public health resources, and is home to 16% of the total population) might result in a shift of resources out of the capital.

Schools

Schools are funded via the DSG, comprised of four blocks:

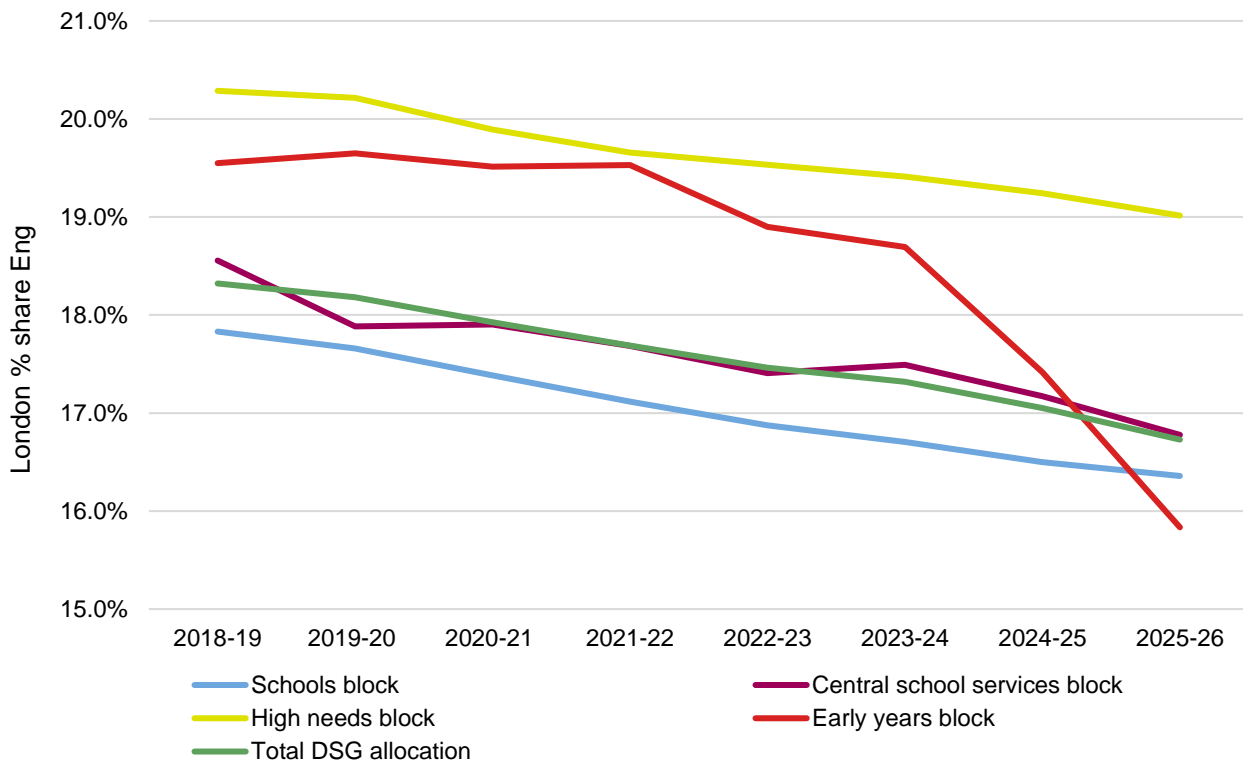
- schools block – funding for mainstream schools
- high needs block – funding for pupils with special educational needs and disabilities (SEND) and alternative provision
- early years block – funding for children aged three and four, and some aged two, for free early education
- central services block – funding for local authorities' statutory education functions.

Since 2018, an NFF has determined the Schools and High Needs Blocks, standardising allocations nationally. Both formulae are complex – but include basic per-pupil funding; specific measures of need (deprivation measures such as eligibility for free school meals; low prior attainment; English as an additional language; disability; and bad health); and an area cost adjustment based predominantly on staff costs.

There has been significant investment in the early years block (a 116% increase) in the last two years, reflecting changes in free childcare entitlement; and a significant (78%) increase in high needs block funding since 2019-20, as a result of a steep rise in pupils with SEND.

London's share of each of these varies from 15.8% (early years block) to 19 % (high needs block). However, it is notable that, since 2018, London's share of all four blocks has fallen considerably, as shown in Figure 4. The main reasons for this are London's falling birth rates and outward migration of young families. These factors have reduced the number of children relative to other areas. While London has a high level of children with SEND, its share of high needs block funding has fallen. This is because other parts of the country have seen faster growth in numbers of pupils with Education Health and Care Plans. The expansion of early years entitlements has also disproportionately increased allocations outside London, where take-up is higher.

Figure 4: London boroughs' % share Dedicated Schools Grant and sub-blocks - 2018-19 to 2025-26



Source: [DFE](#)

The education secretary has spoken about the need to help the White working class,² whose levels of educational attainment are much lower than other social and demographic groups. In May 2025, the Department for Education stated:

"We are reviewing the schools and high needs national funding formula (NFFs) for 2026-27 and the following years, recognising the importance of establishing a fair funding system."³

As with the NHS, and given London has a relatively low White working-class population, any reform to the schools funding formula may reduce funding for London institutions.

Police

Police forces are funded from a combination of central government grant and locally raised council tax, topped up with specific grants. Around two-thirds of police funding is provided by core funding formulae determined by the Home Office.

The Police 'Main Grant' is distributed using a funding formula designed in the 1990s. This applies a set of demographic, socio-economic and environmental indicators to estimate relative policing need across forces. These include measures of population and density (such as ONS population estimates, daytime net inflows, and population sparsity), alongside social and economic pressures (benefits claimants, unemployment, households in routine or no work, and "hard pressed" populations). The formula also accounts for community characteristics linked to crime and demand, such as single-parent households, overcrowding,

² See, for example: John Roberts for TES magazine, [Phillipson: 'Generational reset' for white working-class pupils](#), 8 October 2025

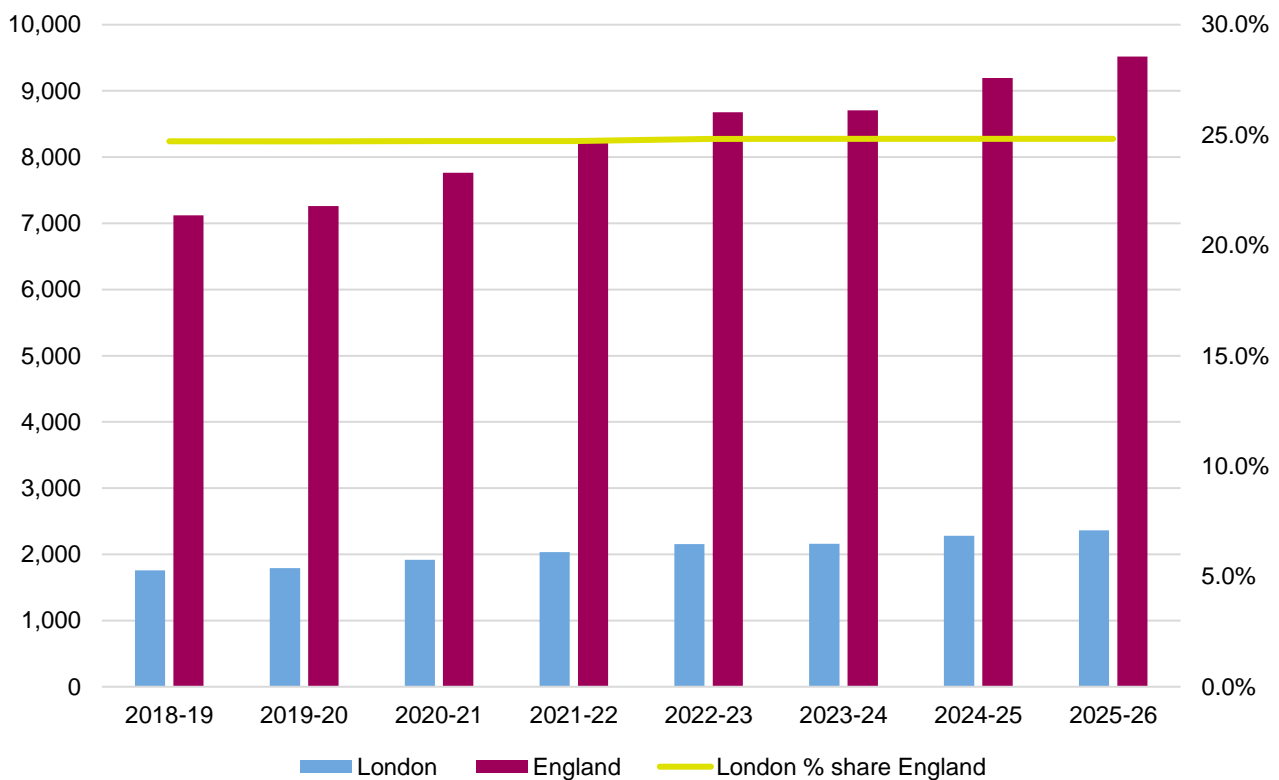
³ Esme Ashcroft for the BBC, [MP calls for fairer funding for county schools](#), 8 May 2025

student housing, and prevalence of terraced housing. Finally, it includes indicators of potential crime generators, such as bar density, and balances this against lower expected demand in more affluent areas, measured through the share of “wealthy achievers.” Together, these factors produce a weighted assessment of relative need, which then determines how much of the Police ‘Main Grant’ each force receives.

The Metropolitan Police Service (MPS) is in a unique position because it has national responsibilities alongside its local policing role. Notably, the MPS has diplomatic protection and counter-terrorism roles. It also has to manage a substantial number of demonstrations and marches in central London. These functions are separately funded; and account for part of the relatively large percentage share of England’s police spending accounted for by London’s policing.

The MPS and the City of London Police have consistently received around 26% of the national total since 2018-19 (see Figure 5).

Figure 5: Police funding - London and England - 2018-19 to 2025-26



NB – figures include total of Police Main Grant, Ex-DCLG Formula Funding, and legacy council tax freeze grant

Source: [Home Office](#)

Attempts to reform the Police Main Grant formula collapsed in 2015, when a Home Office consultation was abandoned after serious data errors were uncovered. Since then, ministers have repeatedly promised reviews (in 2016, 2017, 2018, 2020 and 2023) – but the formula has not been updated, actual allocations are still largely based on historic funding patterns. The government has not indicated any immediate plans to reform police funding.

Fire

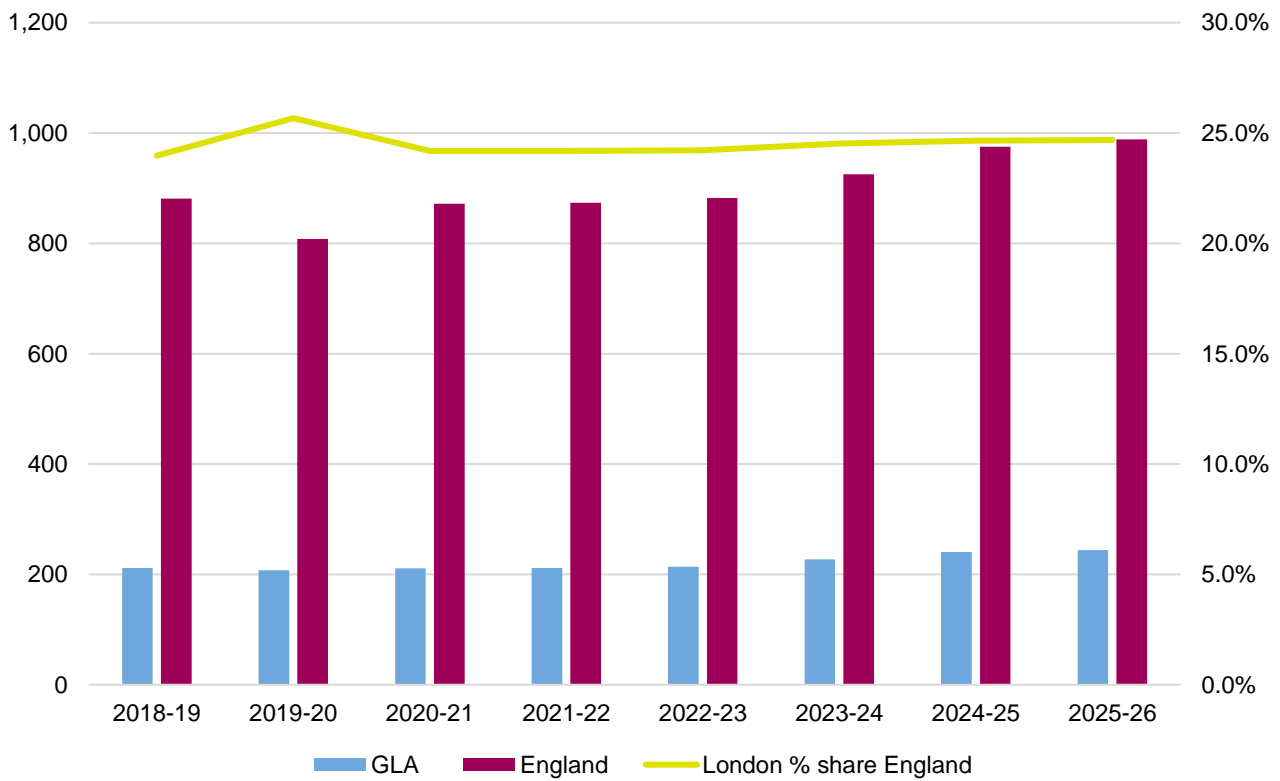
Fire and rescue authorities’ funding comes from a mix of central grants and local council tax. The core funding element is part of the wider local government funding formula. The fire and rescue ‘relative needs

formula’ includes drivers such as deprivation; population density; property and fire-risk factors (e.g. number of buildings of different types, industrial premises, heritage buildings); and fire incidence (historic call-out levels). The income and employment deprivation domains of the IMD serve as proxies for social and economic risk.

Spending per head differs significantly: urban authorities tend to spend more per person, due to higher risk factors and extra responsibilities. As with the police and wider local government services, the formula has not been regularly updated since 2013-14. Instead, central government applied uniform percentage changes (“flat cuts”) across fire and rescue authorities’ grants during years when real terms cuts were being made.

The Fair Funding Review 2.0 reforms are not proposing any major changes to the structure of the fire formula. However, changes to the area cost adjustment could have a negative impact on London’s share of fire funding, which has remained at around 25% of the England total since 2018-19 (see Figure 6).

Figure 6: Fire & Rescue share of SFA - GLA and England - 2018-19 to 2025-26



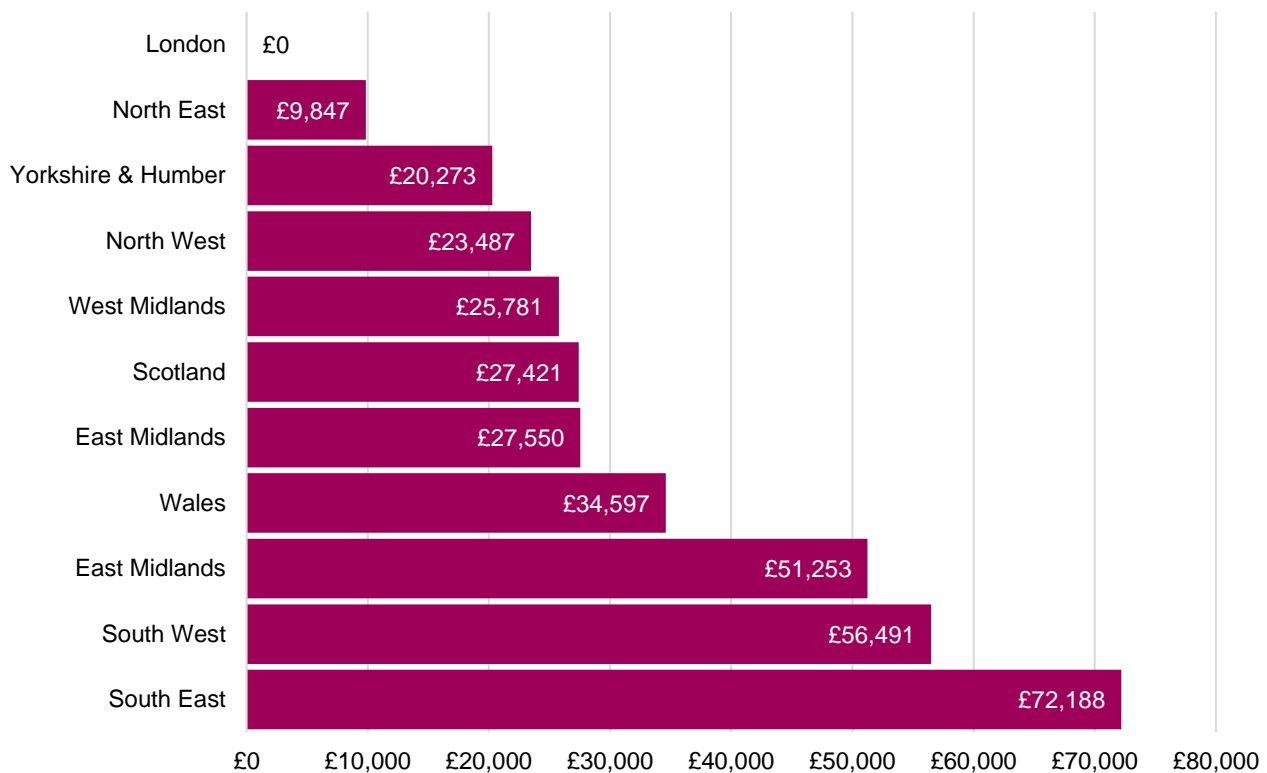
Source: MHCLG, [LGF Settlement 2025-26](#)

4 Measuring London's needs

There is no disagreement that London is radically different from other parts of England. The UK's only mega-city is a major outlier on many measures. It is the only UK region that is almost entirely urban, and includes large concentrations of wealth and poverty. Its housing costs – to both buy and rent – are substantially higher than any other part of England. It has a highly diverse population; and the largest overseas-born population of any city in Europe.

In conventional terms (notably, measures such as GDP per head), London appears almost too successful, particularly compared to other parts of England. But perception and reality are often very different – notably, when it comes to housing costs and wealth. In terms of wealth accumulated by households on median incomes, for example, Londoners are at a surprising disadvantage. The Resolution Foundation has published research showing that the typical household in London has zero accumulated housing capital (see Figure 7).

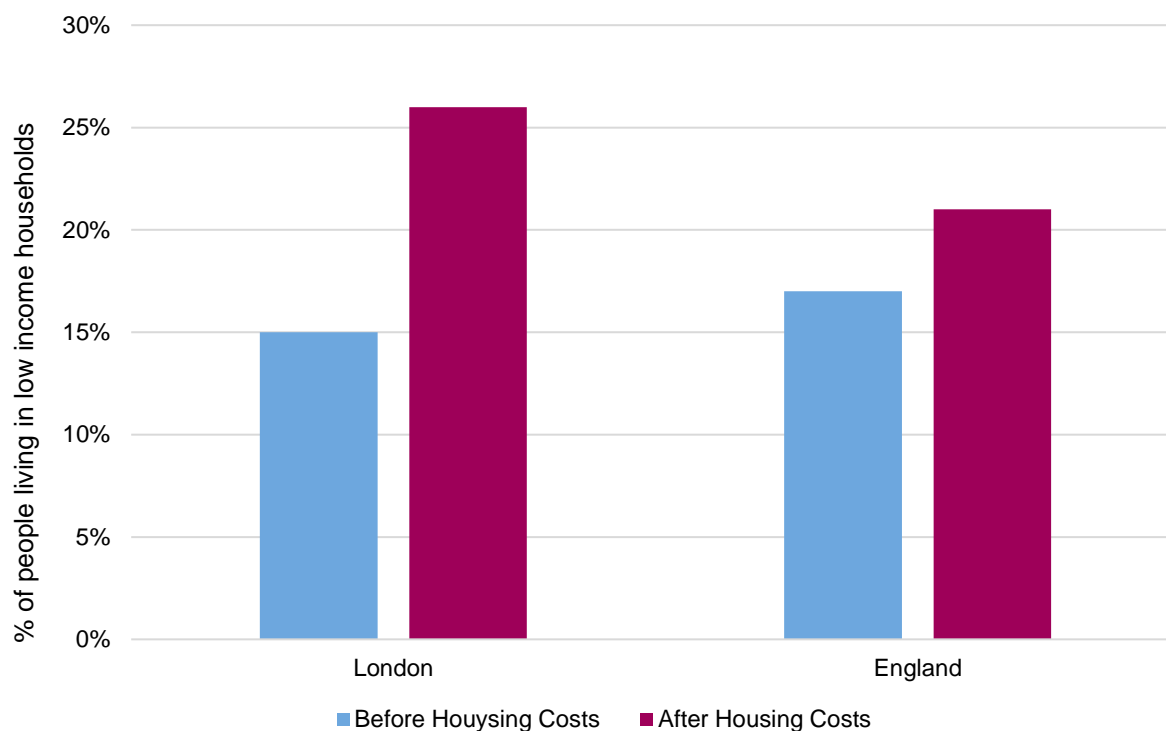
Figure 7: Net property wealth of the typical family, by region, England



Source: *London Stalling*, Resolution Foundation, 2018

Similarly, London's housing costs as a proportion of income are substantially higher, leading to significantly more people in the city living in poverty. Before housing costs, a lower proportion of Londoners live in poverty than in the rest of England. But after housing costs, over a quarter of Londoners – the highest of any region – are living in poverty, compared to just over a fifth elsewhere (see Figure 8). To date, this has not been reflected uniformly in the current measures of deprivation used in most funding formulae.

Figure 8: Proportion of people in poverty, before and after housing costs - London and England - 2023-24



Source: London's Poverty Profile, Trust for London

London's social and demographic characteristics are, in many cases, very different from those in the rest of the country. As a result, NFFs are likely to be less effective in measuring spending need than in a more 'average' authority. It is also possible that very rural areas are also problematic in terms of needs measurement.

The Treasury's annual analysis of public expenditure, on a regional basis, shows that overall identifiable government spending in London was £133bn in 2023-24 (the most recent year available). This figure includes all the formula-allocated funding described in this report, plus public spending on major items such as the benefit system, pensions, economic affairs and post-school education. The figure represents 18.2% of all such spending in England, and includes local government spending. As section 3, above, shows, overall spending by the London boroughs fell from 15.9% to 14.6% of the England total between 2010-11 and 2025-26. In the same period, overall public spending in London rose from 17.2% of the England total to 18.2%.⁴ The proposals in the Fair Funding Review might reduce London boroughs' share of CSP in England to about 13.7% of the national total – well below the 16% of England's population that lives in London. Given London's high costs, if this difference occurs it will be remarkable.

There is no way of proving that a national needs formula is or is not capable of effectively measuring spending need (or relative spending need) for outlier councils. But common sense suggests this will be the case. Put simply, if London determined its own needs formulae for services such as local government, the NHS and education, they would look rather different from one determined for England as a whole. Local government in London is in the unenviable position of facing a reduction to its spending power from a figure well below that of 2010-11.

⁴ HM Treasury, [Public Expenditure Statistical Analyses 2014](#), CM8902, July 2014, Table 9.1; and [Public Expenditure Statistical Analyses 2025](#), CP 1363, July 2025, Table 9.1a

5 Impacts on individuals

The government is committed to changing the local government grant formula, following the Fair Funding Review, with impacts being felt from 2026-27 onwards. The formulae used for health, schools and possibly public health would likely follow the pattern that MHCLG's proposals appear to be setting for needs assessment. Initial documentation produced by MHCLG has been analysed by experts at the Institute for Fiscal Studies, London Councils and Pixel Consultancy. The results of these analyses consistently suggest a significant shift of resources away from London, and towards the Midlands, Yorkshire and Humberside, and other parts of the North. Some London boroughs would gain grant, but most would lose out. This is because the relative needs measures suggested by officials would give London a relatively lower share of overall relative need than in the previous system.

Given there has not been a full revision of the local government needs assessment process since 2006, it is unsurprising there will be changes in relative need. Other indicators, such as the IMD, have suggested in recent years that some London boroughs have become relatively less deprived than others (and, indeed, than other councils outside London). Therefore, it would be unsurprising if the local government grant formula did not pick up similar needs-related messaging.

But there is a significant problem with any redistribution of local government grant, because most London councils are spending less, in real terms, in 2025-26 than they were in 2010-11. In per capita terms, the cuts are even greater. Thus, if relative needs measurements shift grant away from any individual authority, including some outside London, they will face the need to cut real-terms spending by perhaps 15% between 2026-27 and 2028-29 – and then by more in the following years.

However 'fair' this redistribution may be in relative terms, it will not necessarily appear so, at the local level, in authorities that will have to cut their spending. Lower-income households are far more dependent on London borough services than the better-off; so it is inevitable that, within an authority that may be less deprived (on average) than 10 or 15 years ago, a significant proportion of its population will remain deprived. It is hard to see how such households can be protected from the consequences of a major loss of central government grant. Any decision to redistribute spending on schools or health services would have a similar effect.

6 Conclusions

The use of NFFs is particularly widespread in England – largely because of the centralised nature of the country's government. There are very wide differences in how the 'need to spend' can be measured. London – because of its unusual urban density, demography and scale – fits uneasily into national formulae of this kind.

There are currently firm proposals to review the formulae relating to local government; and strong indications that primary care and schools funding may follow. Together, these constitute half of funding allocated in such a way. Projections of the impact of reforms on council funding suggest that Londoners are in line to see a redistribution away from their town halls initially; and then, possibly, from GP surgeries and schools.

While there can be no doubt that areas of the country have different spending needs that change over time, it remains the case that London contains major concentrations of deprivation and disadvantage. If resources are withdrawn from councils and other institutions that are, in many cases, spending less than 10 or 15 years ago, it is inevitable that poorer Londoners will face the biggest impacts. Better-off households and individuals can access private provision to replace cuts to street cleaning, public safety, health and educational provision. But millions of London's residents do not have that option.

Reviews of the formulae that allocate public service resources are a rational and necessary element in their use. But after 15 years of financial pressure – particularly on council budgets – depriving the already deprived would be an inevitable consequence of any real-terms loss of neighbourhood spending power.

The analysis above suggests short-term and long-term implications for the reform of London's public services.

- 1) Measures of deprivation should more consistently reflect the impact of housing costs on disposable income, and the wider impact of homelessness on life chances.
- 2) The impact of migration and ethnicity needs re-evaluation to reflect the unique expenditure needs of local communities.
- 3) No council should be left worse off in real terms because of a redistribution of CSP, as the result of the Fair Funding Review. This logic should apply to any other changes to formulae for local services – such as health, schools and policing.
- 4) There is a need for consistent funding formulae that recognise the complex needs of individuals and households for social care, health services, housing, schools and protective services delivered by different parts of the state.
- 5) Service provision should not be hampered by unpredictable changes in formula-based resource distribution.

Public services in London and other parts of England are heavily dependent on formula-based funding. It is imperative that Whitehall ensures local areas are not subject to unpredictable and unreasonable changes in the resources thus allocated.

Appendix

The analysis in the paper is limited to five core public services that are known to use funding formula. Other public services are also funded by Whitehall-determined formulae (for example, adult skills and higher education), so the figures of £44bn across London and £250bn across England are, therefore, underestimates. This appendix sets out more detail on funding in the six service areas included in the report: local government; NHS; schools; public health; police; and fire and rescue.

Table A1: London and England main formula-funded public services: summary 2025-26 – £bn

	London	England	% share
NHS – ICB excluding primary medical care	20.039	123.758	16.2%
NHS – primary medical care (i.e. GPs)	1.959	11.928	16.4%
DSG	11.501	68.750	16.7%
Local govt – core grant funding	5.200	19.537	26.6%
Local govt – other specific grants in CSP	1.816	11.557	15.7%
Public health grant	0.783	3.858	20.3%
Police grant	2.294	9.518	24.1%
Fire and rescue	0.244	0.989	24.7%
Total	43.837	249.895	17.5%

NB – the Local government figures include London boroughs and the GLA combined

Table A2: Change in core formula funded public services for London: 2018-19 to 2025-26 – £bn

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Local govt – core grant funding	4.149	4.010	4.100	4.143	4.329	4.782	5.111	5.200
Local govt – other specific grants in CSP	0.538	0.643	0.797	0.837	1.127	1.353	1.521	1.816
Public health grant	0.648	0.631	0.658	0.673	0.692	0.715	0.730	0.783
DSG	8.033	8.157	8.504	9.071	9.348	9.900	10.601	11.501
NHS – ICBs*	16.036	17.126	17.950	18.791	19.651	20.524	21.123	21.999
Police grant	1.708	1.742	1.863	1.973	2.092	2.099	2.216	2.294
Fire and rescue	0.211	0.207	0.211	0.211	0.214	0.227	0.240	0.244
Total	31.325	32.516	34.083	35.700	37.453	39.599	41.543	43.837

**CCG allocations to 2023-24, then ICBs for 2024-25 and 2025-26*

Table A3: Core formula-funded public services (detailed breakdown) for London: 2018-19 to 2025-26 – £bn

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Local govt – council tax	4.142	4.435	4.678	4.899	5.175	5.586	5.993	6.335
Local govt – core grant funding	4.149	4.010	4.100	4.143	4.329	4.782	5.111	5.200
Local govt – other specific grants in CSP	0.538	0.643	0.797	0.837	1.127	1.353	1.521	1.816
Local govt – CSP	8.829	9.088	9.576	9.880	10.631	11.721	12.625	13.351
Public health grant	0.648	0.631	0.658	0.673	0.692	0.715	0.730	0.783
DSG – schools block	6.006	6.093	6.307	6.713	6.841	7.166	7.477	7.958
DSG – central school services block	0.087	0.084	0.077	0.075	0.071	0.068	0.067	0.068
DSG – high needs block	1.241	1.269	1.407	1.554	1.754	1.932	1.996	2.131
DSG – early years block	0.699	0.711	0.714	0.728	0.682	0.734	1.061	1.343
Total DSG	8.033	8.157	8.504	9.071	9.348	9.900	10.601	11.501
NHS – ICB core funding				14.902	15.593	16.386	18.067	18.855
NHS – ICB primary medical care				1.495	1.651	1.744	1.900	1.959
NHS – ICB other primary care				n/a	0.922	0.949	1.009	1.044
NHS – ICB running cost allowances				0.173	0.174	0.179	0.147	0.141
NHS – total ICB				16.570	18.340	19.258	21.123	21.999
Police grant	1.760	1.794	1.920	2.033	2.155	2.162	2.283	2.363
Fire and rescue	0.211	0.207	0.211	0.211	0.214	0.227	0.240	0.244

Table A4: Core formula-funded public services (detailed breakdown) for England: 2018-19 to 2025-26 – £bn

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Local govt – council tax	26.332	27.768	29.227	30.308	31.922	33.984	36.154	38.312
Local govt – core grant funding	15.849	14.960	15.297	15.460	16.157	17.876	19.144	19.537
Local govt – other grants in CSP	3.156	3.832	4.823	4.945	6.576	8.337	9.620	11.557
Local govt – CSP	45.337	46.560	49.346	50.713	54.656	60.197	64.918	69.406
Public health grant	3.219	3.134	3.279	3.324	3.417	3.529	3.603	3.858
DSG – schools block	33.684	34.503	36.278	39.222	40.538	42.895	45.320	48.651
DSG – central school services block	0.469	0.468	0.429	0.426	0.407	0.389	0.389	0.408
DSG – high needs block	6.115	6.279	7.073	7.906	8.981	9.953	10.373	11.208
DSG – early years block	3.578	3.618	3.658	3.730	3.609	3.927	6.091	8.483
Total DSG	43.845	44.868	47.438	51.285	53.535	57.163	62.173	68.750
NHS – ICB core funding				91.604	96.786	101.689	112.111	116.741
NHS – ICB primary medical care				9.078	10.047	10.612	11.571	11.928
NHS – ICB other primary care				n/a	5.440	5.597	5.937	6.143
NHS – ICB running cost allowances				1.073	1.081	1.109	0.909	0.874
NHS – total ICB				101.755	113.354	119.007	130.529	135.686
Police grant	7.120	7.258	7.764	8.221	8.679	8.708	9.196	9.518
Fire and rescue	0.881	0.808	0.872	0.873	0.882	0.925	0.975	0.989

Table A5: Core formula-funded public services (detailed breakdown) for London as % share of England – 2018-19 to 2025-26

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Local govt – council tax	15.7%	16.0%	16.0%	16.2%	16.2%	16.4%	16.6%	16.5%
Local govt – core grant funding (SFA)	26.2%	26.8%	26.8%	26.8%	26.8%	26.8%	26.7%	26.6%
Local govt – other grants in CSP	17.1%	16.8%	16.5%	16.9%	17.1%	16.2%	15.8%	15.7%
Local govt – CSP	19.5%	19.5%	19.4%	19.5%	19.5%	19.5%	19.4%	19.2%
Public health grant	20.1%	20.1%	20.1%	20.3%	20.3%	20.3%	20.3%	20.3%
DSG – Schools block	17.8%	17.7%	17.4%	17.1%	16.9%	16.7%	16.5%	16.4%
DSG – Central school services block	18.6%	17.9%	17.9%	17.7%	17.4%	17.5%	17.2%	16.8%
DSG – High needs block	20.3%	20.2%	19.9%	19.7%	19.5%	19.4%	19.2%	19.0%
DSG – Early years block	19.6%	19.6%	19.5%	19.5%	18.9%	18.7%	17.4%	15.8%
Total DSG	18.3%	18.2%	17.9%	17.7%	17.5%	17.3%	17.1%	16.7%
NHS – ICB core funding				16.3%	16.1%	16.1%	16.1%	16.2%
NHS – ICB primary medical care				16.5%	16.4%	16.4%	16.4%	16.4%
NHS – ICB other primary care					16.9%	16.9%	17.0%	17.0%
NHS – ICB running cost allowances				16.1%	16.1%	16.1%	16.1%	16.1%
NHS – total ICB				16.3%	16.2%	16.2%	16.2%	16.2%
Police grant	24.7%	24.7%	24.7%	24.7%	24.8%	24.8%	24.8%	24.8%
Fire and rescue	24.0%	25.7%	24.2%	24.2%	24.2%	24.5%	24.7%	24.7%

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