

# 2025 Spending Review



## London Councils' On-the-Day Briefing

London Councils is the collective of London local government—the 32 boroughs and City of London Corporation. It is a cross-party organisation that works on behalf of all its member authorities regardless of political persuasion.

### Overview

Today, the Chancellor of the Exchequer, Rachel Reeves MP, delivered her first multi-year Spending Review which set government departmental expenditure limits for the next three years (2026-27 to 2028-29). **This briefing focuses on items announced in the Spending Review that will materially impact local government and London.** Full Spending Review details can be found [here](#).

### Key Headlines

- **Core Spending Power (across England) will increase by average of 2.6% a year over the next three years** (assuming maximum council tax increases), front-loaded with a 3.8% increase in 2026-27 followed by increases of 1.9% and 2.2% for the subsequent two years, respectively.
- **Grant funding within CSP will increase by £3.4bn** over three years, averaging increases of 1.5% a year in real terms. This is front-loaded with a 3.9% real-terms increase in 2026-27 followed by increases of 0.04% and 0.7% for the subsequent two years.
- **There will be £39bn invested in the Affordable Homes Programme over ten years**, beginning in 2026-27. This is roughly a 70% increase from the current level of investment.
- **There will be a 10-year social housing rent settlement** increasing at CPI+1% annually, and the government will soon launch a consultation on implementing social rent convergence.
- **An additional £760m to reform the SEND system** - details will be set out in a schools White Paper in the autumn. Related funding matters (e.g. DSG override) will be incorporated into the local government funding reforms consultation.
- **Over £500m of additional support for Children's social care** - to help more children stay with their families and £560m to refurbish and expand children's homes and foster care placements.
- **A fourth round of the Local Authority Housing Fund** has been announced with £950m to be made available from 2026-27 to 2029-30.
- **An extra £100m towards early interventions to prevent homelessness** including £87m from the Transformation Fund in 2026-27 and 2027-28.
- **An integrated Settlement** was confirmed for the GLA starting from 2026-27.
- **The UK Shared Prosperity Fund will be replaced by a new Local Growth Fund** - to support development in the North and Midlands; and funding for up to 350 deprived communities.
- **Investment of £200m to end housing asylum seekers** in hotels in this parliament.
- **TfL will receive £2.2 billion between 2026-27 and 2029-30** for its capital renewals programme.
- **The government will work with TfL to explore delivery options for the Docklands Light Railway (DLR) Thamesmead extension.**

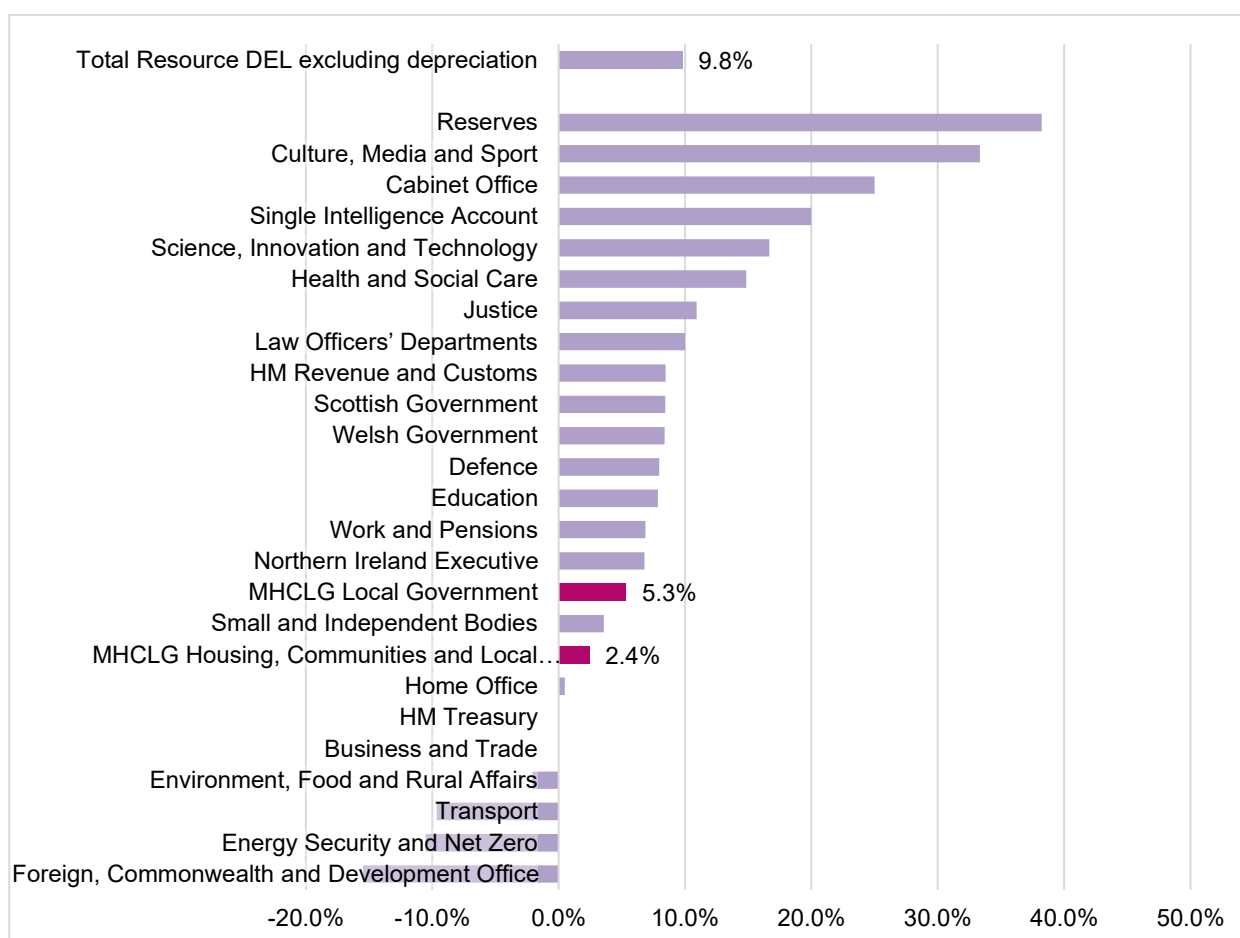
## Spending Outlook

- The total Departmental Expenditure Limits (DEL) are expected to increase at an average annual real growth rate of 1.5% from 2025-26 (2.3% over the full spending review period) from £648.4bn in 2025-26 to £716.9bn in 2028-29.
- The Resource Departmental Expenditure Limits are expected to increase at an average annual real growth rate of 1.2% from 2025-26 (9.8% over the full spending review period) from £517.1bn in 2025-26 to £567.7bn in 2028-29.
- The Capital Departmental Expenditure Limits are expected to increase at an average annual real growth rate of 1.8% from 2025-26 (3.6% over the full spending review period) from £131.3bn in 2025-26 to £151.9bn in 2029-30.
- Note, the Spending Review is focused on government spending and does not include an update on key economic indicators (e.g., GDP, CPI inflation, and interest rates).

## Public Spending Overview

At each Spending Review, the government sets Departmental Expenditure Limits (DEL), fixed budgets allocated to specific government departments. Chart 1 below shows MHCLG will receive one of the smallest percentage increases of all departments over the next four years (3.9% combined), rising by £900m from £19.1bn in 2025-26 to £20bn in 2028-29 (see Appendix A for the full list of figures).

**Chart 1 - Resource DEL by department - 2025-26 to 2028-29 (real terms % change)**



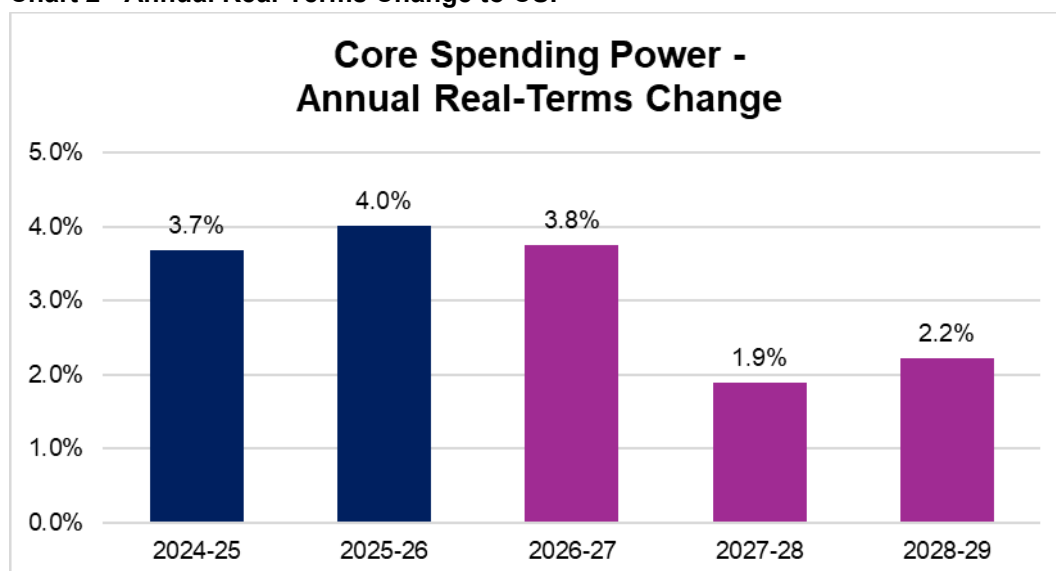
Source: HMT, Spending Review 2025; figures from Table 5.3 (p.48/49)

## Local Government Funding Overview

The results of the Spending Review set the government's departmental budget limits, but local government funding allocations will not be known until the provisional local government finance settlement is announced in November. The LG funding reform consultation, due in the next two weeks, will provide further information. The reforms will have major implications for individual authorities' funding allocations.

The following section sets out London Councils' understanding of changes to local government funding (i.e. Core Spending Power) based on the Spending Review announcements. As shown in Chart 2 below, CSP for local government is front-loaded with 3.8% real-terms growth in 2026-27 followed by real-terms increases of 1.9% and 2.2% for the subsequent two years, respectively. CSP is expected to increase in real terms by 2.6% on average for the next three years. This assumes all authorities raise council tax by the maximum permitted each year. For London boroughs, this will remain 3% (main rate) and 2% for the ASC precept.

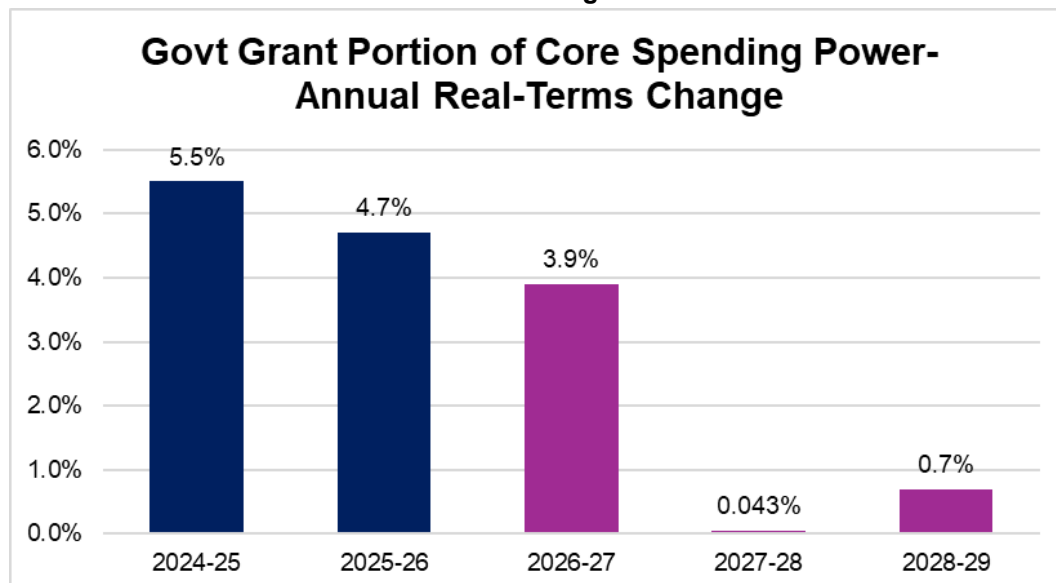
**Chart 2 - Annual Real-Terms Change to CSP**



Source: HMT, Spending Review 2025, Table 5.3

Grant funding within CSP will increase by £3.4bn over the next three years (an average of 1.5% in real terms). As shown in Chart 3 below, this is front-loaded with a 3.9% real-terms increase in 2026-27 followed by real-terms increases of just 0.043% and 0.7% for the subsequent two years, respectively.

**Chart 3 – Estimated Annual Real-Terms Change to the Government Grant Portion of CSP**



Source: London Councils' estimates based on HMT, Spending Review 2025, Table 5.3. Council tax figures from OBR Economic and fiscal outlook, March 2025

## Key Announcements Impacting London Local Government

### Housing

#### Building new homes

- The government will provide £39bn of funding for the Affordable Homes Programme (AHP) over ten years from 2026-27 to 2035-36. This is an average annual spend of £3.9bn compared with the current five-year AHP's average annual spend of £2.3bn.
- Funding allocations remain TBC. However, London received 35% of the current AHP round, and if the £39bn is similarly distributed, London would expect £13.7bn of the new AHP funding.
- The government will provide for an additional £4.8bn in financial transactions (equity investments, loans and guarantees) from 2026-27 to 2029-30 to catalyse additional private investment in housebuilding.
- The government has announced an additional £2.5bn in low interest loans will be made available to social housing providers to invest in new developments.

#### Social housing

- The government will provide certainty for social rents through a 10-year social housing rent settlement with social rents increasing at CPI+1% annually. The government will also shortly launch a consultation on how to implement social rent convergence. London Councils welcomes these changes and has previously called for them as critical steps in balancing the budgets of councils' Housing Revenue Accounts and building more council homes.
- More than £1bn will be invested by government to accelerate the remediation of social housing between 2026-27 and 2029-30.

#### Retrofit

- The government recommitted to its Warm Homes Programme for which £13.2bn was previously announced.

## Homelessness and Temporary Accommodation

- A fourth round of the Local Authority Housing Fund has been announced with £950m to be made available from 2026-27 to 2029-30 to increase the supply of temporary accommodation (£238m per year). This is a slight increase in funding from Round 3, which was £450m over 2024-25 and 2025-26 (£225m per year).
- The government will provide £100m towards early interventions to prevent homelessness, including £87m from the Transformation Fund (see below) in 2026-27 and 2027-28.
- The government recommitted to end housing asylum seekers in hotels in this parliament, which will have implications for some London boroughs' temporary accommodation programmes.
- The government will allocate £842m per year across England over the Spending Review period to transform the Housing Support Fund into the Crisis and Resilience Fund, which will incorporate Discretionary Housing Payments and fund councils to support households in need. The Household Support Fund is valued at £742m for local authorities for 2025-26.

## Public Services Reform

- The Transformation Fund (first announced in the Spring Statement 2025) has been allocated £3.25bn. This will include funding for digital transformation and improvement, government efficiency and prevention across children's social care, adult social care, homelessness and special educational needs and disabilities.
- Introduction of the GOV.UK Wallet, GOV.UK App and creation of the national Data Library will make credential verification and data accessibility easier for local governments and residents.
- A new Local Growth Fund will be established – replacing the UK Shared Prosperity Fund - to support development in the North and Midlands. This includes a commitment to invest in up to 350 deprived communities across the UK to fund interventions including community cohesion, regeneration and improving the public realm. It is not yet known whether London boroughs will receive any of this funding.

## Adult Social Care

- There were no significant announcements for adult social care as the government is waiting on the independent Casey Review, which will focus on reforms and is scheduled for release in 2026.
- The government states that by 2028-29, up to £4bn additional funding will be available for ASC. This includes NHS funding increases through the Better Care Fund, assumed council tax precept increases, and a proportion of the £3.4bn increase to grant funding within Core Spending Power.
- The Transformation Fund will make £15m, £40m and £45m available in 2025-26, 2026-27 and 2027-28, respectively, to support adults with complex needs through community help partnerships.

## Children's Social Care

- The Transformation Fund will provide £555m to help more children stay with their families, ensuring families have timely support and fixing the broken care market. An additional £560m will be provided to refurbish and expand children's homes and foster care placements.
- Breakfast clubs will expand to all primary-aged children in England. From the start of this term, funding will reach 750 schools, supporting over 180,000 children, including 70,000 from the most deprived areas.
- The government will unlock £133m in dormant assets between 2024 and 2028 to support disadvantaged young people access music, sport and drama through investment in facilities and libraries.

## Education & Dedicated Schools Grant

- Reform of the SEND system will be detailed in a schools white paper due in the autumn. As part of the Transformation Fund, £760m will support these reforms. Related funding matters (e.g. DSG override) will be incorporated into the local government funding reform process.
- The schools' budget will rise by £2bn in real terms over the Spending Review period, with a £4.7bn annual cash increase by 2028-29, delivering 1.1% average annual growth per pupil.
- An annual investment of £2.4bn will support the School Rebuilding Programme over the next four years, reaffirming the government's commitment to rebuild over 500 schools. The programme will be extended through the 10 Year Infrastructure Strategy to 2034-35.
- The government is investing an extra £1.2bn in the skills system, including training access for 1.3m 16-19 year-olds and an additional 65,000 learners each year by 2028-29. Between 2025-26 and 2028-29, £625m will train up to 60,000 skilled construction workers.
- Support for Free School Meals will expand through £410m annually by 2028-29, making all pupils with a parent on Universal Credit eligible. An additional £80m annually will support early years and post-16 settings.
- The government will provide an additional £1.6bn annually by 2028-29, compared to 2025-26, to continue expanding childcare support for working parents. A total of nearly £370m will be invested over four years to deliver school-based nurseries.
- Future demographic demand for mainstream school places will be met through £2.6bn in funding between 2026-27 and 2029-30.

## Public Safety

- Police spending power will increase by an average of 2.3% per year in real terms, supporting 13,000 additional neighbourhood officers, PCSOs, and special constables.
- The forthcoming Police Reform White Paper will outline plans to raise standards, adopt new technologies, boost efficiency and improve accountability.
- The government will invest £7bn to deliver 14,000 new prison places by 2031.

## Asylum Seekers & Refugees

- The Spending Review includes £200m of transformation funding to accelerate asylum system reform and end hotel use during this parliament. These reforms aim to reduce costs by at least £1bn annually by 2028-29.

## Capital and Infrastructure

- The 10-Year Infrastructure Strategy will be published later in June.
- The government will establish a National Infrastructure and Service Transformation Authority ensuring improvements in infrastructure and service transformation deliver economic growth.
- Reconfirmation of the governments backing for the Heathrow Airport expansion.

## Transport

- The government will provide £2.2 billion between 2026-27 and 2029-30 for Transport for London's (TfL) capital renewals programme.
- The government has committed to work with TfL to explore delivery options for the Docklands Light Railway (DLR) Thamesmead extension.

- The Department for Transport settlement provides £25.3bn to progress delivery of HS2 from Birmingham Curzon Street to London Euston, with funding supporting a full reset of the HS2 programme in order to address longstanding delivery challenges.
- As part of its Clean Energy mission, government has committed £2.6 billion over Phase 2 to decarbonise transport across the UK, including £1.4bn to support continued uptake of electric vehicles and £400m for the further rollout of charging infrastructure.

## Integrated Settlement

- The Greater London Authority has been approved for the receipt of an Integrated Settlement from the 2026-27 financial year.
- The scope of the integrated settlement will cover funding under the following themes: economic development and regeneration, transport and local infrastructure, adult skills, employment support, housing and strategic planning, environment and climate change, health, wellbeing and public service reform.
- To finalise its eligibility for an integrated settlement, the GLA will need to lead negotiations with central government on a detailed outcomes framework for each of the above themes as well as successfully complete a readiness check, managed by an independent external assessor.

## Appendix A – Public Spending Figures

**Table 1 – Total Departmental Expenditure Limits (Total DEL) from 2023-24 to 2029-30**  
(in £bn unless otherwise stated)

	Outturn 2023-24	2024-25	Current 2025-26	2026-27	2027-28	2028-29	2029-30
<b>Core Spending Power</b>	<b>60.4</b>	<b>65.0</b>	<b>69.4</b>	<b>73.2</b>	<b>76.1</b>	<b>79.3</b>	<b>-</b>
<b>Total resource DEL excl. depreciation</b>	<b>452.2</b>	<b>487.5</b>	<b>517.5</b>	<b>535.5</b>	<b>551.6</b>	<b>567.8</b>	<b>583.9</b>
<i>of which: technical changes to RDEL in relation to IFRS9</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.1</i>	<i>0.1</i>	<i>0.0</i>
<i>MHCLG Local Government</i>	<i>9.6</i>	<i>11.4</i>	<i>15.0</i>	<i>15.4</i>	<i>15.6</i>	<i>15.8</i>	<i>-</i>
<i>MHCLG Housing, Communities and Local Government</i>	<i>3.3</i>	<i>4.3</i>	<i>4.1</i>	<i>4.2</i>	<i>4.2</i>	<i>4.2</i>	<i>-</i>
<b>Total Resource DEL excl. depreciation and technical changes for IFRS9</b>	<b>452.2</b>	<b>487.5</b>	<b>517.1</b>	<b>535.5</b>	<b>551.6</b>	<b>567.7</b>	<b>-</b>
<b>Total capital DEL</b>	<b>106.8</b>	<b>114.6</b>	<b>131.3</b>	<b>142.7</b>	<b>145.3</b>	<b>149.1</b>	<b>151.9</b>
<b>Capital DEL excl. financial transactions</b>	<b>106.2</b>	<b>114.8</b>	<b>129.1</b>	<b>139.0</b>	<b>140.7</b>	<b>142.0</b>	<b>143.1</b>
<b>Total departmental spending (Total DEL)</b>	<b>558.9</b>	<b>602.1</b>	<b>648.8</b>	<b>678.1</b>	<b>696.9</b>	<b>716.9</b>	<b>735.8</b>

Source: Spending Review 2025, pages 46-52, Tables 5.1, 5.2, 5.3 and 5.4 / HM Treasury Public Spending Statistics, HM Treasury DEL plans