Dame Sarah Healey DCB CVO
Permanent Secretary

Ministry of Housing, Communities & Local Government
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

www.gov.uk/mhclg

PSPerm.Sec@communities.gov.uk

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Sir Geoffrey Clifton-Brown
Chair, Public Accounts Committee
House of Commons
London
SW1A 0AA

FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2026-27 TO 2028-29.

Dear Sir Geoffrey,

I would like to draw the attention of the Committee to the publication of the final Local Government Finance Settlement 2026-27 to 2028-29. Today the Secretary of State has laid before Parliament the Local Government Finance Report (England) 2026 to 2027 and the Referendums Relating to Council Tax Increases (Principles) (England) Report 2026 to 2027. Together, the reports form the final Local Government Finance Settlement for 2026-27. On Wednesday 11 February, Parliament will have the opportunity to consider these reports.

The publication of the Local Government Finance Settlement ('the Settlement') marks a major milestone, with the government delivering on its commitment to reform the local government finance system. Alongside the publication of the Settlement, the government has announced a plan to resolve Special Educational Needs and Disabilities (SEND) deficits; committed to transformational reforms and investment in homelessness and rough sleeping, and social care services, to move the system towards early intervention and prevention; and has published the first edition of the Local Outcomes Framework. All of which I know were key themes that featured in the Committee's recent report on local government financial sustainability.

Local Government Finance Settlement 2026-27 to 2028-29

The government has provided the first multi-year Settlement in over a decade, through which it has delivered the Fair Funding Review 2.0, realigning funding with need and deprivation. The government has announced an additional £740 million in grant funding as part of the final Settlement for 2026-27, in addition to the provisional Settlement. This takes the total new grant funding for local government delivered through the Settlement for 2026-27 to 2028-29 to over £4 billion.

With this new funding and other available funding in the Settlement, the government has set out local authority allocations for:

- A total of £2.6 billion through the Recovery Grant and Recovery Grant Guarantee over the multi-year Settlement, with a £440 million uplift to the Recovery Grant aimed at areas most affected by historical funding cuts;
- A total of £138.6 million for the Mayoral Capacity Fund over the multi-year Settlement, a £39.6 million increase from the provisional Settlement;
- A total of £2.7 billion through the Homelessness, Rough Sleeping and Domestic Abuse Grant, including a £272 million uplift, of which £159 million is for targeted supported housing services funding; and
- An additional £15 million from the provisional Settlement to support standalone fire and rescue authorities over the multi-year Settlement.

The Settlement also confirmed the resetting of the business rates retention system, which is crucial to the government's aim to ensure funding is targeted where it is needed most. Alongside this, the Settlement confirmed the transitional arrangements which will support local authorities to their new allocations; which the government is doing by introducing changes over the multi-year Settlement and protecting councils' income, including locally retained business rates growth.

Prior to the delivery of these reforms, only around a third of local authorities were given the funding to broadly match their assessed need, but that will rise to nine in ten councils by the end of the multi-year Settlement.

The government is also delivering on its commitment to simplify the local government finance system, including the consolidation of cross-government grant funding to local authorities. The Settlement has consolidated 38 funding streams worth almost £57 billion over three years. Bringing this funding into the Settlement will give local government multi-year certainty over the majority of its revenue funding, helping local authorities to set forward-looking budgets and deliver much needed public service reform.

Special Educational Needs and Disabilities (SEND)

Full details of reform to SEND will be set out in the upcoming Schools White Paper. In advance of this, the government will resolve 90% of local authorities' Dedicated Schools Grant (DSG) High Needs deficits accrued to the end of 2025-26, projected to be worth over £5 billion. All local authorities with a SEND deficit will be eligible to receive grant funding, subject to submitting and securing the Department for Education's approval of a local SEND reform plan. Resolving deficits accrued to the end of 2025-26 could also cut the cost of financing those existing deficits by an estimated £300 million by 2027-28.

We know that SEND reform will take time to fully embed and local authorities will need further support. For deficits that arise in 2026–27 and 2027–28, local authorities can expect that we will continue to take an appropriate and proportionate approach, though it will not be unlimited.

Whilst recognising the challenges of the current system, it remains vital that every authority provides appropriate high-quality support for children and young people's education whilst ensuring robust controls as we work together to reform the SEND system. The government will support local authorities and their partners to do this through their local SEND reform plans.

Local Outcomes Framework

The government has also published the first edition of the Local Outcomes Framework alongside the Settlement. The Framework supports funding simplification by enabling outcomes-based performance measurement against key national priorities delivered locally and driven by councils as leaders of place. By focusing on outcomes, it empowers local authorities and partners to make decisions that most effectively serve their communities, with the Framework renamed as the Local Outcomes Framework to reflect that outcomes are shaped by local government, partners and wider factors.

A new digital tool, due to go live later in 2026, will for the first time show the outcomes being delivered in a local area in a single place. This will allow central and local government, local partners and residents to look at progress through the same lens. It will also support central government to better understand how effectively local authorities are using funding to support national priorities, strengthening the way government supports and holds councils to account for progress.

National Insurance Contributions

In response to the Committee’s June 2025 report, the government committed to continue to monitor and review pressures on local government, including the impact of employer National Insurance Contributions (NICs) changes, through ongoing stakeholder engagement with the local government and care sectors. I am writing to update you as part of the commitment to review.

Since the changes to employer NICs were announced at the Autumn Budget 2024, the government has conducted several consultations on the local government finance system. This included consulting on the 2025-26 Local Government Finance Settlement, and the recent consultation ahead of the 2026-27 Settlement. The government also consulted twice on the Fair Funding Review 2.0. These consultations gave local authorities and other organisations the opportunity to share with the government their views on policy relating to the local government finance system.

In response to the 2025-26 Settlement consultation, the government received a number of representations on the changes to employer NICs, with the consultation published shortly after the changes were announced at the Autumn Budget 2024. Having taken into consideration the full range of pressures facing local government, the government provided a settlement that increased the funding available to local government by up to £3.7 billion including a £880 million increase in the social care grant, and a £515 million grant to provide un-ringfenced funding to local authorities (including combined authorities) to mitigate the impact of the changes to employer NICs on their budgets. At the time, representations made to the government focused on whether the quantum of funding provided at the Settlement was sufficient, and raised concerns over the impact on social care services.

Alongside formally consulting on the local government finance system, the Ministry of Housing Communities and Local Government (MHCLG) has regularly engaged with Local Authority Chief Executives and Section 151 Officers, including on the changes to employer NICs and how they have interacted with local authority finances and workforces, across a range of services. Through this engagement, local authorities have explained that the changes to employer NICs are one of a number of pressures that local government faces, and one that should not be treated in isolation. This is reflected in the prevalence of representations made to government as part of the 2026-27 provisional Settlement consultation (which addressed the system as a whole), with 4% of respondents referencing the changes to employer NICs.

The Department of Health and Social Care (DHSC) organises and attends a number of regular meetings with individual local authorities, and with local government and provider representative bodies and networks to ensure it maintains a clear understanding of the issues the sector is facing. During 2025-26, this has included regular engagement in relation to changes to employer NICs.

Following the Autumn Budget 2024, DHSC worked with the adult social care sector to understand the potential impacts on adult social care providers and local authorities. DHSC took a systematic structured approach to engagement, speaking to nearly 25% of all upper tier local authorities to help identify how and when risks might materialise in local markets and to inform any further government action. Local authorities had concerns about the impact of employer NICs and therefore sought to address pressures from within their local authority budgets to protect local care markets as far as possible. The majority of local authorities contacted were most concerned about impacts on domiciliary care, community care and specialist provision.

To monitor ongoing impact, DHSC has introduced a new data collection to gather evidence from providers. To date, DHSC has not seen evidence of any systematic changes to the provision of adult social care following the Autumn Budget, but will continue to monitor the position. For example, data on local authority fee rate uplifts for 2025-26 will give further information about how the care sector has responded to changes in cost pressures including employer NICs. The Association of Directors Adult Social Services 2025 Autumn Survey indicates there has not been much quantitative evidence of any impact yet.

The government remains committed to continuously reviewing and monitoring the financial pressures which local authorities are facing. When outturn data for the financial year 2025-26 becomes available it will be possible to assess the impact of overall cost pressures, including employer NICs. Monitoring of financial pressures on local government will also continue through both MHCLG and DHSC's regular channels.

The policy measures set out in this letter demonstrate the government's commitment to tackling many of the themes identified in the Committee's recent report in order to secure the financial sustainability of local government and provide the platform from which the next steps to transform our public services can be taken.

Yours sincerely,