# London councils warn £700 million loss from children’s services funding shake-up



Councils across London and other parts of the UK have voiced strong concerns over the Government’s proposed changes to the funding formula for children’s services, warning that the new approach risks causing a “devastating impact” on critical local services. The consultation, which seeks to overhaul the distribution of core council funding from 2026/27, introduces a formula designed to allocate funds based on relative needs. However, this formula, covering roughly a quarter of the overall £30 billion funding pot, has been criticised for potentially underestimating the actual demand for children’s services, particularly in London.

Modelling by London Councils, representing 32 London boroughs and the City of London, suggests that if the children’s services formula were implemented in isolation, £1.5 billion would be withdrawn from the capital’s boroughs over three years. Even after accounting for some financial protections and formula adjustments that slightly favour London, boroughs would still face losses of approximately £700 million. London Councils’ chairwoman, Claire Holland, acknowledged the Government’s intentions to reform the funding system, emphasising the need for a model that accurately reflects local needs and restores financial stability after over a decade of underfunding. She expressed willingness to collaborate on refining the formula to prevent the undermining of vital services for vulnerable children and young people.

Research by the National Children’s Bureau (NCB) supports these concerns, highlighting significant issues with the proposed formula’s design. The NCB’s analysis found that key metrics were not well correlated with actual need and flagged the omission of housing costs—a critical factor in London’s high-cost environment—as a major flaw. Additionally, the report criticised the use of subjective indicators for child health over more objective measures such as data on special educational needs and disabilities (SEND), which better capture the complexity of local demand. The formula also reportedly assumes a nearly 40% reduction in demand for children's services in London, which starkly contrasts with recent collective overspending of more than £150 million annually by London boroughs in this sector.

The concerns extend beyond funding formulas to broader financial challenges facing children’s services across the country. A recent survey revealed that nearly half of English councils have cut spending on family support services, including family hubs and children’s centres, with an overall expenditure fall of 1.6% in real terms between 2023-24 and 2024-25. This trend underscores the ongoing fiscal pressures on councils attempting to maintain essential family services amid static or shrinking budgets.

Particularly acute pressures are evident in areas managed by the political party Reform UK, which controls several councils in regions including Durham, Derbyshire, Kent, and Staffordshire. These councils face significant budget deficits driven by escalating costs in children’s social care and adult social care, inflationary pressures, and limited government funding support. Public frustration is growing as local authorities respond with rising council taxes and cuts to services.

London boroughs face a compounded crisis as well, with 16 out of 33 councils currently at heightened risk of bankruptcy due to inadequate SEND funding. London Councils warns that grants for SEND support have failed to keep pace with rising demand, forecasting a £500 million shortfall in these services by 2026-27. This funding gap threatens to destabilise borough budgets, reduce investment in schools, and impair support for children with SEND. The group also highlights the failure of the government’s Fair Funding Review 2.0 proposals to properly account for housing poverty in deprivation measures, a critical factor that would more accurately reflect the needs of London’s diverse population.

Reform UK officials acknowledge the wider structural problems in funding for children with special educational needs and disabilities, labelling the current system “broken.” Their cost-cutting initiatives, inspired by business efficiency models, are focused on curbing soaring costs partly driven by outsourcing to private providers. Projections indicate that high-needs budget deficits could reach £8 billion by 2027, prompting a planned comprehensive review of council spending on SEND and social care.

The scale of the financial challenge across London is evident, with boroughs collectively facing a £500 million budget shortfall in 2025 after years of structural underfunding and rising service demand. Emergency borrowing through government Exceptional Financial Support programmes is now relied upon by nearly a quarter of London councils, the highest proportion nationwide, raising fears of increased insolvency risks if funding reforms do not address these fundamental issues.

London Councils and the National Children’s Bureau both urge the Government to reconsider and refine its funding formula proposals. They call for a more accurate and robust assessment of local needs, incorporating objective data and adjustments for high housing costs, to ensure vital children’s services receive appropriate support. The consultation period represents a crucial window for collaboration between councils and the Government to develop a sustainable funding framework that safeguards vulnerable children and families and supports the long-term financial health of local authorities.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.irishnews.com/news/uk/councils-warn-new-funding-formula-will-devastate-childrens-services-57NCASDSZJM53CGQVI3A4SFIWQ/), [[4]](https://www.londoncouncils.gov.uk/news-and-press-releases/2025/local-government-funding-system-fundamentally-broken-london-councils)
* Paragraph 2 – [[1]](https://www.irishnews.com/news/uk/councils-warn-new-funding-formula-will-devastate-childrens-services-57NCASDSZJM53CGQVI3A4SFIWQ/)
* Paragraph 3 – [[1]](https://www.irishnews.com/news/uk/councils-warn-new-funding-formula-will-devastate-childrens-services-57NCASDSZJM53CGQVI3A4SFIWQ/), [[4]](https://www.londoncouncils.gov.uk/news-and-press-releases/2025/local-government-funding-system-fundamentally-broken-london-councils)
* Paragraph 4 – [[2]](https://www.ft.com/content/6a66abb6-ac00-4378-ae6c-2070e70a46a8)
* Paragraph 5 – [[3]](https://www.ft.com/content/9d5f7c54-44f7-43d8-8dbb-d6b55c818e83)
* Paragraph 6 – [[5]](https://www.londoncouncils.gov.uk/news-and-press-releases/2025/sums-dont-add-almost-half-london-boroughs-bankruptcy-risk-due-school), [[7]](https://www.londoncouncils.gov.uk/news-and-press-releases/2025/council-funding-reforms-must-match-londons-deprivation-and-cost-0)
* Paragraph 7 – [[6]](https://www.ft.com/content/259dacdb-e144-4cb9-a0bd-1f079731e100)
* Paragraph 8 – [[7]](https://www.londoncouncils.gov.uk/news-and-press-releases/2025/council-funding-reforms-must-match-londons-deprivation-and-cost-0), [[4]](https://www.londoncouncils.gov.uk/news-and-press-releases/2025/local-government-funding-system-fundamentally-broken-london-councils), [[1]](https://www.irishnews.com/news/uk/councils-warn-new-funding-formula-will-devastate-childrens-services-57NCASDSZJM53CGQVI3A4SFIWQ/)

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## Bibliography

1. <https://www.irishnews.com/news/uk/councils-warn-new-funding-formula-will-devastate-childrens-services-57NCASDSZJM53CGQVI3A4SFIWQ/> - Please view link - unable to able to access data
2. <https://www.ft.com/content/6a66abb6-ac00-4378-ae6c-2070e70a46a8> - A recent survey reveals that nearly half of English councils have reduced spending on family support services, including family hubs and children's centres, between 2023-24 and 2024-25. Of the 116 local authorities that responded, 49% reported cuts, with overall spending dropping from £444 million to £437 million—a real-terms decrease of 1.6%. This reduction underscores the financial challenges councils face in maintaining essential services for families and children.
3. <https://www.ft.com/content/9d5f7c54-44f7-43d8-8dbb-d6b55c818e83> - Following Reform UK's takeover of several local councils in England, the party confronts significant financial challenges. Councils in regions like Durham, Derbyshire, Kent, and Staffordshire are grappling with severe budget constraints due to escalating costs in children’s services and adult social care, compounded by inflation and limited governmental support. The situation has led to public frustration, with rising council taxes corresponding to reduced services.
4. <https://www.londoncouncils.gov.uk/news-and-press-releases/2025/local-government-funding-system-fundamentally-broken-london-councils> - London Councils has welcomed a new parliamentary report highlighting the financial crisis facing local government. The report recommends reforms to the council funding system to ensure local housing costs are properly accounted for in measures of deprivation used to allocate resources. London Councils has flagged this issue as a major concern, warning that the deprivation measures in the government’s Fair Funding Review 2.0 proposals do not fully reflect housing poverty and risk significantly underestimating levels of need in the capital.
5. <https://www.londoncouncils.gov.uk/news-and-press-releases/2025/sums-dont-add-almost-half-london-boroughs-bankruptcy-risk-due-school> - Sixteen of London’s 33 local authorities are at heightened risk of bankruptcy due to insufficient schools funding from the government, according to London Councils. The cross-party group warns that grants to councils for supporting children and young people with special educational needs and disabilities (SEND) have not kept pace with rising pressures, leading to severe budget deficits. London Councils forecasts that boroughs’ deficits for SEND provision will total £500 million by the end of 2026-27, destabilising town hall budgets and undermining investment in schools’ resources and support for pupils.
6. <https://www.ft.com/content/259dacdb-e144-4cb9-a0bd-1f079731e100> - Reform UK is criticising the current local council funding system for children with special educational needs and disabilities (SEND), labelling it as 'broken' and aiming to overhaul it under its cost-cutting initiative inspired by Elon Musk. Party official Zia Yusuf heads the Department of Government Efficiency and highlights soaring costs—partly due to outsourcing to private providers—contributing to high-needs budget deficits that could reach £8 billion by 2027. Reform UK, which gained control of 10 councils after the June elections, plans a thorough spending analysis, focusing on SEND and social care budgets.
7. <https://www.londoncouncils.gov.uk/news-and-press-releases/2025/council-funding-reforms-must-match-londons-deprivation-and-cost-0> - London boroughs are grappling with a £500 million budget shortfall this year, following more than a decade of structural underfunding, skyrocketing demand for services, and rising costs. Almost a quarter of boroughs in the capital (seven) now rely on emergency borrowing measures through the government’s Exceptional Financial Support programme—the highest proportion of any region in the country. More boroughs are likely to face the risk of effective bankruptcy if funding reforms fail to deliver sufficient resources.