# London warns Fair Funding Review 2.0 risks under‑funding capital unless housing costs are counted



London Councils has urged the government to rethink the Fair Funding Review 2.0 as its consultation closes, arguing that any new funding formula for England’s local authorities must reflect London’s particular deprivation profile and the true cost of housing. The cross‑party group warns that the current deprivation measure would, for example, give equal weighting to the distance to a post office and to homelessness, a disparity they say risks under‑funding essential services in the capital. The appeal comes amid mounting cost pressures tied to homelessness and temporary accommodation: boroughs reportedly spent around £114 million each month on temporary accommodation during 2023–24, affecting roughly 183,000 Londoners. Housing poverty is a defining feature of London deprivation, the group notes, and must be factored into any sustainable funding framework. In a statement, London Councils emphasised that reform must distribute resources to areas with the highest need while recognising the capital’s sharp cost pressures and the scale of homelessness. The organisation has also drawn attention to the broader context of funding gaps, with London historically facing the widest gap between need and funding across England and a growing reliance on emergency support to keep services running.

The reform project, London Councils argues, cannot proceed without addressing broader design features that will shape how much cash arrives in the capital. The government’s own Fair Funding Review 2.0 page outlines that remoteness costs would be considered in allocations, that councils’ ability to raise Council Tax would be a factor, and that business rates would be reformed. The plan seeks to simplify the existing RNF framework, consolidate grants into a more predictable Settlement, and create bespoke allocations for high‑cost areas such as temporary accommodation, with a multi‑year settlement slated to begin in 2026/27. These structural shifts, the Institute for Fiscal Studies has warned, will not land evenly: inner London boroughs are among the biggest losers under many redistribution scenarios, with the relationship between deprivation and funding changes far from straightforward and some deprived areas potentially receiving targeted top‑ups even as others lose out. The combined effect, London Councils says, could be a new version of regional inequality if London’s housing costs and cost‑of‑living pressures are not explicitly accounted for in any reform package.

A series of London Councils statements and commissioned analyses further argue that the proposed reforms would systematically understate London’s needs unless housing costs are robustly incorporated. The council body notes that London has the highest poverty rate in the country once housing costs are included, and highlights overspending on temporary accommodation as a central budget pressure that must be reflected in the funding framework to protect the capital’s ability to deliver critical services. In August 2025, London Councils published a warning over proposed reforms to children’s services funding: commissioned by the Council and conducted by the National Children’s Bureau and Public Alchemy, the analysis argues that the CYPS relative needs formula lacks robustness and fails to account for housing costs, meaning London could face a substantial redistribution away from its services unless the approach is retested with stronger evidence. Taken together, the material suggests London’s councils are bracing for a shift in funding that could exacerbate already high levels of deprivation unless the reforms are redesigned to recognise the capital’s housing affordability challenge and its implications for service delivery.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://bdcmagazine.com/2025/08/dont-ignore-deprivation-and-housing-poverty-in-the-capital-boroughs-urge-changes-to-funding-reforms-as-consultation-closes/), [[4]](https://www.londoncouncils.gov.uk/news-and-press-releases/2024/ps90m-monthly-spending-homeless-accommodation-threatens-bankrupt)
* Paragraph 2 – [[1]](https://bdcmagazine.com/2025/08/dont-ignore-deprivation-and-housing-poverty-in-the-capital-boroughs-urge-changes-to-funding-reforms-as-consultation-closes/), [[2]](https://www.gov.uk/government/consultations/the-fair-funding-review-20/the-fair-funding-review-20), [[5]](https://ifs.org.uk/publications/fair-funding-review-20-impacts-council-funding-across-england)
* Paragraph 3 – [[3]](https://www.londoncouncils.gov.uk/news-and-press-releases/2025/council-funding-reforms-must-match-londons-deprivation-and-cost-0), [[6]](https://www.londoncouncils.gov.uk/news-and-press-releases/2025/proposed-reforms-childrens-services-funding-dramatically-underestimate)

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## Bibliography

1. <https://bdcmagazine.com/2025/08/dont-ignore-deprivation-and-housing-poverty-in-the-capital-boroughs-urge-changes-to-funding-reforms-as-consultation-closes/> - Please view link - unable to able to access data
2. <https://www.gov.uk/government/consultations/the-fair-funding-review-20/the-fair-funding-review-20> - This UK government page presents the The Fair Funding Review 2.0 consultation launched in 2025. It outlines proposals to reform how funding is allocated to local authorities from 2026-27, with a focus on aligning allocations with relative need, local costs and available resources. Key elements include adjustments for remoteness costs, consideration of a council’s ability to raise Council Tax, and the reform of business rates. The consultation also discusses simplifying the RNF framework, consolidating grants into the Settlement, and introducing bespoke allocations for high‑cost areas such as temporary accommodation. The aim is a clearer, more predictable multi‑year settlement.
3. <https://www.londoncouncils.gov.uk/news-and-press-releases/2025/council-funding-reforms-must-match-londons-deprivation-and-cost-0> - London Councils responded to the government’s Fair Funding Review 2.0 consultation by stressing that deprivation measures must reflect housing costs and the true cost of living in London. The statement asserts London has the highest poverty rate once housing costs are included and warns that current indicators could misallocate funding, risking under‑funding essential services. It also notes overspend on temporary accommodation and significant borough budget pressures, calling for a robust, housing‑cost aware funding framework to protect the capital’s ability to deliver services now and in the future.
4. <https://www.londoncouncils.gov.uk/news-and-press-releases/2024/ps90m-monthly-spending-homeless-accommodation-threatens-bankrupt> - This London Councils press release from October 2024 highlights the scale of homelessness costs facing the capital’s boroughs. It reports that boroughs collectively spent about 114 million pounds per month on temporary accommodation during 2023-24, with homelessness affecting around 183,000 Londoners. The briefing emphasises the financial strain this places on council budgets and warns that continued reliance on expensive temporary accommodation risks pushing some boroughs towards insolvency. The document frames housing costs and homelessness as central drivers of deprivation and service pressures across London’s local government system.
5. <https://ifs.org.uk/publications/fair-funding-review-20-impacts-council-funding-across-england> - The Institute for Fiscal Studies analyses the Fair Funding Review 2.0 and its effects on council funding across England. The report finds inner London boroughs are among the biggest losers, with several authorities potentially facing substantial real‑terms reductions. It notes the relationship between deprivation and funding changes is not straightforward, and that targeted increases may occur for some deprived areas while others lose out. The analysis underscores the uneven impact of the reforms across regions, highlighting that London faces significant redistribution pressures even as overall national allocations shift towards a fairer regime.
6. <https://www.londoncouncils.gov.uk/news-and-press-releases/2025/proposed-reforms-childrens-services-funding-dramatically-underestimate> - London Councils published in August 2025 a warning that proposed reforms to children’s services funding may dramatically underestimate London’s need. An analysis by the National Children’s Bureau and Public Alchemy, commissioned by London Councils, argues the CYPS relative needs formula lacks robustness and accuracy and fails to account for housing costs. The release warns that this could lead to a substantial redistribution away from London and have a devastating impact on budgets for children’s services unless the proposals are re‑tested and refined with robust evidence.
7. <https://www.gov.uk/government/statistics/statutory-homelessness-in-england-january-to-march-2025/statutory-homelessness-in-england-january-to-march-2025> - Official government statistics for January to March 2025 show continuing increases in statutory homelessness and use of temporary accommodation. The data record 131,140 households in temporary accommodation in England at 31 March 2025, with 83,150 households containing dependent children and 169,050 dependent children overall. In London, the rate equates to about 19.9 households per 1,000, and Newham has the highest local rate at 57.7 per 1,000. The figures illustrate the ongoing housing and homelessness pressures that drive deprivation and place significant financial demands on local authorities in the capital.