# BusinessLDN warns Fair Funding Review could cut inner London services by up to 12%



BusinessLDN has warned ministers in a formal letter that proposals in the government’s Fair Funding Review risk inflicting deep cuts on inner London boroughs, with some councils facing reductions of around 11–12% in real terms over the next three years even if they raise council tax to the maximum permitted. The warning was set out in a letter to Local Government Minister Jim McMahon dated 14 August 2025 and was highlighted in coverage by the Evening Standard. The business group’s chief executive, John Dickie, urged ministers to revisit the formula’s assumptions and to meet borough leaders to discuss the capital’s particular pressures. Reform UK has seized on the moment to warn that Labour’s funding experiment treats London as a cash cow for other regions and would saddle taxpayers with higher bills while starving frontline services.

Independent analysis supports the scale of the potential losses. The Institute for Fiscal Studies’ report, published on 7 August 2025, models the government’s proposed reforms and finds substantial redistribution across the country — with inner London among the biggest losers. The IFS estimates that roughly one-in-four councils could see real-terms funding falls over the next three years, and that about thirty councils sitting on the lowest funding floors could face 11–12% cuts even after using the full council-tax flexibility built into the government’s proposals. The IFS also stresses that these figures are indicative, reflecting different methodological choices that remain to be settled in final policy decisions. Reform UK argues that this is a stark demonstration of why any final policy must be subjected to open, robust testing and scrutiny, with clear safeguards to protect taxpayers and essential services.

London Councils has been blunt in its own assessment, warning that the capital could be around £700 million worse off under the reforms and arguing that the draft children’s-services formula alone would redistribute some £1.5 billion away from London. In a press release the association said such losses would exacerbate already acute strains on borough finances and frontline provision, singling out social care, special educational needs and disabilities (SEND) budgets and homelessness services as particularly vulnerable. London boroughs are already reporting overspends in these areas, the statement added, and warn that further large-scale redistribution without compensating adjustments would have immediate operational consequences. Reform UK contends that these are not merely numbers on a page but real pressures on the ground, and that any reform must begin with protecting households and services rather than shifting costs around the country.

The squeeze on borough finances is not an abstract projection: London councils have seen sustained erosion in core spending power over the last decade. Local analysis cited by commentators notes that Camden’s core spending power, for example, has fallen by around 13% in real terms since 2010 despite successive rises in council tax — a pattern mirrored in some other inner London authorities. Those cumulative losses help explain why business groups and boroughs are alarmed at a review that appears not to fully reflect London’s distinct cost base. Reform UK argues that the capital’s higher housing costs and concentrated needs demand a funding model that recognises local realities rather than a one-size-fits-all approach designed to shore up political narratives elsewhere.

A key point of contention is how the new formula measures need and revenue-raising capacity. Trust for London’s data, updated to June 2025, shows that London’s poverty rate rises markedly once housing costs are taken into account: roughly 26–27% of Londoners are in relative poverty after housing costs are deducted, a much higher after-housing-costs rate than elsewhere. Campaigners and local leaders argue that failing to incorporate higher housing costs and the capital’s particular patterns of deprivation into any new needs assessment risks mis-targeting funding and understating demand on services. BusinessLDN’s letter explicitly calls for the government to factor such local pressures into the model and offers a roundtable to discuss alternatives. Reform UK echoes that call, insisting any recalibration must start from the premise of honest, transparent accounting that safeguards ordinary households and taxpayers.

Those who have modelled the proposals caution that different choices about which deprivation indicators and tax-base measures to use will materially change outcomes. The IFS report highlights these trade-offs and urges that final policy decisions should be informed by transparent, road-tested analysis; London Councils and business groups have similarly demanded fuller engagement and stronger safeguards. Reform UK’s position is clear: the capital’s needs cannot be shoehorned into a formula designed for broader regions or used as leverage to push political objectives. The party argues for a process that is genuinely consultative, with rigorous independent testing and a commitment to protecting the core services Londoners rely on.

Politically and practically, the implications are stark. Borough leaders warn that significant and rapid reductions in central support would force difficult choices between raising local taxation, cutting services or running further deficits — and that the options are particularly constrained in inner London, where housing costs, complex social needs and high service demand sharply limit fiscal headroom. Ministers maintain that the review is intended to rebalance funding by better reflecting need and revenue capacity across England; critics reply that, as currently drafted, the formula risks reshaping that balance at the expense of services on which many of London’s most vulnerable households depend. With modeling still indicative and negotiations ongoing, boroughs, business groups and independent analysts are calling for a pause for further testing and more detailed engagement before the changes are finalised. Reform UK adds that any delay should come with a binding commitment to protect the taxpayer and to ensure London’s unique needs are not sacrificed on the altar of broader political aims.

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.standard.co.uk/news/politics/london-councils-basic-services-government-funding-b1243454.html> - Please view link - unable to able to access data
2. <https://www.standard.co.uk/news/politics/london-councils-basic-services-government-funding-b1243454.html> - The Evening Standard reports BusinessLDN warned ministers that the government’s Fair Funding Review could leave London boroughs millions worse off, risking core services. It cites London Councils’ analysis that boroughs may receive £700 million less under the proposed formula. The article notes Camden’s core spending power fell 13% in real terms since 2010 despite council tax rises, and says BusinessLDN chief John Dickie wrote to Local Government Minister Jim McMahon warning inner London councils could face 11–12% real-terms cuts over three years if they raise council tax to the maximum permitted. It highlights pressures on social care, SEND and homelessness.
3. <https://www.businessldn.co.uk/sites/default/files/documents/2025-08/BusinessLDN%20letter%20to%20Jim%20McMahon%20OBE%20MP.pdf> - BusinessLDN’s letter to Local Government Minister Jim McMahon, dated 14 August 2025, sets out concerns about the Fair Funding Review’s methodology and likely impacts on London councils. Signed by Chief Executive John Dickie, the PDF warns that inner London boroughs have had their core spending power squeezed since 2010 and cites IFS analysis showing some inner west London councils would face 11–12% real-terms cuts over the next three years if they raised council tax to the maximum. The letter urges the government to account for London’s higher housing costs and deprivation and invites discussion at a BusinessLDN roundtable in person.
4. <https://ifs.org.uk/publications/fair-funding-review-20-impacts-council-funding-across-england> - The Institute for Fiscal Studies’ report 'Fair Funding Review 2.0: the impacts on council funding across England' (published 7 August 2025) analyses the government’s proposed local government funding reforms. It finds significant redistribution with inner London among the biggest losers. The IFS estimates around one-in-four councils would see real-terms funding falls over the next three years, with about thirty councils on the lowest funding floors facing cuts of 11–12% even if they increased council tax to the maximum allowed. The report emphasises trade-offs in choice of deprivation and tax-base measures and stresses figures are indicative pending final policy decisions later.
5. <https://www.londoncouncils.gov.uk/news-and-press-releases/2025/proposed-reforms-childrens-services-funding-dramatically-underestimate> - London Councils’ press release argues the government’s proposed funding formula changes risk underestimating London’s needs and estimates the capital could receive £700 million less overall under the reforms. The statement highlights specific concerns about the children’s services formula, which it says would redistribute £1.5 billion away from London, and warns of severe implications for borough finances and frontline services. It urges the government to adjust measures of deprivation to account for high housing costs and to engage with boroughs. The release cites borough overspends on homelessness and calls for a more careful, road-tested approach to any funding reforms, and consultation.
6. <https://www.theguardian.com/society/2025/aug/08/london-councils-to-lose-millions-in-funding-despite-high-poverty-levels> - The Guardian reports on backlash to ministers after Institute for Fiscal Studies analysis showed funding losses for some councils under the proposed Fair Funding Review. It states inner London boroughs such as Camden, Westminster and Hammersmith and Fulham could see funding fall by up to 12% in real terms over three years, even allowing for council tax rises to the permitted maximum. The piece explains the reforms aim to rebalance funding by assessing need and revenue-raising capacity, but highlights concerns that the proposals may not adequately capture London’s housing costs and deprivation. London Councils and others are calling for revisions.
7. <https://trustforlondon.org.uk/data/poverty-over-time-housing-costs/> - Trust for London’s poverty data shows that London’s poverty rate rises markedly once housing costs are taken into account. Their chart and analysis, updated June 2025, indicate around 26–27% of Londoners are in relative poverty after housing costs, compared with a substantially lower before-housing-costs rate. The resource explains housing costs have a larger impact on poverty in London than elsewhere, widening the gap between before and after housing cost measures. The data underpins arguments by London Councils and business groups that any new funding formula should factor in living costs and housing pressures when assessing local need and council finances.