



**Housing, Communities and Local Government  
Committee**

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# **The Funding and Sustainability of Local Government Finance**

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**Second Report of Session 2024–25**

**HC 514**

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# Housing, Communities and Local Government Committee

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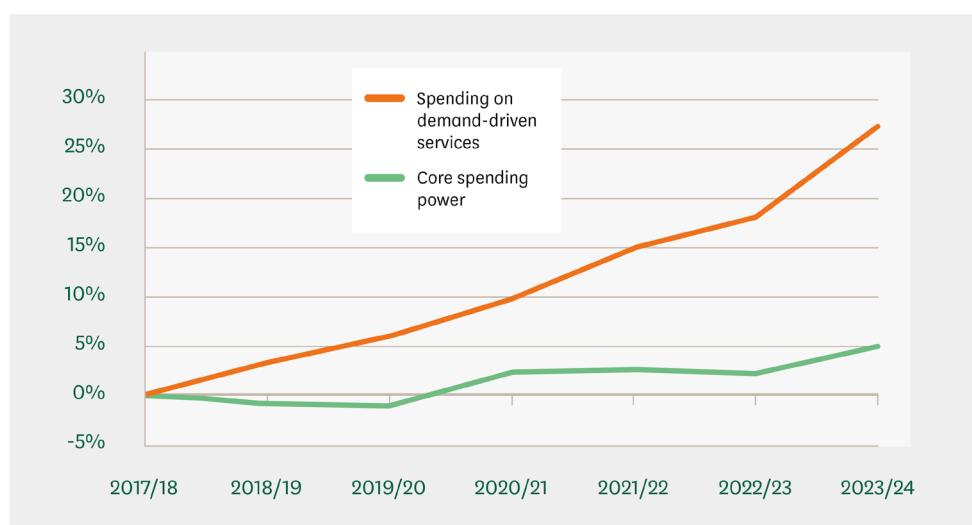
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# Summary

Local authorities in England provide vital public services that local taxpayers rely on every day. The costs of these services are skyrocketing; this year they will cost local authorities £139 billion. **Local authorities are being asked to deliver more than ever before, but they have not been given adequate funding to allow them to do so, even with their ability to increase council tax.**

## Demand-driven service spending has grown faster than core spending power in recent years

Cumulative real terms per person % change since 2017/18, England total



Residents are seeing a deterioration in the services they rely on, while being asked to pay more and more in taxes. **This broken link between tax and service quality has led to both a growing dissatisfaction among residents and a danger to the democratic process in this country**, as Jim McMahon OBE MP, the Minister for Local Government and English Devolution, has previously suggested.

**The financial strain on local government is driven almost entirely by mandatory, high-cost, demand-led services, and councils have little control over that demand.** These services, which include provision of social care, support for children with special educational needs and disabilities, and homelessness support, are vitally important and often support the most vulnerable people in society. Local authorities are so overwhelmed

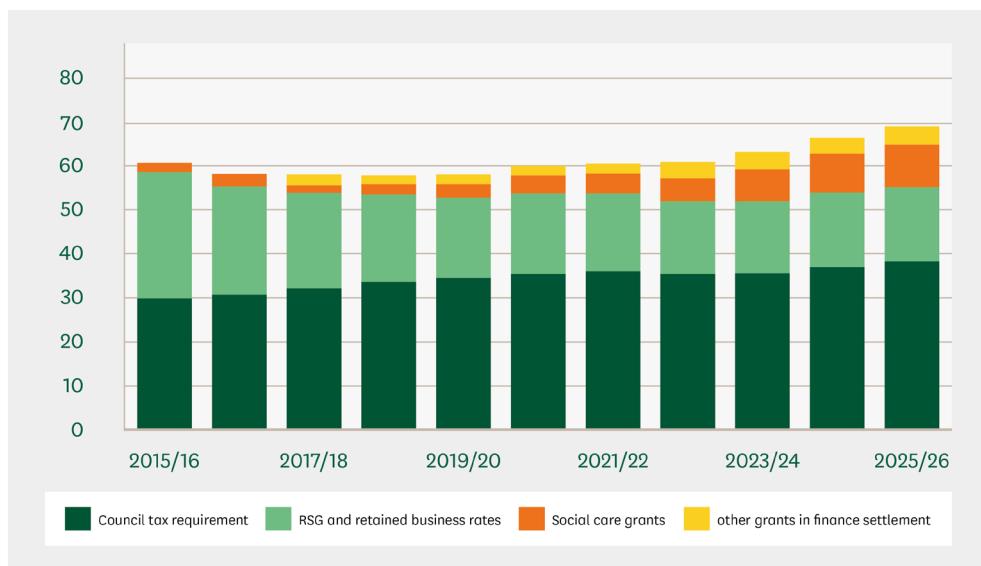
by urgent, acute issues that they are unable to plan long-term efforts to address underlying causes and prevent problems from escalating out of control. That is exactly what has happened. **While the Government has committed over £1.5 billion to reform these key services so that they are focused on prevention, it must provide further clarity about what these service reforms will involve, how they will be implemented, and how the Government will measure whether the reforms have been successful. These reforms must necessarily involve close collaboration between the Ministry and other involved departments across government. Preventative services must be supported to reduce overall costs in the long term.** The Government is taking steps in the right direction in this area, but it needs to be bold and move quickly.

In addition, the New Burdens doctrine, which requires government departments to ensure new responsibilities for local authorities are fully costed, must be put on a stronger statutory footing and include any policy that increases in the costs of the mandatory services delivered by local authorities. **For any increase in the costs of local authority services, there must be a proportionate increase in central government funding.**

Cuts to central government grants since 2010 have left local government increasingly reliant on council tax to plug holes in its finances. However, **council tax is the most unfair and regressive tax in use in England today, and reforming and replacing council tax should be a greater priority for the Government.** While the Government is taking positive steps to redistribute funding more fairly to local authorities according to their needs through its Fair Funding Review 2.0, we are disappointed that it has rejected making any change to the biggest and least fair funding source for local authorities, which puts the biggest burden on the poorest people. **The Government should begin the process of overhauling or replacing council tax, and in the meantime should give local authorities more control over the council tax in their areas. This should include the power for individual councils to revalue properties in their area, define property bands, set the rates for those bands, and apply discounts.**

### **Elements of core spending power have changed over time**

£ billions, England total, adjusted for inflation (2025/26 prices)



**The issues in the local government finance system are exacerbated by the over-centralisation of government in this country.** England is one of the most centralised countries in the developed world. Central government determines the services that local government must deliver, specifies how it spends its money by means of ringfencing, and controls how much money it receives through both grants from central government and local taxation. Yet, when things go wrong at a local level, it is local authorities that residents blame. Any fix to the local government finance system must include a devolution of fiscal powers and responsibility to local authorities. **We recommend that ringfencing of funding be replaced with an outcomes-based system of accountability, under which local authorities will be held accountable for achieving against a set of agreed outcomes within their overall budgets, not for meeting spending targets.** Ringfencing and other centralised spending controls should only be used in response to financial mismanagement.

With pressures facing them from both sides, more local authorities are depending on so-called Exceptional Financial Support to avoid declaring effective bankruptcy. This mostly uses capitalisation directions, which allow councils to sell off their assets or borrow loans to pay for their day-to-day running cost, harming the councils' sustainability in the long term merely to avoid the consequences, imposed by central government, of short-term unbalanced budgets. **Exceptional Financial Support is now neither exceptional nor supportive, and it is right that the Government seeks to end the need for it.**

In the long term, only true transformation, supporting a clear vision of what the role of local government should be, can make the local government funding system fair and effective. **Beyond mere stabilisation, the Government must consider approaches to strengthen the system, including allowing councils to set their own forms of local taxes such as tourist levies, and placing stronger responsibility on central government to fund the services it requires local authorities to deliver.** Central government, so used to its tight control of local government's purse strings, must learn to ease its grip and let councils have more power to control their own affairs, accountable not to Westminster, but to their own local electorates.

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# 1 Introduction

1. Local authorities in England provide more than 800 services for the benefit of local taxpayers, most of which authorities are required to deliver by law.<sup>1</sup> The net cost of these services is approximately £139 billion in 2025/26, compared with £130 billion in 2023/24.<sup>2</sup> Millions of people rely on these services, some on a daily basis. Most people's interactions with government are at the local level.
2. Yet local government is under severe financial strain, and the finance system that supports it is inadequate to ensure its sustainability.
3. Local authorities are being required to deliver more than ever before, but have not been given adequate funding to allow them to do so. As a result, more authorities are requiring "Exceptional" Financial Support to avoid issuing a section 114 notice (a declaration of effective bankruptcy).
4. This financial strain is driven almost entirely by mandatory, high-cost, demand-led services, and councils have little control over that demand. These services, which include the provision of social care and homelessness support, are vitally important and often support the most vulnerable people in society, but the funding systems in place mean local authorities have been forced to focus on addressing urgent issues, and have had little opportunity to plan long-term efforts to address underlying causes and prevent problems from escalating out of control. As a result, costs and demand are higher than ever before.
5. The demands of these same urgent services have also made it harder for local authorities to afford the universal and neighbourhood services that are used by all residents regardless of need, services like waste collection, road maintenance, and libraries. As residents pay more in council tax than ever before, only to see the services they expect receiving less funding and getting worse over time, we believe there is a growing sense

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1 Local Government Association, [An introduction to local government](#) (accessed 22 April 2025)

2 Ministry of Housing, Communities and Local Government, [Local authority revenue expenditure and financing: 2025–26 budget, England](#), gov.uk, 19 June 2025 (accessed 25 June 2025)

of dissatisfaction and a danger to the democratic process in this country, as Jim McMahon OBE MP, the Minister for Local Government and English Devolution, has previously suggested.<sup>3</sup>

6. The Government has resolved to stabilise the system, with some proposals being announced in the recent [Spending Review 2025](#) and [Fair Funding Review 2.0](#) (both released after the oral evidence sessions of this inquiry). However, these proposals will take time to be implemented, and some of the action that was expected to be announced did not materialise, especially regarding the huge deficits relating to special educational needs and disabilities, which will now continue to be hidden in local authority accounts by a statutory override until at least 2028.
7. It will require radical change to stabilise and strengthen local government in England. And central government, so used to its tight control of local government's purse strings, must learn to ease its grip and let councils have more power to control their own affairs, accountable not to Westminster, but to their own local electorates, and deliver good quality local services.

## Our inquiry

8. We launched our inquiry on 11 December 2024. We received 50 pieces of written evidence and held four oral evidence sessions. Our witnesses included academics; think tanks; the Comptroller & Auditor General and the National Audit Office; the Chartered Institute of Public Finance and Accountancy (CIPFA); local government finance specialist Dan Bates; and representatives from English local government, including councillors and finance directors. At our ministerial session, we heard from Jim McMahon OBE MP, the Minister for Local Government and English Devolution, and Nico Heslop, Director for Local Government Finance at the Ministry of Housing, Communities and Local Government.
9. We would like to thank all the witnesses who spoke to us, and everyone who submitted written evidence, for their contributions.

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<sup>3</sup> HC Deb, 5 February 2025, [col 850](#) [Jim McMahon]; [Q16](#) [Professor Tony Travers]; Lincolnshire County Council ([FSF0026](#)); UNISON ([FSF0031](#)); Local Government Association, [Polling on resident satisfaction with councils: Round 39](#), 26 November 2024; KPMG, [Arresting the decline in citizen satisfaction](#) (accessed 24 June 2025)

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## 2 What is local government for?

10. Many stakeholders have told us the fundamental question that should underpin all discussions of the local government finance system is: ‘what is local government for?’ These include representatives from:
  - a. Society of County Treasurers: “There is a fundamental question about what local government is for and how you finance it, and the financing mechanism needs to reflect that discussion.”<sup>4</sup>
  - b. Institute for Fiscal Studies: “What are our expectations of what local government is expected to deliver? How much will it cost to deliver? That part is missing from the Government’s thinking at the moment.”<sup>5</sup>
  - c. National Audit Office: “What is behind our recommendation for a fundamental look at the system financing local government is, first of all, being clear what the job is that central government is expecting from local government. That is often not clear enough, and there are a lot of assumed responsibilities that are not adequately articulated and funded.”<sup>6</sup>
  - d. London Councils: “It is a good question, but what are local authorities there to do? What do our residents expect us to provide?”<sup>7</sup>
  - e. Chartered Institute of Public Finance and Accountancy: “The more fundamental question is about what we are asking local government to do and whether there is sufficient funding in the system to do it.”<sup>8</sup>

### Its role in the state

11. Professor Andy Pike of Newcastle University not only raised “the fundamental question [...] of what we want local government to do and how we are going to fund it”, but also asked what the role of local government decision-making should be in our democratic system:

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4 [Q107](#) [Rob Powell]

5 [Q31](#) [David Phillips]

6 [Q74](#) [Gareth Davies]

7 [Q59](#) [Councillor Williams]

8 [Q109](#) [Owen Mapley]

Is [local government] just an agency of central Government that we want to deliver services for as low a cost as possible, or is it a genuinely democratic tier of government and the UK state that has a democratic position and tries to make decisions to match the needs and ambitions of local people across the country?<sup>9</sup>

12. When we asked Jim McMahon OBE MP, the Minister for Local Government and English Devolution, he said: “They [local authorities] are the delivery arm of government.” He added that councils can “unleash community potential” and that there could be a local, democratic variance based on the needs of each local area.<sup>10</sup> Later, he said:

We need to better align the authority and legitimacy of local government to be the leader of a place. Aside from the financial crisis in local government, the thing I have seen over the last 10 years is that local government’s authority has been diminished. Referring to councillors as essentially the volunteer army or Scout group leaders is not a fair view of local government, and it does not represent at all the level of responsibility that they have.<sup>11</sup>

13. These two views from the Minister, of local government as a delivery arm of government or as the authoritative leaders of place, are at odds with each other. The latter view is more in line with the views we have heard expressed by witnesses and other stakeholders, and we believe should be more fundamental to the Government’s view of local government as a whole.

14. However, the Minister also said that there is no time for a theoretical debate about the “meaning of life” of local government.<sup>12</sup> The Minister said the current Government’s focus has been “stabilising a system that is on the edge of collapse.”<sup>13</sup> As part of this, it is implementing a significant local government reorganisation, which includes devolution of further powers to councils under the classification of Strategic Combined Authorities. This sort of devolution is more consistent with the idea of local government as leaders of a place, and less with the idea of local government as a delivery arm of government.

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9 [Q1](#) [Professor Pike]

10 [Q127](#) [Jim McMahon]

11 [Q147](#) [Jim McMahon]

12 [Q128](#) [Jim McMahon]

13 [Q179](#) [Jim McMahon]

## 15. CONCLUSION

The Government is undergoing the most significant local government reorganisation in decades. Substantial change, if not driven by a clear vision of what local government should be for and should be achieving, risks embedding undesirable elements of the current system into local government for the foreseeable future.

## 16. RECOMMENDATION

The Government must assess the role of local government and, by the end of 2025, publish its vision for local government's role in the state, including whether they see its role changing as a result of reorganisation and devolution to Strategic Combined Authorities. This vision should be submitted to consultation. Decisions around local government made by central government, including reorganisation and any changes to services and funding, should be informed by this view of local government's role.

# What residents expect

17. As we heard from Jim McMahon OBE MP, the Minister for Local Government and English Devolution, and other stakeholders, most residents have a view of what they should expect to get from their local councils in exchange for paying their council tax. (We discuss council tax in more detail in Chapter 5.) In general, this will be neighbourhood services that affect everyone, such as street cleaning, waste collection, road repair, working street lighting, park maintenance, libraries, leisure, and public safety.<sup>14</sup> In the final oral evidence session of the inquiry, the Minister said: “I would say that most people think they pay council tax for the roads to be repaired, the bins to be collected and the litter to be picked up off the street.”<sup>15</sup> He described these as “The small things that make a place worth living, feel more secure and give pride of place”.<sup>16</sup> However, as we’ll discuss further in Chapters 3 and 4, many councils are struggling to deliver these services to the level that residents expect given their rising council tax bills.

<sup>14</sup> Libraries Connected ([FSF0007](#)); Hampshire County Council ([FSF0015](#)); [Q170](#) [Jim McMahon]

<sup>15</sup> [Q133](#) [Jim McMahon]

<sup>16</sup> [Q170](#) [Jim McMahon]

18. Councils also have a responsibility to deliver certain mandatory services to support vulnerable people in their areas. These services include social care for adults and children, educational support for children with special educational needs and disabilities, and support to address homelessness, including temporary accommodation for unhoused people.<sup>17</sup>
19. It is right that councils are delivering all these services, but they need the money to do so. In the third oral evidence session of the inquiry, Councillor Pete Marland, Leader of Milton Keynes City Council and Chair of the Economy and Resources Board of the Local Government Association (LGA), told us:

Councils by their very nature are leaders of place. Should we be delivering housing? Yes. Should we be keeping children safe? Yes. Should we be making sure that children with special educational needs have the right education to make sure that they can get on in life? Yes. [...] I do not think that councils are being asked to do too much; I think councils should do more, but they need the resources to be able to do it. [...] I think the resources are probably in the system somewhere; they are just not being allocated to the frontline of local authorities.<sup>18</sup>

## Statutory and non-statutory requirements

20. Almost everything that local authorities do, especially the services it delivers, are set out in legislation. A service, or part of a service, is “statutory” if it mandated by legislation; services that are not strictly defined in legislation may be called “discretionary” or “non-statutory”.<sup>19</sup> However, legal requirements can differ greatly between services and may lack clarity about what is an integral part of the service.<sup>20</sup> Councillor Marland said:

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17 For example: Society of County Treasurers ([FSF0012](#)); Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#)); Local Government Association ([FSF0023](#)); Dr Kevin Muldoon-Smith (Associate Professor in Strategic Public Sector Finance and Urban Adaptation at Northumbria University) ([FSF0024](#)); Professor Tony Travers ([FSF0042](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#))

18 [Q32](#) [Councillor Marland]

19 For example: Hampshire County Council ([FSF0015](#)); Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#)) para 38

20 For example: NAVCA (National Association for Voluntary and Community Action) ([FSF0014](#)); Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#)) para 43

I think there is an argument to be made about having a proper co-production discussion around what is statutory and what is not statutory. [...] I have discussions all the time, as no doubt many of you did when you were councillors, about what is statutory. Having a library service is statutory, but is that one library in the centre of town with one book in it and no funding to have new books?<sup>21</sup>

21. Services like libraries, leisure centres, and waste collection, are set out in legislation, but are generally considered more discretionary because local authorities have greater discretion on how to deliver them, and thus on how much they cost. These are also mainly the universal services that residents expect for their council tax, as discussed above. As the National Association for Voluntary and Community Action told us, “Non-statutory rarely means ‘unimportant’ and, in addition, many non-statutory services (as strictly defined) are essential to making the statutory ones work.”<sup>22</sup>

## 22. CONCLUSION

The statutory and non-statutory responsibilities of local government have not been reviewed holistically for many years, contributing to the fragmented system of requirements that local authorities are required to deliver. What is needed to satisfy statutory requirements is too often unclear, which causes confusion and leads to inconsistency between service provision at different local authorities.

## 23. RECOMMENDATION

The Government must undertake a review of which local government services should, and which should not, be statutory requirements. This review must begin by the end of calendar year 2025 and go to consultation by June 2026. If changes are needed to legislation to bring statutory requirements in line with the review, these must be made before the end of this Parliament.

21 [Q33](#) [Councillor Marland]

22 For example: NAVCA (National Association for Voluntary and Community Action) ([FSF0014](#))

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### 3 Services under strain

24. In the previous chapter, we considered the role of local government and the services that it is responsible for delivering. In this chapter, we consider how and why councils are struggling to deliver these services.
25. Neighbourhood and universal services are under particular strain, with many councils struggling to deliver them to the level that residents expect given their rising council tax bills. This is because more and more of councils' budgets are being spent on mandatory services to support vulnerable people, including social care for adults and children, educational support for children with special educational needs and disabilities, and support to address homelessness, including temporary accommodation for unhoused people.<sup>23</sup> These services are invisible to most residents. As summarised by David Heald, Emeritus Professor at the Adam Smith Business School of the University of Glasgow:

Cost and take-up pressures on statutory services have squeezed out expenditure on discretionary services which perform such a fundamental role in place shaping. [...] Much of the statutory spend has been going on statutory services to sub-groups of the population which is invisible to many electors and council taxpayers. Examples are social care and special educational needs. What is damaging is the sense that the spatial environment has been deteriorating, exemplified by dirty streets, neglected public buildings and closed local libraries. Local authorities get the blame.<sup>24</sup>

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23 For example: [Q32](#) [Councillor Revans]; Society of County Treasurers ([FSF0012](#)); Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#)); Local Government Association ([FSF0023](#)); Dr Kevin Muldoon-Smith (Associate Professor in Strategic Public Sector Finance and Urban Adaptation at Northumbria University) ([FSF0024](#)); Professor Tony Travers ([FSF0042](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#)); Unite ([FSF0054](#)) paras 2.1 and 3.1

24 Professor David Heald (Emeritus Professor at Adam Smith Business School, University of Glasgow) ([FSF0022](#))

## Acute problems and demand-led services

26. In the Local Government Information Unit's [2025 State of Local Government Finances survey](#), surveyed local authorities identified the greatest pressures that they were facing. Responses varied and depended on the authority's tier of government and whether they were considering short- or long-term pressures. Survey respondents from upper-tier authorities (such as county councils) most often said adult social care is the most significant long-term pressure and children's services and education (including SEND) is the most significant short-term pressure. Respondents from lower-tier authorities (such as district councils) most often said housing and homelessness (including temporary accommodation) is the greatest pressure both in the short term and long term.<sup>25</sup> These findings are consistent with what we heard directly from councils and other stakeholders.<sup>26</sup> As local government reorganisation progresses and more local authorities are unitarised, the new single-tier councils will be responsible for all of these acute pressures, both the ones currently faced only by upper-tier councils and the ones currently faced by lower-tier councils.

27. In its written evidence the Ministry of Housing, Communities and Local Government said:

The department agrees with the broad consensus that four key services are driving the most significant funding pressures in local government: children's social care, adult social care, homelessness, and special educational needs and disabilities (SEND).<sup>27</sup>

28. As well as being significant financial pressures for local authorities, these are also frontline services for protecting and supporting at-need and vulnerable residents. The Local Government and Social Care Ombudsman told us that its casework is now "dominated by complex issues in the areas of homelessness, special educational needs and disabilities (SEND) and adult social care, where the person affected has often suffered serious injustice."<sup>28</sup>

29. Issues around these acute services are complicated, and any one of them could take up a whole inquiry; specific solutions for individual services are therefore beyond the scope of this report. However, we have considered the most significant services in more detail in the following chapter, primarily from a funding perspective (see Chapter 4).

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25 Local Government Information Unit, [2025 State of Local Government Finance in England](#), 6 March 2025, pp. 16–19

26 For example: Hampshire County Council ([FSF0015](#)); Lincolnshire County Council ([FSF0026](#)); Bristol City Council ([FSF0053](#))

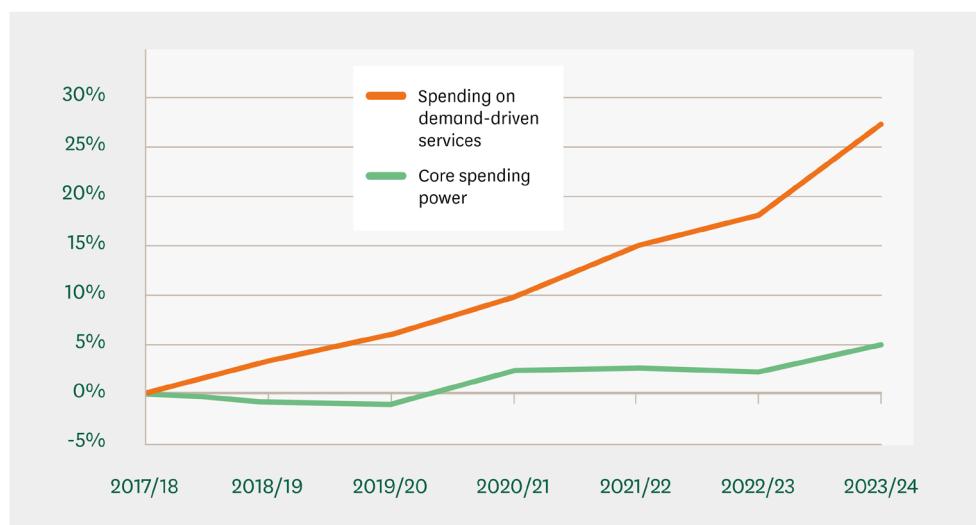
27 Ministry of Housing, Communities and Local Government ([FSF0008](#)) para 7

28 Local Government and Social Care Ombudsman ([FSF0009](#))

- 30. One thing that these services all have in common, however, is that they are demand-led. This means that local authorities are obliged to deliver these demand-led services to all the people that need them, no matter how many people that is. As such, local authorities often have very little control over the overall costs for delivering these services.
- 31. They have become the most significant financial pressures in local government because the number, cost and demand of services that local authorities are required to deliver has risen sharply.<sup>29</sup> Local government funding per person has fallen over the same period.<sup>30</sup>

**Demand-driven service spending has grown faster than core spending power in recent years**

Cumulative real terms per person % change since 2017/18, England total



**‘Demand-driven service spending’ refers to adult social care, children’s social care, homeless services, special schools & alternative provision (i.e. SEND). Source: Ministry of Housing, Communities and Local Government, [Local authority revenue expenditure and financing England: Revenue outturn multi-year data set, 30 May 2024 \(spending\)](#)**

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- 29 David Phillips (Associate Director at Institute for Fiscal Studies), Kate Ogden (Senior Research Economist at Institute for Fiscal Studies) ([FSF0003](#)); Re:State (formerly Reform think tank) ([FSF0010](#)); Society of County Treasurers ([FSF0012](#)); Miss Carenza Raddy ([FSF0017](#)); Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#)); Local Government Association ([FSF0023](#)); London Councils ([FSF0027](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#)); West Sussex County Council ([FSF0034](#)); Local Government Information Unit ([FSF0037](#)); Chartered Institute of Library and Information Professionals ([FSF0040](#)); TRL Insight ([FSF0046](#)); County Councils Network ([FSF0049](#))
- 30 National Audit Office, [Local government financial sustainability](#), 28 February 2025

**and Ministry of Housing, Communities and Local Government, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025 (CSP)**

**32.** Although funding reform is an important part of addressing these issues (and we discuss funding reform further in Chapter 5), funding reform alone will not solve the crisis in local government. The Government acknowledged in its [Local government finance policy statement 2025 to 2026](#), and several stakeholders have echoed, that funding reform must be accompanied by service reform via changes to Government policy.<sup>31</sup> At the recent Public Accounts Committee (PAC) session on Local Government Financial Sustainability, Iain Murray of the Chartered Institute of Public Finance and Accountancy (CIPFA) said:

If you reform funding but do not look at service reform alongside that, effectively you are just pouring more money [...] into different parts of what is already a quite broken system. The bit that is missing, or is not as clear at the moment, is what are we going to do in addition to funding reform<sup>32</sup>

**33.** These services also depend on and interact with other parts of central government. Social care relies on the Department for Health and Social Care (DHSC), and SEND relies on the Department for Education (DfE). Homelessness services are affected by the housing sector. In the recent session of the PAC on Local Government Financial Sustainability, Sarah Healey, the Permanent Secretary, and other Ministry officials said that the Ministry does regularly communicate with other departments, including DHSC and DfE.<sup>33</sup> However, it is unclear whether these communications involve more than sharing information and data.

**34.** As the National Audit Office (NAO) said in its report on [Local government financial sustainability](#), the Ministry can influence other government departments but it cannot control the decisions they make or prioritise and coordinate the impact of their policy choices on local government financial sustainability:

MHCLG told us it can influence other government departments through the new burdens doctrine and regular engagement (which increases around fiscal events such as spending reviews), but that it cannot

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31 Ministry of Housing, Communities and Local Government, [Local government finance policy statement 2025 to 2026](#), gov.uk, 28 November 2024; [Q8](#) [Jonathan Carr-West]; [Q32](#) [Councillor Marland]; [Q81](#) [Gareth Davies]; [Q84](#) [Abdool Kara, Vicky Davis]

32 Oral evidence taken by the Public Accounts Committee on 3 April 2025, [Q8](#) [Iain Murray]

33 Oral evidence taken by the Public Accounts Committee on 3 April 2025, [Qq52](#), [112](#) [Nico Heslop, Sarah Healey]

control the decisions they make which affect local government, and that it is primarily for each department to assess the impact of its policies on local government financial sustainability.<sup>34</sup>

35. The NAO recommended a whole-system approach to addressing local government sustainability, that considers interdependencies and consequences across services and departmental boundaries, and which is underpinned by clear expectations of local government.<sup>35</sup>
36. Gareth Davies, the Comptroller & Auditor General, said that there are positive examples of cross-government working, such as the work that Active Travel England is doing with local authorities to encourage walking and cycling. He said, “thinking differently about how central government work with local government could be part of the solution as well.”<sup>36</sup>

**37. CONCLUSION**

Decisions made by departments other than the Ministry can have a significant impact on services delivered through local government, and it is local authorities and residents that must bear the brunt of the impact. For example, those affected by welfare cuts such as the freezing of Local Housing Allowance may no longer be able to afford council tax and may even present as homeless, drastically increasing the level of support that local authorities must provide.

**38. CONCLUSION**

The Ministry is in regular contact with other departments and government bodies about the needs of local government, but it lacks the levers that it needs to control decisions across central government. In our view, merely discussing the issues with other departments is not enough. To properly reform and stabilise these vital services, clear lines of accountability between relevant departments are needed, with the responsibilities for overall delivery and for funding being held together in a single department (even if delivery in practice is managed by several).

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34 National Audit Office, [Local government financial sustainability](#), 28 February 2025, para 3.5

35 National Audit Office, [Local government financial sustainability](#), 28 February 2025, p. 13

36 [Q73](#) [Gareth Davies]

39.

#### **RECOMMENDATION**

We support the calls by the National Audit Office and Public Accounts Committee that the Government must provide cross-government reform to ensure that the entire system of local government is sustainable.

The Ministry must collaborate with other departments on this and there must be clear lines of accountability. We also recommend that, for each mandatory service delivered by local government, a single Minister should have both the responsibility for delivering that service and the authority to coordinate work across all relevant departments. The power and responsibility for decision-making should be held by the same person so that effective action can be taken across departmental boundaries.

40.

In the 2025 Spending Review, the Government said that the £3.25 billion Transformation Fund previously announced will be used to fund reforms to public services, particularly children's social care (£557 million over three years), SEND (£760 million), adult social care (£100 million) and homelessness support (£87 million) to focus each of them on prevention.<sup>37</sup>

41.

#### **RECOMMENDATION**

The Government has committed over £1.5 billion from the Transformation Fund to reform adult social care, children's social care, SEND, and homelessness services so that they are focused on prevention. Reforms to these services are urgently needed, but the Government must provide further clarity about what these service reforms will involve, how they will be implemented, and how the Government will measure whether the reforms have been successful. Delivering the reforms will require the Government to act proactively for many years to come.

## **Discretionary and preventative services squeezed out**

42.

Because so much of local authorities' funding is being directed to its acute, demand-led services, many local authorities have been forced to cut back on the other services they deliver.<sup>38</sup> These include libraries, leisure centres, parks, highways, transport, waste collection, cultural services, youth

37 HM Treasury, [Spending Review 2025](#), gov.uk, 11 June 2025, Executive Summary, Box 1.D and section 3

38 For example: Professor David Heald (Emeritus Professor at Adam Smith Business School, University of Glasgow) ([FSF0022](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#)); Unite ([FSF0054](#)) para 3.1

services, and support for food services, all of which are statutory services but over which local authorities have greater discretion on how to deliver them.<sup>39</sup>

43. In some areas, these neighbourhood services have faced real-terms reductions of 30 to 40 per cent since 2010/11. According to Professor Tony Travers, Visiting Professor at the Department of Government at London School of Economics & Political Science (LSE) and Director of LSE London: “There is no parallel for such reductions in neighbourhood services in modern times, if ever. People have been faced with direct evidence of ‘devolved’ public expenditure reductions in the streets outside their homes.”<sup>40</sup>
44. Some of the services that local authorities have been forced to cut are services with a “preventative” benefit, meaning that they can address underlying problems early and prevent them from becoming acute issues. If allowed to operate over a longer term, preventative services can even direct demand away from more expensive acute services and reduce total costs.<sup>41</sup> For example, libraries support education, employment, social connection and digital access, and can even contribute to health outcomes if used to get vaccines and relevant services to older people where they are.<sup>42</sup> According to South and Vale District Councils, “preventative services can lead to reduced pressure on demand-led services as residents receive the support they need earlier and are less likely to need more intensive intervention and support.”<sup>43</sup>
45. However, widespread cuts to preventative services over many years have exacerbated the financial crisis in local government. As academics from Nottingham Trent University said, “Cuts to preventative services [...] have resulted in escalating costs for crisis management and poorer outcomes for residents.”<sup>44</sup> The Society of County Treasurers said that there is a direct connection between cuts to universal services for families at the start of

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39 Chartered Institute of Library and Information Professionals ([FSF0040](#)); Professor Tony Travers ([FSF0042](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#)); Food Standards Agency ([FSF0025](#)) para 17; Unite ([FSF0054](#)) para 3.1

40 Professor Tony Travers ([FSF0042](#))

41 For example: Society of County Treasurers ([FSF0012](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#)); Special Interest Group of Municipal Authorities (SIGOMA) ([FSF0044](#));

42 Libraries Connected ([FSF0007](#)); Chartered Institute of Library and Information Professionals ([FSF0040](#)); [Q33](#) [Councillor Marland]

43 South Oxfordshire District Council ([FSF0032](#)) and Vale of White Horse District Council ([FSF0033](#))

44 Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#))

austerity, and the current crisis in SEND and children’s social care a decade later.<sup>45</sup> Many stakeholders have told us that more preventative services are needed.<sup>46</sup>

46. The Government has noted the importance of preventative services, and in its November 2024 Local government finance policy statement said that upcoming service reform would focus on prevention and early intervention.<sup>47</sup> In her foreword to the consultation on local authority funding reform, Angela Rayner, the Deputy Prime Minister and Secretary of State for Housing, Communities and Local Government, said that the Government would direct investment “into crisis prevention rather than its more expensive cure.”<sup>48</sup> In the 2025 Spending Review, the Government announced that the £3.25 billion Transformation Fund will be used to drive a preventative approach to public services, and that upcoming reforms of children’s social care, SEND, adult social care and homelessness support would focus each of them on prevention.<sup>49</sup>
47. However, a focus on prevention should not result in a cut to the necessary funding for acute services. For example, the Ministry has attempted to increase the spend on homelessness prevention by ringfencing 49% of the Homelessness Prevention Grant to be spent on preventative services, but as we have been told by stakeholders, including London Councils, this will squeeze areas that rely on up to 80% of the Homelessness Prevention Grant to cover their acute temporary accommodation costs.<sup>50</sup> (We discuss the problems with ringfencing further below.)

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45 Society of County Treasurers ([FSF0012](#))

46 For example: Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#)); Special Interest Group of Municipal Authorities (SIGOMA) ([FSF0044](#)); [Q10](#) [Aileen Murphie]; [Q11](#) [Jonathan Carr-West, Professor Tony Travers]; [Q23](#) [Charlotte Pickles]; [Q106](#) [Rob Powell]; Institute for Government, [A preventative approach to public services](#), 22 May 2024

47 Ministry of Housing, Communities and Local Government, [Local government finance policy statement 2025 to 2026](#), gov.uk, 28 November 2024

48 Ministry of Housing, Communities and Local Government, [Local authority funding reform: objectives and principles](#), gov.uk, 18 December 2024

49 HM Treasury, [Spending Review 2025](#), gov.uk, 11 June 2025, Executive Summary, Box 1.D and section 3

50 [Q56](#) [Councillor Williams]

48.

#### **CONCLUSION**

We support the Government's current stated intention to focus more on prevention to reduce the demand for more expensive acute services in the long term. These preventative services have been weakened by a decade of underfunding in local government. However, bolstering preventative services must not come at the expense of acute services, such as temporary accommodation provision, lacking the funding they need today.

49.

#### **CONCLUSION**

Rebuilding and strengthening damaged preventative services will require temporary increases in central government funding before the demand for acute services starts to drop.

50.

#### **RECOMMENDATION**

The Ministry must prioritise funding and support for local preventative services to fix the foundations, reduce the demand for acute services, and bring down costs in the longer term.

## **Centralisation, ringfencing and the future of accountability**

51. One cause of the financial instability of English local government, and the lack of sustainability of English local authorities, is that England is one of the most centralised countries in the developed world. It is a notable outlier in the extent to which central government exerts control over local government, and local authorities have very little financial autonomy or control over their own income.<sup>51</sup>
52. This over-centralisation has hampered local authorities' ability to act democratically and for the best interests of their residents. As we were told by TRL Insight, "Decisions on key matters of public policy, particularly those which involve spending public money, are largely made in Westminster and Whitehall. [...] and consequently it's not councils' residents who are in charge of setting their priorities, it's central government."<sup>52</sup>

51 David Phillips (Associate Director at Institute for Fiscal Studies), Kate Ogden (Senior Research Economist at Institute for Fiscal Studies) ([FSF0003](#)); Professor Colin Copus (Emeritus Professor at De Montfort University) ([FSF0004](#)); Professor Andy Pike (Henry Daysh Professor of Regional Development Studies at Centre for Urban and Regional Development Studies (CURDS), Newcastle University) ([FSF0006](#)); Society of County Treasurers ([FSF0012](#)); Dr Kevin Muldoon-Smith (Associate Professor in Strategic Public Sector Finance and Urban Adaptation at Northumbria University) ([FSF0024](#)); Local Government Information Unit ([FSF0037](#)); TRL Insight ([FSF0046](#))

52 TRL Insight ([FSF0046](#))

53. Historically, central government has exercised its control of local government income by means of separate, focused funding pots to fund programmes across local government that are aligned with central government's policy objectives. In many cases, these funding pots have required local authorities to bid against each other in expensive, competitive processes, with no guarantee that they would receive any money at the end. At a time when local authorities are facing tight budgets, this is inefficient use of money and creates dilemmas over whether to bid or not in some of the most deprived parts of the country.<sup>53</sup> Some stakeholders have said, because of the costs involved merely in participating, competitive bidding processes can favour local authorities that are larger or well-resourced, rather than those who most need the funding.<sup>54</sup> As Professor Hulya Dagdeviren of the University of Hertfordshire said, "It is essential to reduce the fragmentation of funding and to shift from competitive allocation, which currently dominates certain funding streams, to a needs-based allocation system."<sup>55</sup>

54. Vicky Davis, Director of Value for Money for Housing, Communities and Local Government at the NAO, gave us an example of the complexity of funding for homelessness services, based on the NAO's 2024 report on [The effectiveness of government in tackling homelessness](#). She said, "We listed 13 separate funds that all had a connection with authorities tackling homelessness and they were across three Departments. Some were allocated funding; some was funding that would be bid into. That gets very difficult if you are a local authority trying to navigate what your budget is for tackling homelessness."<sup>56</sup> Gareth Davies, the Comptroller & Auditor General, said that the issue of competitive bidding is a good example of why a cross-government approach to reforming the system is needed.<sup>57</sup>

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53 David Phillips (Associate Director at Institute for Fiscal Studies), Kate Ogden (Senior Research Economist at Institute for Fiscal Studies) ([FSF0003](#)); Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#)); Jason Lowther (Director of the Institute of Local Government Studies (INLOGOV) at University of Birmingham) ([FSF0019](#)); Professor Sheela Agarwal, Professor Sheena Asthana, Dr Alex Gibson, and Ms Liz Edwards-Smith (Centre for Coastal Communities at University of Plymouth) ([FSF0021](#)); South Oxfordshire District Council ([FSF0032](#)) and Vale of White Horse District Council ([FSF0033](#)); South East Councils ([FSF0051](#))

54 Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#)); Chartered Institute of Public Finance and Accountancy (CIPFA) ([FSF0047](#)); Unite ([FSF0054](#)) para 12.2

55 Professor Hulya Dagdeviren (Professor of Economic Development at University of Hertfordshire) ([FSF0013](#))

56 [Q76](#) [Vicky Davis]

57 [Q73](#) [Gareth Davies]

55. Even when local authorities successfully bid for certain pots of money, the use of the funding received is often ringfenced and tightly prescribed. That means that the funding can only be spent on specific services or areas as defined by central government, regardless of whether that targeting is best for the local area. This fragmentary system prevents local authorities from serving their residents effectively over the long term, and makes it harder for different organisations to work together.<sup>58</sup>

56. In addition, the use of ringfencing around other income streams, even those raised locally rather than provided by central government, also limits the ability of councils to raise the money they need. For example, in Milton Keynes, parking fees at the fifth biggest shopping centre in the country are only 80p per hour because income from parking fees can only be spent on ringfenced transport expenditure and Milton Keynes has reached the statutory limit of what they can spend in this area. If this was not ringfenced, parking fees could be raised to be more comparable to other similar shopping centres (such as nearby Oxford, which charges £20 per day), and the additional income could be used to fill funding gaps in other areas.<sup>59</sup>

57. Councillor Pete Marland, Leader of Milton Keynes City Council and Chair of the Economy and Resources Board at the LGA, told us he was opposed to ringfencing of Government funding, and argued there should instead be an outcomes-based system, in which the Government holds local authorities accountable for what they are able to achieve (including the provision of statutory services), not how they spend their money.<sup>60</sup> Other stakeholders have also supported a stronger focus on outcomes, with David Phillips and Kate Ogden of the Institute for Fiscal Studies highlighting that “Other countries with greater devolution and financial flexibility for local government often accompany it with more formalised oversight and scrutiny of financial and service outcomes.”<sup>61</sup>

58. The new Government is making moves to reduce the number of different grant funding pots available and reduce ringfencing. In her foreword to the consultation on local authority funding reform, the Deputy Prime

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58 Re:State (formerly Reform think tank) ([FSF0010](#)); Jason Lowther (Director of the Institute of Local Government Studies (INLOGOV) at University of Birmingham) ([FSF0019](#)); Dr Kevin Muldoon-Smith (Associate Professor in Strategic Public Sector Finance and Urban Adaptation at Northumbria University) ([FSF0024](#)); South Oxfordshire District Council ([FSF0032](#)) and Vale of White Horse District Council ([FSF0033](#)); [Q121](#) [Dan Bates]; [Q122](#) [Owen Mapley]

59 [Q43](#) [Councillor Marland]; Oral evidence taken by the Public Accounts Committee on 3 April 2025, [Q21](#) [Councillor Pete Marland]

60 [Q40](#) [Councillor Marland]

61 David Phillips (Associate Director at Institute for Fiscal Studies), Kate Ogden (Senior Research Economist at Institute for Fiscal Studies) ([FSF0003](#)); [Q43](#) [Councillor Newmark]; [Q66](#) [Councillor Dyer]; [Q122](#) [Owen Mapley]

Minister said that the Government would “reduce the myriad funding pots to give councils more flexibility to focus on priority outcomes agreed with government.”<sup>62</sup> In the recent PAC session on Local Government Financial Sustainability, the Permanent Secretary and Director of Local Government Finance at the Ministry said that that the Ministry is moving to reduce ringfencing and competitive bidding of funding pots.<sup>63</sup> These moves have been supported by stakeholders.<sup>64</sup> One of the first moves taken is the Plan for Neighbourhoods, an un-competited fund whose eligibility has been determined by eligibility metrics and not by bidding.<sup>65</sup>

59. However, at the same PAC session, the Ministry officials also said they intend to keep some ringfencing, particularly around preventative services (as mentioned above).<sup>66</sup>
60. The Government is also moving to introduce an outcomes-based system on accountability. On 3 July 2025, it launched the Local Government Outcomes Framework and asked councils to provide feedback so that a final Framework could be implemented in April 2026. The Framework includes 15 headline priority outcomes, covering areas such as homelessness, housing, adult social care, neighbourhoods, transport and child poverty. Each priority outcome has at least one associated metric for assessment, usually based on public data. The Framework does not currently apply to Strategic Authorities. In the written statement accompanying the launch, Jim McMahon OBE MP, the Minister for Local Government and English Devolution, said:

The Framework will measure progress towards outcome delivery, so we know that funding is achieving impact. [...] We will otherwise give local authorities the flexibility and certainty they need to make the right decisions for their local areas, and support public service reform and the move to prevention and early intervention.<sup>67</sup>

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62 Ministry of Housing, Communities and Local Government, [Local authority funding reform: objectives and principles](#), gov.uk, 18 December 2024

63 Oral evidence taken by the Public Accounts Committee on 3 April 2025, [Qq43, 75](#) [Sarah Healey, Nico Heslop]

64 For example: UNISON ([FSF0031](#))

65 Ministry of Housing, Communities and Local Government, [Plan for Neighbourhoods: prospectus](#), gov.uk, 27 May 2025

66 Oral evidence taken by the Public Accounts Committee on 3 April 2025, [Qq63, 98, 104](#) [Sarah Healey, Nico Heslop]

67 [Local Government Accountability](#) HCWS773, 3 July 2025; Ministry of Housing, Communities and Local Government, [Local Government Outcomes Framework: Call for feedback](#), gov.uk, 3 July 2025

**61. CONCLUSION**

Successive Governments have relied too much on ringfencing of funding to control the activities of local government. Through ringfencing, the Government has required local authorities to spend their money in specified ways, which may not be the most efficient use of that money in the local context. Local authorities would be able to make more use of their local knowledge and make better decisions within their local context if the Government used an outcomes-based system: rather than requiring local authorities to spend specific amounts of money in certain ways, requiring local authorities to achieve certain outcomes within their overall budget.

**62. CONCLUSION**

We are encouraged by the recent launch of the Local Government Outcomes Framework and the beginning of a transition towards an outcomes-based system of accountability for local government, and we look forward to further detail, as it emerges during the call for evidence, about how the Ministry will use the Framework to assess local authorities' performance against the proposed metrics and support them to deliver the Framework's priority outcomes.

**63. RECOMMENDATION**

After the conclusion of the Framework's live call for evidence and before the start of the 2026/27 financial year, the Ministry must implement the agreed outcomes-based system, by which local authorities will be held accountable for achieving the agreed outcomes within their overall budgets and not for meeting spending targets for individual services.

**64. RECOMMENDATION**

The Ministry must end ringfencing by removing the standard spending requirements that are placed on the funding available to local authorities, whether the funding was provided by Government or collected locally. Spending requirements, such as ringfencing, should only be used in response to financial mismanagement.

**65. CONCLUSION**

We welcome the Government's desire to move away from the competitive bidding process as outlined in the Plan for Neighbourhoods, but further clarity is needed around what alternative funding programmes will replace competitive bidding.

66.

**RECOMMENDATION**

The Ministry must outline how it plans to allocate funding to local authorities in future investment programmes and move away from competitive bidding between councils. Any allocation must use a transparent process, based on clear criteria, and be focused on achieving desired outcomes.

67.

**RECOMMENDATION**

As part of the Ministry's reduction of the use of funding pots and competitive bidding, it must consider and reduce the number of funding pots managed across multiple government departments, not just those managed by the Ministry.

## Unfunded mandates and employer National Insurance Contributions

68. Since 2010, the government has required all Whitehall departments to fully assess all policy changes that place new requirements or responsibilities on local authorities. This is called the [New Burdens doctrine](#), and its explicit purpose is to prevent excessive increases of council tax by ensuring that departments have fully costed the additional burdens on local authorities. (For an explanation of why this is now untenable, including the broken link between council tax and spending, see Chapter 5.)
69. The New Burdens doctrine comes with a set of guidance for government departments to follow, which says, “Departments cannot expect to receive collective Cabinet clearance of proposed policies and initiatives if they fail to follow this guidance.” However, the process does not guarantee that additional spending responsibilities will not be passed to local government without adequate additional funding: output from the New Burdens process is informational, not binding.
70. Several stakeholders have criticised the current form of the New Burdens doctrine. The think tank Re:State told us that the New Burdens doctrine was “unreliable and inadequately consultative” and recommended “revising this doctrine to ensure councils receive adequate resources for new duties and developing readiness plans to better prepare councils for additional responsibilities, mediated by an independent entity.”<sup>68</sup> Kate Ogden and David Phillips of the Institute for Fiscal Studies recommended that the New Burdens doctrine should be expanded to cover existing burdens, and put

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68 Re:State (formerly Reform think tank) ([FSF0010](#)) Q3 and Q6

on a statutory basis.<sup>69</sup> Some stakeholders said that, while the steps of the New Burdens process are publicly set out, the decision-making following the process is not. The Voluntary Organisations Disability Group (VODG) said:

There appears to be a significant disconnect between government funding and the reality of local authority funding pressures. Successive governments have consistently refused to supply information about how funding sufficiency is determined.<sup>70</sup>

**71.** In the recent PAC session, Nico Heslop, Director of Local Government Finance at the Ministry, said the Ministry is considering the framework:

We are doing a lot of work with our Ministers at the moment about whether [the New Burdens framework] is still the right way of doing it, and whether we need to think more about that. I would expect that we would say more about that in any June consultation where Ministers decide to do anything differently.<sup>71</sup>

**72.** When local authorities are not given enough funding to pay for one of their responsibilities, it is called an “unfunded burden” or “unfunded mandate”. Many stakeholders told us that the presence of such unfunded mandates in the local government finance system is a significant contributory factor towards the current unsustainability of the system.<sup>72</sup> Unfunded mandates are not such a problem in other countries.<sup>73</sup>

**73.** Examples of unfunded mandates in local government include the High Needs Block Grant deficits related to SEND<sup>74</sup> and the Housing Benefit subsidy for temporary accommodation subsidy, which is limited to 90% of the rate of Local Housing Allowance set in 2011 and has therefore not kept up with the rising costs of temporary accommodation. As the PAC recently reported, the subsidy loss for Housing Benefit was £204.5 million in 2022/23, compared to £41.4 million in 2012/13 (in 2022/23 prices).<sup>75</sup> (See Chapter 4 for more on these cost areas.)

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69 David Phillips (Associate Director at Institute for Fiscal Studies), Kate Ogden (Senior Research Economist at Institute for Fiscal Studies) ([FSF0003](#)) para 24d

70 Voluntary Organisations Disability Group (VODG) ([FSF0041](#))

71 Oral evidence taken by the Public Accounts Committee on 3 April 2025, [Q114](#) [Nico Heslop]

72 For example: David Phillips (Associate Director at Institute for Fiscal Studies), Kate Ogden (Senior Research Economist at Institute for Fiscal Studies) ([FSF0003](#)) para 11a; Professor Andy Pike (Henry Daysh Professor of Regional Development Studies at Centre for Urban and Regional Development Studies (CURDS), Newcastle University) ([FSF0006](#)); Dr Kevin Muldoon-Smith (Associate Professor in Strategic Public Sector Finance and Urban Adaptation at Northumbria University) ([FSF0024](#)); Local Government Information Unit ([FSF0037](#))

73 Local Government Information Unit ([FSF0037](#))

74 West Sussex County Council ([FSF0034](#))

75 [Q30](#) [Charlotte Pickles]; Public Accounts Committee, Fourth Report of Session 2024 -25, [Tackling homelessness](#), HC 352, para 4

**74. CONCLUSION**  
Unfunded mandates (responsibilities for local authorities without adequate funding or compensation) contribute to the lack of sustainability in the local government sector.

**75. CONCLUSION**  
The New Burdens doctrine, which requires government departments to ensure any new responsibilities for local authorities are fully costed and funded, is a vitally important part of government financing but is not robust enough to prevent unfunded mandates.

**76. RECOMMENDATION**  
The New Burdens doctrine must be reviewed, updated, and put on a stronger statutory footing. It must focus not only on new responsibilities, but on any increase in the costs of mandatory services delivered by local authorities. For any such increase in cost, there must be a proportionate increase in central government funding.

**77.** Another significant example of an unfunded mandate is the recent increase in employer National Insurance Contributions (NICs).<sup>76</sup> The Autumn Budget 2024 announced an increase in the rate of employer NICs, a reduction in the threshold at which employer NICs becomes payable, and an increase in the Employment Allowance, to take effect from April 2025.<sup>77</sup> As part of the 2025/26 Settlement, the Government announced an additional £515 million for local authorities to mitigate the additional impact of the increase in employer NICs on their budgets.<sup>78</sup> However, the LGA has warned that the compensation may not be enough. Its own estimate suggests that the increase in employer NICs will directly cost local authorities £637 million<sup>79</sup> and indirectly cost councils up to an extra £1.13 billion next year because of costs passed on by commissioned providers.<sup>80</sup> A panel of councillors before us unanimously agreed that the additional funding would not cover their direct employer NIC costs, and therefore not even begin to cover the indirect impact.<sup>81</sup>

**78.** The Minister for Local Government said:

76 [Q18](#) [Charlotte Pickles]

77 HM Treasury, [Autumn Budget 2024](#), gov.uk, 30 October 2024

78 Ministry of Housing, Communities and Local Government, [Explanatory note on the National Insurance Contribution compensation 2025 to 2026](#), gov.uk, 18 December 2024

79 Local Government Association, [Local government finance policy statement – LGA response](#), 28 November 2024

80 Local Government Association, [Consultation on the Provisional Local Government Finance Settlement 2025/26](#), 14 January 2025

81 [Q58](#) [Councillor Khan, Councillor Dyer, Councillor Williams]

I take the LGA's figures at face value. My point is that, coupled with the additional payment of over £500 million for NIC costs and the overall allocation of £5 billion, in the round there is enough money in the system to absorb that direct cost.<sup>82</sup>

**79.** The impact of the increases to NICs, as well as the recent increases to the National Living Wage and other changes from the Autumn Budget, are having a significant impact on the voluntary sector, which can have a significant role in local government's responsibilities for social care. Mencap has said that, if such costs remain unfunded, it and other service providers could be forced to hand back social care contracts, causing further distress to local authorities and a major interruption of provision for people in care.<sup>83</sup> VODG said:

The unfunded and substantial increases in costs for voluntary organisations will compound existing challenges within the system and directly contradict the government's stated goal of increased stability.<sup>84</sup>

**80.** Like all decisions over tax and the wider economy, decisions around employer NICs and the National Living Wage are ultimately made by HM Treasury and not by the Ministry. HM Treasury undertook a policy-wide assessment of the impact and made the policy decision to change them, then allocated the ministry £515 million to distribute. The Ministry itself has very few levers to influence HM Treasury policy decisions, even as they affect local government financial sustainability. Nico Heslop said, "We work with Treasury in terms of providing data inputs, but the decision on raising national insurance was obviously a tax matter, and that is for the Treasury."<sup>85</sup>

**81. CONCLUSION**

The increase in the rate of employer National Insurance Contributions has placed a significant financial burden on local authorities that has not been sufficiently covered by new funding. It is an unfunded mandate of the Government's making.

**82. RECOMMENDATION**

The Government must fully compensate councils for the additional costs arising from the increase to employer National Insurance Contributions.

82 [Q136](#) [Jim McMahon]

83 Mencap ([FSF0039](#))

84 Voluntary Organisations Disability Group (VODG) ([FSF0041](#))

85 [Q138](#) [Nico Heslop]

83.

**RECOMMENDATION**

The Ministry and HM Treasury must work together to align accountability over decisions that affect local government, including around national taxation. Authority over tax decisions that affect local government and responsibility for the financial sustainability of local government should be held together, perhaps by a single Minister who can work across departments at the Ministry and HM Treasury.

# 4 The big pressures

84. In Chapter 3, we described the activities of local government and said that the most significant financial pressures facing local government were from mandatory services with rising demand. In this chapter, we consider in more detail three of these service areas: adult social care, special educational needs and disabilities (SEND), and temporary accommodation.

## Adult social care

85. Local authorities are legally required to ensure the provision of adequate adult social care services under the [Care Act 2014](#).<sup>86</sup> Adult social care covers social work, personal care and practical support for adults with a physical disability, a learning disability, or physical or mental illness, as well as support for their carers.<sup>87</sup>

86. In 2023/24, local authorities in England spent £20.5 billion on adult social care (net current expenditure), 19% of the total service net expenditure. When including children's social care, it is over 30% of the total.<sup>88</sup> In some local authorities, adult social care costs are over 70% of their total budgets.<sup>89</sup>

87. Adult social care is the largest component of local government expenditure after education, and unlike education the cost of delivering social care has soared in recent years. Several factors contribute to funding pressures on adult social care services, including:<sup>90</sup>

- Wider funding pressures elsewhere in the local government sector, which impact the funding available for social care;<sup>91</sup>

86 Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#))

87 National Audit Office, [Reforming adult social care in England](#), November 2023, p. 5

88 Ministry of Housing, Communities and Local Government, [Local authority revenue expenditure and financing England: Revenue outturn multi-year data set](#), gov.uk (accessed 17 June 2025)

89 Unite ([FSF0054](#)) para 8.1

90 House of Commons Library, [Adult social care funding in England](#), Research Briefing 07903, 10 March 2025

91 National Audit Office, [Reforming adult social care in England](#), 10 November 2023

- Demographic pressures, as the number of older people (who are most likely to need social care) is rising faster than the population as a whole, and there is increasing prevalence and complexity of disability among working-age adults;<sup>92</sup>
- Increases in employer National Insurance Contributions (mentioned in the previous Chapter) and the minimum wage, which could cost independent sector social care employers in the region of an additional £2.8 billion in 2025/26;<sup>93</sup>
- Increasing costs of care per person because of increasing complexity of needs, which has been ranked as one of the biggest areas of financial concern by directors of adult social services for four years in a row.<sup>94</sup>

**88.** Cost pressures of social care are not directly correlated with the overall population of a local authority, because different authorities can have different demographic demands, such as a higher proportion of older people.<sup>95</sup> The costs of care for different people can vary, so a small number of individuals with complex needs can have a disproportionate impact on the overall cost in a given local authority.

**89.** The department most directly responsible for social care is the Department of Health and Social Care (DHSC). In the area of social care, therefore, the cross-departmental working that we recommended in the previous chapter needs to include DHSC and the Ministry, and should consider the role of other organisations, including social care providers.

**90.** In May this year, the Health and Social Care Committee published their report [Adult Social Care Reform: the cost of inaction](#), the scope of which has considered many issues facing adult social care, including beyond the perspective of local government finance. Its summary begins “Adult social care is in desperate need of reform”, and the report is clear that continuing

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92 Ministry of Housing, Communities and Local Government ([FSF0008](#)) para 8a; Essex County Council ([FSF0038](#)) para 17; County Councils Network, [New analysis reveals two-thirds of social care commissioning budgets are spent on working age and disabled adults](#), 11 November 2024; The King’s Fund, [Adult Social Care: Key facts and figures](#), 1 July 2024

93 Nuffield Trust, [Will the Autumn Budget push the social care sector beyond breaking point?](#), 22 November 2024

94 Association of Directors of Adult Social Services, [ADASS Autumn Survey 2024](#), 8 November 2024

95 Dr Kevin Muldoon-Smith (Associate Professor in Strategic Public Sector Finance and Urban Adaptation at Northumbria University) ([FSF0024](#)) para 13.1

to fail to implement reform will be costly not just to government finances, but to millions of citizens, to local authorities, to the NHS, and to the wider economy.<sup>96</sup>

**91. CONCLUSION**

We support and echo the conclusions of the recent report Adult Social Care Reform by the Health and Social Care committee. As they have said in the summary of their report, successive Governments have not fully considered the human and financial costs of inaction on social care reform, including costs falling on local authorities and their residents. The cost of doing nothing is now unsustainable, and reform is urgently needed.

**92.** On 2 May 2025, DHSC launched an [independent commission into adult social care](#), headed by Baroness Louise Casey. The commission “will make recommendations for how to reform the adult social care system to meet the current and future needs of the population and build a National Care Service.”<sup>97</sup> The commission will produce interim findings for medium-term improvement in 2026, with its full report into long-term reform due in 2028.<sup>98</sup> Several stakeholders have expressed concern that the launch of the commission will delay much-needed action.<sup>99</sup> Hampshire County Council said:

Central Government has failed to take action to stop these pressures from financially ruining councils. We feel that the recently announced commission on adult social care reform is just another delay to anything actually being done.<sup>100</sup>

**93. CONCLUSION**

While we support the new independent commission into adult social care led by Baroness Casey, we are concerned that the proposed timescale means that urgent reforms to social care services will not be implemented soon enough to overcome the severity of the crisis in adult social care. If no action is taken by the time the commission concludes in 2028, it may be too late to stabilise the system.

96 Health and Social Care Committee, Second Report of Session 2024–25, [Adult Social Care Reform: the cost of inaction](#), HC 368

97 Ministry of Housing, Communities and Local Government ([FSF0008](#)) para 10d

98 Department of Health and Social Care, [Independent commission into adult social care: terms of reference](#), gov.uk, 2 May 2025

99 For example: County Councils Network ([FSF0049](#)) para 37; Ros Altmann, [Altmann: ‘broken social care system needs action not another review’](#), FTAdviser, 6 May 2025

100 Hampshire County Council ([FSF0015](#))

94.

#### **RECOMMENDATION**

The timescale for the commission into adult social care should be brought forward, and it must present actionable reforms to the sector as part of its interim findings in 2026. The Government must not wait for the commission to publish its final report, and treat its interim findings with due urgency. The Government must ensure that adult social care is fully funded by the end of this Parliament.

95.

In 2022, the then-Government introduced statutory Integrated Care Systems (ICSs) to join up the health and care services across the country. This included the creation of 42 new NHS organisations called Integrated Care Boards (ICBs), who would plan health services, manage the NHS budget, and work with local authorities (who provide social care and public health services) and NHS service providers.<sup>101</sup>

96.

In its report on [Adult Social Care Reform: the cost of inaction](#) earlier this year, the Public Accounts Committee concluded on ICSs that, “The current state of the adult social care system is undermining the relationship building that is fundamental to the development of Integrated Care Systems (ICSs)”.<sup>102</sup>

97.

The [Darzi review](#) in September 2024 said that “Some sanity has been restored” by placing ICSs on a statutory footing, but that “The roles and responsibilities of ICBs need to be clarified.”<sup>103</sup> Following this, as part of the current Government’s reforms that include merging NHS England into DHSC, ICBs were asked to act primarily as strategic commissioners of health and care services, and to reduce their budgets by 50%.<sup>104</sup> As a result of this budget cut, some ICBs have considered merging with nearby areas to cut costs, with the overall number of ICBs expected to decrease from 42 to as low as 23.<sup>105</sup>

98.

Analysts have mixed views of these changes. Some have noted that a focus on cutting costs will make it hard to collaborate to meet ambitions like shifting care into the community, while others have said that the split of responsibilities is a good thing if ICBs can focus on their new, more defined

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101 NHS England, [What are integrated care systems](#) (accessed 17 June 2025)

102 Public Accounts Committee, Second Report of Session 2024–25, [Adult Social Care Reform: the cost of inaction](#), HC 368, p. 41

103 The Rt Hon. Professor the Lord Darzi of Denham OM KBE FRS FMedSci HonFREng, [Independent Investigation of the National Health Service in England](#), September 2024, p. 10 and p. 78

104 [Integrated Care Boards: Redundancy](#) PQ 56902, 12 June 2025; [Integrated Care Boards: Standards](#) PQ 56909, 16 June 2025; Sir James Mackey, [Working together in 2025/26 to lay the foundations for reform](#), NHS England, 1 April 2025; NHS England, [Update on the draft Model ICB Blueprint and progress on the future NHS Operating Model](#), 28 May 2025

105 BBC News, [NHS bosses plan merger amid bid to halve running costs](#), 6 June 2025; Room151, [ICB cuts: are councils facing new burdens and hidden costs?](#), 11 June 2025

role. Luca Tiratelli of The King's Fund highlighted that “the relationship between ICSs, local government and combined authorities is massively important to the efficacy of work on the wider determinants of health”, and that the ICB reforms should be done in a way that synergises with wider local government reorganisation.<sup>106</sup>

**99. RECOMMENDATION**

The Department for Health and Social Care must ensure that the ongoing reforms and cuts to Integrated Care Systems and Integrated Care Boards are aligned both with wider reorganisation of local government and with necessary reforms to the adult social care sector.

## Special educational needs and disabilities (SEND)

100. Children and young people with special educational needs or disabilities (SEND) are legally entitled to receive special educational provision. Most are supported by schools, but some that need more specialist support can be granted an education, health and care plan (EHCP) by their local authorities. EHCPs were introduced by the reforms of the [Children and Families Act 2014](#).<sup>107</sup> Since these reforms, the number of children and young people with EHCPs in England and Wales has risen by 140 per cent, leading to spiralling costs for local authorities.<sup>108</sup> According to the latest figures, one fifth of children in England now require special needs assistance in schools, and over one twentieth have EHCPs.<sup>109</sup>
101. Stakeholders have told us that the SEND system is an area of significant concern, not only because of finance pressures, but also because it is ineffective. Gareth Davies, the Comptroller & Auditor General, called SEND “a financially unsustainable regime that is not actually delivering results that are positive for the children and young people it is designed to help”.<sup>110</sup> The County Councils Network said, “the current system does not appear to work for either children, parents, schools or local authorities.”<sup>111</sup>

106 The King's Fund, [Integrated Care Board Cuts – What Does It All Mean?](#), 9 April 2025

107 Institute for Fiscal Studies, [Spending on special educational needs in England: something has to change](#), December 2024, p. 5

108 Ministry of Housing, Communities and Local Government ([FSF0008](#)) para 8c; County Councils Network ([FSF0049](#)) para 45; Isos Partnership, [Towards an effective and financially sustainable approach to SEND in England](#), Key fact 1 and Chapter 1

109 Financial Times, [One in five children in England requires special needs help in school](#), 12 June 2025; Department for Education, [Special educational needs in England, Academic year 2024/25 - Explore education statistics](#), gov.uk, 12 June 2025

110 [Q81](#) [Gareth Davies]

111 County Councils Network ([FSF0049](#)) para 44

**102.** As we write this report, the Education Committee is conducting an inquiry into [Solving the SEND Crisis](#). While the scope of our inquiry has been limited to the impact on the local authority finance system, the Education inquiry has been able to consider the system with a broader perspective.

**103.** The Department for Education (DfE) gives local authorities funding for SEND through the Dedicated Schools Grant (DSG), specifically through the DSG's ringfenced high needs block.<sup>112</sup> Increasing demand, including the rapid rises in the number of pupils with EHCPs, has put huge pressure on high-needs budgets.<sup>113</sup> A lack of capacity of state-funded specialist provision, either in mainstream or state-funded special schools, has added further pressure to these budgets because of the higher costs associated with independent schools, which are increasingly used to meet the demand, as well as the increased distance some children are travelling to attend an appropriate provision.<sup>114</sup> Funding has risen significantly, but spending has risen even faster. Many local authorities have deficits between the DSG funding they receive and the DSG-related spending they must incur. According to the Ministry, the cumulative DSG deficit is an estimated £2.2 billion.<sup>115</sup> When considering only the high needs block, the Local Government Association (LGA) estimates that nationally local government's cumulative deficit now stands at £3.15 billion. These deficits are threatening the financial viability of some councils.<sup>116</sup> Norfolk County Council called this deficit "the single most significant financial issue facing the sustainability of councils", and said "Fundamentally, councils have insufficient funding to meet the escalating costs of SEND provision."<sup>117</sup>

**104.** In 2020, the previous Government introduced a statutory override that separates DSG deficits from the rest of local authority accounts. This effectively moved high needs deficits off the balance sheets of local authorities, with the goal of preventing councils from needing to issue section 114 notices because of them. (Section 114 notices, which are declarations of effective bankruptcy, are considered further in Chapter 6.) The statutory override was meant to expire in March 2023, but in December

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<sup>112</sup> Institute for Fiscal Studies, [Spending on special educational needs in England: something has to change](#), December 2024, p. 5

<sup>113</sup> Ministry of Housing, Communities and Local Government ([FSF0008](#)) para 8c

<sup>114</sup> National Audit Office, [Support for children and young people with special educational needs](#), 24 October; Institute for Fiscal Studies, [Spending on special educational needs in England: something has to change](#), 10 December 2024; National Education Union, [SEND in crisis](#), 3 July 2025

<sup>115</sup> Ministry of Housing, Communities and Local Government ([FSF0008](#)) para 8c

<sup>116</sup> Local Government Association, [Debate on SEND provision, House of Commons, 5 September 2024](#), 4 September 2025

<sup>117</sup> Norfolk County Council ([FSF0045](#))

2022 it was extended to March 2026.<sup>118</sup> On 20 June 2025, as part of its Fair Funding Review 2.0, the current Government announced a further extension of the statutory override until March 2028.<sup>119</sup>

**105.** We have heard that the statutory override should never have been introduced, that it is irresponsible to conceal deficits in this way, and the true financial pressures facing local authorities are not transparent.<sup>120</sup> In written evidence to the Committee, the Society of County Treasurers said:

The statutory override, which permits deficits, is a flawed tool that merely conceals the issues of a broken system. The override should never have been introduced – now we are in a situation where the true financial position of local authorities is hidden. [...] However, until the system is restored to sustainability, extending the statutory override is a necessity.<sup>121</sup>

**106.** While the most recent extension of the statutory override has bought time to address underlying issues, it is not itself a solution to the problem and only delays the impact on councils. Many stakeholders have warned that, without action by the Government, many councils will be forced to issue section 114 notices when the override ends. Councillor Bill Revans, Leader of Somerset Council, said that section 114 notices will be “issued like confetti” when the statutory override comes to an end.<sup>122</sup> In January this year, the Public Accounts Committee (PAC) said of the cumulative deficit on the high-needs block grant, “Left unresolved, the issue risks undermining the whole of local government finance.”<sup>123</sup>

**107.** A similar situation recently faced NHS Trusts. In 2020, NHS Trusts had over £13 billion of accumulated debts from deficits that they could not fill, and which were preventing the NHS Trusts from operating. The then-Government wrote off £13.4 billion of debt, largely by converting it to equity, to reset the broken system.<sup>124</sup> While this approach could work for SEND deficits, it is both

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118 County Councils Network ([FSF0049](#)) para 49; Department for Levelling Up, Housing & Communities, [Local government finance policy statement 2023–24 to 2024–25](#), gov.uk, 12 December 2022

119 Ministry of Housing, Communities and Local Government, [The Fair Funding Review 2.0](#), gov.uk, 20 June 2025, para 1.2.10

120 Room151, [SCT president Rob Powell: solving the SEND deficit crisis and finding local government's purpose](#), 5 June 2025; Conrad Hall, [Conrad Hall: join me in opposing the extension of the Great Accounting Wheeze](#), Room151, 9 June 2025

121 Society of County Treasurers ([FSF0012](#))

122 [Q37](#) [Councillor Revans]

123 Public Accounts Committee, First Report of Session 2024–25, [Support for children and young people with special educational needs](#), HC 353, Conclusion 5, p. 6

124 Department of Health and Social Care (2 April 2020), [NHS to benefit from £13.4 billion debt write-off](#)

very expensive for Government (although write-off costs tend to be non-cash) and risks moral hazard. As Gareth Davies, the Comptroller & Auditor General, explained:

People are going to have to just recognise reality with this. There is a moral hazard here essentially of councillors spending money they do not have and then falling back on the national taxpayer when it all goes wrong. A better solution to that moral hazard is what is required.<sup>125</sup>

108. At the recent PAC session on Local Government Financial Sustainability, when asked about historical deficits and potential moral hazard, Nico Heslop, Director of Local Government Finance at the Ministry, said:

We have not yet taken a policy decision as part of that, but we are looking at all options on the deficits. We absolutely recognise some of the issues that you have set out, and we will set out more detail as part of the spending review and as part of the local government finance settlement.<sup>126</sup>

109. The 2025 Spending Review includes a commitment to reform the SEND system, at least in part through the new Transformation Fund. Details of these reforms will be set out in a Schools white paper in the autumn.<sup>127</sup> The extension to the DSG statutory override is part of a phased transition process leading up to these reforms.<sup>128</sup>

110.

#### CONCLUSION

The statutory override that allows local authorities to keep deficits of the Dedicated Schools Grant (DSG) off their books is an unsustainable measure that hides the true cost burden on local authorities. The recent extension of the override until 2028 is a necessary step to protect local authorities from the harmful consequences that would have ensued if it had ended in March 2026. As long as the override is in place, local authorities' accounts will diverge further from reality, and it must not be extended further beyond 2028.

125 [Q93](#) [Gareth Davies]

126 Oral evidence taken by the Public Accounts Committee on 3 April 2025, [Q79](#) [Nico Heslop]

127 HM Treasury, [Spending Review 2025](#), gov.uk, 11 June 2025

128 Ministry of Housing, Communities and Local Government, [The Fair Funding Review 2.0](#), gov.uk, 20 June 2025, para 1.2.10

### 111. RECOMMENDATION

The Government's upcoming reforms to the Special Educational Needs and Disabilities (SEND) system must be bold enough to eliminate local authorities' deficits on the DSG going forwards before March 2028, while ensuring SEND children receive the support they need. The Ministry must commit not to extend the statutory override further beyond 2028. The Ministry must also develop an approach to address historical cumulative DSG deficits, and to support local authorities handle them when the statutory override ends in 2028.

112. Stakeholders have told us that one of the most significant funding pressures facing local government is the rising demand for home-to-school transport, especially in rural areas.<sup>129</sup> This must be provided for all children of compulsory school age who meet certain criteria (such as distance between home and school, family income, age range, safety). Home-to-school transport is also provided for children who cannot walk to school because they have SEND, and additional considerations and costs often apply in such cases.<sup>130</sup> The need for some local authorities to place children with SEND in special schools in other areas also puts a strain on home-to-school transport.<sup>131</sup> In 2018, the average per-pupil cost of delivering home-to-school transport in county (i.e. more rural) areas was £93 per pupil, almost ten times the average in urban and city areas, where the average cost was £10 per pupil.<sup>132</sup> According to the Ministry's revenue outcomes data, home-to-school transport services represent 3.7% of national expenditure.<sup>133</sup> Charlotte Pickles of Re:State said "there should be means testing" of home-to-school transport, and "we should also be looking at sharing transport."<sup>134</sup>

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129 For example: County Councils Network ([FSF0049](#)); Libraries Connected ([FSF0007](#)); Hampshire County Council ([FSF0015](#)); Local Government Association ([FSF0023](#)); Lincolnshire County Council ([FSF0026](#)); West Sussex County Council ([FSF0034](#)); Essex County Council ([FSF0038](#))

130 The Education Hub, [Free school transport explained: From who's eligible to how it works](#), gov.uk, 3 November 2023; Department for Education, [Travel to school for children of compulsory school age](#), January 2024; Ministry of Housing, Communities and Local Government, [The Fair Funding Review 2.0](#), gov.uk, 20 June 2025, para 4.11.1

131 For example: Worcestershire Children First, [Worcestershire Specialist Provision report 2021](#), pp. 3 and 9 (accessed 14 July 2025)

132 County Councils Network, [Home to school transport in county areas](#)

133 Ministry of Housing, Communities and Local Government, [The Fair Funding Review 2.0](#), gov.uk, 20 June 2025, para 4.11.2

134 [Q21](#) [Charlotte Pickles]; Re:State (then Reform think tank), [Back from the Brink](#), p.19

113. As part of the Fair Funding Review 2.0, the Government has proposed reforms to how home-to-school transport is funded by adding a new funding formula, based primarily on numbers of eligible students and the distances between their homes and schools. Included in the same funding formula is a separate assessment of need for travel arranged for SEND pupils.<sup>135</sup>

114.

#### **CONCLUSION**

Home-to-school transport is a particular area of concern for the affordability of local government services. We support the Government's proposed update to the assessment of local authority's needs relating to home-to-school transport, but while this more fairly distributes money between local authorities, it does not make the service as a whole more affordable. Reforms to the service itself will also be necessary.

115.

#### **RECOMMENDATION**

As part of its ongoing service reform for the SEND sector, the Ministry must consider options for reforming or improving the efficiency of home-to-school transport services. Potential options include wider use of sharing transport, and capital investment to enable councils to use efficient ways to meet their statutory requirements.

## **Homelessness and temporary accommodation**

116. Local authorities have several homelessness duties, including to prevent or relieve homelessness, and to provide accommodation when necessary.<sup>136</sup> In England, local authorities have a statutory duty to provide temporary accommodation to eligible homeless households, including those in a priority need category, until they make a final offer of longer-term housing.<sup>137</sup> The priority need categories are set out in legislation, and include: people with dependent children who are residing with them, or might reasonably be expected to reside with them; all 16 and 17 year-olds; 18 to 20 year-old-care leavers; and pregnant women.<sup>138</sup>

135 Ministry of Housing, Communities and Local Government, [The Fair Funding Review 2.0, gov.uk](https://www.gov.uk/government/publications/the-fair-funding-review-2025), 20 June 2025, sections 4.11 and 12.6

136 Shelter, [Local authority homelessness duties](https://www.shelter.org.uk/your-right/local-authority-homelessness-duties), 17 March 2021 (accessed 11 June 2025)

137 [Housing Act 1996](https://www.legislation.gov.uk/ukpga/1996/18/section/188), section 188; Shelter, [Final offers of housing when homeless](https://www.shelter.org.uk/your-right/final-offers-of-housing-when-homeless) (accessed 27 February 2025)

138 [Housing Act 1996](https://www.legislation.gov.uk/uko/2002/2051/section/189), section 189; [The Homelessness \(Priority Need for Accommodation\) \(England\) Order 2002, SI 2002/2051](https://www.gov.uk/government/publications/the-homelessness-priority-need-for-accommodation-order-2002); House of Commons Library, [Households in temporary accommodation \(England\) Standard Note 02110](https://www.parliament.uk/documents/house-of-commons-research-paper/households-in-temporary-accommodation-2010), p. 8

117. As with other services discussed in this chapter, the demand for temporary accommodation has risen significantly in recent years. Factors contributing to this rise in homelessness include economic instability, higher living costs, insufficient affordable housing, rising evictions, and asylum and resettlement issues.<sup>139</sup> As we heard from Aileen Murphie, Henry Midgley and Laurence Ferry of Durham University Business School, “Cases of homelessness are rising, meaning more people are in search of advice, support and temporary accommodation. [...] 123,000 households in England were being housed in temporary accommodation as at June 2024.”<sup>140</sup>

118. Earlier this year, we published a report on [England’s Homeless Children: The crisis in temporary accommodation](#), in which we said, “Temporary accommodation costs are adding to the unprecedented financial strain facing local authorities across the country. Local authorities spent around £2.29 billion on temporary accommodation in 2023/24, while London boroughs alone spend a combined total of £4 million per day on temporary accommodation.” We made several recommendations in our report, of which the recommendations in paragraphs 74, 89 and 90 are of most immediate relevance to the sustainability of local government finances. These address the balance of responsibilities for homelessness policy between local authorities and central government, the freezing of Local Housing Allowance rates, ringfencing of the Homelessness Prevention Grant, and the need for the Government to acquire its own temporary accommodation stock through the Local Authority Housing Fund.<sup>141</sup>

119. As part of the Fair Funding Review 2.0, the Government has proposed reforms to how homelessness services and temporary accommodation are funded by incorporating the Homelessness Prevention Grant into the main Revenue Support Grant, which will have a new Temporary Accommodation funding formula to account for varied need for temporary accommodation across the country. All other homelessness and rough sleeping funding will come through a consolidated Homelessness and Rough Sleeping Grant.<sup>142</sup>

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139 Ministry of Housing, Communities and Local Government ([FSF0008](#)); Re:State (formerly Reform think tank) ([FSF0010](#)) Q2; Local Government Association ([FSF0023](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#)); Greater Change ([FSF0043](#))

140 Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#))

141 Housing, Communities and Local Government Committee, First Report of Session 2024-25, [England’s Homeless Children: The crisis in temporary accommodation](#), HC 338

142 Ministry of Housing, Communities and Local Government, [The Fair Funding Review 2.0](#), gov.uk, 20 June 2025, sections 4.12; Ministry of Housing, Communities and Local Government, [Funding arrangements for the Homelessness Prevention Grant from 2026/27 onwards - GOV.UK](#), gov.uk, 20 June 2025 (accessed 23 June 2025), section 3

**120. CONCLUSION**

It is a source of national shame that cases of homelessness, particularly among families and children, are at record levels and continue to rise. This is placing considerable strain on the finances of local authorities. We repeat the findings of our report of earlier this year, England's Homeless Children: The crisis in temporary accommodation.

**121. RECOMMENDATION**

As we recommended in our previous report, England's Homeless Children, the Government should reconsider its decision to freeze Local Housing Allowance rates and should extend its support for local authorities to acquire new housing stock through the Local Authority Housing Fund.

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# 5 Funding

- 122. Local authorities in England have access to three main sources of finance: council tax, business rates (retained as the local share), and grants from central government.<sup>143</sup> Councils also receive other income, which is less significant in total and may be ringfenced for specific purposes. This includes fees and charges for providing services that local authorities have a power, but not a duty, to provide (such as car parking and leisure centres). Fees and charges income is restricted to the cost of providing the relevant services.<sup>144</sup>
- 123. Because local government funding works slightly differently in each of the devolved nations, in this chapter we are considering only the funding system as it operates in England, unless otherwise noted.

## Core spending power and central government funding

- 124. Central government allocates every council in England a level of core spending power (CSP) through its yearly Local Government Finance Settlement. This is an estimate of the total amount of money councils have available to them, including income from council tax, fees and charges, the local share of business rates, and un-ringfenced Revenue Support Grant (RSG). Councils which can raise more of their own revenue, especially council tax, typically receive less grant funding. As a result, most councils have similar levels of CSP and there is only a weak relationship between CSP and deprivation.<sup>145</sup>

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143 House of Commons Library, [Local government taxation](#), Research Briefing 09712, 24 January 2023; House of Lords Library, [Local government finances: Impact on communities](#), 14 March 2024

144 CIPFA, [Fees and charges - a significant income for councils](#), 22 November 2018; House of Commons Library, [Local government finances](#), Research Briefing 08431, 28 May 2024, section 1

145 House of Commons Library, [Local government finances](#), Research Briefing 08431, 28 May 2024, section 2.1 Core spending power

125. Jim McMahon OBE MP, the Minister for Local Government and English Devolution, has referred to the role of central government as an equaliser in the local government system, ensuring that residents get a baseline of service.<sup>146</sup>

126. The Government has announced it will reform local government funding. It has pledged to, among other things, introduce multi-year funding settlements from the 2026/26 financial year, reduce the number of funding pots, and conduct a new assessment of need and local resources.<sup>147</sup> Witnesses have expressed generally positive reactions to the reforms that have been announced so far, especially the return to multi-year funding settlements, which can provide clarity (but not certainty) about Government's intentions for future funding, and allow councils to make long-term plans. However, some have been sceptical that the announced reforms go far enough and fast enough to fix the problems in the system.<sup>148</sup> Dan Bates, local government finance specialist for OnTor Ltd, said, "I do not think they [multi-year settlements and fair funding review] will sort out the problem, but multi-year settlements are really welcomed."<sup>149</sup> Re:State said:

The promised introduction of multi-year funding settlements is a positive step towards providing financial predictability. However, without accompanying reforms, enhanced fiscal autonomy, and an increase to overall funding levels, these settlements may only offer temporary relief.<sup>150</sup>

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146 For example: [Q126](#), [Q134](#), [Q175](#), [Q180](#), [Q188](#), [Q191](#) [Jim McMahon]

147 Ministry of Housing, Communities and Local Government, [Local government finance policy statement 2025 to 2026](#), gov.uk, 28 November 2024; Ministry of Housing, Communities and Local Government, [Local authority funding reform: objectives and principles](#), gov.uk, 18 December 2024

148 For example: [Q2](#) [Professor Pike]; [Q3](#) [Professor Tony Travers]; [Q4](#) [Aileen Murphie, Jonathan Carr-West]; [Q23](#) [David Phillips, Charlotte Pickles, Stuart Hoddinott]; [Q53](#) [Councillor Lewis]; [Q73](#) [Gareth Davies]; Society of County Treasurers ([FSF0012](#)); NAVCA ([FSF0014](#)); Jason Lowther (Director of the Institute of Local Government Studies (INLOGOV) at University of Birmingham) ([FSF0019](#)); Professor Sheela Agarwal, Professor Sheena Asthana, Dr Alex Gibson, and Ms Liz Edwards-Smith (Centre for Coastal Communities at University of Plymouth) ([FSF0021](#)); Local Government Association ([FSF0023](#)); Dr Kevin Muldoon-Smith ([FSF0024](#)); Lincolnshire County Council ([FSF0026](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#)); South Oxfordshire District Council ([FSF0032](#)); TRL Insight ([FSF0046](#)); South East Councils ([FSF0051](#)); Unite ([FSF0054](#)) para 12.2

149 [Q125](#) [Dan Bates]

150 Re:State (formerly Reform think tank) ([FSF0010](#)) Q1

**127. CONCLUSION**

We support the return to multi-year funding settlements, but the local government funding reforms announced to date will not solve the underlying problems in the system by themselves.

**128.** Preliminary steps towards the reform of local government funding began in the [Local Government Finance Settlement 2025/26](#). At this stage, before the completion of the new assessment of need, the Government have chosen to use deprivation as a proxy for need and have therefore targeted financial support on areas with greater deprivation. At the same time, they have discontinued other grants, including the Services Grant and Rural Services Delivery Grant. In practice, the areas of greatest deprivation are mostly urban, and the discontinued grants were predominantly paid to rural areas. As a result, rural councils in England will generally have the lowest increases in core spending power between 2024/25 and 2025/26.<sup>151</sup>

**129.** There are different pressures facing rural and urban local authorities. In rural authorities, a sparse population and long distances between homes make services that reach people in their homes (waste collection, home-to-school transport for SEND students, etc.) more expensive.<sup>152</sup> While urban authorities do not have these difficulties, Councillor Grace Williams, Deputy Chair of London Councils and Leader of Waltham Forest Council, said that the higher population density and larger proportion of people living in flats impose different challenges, for example around fly-tipping and low rates of recycling.<sup>153</sup>

**130.** Stuart Hoddinott, then Senior Researcher at the Institute for Government, told us:

If you look at the relative changes that those local authorities that have benefited from the Rural Service Delivery Grant for the last few years have had in their spending power since 2010, they have taken a hit since last year, but have done much better overall than other local authorities in more deprived urban parts of the country since 2010.<sup>154</sup>

**131.** The Minister told us that, in the long-term, the Government's new funding formula will consider not only deprivation, but also the cost of rural service delivery, daytime population booms in large cities, and other factors.<sup>155</sup> The first detailed proposals to update the funding formula were released on 20

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151 House of Commons Library, [Local Government Finance Settlement 2025/26](#), Research Briefing 10184

152 [Q36](#) [Councillor Revans]

153 [Q62](#) [Councillor Williams]

154 [Q20](#) [Stuart Hoddinott]

155 [Q128](#) [Jim McMahon]

June 2025 in the Fair Funding Review 2.0.<sup>156</sup> It will be important to consider the effect of disparities between wards and sub-wards within single local authorities, which are less obvious when using national data on a local authority level. Local authorities that contain significant disparities will have a greater need than those with a consistent level of deprivation across their whole area.

**132. CONCLUSION**

We acknowledge the trade-offs that the Government is making in updating the local government funding formula, and we support the Government's decision to focus funding towards areas with higher need, which will help correct an existing imbalance in the system. We are pleased to see that factors considered in the Fair Funding Review take account of the different pressures faced by urban and rural authorities.

**133. RECOMMENDATION**

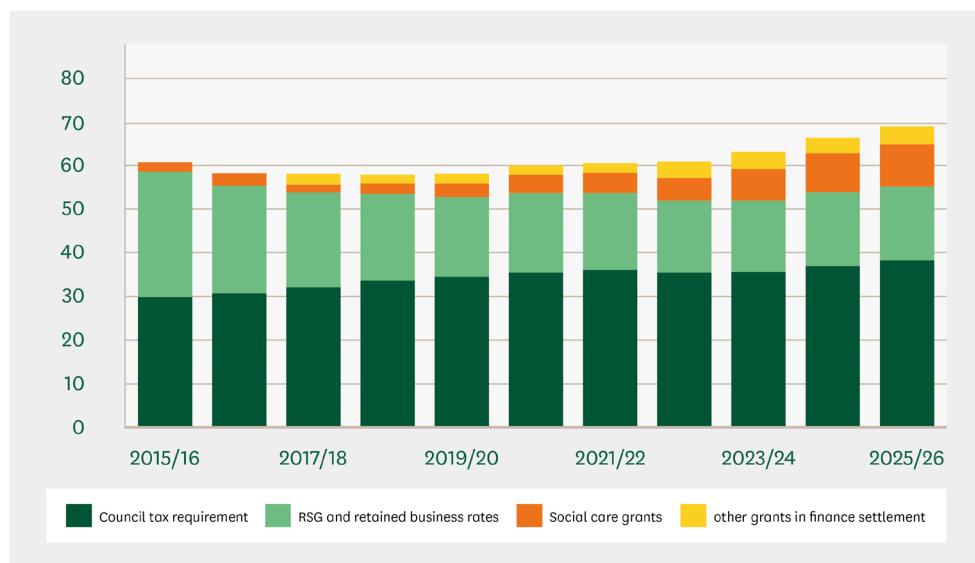
The Government's new funding formula must consider the effect of disparities between wards and sub-wards within single local authorities, which can be hidden when only considering the data at the level of whole local authorities. Measures of deprivation used in the new funding formula must account for local housing costs.

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156 Ministry of Housing, Communities and Local Government, [The Fair Funding Review 2.0](#), gov.uk, 20 June 2025

### Elements of core spending power have changed over time

£ billions, England total, adjusted for inflation (2025/26 prices)



Source: Ministry of Housing, Communities and Local Government, [Final local government finance settlement: England, 2025 to 2026](#), 3 February 2025

## Council tax

134. Council tax is levied by local authorities and paid by the occupants of domestic properties. It is now the largest source of local government funding, having grown as a proportion of the total because of cuts in grants from central government over several years. In 2010/11, council tax represented 36% of core spending power but is around 56% in 2025/26, indicating a significant shift towards greater reliance on local taxation rather than central government grants.<sup>157</sup>
135. Many stakeholders have raised issues with the current council tax system and called for reform. In written evidence, the Council Tax Collection Coalition<sup>158</sup> said, “Without reform, we believe [the council tax] system will fundamentally undermine efforts to balance local government finances.”<sup>159</sup>

157 Policy in Practice, [Council Tax carries the burden: What the 2025–26 local government finance settlement means for local services](#), 12 February 2025; Unite (FSF0054) para 7.2

158 The Council Tax Collection Coalition is made up of Money and Mental Health Policy Institute, StepChange Debt Charity, Money Advice Trust, Citizens Advice, Christians against Poverty, Policy in Practice, Debt Justice, Community Money Advice, Institute of Money Advisors, and Advice UK

159 Council Tax Collection Coalition (FSF0016)

## A regressive and unfair tax

136. Council tax is highly regressive, as noted by many stakeholders in written and oral evidence,<sup>160</sup> and has become steadily more regressive over time as successive governments have failed to reform or revalue it.<sup>161</sup> Many stakeholders have also called it unfair or inequitable, with the Society of County Treasurers calling it “extraordinarily unfair and outdated”.<sup>162</sup>

137. In part, this is because council tax valuations have not been updated since April 1991, when Gorbachev was premier of the Soviet Union.<sup>163</sup> Each domestic property in England is placed into one of eight valuation bands, A to H, by the Valuation Office Agency (VOA) to determine how much council tax its occupants owe compared to the baseline (band D) rate of council tax determined for the local authority. Even buildings that are built today must be assessed by the VOA according to the value that a similar building would have sold for in the area in 1991.<sup>164</sup> David Phillips of the Institute for Fiscal Studies (IFS) said that “revaluation is an important aspect of making council tax fit for purpose” and several other stakeholders agreed.<sup>165</sup> Using out-of-date valuations contributes to significant regional disparity. The IFS has said that over half of UK households are in the wrong band for council tax because average property values have increased by “massively different amounts” since 1991, with households in the North and Midlands “often in too high a band” and those in London and surrounding areas in “too low a band”.<sup>166</sup>

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160 For example: Council Tax Collection Coalition ([FSF0016](#)); Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#)); Jason Lowther (Director of the Institute of Local Government Studies (INLOGOV) at University of Birmingham) ([FSF0019](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#)); UNISON ([FSF0031](#)); Special Interest Group of Municipal Authorities (SIGOMA) ([FSF0044](#)); Unite ([FSF0054](#)) para 7.2; [Q24](#) [Charlotte Pickles]; [Q25](#) [David Phillips]; [Q59](#) [Councillor Williams]

161 Resolution Foundation, [Money, money, money](#), 17 February 2025; Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#))

162 Society of County Treasurers ([FSF0012](#)); [Q46](#) [Councillor Marland]; [Q45](#) [Councillor Revans]; UNISON ([FSF0031](#)); Mencap ([FSF0039](#)); Norfolk County Council ([FSF0045](#))

163 [Q25](#) [David Phillips]; Institute for Fiscal Studies, [Council tax needs urgent reform – not being frozen in time in 1991](#), 6 June 2024

164 Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#)); Which? (22 March 2024), [Council tax bands](#); Valuation Office Agency, [How domestic properties are assessed for Council Tax bands](#) (accessed 10 June 2025)

165 [Q25](#) [David Phillips]; [Q17](#) [Aileen Murphie]; [Q24](#) [Charlotte Pickles]; Professor Tony Travers ([FSF0042](#))

166 Institute for Fiscal Studies, [Council tax needs urgent reform – not being frozen in time in 1991](#), 6 June 2024

138. Even with a revaluation, council tax would remain a regressive tax. According to Mencap, “Attempting to equalise the inequalities that arise from local taxation does not alter the fundamentally regressive nature of council tax charging.”<sup>167</sup> One of the reasons for this is the fixed ratios between council tax bands, which are set by the [Local Government Finance Act 1992](#). A property in band H (valued over £320,000) will always have council tax exactly three times higher than a band A property (valued under £40,000) in the same area, even though the property’s value is at least eight times as high (likely more, as there is no minimum value for a band A property, and no maximum for a band H).<sup>168</sup> In short, households in low value properties pay a higher share of council tax relative to their value than high value properties.<sup>169</sup> Councillor Tony Dyer, Leader of Bristol City Council, said that he would be concerned about an increase in council tax if he could not protect the lowest income households, which is not possible with the current legislation.<sup>170</sup>

139. Many stakeholders suggested that the Government should start to improve council tax by amending the council tax bandings, either by adding new bandings above or below the current thresholds, or by changing the ratios between them, or both.<sup>171</sup> There are precedents for such changes in the council tax systems of Scotland and Wales. Scotland has higher council tax rates for properties that are in the highest four bands (E to H), and Wales has an additional band (I) above the highest band in England and Scotland.<sup>172</sup> The Centre for Cities has recommended three additional bands (A+ at the lower end, I and J at the upper end) and for councils to have the ability to set their own proportional rates for their tax bands.<sup>173</sup>

140. Amending ratios between bands, or giving local authorities the autonomy to change the ratios in their areas, would be more straightforward than adding new bands or changing the thresholds of existing bands. This is because bandings cannot be changed without a revaluation. As the Minister for Local Government told us, the VOA’s valuation of domestic property

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167 Mencap ([FSF0039](#)) para 13

168 [Local Government Finance Act 1992](#), section 5; Professor Tony Travers ([FSF0042](#))

169 Institute for Fiscal Studies, [Council tax needs urgent reform – not being frozen in time in 1991](#), 6 June 2024

170 [Q62](#) [Councillor Dyer]

171 For example: [Q17](#) [Aileen Murphie]; [Q45](#) [Councillor Revans]; [Q47](#) [Councillor Newmark]; Jason Lowther (Director of the Institute of Local Government Studies (INLOGOV) at University of Birmingham) ([FSF0019](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#))

172 Scottish Government, [Council Tax Rates: Comparing Scotland to other UK nations](#), 27 March 2024

173 Centre for Cities, [Devolution Solution: How fixing English local government will improve economic growth](#), July 2024, p. 7

assigns them to appropriate council tax bands but does not break down the values of individual properties so they can be easily reassigned to a new banding structure. He said:

The capacity, the time and the political capital needed to steer a revaluation would be so significant that I think you would only do it if you had a view that the system would change as a result.<sup>174</sup>

141. Other stakeholders raised concerns that new bands would not address inequalities because of the different council taxbases in different authorities. As highlighted by Councillor Marland in the second session of the inquiry, some authorities (such as Manchester) would receive no benefit from additional tax bands above the current top band because they already have few properties at the top end of the existing bands.<sup>175</sup> This not only differs between local authorities, but between regions.<sup>176</sup> The Special Interest Group of Municipal Authorities (SIGOMA) said, “when Council Tax is increased, councils in the most deprived areas raise much less funding than wealthier parts of the country that happen to have more expensive properties.”<sup>177</sup>
142. Several stakeholders recommended that fiscal powers over setting council tax should be devolved to local authorities.<sup>178</sup> The think tank Re:State told us that councils should be able to independently set tax rates, bands and discounts. They said: “We recommend much greater levels of autonomy to vary local tax regimes.”<sup>179</sup> Jason Lowther, Director of the Institute of Local Government Studies at the University of Birmingham, said that to quickly improve the operation of local taxes, the Government could give councils “discretion on the details of the [council tax] scheme’s design locally, such as the rates in each band and discount/subsidy arrangements.”<sup>180</sup> The Local Government Association (LGA) noted that council tax discounts imposed by central government diminish councils’ revenue raising power and encourage the inefficient use of property, saying “The Government should therefore give councils the powers and flexibility to vary all council tax discounts.”<sup>181</sup> The County Councils Network said, “Councils should be given greater freedoms and flexibilities over council tax locally”.<sup>182</sup>

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174 [Q177](#) [Jim McMahon]

175 [Q46](#) [Councillor Marland]

176 Local Government Association, [Reforming the local government funding system in England](#), 13 December 2024

177 Special Interest Group of Municipal Authorities (SIGOMA) ([FSF0044](#))

178 For example: Unite ([FSF0054](#)) para 12.3

179 Re:State (formerly Reform think tank) ([FSF0010](#)) Q4

180 Jason Lowther (Director of the Institute of Local Government Studies (INLOGOV) at University of Birmingham) ([FSF0019](#))

181 Local Government Association ([FSF0023](#))

182 County Councils Network ([FSF0049](#))

## Centralisation and referendum principles

**143.** Council tax is highly centralised and controlled by central government. One aspect of this centralisation is the use of referendum principles, which mean that a local referendum must be held and won for a council to increase council tax by more than a specified percentage. Referendum principles were a replacement for previous hard caps, but no referendum has ever passed to raise council tax above the threshold.<sup>183</sup> They effectively act as hard caps themselves.

**144.** Referendum principles also incentivise councils to increase council tax by the referendum threshold amount, even if they would have wanted to increase less. When calculating local authorities' core spending power, the Government presumes that all councils will raise council tax by the maximum allowed (although the Government has proposed to change this, as mentioned below). Several stakeholders told us that councils were effectively compelled to raise council tax by the referendum threshold level every year, with Cherwell District Council calling it a “national approach to council tax increases, regardless of what the base level of council tax is, high or low.”<sup>184</sup> As a result, the Society of County Treasurers argued that council tax income should not be included in the measure of core spending power as quoted in the LGFS and that “the presumption of maximum council tax use must end”.<sup>185</sup>

**145.** Because referendum thresholds are presented as percentages, the absolute monetary increase in council tax depends on previous increases. As Cherwell District Council said in written evidence, “the introduction of referendum limits essentially ties future administrations to the decision of previous ones. This is undemocratic.”<sup>186</sup> Any council that does not increase council tax as much as possible limits the amount of revenue that it can collect in the current and all future years.

**146.** Figures from the Spending Review 2025 include a presumption of maximum increase in council tax by all councils for the next three years.<sup>187</sup> However, in the longer term the Government does intend to change to how council tax is used to determine local authorities' CSP. In the Fair Funding Review 2.0, the Government proposed that, instead of basing the council tax requirement (that is, the council tax component of CSP) on actual council tax receipts with a presumption of maximum increase allowed by referendum principles,

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<sup>183</sup> House of Commons Library, [Council tax: Local referendums](#), Research Briefing SN05682, 3 February 2025; Unite ([FSF0054](#)) para 7.2

<sup>184</sup> For example: [Q19](#) [Stuart Hoddinott]; Cherwell District Council ([FSF0005](#)) ‘Council Tax’; West Sussex County Council ([FSF0034](#))

<sup>185</sup> Society of County Treasurers ([FSF0012](#))

<sup>186</sup> Cherwell District Council ([FSF0005](#)) ‘Council Tax’

<sup>187</sup> The Times, [Council tax to rise at fastest rate in a generation](#), says IFS, 12 June 2025

the council tax requirement be based on a national, notional rate of tax applied to each council's tax base. This means the council tax requirement, which is used to determine how much central government grant an authority needs, will no longer depend on what the council's current rate of council tax is.<sup>188</sup> This change will have no effect on the council tax paid or collected at any authority, but it may in practice mean that some areas (for example, poorer urban areas in the North and the Midlands) will receive more in central government grant funding than they did before, whereas other areas (for example, suburban and rural areas in the South) will receive less in central government grants than they did before. In response, Kate Ogden, senior research economist at the IFS, said, "It is welcome that the government has decided to grasp the nettle of putting in place a proper system to fund local government – something that England has not had for at least 13 years. Such reform is long-overdue." However, the wealthier areas that may now lose funding, some of which have historically kept council tax relatively low, may struggle unless the Government eases the restrictions of the referendum principles.<sup>189</sup>

## The broken link: “a real danger to the democratic process”

**147.** The overall impact of these various concerns about council tax is that there is a broken link between council tax levels and provision of service, which is having detrimental knock-on impacts on local democracy in this country. Cherwell District Council has said that the determination of councils' funding used to be set so that "any two councils in the country that set their levels of council tax at the same level would be able to provide the same level of service. This is no longer the case, but should be a principle that the government looks to reintroduce".<sup>190</sup> In the first oral evidence session of the inquiry, Professor Tony Travers said:

Having some sort of relationship between how the council's spending changes and what people pay in tax, [...] is an essential prerequisite of democracy and people understanding how their taxes affect spending. Recreating a relationship between spending and taxing at the local level is essential.<sup>191</sup>

**148.** Even the Minister for Local Government said, during a debate in the House:

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188 Ministry of Housing, Communities and Local Government, [The Fair Funding Review 2.0](#), gov.uk, 20 June 2025, para 2.3.1 and sections 6.2 and 6.3

189 Institute for Fiscal Studies, [Immediate response to the government's consultation on local government funding reform](#), 20 June 2025

190 Cherwell District Council ([FSFO005](#))

191 [Q16](#) [Professor Tony Travers]

When it comes to fairness in the council tax system, [...] there has increasingly been an imbalance, whereby people are paying more and more but often receiving fewer and fewer universal neighbourhood services. There is a real danger to the democratic process if there is not a link between the tax that people are paying and the quality of public services that they are getting in return.<sup>192</sup>

149. Kate Ogden of the IFS said that the Fair Funding Review 2.0, and particularly its proposed changes to the way CSP takes account of council tax (mentioned above), “marks a return to the principle that if councils across the country set the same council tax rate, they should be able to afford to provide the same range and quality of services to their residents.”<sup>193</sup>

## Government has ruled out council tax reform

150. Several stakeholders argued that power to set council tax rates should be devolved to local authorities, and councils should be held accountable for council tax rises through local elections.<sup>194</sup> Professor Tony Travers of the London School of Economics & Political Science said:

Local authorities, left to their own devices, would not only put council tax up, but some of them would cut it competitively. The evidence of the past is that some councils put it up and some put it down. [...] If councils set income tax, there would be a very high turnout in local elections.<sup>195</sup>

151. Other stakeholders have argued for council tax to be replaced entirely, usually with either a land value tax or a proportional property tax.<sup>196</sup>

152. Despite this, the Government has ruled out any changes to the council tax system. In a recent Adjournment debate on council tax reform, the Minister for Local Government confirmed previous announcements that “there are currently no plans to reform council tax in this Parliament”.<sup>197</sup> The Minister also provided some justifications for the Government’s decision:

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192 HC Deb, 5 February 2025, [col 850](#) [Jim McMahon]

193 Institute for Fiscal Studies, [Immediate response to the government’s consultation on local government funding reform](#), 20 June 2025

194 For example: Cherwell District Council ([FSF0005](#)); South East Councils ([FSF0051](#)) para 2.5.1.5; Society of County Treasurers ([FSF0012](#))

195 [Q17](#) [Professor Tony Travers]

196 Written evidence received for the Committee’s inquiry into Land Value Capture, Labour Land Campaign ([HLV0015](#)), April 2025; HC Deb, 19 March 2025, [col 467](#) [Jonathan Brash]; Fairer Share ([FSF0052](#))

197 HC Deb, 19 March 2025, [col 469](#) [The Minister for Local Government and English Devolution (Jim McMahon)]

First, it is a settled tax that taxpayers understand, and notwithstanding the uncollected element that was mentioned earlier, pound for pound it has a high collection rate. On that basis, revenues are relatively predictable, which means that local authorities have greater certainty for their financial planning.<sup>198</sup>

**153.** When the Minister appeared before us, he said:

I think it has always been accepted that council tax is pretty imperfect, but I think most people would say that it is still pretty good in large part. First, collection rates are high. Secondly, it is understood by the public—people know what it is. [...] There are no interventions on council tax that do not have consequences for somebody. It is a system that has to generate an amount of money, and at the end of that, it still has to generate that amount of money; it is just that you will be seeking to move that burden around the system.<sup>199</sup>

**154. CONCLUSION**

Council tax is a regressive and unfair tax. We note the Government's decision to prioritise other areas of local government funding for reform, but any local government reform that does not address council tax will be undermined by the current system. Council tax reform should be a higher priority on the Government's agenda.

**155. CONCLUSION**

Using property values from 1991, or proxy 1991 values where actual values are not available, is inappropriate and becoming increasingly inappropriate as time goes on.

**156. CONCLUSION**

The Government's arguments that council tax has high collection rates and leads to stable income levels are not sufficient reasons to avoid reforming council tax.

**157. CONCLUSION**

Council tax is one of the main interactions with local government that residents will have. Giving councils more power over, and therefore more responsibility for, setting council tax will improve democratic engagement by residents.

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198 HC Deb, 19 March 2025, [col 471](#) [Jim McMahon]

199 [Qq175–176](#) [Jim McMahon]

**158. RECOMMENDATION**

The Government should begin the process of overhauling or replacing council tax. This should look at options for a significant reform of local government funding, which could include replacing council tax. Whatever form of taxation is eventually adopted, the Government must clearly set out the tax's purpose, its economic impact, and its fairness.

**159. RECOMMENDATION**

A significant and considered reform of council tax will take several years to take effect. Until it does, the Government should devolve power and responsibility for setting council tax to councils. This should include the power for individual councils to revalue properties in their area, define property bands, and set the rates for those bands. Individual councils should also be given the power to apply or remove discounts and premiums (such as the single person discount), and to determine the criteria for how they are applied. Councils using these powers will have a responsibility to justify their use to their electorates, who will hold them accountable at the ballot box. The Government should retain the power to override locally set council tax rates only in exceptional cases of councils showing financial mismanagement or a lack of social responsibility to residents.

## Business rates

- 160.** Business rates are a property tax paid by occupants of non-domestic properties. The basic rates bill is determined by multiplying the rateable value of a property by a multiplier. Rateable values are determined every 3 years by the Valuation Office Agency and the multiplier, expressed in pence per pound of rateable value, is set annually by HM Treasury. Business rates are collected by billing authorities (district and unitary councils), but only part of the total is retained by local government and the rest is paid over to central government.<sup>200</sup>
- 161.** Business Rates Retention (BRR) is the system by which local government keeps some of the business rates it collects as income. Since 2013, local government has retained 50% of business rates revenue (the local share) and passed 50% to central government. It is this local share of business rates revenue that contributes to councils' funding. Although collected by billing authorities, the local share of business rates must be split with other local authorities in the same areas (county councils, the Greater London

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<sup>200</sup> House of Commons Library, [Business rates](#), Research Briefing 06247, 24 June 2024

Authority, and standalone fire and rescue authorities).<sup>201</sup> BRR remains a more significant component of income for billing authorities (especially district councils) than for non-billing authorities.

- 162.** The goals of BRR are to encourage and reward growth in the local area, and to ensure that core funding reflected the relative need of each local authority. To achieve these goals, the levels of relative funding need and baseline business rates income were calculated for each authority. Authorities who could raise more income than they needed would be required to pay a tariff of the additional income, and authorities who could not raise as much business rates income as they needed were granted a top-up. These tariffs and top-ups helped ensure that core funding met the relative needs of each authority at the launch of the scheme, then they were frozen so that any local growth after launch would generate additional business rates income for the local authority.<sup>202</sup>
- 163.** It was initially planned for the system to be reset after seven years (in 2020), meaning that tariff and top-up levels would be recalculated based on a new needs assessment, to ensure that authorities did not gain or lose disproportionately over time.<sup>203</sup> As of June 2025, no reset has taken place, and tariffs and top-ups have now been largely fixed in real terms since they were introduced in 2013. Local authorities who have experienced strong economic growth in that period have benefitted by being able to retain more business rates, but there has been no adjustment to ensure that the amount of business rates retained is still adequate to address the needs of the local authority. According to a team of academics from the Centre for Coastal Communities at the University of Plymouth, this weak link between the ability to raise business rates revenue and the estimated need for services has “introduced inequality in the ability of local authorities to deliver their services.”<sup>204</sup> According to Norfolk County Council:

Not resetting the Business Rates Retention System has caused a growing disparity between different regions and further compounded inequalities and unfairness in the local government finance system.<sup>205</sup>

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201 House of Commons Library, [Reviewing and reforming local government finance](#), Research Briefing 07538, 12 November 2024

202 Ministry of Housing, Communities and Local Government, [Local authority funding reform – Resetting the business rates retention system: technical consultation](#), gov.uk, 8 April 2025; House of Commons Library, [Reviewing and reforming local government finance](#), Research Briefing 07538, 12 November 2024

203 Ministry of Housing, Communities and Local Government, [Local authority funding reform – Resetting the business rates retention system: technical consultation](#), gov.uk, 8 April 2025; House of Commons Library, [Reviewing and reforming local government finance](#), Research Briefing 07538, 12 November 2024

204 Professor Sheela Agarwal, Professor Sheena Asthana, Dr Alex Gibson, and Ms Liz Edwards-Smith (Centre for Coastal Communities at University of Plymouth) ([FSF0021](#))

205 Norfolk County Council ([FSF0045](#))

164. The Government intends to transform the business rates system.<sup>206</sup> Before that, it has said it will carry out a full reset of the BRR system in 2026/27, and has committed to transitional arrangements and periodic resets in future.<sup>207</sup> A technical consultation into the reset ran from 8 April to 2 June 2025.<sup>208</sup> In the recent Public Accounts Committee (PAC) session on Local Government Financial Sustainability, Nico Heslop, the Director of Local Government Finance at the Ministry, said that the business rates reset “is key to the distribution reforms”, and that questions about further fundamental reforms are “decisions for Ministers once we have undertaken the business rates reset and done the redistribution reforms.”<sup>209</sup>

165. Although some stakeholders were supportive of the need to reset BRR, others have expressed concern about potential negative impacts of a BRR reset, especially a hard or cliff-edge reset, which would reset all growth at once at the date of the reset. Cherwell District Council said that a cliff-edge reset would cause uncertainty and perverse incentives for councils, for example encouraging councils to delay important growth investment until the reset had happened so that they would benefit for longer in the new retention period. To avoid this, Cherwell suggested that any upcoming reset should be on a phased basis. A phased reset would reset both business rates baselines and funding levels to the position they had at a fixed period before the date of the reset. This would guarantee that councils could benefit from the extra business rates funding from growth for at least the length of that fixed period, which would reduce uncertainty and eliminate the incentive for gaming the system.<sup>210</sup> The IFS have previously recommended phased resets, and the LGA also suggested a phased or partial reset in their written evidence to us, based on analysis from 2018.<sup>211</sup> In a working paper from that year, the LGA’s Systems Design Working Group considered five options for methods of business rates resets, including phased resets as recommended by Cherwell District Council, as well as cliff-edge resets, no resets, and two others. Phased resets were one of the best at rewarding growth, along with partial resets, but all options (except for no resets) successfully redistributed receipts according to need.<sup>212</sup>

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206 HM Treasury, [Transforming business rates](#), gov.uk, 30 October 2024

207 Ministry of Housing, Communities and Local Government, [Local authority funding reform: objectives and principles](#), gov.uk, 18 December 2024

208 Ministry of Housing, Communities and Local Government, [Local authority funding reform – Resetting the business rates retention system: technical consultation](#), gov.uk, 8 April 2025

209 Oral evidence taken by the Public Accounts Committee on 3 April 2025, [Q85](#) [Nico Heslop]

210 Cherwell District Council ([FSF0005](#))

211 Institute for Fiscal Studies, [Business Rates Retention Reform: Response to the Ministry of Housing, Communities and Local Government’s Consultation.pdf](#), 18 February 2019; Local Government Association ([FSF0023](#))

212 Local Government Association, [100% Business Rates Retention Systems Design Working Group, Technical paper 4: Resets](#), 27 June 2018

166. Other stakeholders have criticised the overall BRR system. Charlotte Pickles of Re:State told us “the business rates model is not fit for purpose”. She and David Phillips of the Institute for Fiscal Studies said that business rates harms growth and disincentivises investment in property, which are the opposite of what you want from the business rates system, and it penalises small businesses. Both recommended replacing business rates with a land value tax.<sup>213</sup> A similar recommendation in favour of a land value tax called the Commercial Landowner Levy was made in the 2018 report Replacing business rates, whose authors include Adam Corlett of the Resolution Foundation and Andrew Dixon of Fairer Share.<sup>214</sup>

167. Several stakeholders have also criticised the lack of control that local authorities have over business rates, with the Society of County Treasurers saying there was a “lack of evidence that the system has contributed positively to economic growth”.<sup>215</sup> Jason Lowther, Director of the Institute of Local Government Studies, said, “councils should be given control of decisions on reliefs and multipliers”.<sup>216</sup> Three quarters of councils have advocated for local government to retain 100% of business rates.<sup>217</sup>

**168. CONCLUSION**

We acknowledge the Government’s current plans to reform business rates and the Business Rates Retention system, including the business rates reset and the addition of new multipliers. However, we remain concerned that the business rates system can harm growth, disincentivise investment, and entrench deprivation at local authority level.

**169. CONCLUSION**

The business rates system, or any alternative tax system for business property, must be designed to incentivise councils to encourage growth in their areas. We are concerned that any full, cliff-edge reset of business rates will reduce this incentive by withdrawing the benefits of growth.

213 [Q29](#) [Charlotte Pickles, David Phillips]

214 Adam Corlett, Andrew Dixon, Dominic Humphrey & Max von Thun, [Replacing business rates: taxing land, not investment](#), September 2018

215 For example: Society of County Treasurers ([FSF0012](#)); Aileen Murphie (Honorary Professor at Durham University), Henry Midgley (Associate Professor at Durham University), Laurence Ferry (Professor at Durham University) ([FSF0018](#)); London Councils ([FSF0027](#)); Essex County Council ([FSF0038](#)); Norfolk County Council ([FSF0045](#)); TRL Insight ([FSF0046](#))

216 Jason Lowther (Director of the Institute of Local Government Studies (INLOGOV) at University of Birmingham) ([FSF0019](#))

217 Lincolnshire County Council ([FSF0026](#)); Local Government Information Unit ([FSF0037](#))

**170. RECOMMENDATION**

The Government must devolve more powers to local authorities to set multipliers, discounts and premiums relating to business rates.

**171. RECOMMENDATION**

Pending a fuller reform of the business rates system, business rates resets must avoid cliff-edges for local authorities by means of a phased reset, by which growth is reset to a fixed prior period, say seven years before the date of the reset. This would eliminate hard resets, allow authorities to benefit from accumulated growth for a known length of time, encourage investment, and reduce funding uncertainty.

## Radical approaches

**172.** Several stakeholders have told us that only a “radical” approach can address the problems in the local government finance system, and that Government’s current proposals do not go far enough.<sup>218</sup> However, as Jonathan Carr-West of LGIU pointed out, “most of the things that we put on the radical list are only radical here; in large parts of the world, they are business as usual.”<sup>219</sup> In the third session of the inquiry, Owen Mapley of the Chartered Institute of Public Finance and Accountancy said:

The more significant the reform, the longer it is likely to take, so there should be a debate about longer-term reforms and alternative sources of funding<sup>220</sup>

**173.** Some have suggested that council tax and business rates could be supplemented with new forms of taxation, with more fiscal powers devolved to the local authorities themselves about which new taxes to use.<sup>221</sup> Professor Colin Copus of the University of Warwick told us:

We are almost unique across the globe in that our local authorities [...] have two major taxes available to them. In Belgium, for example, municipalities have something like 80 taxes that they can raise. [...] They don’t use them all and they set their own levels.<sup>222</sup>

<sup>218</sup> For example: Emeritus Professor Colin Copus (Emeritus Professor at De Montfort University) ([FSF0004](#)) section 1; Jason Lowther (Director of the Institute of Local Government Studies (INLOGOV) at University of Birmingham) ([FSF0019](#)); [Q15](#) [Aileen Murphie]; [Q29](#) [David Phillips]

<sup>219</sup> [Q15](#) [Jonathan Carr-West]

<sup>220</sup> [Q107](#) [Owen Mapley]

<sup>221</sup> For example: [Q13](#) [Professor Travers]; Re:State (then Reform think tank) ([FSF0010](#)) Q4; Unite ([FSF0054](#)) para 12.3

<sup>222</sup> Oral evidence taken on 28 January 2025, [Qq20–21](#) [Professor Copus]

## Tourist levy

174. One example of a new tax that has been suggested by many stakeholders is a tourist levy.<sup>223</sup> Such taxes are commonplace in other countries, where they are set by local government independently from central government, normally based on a percentage or fixed rate per night of stay in a hotel or other accommodation.<sup>224</sup> A tourist levy is one of the least radical of potential reforms to local government funding, and in fact a tourist levy has already been implemented in some UK cities, including Manchester and Liverpool. While councils still do not have the authority to set their own taxes, the tourist levies in these cities have been raised using existing legal powers by businesses that are in local Business Improvement Districts (BIDs).<sup>225</sup> A BID levy can be charged for a maximum of 5 years before being re-balloted.<sup>226</sup>

175. As with any option for reforming local government funding, tourist levies have pros and cons. In written evidence, Kate Ogden and David Phillips of the Institute for Fiscal Studies said that tourism taxes would be administratively feasible and would give councils incentives to boost tourism, but that they would be unequally distributed across the country and paid largely by non-voters in the local area.<sup>227</sup> In the LGA's 2022 report on Reforming revenues, it said tourist levies met four out of seven identified principles for revenue reform (sufficiency, fairness, efficiency of collection, and transparency) but only partially met two principles (predictability and incentivising) and failed to meet one (buoyancy).<sup>228</sup> Aileen Murphie of Durham University Business School noted that a tourism tax would not bring in anything like the money provided by council tax and business rates right now,<sup>229</sup> although a coalition of mayors in England have written to the Government saying that visitor levies in their areas could add millions of pounds to their local economies.<sup>230</sup>

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223 For example: Jason Lowther (Director of the Institute of Local Government Studies (INLOGOV) at University of Birmingham) ([FSF0019](#)); London Councils ([FSF0027](#)); County Councils Network ([FSF0049](#)); South East Councils ([FSF0051](#)); [Q14](#) [Professor Pike]

224 Emeritus Professor Colin Copus (Emeritus Professor at De Montfort University) ([FSF0004](#))

225 The Independent, [This popular UK city is latest to introduce a 'tourist tax'](#), 28 April 2025

226 Ministry of Housing, Communities and Local Government, [Business Improvement Districts](#), gov.uk, 8 November 2014

227 David Phillips (Associate Director at Institute for Fiscal Studies), Kate Ogden (Senior Research Economist at Institute for Fiscal Studies) ([FSF0003](#))

228 Local Government Association, [Reforming revenues: Options for the future financing of local government](#), 13 January 2022, p. 25

229 [Q15](#) [Aileen Murphie]

230 LocalGov, [Visitor levies could generate millions for local economies, say mayors](#), 3 June 2025

## Land or property taxes

176. Some more radical options have already been mentioned earlier in this chapter, namely a land value tax (LVT) or property tax. These are a sort of annual levy paid by the owners of land (excluding buildings and other property on the land) or property (either including or excluding the land it is on), based on a percentage of the value of that land or property. These are popular alternatives for council tax and business rates, with several stakeholders arguing that the existing taxes should be replaced with one or the other.<sup>231</sup>

177. The LGA said, in its Reforming revenues report, that there is a clear economic argument in favour of a land value tax, as it allows for the tax system to “capture” uplifts in the value of land from investment in surrounding infrastructure. Economists also argue that, in the case of a LVT, the incentive to buy, develop, or use land would not change and The New Economics Foundation has estimated that revenues that could be raised from a LVT would be between £4.4 billion and £5.5 billion annually.<sup>232</sup> However, in our inquiry on [Land value capture](#), we have also heard that radical changes to land and property taxation could slow or freeze the housing market. In response to the same question, Dr Hugh Ellis, Director of Policy at the Town and Country Planning Association, said, “You did say radical thoughts. Land inequality and property is one of the greatest sources of inequality in a nation that is riven by inequality. [...] The Committee needs to think hard about that original logic.”<sup>233</sup>

## Assigning income tax

178. Jonathan Carr-West, Chief Executive of the Local Government Information Unit, told us, “In the end, you need assigned portions of national taxes, such as income tax or stamp duty.”<sup>234</sup> Several other stakeholders supported this idea of assigned national taxes, with Professor Peter Murphy’s team from Nottingham Trent University adding that improvements in technology have

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231 For example: [Q29](#) [Charlotte Pickles, David Phillips]; Re:State (then Reform think tank) ([FSF0010](#)) Q4; Written evidence received for the Committee’s inquiry into Land Value Capture, Labour Land Campaign ([HLV0015](#)), April 2025; HC Deb, 19 March 2025, [col 467](#) [Jonathan Brash]; Fairer Share ([FSF0052](#)); Adam Corlett, Andrew Dixon, Dominic Humphrey & Max von Thun, [Replacing business rates: taxing land, not investment](#), September 2018

232 Local Government Association, [Reforming revenues: Options for the future financing of local government](#), p. 59

233 Oral evidence taken on 23 April 2025, [Q48](#) [Tom Kennedy, Anna Hart, Dr Ellis]

234 [Q17](#) [Jonathan Carr-West]

addressed previous obstacles around the difficulty of implementation.<sup>235</sup> LGA's report Reforming revenues found that assigning or devolving income tax fully met all seven principles of revenue reform (sufficiency, buoyancy, fairness, efficiency of collection, predictability, transparency, and incentivising).<sup>236</sup>

**179.** When asked about fiscal devolution at the Devolution inquiry session on 25 February 2025, the Minister for Local Government said that further fiscal devolution has not been considered. The Government receives regular requests from mayors for local taxes such as a tourist tax and overnight accommodation levy, but the Government's view is that taxes and their burden on individuals and business must be considered "in the round".<sup>237</sup> At a later session for this inquiry, the Minister added that, "Ultimately, any tax like that is a decision for the Treasury, not for our Department."<sup>238</sup>

## "Nationalised" funding for demand-led services

**180.** As mentioned in Chapters 2 and 3, mandatory demand-led services such as adult social care place uncontrollable and unavoidable costs on councils. Some stakeholders have suggested that these services should not be funded by local authorities, but rather by central government, who mandates their delivery. Councillor Neghat Khan, Leader of Nottingham City Council, told us if homelessness and adult social care were nationalised or properly funded, "that would fix the broken system."<sup>239</sup>

**181.** This idea was also recommended in written evidence, for example by Cherwell District Council, who said:

The way to address this would be to identify unit costs for statutory services and allocate funding based on each council's demand. Or let councils submit claims based on demand. Then within the overall formula of government funding and council tax, an amount per property could be left within the formula for discretionary spend at a local level (or council tax reductions).<sup>240</sup>

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235 For example: Re:State (then Reform think tank) ([FSF0010](#)) Q4; Dr Kevin Muldoon-Smith (Associate Professor in Strategic Public Sector Finance and Urban Adaptation at Northumbria University) ([FSF0024](#)); Professor Peter Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#))

236 Local Government Association, [Reforming revenues: Options for the future financing of local government](#), 13 January 2022, p. 19 and p. 57

237 Oral evidence taken on 25 February 2025, [Qq27-30](#) [Jim McMahon]

238 [Q193](#) [Jim McMahon]

239 [Q60](#) [Councillor Khan]

240 Cherwell District Council ([FSF0005](#))

**182. RECOMMENDATION**

The Government must be more courageous with its long-term plans for the funding of local government. While stabilisation is important in the short term, both the Ministry and HM Treasury need to start considering how to get the sector back to full strength, which will need to include serious consideration of long-term, radical reforms, and further devolution of fiscal powers and autonomy. As well as reforming local taxes that are currently in place, HM Treasury must devolve tax-setting powers to local authorities, allowing them to set their own forms of local taxes such as tourist levies.

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# 6 Councils in financial distress

**183.** So far in this report we have talked about how local government is under severe financial strain, and about some of the most significant contributing factors to this strain. In this Chapter, we consider what happens when local authorities can no longer afford the services they deliver, and what Government can do to help.

## Section 114 notices

**184.** When a local authority is unable to meet its statutory obligation to set a balanced budget for the coming year (that is, when a local authority predicts that its income will be less than its expenditure for the coming year), it must issue a section 114 notice. This is a formal, public notification under the Local Government Finance Act 1988, and can have real and significant impacts for the local authority who issues it.

**185.** Colloquially, commentators and the media refer to a local authority with a section 114 notice as being “effectively bankrupt”, although councils cannot become bankrupt (or insolvent) the way that an individual or a company can.<sup>241</sup>

**186.** Section 114 notices are an indication of the level of financial distress across the local government sector, and the indications in recent years are that financial distress is widespread. In the 30 years between the introduction of the Act in 1988 and 2018, there were only four section 114 notices issued for financial distress, none of which were issued between 2001 and 2018; in the seven years since 2018, however, seven councils in England issued eleven section 114 notices.<sup>242</sup> There remains a risk that more section 114 notices will be issued as financial pressures on local authorities bite. According to the 2025 State of Local Government Finance in England survey by the Local Government Information Unit (LGIU), nine councils (6% of those surveyed) said they will likely have to issue a section 114 notice for 2025/26. This is more than the number who have issued section 114 notices since 2001. 43 councils (35% of those surveyed) said they will likely need to issue a section

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<sup>241</sup> Institute for Government, [Local government section 114 \(bankruptcy\) notices](#), 7 August 2024

<sup>242</sup> House of Commons Library, [Why are local authorities going ‘bankrupt’?](#), 16 July 2024

114 notice in the next five years.<sup>243</sup> According to the Local Government Association (LGA), unless serious action is taken in the next two or three years, “upwards of 80% of councils are in some danger of issuing a 114 notice.”<sup>244</sup>

- 187.** As well as being a public statement by a local authority that it cannot afford its services, issuing a section 114 notice has direct consequences on the running of the authority. The issuing authority cannot make any new spending commitments (except for mandatory spending as determined by the chief financial officer) and must prepare an amended budget in which revenue matches or exceeds expenditure. Such a budget can demand cuts to key services, but as discussed in Chapter 3, authorities are limited in their ability to cut the mandatory and demand-led services that are their main funding pressures.<sup>245</sup>
- 188.** Central government has also intervened in several local authorities in financial distress, often by appointing Commissioners. Commissioners advise and challenge the council, but also have powers to make executive decisions for the local authority.<sup>246</sup> A recent alternative used by the current Government has been to appoint Ministerial Envoys instead of Commissioners. Envoys have similar powers to Commissioners but are expected to deploy them only as a last resort, having been in place for some time.<sup>247</sup> As of 10 July 2025, there were six councils with Commissioners and two with Ministerial Envoys.<sup>248</sup>
- 189.** While intervention, including Commissioners, can help certain authorities, the local authorities are responsible for paying the Commissioners. The cost can be high, around £1000 per day, putting further strain on budgets. It is for the Commissioners, not the local authorities, to decide when intervention is no longer necessary.<sup>249</sup> As we were told by the LGA:

The current model of statutory intervention for authorities, which the Government assesses as failing their best value duty, is very expensive and commissioners/envoys do not provide the additional capacity councils need to deal with their challenges.<sup>250</sup>

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243 Local Government Information Unit, [2025 State of Local Government Finance in England](#), 6 March 2025, p. 7

244 [Q48](#) [Councillor Marland]

245 Institute for Government, [Neighbourhood Services Under Strain](#), May 2022

246 Amardeep Gill and Imelda Kavanagh, [S114 update: Appointment of Commissioners](#), Local Government Lawyer, 13 October 2023

247 [Q155](#) [Jim McMahon]

248 Ministry of Housing, Communities and Local Government, [Statutory best value inspections and interventions in England](#), gov.uk (accessed 10 July 2025)

249 [Q49](#) [Councillor Revans, Councillor Marland]; [Q63](#) [Councillor Khan]

250 Local Government Association ([FSF0023](#)) section 5.2

190. While the process that follows a section 114 report may be a reasonable response to financial mismanagement, it is less productive for addressing financial unsustainability caused by long-term underfunding and increasing responsibilities. Councillor Pete Marland, Chair of the LGA's Economy and Resources Board, told us that although section 114 was appropriate to address governance failure at the first councils that issued the notices, “I do not think that particular legislation is probably fit for today’s purposes of making councils more financially sustainable”.<sup>251</sup> In written evidence, Cherwell District Council said that while a section 114 notice “buys a short amount of time [...] to try to identify even greater savings and reductions in service levels”, what is actually needed in these situations is “an increase in ongoing funding, or a clear reduction in the statutory level of services that need to be provided within the funding envelope.”<sup>252</sup>

191.

#### **CONCLUSION**

The process of issuing and responding to a section 114 notice is not a productive solution to financial unsustainability caused by long-term underfunding and increasing responsibilities. The need to avoid a section 114 notice can itself lead to poor financial management.

192.

#### **RECOMMENDATION**

The Government must amend the section 114 process so that an inability to set a balanced budget in a single year because of financial pressure does not cause long-term additional financial pressure. This could be done by extending the requirements to a rolling two-year basis (that is, allowing councils to recoup losses in the following year), by incorporating the year-end accounts into the criteria (that is, ensuring councils are actually making a loss instead of merely expecting to), or by easing the use of some reserves to fill funding gaps.

## **Exceptional Financial Support: neither “exceptional” nor “supportive”**

193. Fewer section 114 notices have been issued in recent years, with the most recent being issued by Nottingham City Council in November 2023. This is not because the intense financial pressures on local government have gone away. Instead, it is largely because of government action that has been taken specifically to avoid issuing section 114 notices.

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251 [Q49](#) [Councillor Marland]

252 Cherwell District Council ([FSF0005](#))

194. Since 2020, the Government has used a mechanism called Exceptional Financial Support (EFS) to help some struggling councils balance their budgets. To date, all councils who have received EFS to date have been given a capitalisation direction, which lifts the usual restrictions against using capital resources to meet revenue costs. This means that the council has permission to sell assets or borrow loans to pay for its day-to-day expenditure, whereas usually it would only be able to use these for capital expenditure, such as the purchase of long-term assets. However, these can be damaging to a council's financial situation and can make it less sustainable in the longer term: selling assets means that the council has lost some of the resources it might have used to generate income in the longer term, not to mention providing necessary local services, and borrowing loans means that councils must pay back both the loan and any interest incurred on it.<sup>253</sup> As Jim McMahon OBE MP, the Minister for Local Government and English Devolution, told us, "There definitely will be examples of councils that have sold everything they can sell, by and large: the libraries have gone, the youth centres have gone, the Sure Start centres have gone."<sup>254</sup>

195. In a small number of cases, councils have been allowed to raise council tax higher than their referendum thresholds without holding a referendum (these have been previously discussed in Chapter 5). In either form, the "support" provided by Effective Financial Support therefore amounts to central government lifting restrictions, placed on local authorities by central government, to avoid consequences dictated by central government.

196. According to the National Audit Office (NAO), while EFS has helped councils to avoid section 114 notices, it is not a long-term solution, it does not address the underlying causes of overspending, and it creates longer-term risks for local authorities.<sup>255</sup> The Royal Borough of Windsor and Maidenhead said they would be worse off under EFS: "a capitalisation directive does not help move the council to financial sustainability and only adds to the overall debt burden".<sup>256</sup> Councillor Grace Williams, the Deputy Chair of London Councils, said that EFS has been detrimental for the London boroughs that have received it: "It is not helping, because over time they are having to pay more of that debt and the situation is getting worse for them year on year."<sup>257</sup>

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253 [Q49](#) [Councillor Newmark]; Unite ([FSF0054](#)) paras 10.1 and 10.2

254 [Q149](#) [Jim McMahon]

255 National Audit Office, [Local government financial sustainability](#), 28 February 2025, para 22

256 Room151, [News roundup: Worse off with EFS, Birmingham's IT woes, Emergency accommodation costs](#), 25 February 2025

257 [Q65](#) [Councillor Williams]

**197.** Despite these concerns, demand for EFS has increased because of the need to avoid section 114 notices, with more authorities requiring EFS over multiple years. A record 30 councils received EFS for 2025/26.<sup>258</sup> According to the Chartered Institute of Public Finance and Accountancy (CIPFA),

Given the number of authorities applying for and relying on this support, this can no longer be seen as “exceptional”, and both MHCLG and Parliament should be increasingly concerned that authorities may be starting to rely on this unsustainable source of funding.<sup>259</sup>

**198.** The Minister for Local Government said:

There will be councils that legitimately want to be able to capitalise the transformation cost up-front to get the savings out at the back end. We need to be mindful that councils are in different positions. [...] All the cases on EFS this year have been appropriate, proportionate and the right thing to do.

**199. CONCLUSION**

Exceptional Financial Support (EFS) by means of capitalisation direction is a stopgap measure that avoids section 114 notices and allows councils to produce short-term balanced budgets, but can weaken councils’ finances and capital investment in the long term. Capitalisation directions have been over-used for many years, and Exceptional Financial Support is now neither exceptional nor supportive. We approve of the Government’s goal to end the use of EFS by the end of the upcoming multi-year funding settlement.

**200. RECOMMENDATION**

The Government should aim to end the use of capitalisation directions as a standard part of EFS. Alternative measures to support local authorities must improve local government sustainability not only in the short term, but in the long term as well. EFS should remain a short-term measure, after which the Government must use an alternative approach for a long-term solution.

<sup>258</sup> Ministry of Housing, Communities and Local Government, [Exceptional Financial Support for local authorities for 2025–26](#), gov.uk, 20 February 2025

<sup>259</sup> Chartered Institute of Public Finance and Accountancy (CIPFA) ([FSFO047](#))

# Government's data on the financial health of councils, and approach to EFS

201. The Ministry monitors the financial situation of the local government sector, and specific local authorities, through communication with councils and data held by the Ministry. It is largely effective at gathering the information it needs to identify problems in advance, with Ministry officials telling the recent session of the Public Accounts Committee on Local Government Financial Sustainability that the Ministry has never been surprised when a local authority has issued a section 114 notice or requested Exceptional Financial Support. The Permanent Secretary of the Ministry, Sarah Healey, said, “We think we have a pretty solid understanding of the financial situation of the sector and indeed of individual councils. No council individually has come to us with an issue of financial distress that has been a surprise to us.”<sup>260</sup>

202. In its report into [Local government financial sustainability](#), the NAO acknowledged the Ministry’s success at identifying local authorities in need of support, but highlighted the risk of a significant assurance gap if the data that the Ministry considers is not reliable, particularly in light of extensive delays in the audits of local authority accounts.<sup>261</sup> (We consider the impact of delays in local audit in the next chapter.)

203. Beyond merely identifying issues before they become public, the same data and correspondence underlies the Ministry’s decisions around which councils will receive Exceptional Financial Support, what that support will look like, and its scale and timing. This process is not transparent, as was highlighted in written evidence from Professor Andy Pike. He said, “The aim should be for a more formalised and transparent system to provide greater consistency and equity in local authority treatment.”<sup>262</sup>

204. **CONCLUSION**

The process by which the Government chooses which councils will receive EFS, and what it will look like, is not transparent.

260 Oral evidence taken by the Public Accounts Committee on 3 April 2025, [Qq35, 37](#) [Sarah Healey, Will Garton]

261 National Audit Office, [Local government financial sustainability](#), 28 February 2025, p. 11 para 21

262 Professor Andy Pike ([FSF0006](#))

**205. RECOMMENDATION**

When the Ministry announces new cases of EFS, it must publish alongside its announcement sufficient supporting information to demonstrate how it determined that EFS was necessary, how much it would provide, and what form it would take. This published information should be the same information that the Ministry used to make its decision.

## Financial awareness of councillors and officers

**206.** Councillors and statutory officers are collectively responsible for the financial management of their councils, but council finances can be both complicated and unlike finances at other organisations. Local authority financial accounts, which report on the authority's activity and financial position each year, are notoriously difficult to understand, as our predecessor Committee reported in 2023.<sup>263</sup> Councillors and officers make decisions about the spending of large sums of taxpayers' money and need the tools and training to be able to do this effectively and in the best interests of taxpayers.

**207.** There are many options of financial training for councillors, including courses offered by the LGA, LGIU, and CIPFA.<sup>264</sup> However, financial training is not mandatory, and some councillors do not understand the financial consequences of decisions relating to their local authority.

**208. RECOMMENDATION**

The Government must mandate a minimum level of financial training for all councillors and statutory officers, so that all councillors are at least able to understand their council's financial accounts and use them to compare their actual performance with the initial budget, to hold their officers to account when necessary, and to be suitably equipped to take decisions in the best interests of the taxpayer.

<sup>263</sup> Levelling Up, Housing and Communities Committee, First Report of Session 2023–24, [Financial Reporting and Audit in Local Authorities](#), HC 59

<sup>264</sup> Local Government Association, [Councillor e-learning](#) (accessed 4 June 2025); Local Government Information Unit, [Courses for councillors](#) (accessed 4 June 2025); Chartered Institute of Public Finance and Accountancy, [Introduction to Local Government Finance](#) (accessed 4 June 2025)

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## 7 Local audit and early warnings

**209.** In Chapter 6, we considered the support that the Government offers to councils in financial distress, and the early warnings it has for identifying which councils most need that support. In this Chapter, we consider the role of local audit in the system of early warnings, and the impact of delays in the local audit system on the reliability of available information.

**210.** Local authorities are required by law to produce accounts every year to publicly report on their spending and financial situation. Local audit is the process by which these accounts are independently assured and verified.

**211.** Local audit has been in a state of crisis for many years, the most obvious symptom of which was a large backlog of local audits that were not signed off. When our predecessor Committee reported on Financial Reporting and Audit in Local Authorities in 2023, the backlog included incomplete audits up to seven years old. That report made several recommendations to address the crisis, many of which the then and current Governments have begun to implement.<sup>265</sup> In particular, the Government set statutory backstop dates for the delivery of outstanding audits, the most recent of which on 28 February 2025 was for all audits up to the 2023/24 financial year.<sup>266</sup> There have been many disclaimed audit opinions (indicating insufficient evidence to support the accuracy of the accounts). The chief executive of Public Sector Audit Appointments Ltd said of the use of statutory backstop dates, “Yes, it’s painful, and there will be consequences, but it is the best solution that was available.”<sup>267</sup>

**212.** If local audit can be made to work again as intended, stakeholders have said it will be a vital component in the system of early warnings that can alert the Government to issues of concern and areas of financial distress.<sup>268</sup>

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265 Levelling Up, Housing and Communities Committee, First Report of Session 2023–24, [Financial Reporting and Audit in Local Authorities](#), HC 59

266 [Local Audit Backlog](#) HCWS46, 30 July 2024; [Addressing the local audit backlog in England: Non-compliance lists](#) HCWS492, 4 March 2025

267 Room151, [Backstop date leads to ‘unprecedented’ number of disclaimed opinions](#), 20 December

268 Professor Andy Pike (Henry Daysh Professor of Regional Development Studies at Centre for Urban and Regional Development Studies (CURDS), Newcastle University) ([FSF0006](#)); Ministry of Housing, Communities and Local Government ([FSF0008](#)); Professor Peter

Councillor Jeremy Newmark, Leader of Hertsmere Borough Council and Finance Spokesperson for the District Councils' Network, said local audit has a “critical role to play in this ecosystem [...] of early warnings”, if the backlog can be cleared.<sup>269</sup>

213. The Government has also made further proposals to reform the local audit system, including ones recommended in our predecessor Committee’s report. These include the creation of a new Local Audit Office to take the role of the system leader suggested initially by the [Redmond Review](#) in 2020, and amendments to the Code of Practice on Local Authority Accounting to be more aligned with the needs of users and the public. The Local Audit Office, once established in 2026, will take on the responsibilities held by several different bodies currently operating in the sector.<sup>270</sup>
214. In addition to the proposals already in process, the predecessor Committee’s report made other recommendations around local audit delivery itself that remain relevant. As Rosie Seymour, Deputy Director at the Ministry, noted at the Local Government Association Finance Conference earlier this year, the standards underpinning local audit are largely modelled on the requirements of corporate audit of private sector companies, not on the needs of local bodies.<sup>271</sup> As such, significant resources are being used for compliance that adds limited value to the public. Recommendations to this end from the previous report include assessing of value for money achieved (not just whether appropriate arrangements exist), decoupling value for money work from financial accounts, and encouraging the proactive use of existing powers to flag early warnings.<sup>272</sup>

**215. CONCLUSION**

We support the Government’s moves to clear the local audit backlog and get the local audit system functioning, including the creation of the Local Audit Office and amendments to the Code of Accounting Practice, noting that these are in line with recommendations made by the predecessor Committee in its report on Financial Reporting and Audit in Local Authorities. However, without reforms to the audit requirements, significant resources are still spent to comply with requirements that were written for the private sector and that do not apply to public sector bodies like local authorities.

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Murphy, Associate Professor Peter Eckersley, Dr Bernard Kofi Dom, Dr Katarzyna Lakoma, Dr Martin Jones (Nottingham Trent University) ([FSF0028](#))

269 [Q52](#) [Councillor Newmark]

270 Ministry of Housing, Communities and Local Government, [Local audit reform: a strategy for overhauling the local audit system in England](#), gov.uk, 18 December 2024

271 Ministry of Housing, Communities and Local Government, [Local Audit Reform \(conference slides\)](#), 9 January 2025, p. 3

272 Levelling Up, Housing and Communities Committee, First Report of Session 2023–24, [Financial Reporting and Audit in Local Authorities](#), HC 59, pp. 31–33

**216. RECOMMENDATION**

The Ministry must review the purpose and requirements of local audit to ensure that they are proportionate and deliver maximum value for the public and users of the accounts. There must be clarity about the purpose of local audit, and no effort, time or money should be spent on local audit activities that do not support this purpose.

**217. RECOMMENDATION**

The Ministry must act on other recommendations from the predecessor Committee's report on Financial Reporting and Audit in Local Authorities that have not yet been addressed. Specifically, the Ministry should work with the organisation that prepares the Audit Code (currently the National Audit Office, transferring to the Local Audit Office when it is set up) to ensure that local auditors' opinions over value for money include an actual assessment of value for money achieved (not merely whether appropriate arrangements exist), to assess the benefits of decoupling value for money work from financial audit work, and to encourage local auditors to make more proactive use of existing powers to raise early warnings.

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# Conclusions and recommendations

## What is local government for?

1. The Government is undergoing the most significant local government reorganisation in decades. Substantial change, if not driven by a clear vision of what local government should be for and should be achieving, risks embedding undesirable elements of the current system into local government for the foreseeable future. (Conclusion, Paragraph 15)
2. The Government must assess the role of local government and, by the end of 2025, publish its vision for local government's role in the state, including whether they see its role changing as a result of reorganisation and devolution to Strategic Combined Authorities. This vision should be submitted to consultation. Decisions around local government made by central government, including reorganisation and any changes to services and funding, should be informed by this view of local government's role. (Recommendation, Paragraph 16)
3. The statutory and non-statutory responsibilities of local government have not been reviewed holistically for many years, contributing to the fragmented system of requirements that local authorities are required to deliver. What is needed to satisfy statutory requirements is too often unclear, which causes confusion and leads to inconsistency between service provision at different local authorities. (Conclusion, Paragraph 22)
4. The Government must undertake a review of which local government services should, and which should not, be statutory requirements. This review must begin by the end of calendar year 2025 and go to consultation by June 2026. If changes are needed to legislation to bring statutory requirements in line with the review, these must be made before the end of this Parliament. (Recommendation, Paragraph 23)

## Services under strain

5. Decisions made by departments other than the Ministry can have a significant impact on services delivered through local government, and it is local authorities and residents that must bear the brunt of the impact.

For example, those affected by welfare cuts such as the freezing of Local Housing Allowance may no longer be able to afford council tax and may even present as homeless, drastically increasing the level of support that local authorities must provide. (Conclusion, Paragraph 37)

6. The Ministry is in regular contact with other departments and government bodies about the needs of local government, but it lacks the levers that it needs to control decisions across central government. In our view, merely discussing the issues with other departments is not enough. To properly reform and stabilise these vital services, clear lines of accountability between relevant departments are needed, with the responsibilities for overall delivery and for funding being held together in a single department (even if delivery in practice is managed by several). (Conclusion, Paragraph 38)
7. We support the calls by the National Audit Office and Public Accounts Committee that the Government must provide cross-government reform to ensure that the entire system of local government is sustainable. The Ministry must collaborate with other departments on this and there must be clear lines of accountability. We also recommend that, for each mandatory service delivered by local government, a single Minister should have both the responsibility for delivering that service and the authority to coordinate work across all relevant departments. The power and responsibility for decision-making should be held by the same person so that effective action can be taken across departmental boundaries. (Recommendation, Paragraph 39)
8. The Government has committed over £1.5 billion from the Transformation Fund to reform adult social care, children's social care, SEND, and homelessness services so that they are focused on prevention. Reforms to these services are urgently needed, but the Government must provide further clarity about what these service reforms will involve, how they will be implemented, and how the Government will measure whether the reforms have been successful. Delivering the reforms will require the Government to act proactively for many years to come. (Recommendation, Paragraph 41)
9. We support the Government's current stated intention to focus more on prevention to reduce the demand for more expensive acute services in the long term. These preventative services have been weakened by a decade of underfunding in local government. However, bolstering preventative services must not come at the expense of acute services, such as temporary accommodation provision, lacking the funding they need today. (Conclusion, Paragraph 48)

10. Rebuilding and strengthening damaged preventative services will require temporary increases in central government funding before the demand for acute services starts to drop. (Conclusion, Paragraph 49)
11. The Ministry must prioritise funding and support for local preventative services to fix the foundations, reduce the demand for acute services, and bring down costs in the longer term. (Recommendation, Paragraph 50)
12. Successive Governments have relied too much on ringfencing of funding to control the activities of local government. Through ringfencing, the Government has required local authorities to spend their money in specified ways, which may not be the most efficient use of that money in the local context. Local authorities would be able to make more use of their local knowledge and make better decisions within their local context if the Government used an outcomes-based system: rather than requiring local authorities to spend specific amounts of money in certain ways, requiring local authorities to achieve certain outcomes within their overall budget. (Conclusion, Paragraph 61)
13. We are encouraged by the recent launch of the Local Government Outcomes Framework and the beginning of a transition towards an outcomes-based system of accountability for local government, and we look forward to further detail, as it emerges during the call for evidence, about how the Ministry will use the Framework to assess local authorities' performance against the proposed metrics and support them to deliver the Framework's priority outcomes. (Conclusion, Paragraph 62)
14. After the conclusion of the Framework's live call for evidence and before the start of the 2026/27 financial year, the Ministry must implement the agreed outcomes-based system, by which local authorities will be held accountable for achieving the agreed outcomes within their overall budgets and not for meeting spending targets for individual services. (Recommendation, Paragraph 63)
15. The Ministry must end ringfencing by removing the standard spending requirements that are placed on the funding available to local authorities, whether the funding was provided by Government or collected locally. Spending requirements, such as ringfencing, should only be used in response to financial mismanagement. (Recommendation, Paragraph 64)
16. We welcome the Government's desire to move away from the competitive bidding process as outlined in the Plan for Neighbourhoods, but further clarity is needed around what alternative funding programmes will replace competitive bidding. (Conclusion, Paragraph 65)

17. The Ministry must outline how it plans to allocate funding to local authorities in future investment programmes and move away from competitive bidding between councils. Any allocation must use a transparent process, based on clear criteria, and be focused on achieving desired outcomes. (Recommendation, Paragraph 66)
18. As part of the Ministry's reduction of the use of funding pots and competitive bidding, it must consider and reduce the number of funding pots managed across multiple government departments, not just those managed by the Ministry. (Recommendation, Paragraph 67)
19. Unfunded mandates (responsibilities for local authorities without adequate funding or compensation) contribute to the lack of sustainability in the local government sector. (Conclusion, Paragraph 74)
20. The New Burdens doctrine, which requires government departments to ensure any new responsibilities for local authorities are fully costed and funded, is a vitally important part of government financing but is not robust enough to prevent unfunded mandates. (Conclusion, Paragraph 75)
21. The New Burdens doctrine must be reviewed, updated, and put on a stronger statutory footing. It must focus not only on new responsibilities, but on any increase in the costs of mandatory services delivered by local authorities. For any such increase in cost, there must be a proportionate increase in central government funding. (Recommendation, Paragraph 76)
22. The increase in the rate of employer National Insurance Contributions has placed a significant financial burden on local authorities that has not been sufficiently covered by new funding. It is an unfunded mandate of the Government's making. (Conclusion, Paragraph 81)
23. The Government must fully compensate councils for the additional costs arising from the increase to employer National Insurance Contributions. (Recommendation, Paragraph 82)
24. The Ministry and HM Treasury must work together to align accountability over decisions that affect local government, including around national taxation. Authority over tax decisions that affect local government and responsibility for the financial sustainability of local government should be held together, perhaps by a single Minister who can work across departments at the Ministry and HM Treasury. (Recommendation, Paragraph 83)

## The big pressures

25. We support and echo the conclusions of the recent report Adult Social Care Reform by the Health and Social Care committee. As they have said in the summary of their report, successive Governments have not fully considered the human and financial costs of inaction on social care reform, including costs falling on local authorities and their residents. The cost of doing nothing is now unsustainable, and reform is urgently needed. (Conclusion, Paragraph 91)
26. While we support the new independent commission into adult social care led by Baroness Casey, we are concerned that the proposed timescale means that urgent reforms to social care services will not be implemented soon enough to overcome the severity of the crisis in adult social care. If no action is taken by the time the commission concludes in 2028, it may be too late to stabilise the system. (Conclusion, Paragraph 93)
27. The timescale for the commission into adult social care should be brought forward, and it must present actionable reforms to the sector as part of its interim findings in 2026. The Government must not wait for the commission to publish its final report, and treat its interim findings with due urgency. The Government must ensure that adult social care is fully funded by the end of this Parliament. (Recommendation, Paragraph 93)
28. The Department for Health and Social Care must ensure that the ongoing reforms and cuts to Integrated Care Systems and Integrated Care Boards are aligned both with wider reorganisation of local government and with necessary reforms to the adult social care sector. (Recommendation, Paragraph 99)
29. The statutory override that allows local authorities to keep deficits of the Dedicated Schools Grant (DSG) off their books is an unsustainable measure that hides the true cost burden on local authorities. The recent extension of the override until 2028 is a necessary step to protect local authorities from the harmful consequences that would have ensued if it had ended in March 2026. As long as the override is in place, local authorities' accounts will diverge further from reality, and it must not be extended further beyond 2028. (Conclusion, Paragraph 110)
30. The Government's upcoming reforms to the Special Educational Needs and Disabilities (SEND) system must be bold enough to eliminate local authorities' deficits on the DSG going forwards before March 2028, while ensuring SEND children receive the support they need. The Ministry must commit not to extend the statutory override further beyond 2028. The

Ministry must also develop an approach to address historical cumulative DSG deficits, and to support local authorities handle them when the statutory override ends in 2028. (Recommendation, Paragraph 111)

- 31.** Home-to-school transport is a particular area of concern for the affordability of local government services. We support the Government's proposed update to the assessment of local authority's needs relating to home-to-school transport, but while this more fairly distributes money between local authorities, it does not make the service as a whole more affordable. Reforms to the service itself will also be necessary. (Conclusion, Paragraph 114)
- 32.** As part of its ongoing service reform for the SEND sector, the Ministry must consider options for reforming or improving the efficiency of home-to-school transport services. Potential options include wider use of sharing transport, and capital investment to enable councils to use efficient ways to meet their statutory requirements. (Recommendation, Paragraph 115)
- 33.** It is a source of national shame that cases of homelessness, particularly among families and children, are at record levels and continue to rise. This is placing considerable strain on the finances of local authorities. We repeat the findings of our report of earlier this year, England's Homeless Children: The crisis in temporary accommodation. (Conclusion, Paragraph 120)
- 34.** As we recommended in our previous report, England's Homeless Children, the Government should reconsider its decision to freeze Local Housing Allowance rates and should extend its support for local authorities to acquire new housing stock through the Local Authority Housing Fund. (Recommendation, Paragraph 121)
- 35.** We support the return to multi-year funding settlements, but the local government funding reforms announced to date will not solve the underlying problems in the system by themselves. (Conclusion, Paragraph 127)
- 36.** We acknowledge the trade-offs that the Government is making in updating the local government funding formula, and we support the Government's decision to focus funding towards areas with higher need, which will help correct an existing imbalance in the system. We are pleased to see that factors considered in the Fair Funding Review take account of the different pressures faced by urban and rural authorities. (Conclusion, Paragraph 132)
- 37.** The Government's new funding formula must consider the effect of disparities between wards and sub-wards within single local authorities, which can be hidden when only considering the data at the level of whole local authorities. Measures of deprivation used in the new funding formula must account for local housing costs. (Recommendation, Paragraph 133)

- 38.** Council tax is a regressive and unfair tax. We note the Government's decision to prioritise other areas of local government funding for reform, but any local government reform that does not address council tax will be undermined by the current system. Council tax reform should be a higher priority on the Government's agenda. (Conclusion, Paragraph 154)
- 39.** Using property values from 1991, or proxy 1991 values where actual values are not available, is inappropriate and becoming increasingly inappropriate as time goes on. (Conclusion, Paragraph 155)
- 40.** The Government's arguments that council tax has high collection rates and leads to stable income levels are not sufficient reasons to avoid reforming council tax. (Conclusion, Paragraph 156)
- 41.** Council tax is one of the main interactions with local government that residents will have. Giving councils more power over, and therefore more responsibility for, setting council tax will improve democratic engagement by residents. (Conclusion, Paragraph 157)
- 42.** The Government should begin the process of overhauling or replacing council tax. This should look at options for a significant reform of local government funding, which could include replacing council tax. Whatever form of taxation is eventually adopted, the Government must clearly set out the tax's purpose, its economic impact, and its fairness. (Recommendation, Paragraph 158)
- 43.** A significant and considered reform of council tax will take several years to take effect. Until it does, the Government should devolve power and responsibility for setting council tax to councils. This should include the power for individual councils to revalue properties in their area, define property bands, and set the rates for those bands. Individual councils should also be given the power to apply or remove discounts and premiums (such as the single person discount), and to determine the criteria for how they are applied. Councils using these powers will have a responsibility to justify their use to their electorates, who will hold them accountable at the ballot box. The Government should retain the power to override locally set council tax rates only in exceptional cases of councils showing financial mismanagement or a lack of social responsibility to residents. (Recommendation, Paragraph 159)
- 44.** We acknowledge the Government's current plans to reform business rates and the Business Rates Retention system, including the business rates reset and the addition of new multipliers. However, we remain concerned that the business rates system can harm growth, disincentivise investment, and entrench deprivation at local authority level. (Conclusion, Paragraph 168)

45. The business rates system, or any alternative tax system for business property, must be designed to incentivise councils to encourage growth in their areas. We are concerned that any full, cliff-edge reset of business rates will reduce this incentive by withdrawing the benefits of growth. (Conclusion, Paragraph 169)
46. The Government must devolve more powers to local authorities to set multipliers, discounts and premiums relating to business rates. (Recommendation, Paragraph 170)
47. Pending a fuller reform of the business rates system, business rates resets must avoid cliff-edges for local authorities by means of a phased reset, by which growth is reset to a fixed prior period, say seven years before the date of the reset. This would eliminate hard resets, allow authorities to benefit from accumulated growth for a known length of time, encourage investment, and reduce funding uncertainty. (Recommendation, Paragraph 171)
48. The Government must be more courageous with its long-term plans for the funding of local government. While stabilisation is important in the short term, both the Ministry and HM Treasury need to start considering how to get the sector back to full strength, which will need to include serious consideration of long-term, radical reforms, and further devolution of fiscal powers and autonomy. As well as reforming local taxes that are currently in place, HM Treasury must devolve tax-setting powers to local authorities, allowing them to set their own forms of local taxes such as tourist levies. (Recommendation, Paragraph 182)

## Councils in financial distress

49. The process of issuing and responding to a section 114 notice is not a productive solution to financial unsustainability caused by long-term underfunding and increasing responsibilities. The need to avoid a section 114 notice can itself lead to poor financial management. (Conclusion, Paragraph 191)
50. The Government must amend the section 114 process so that an inability to set a balanced budget in a single year because of financial pressure does not cause long-term additional financial pressure. This could be done by extending the requirements to a rolling two-year basis (that is, allowing councils to recoup losses in the following year), by incorporating the year-end accounts into the criteria (that is, ensuring councils are actually making a loss instead of merely expecting to), or by easing the use of some reserves to fill funding gaps. (Recommendation, Paragraph 192)

51. Exceptional Financial Support (EFS) by means of capitalisation direction is a stopgap measure that avoids section 114 notices and allows councils to produce short-term balanced budgets, but can weaken councils' finances and capital investment in the long term. Capitalisation directions have been over-used for many years, and Exceptional Financial Support is now neither exceptional nor supportive. We approve of the Government's goal to end the use of EFS by the end of the upcoming multi-year funding settlement. (Conclusion, Paragraph 199)
52. The Government should aim to end the use of capitalisation directions as a standard part of EFS. Alternative measures to support local authorities must improve local government sustainability not only in the short term, but in the long term as well. EFS should remain a short-term measure, after which the Government must use an alternative approach for a long-term solution. (Recommendation, Paragraph 200)
53. The process by which the Government chooses which councils will receive EFS, and what it will look like, is not transparent. (Conclusion, Paragraph 204)
54. When the Ministry announces new cases of EFS, it must publish alongside its announcement sufficient supporting information to demonstrate how it determined that EFS was necessary, how much it would provide, and what form it would take. This published information should be the same information that the Ministry used to make its decision. (Recommendation, Paragraph 205)
55. The Government must mandate a minimum level of financial training for all councillors and statutory officers, so that all councillors are at least able to understand their council's financial accounts and use them to compare their actual performance with the initial budget, to hold their officers to account when necessary, and to be suitably equipped to take decisions in the best interests of the taxpayer. (Recommendation, Paragraph 208)

## Local audit and early warnings

56. We support the Government's moves to clear the local audit backlog and get the local audit system functioning, including the creation of the Local Audit Office and amendments to the Code of Accounting Practice, noting that these are in line with recommendations made by the predecessor Committee in its report on Financial Reporting and Audit in Local Authorities. However, without reforms to the audit requirements, significant resources are still spent to comply with requirements that were written for the private sector and that do not apply to public sector bodies like local authorities. (Conclusion, Paragraph 215)

- 57.** The Ministry must review the purpose and requirements of local audit to ensure that they are proportionate and deliver maximum value for the public and users of the accounts. There must be clarity about the purpose of local audit, and no effort, time or money should be spent on local audit activities that do not support this purpose. (Recommendation, Paragraph 216)
- 58.** The Ministry must act on other recommendations from the predecessor Committee's report on Financial Reporting and Audit in Local Authorities that have not yet been addressed. Specifically, the Ministry should work with the organisation that prepares the Audit Code (currently the National Audit Office, transferring to the Local Audit Office when it is set up) to ensure that local auditors' opinions over value for money include an actual assessment of value for money achieved (not merely whether appropriate arrangements exist), to assess the benefits of decoupling value for money work from financial audit work, and to encourage local auditors to make more proactive use of existing powers to raise early warnings. (Recommendation, Paragraph 217)

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# Formal minutes

**Wednesday 16 July 2025**

## Members present

Florence Eshalomi, in the Chair

Chris Curtis

Maya Ellis

Mr Will Forster

Naushabah Khan

Andrew Lewin

Mr Gagan Mohindra

Joe Powell

## The Funding and Sustainability of Local Government Finance

Draft Report (*The Funding and Sustainability of Local Government Finance*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 217 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the second Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

## Adjournment

Adjourned till Tuesday 2 September at 9.30am.

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# Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

## Tuesday 11 February 2025

**Professor Tony Travers**, Director of LSE London and Associate Dean of the School of Public Policy, London School of Economics; **Jonathan Carr-West**, Chief Executive, Local Government Information Unit; **Aileen Murphie**, Honorary Professor, Durham University Business School; **Professor Andy Pike**, Henry Daysh Professor of Regional Development Studies, Newcastle University

[Q1-17](#)

**Charlotte Pickles**, Director, Re:State (then Reform think tank); **David Phillips**, Associate Director, Institute for Fiscal Studies; **Stuart Hoddinott**, Senior Researcher, Institute for Government

[Q18-31](#)

## Tuesday 11 March 2025

**Councillor Peter Marland**, Chair of Economy and Resources Board, Local Government Association, and Leader of Milton Keynes City Council; **Councillor Jeremy Newmark**, Spokesperson for Finance, District Councils Network, and Leader of Hertsmere Borough Council; **Councillor Barry Lewis**, Spokesperson for Finance, County Councils Network, and Leader of Derbyshire County Council; **Councillor Bill Revans**, Leader, Somerset Council

[Q32-54](#)

**Councillor Grace Williams**, Deputy Chair, London Councils, and Leader of Waltham Forest Council; **Councillor Neghat Khan**, Leader, Nottingham City Council; **Councillor Tony Dyer**, Leader, Bristol City Council

[Q55-66](#)

## Tuesday 8 April 2025

**Gareth Davies**, Comptroller and Auditor General, National Audit Office; **Abdool Kara**, Executive Director, National Audit Office; **Vicky Davis**, Director of Housing, Communities and Local Government Value for Money, National Audit Office

[Q67-101](#)

**Owen Mapley**, Chief Executive, Chartered Institute of Public Finance and Accountancy (CIPFA); **Dan Bates**, Finance Specialist, OnTor Limited; **Jane Pearson**, Section 151 Officer, Ribble Valley Borough Council; **Rob Powell**, Section 151 Officer, Warwickshire County Council

[Q102-125](#)

## Wednesday 7 May 2025

**Jim McMahon MP**, Minister of State for Local Government and English Devolution, Ministry of Housing, Communities and Local Government;

**Nico Heslop**, Director of Local Government Finance, Ministry of Housing, Communities and Local Government

[Q126-199](#)

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# Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

FSF numbers are generated by the evidence processing system and so may not be complete.

1	Agarwal, Professor Sheela (Co-Director of the Centre for Coastal Communities, University of Plymouth); Asthana, Professor Sheena (Co-Director of the Centre for Coastal Communities, University of Plymouth); Gibson, Dr Alex (Senior Research Fellow, University of Plymouth); and Edwards-Smith, Ms Liz (Research Fellow, University of Plymouth)	<a href="#">FSF0021</a>
2	Bristol City Council	<a href="#">FSF0053</a>
3	Chartered Institute of Housing	<a href="#">FSF0029</a>
4	Chartered Institute of Library and Information Professionals	<a href="#">FSF0040</a>
5	Chartered Institute of Public Finance and Accountancy (CIPFA)	<a href="#">FSF0047</a>
6	Cherwell District Council	<a href="#">FSF0005</a>
7	Copus, Emeritus Professor Colin (Emeritus Professor, De Montfort University)	<a href="#">FSF0004</a>
8	County Councils Network	<a href="#">FSF0049</a>
9	Dagdeviren, Professor Hulya (Professor of Economic Development, University of Hertfordshire)	<a href="#">FSF0013</a>
10	Essex County Council	<a href="#">FSF0038</a>
11	Fairer Share	<a href="#">FSF0052</a>
12	Food Standards Agency	<a href="#">FSF0025</a>
13	Greater Change	<a href="#">FSF0043</a>
14	Hampshire County Council	<a href="#">FSF0015</a>
15	Heald, Professor David (Emeritus Professor, Adam Smith Business School, University of Glasgow)	<a href="#">FSF0022</a>
16	Historic England	<a href="#">FSF0036</a>
17	Labour Land Campaign	<a href="#">FSF0035</a>

18	Libraries Connected	<a href="#">FSF0007</a>
19	Lincolnshire County Council	<a href="#">FSF0026</a>
20	Local Government Association	<a href="#">FSF0023</a>
21	Local Government Information Unit	<a href="#">FSF0037</a>
22	Local Government and Social Care Ombudsman (LGSCO)	<a href="#">FSF0009</a>
23	London Councils	<a href="#">FSF0027</a>
24	Lowther, Jason (Director of the Institute of Local Government Studies (INLOGOV), University of Birmingham)	<a href="#">FSF0019</a>
25	Mencap	<a href="#">FSF0039</a>
26	Ministry of Housing, Communities and Local Government	<a href="#">FSF0008</a>
27	Money and Mental Health Policy Institute; StepChange Debt Charity; Money Advice Trust; Citizens Advice; Christians against Poverty; Policy in Practice; Debt Justice; Community Money Advice; Institute of Money Advisors; and Advice UK	<a href="#">FSF0016</a>
28	Muldoon-Smith, Dr Kevin (Associate Professor in Strategic Public Sector Finance and Urban Adaptation , Northumbria University)	<a href="#">FSF0024</a>
29	Murphie, Ms Aileen (Honorary Professor, Durham University); Midgley, Mr Henry (Associate Professor, Durham University); and Ferry, Mr Laurence (Professor, Durham University)	<a href="#">FSF0018</a>
30	Murphy, Professor Peter (Professor of Public Policy and Management, Nottingham Trent University); Eckersley, Associate Professor Peter (Associate Professor in Public Policy and Management, Nottingham Trent University); Dom, Dr Bernard Kofi (Lecturer in Accounting and Finance, Nottingham Trent University); Lakoma, Dr Katarzyna (Research Fellow, Nottingham Trent University); and Jones, Dr Martin (Head of department (Accounting and Finance), Nottingham Trent University)	<a href="#">FSF0028</a>
31	NAVCA (National Association for Voluntary and Community Action)	<a href="#">FSF0014</a>
32	National AIDS Trust	<a href="#">FSF0002</a>
33	Norfolk County Council	<a href="#">FSF0045</a>
34	Phillips, Mr David (Associate Director, Institute for Fiscal Studies); and Ogden, Ms Kate (Senior Research Economist, Institute for Fiscal Studies)	<a href="#">FSF0003</a>

35	Pike, Professor Andy (Henry Daysh Professor of Regional Development Studies, Centre for Urban and Regional Development Studies (CURDS), Newcastle University)	<a href="#"><u>FSF0006</u></a>
36	Raddy, Miss Carenza	<a href="#"><u>FSF0017</u></a>
37	Reform think tank	<a href="#"><u>FSF0010</u></a>
38	Seneca Enterprise	<a href="#"><u>FSF0048</u></a>
39	Society of County Treasurers	<a href="#"><u>FSF0012</u></a>
40	South East Councils	<a href="#"><u>FSF0051</u></a>
41	South Oxfordshire District Council	<a href="#"><u>FSF0032</u></a>
42	Special Interest Group of Municipal Authorities (SIGOMA)	<a href="#"><u>FSF0044</u></a>
43	TRL Insight	<a href="#"><u>FSF0046</u></a>
44	Terrence Higgins Trust	<a href="#"><u>FSF0050</u></a>
45	The Royal Town Planning Institute	<a href="#"><u>FSF0030</u></a>
46	Travers, Professor Tony	<a href="#"><u>FSF0042</u></a>
47	UNISON	<a href="#"><u>FSF0031</u></a>
48	Unite	<a href="#"><u>FSF0054</u></a>
49	Vale of White Horse District Council	<a href="#"><u>FSF0033</u></a>
50	Voluntary Organisations Disability Group (VODG)	<a href="#"><u>FSF0041</u></a>
51	West Sussex County Council	<a href="#"><u>FSF0034</u></a>

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# List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website.

## Session 2024–25

Number	Title	Reference
1st	England's Homeless Children: The crisis in temporary accommodation	HC 338
4th Special	England's Homeless Children: The Crisis in Temporary Accommodation: Government Response	HC 979
3rd Special	The Finances and Sustainability of the Social Housing Sector: Government Response	HC 762
2nd Special	Disabled People in the Housing Sector: Government Response	HC 761
1st Special	The finances and sustainability of the social housing sector: Regulator of Social Housing response	HC 457