Local Government Financial Sustainability

The Public Accounts Select Committee March 2025

Written Evidence submitted by Nottingham Business School,

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Disclosures:

Between 2002-2009 Peter Murphy was appointed the Lead Official and Chair of the Monitoring Boards at various times in Rossendale Borough Council, Coventry City Council, Bedfordshire County Council, Corby Council, Northampton Borough Council, Erewash Borough Council, North East Derbyshire District Council, North West Leicestershire District Council, Mansfield District Council and East Lindsay District Council. At all times he was employed in a' politically restricted' capacity.

Between December 2020 and October 2021, the Improvement and Assurance Board at Nottingham City Council requested his assistance in the re-writing of the City Council's Constitution and the accompanying Articles and Annexes. At this time, he was Professor of Public Policy and Practice at Nottingham Trent University.

1. Introduction

Although the call for evidence suggests the committee is interested in hearing evidence on the following three issues, namely

- Drivers of financial distress for local authorities, including adult and children's social care, temporary accommodation, and special educational needs and disability services for children and young people
- Challenges and support for individuals in accessing local authority services; and
- Support for financially failing local authorities and action to tackle systemic issues.

Our evidence relates only to the first and third issues. We believe others, particularly charities and advocacy groups, are much better placed than ourselves to present evidence on the "challenges and support for individuals in accessing local authority services.".

Because our evidence exceeds 3000 words in accordance with normal processes, we have provided a summary at the beginning of the evidence

Please note: The MHCLG Select Committee recently called for evidence for their Inquiry into "The Funding and Sustainability of Local Government Finance". The MHCLG inquiry is focussed on potential improvements needed to the Local Government Finance regime, the collection of income through taxes and other charges and the distribution of central government financial support to Local Authorities (NAO 2025). We have submitted written evidence to that inquiry, but we have not repeated that evidence as part of this submission.

2. Summary of detailed submission

Part 1. Drivers of financial distress

The first part of our submission focusses on the drivers of the current levels of financial distress in the key services identified by the committee but also commonly cited by authorities that have recently issued Section 114 notices or are in receipt of exceptional financial support from the government or currently engage in correspondence with the government over exceptional or other form of financial support, such as pressures on their Housing Revenue Account and/or Special Educational Needs and Disability Services.

This evidence is based on financial datasets were derived from publicly available data, namely (i) the Local Authority Revenue Outturn (RO) suite of forms and (ii) the Local Authority Capital Outturn Receipts (COR) group of tables. (Dom 2022). These are the most reliable source information available, and we extracted data for all local Authorities and their services. This created a longitudinal time series is from financial year 2005/06. The figures and values in the data set were converted to real-term values using the GDP inflator with financial year 2010/11 as the base year to allow more accurate and robust comparisons.

The database demonstrates and details the extent to which LAs across England have faced mounting financial distress due to a combination of increasing demand for statutory services, long-term reductions in central government funding, and systemic challenges in public financial management.

Adult and children's social care now account for the largest portion of local authority (on-balance sheet) spending, with demand rising sharply over the last decade due to demographic shifts increasing inequalities and increasing levels of complex needs among service users (Dom, 2024). Most recently in 2023/24, the total expenditure on adult social care rose to £32.0 billion, an increase of 12.8% in cash terms and 6.3% in real terms from 2022/23. Gross current expenditure, which excludes income from the NHS, rose to £27.2 billion, an increase of 8.1% in real terms (The Kings Fund 2025). As is generally accepted, a reformed and sustainable national or local taxation mechanism, tailored to reflect the increasing demand for care services, and enable councils to plan and invest in social care infrastructure rather than relying on uncertain and fragmented funding sources.

Housing, Homelessness and Temporary Accommodation. Shortages in all sectors (owner occupied, private rented, special and social housing) and in particular the level of homelessness and the use of temporary accommodation have all significantly increased, driven by factors such as welfare reforms, economic instability, and a lack of affordable housing. The government should increase direct investment in building and acquiring permanent and affordable housing**,** preferably through a dedicated local authority housing investment fund, to avoid excessive reliance on private rental markets. Compulsory Purchase powers are currently being considered by the government but these should facilitate the repurposing of vacant properties and acquisition of undeveloped land in the '5 year housing land supply' for social, affordable and specialised needs housing reducing the need for costly temporary placements government should reform welfare policies by aligning Local Housing Allowance rates with actual rental market costs, ensuring that low-income households can afford stable housing, without falling into arrears.

Special Educational Needs and Disability Services. The number of children and young people requiring SEND services has risen dramatically, particularly following reforms introduced through the Children and Families Act 2014, which expanded the eligibility criteria for Education, Health, and Care Plans (EHCPs). While these changes aimed to improve access to support, they also led to an unsustainable rise in demand, without corresponding increases in funding (National Audit Office, 2021). We have not been able to assess the full scale of the financial deficit, because the public does not have access to the full picture of Special Educational Needs and Disabilities (SEND) costs overall. This is a temporary 3-year accounting measure called the "statutory override" which allows councils to exclude large deficits on SEND costs from their main financial statements. We provide more information on this in the second part of our detailed evidence to the committee below.

Part 2. Support for financially failing local authorities and action to tackle systemic issues.

The database demonstrates and details the extent to which LAs across England have faced mounting financial distress due to a combination of increasing demand for statutory services, long-term reductions in central government funding, and systemic challenges in public financial management.

Given the contemporary nature of this enquiry, we restrict our detailed analysis to the 2018-25 period in this report, whilst acknowledging that current events have been shaped by previous central government's attempts to oversee and direct local authority activity (in particular, the power to intervene stipulated in the 1999 Act, and the development of a standalone Corporate Inspection or Best Value Inspection model from 2001). The regime that was in place between 2001 and 2010 was very successful and over time provided a sophisticated early warning system relating to significant underperformance or malpractice. However, it operated within a context that was very different to the contemporary context being before the recession of 2008-2010 and the subsequent imposition of austerity localism policies in the UK from 2010 (Murphy 2014). We will however return to aspects of previous systems including corporate intervention and the development of an 'early warning' system in our recommendations.

As demonstrated in the first part of our evidence, medium to long-term reductions in central government support funding and caps on LAs raising council tax have been happening in parallel to increasing demand for social care, housing, homelessness and welfare services (Dom 2023) not least because of demographic changes, increasing inequalities, policies of austerity-localism and shocks to the economy such as Brexit, the COVID-19 pandemic, rising immigration and the wars in Syria and Ukraine. This has been accompanied by reductions in the quality and quantity of scrutiny of individual authorities and the sector as a whole. Additionally, the Local Public Audit system has been widely accepted as being unfit for purpose and problems with local authorities' bodies publishing their auditing accounts on time in 2022/23 (MHCLG, 2024).

From 2018 onwards corporate interventions (statutory and non-statutory) have been predominantly focused on local councils in financial distress. Tables 1-3 in our detailed evidence give some indicators of the extent of financial distress in the sector. Table 1 relates to statutory interventions following section 114 Notices issued by councils; Table 2 indicates those councils in receipt of exceptional financial support approved for local authorities via revenue debt capitalisations; Table 3 refers to the top 20 English Councils debts relative to the size of their annual revenue and expenditure. We also show how there has been systematic under-reporting of debt and significant off-balance sheet expenditure. It is clear from these tables and our research that it is long-term strategic issues that are gradually forcing local authorities into severe financial distress rather than one off tiggers that are often highlighted in the media. In addition, the situation has been exacerbated by the number and severity of exogenous economic, social, and environmental challenges that continued to emerge between 2018-2025.

In this period, successive governments have administered a series of financial sticking plasters and short-term policy mitigations, rather than initiate the fundamental and strategic changes that the National Audit Office, as well as this and other select committees, had repeatedly alerted them to. It has involved changing the nature of debts rather than attempting to control, reduce or eliminate excessive debt levels and in effect removing major financial and non-financial liabilities off public balance sheets. Removal of information off the publicly reported annual balance sheet has been a common characteristic of many of the large-scale frauds and accounting scandals in both the public and private sector. The public have an unequivocal right to know the true financial circumstances of public organizations including their indebtedness which they cannot do at present.

We conclude by making the following strategic recommendations for improving the support and intervention regime for failing local authorities and authorities in financial distress. We acknowledge that a number of the mechanisms or improvements are already under consideration by the government or other select committees.

Part 3 Recommendations

Local Performance Audit

In the long run and based on an evaluation of full life costs, prevention of causes are preferable to trying to respond and treat the symptoms. The foundations to the local government financial system is Local Public Audit and the role within it of performance audit.

- The proposed Local Audit Office in consultation with CIPFA and the LGA should be required to identify and develop a short suite of key performance indicators intended over time to act as an early warning system of financial, non-financial and/or strategic performance issues within local authorities. These should be subject to internal and external audit with the Section 151 having a statutory reporting responsibility for any significant inadequacies in the process or outputs.
- The Local Audit Office and the NAO should develop regular liaison and co-operation and ensure any current off-balance sheet mechanisms are withdrawn and the true position on costs and liabilities is reflected in the annual local government financial reporting system and the whole of government accounts.
- The annual financial reporting system for local authorities should adopt a more robust test of financial sustainability that is similar in scale and scope to the Use of Resources assessments prior to 2010, based on short- medium and long term financial and asset planning to replace the short-term (and currently partial) approach to financial reporting.
- Subject to the government's devolution white papers proposals for local and strategic authorities being successfully implemented, the development of local public audit committees at subregional and regional levels with regional committees having regular reporting responsibilities through the LAO to this parliamentary committee.

A single repository of performance information

- The LAO should bring together all performance audits and inspections into a single publicly available repository with all external inspectorates of public services (Ofsted, CQC, HMICFRS, HMI prisons Probation, Courts etc) obliged to provide copies of their inspections, lessons learned and 'best practice' practice and advice.

External Inspection and Government Intervention.

- The Best Value/Corporate Inspection methodology and statutory guidance for central government intervention (MHCLG 2024), should be reviewed and revised to ensure it is a comprehensive assessment of strategic issues both financial and non-financial designed. to ensure recovery, strategic turnaround and sustainable improvement rather than a short-term return to financial balance.
- The government should revisit the overall objectives of intervention, (and any key assumptions inherent within the objectives) and ensure they are clear at the outset of any intervention. These objectives should focus on corporate turnaround and the sustainable recovery of the local authority or a group of authorities, unless there are specific and significant extenuating circumstances in a particular case are present.
- Introduce into the statutory intervention process a duty to be candid and a duty to cooperate on key individuals and organisations (political and senior officials) within authorities and their formal collaborators and partners).

Service Specific Recommendations

- Introduce a dedicated Social Care Funding Levy or a National Care Fund, similar to the NHS model, to provide long-term financial stability for the social services that account for a significant amount of local government spending.
- Subject to the recommendations in the forthcoming MHCLG Select Committee on "The Funding and Sustainability of Local Government Finance; replace the local government financial system for collecting income and revenue together with its distributional mechanism which is demonstrably no longer fit for purpose with new and comprehensive arrangements for a fairer more economic efficient and effective system.
- This recommendation above will (at best) be a medium- term challenge. In the short- term, the government reform the current council tax arrangements by updating property values and adding extra bands to the current scheme, to reflect the increasing demand for care services.
- Increase direct investment in building and acquiring permanent affordable housing, to stabilise expenditure on homelessness services
- Increase targeted funding for local authority-maintained special schools and resource bases within mainstream schools.

Summary ends.

Appendix 1 Detailed Submission

1. The drivers of financial distress in Local Authorities

To fully address the drivers of financial distress, we will use the results from a recent and ongoing project on Governmental financial resilience. The complex, dynamic, and constantly changing nature of local government in the UK makes it extremely difficult—if not impossible—to accurately measure the financial resilience of Local Authorities (LAs) using purely numerical data. While LAs are required to submit financial reports centrally, and much of this information is made publicly available each year, the data is fragmented across multiple sources, repositories and documents (Dom, 2022). Each report provides different insights into an individual LA's financial activities, making it challenging to get a clear and consistent picture of their overall financial health. This lack of coherence raises concerns about how effectively financial resilience can be assessed and monitored. Between 2018 and 2022, a dataset was created using LAs' financial data to establish a quantitative database that facilitated the analysis of English LAs' financial resilience during the era of austerity and beyond.

The financial datasets were derived from publicly available (secondary) data, namely (i) the Local Authority Revenue Outturn (RO) suite of forms and (ii) the Local Authority Capital Outturn Receipts (COR) group of tables. Additional data was extracted from ONS e.g. population data for the time series database in order to facilitate the analyse of trends in income and expenditure GDP for all LAs in England from 2005/06 (similar data base was created for Wales). Figures and values in the data set were converted to real-term values using the GDP inflator with financial year 2010/11 as the base year. The longitudinal time series is from financial year 2005/06, which was segmented into three eras (pre-austerity (2005/06 to 2009/10), early austerity (2010/11 to 2014/15), and the late austerity era (post 2015/16). We also analysed trends and spending patterns based on the class and region of local authorities. The dataset was essentially created to explore the financial resilience of English LAs, which was a wider project that ran from 2018 to 2024, and authors intend to update and continue to use the dataset to inform policy and practice.

The database demonstrates and details the extent to which LAs across England have faced mounting financial distress due to a combination of increasing demand for statutory services, long-term reductions in central government funding, and systemic challenges in public financial management. This response draws upon evidence from our recent research and policy reviews to highlight the key drivers of financial distress for LAs in three areas in which pressures are particularly acute: adult and children's social care, temporary accommodation, and special educational needs and disability (SEND) services.

a) Adult and Children's Social Care

Adult and children's social care account for the largest portion of local authority (on-balance sheet) spending, with demand rising sharply over the last decade due to demographic shifts and increasing levels of complex needs among service users (Dom, 2024). Most recently in 2023/24, the total expenditure on adult social care rose to £32.0 billion, an increase of 12.8% in cash terms and 6.3% in real terms from 2022/23. Gross current expenditure, which excludes income from the NHS, rose to £27.2 billion, an increase of 8.1% in real terms (The Kings Fund 2025).

The ageing population, coupled with higher life expectancy, has led to an increase in individuals requiring long-term social care, while factors such as child poverty, domestic abuse, and safeguarding concerns have contributed to a growing number of children needing social services (Gray & Barford, 2018). While LAs are legally required to provide social care services, the funding mechanisms in place have not kept pace with rising costs. The decline in the Revenue Support Grant (RSG) from £9.9bn in 2015/16 to £2.2bn in 2019/20 (Dom, 2024) has left councils increasingly reliant on council tax and business rates, which fail to cover the escalating demand. However, these revenue sources are highly regressive and fail to adequately reflect the rising costs of social care, temporary accommodation, and SEND services. The short-term nature of government grants, such as the Adult Social Care Grant, has provided temporary relief but has not addressed the long-term sustainability of funding (Eckersley, 2024). A more sustainable funding approach is needed to ensure councils can meet their statutory obligations without resorting to repeated service cuts or emergency financial interventions. The government should introduce a dedicated Social Care Funding Levy or a National Care Fund, similar to the NHS model, to provide long-term financial stability. This could be achieved by hypothecating a portion of general taxation, such as National Insurance or income tax, specifically for social care funding.

Additionally, a reformed local taxation mechanism, tailored to reflect the increasing demand for care services, would enable councils to plan and invest in social care infrastructure rather than relying on uncertain and fragmented funding sources. This should involve updating outdated property valuations for council tax purposes, introducing additional tax bands to reflect modern property prices, and removing the requirement for a local referendum on tax increases beyond government-imposed caps. In addition, local authorities should be granted greater flexibility in business rate retention, ensuring that areas with higher service demands are not disproportionately disadvantaged. By allowing councils more control over their income streams, this reform would provide much-needed financial resilience and enable local governments to invest in long-term service improvements rather than merely responding to funding shortfalls.

b) Temporary Accommodation

The use of temporary accommodation has surged due to rising levels of homelessness, driven by factors such as welfare reforms, economic instability, and a lack of affordable housing (Dom, 2024). The introduction of Universal Credit and Local Housing Allowance (LHA) caps has exacerbated rental arrears and evictions, significantly increasing the number of households requiring temporary accommodation. Councils are legally obligated to house families in need, leading to increased spending on costly emergency provisions such as hotels and bed-and-breakfasts (Lowndes & McCaughie, 2014). Between April 2023 and March 2024, councils spent £2.4 billion on temporary accommodation, an increase of 29% over the last year and 97% increase over the last five years (MHCLG, 2024).

Despite government efforts to introduce targeted funding streams, such as the Homelessness Reduction Act 2017, these have not kept pace with demand, forcing LAs to reallocate funds from other services (Dom, 2024). The introduction of Universal Credit and Local Housing Allowance caps has also contributed to financial distress by increasing arrears and eviction rates, further driving demand for temporary housing (Amin-Smith et al., 2019).

The government should increase direct investment in building and acquiring permanent affordable housing, allowing councils to provide long-term housing solutions instead of short-term, high-cost placements. This could be achieved through a dedicated local authority housing investment fund, enabling councils to expand their housing stock without excessive reliance on private rental markets. Additionally, policies should encourage the repurposing of vacant properties and utilising brownfield sites for social housing development, reducing the need for costly temporary placements.

Furthermore, the government should reform welfare policies by aligning Local Housing Allowance rates with actual rental market costs, ensuring that low-income households can afford stable housing, without falling into arrears. Additionally, the introduction of an emergency rental assistance scheme—providing short-term financial support for tenants facing temporary financial hardship—could prevent evictions before they escalate into homelessness. Strengthening tenant protection measures and improving access to discretionary housing payments would further support households at risk, reducing the burden on local authorities to provide costly temporary housing solutions.

c) Special Educational Needs and Disability (SEND) Services

The number of children and young people requiring SEND services has risen dramatically, particularly following reforms introduced through the Children and Families Act 2014, which expanded the eligibility criteria for Education, Health, and Care Plans (EHCPs). While these changes aimed to improve access to support, they also led to an unsustainable rise in demand, without corresponding increases in funding (National Audit Office, 2021). Local authorities have struggled to meet their legal obligations to support SEND children due to high-cost placements in independent special schools and transport costs, particularly where there is insufficient local provision (Dom, 2024). The mismatch between government funding and rising costs has resulted in deficits in High Needs Block funding, forcing councils to use reserves or cut other services (LGA, 2024).

We have not been able to assess the full scale of the financial deficit in these services, because we do not have access to the full picture of Special Educational Needs and Disabilities (SEND) cost overrides. This is a temporary 3-year accounting measure called the "statutory override" which allows councils to exclude large deficits related to SEND costs from their main financial statements, essentially "hiding" these costs and preventing them from having to declare high SEND spending burdens. This measure is currently set to expire in March 2026, at which point the deficits go back onto the books. The override means that councils can retain high needs deficits, where the cost of providing support outstrips the SEND budget and keep them off their main revenue accounts. (Institute for Government 2024, County Councils Network, LGA and ISOS partnership 2024). These budgets were in surplus 10 years ago but are now estimated to have a deficit in excess of £4.5 billion. Recent media reports estimate that between 60 and 70 councils may issue 114 notices as and when the override expires (Butler/ Guardian Newspaper 2025).

The government should increase targeted funding for local authority-maintained special schools and resource bases within mainstream schools. This would enable councils to expand their in-house SEND capacity, reducing reliance on expensive independent sector placements and lowering overall costs per pupil. Additionally, incentivising partnerships between councils and multi-academy trusts could help create more localised, cost-effective specialist provisions, ensuring children receive high-quality support closer to home.

The government should also reform SEND transport funding to provide more flexible and needs-based allocations, allowing councils to develop cost-effective solutions such as travel training programs for students, subsidised community transport schemes, and enhanced in-area placements to reduce travel distances. Expanding specialist provisions within existing schools would also reduce the need for long-distance placements, leading to substantial long-term savings while improving accessibility for families.

3. Support for financially failing local authorities and action to tackle systemic issues

Powers to intervene in the running of a local authority, which also permit the takeover of any local functions by the Secretary of State or their appointees, were included in section 15(6) of the Local Government Act 1999 as part of the then government's "Modernisation of Local Government" Programme. It is under these powers that all formal and informal statutory or non-statutory interventions and government monitoring of local authorities have been undertaken since 1999.

The system by which central government intervenes in Local Authorities in England can be classified into 4 distinguishable periods each with their own 'regimes' of objectives, methods, external inspections and other measures. They have all involved some forms of external audit and inspections, or assessments/appraisals, although only some have included self-assessments peer review and future planning in their processes. The 4 modern day periods are:

- Prior to 1997
- 1997- 2010 Modernisation and Comprehensive Performance Assessments
- 2010-2018 The early austerity era
- 2018- 2025 Councils in Financial Distress.

Given the contemporary nature of this enquiry, we restrict our analysis to the 2018-25 period in this report, whilst acknowledging that current events have been shaped by previous central government's attempts to oversee and direct local authority activity (in particular, the power to intervene stipulated in the 1999 Act, and the development of a standalone Corporate Inspection or Best Value Inspection model from 2001). The regime that was in place between 2001 and 2010 was very successful and over time provided a sophisticated early warning system relating to significant underperformance or malpractice. However, it operated within a context that was very different to the contemporary context being before the recession of 2008-2010 and the subsequent imposition of austerity localism policies in the UK from 2010 (Murphy 2014). We will however return to these three aspects (corporate intervention and the development of an 'early warning' system in our recommendations.

As demonstrated in the first part of our evidence, medium to long-term reductions in central government support funding and caps on LAs raising council tax have been happening in parallel to increasing demand for social care, housing, homelessness and welfare services (Dom 2023) not least because of demographic changes, increasing inequalities, policies of austerity-localism and shocks to the economy such as Brexit, the COVID-19 pandemic, rising immigration and the wars in Syria and Ukraine. This has been accompanied by reductions in the quality and quantity of scrutiny of individual authorities and the sector as a whole. Additionally, the Local Public Audit system has been widely accepted as being unfit for purpose and with only 1% of local bodies publishing their auditing accounts on time in 2022/23 (MHCLG, 2024).

From 2018 onwards corporate interventions (statutory and non-statutory) have been predominantly focused on local councils in financial distress. These included the former Northamptonshire County Council, as well as Nottingham City Council and Birmingham City Council, all of which issued Section 114 Notices under the Local Government Finance Act 1988 that indicated the council's forecast income was insufficient to meet its forecast expenditure in their current and next financial year (see Table 1). Tables 1-3 give some indicators of the extent of financial distress in the sector. Table 2 lists all councils which have issued section 114 Notices since 2018 and are currently in Statutory Intervention. Table 3 lists councils that have applied for and been granted Exceptional Financial Support by the government since 2020, this table includes all of the councils in table 2. This exceptional financial support effectively allows them to consolidate revenue debts and turn them into long-term debts at lower interest rates to the UK Debt Management Team at HMT (originally the Public Works Loans Board which was established to facilitate public sector capital projects). Table 3 is Moody's list of local authorities which had the highest ratio of debt to annual income in 2023. Despite media coverage focussing on the immediate triggers for the individual 114 notices (Robin Hood Energy in Nottingham, equal pay claim liabilities in Birmingham, and poor investment decisions in Croydon, and Woking) it rapidly became obvious that it was long-term strategic issues that were gradually forcing local authorities into severe financial distress. The public would be much better informed about the true levels of financial distress in local government had it been more widely reported and known that authorities in engagement with the government did not have to serve Section 114 Notices. This under-reporting is also exacerbated by the 3-year accounting measure called the "statutory override" which allows councils to exclude large deficits relating to SEND costs from their main financial statements referred to above.

Statutory Interventions	Announced	Previous non-statutory
Birmingham City Council	Oct 2023	No
London Borough of Croydon	Feb 2024	Yes (2020)
Nottingham City Council	Sept 2022	Yes (2020)
Slough	Dec 2021	No
Thurrock	Sept 2022	No
Woking	May 2023	No

Table 1 Statutory Interventions

Source HMCLG website https://www.gov.uk/guidance/exceptional-financial-support-for-local-authorities-for-2025-26

Exceptional financial support approved for local authorities (Capitalisations)			
2020-2021	9	£78.2m	Bexley, Croydon, Eastbourne, Lambeth (100m in 2017/18), Luton, Nottingham, Peterborough, Redcar & Cleveland, Wirral
2021-2022	4	£63.3m	Copeland, Croydon, Eastbourne, (Bexley, Luton, Nottingham and Peterborough "withdrew requests")
2022-2023	4	£356.5m	Copeland, Croydon, Kensington & Chelsea, Slough (2018-23) (Bournemouth "withdrew request")
2023-2024	19	£3.05[2]	Birmingham (2020-24) Bradford (2022-24) Cheshire (East 2022-24) Croydon, Cumberland, Eastbourne (2022-24), Havering, Medway, Middlesborough, N Northants, Nottingham, Plymouth, Slough, Somerset, Southampton, Stoke-on-Trent, Thurrock, W Northants, Woking.
2024-2025	19	£1.35[2]	Birmingham (2020-24) Bradford (2022-24) Cheshire East (2022-24) Croydon, Cumberland, Eastbourne (2022-24), Havering, Medway, Middlesborough, N Northants, Nottingham, Plymouth,

			Slough, Somerset, Southampton, Stoke-on-Trent, Thurrock, W Northants, Woking.
2025-2026	29	£1.49[2]	Barnet, Birmingham (2020-24) Bradford (2022-24) Cheshire (East 2022-24) Croydon, Cumberland, Eastbourne (2022-24), Enfield, Halton, Haringey, Havering, Medway, Middlesborough, Newham, Nottingham, Shropshire, Slough, Solihull, Somerset, Southampton, Stoke-on-Trent, Swindon, Thurrock, Trafford, W Berkshire, Windsor and Maidenhead, Woking, Worcestershire, Worthing.

Note.1 Lambeth received extensions to its capitalisation direction 2022-23 to 2025-26. (£40m for 2025-26) to manage financial pressures within its Housing Revenue Account (HRA).

Note 2. In each year there are revisions (nearly always downwards) of the support provided in previous years but also some additional provision for previous years. The latter has not been included in the 2025-2026 calculation.

Source MHCLG Website https://www.gov.uk/guidance/exceptional-financial-support-for-local-authorities-for-2025-26

Authority	**Borrowing**	**Ratio to Income**	**Authority**	**Borrowing**	**Ratio to Income**
Spelthorne	£1.1bn	87.9	Brentwood	£226m	9.7
Woking	£2.0bn	62	Mole Valley	£103m	9.6
Eastleigh	£550m	41.1	East Hants	£120m	9.5
Runnymede	£643m	23.4	Thurrock	£1.5bn	7.5
Worthing	£204	14	Adur	£165m	7.1
Surrey Heath	£170m	14	Epsom & Ewell	£64m	6.8
Rushmoor	£120m	11	Broxbourne	£58m	6.3
Cherwell	£188m	10	Guildford	£295	6.0
Uttlesford	£302m	10	Chorley	£78m	5.9
Warrington	£1.8bn	10	Warwick	£268m	5.9

Table 3. Top 20 English Councils debt for their size.
Source: Moody's 2023

If the 2008 global financial crisis and the 2010 general election were the political economy triggers that transformed the financial and non-financial contexts for local authorities (and all public services) in England, it was the number and severity of exogenous economic, social, and environmental challenges that continued to emerge between 2018-2025 that have been the main drivers since 2018. However, this has clearly been exacerbated by a failure of policy and leadership to fundamentally change the social and economic policies of austerity localism, as well as the underlying fundamentals of the audit and financial reporting system that allowed such huge deficits to be accumulated. In effect, many of these financial issues and their non-financial consequences in increasing poverty, health and income inequalities and infrastructural underinvestment have been concealed by successive central government administrations and local authorities and by a clearly inadequate and failing financial support system and the local financial and non-financial performance management, public reporting, and local public audit systems that inform and underpin them.

In this period, successive governments have administered a series of financial sticking plasters and short-term policy mitigations, rather than initiate the fundamental and strategic changes that were clearly necessary, and that the National Audit Office, as well as this and other select committees, had repeatedly alerted them to. This has further affected the quality and quantity of public services that were already reduced to minimum levels by 2018. Financial distress, statutory and non-statutory interventions have since led to public asset sales and the privatisation of public services, some already in financial distress. It has involved changing the nature of debts rather than attempting to control, reduce or eliminate excessive debt levels and in effect removing major financial and non-financial liabilities off public balance sheets. Removal of information off the publicly reported annual balance sheet has been a common characteristic of many of the large-scale frauds and accounting scandals in both the public and private sector. The public have an unequivocal right to know the true financial circumstances of public organizations including their indebtedness which they cannot do at present.

An additional problem is the lack of an adequate early-warning system to alert ministers, elected councillors and the public to financial distress. Previous governments have acknowledged this to a certain extent, by establishing of the Office for Local Government (Oflog), and the current government has also proposed to create a Local Audit Office (LAO). However, the collection and availability of key performance data and indicators needs to be ‘baked’ into data collection and reporting by external auditors, CIPFA and by the proposed LAO, as well as in other inspections and processes. These should be aligned and inherent in the external inspection processes in all the major service inspections such as the Ofsted and CQC inspections. Although we have recently witnessed the re-emergence and use of Corporate Inspections, and auditors continue to make use of Public Interest Reports and Statutory Directions, both of these mechanisms need to be updated in the light of current circumstances if they are to be more effective parts of the early warning system. Where appropriate, and as in the police and fire and rescue services, inspections should not only be focused on operational services (as they are at present) but also examine the corporate centre of local and public authorities and their corporate and financial capacities and capabilities.

This lack of an early warning system (which contrasts to the regime evident in 2002-2010) has contributed to previous government interventions being initiated far too late in the cycle of service and financial decline (Caller 2018). In some cases, these interventions have led central government to abandon the objective of turnaround and recovery for these authorities, and ministers have instead imposed local government re-organisations as well as asset sales and reductions in services and activities (e.g., in Northamptonshire and Cumbria). Recent ‘assurance reviews’ by CIPFA in councils in exceptional financial support have however revealed that the costs of reorganizations, far from mitigating have exacerbated individual councils financial distress (e.g. Cumberland, Somerset, West Northamptonshire) Table 2, and the recent Devolution White Paper both suggest that reorganisation has not by-itself resolved the underlying financial and non-financial problems of the authorities in these areas, although it can be a part of a solution in some areas.

The government have indicated that there may be merit in the concept of local public audit committees and the devolution white paper suggests a new hierarchy of local authorities. The latter would include a universal tier of unitary local authorities with a gradually developing universal tier of more strategic sub-regional authorities of elected Mayors, which would come together on regional-scale challenges and opportunities. In these circumstances we see a role for both regional and subregional public audit committees with regular financial reporting among their statutory public responsibilities.

4. Recommendations

Local Performance Audit

In the long run and based on an evaluation of full life costs, prevention of causes are preferable to trying to respond and treat the symptoms. The foundations to the local government financial system is Local Public Audit and the role within it of performance audit.

- The proposed Local Audit Office in consultation with CIPFA and the LGA should be required to identify and develop a short suite of key performance indicators intended over time to act as an early warning system of financial, non-financial and/or strategic performance issues within local authorities. These should be subject to internal and external audit with the Section 151 having a statutory reporting responsibility for any significant inadequacies in the process or outputs.
- The Local Audit Office and the NAO should develop regular liaison and co-operation and ensure any current off-balance sheet mechanisms are withdrawn and the true position on costs and liabilities is reflected in the annual local government financial reporting system and the whole of government accounts.
- The annual financial reporting system for local authorities should adopt a more robust test of financial sustainability that is similar in scale and scope to the Use of Resources assessments prior to 2010, based on short- medium and long term financial and asset planning to replace the short-term (and currently partial) approach to financial reporting.
- Subject to the government's devolution white papers proposals for local and strategic authorities being successfully implemented, the development of local public audit committees at subregional and regional levels with regional committees having regular reporting responsibilities through the LAO to this parliamentary committee.

A single repository of performance information

- The LAO should bring together all performance audits and inspections into a single publicly available repository with all external inspectorates of public services (Ofsted, CQC, HMICFRS, HMI prisons Probation, Courts etc) obliged to provide copies of their inspections, lessons learned and 'best practice' practice and advice.

External Inspection and Government Intervention.

- The Best Value/Corporate Inspection methodology and statutory guidance for central government intervention (MHCLG 2024), should be reviewed and revised to ensure it is a comprehensive assessment of strategic issues both financial and non-financial designed. to ensure recovery, strategic turnaround and sustainable improvement rather than a short-term return to financial balance.
- The government should revisit the overall objectives of intervention, (and any key assumptions inherent within the objectives) and ensure they are clear at the outset of any intervention. These objectives should focus on corporate turnaround and the sustainable recovery of the local authority or a group of authorities, unless there are specific and significant extenuating circumstances in a particular case are present.
- Introduce into the statutory intervention process a duty to be candid and a duty to cooperate on key individuals and organisations (political and senior officials) within authorities and their formal collaborators and partners).

Service Specific Recommendations

- Introduce a dedicated Social Care Funding Levy or a National Care Fund, similar to the NHS model, to provide long-term financial stability for the social services that account for a significant amount of local government spending.
- Subject to the recommendations in the forthcoming MHCLG Select Committee on "The Funding and Sustainability of Local Government Finance; replace the local government financial system for collecting income and revenue together with its distributional mechanism which is demonstrably no longer fit for purpose with new and comprehensive arrangements for a fairer more economic efficient and effective system.
- This recommendation above will (at best) be a medium- term challenge. In the short- term, the government reform the current council tax arrangements by updating property values and adding extra bands to the current scheme, to reflect the increasing demand for care services.
- Increase direct investment in building and acquiring permanent affordable housing, to stabilise expenditure on homelessness services
- Increase targeted funding for local authority-maintained special schools and resource bases within mainstream schools.

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