National Audit Office

REPORT

Local government financial sustainability

Ministry of Housing, Communities & Local Government

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HC 691

Key facts

1%

decrease in real terms Core Spending Power (CSP) per person between 2015-16 and 2023-24; CSP per person fell by 7% between 2015-16 and 2019-20, before rising up to 2023-24

£72.8bn

revenue spending by local authorities in 2023-24, a 21% real terms increase from 2015-16

42

number of local authorities who have received Exceptional Financial Support to help manage financial pressures since 2020-21

7%	forecast increase in real terms CSP per person between 2023-24 and 2025-26
£42.3 billion	spent by local authorities on adult and children's social care in 2023-24
35%	real terms increase in the average cost per child looked after, from £72,345 a year in 2015-16 to £97,326 in 2023-24
£2.13 billion	spent on temporary accommodation by local authorities in 2023-24; this is nearly double what was spent in 2015-16
33%	Department for Education's estimate of the percentage of local authorities who will have cumulative deficits in their high needs budget greater than their reserves when the override ends in March 2026
2013-14	the last financial year when the needs indices for formula funding were updated
77%	income from council tax, business rates and central grants spent on demand-led costs in 2023-24 (the median for local authorities in scope of our report)
2026-27	the year in which government has committed to a return to multi-year funding settlements
Three	consultations launched by government in December 2024 alongside the provisional local government finance settlement 2025-26 to start to help stabilise and rebuild the financial sustainability of local government:

- strengthening the standards and conduct framework for local authorities in England;
- local authority funding reform: objectives and principles; and
- local audit reform: a strategy for overhauling the local audit system in England.

Summary

Introduction

1 Local authorities in England deliver essential services to residents, including a broad range of services available to all residents, and targeted services for those most in need of support.[1] Local authorities fund their day-to-day services from a range of sources, including council tax, government grants, and sales, fees and charges.

2 The Ministry of Housing, Communities & Local Government, (MHCLG) is responsible for a framework that provides assurance on the financial health of local government and allows for intervention in individual cases and in response to system-wide risks.

3 MHCLG is responsible for the accountability framework for local government and distributes core funding to local authorities. It leads on oversight of financial risk in individual local authorities and the system overall while responsibility for the services local authorities deliver is spread across government departments. Each department must establish its own arrangements to assure itself that services remain sustainable and that statutory responsibilities are being met. These departments are also responsible for working with MHCLG to ensure it has the right information on services to support decision-making at major fiscal events. HM Treasury allocates and controls public spending, including through spending reviews which set spending limits for departments.

Scope of this report

4 When we last reported on local government finance in 2021, we said the financial position of local government remained a cause for concern and the outlook was uncertain. Parliament has also previously raised concerns about local government financial sustainability and the potential impact on local services.

1 In this report we focus on five types of English local authority – London boroughs (including City of London), metropolitan district councils, county councils, district councils and unitary authorities. This does not include town and parish councils, combined authorities, or stand-alone police and fire authorities.

5 We are returning to this topic at a time of significant and ongoing financial pressure for local government and as reforms are being proposed to address some long-standing challenges in local government funding and service delivery. This report focuses on MHCLG as the department responsible for the framework within which local authorities operate, and provides transparency over the current position of local government finances. By examining the current finance system and context for local government finances, we aim to help inform MHCLG's consideration of future reforms. We considered:

- the context of local government finances in 2024 (Part One);
- service and financial pressures (Part Two); and
- the government's approach to local government financial sustainability (Part Three).

6 Our fieldwork was completed between May 2024 and October 2024 and spanned the change in government following the July 2024 General Election.

7 This report uses 2015-16 as a baseline, except where this would omit important elements of the narrative. From 2015-16, there was more consistency in local authority responsibilities and funding, and we have chosen this start date to present the longest time frame for which there were consistent data. Our methodology Appendix One provides more details.

8 Responsibility for local government is devolved to the governments of Northern Ireland, Scotland and Wales. This report does not consider local government finances in those nations.

Key findings

Context of local government finances

9 **Between 2015-16 and 2023-24, local authority revenue expenditure increased in real terms from £60.0 billion to £72.8 billion, with the majority of expenditure going on adult and children's social care.** In 2023-24 prices, the real terms increase between 2015-16 and 2023-24 was 21%. This reflects both cost pressures and a rise in the demand for services, particularly adult and children's social care, special educational needs and disabilities services, and temporary accommodation. Spending on adult and children's social care rose in real terms (2023-24 prices) from £32.0 billion in 2015-16 to £42.3 billion in 2023-24. It accounts for the largest proportion of total spending (paragraphs 1.6 and 1.7, and Figure 1).

10 Funding for local authorities increased overall between 2015-16 and 2023-24, but the amount per person fell over the same period. Between 2010-11 and 2015-16, we previously reported that Core Spending Power (CSP) – a measure of the funding available from government grants, council tax and locally retained business rates – decreased by 25%, largely driven by reductions in central government funding. This in turn impacted those local authorities most reliant on government funding. Between 2015-16 and 2023-24, CSP increased by 4% in real terms to £55.7 billion. On a real terms per person basis, which considers both population and inflation, CSP per person fell by 7% between 2015-16 and 2019-20, before rising up to 2023-24. Over the period of 2015-16 to 2023-24, CSP per person fell by 1%. However, CSP per person is forecast to rise by 7% between 2023-24 and 2025-26 (paragraphs 1.16 to 1.18 and Figure 2).

11 Capital spending and funding has remained relatively stable since 2017-18, following a notable rise between 2015-16 and 2017-18. In 2023-24, local authorities spent £21.3 billion on capital assets such as new roads, buildings, IT infrastructure and renovation of existing assets. In 2023-24, local authorities' funding to support capital spending was slightly higher at £24.4 billion, grant payments contributed £10.3 billion (42%), while borrowing accounted for £8.7 billion (36%). The remainder is made up from other sources, including from the sale of their own capital assets, other grants and contributions from revenue income. Capital funding rose from £21.5 billion in 2015-16 to £26.0 billion in 2017-18. It has since fluctuated between £23.0 billion and £26.0 billion annually (paragraphs 1.21 to 1.24 and Figure 3).

12 Levels of reserves held by local authorities vary significantly and, while MHCLG has improved its understanding of the reasons for the reserves held, it does not know how much can be used to support day-to-day spending. Local authorities hold reserves to help manage uneven cash flows, mitigate the impact of unexpected events or emergencies and build up funds to meet known or expected needs. Local authorities report their levels of reserves to MHCLG, but how those reserves are described, managed and apportioned is a local decision. Non-ringfenced reserves – an MHCLG definition which comprises both earmarked and unallocated reserves – fell in real terms from £35.8 billion in 2020-21 to £24.6 billion in 2023-24. The unallocated portion that local authorities hold for unexpected costs and emergencies decreased in real terms from £4.9 billion in 2020-21 to £3.8 billion in 2023-24; as a proportion of CSP, they have remained at broadly similar levels between 2015-16 and 2023-24. Yet, in 2023-24, unallocated reserves held by individual local authorities, when compared with their CSP, ranged from 0% to 358%. MHCLG has acted to try to improve its understanding of reserves, including collecting more specific data and establishing a time limited working group with sector representatives. Despite these efforts, there is a lack of transparency and consistency around how reserves are reported, which means MHCLG does not know what level of reserves local authorities have available to support day-to-day spending (paragraphs 1.25 to 1.27 and 1.29 to 1.31, and Figure 4).

Service and financial pressures

13 **Demand for local authority services and the complexity of peoples' needs have grown for many services.** The population of England grew by 5% between 2015-16 and 2023-24. At the same time, demand increased over and above population growth for temporary accommodation (84% increase); education, health and care (EHC) plans for 0 to 25-year-olds (140% increase); state school pupils with special educational needs (14% increase); children looked after (19% increase); and new requests for publicly funded adult social care support (15% increase). Local authorities told us they are seeing a rise in complex cases in services such as adult social care and homelessness. There are also signs of an increase in children with more complex needs (paragraphs 2.2 and 2.4, and Figures 5, 6 and 7).

14 **Immediate financial pressures are limiting local authorities' ability to invest in prevention.** MHCLG recognises the importance of investing in prevention but also notes the challenge of funding it when finances are constrained. Local authorities are spending more on some late intervention services and less on early intervention or preventative services which will help manage demand, as shown in the following examples.

- Spending on immediate homelessness services increased in real terms by 105% from £1.49 billion to £3.06 billion between 2015-16 and 2023-24. Over the same period, spending on other housing services, which includes some preventative services, fell by £642 million.
- The Public Health Grant, which funds preventative health services, is expected to fall in real terms by £846 million (20.1%) between 2015-16 and 2024-25 (2022-23 prices).[2]
- In real terms, spending on late intervention services for children's social care increased from £8.5 billion in 2015-16 to £12.1 billion in 2023-24, while spending on early intervention fell from £3.2 billion to £2.8 billion over the same period. However, to help shift spending towards prevention, in February 2025, the government confirmed £270 million of new funding for the Children's Social Care Prevention Grant (paragraphs 2.5, 2.6 and 2.7, and Figure 8).

2 Comptroller and Auditor General, *NHS Financial Management and Sustainability 2024*, Session 2024-25, HC 124, National Audit Office, July 2024. Numbers will now differ due to in-year funding allocations and updates to deflators since publication of the report.

15 It can be increasingly hard for individuals to access some local authority services and there are signs that some needs are not being well met.

- **Waiting times:** Between 2015-16 and 2023-34, requests for publicly funded adult social care increased by 15%; however, until 2023-24, fewer people were accessing support compared with 2015-16 and waiting lists have grown, including those waiting for more than six months. Similarly, there are delays in accessing EHC plans for special educational needs, with only 50% being issued within the statutory limit of 20 weeks in 2023. More families are being placed in bed and breakfast accommodation for more than the maximum six-week limit.
- **Out of area support:** There are rises in children placed in care over 20 miles from their communities (an 18% increase from 2019 to 2023) and households placed in temporary accommodation out of area (a 77% increase in Quarter 1, 2024-25 compared with Quarter 1, 2018-19).
- **Complaints:** Public complaints about failures of services coming to the Local Government and Social Care Ombudsman have been increasing steadily for the last three years, with the Ombudsman now upholding 80% of investigations it carries out into adult social care. On EHC plans, in 2018, 6,000 were appealed against with 92% decided in the favour of the children and young people, while 15,600 were appealed against in 2023 and 98% of appeals decided in the favour of the children and young people in 2022/23 (paragraphs 2.8 to 2.13 and Figure 9).

16 Local authorities are experiencing rising costs for services due to economic and market-specific cost pressures, demand and government policy, as the following examples show.

- **Inflation and market pressures** have led to increases in unit costs for social care services. In children's social care, where most placements are with private providers, the average cost per child looked after has risen in real terms by 35% from £72,345 a year in 2015-16 to £97,326 in 2023-24. And between 2015-16 and 2023-24, the average weekly fee for adult social care home places for those aged 65 and over has increased by 33%.
- On **policy decisions,** the National Living wage increased by 9.8% in April 2024 and will rise again by 6.7% from April 2025. Employers will also face increased costs from rises in employers National Insurance Contributions announced in the 2024 Autumn Budget. The Public Accounts Committee previously reported how competition between local authorities and central government to accommodate asylum seekers in hotels, houses or flats in local authority areas was driving up prices.

- Significant **demand pressures** include the numbers of eligible children, and greater reliance on taxis to meet individuals' needs, which has meant a 106% increase in the costs of home-to-school transport for children and young people with special educational needs and learners with learning difficulties or disabilities from £0.86 billion in 2015-16 to £1.76 billion in 2023-24 in real terms. Similarly, the number of 18- to 64-year-olds requesting adult social care support is increasing compared with those aged 65 and over. In 2023-24 the average cost of long-term support for working-age adults was £1,696 per week compared with £951 for those aged 65 and over. For temporary accommodation, the increased demand and greater reliance on more expensive private accommodation has contributed to spending on temporary accommodation nearly doubling (93% rise) from £1.10 billion in real terms in 2015-16 to £2.13 billion in 2023-24 (paragraphs 2.4 and 2.14 to 2.19).

17 **As financial pressures have increased, local authority spending has focused on demand-led services and other expenses that must be covered.** This expenditure includes statutory services such as adult and children's social care, homelessness, waste disposal as well as financing costs such as debt servicing. Local authorities spent a median of 77% of their income from council tax, business rates and central grants on these costs in 2023-24. Local authorities hold revenue reserves to help manage uneven cash flows and mitigate the impact of unexpected events or emergencies. Local authorities with high levels of spending compared with their income and low levels of unallocated reserves will have less financial headroom and will be less able to manage unexpected costs or emergencies (paragraphs 1.25 and 2.20 to 2.22, and Figure 10).

18 **Local authorities are responsible for their own service and financial performance; however, their ability to react and absorb continued increases in service demand and cost pressures can be constrained.** As spending on demand-led costs has increased, local authorities have made significant cuts to discretionary services, with more planned. In response to a survey in 2024, 31.9% said they planned cuts to parks and leisure; 30.6% planned cuts to arts and cultural services; and 21.2% planned to cut library services. In addition, local authorities have sought to increase sales, fees and charges, which have increased from £14.1 billion to £15.5 billion in real terms between 2015-16 and 2023-24, but they say the level at which they can set some fees and charges, and what they can use the income for, is restricted. While MHCLG assumes local authorities will raise council tax to the maximum amount allowed before requiring a referendum, their ability to raise income varies significantly depending on the domestic properties they have in each valuation band and is based on property values from 1991. Three-quarters of local authorities used reserves to balance their budgets in 2023-24 and two-thirds planned to do so in 2024-25 (paragraphs 1.14, 2.23 to 2.27 and 3.4, and Figure 11).

The government's approach to local government financial sustainability

19 **MHCLG cannot ensure other government departments consider the wider impact of their individual policy choices on local government financial sustainability.** Pressures on local authority finances are driven by multiple services, some of which are overseen or influenced by other government departments. MHCLG regularly engages with other government departments and sector bodies to understand service pressures and funding needs. However, while it can influence other government departments, MHCLG cannot control the decisions they may make nor prioritise and coordinate the impact of their policy choices on overall local government financial sustainability. We have reported before on the need for a whole-system, cross-government approach to tackle wide-ranging issues affecting local government. Most recently, we have called for a more integrated system to support children and young people with special educational needs, and a cross-departmental approach to tackling homelessness (paragraphs 3.5 to 3.8 and 3.14).

20 **Funding injections have helped local authorities in the short term, but this approach, alongside single-year funding settlements, has increased funding uncertainty and often delivers poor value for money.** Most recently, the 2025-26 local government finance settlement included £2 billion of additional grant funding to deliver core services, including £880 million for adult and children's social care, £270 million children's social care prevention grant, a one-off recovery grant of £600 million, and £502 million to support local authorities with the costs associated with the increase in employer National Insurance contributions. While the additional funds help support services in the short term, the lack of certainty for local authorities has limited their ability to plan for the long term and maximise value for money (paragraphs 3.16 to 3.19).

21 **MHCLG identifies local authorities which are at risk of failing and which need support, but delays in local audit risk leaving a significant assurance gap.** In recent years MHCLG has strengthened its approach to identifying local authorities who may be at risk of failing due to weaknesses in governance, service delivery or financial management. MHCLG and wider government then have a range of intervention mechanisms designed to support local authorities until they can show they have the capacity and capability to manage their own improvement. MHCLG told us that this strengthened approach to risk monitoring has helped it to understand better the risk in the local government sector and mitigate delays in the local audit system. However, with hundreds of late audit reports, there are significant gaps in the external assurance that local authorities, taxpayers, MHCLG, and central government more widely, should be able to rely on (paragraphs 3.20 to 3.29, and Figure 13 and Figure 14).

22 **Since 2018, seven local authorities have issued a Section 114 report that they cannot balance their budgets, and an increasing number are requesting financial support.** Between them, these seven local authorities have issued 10 reports indicating that they cannot cover their expenditure with the available income, and have received exceptional financial support (EFS) from the government. The EFS framework was introduced in 2020-21 to provide financial support through capitalisation. This relaxes the normal finance rules and allows the local authority to borrow money or sell assets to balance its day-to-day spending budget. However, it does not address the underlying cause of overspending and creates longer-term risks for local authorities. Forty two local authorities have received over £5 billion of financial support from the government to help manage financial pressures. This support has likely helped those that had not already done so avoid issuing a Section 114 report saying they cannot balance their budgets. A Local Government Association survey published in October 2024 before the provisional local government settlement was announced found that as many as 44% of single-tier and county councils felt they would be likely to issue a Section 114 report at least once in 2025-26 or 2026-27 if EFS did not exist (paragraphs 3.20, 3.30 to 3.33 and Figure 12).

23 **Most local authorities with responsibilities for pupils and young people with special educational needs and disabilities have overspent their Department for Education (DfE) funded high needs budget.** MHCLG has put in place a statutory override that allows local authorities, until March 2026, to ignore this overspend when they set their annual budget. However, local authorities still need to draw on their own reserves to make the high needs budget payments in year. The statutory override does not address the underlying financial pressure, and DfE has estimated that 33% of local authorities will have cumulative deficits in their high needs budget greater than their reserves when the override ends in March 2026 (paragraphs 3.34 to 3.40).

24 **The government recognises that rising service pressures in key areas and delays to local government finance system reforms are putting an unsustainable burden on local authorities.** Long-standing plans to update the local government finance system have not been delivered. And reform of local authority relative funding levels and a reset of the business rates retention system have been delayed several times. The formulae used to set levels of funding are outdated, with the needs indices for formula funding not having been updated since 2013-14. In response, in autumn 2024, the government committed to a return to multi-year settlements in 2026-27 and outlined a set of reforms aimed at returning the local government sector to a sustainable position over the medium term. This included consultations covering the provisional local government finance settlement 2025-26, the principles for local authority funding reform, plans to strengthen the standards and conduct framework for local authorities in England, and a strategy to reform local audit in England (paragraphs 1.11, 3.4 and 3.41 to 3.48, and Figure 15).

Conclusion

25 Funding for local government has increased in recent years, reversing the long-term downward trend of the previous decade. However, while real terms funding has grown by 4% between 2015-16 and 2023-24, it has not kept pace with population growth or the demand for services, the complexity of need, or the cost of delivering services to people most in need of support. Proposed reforms of the local government finance system have been repeatedly delayed. Some services are showing the strain, and more local authorities are requesting financial support, some due to the increasing costs of delivering essential frontline services such as homelessness and social care. Despite short-term measures to address acute funding shortfalls, there has been insufficient action to address the systemic weaknesses in local government financial sustainability.

26 As the government turns its attention to local government reforms, it is essential that this is part of a whole-system, cross-government approach to ensure local authorities are financially sustainable and can continue to provide essential services. This approach needs to ensure effective local accountability for the service and financial performance of each local authority, including robust independent assurance.

Recommendations

a We recommend that MHCLG build on recent announcements to develop a whole-system approach to local government financial sustainability. This approach would consider interdependencies and consequences across services and departmental boundaries and should be underpinned by clear expectations of local government. It should do this by:

- taking the lead in building a cross-government approach to local government financial sustainability – for this to be effective and to improve understanding of the wider impact of their choices on local authorities, other government departments must have an up-to-date understanding of the priorities, pressures and opportunities across services local authorities are expected to deliver; and

- as part of the spending review, developing a plan for funding and service reform to address the financial and demand pressures on local authorities, focusing on long-term value for money underpinned by clear priorities across departmental boundaries.

b We recommend that MHCLG:

- explore how the impact of preventative services can be evaluated and incentivised to deliver better outcomes and improved value for money;
- work with the local government sector to improve the transparency and consistency of local authority reporting on reserves to aid understanding of local authorities' overall financial positions; and
- as a matter of urgency, work with DfE to support local authorities to sustainably manage their dedicated schools grant and address the cumulative deficits before the statutory override ends on 31 March 2026.

c As part of the spending review, and to support a cross-departmental approach, we recommend that HM Treasury:

- work to provide a spending framework that supports the government's plans for local government funding and service reform; and
- incentivise government departments to invest in preventative services to deliver better outcomes and improved value for money.