National Audit Office

REPORT

Local government financial sustainability

Ministry of Housing, Communities & Local Government

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Local government financial sustainability

Ministry of Housing, Communities & Local Government

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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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.

Part One

Context of local government finances

1.1 This part of the report sets out the role of local authorities and the change in local government finances over time.

The role of local government

1.2 Local authorities deliver essential services to their residents and play an important role in shaping the places in which they live.[3] The range of services local authorities provide have grown over time and the Local Government Association (LGA) estimates that local authorities in England provide more than 800 services. Residents have a say in how their services are run through their elected councillors.

1.3 Local authorities deliver a broad range of universal services along with targeted services for people in need of support. For example, every household receives a waste collection service in some form, while approximately 2% of the population over the age of 18 receive publicly funded social care services. In addition, local authorities provide vital local responses to crises and response programmes such as the COVID-19 pandemic, extreme weather events and Homes for Ukraine, often on behalf of central government.

1.4 The services local authorities deliver can be statutory or discretionary. Services are statutory where Parliament has created legal duties for local authorities. For example, these include social care services to adults and children, waste collection, planning and housing services. Some statutory services are subject to a great deal of central influence, most obviously social care services. Legislation or statutory guidance describes duties in detail, and inspectorates monitor service quality. Local authorities have broad discretion over the delivery of other statutory services, however, such as libraries. Local authorities also have the power to deliver discretionary services in line with their local priorities but are not obliged to provide them. Wholly discretionary services include sport and recreation, economic development, business support, and additional provision that supports statutory services.

3 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.

Local authority spending on services

1.5 Local authorities meet the costs of their statutory and discretionary services through a combination of revenue and capital expenditure. Revenue spending covers day-to-day costs such as staff salaries to deliver services. Capital expenditure relates to investments in assets such as buildings and transport infrastructure. Capital and revenue spending are accounted for separately and operate within different sets of rules.

1.6 Between 2015-16 and 2023-24, local authority revenue expenditure increased by 21% in real terms (2023-24 prices), rising from £60.0 billion in 2015-16 to £72.8 billion in 2023-24. This increase 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.

1.7 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. In 2023-24, local authorities spent 58% of their revenue on adult and children's social care, up from 53% in 2015-16.[4] Some authorities report spending up to 80% of their revenue on social care. Each other service accounted for at most around 10% of revenue expenditure (**Figure 1** on pages 17 and 18).

How services are funded

1.8 Local authorities fund their day-to-day spending from a range of sources. There are three main sources of funding available to local authorities:

- central government grants;
- council tax receipts; and
- a proportion of business rates raised in the area.

1.9 Additionally, local authorities may use their reserves to provide resources for services, to manage overspending and meet unexpected costs in year. They also receive income from the NHS, as well as commercial activities, and through sales, fees and charges for some of the services they provide. In most cases, local authorities are not allowed to set rates to generate profit from sales, fees and charges unless specifically permitted by legislation. In 2023-24, local authorities received £4.2 billion from the NHS, £3.5 billion from commercial sources and £15.5 billion from sales, fees and charges.

4 Not all local authorities have social care responsibilities, although some do report some social care-related spend. We have therefore included these local authorities to reflect total expenditure. Local authorities with social care responsibilities spent 61% of their total revenue on adult and children's social care compared with 57% in 2015-16 (expenditure for adult social care includes income from the NHS).

Figure 1

Real terms revenue service expenditure by English local authorities, net of sales, fees and charges, 2015-16 to 2023-24 (2023-24 prices)

Social care expenditure accounted for 58% of local authority revenue spending in 2023-24

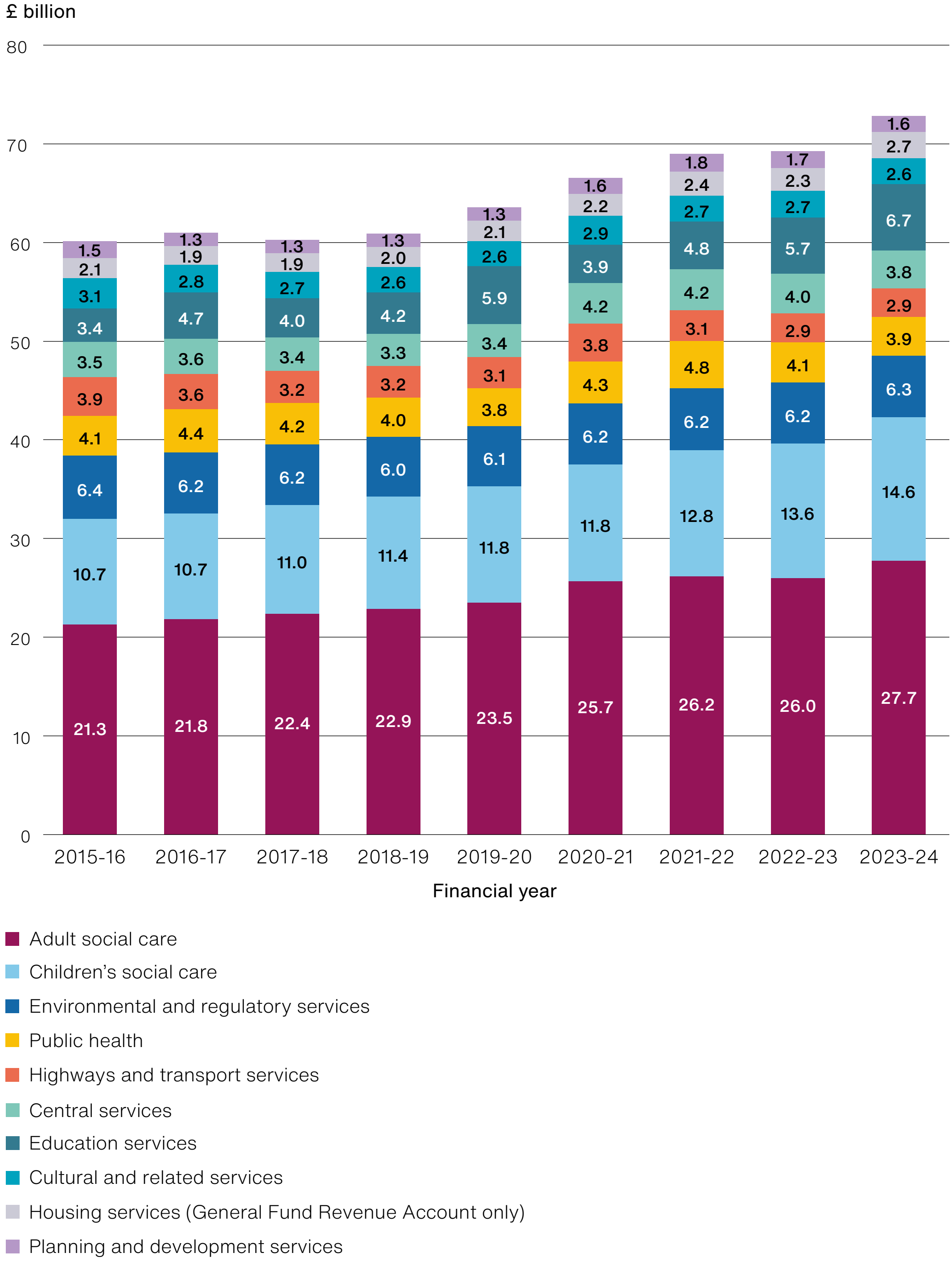


Figure 1 *continued*

Real terms revenue service expenditure by English local authorities, net of sales, fees and charges, 2015-16 to 2023-24 (2023-24 prices)

Notes

1 Figures from the revenue outturn are net of sales, fees and charges. We have included spending by London boroughs, metropolitan district councils, county councils, district councils and unitary authorities.

2 Figures presented here may differ to the revenue service expenditure presented in the Ministry of Housing, Communities & Local Government's revenue outturn data. These figures do not include funding that passes through local authorities but is ringfenced for particular spending (see Note 6 for education services as an example).

3 We have not included police services, fire and rescue services, and revenue spending on council-owned housing stock (where local authorities have such holdings, they account for them separately in a ringfenced Housing Revenue Account).

4 Net current expenditure for adult social care includes income from the NHS reported in the Adult Social Care Activity and Finance Report (ASC-FR) from NHS England (Table 6), which includes some Better Care Funding spent by local authorities as well as local arrangements with the NHS.

5 For highways and transport services and environment and regulatory services, we have added in the integrated transport levy and waste disposal levy, respectively.

6 For education spend, we have excluded the dedicated schools grant and other front-line grants to separate out ringfenced money that passes through local authorities to schools and to support adult education.

7 Data have been adjusted to 2023-24 values using GDP deflator data published by HM Treasury in December 2024.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data

Local government finance settlement and grants

1.10 The local government finance settlement provides formula-based funding to local authorities through a combination of:

- the revenue support grant;
- other formula-based grants, such as the recovery grant;
- general grants, both ringfenced and non-ringfenced to deliver specific policy objectives; and
- locally retained business rates

1.11 In recent years, funding for local government has been allocated in single-year settlements. To provide local authorities with greater certainty on key aspects of their funding, the government published local government finance policy statements setting out the government's intentions for 2023-24 to 2024-25, 2024-25, and 2025-26. In autumn 2024, the government committed to a return to multi-year finance settlements in 2026-27.

1.12 In addition, while there is no official count, local authorities receive hundreds of other grants directly from central government to support specific services or policy objectives. The LGA identified at least 448 unique grants from central to local government between 2015-16 and 2018-19, most of which are small and often ringfenced for specific purposes that limit their use. One local authority told us about an extensive review and approval process to apply for and receive a grant worth less than £15,000. We have reported before on the need to simplify and reduce the number of additional grants outside of the local government finance settlement.[5]

1.13 The 2022 *Levelling Up the United Kingdom* white paper set out an ambition to simplify and streamline funding to local authorities. In July 2023 a simplification plan was announced, and in January 2024 a simplification doctrine was published which required government departments to simplify funding processes, prioritise existing funding streams, and improve transparency and collaboration with local authorities. In December 2024, the consultation *Local authority funding reform: objectives and principles* continued this theme, consulting on plans to simplify the funding landscape to help local authorities plan more effectively.

Council tax receipts

1.14 Council tax is a local tax on domestic properties that provides a substantial source of income for local authorities. The Valuation Office Agency assigns properties to bands, based on 1991 property values, which determine council tax rates. Local authorities retain all council tax revenue, setting rates to balance their budgets for services and operational costs. Referendum principles are set each year in the local government finance settlement. If a local authority wishes to raise its council tax above these principles, known as an 'excessive increase' then it must hold a local referendum. For 2024-25 the referendum principle for local authorities with social care responsibilities was 3% for the core council tax and 2% for the adult social care precept. For district councils the referendum principle was the greater of £5 or 3%. In addition, some local authorities have bespoke arrangements for specific years, whereby they can increase their council tax by a greater amount without a referendum.[6]

5 Comptroller and Auditor General, *Government's general grant schemes*, Session 2024-25, HC 126, National Audit Office, July 2024.

6 For example, in 2024-25, four local authorities had bespoke referendum principles, and in 2025-26 six local authorities were granted bespoke referendum principles.

Business rates

1.15 Local authorities collect business rate income from occupiers of non-domestic properties. Local government as a whole retains 50% of the revenue generated – known as the 'local share'. There are annual redistributive payments to and from local authorities which aim to ensure that an authority's ability to raise business rates is equalised compared with its need to spend on local services. Each local authority also pays a portion of business rates over to central government – known as the 'central share'. These funds are used for the purposes of local government in the form of government grants. Mechanisms such as a levy on high-growth areas and a safety net for those with declining revenues modify the retained share of business rates. Since 2017, some authorities have participated in pilot schemes allowing them to retain a greater share of business rates revenue in exchange for an equivalent reduction in central government grants. Business rate retention was designed to be reset periodically to allow for growth to be redistributed between high- and low-growth areas according to need; however, this reset has not taken place, meaning growth and falls in income since 2013-14 have not been redistributed.

Trends in income

Local government finances in the early 2010s

1.16 Between 2010-11 and 2015-16 funding for local authorities decreased significantly. We have previously reported that there was a 25% real terms reduction in Core Spending Power (CSP).[7] CSP is the measure of funding available from government grants, council tax and locally retained business rates.[8] It does not include other forms of income such as sales, fees and charges, or income from the NHS.

7 Comptroller and Auditor General, *The local government finance system in England: overview and challenges*, Session 2021-22, HC 858, National Audit Office, November 2021.

8 MHCLG assumes that council tax is raised in line with the maximum allowable referendum principles limit, and that the council tax base increases in line with recent average growth and incorporates an estimate for locally retained business rates, though this may not fully reflect areas participating in higher retention pilots.

1.17 The decline in CSP was largely due to cuts in central government funding, with government-funded spending power dropping by 38.8%, between 2010-11 and 2015-16, if council tax is excluded.[9] Local authorities in areas of higher deprivation were disproportionately affected by reductions in central government funding as grant funding made up a larger proportion of their CSP. As government funding declined, local authorities became more reliant on local income sources such as council tax and sales, fees and charges to offset lost income. Local income sources are subject to more in-year variability than central government grant funding. For example, during the COVID-19 pandemic local authorities saw significant reductions in income from sales, fees and charges. The government therefore provided a compensation scheme to support local authorities and replace a proportion of the lost sales, fees and charges due to pandemic-related restrictions.

Local government finances since 2015-16

1.18 There are many ways to assess trends in CSP (**Figure 2** overleaf).

- The Ministry of Housing, Communities & Local Government (MHCLG) presents CSP in cash terms, showing it increased for local authorities by 34% (£14.2 billion) between 2015-16 and 2023-24. In the local government finance settlement 2025-26, MHCLG allocated £64.2 billion for local authorities in 2025-26.[10]
- In real terms, which accounts for the impact of inflation, CSP increased from £53.6 billion in 2015-16 to £55.7 billion in 2023-24 for local authorities, a rise of 4%. It is projected to rise by an additional 10% between 2023-24 and 2025-26.
- On a real terms per person basis, which considers both population growth 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%. CSP per person is forecast to rise by 7% between 2023-24 and 2025-26.

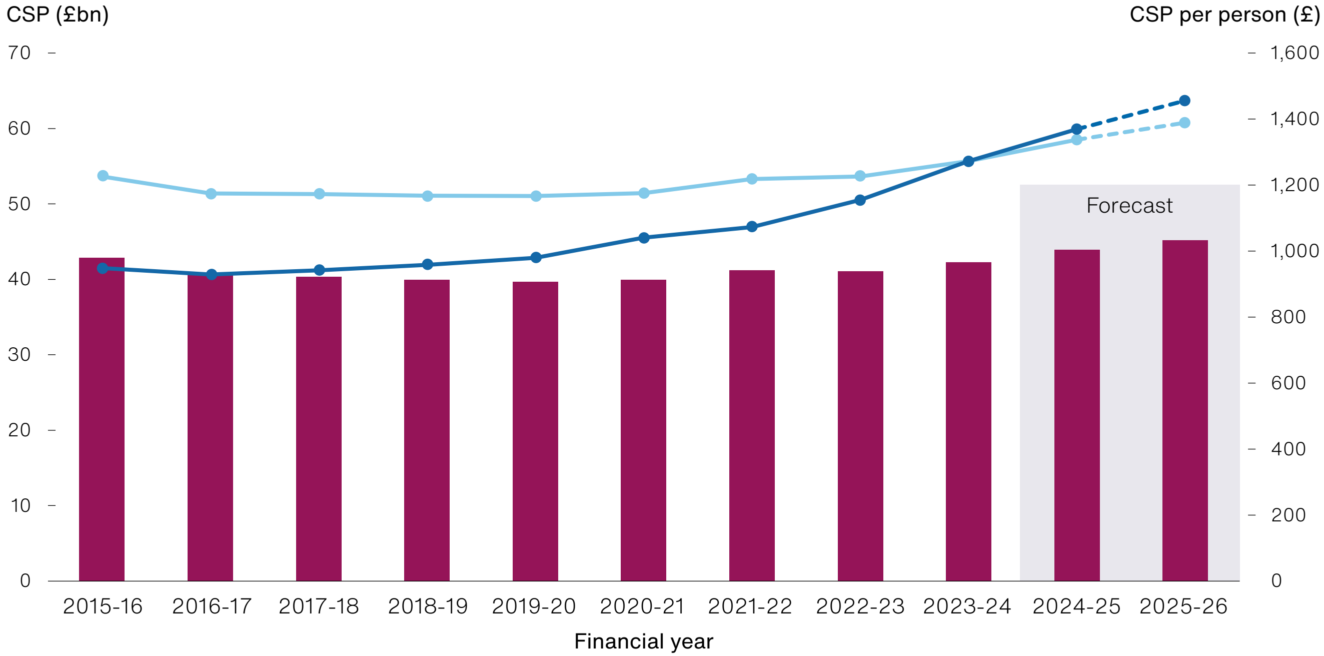
1.19 Between 2015-16 and 2019-20, CSP in real terms fell from £53.6 billion to £51.0 billion, a decline of 5%. This reflects cuts to central government funding, continuing the trend since 2010-11. We have previously reported that an increase in council tax helped stabilise overall spending power over that period, although it was not enough to counteract the overall fall.[11] In 2023-24, council tax accounted for £31.6 billion (57%) of CSP.

9 See footnote 7.
10 As shown in Figure 2 we have calculated the CSP for London boroughs, metropolitan district councils, county councils, district councils and unitary authorities. For 2025-26 the government announced a total of £69.4 billion for all classes of local authority in England.
11 See footnote 7.

Figure 2

Change in real terms, cash terms, and per person Core Spending Power (CSP), 2015-16 to 2025-26 (2023-24 prices)

Real terms CSP per person decreased by 1% between 2015-16 and 2023-24; however, it is forecast to increase by 7% between 2023-24 and 2025-26



	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Real terms CSP per person (£)	978.8	929.6	922.1	913.4	907.7	913.5	942.6	939.1	965.1	999.5	1,035.4
England CSP real terms (£bn)	53.6	51.4	51.3	51.1	51.0	51.5	53.3	53.6	55.7	58.5	61.2
England CSP cash terms (£bn)	41.5	40.7	41.2	41.9	42.9	45.5	46.9	50.5	55.7	59.9	64.2

Notes

1 CSP is the measure of funding available from government grants, council tax and locally retained business rates. It does not include other forms of income such as sales, fees and charges, or income from the NHS. The Ministry of Housing, Communities & Local Government (MHCLG) assumes that council tax is raised to the maximum threshold limit and incorporates an estimate for locally retained business rates, though this may not fully reflect areas participating in higher retention pilots.

2 These data provide a measure of the funding made available to London boroughs, metropolitan district councils, county councils, district councils, and unitary authorities.

3 Data have been adjusted to 2023-24 values using GDP deflator data published by HM Treasury in December 2024.

4 Population estimates are from the Office for National Statistics (ONS) England population mid-year estimates, October 2024. For population projection estimates, the ONS 2022-based population projection estimates are used as the start point of the projection; this is the base population which uses census data for England.

5 National population projections provide an indication of the potential future population of the UK and its constituent countries. National population projections are not forecasts and do not attempt to predict potential changes in international migration. There is uncertainty over future directions and levels of international migration. Demographic assumptions for future fertility, mortality and migration are based on observed demographic trends.

6 For 2024-25 and 2025-26, the category 'real terms CSP per person' is calculated using confirmed CSP and projections for inflation and population estimates. In addition for 2025-26, we use projected or a dashed line to indicate that local authorities have not yet received this income.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data

1.20 CSP in real terms has risen since 2019-20, driven by rises in council tax and additional government grants aimed at addressing rising costs and growing demand for certain services. Additional funding was announced at successive spending reviews and Autumn statements, as well as through one-off grants which have contributed to the rise in CSP. This has included an additional £600 million announced in early 2024, £500 million of which was for social care. As part of the local government finance settlement in February 2025, £502 million was made available to support all local authorities with the costs associated with the increase in employer national insurance contributions, a £600 million recovery grant and a further £880 million for social care.[12] Local authorities with social care responsibilities have received a larger share of this additional funding. Much of this additional funding was allocated to more deprived areas.

Capital Financing

Capital expenditure

1.21 In 2023-24, local authorities spent £21.3 billion on capital assets such as new roads, buildings, IT infrastructure and renovation of existing assets. Capital spending allows local authorities to create or enhance assets to support service delivery and local economic development. Capital spending in 2023-24, in real terms, is slightly below the peak of £22.3 billion in 2019-20 but higher than the £17.2 billion spent in 2015-16.

1.22 The pattern of capital spending across service areas differs significantly from revenue expenditure (Figure 1). In 2023-24, only 3% of capital spending was on social care, as many local authorities no longer own social care assets. In contrast, 67% of capital spending in 2023-24 went on housing, or highways and transport services (**Figure 3** on pages 24 and 25), up from 60% in 2015-16.

Capital funding

1.23 Local authorities finance in-year capital expenditure through various sources. These include upfront funding – such as government grants, capital receipts, developer contributions – and revenue contributions, which cover the cost of investments at the time they are made. Additionally, local authorities can use prudential borrowing to finance investments over a longer period.[13] Prudential borrowing requires ongoing interest payments from revenue and/or capital budgets and imposes a statutory obligation on local authorities to set aside funds annually for debt repayment, known as the Minimum Revenue Provision (MRP).

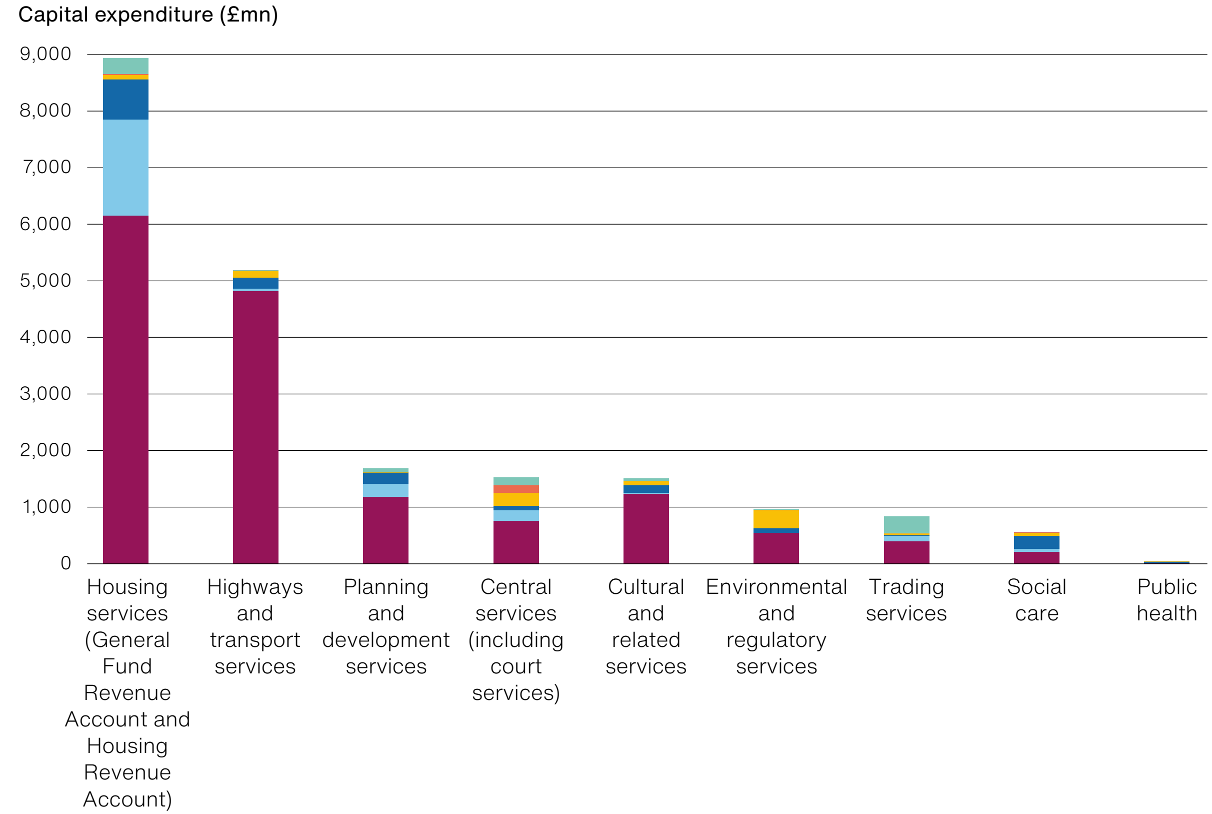
12 The £502 million made available to support all local authorities with the costs associated with the increase in employer national insurance contributions includes monies made available to fire and rescue authorities and the Greater London Authority.

13 See methodology appendix, paragraph 42 for an explanation of prudential borrowing.

Figure 3

Capital expenditure by English local authorities, by service and type, 2023-24

In 2023-24, local authorities spent £21.3 billion on capital assets, of which 3% (£564 million) was spent on social care assets



Service type

	Housing services	Highways and transport services	Planning and development services	Central services	Cultural and related services	Environmental and regulatory services	Trading services	Social care	Public health	Total
New construction, conversion and renovation	6,153	4,816	1,189	767	1,244	543	395	209	8	**15,324**
Acquisition of land and existing buildings	1,696	55	221	176	9	10	100	54	0	**2,321**
Expenditure on grants	711	186	201	77	130	70	11	228	25	**1,638**
Plant, furniture, equipment and vehicles	83	111	17	237	82	323	29	57	1	**939**
Intangible fixed assets	22	2	2	133	4	4	2	9	0	**178**
Acquisition of share/loan capital; and spend on loans and other financial support	273	21	56	137	36	17	304	6	0	**850**
Total	**8,939**	**5,190**	**1,685**	**1,527**	**1,505**	**967**	**840**	**564**	**34**	**21,250**

Figure 3 *continued*
Capital expenditure by English local authorities, by service and type, 2023-24

Notes

1 Unlike revenue spending, it is not possible to split capital spending between schools and non-schools' education spend. This chart excludes all education capital spend and some other service areas. We include financial expenditures but exclude 'other transactions.'

2 Our analysis of revenue spending and income excludes the ringfenced Housing Revenue Account. In contrast we cannot isolate capital spending on council-owned housing stock. All capital spending on housing is included here as we believe excluding it would remove substantial relevant capital spend.

3 Trading services include the maintenance of direct labour and service organisations, such as civic halls, retail markets and industrial estates, and commercial activity.

4 Figures may not sum due to rounding.

5 We used aggregate data for each type of local authority in England (London boroughs, metropolitan district councils, county councils, district councils and unitary authorities). These data, compiled by the Ministry of Housing, Communities & Local Government, account for any gaps or inconsistencies in the individual local authority submissions.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data

1.24 In 2023-24, local authorities funding to support capital spending was £24.4 billion.[14,15] Government grant payments contributed £10.3 billion (42%), while prudential borrowing accounted for £8.7 billion (36%). The remainder is made up from funds, including from the sale of local authorities' own capital assets, other grants, and contributions from revenue income. Total capital funding rose significantly in real terms from £21.5 billion in 2015-16 to £26.0 billion in 2017-18. During this period, prudential borrowing more than doubled, rising, in real terms, from £5.0 billion in 2015-16 to £11.0 billion in 2017-18. Since 2017-18, capital funding has fluctuated between £23.0 billion and £26.0 billion annually. Prudential borrowing decreased steadily, in real terms, from its peak of £11.0 billion in 2017-18 to £8.7 billion in 2023-24.

Reserves

1.25 Local authorities hold revenue 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. The level of reserves held by a local authority will depend on its view of external risk, often determined by cost and demand pressures, internal risk such as the financial position of the authority, and historic levels of reserves.

14 Capital expenditure is financed collectively, and it is not possible to identify and fully exclude individual elements from the data. Accordingly, this includes the resourcing of education and housing capital spend, as well as commercial investments.

15 Local government capital expenditure and financing figures may not match in a single year due to the multi-year nature of capital projects, use of reserves and timing of asset sales, and because our analysis of capital financing includes capital spending across all service areas, meaning it is not directly comparable with capital expenditure data. For more details see the methodology Appendix One.

There are three main types of revenue reserves:

- unallocated – held for unexpected costs or emergencies;
- earmarked – held for specific purposes such as to build up funds for anticipated future expenditure, repay loans or mitigate against a specific risk; and
- ringfenced – funds allocated to local authorities for specific purposes such as public health or schools.

1.26 Local authorities report their levels of unallocated, earmarked and ringfenced reserves to MHCLG, but how those reserves are described, managed and apportioned is a local decision. MHCLG combines the earmarked and unallocated reserves, which they refer to as 'non-ringfenced' reserves to give them a measure of a local authority's financial position and ability to respond to unexpected events. However, MHCLG acknowledges that, because earmarked reserves are set aside to meet known financial commitments and to mitigate known risks, most local authorities will have significantly lower usable revenue reserves than the measure of their non-ringfenced revenue reserves would imply.

1.27 MHCLG has acted to try to improve understanding of reserves. MHCLG has:

- collected more data on earmarked reserves, requiring authorities to report how much is allocated for contractual commitments, planned future spending, specific risks, and budget stabilisation;
- established a time-limited 'reserves working group' which met three times in March and April 2023; MHCLG worked with sector representatives to understand why reserves increased over the pandemic, the reasons local authorities hold them, and expected patterns of use over the next few years; and
- published local authority reserves data from the financial years 2017-18 to 2021-22 to support elected councillors' and local electorates' understanding.

Despite these efforts to improve understanding, 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.

1.28 According to the Chartered Institute of Public Finance and Accountancy, using reserves to balance budgets can be a legitimate short-term financial option. However, it cautions that "it is not normally prudent for reserves to be used to finance recurrent expenditure". As part of a broader strategy to manage financial pressures on local services, in December 2022 the government asked local authorities to "consider how they can use their reserves to maintain services in the face of immediate inflationary pressures".

Changes in reserves over time

1.29 Local authority reserves grew steadily from 2015-16 to 2019-20, with total non-ringfenced reserves increasing in real terms by 10%, from £22.2 billion to £24.5 billion. In 2020-21, during the COVID-19 pandemic, non-ringfenced reserves rose sharply by 46% to a peak of £35.8 billion.[16] This increase was partly driven by additional pandemic-related grants which took time to disperse, underspending on services during the pandemic and the disposition of authorities to bolster reserves in times of heightened uncertainty.

1.30 Since then, local authorities have drawn down reserves.

- Total non-ringfenced reserves fell in real terms from £35.8 billion in 2020-21 to £24.6 billion in 2023-24. In 2023-24, 84% of non-ringfenced reserves were earmarked for specific purposes and not readily accessible to support day-to-day spending. Despite the decline, non-ringfenced reserves remain above pre-pandemic levels.
- Unallocated reserves decreased in real terms, from £4.9 billion in 2020-21 to £3.8 billion in 2023-24. During this period, 67% of authorities reduced their unallocated reserves, while 33% increased them. In 2023-24, unallocated reserves relative to CSP ranged from 0% to 358%, reflecting differences in financial circumstances and risk tolerance of local authorities.

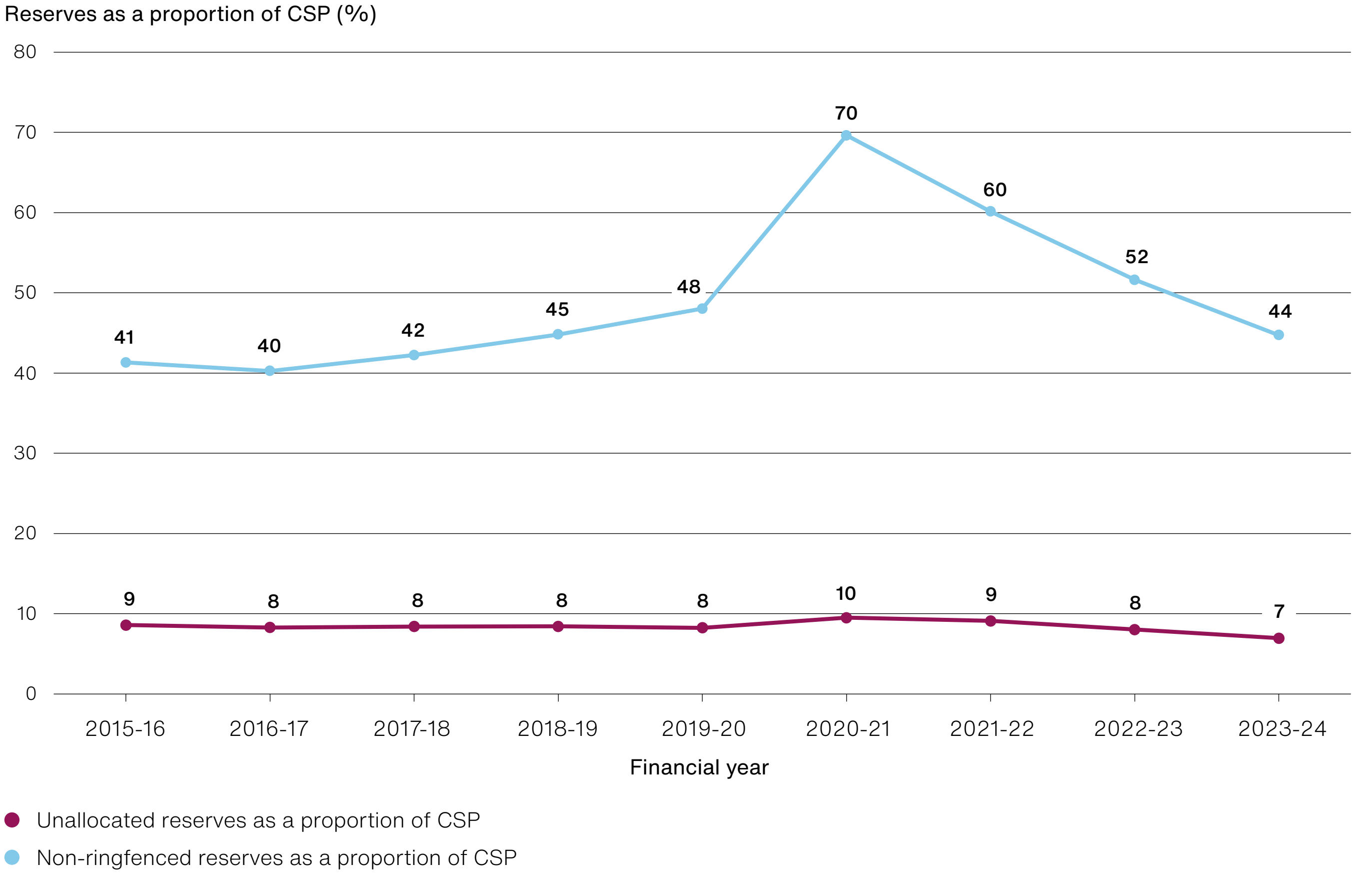
1.31 Although total reserves held by local authorities have grown since 2015-16, the picture is more nuanced when reserves are compared to CSP. **Figure 4** overleaf shows that, in real terms, non-ringfenced reserves were 3 percentage points higher as a proportion of CSP in 2023-24 compared with 2015-16, with a clear spike during the COVID-19 pandemic. Meanwhile, the proportion of unallocated reserves to CSP was stable over this period, fluctuating between 7% and 10%. There are no rules on the level of reserves that local authorities should hold. Reserve levels are a local choice, tailored to each authority's circumstances and risk appetite. But low levels heighten an authority's vulnerability to unexpected costs or emergencies and limits its ability to manage budget overspends.

16 Data on reserves are presented as at 31 March of each financial year.

Figure 4

Non-ringfenced and unallocated reserves as a proportion of Core Spending Power (CSP) for English local authorities, 2015-16 to 2023-24

Between 2015-16 and 2023-24, the proportion of unallocated reserves relative to CSP has remained broadly stable, fluctuating between 7% and 10%



Notes

1 Unallocated reserves are reserves held by local authorities for unexpected costs or emergencies.

2 Earmarked reserves are reserves held by local authorities for specific purposes such as to build up funds for anticipated future expenditure, repay loans or mitigate against a specific risk.

3 'Non-ringfenced reserves' is a metric created by combining earmarked and unallocated reserves. It provides insight into a local authority's financial position and its ability to fund future projects or respond to unexpected events.

4 CSP is the measure of funding available from government grants, council tax and locally retained business rates. It does not include other forms of income such as sales, fees and charges, or income from the NHS. The Ministry of Housing, Communities & Local Government (MHCLG) assumes that council tax is raised to the maximum threshold limit and incorporates an estimate for locally retained business rates, though this may not fully reflect areas participating in higher retention pilots.

5 Reserves data are presented as at 31 March of each financial year.

6 We used aggregate data for each type of local authority in England (London boroughs, metropolitan district councils, county councils, district councils and unitary authorities). These data, compiled by the MHCLG, account for any gaps or inconsistencies in the individual local authority submissions.

7 The large increase in local authority non-ringfenced reserves in 2020-21 overlaps with the COVID-19 pandemic.

8 Data have been adjusted to 2023-24 values using GDP deflator data published by HM Treasury in December 2024.

Source: National Audit Office analysis of data from the Ministry of Housing, Communities & Local Government

Part Two

Service and financial pressures

2.1 Local authorities are facing a range of challenges to their financial sustainability and their ability to provide services which meet the needs of their residents. This part of the report sets out:

- changes in demand for services;
- impact on preventative services;
- financial pressures; and
- the ability of local authorities to respond to those pressures.

Increasing demand

2.2 The population of England grew by 5% between 2015-16 and 2023-24. During the same period, demand increased over and above whole population growth levels across a range of local government statutory services provided to people in need of support.

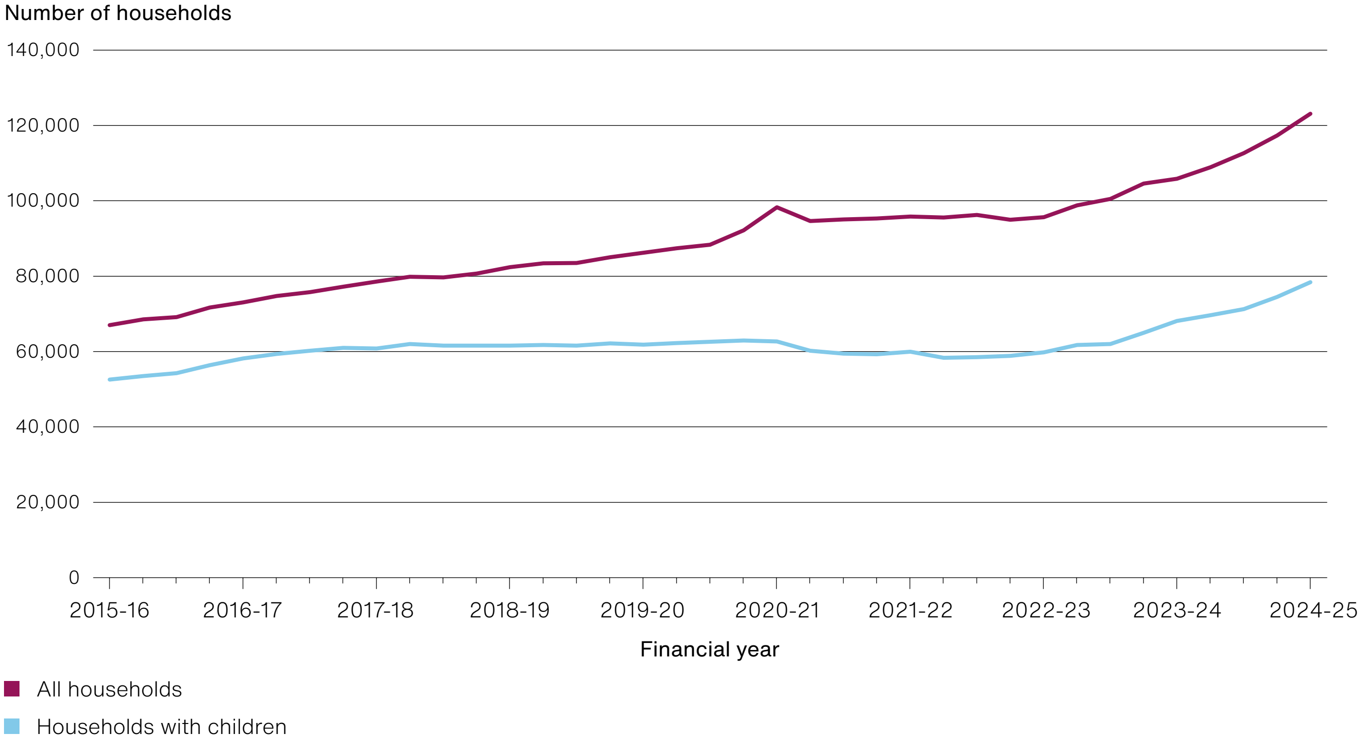
- The number of households in temporary accommodation rose from 66,980 in Quarter 1, 2015-16 to 123,100 in Quarter 1, 2024-25 (an increase of 84%); the highest level since records began (**Figure 5** overleaf).
- Between January 2015 and January 2024 there was a 140% increase (240,000 to 576,000) in 0- to 25-year-olds with education, health and care (EHC) plans (**Figure 6** on page 31), along with a 14% increase in state school pupils with special educational needs (SEN) support, to 1.14 million pupils.
- Between 2015-16 and 2023-24, the number of children looked after increased by 19% from 70,400 to 83,630 (**Figure 7** on page 32).[17]
- Requests for support from new clients for publicly funded adult social care increased by 15% from 1.81 million in 2015-16 to 2.09 million in 2023-24.

17 Under the Children Act 1989, a child is legally defined as 'looked after' by a local authority if they get accommodation from the local authority for a continuous period of more than 24 hours, is subject to a care order, or is subject to a placement order.

Figure 5

The number of households in temporary accommodation, Quarter 1, 2015-16 to Quarter 1, 2024-25

In Quarter 1, 2024-25 there were 123,100 households in temporary accommodation, which is the highest total across the whole period



Notes

1 Households in temporary accommodation are as reported at the end of each quarter – 30 June, 30 September, 31 December and 31 March.

2 Data are taken from the Homelessness Case Level Information Collection (H-CLIC), which captures detailed information on households as they progress through the different stages of the statutory homelessness system. The first reporting quarter for H-CLIC data was Quarter 1, 2018-19. Previous quarters were based on the previous P1E data collection. The Ministry of Housing, Communities & Local Government (MHCLG) has processed the data so that Quarter 1, 2018-19 can be compared with previous quarters.

3 Data are rounded to the nearest 10 households.

4 Data for Quarter 1, 2024-25 are provisional, and are then revised in the next quarter.

5 Data are shown for each quarter between 30 June 2015 and 30 June 2024.

6 Data for Quarter 1, 2024-25 may be revised when MHCLG releases homelessness statistics for the entire financial year 2024-25.

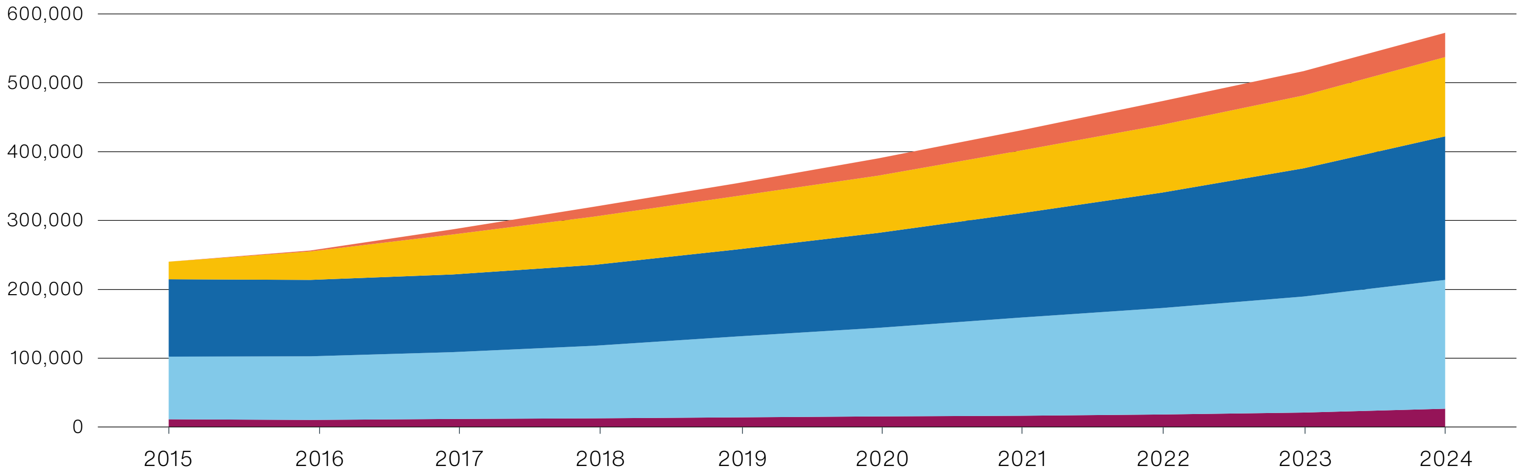
Source: National Audit Office analysis of published Ministry of Housing, Communities & Local Government data

Figure 6

Number of children and young people with education, health and care (EHC) plans and statements of special educational needs by age group, 2015 to 2024

The number of children and young people with EHC plans and statements has increased each year from 240,000 in 2015 to 576,000 in 2024

The number of children and young people with EHC plans and statements



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Under 5	11,250	10,513	11,629	12,516	14,094	15,398	16,536	18,054	21,087	26,527
Age 5 to 10	91,045	92,213	97,379	105,689	117,222	128,764	142,342	154,940	168,694	187,165
Age 11 to 15	112,340	111,225	112,540	117,354	126,332	137,639	151,572	167,305	186,093	208,609
Age 16 to 19	25,538	41,300	58,034	70,084	77,587	83,095	90,715	98,647	105,900	115,002
Age 20 to 25	10	1,064	7,708	14,176	18,760	25,213	29,532	34,309	35,275	35,526
Total	**240,183**	**256,315**	**287,290**	**319,819**	**353,995**	**390,109**	**430,697**	**473,255**	**517,049**	**575,963**

Notes

1 Figures include those with statements of special educational needs, which were replaced by EHC plans in the Children and Families Act 2014.

2 Figures include all children and young people with EHC plans aged 0 to 25 years, regardless of the setting within which they are supported.

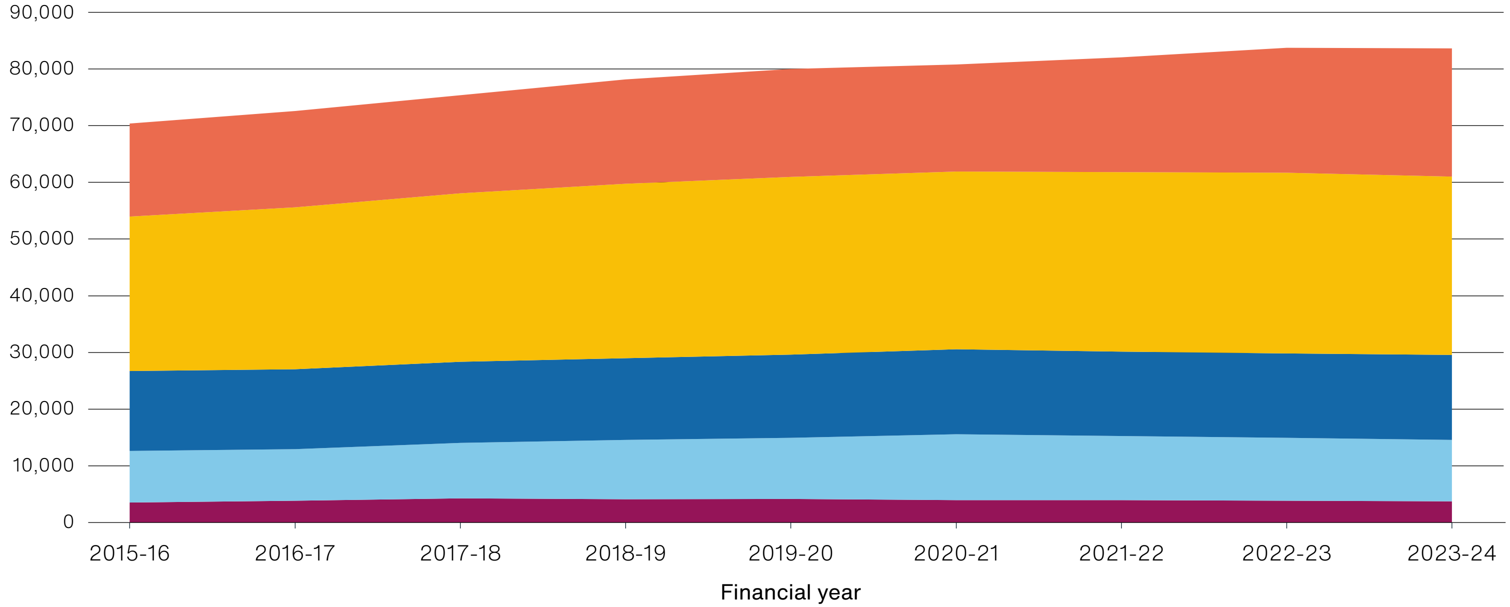
3 The total for each age group does not match the total of all children and young people with EHC plans for 2024 due to missing age category data for one local authority.

4 Data for the number of children and young people with an EHC plan are presented as at January of each year.

Source: National Audit Office analysis of Department for Education data

Figure 7
Number of children and young people looked after in England by age, 2015-16 to 2023-24

The number of children and young people looked after has increased by 19% between 2015-16 to 2023-24, with those 16 years old and over now making up over a quarter of all children and young people looked after



	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Under 1 year	3,540	3,820	4,260	4,110	4,130	3,930	3,960	3,840	3,730
1 to 4 years	9,090	9,110	9,790	10,460	10,800	11,630	11,300	11,090	10,820
5 to 9 years	14,070	14,090	14,300	14,420	14,690	15,000	14,870	14,890	15,020
10 to 15 years	27,250	28,570	29,740	30,780	31,370	31,340	31,690	31,880	31,440
16 years and over	16,460	17,020	17,290	18,380	19,010	18,880	20,270	22,070	22,620

Notes

1 These data are based on information on children and young people looked after in England collected in the SSDA903 return, which is completed annually by local authorities in England. The return is submitted to the Department for Education (DfE) and published as the *looked-after children* collection as of the 31 March for each year.

2 Under the Children Act 1989, a child is legally defined as 'looked after' by a local authority if they get accommodation from the local authority for a continuous period of more than 24 hours, is subject to a care order, or is subject to a placement order.

3 Data published by DfE are rounded to the nearest 10.

4 Data may differ from previous publications, which is mainly due to amendments made by local authorities after the previous publication.

5 Figures exclude children looked after under a series of short-term placements.

Source: National Audit Office analysis of Department for Education data

2.3 There are many factors that have led to increasing demand for services, which include economic impacts and government policy, as shown in the following examples.

- Demand for homelessness services increased due to a shortage of affordable accommodation in the private rented sector; periodic capping of the Local Housing Allowance reducing the income from benefits to pay for housing; and the introduction of the Homelessness Reduction Act 2017, which expanded local authorities' duties to "prevent" and "relieve" homelessness. Government policy on asylum accommodation also increased competition locally for accommodation.
- We reported that the number of children with an EHC plan has risen every year since 2010, largely attributed to more EHC plans being issued and fewer being stopped.[18] The Children and Families Act 2014 introduced a range of reforms, including identifying needs earlier, involving families more, and extending support up to the age of 25 where appropriate.

Rising complexity and levels of need

2.4 At the same time as rising levels of demand, there are indications that complexity of need has also increased. Local authorities told us they are seeing a rise in complex cases in services such as adult and children's social care and homelessness.

- More working-age adults aged 18 to 64 are requesting adult social care support and the average unit cost for 18- to 64-year-olds accessing long-term support was £1,696 per week in 2023-24 compared with £951 for those aged 65 and over, suggesting increasing complexity. The Association of Directors of Adult Social Services (ADASS) Autumn 2024 Survey found that several Directors of Adult Social Services reported seeing a particular rise in the number of young people with complex needs.
- Across all adults receiving care, ADASS reported a 7.4% increase in the number of people requiring multiple visits from two or more care workers between March 2023 and March 2024.[19] Directors also ranked increased costs due to rising complexity of needs as the greatest budgetary pressure.
- The Chartered Institute of Public Finance and Accountancy has reported an increase in children with more complex needs, and Ofsted has highlighted an increase in such children requiring specialist provision and care. We have also previously reported on signs of worsening mental health in young people.[20] Between 2016-17 and 2021-22 referrals from GPs for secondary mental health services for 0- to 18-year-olds increased by 142%, from 482,640 to 1,169,515; suggesting more specific support was needed.[21]

18 Comptroller and Auditor General, *Support for children and young people with special educational needs*, Session 2024-25, HC 299, National Audit Office, October 2024.
19 The Association of Directors of Adult Social Services (ADASS) Spring Survey 2024.
20 Comptroller and Auditor General, *Support for vulnerable adolescents*, Session 2022-23, HC 800, November 2022.
21 Secondary mental health services generally will need a referral from a GP and cover general community and hospital care.

- The number of unaccompanied asylum seekers in children's social care increased by 70%, from 4,340 in 2015-16 to 7,380 in 2023-24. In 2023-24, unaccompanied asylum-seeking children made up 9% of children looked after.[22] The Institute for Government reported that these children often need additional support from local authorities due to having suffered complex traumas linked to the reason for leaving their home countries.

Preventative services

2.5 Prevention can be used to manage demand and, although the government does not have a formal definition of a preventative service, these are often services that help stop, delay or reduce the extent of need for statutory services and can help deliver better outcomes. The Ministry of Housing, Communities & Local Government (MHCLG) told us that it can be challenging to evidence the benefits of preventative work due to the difficulty of demonstrating that the need for support was reduced. There are examples of effective preventative services and new initiatives. For example, the Department for Education (DfE) told us it is working with the education sector to identify notable practice to support local authorities in delivering preventative services, highlighting the families first for children pathfinder and the national kinship strategy as examples. In February 2025, the government confirmed specific funding for prevention work with £270 million of funding for the Children's Social Care Prevention Grant to invest in the national rollout of Family Help.

2.6 Local authorities are spending more on some late intervention services and less on early intervention or preventative services.

- Spending on homelessness services increased in real terms by 105% from £1.49 billion to £3.06 billion between 2015-16 and 2023-24.[23] However, most of this increase relates to increasing spend on temporary accommodation rather than prevention. In practice, a significant portion of the Homelessness Prevention Grant local authorities receive is used to fund temporary accommodation, rather than being spent on prevention work.[24] Over the same period, spending on other housing services, which includes some preventative services, fell by £642 million.
- In the ADASS Autumn Survey 2024, the proportion of councils saying they were investing more in prevention compared with the previous financial year fell from 44% in 2023-24 to 29% in 2024-25, with financial pressures ranked as the greatest barrier to implementing prevention.[25]

22 Children looked after reported on 31 March taken as figure for the financial year.
23 Unlike with other services, we report gross total expenditure on homelessness as opposed to net current expenditure.
24 Comptroller and Auditor General, *The effectiveness of government in tackling homelessness*, Session 2024-25, HC 119, National Audit Office, July 2024.
25 Association of Directors of Adult Social Services (ADASS) Autumn Survey 2024.

- The Public Health Grant for local authorities to fund preventative services, including alcohol and drug services, smoking cessation and children's health services, is expected to fall in real terms by £846 million (20.1%) between 2015-16 and 2024-25 in 2022-23 prices.[26,27] Our recent study on cardiovascular prevention mentioned that local authorities expressed concern at the longer-term effects of the real terms reduction in public health budgets on the local population and the capacity of prevention services.[28]

- In response to increased demand and financial pressures, local authorities have prioritised statutory services. However, there are long-term costs associated with reducing earlier intervention services which can be essential for prevention. For example, local authority spending on late intervention services for children and young people increased from £8.5 billion in 2015-16 to £12.1 billion in 2023-24, while spending on early interventions fell from £3.2 billion to £2.8 billion over the same period (**Figure 8** overleaf).[29,30] One local authority told us that the increase in residential placements for children was the largest element of their budget overspend.

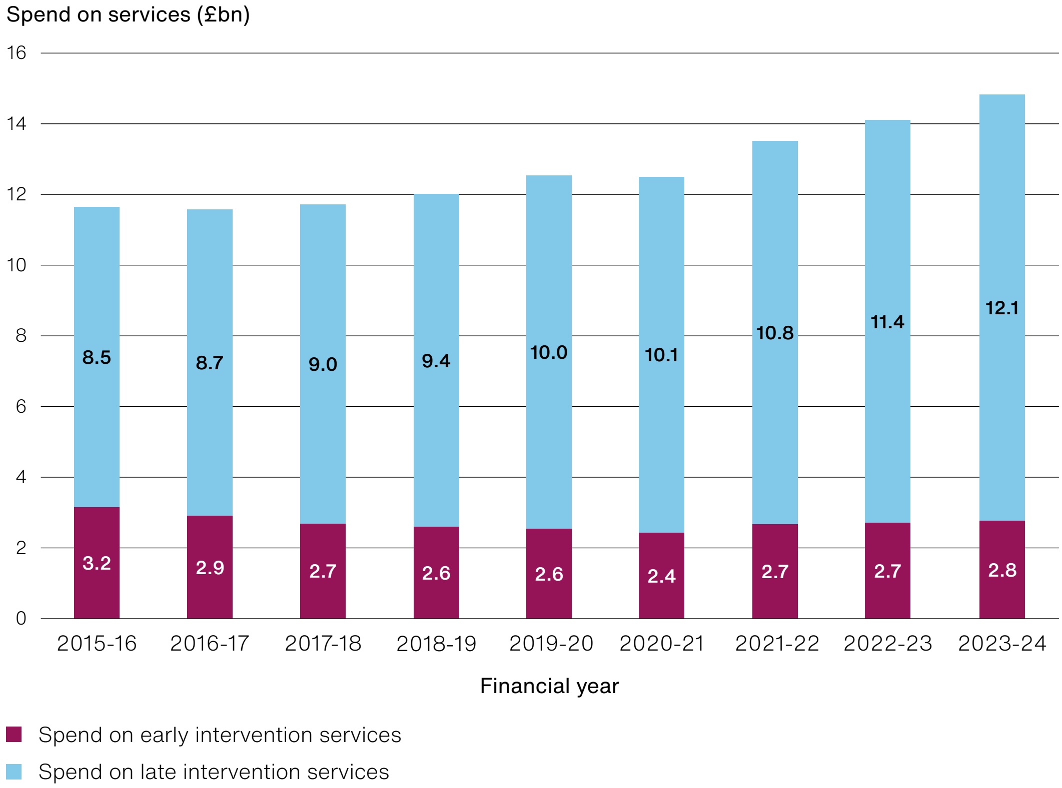
2.7 MHCLG acknowledges that rising demand for services increases the need for prevention, but the time it takes to recoup investment makes it difficult to fund when overall public finances are constrained. Given current pressures, it is difficult for local authorities and government to invest in more discretionary services that reduce future demand, while simultaneously spending to meet current need. However, prevention may also result in savings being realised in other areas, such as another local authority or an NHS organisation, and the current system for funding local services does not incentivise such collaboration. The government's November 2024 local government finance policy statement emphasised a focus on prevention to tackle system failure in key services.

26 Comptroller and Auditor General, *NHS Financial Management and Sustainability 2024*, Session 2024-25, HC 124, National Audit Office, July 2024.
27 Numbers now differ due to in-year funding allocation and updates to deflators since publication.
28 Comptroller and Auditor General, *Progress in preventing cardiovascular disease*, Session 2024-25, HC 304, November 2024.
29 Data here represent gross total expenditure in order to show the total cost of providing children's and young people's services.
30 'Late intervention services' includes children looked after, safeguarding children and young people services, youth justice, and other children and family services. 'Early intervention services' includes family support services, Sure Start and children aged under 5, and services for young people.

Figure 8

Local authority spending on early and late intervention services for children and young people, 2015-16 to 2023-24 (2023-24 prices)

Spending on late intervention services for children and young people increased from £8.5 billion in 2015-16 to £12.1 billion in 2023-24, in real terms, while spending on early intervention services fell from £3.2 billion to £2.8 billion over the same period



Notes

1 Spend on late intervention services is the sum of local authority expenditure on: 'children looked after', 'safeguarding children and young people services', 'youth justice' and 'other children and family services'.

2 Spend on early intervention services is the sum of local authority expenditure on: 'family support services', 'Sure Start and children aged under 5' and 'services for young people'.

3 The data are sourced from the *LA and School expenditure* datasets, published by the Department for Education, based on Section 251 returns. As a result, data may differ from expenditure reported in the Ministry of Housing, Communities & Local Government's revenue outturn data. Data here represent gross total expenditure in order to show the total cost of providing children's and young people's services.

4 Data have been adjusted to 2023-24 values using GDP deflator data published by HM Treasury in December 2024.

Source: National Audit Office analysis of Department for Education data

Meeting need

2.8 It can be increasingly hard for individuals to access some local authority services. The nationally set savings threshold for accessing publicly funded social care is £23,250 but has remained the same in cash terms since 2010-11, meaning an increasing number of people now may have to pay for their own care. We calculated that, if the threshold had kept in line with inflation, it would be £32,356, a difference of £9,106 (2023-24 prices). In addition, in the 2022 County Councils Network (CCN) Autumn Survey, 72% of councils said it was 'likely or very likely' that they would tighten eligibility for accessing adult social care services.

2.9 Requests for publicly funded adult social care between 2015-16 and 2023-24 increased by 15%. However, as **Figure 9** overleaf shows, fewer people were able to access support until 2023-24 (1.08 million in 2015-16 compared with 1.11 million in 2023-24). At the same time, waiting lists for adult social care grew. The ADASS Spring Survey 2024 reported that as at 31 March 2024:

- 418,000 people were awaiting assessment, care and support, direct payments, or reviews; and
- the number of people waiting more than six months for an assessment had reached nearly 79,000.

Age UK recently reported that the reduction in the provision of publicly funded social care has had a severe impact on people, estimating that two million people aged 65 and over have unmet needs for care and support.[31] This is an increase from their estimate of over a million people in England with at least one unmet need for social care in 2015.[32]

2.10 In our report on SEN, we highlighted that families were able to appeal local authority decisions to a tribunal where they believed their rights had not been met. The proportion of EHC plan decisions taken to tribunals increased from 1.6% in 2018 to 2.5% in 2023, with the number of decisions appealed increasing from 6,000 in 2018 to 15,600 in 2023. Most appeals decide in favour of the children and young people who believe their rights had not been met, rising from 92% in 2018/19 to 98% in 2022/23.[33]

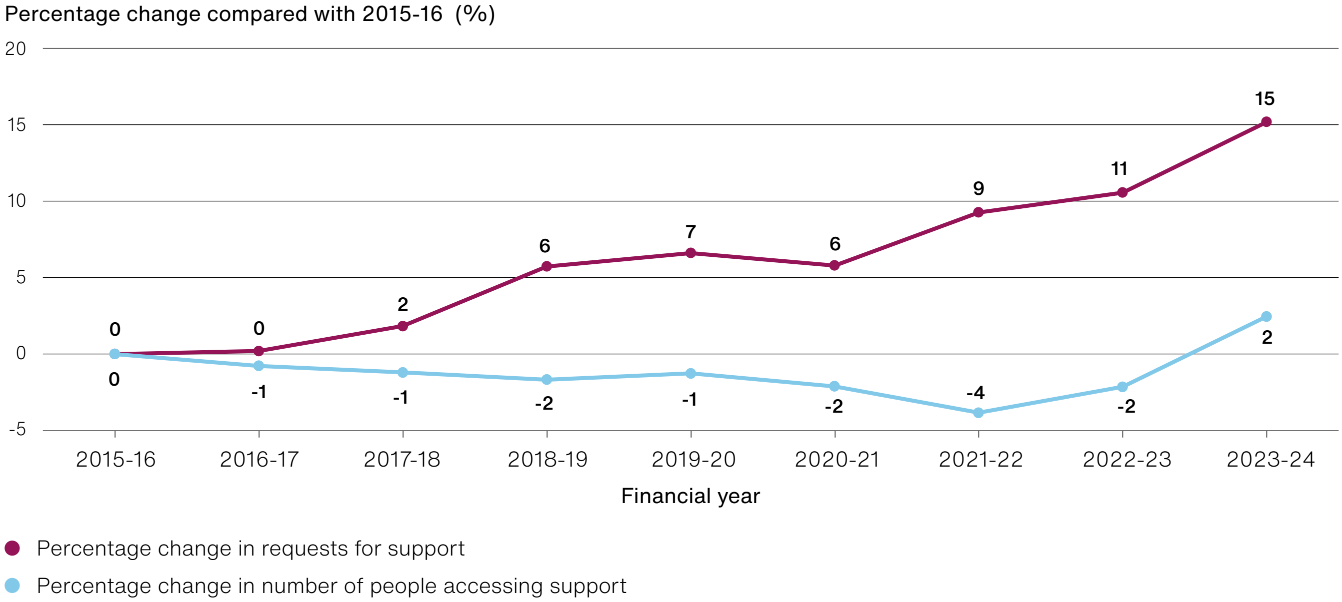
2.11 For children and young people who need them, only 50% of EHC plans were issued within the statutory limit of 20 weeks set out in the 2014 legislation and statutory code of practice in 2023. Children experience particularly long waiting times for speech and language therapists and educational psychologists.

31 Age UK, *The State of Health and Care of Older People in England 2024*, September 2024.
32 Age UK, *The Health and Care of Older People in England 2015*, October 2015.
33 School and college academic years are indicated by the use of '/' and run from 1 September to 31 August.

Figure 9

Percentage change in the number of people requesting and accessing publicly funded adult social care support between 2015-16 and 2023-24

The number of requests for publicly funded adult social care has increased by 15% from 2015-16 to 2023-24, while the number of people accessing support increased by 2%



Notes

1 Data come from the NHS England Adult Social Care Activity and Finance Report (ASC-FR), England.

2 ‘Requests for support’ includes new requests for support for 18- to 64-year-olds and those aged 65 years old and over.

3 ‘Number of people accessing support’ include number of episodes of support for long-term support in year and episodes of short-term support to maximise independence (ST-Max support). Some people who receive long-term care may also receive ST-Max within the same financial year. An individual may receive more than one episode of ST-Max within a financial year.

4 There are differences in how information on short-term care is collected between the ASC-FR and earlier data returns. NHS England states that some comparisons of general trends can be made, but it does not recommend some direct comparisons.

Source: National Audit Office analysis of NHS England data

2.12 As well as reports of people struggling to access services, there have been concerns around the quality-of-service provision.

- The Care Quality Commission (CQC) has previously reported variation on quality of care provided, with evidence of poorer quality in more deprived areas.
- Public complaints about failures of services coming to the Local Government and Social Care Ombudsman have been increasing steadily for the last three years, particularly in relation to SEND, adult social care and homelessness. The Ombudsman is now upholding 80% of adult social care investigations it carries out, and 92% of education cases investigated.

- In Quarter 1, 2024-25, some 3,770 households with children had been resident in bed and breakfast accommodation for more than the maximum of six weeks, set out in the Homelessness Code of Guidance.[34] This is an increase from the 860 in Quarter 1, 2018-19.

2.13 Despite people accessing services, some of their needs are still not met well. Increased demand for children's social care residential placements and a lack of availability for placements within a local authority have meant that more children are being placed in residential or semi-independent homes far away from their families and schools. The CCN reported that 32% of children looked after were placed over 20 miles from their local area, families or school in 2023 (4,600 in total), an increase of 18% from 2019. Similarly, on homelessness, the number of households placed out of area rose from 21,940 in Quarter 1, 2018-19 to 38,940 in Quarter 1, 2024-25, an increase of 77%.

Financial pressures

Rising service costs – impact of inflation and market pressures

2.14 Local authorities are experiencing rising costs for services due to inflationary and market pressures, as well as increased demand and government policy. High levels of inflation and market pressures have led to increases in unit costs for social care services.

- The average cost per child looked after has risen by 35% from £72,345 a year in 2015-16 to £97,326 in 2023-24 in real terms. The number of children and young people looked after has increased by 19% between 2015-16 to 2023-24, with those 16 years old and over now making up over a quarter of all children and young people looked after (see Figure 7). Children and young people aged 16 and over tend to have more complex needs and can require more expensive residential placements, further increasing unit costs.
- In 2022, the Competition & Markets Authority (CMA) reported that 78% of children's home places are provided by the private sector. These providers were charging "materially higher prices" and making higher profits than expected if the market was functioning effectively. In November 2024, DfE in *Keeping Children Safe, Helping Families Thrive* set out its plans to "fix the broken care market" through legislation and greater visibility on prices local authorities are paying as well as considering plans to cap profits.[35]

34 The Homelessness Code of Guidance is statutory guidance to which all local authorities must adhere. The Code of Guidance states that local authorities should use bed and breakfasts for households with children only as a last resort, and even then, for a maximum of six weeks.
35 Department for Education, *Keeping Children Safe, Helping Families Thrive*, November 2024.

- Adult social care has seen above-inflation increases in fees for both care home placements and home care. In our 2021 report on *The adult social care market in England*, we reported that local authorities were paying below the sustainable rate for care home places and for home care for those aged 65 and over.[36] Since then, local authorities have been increasing fees to stabilise the adult social care provider market. Between 2015-16 and 2023-24, the average weekly fee for care home places for those aged 65 and over has increased by 33% in real terms.

2.15 In addition, some district councils that we spoke to mentioned the rising costs of internal drainage boards, which protect properties from flooding. Because of increasing energy costs and more frequent extreme weather events, the levies that district councils collect on behalf of internal drainage boards have increased by an average of 28% between 2022-23 and 2024-25. One local authority was spending over half of its council tax income on the drainage levy. In response to these rising costs MHCLG provided £3 million in both 2023-24 and 2024-25 to 15 local authorities that were most affected by increases in internal drainage board levies. In 2025-26 MHCLG has increased this amount to £5 million.

Rising service costs – impact of demand pressures

2.16 Cost increases have been exacerbated, in some cases, by significant demand increases. For example, the cost of providing home-to-school transport for children and young people with SEN and learners with learning difficulties or disabilities has increased substantially in real terms, from £0.86 billion in 2015-16 to £1.76 billion in 2023-24 (106% increase). This is due to the growing number of children and young people with an EHC plan who receive local authority-funded transport; high levels of inflation; and increasing complexity of needs, meaning a greater reliance on taxis for individual pupils.

2.17 Spending on temporary accommodation nearly doubled, rising by 93% from £1.10 billion in real terms in 2015-16 to £2.13 billion in 2023-24 (45% of total spending on housing services) due to increased demand, and because local authorities have had to rely on more expensive accommodation such as private rentals and bed and breakfasts. In its January 2025 report *A BLUEPRINT to tackle the affordable housing crisis* the District Councils' Network noted that some district councils spend over a third of their entire budget on temporary accommodation.[37]

36 Comptroller and Auditor General, *The adult social care market in England*, Session 2019–2021, HC 1244, March 2021.
37 District Councils Network, *A BLUEPRINT to tackle the affordable housing crisis*, January 2025.

Rising service costs – impact of government policy

2.18 Local authorities and service providers can also face increasing cost pressures from policy decisions. The National Living Wage (for those aged 21 and over) increased by 9.8% in April 2024 and will rise again by 6.7% from April 2025. The Autumn Budget 2024 also announced an increase to employer National Insurance contributions. Private care providers may pass on these costs to local authorities, and there are concerns that these costs could outweigh additional funding announced for local authorities. In February 2025, as part of the local government finance settlement, MHCLG made available £502 million of new funding to support local authorities with the direct costs resulting from the increase in employer National Insurance contributions.[38] However, it says that it does not know how much the indirect cost pressure on local authorities will be.

2.19 In October 2023, the Public Accounts Committee warned that competition between the Home Office and local authorities was "driving up prices and exacerbating the homelessness challenges that local authorities already face".[39] We reported that, as at December 2023, the Home Office was housing around 100,000 asylum seekers in hotels, houses or flats within local authority areas.[40] In January 2025 the Home Office told the Public Accounts Committee that it now had a commitment to withdraw its interest if it ever heard that a local authority is seeking to acquire a particular piece of accommodation.[41] The Autumn Budget 2024 announced that HM Treasury will work with MHCLG and others in the cross-government taskforce to address homelessness and rough sleeping.

Demand-led costs

2.20 As financial pressures have increased, local authorities have had to focus their spending on demand-led statutory services and recurring expenses that must be covered and can be difficult, or take time, to reduce. This spending includes statutory services such as adult and children's social care, homelessness, waste disposal and financing costs such as debt servicing.[42] The median spending on these costs makes up 77% of income from council tax, business rates and central grants in 2023-24.

38 The £502 million made available to support local authorities with the costs associated with the increase in employer national insurance contributions includes monies made available to fire and rescue authorities and the Greater London Authority.

39 Committee of Public Accounts, *The Asylum Transformation Programme*, Seventy-Sixth Report of Session 2022–23, HC 1334, October 2023.

40 Comptroller and Auditor General, *Investigation into asylum accommodation*, Session 2023-24, HC 635, National Audit Office, March 2024.

41 Committee of Public Accounts, *Asylum accommodation: Home Office acquisition of former HMP Northeye*, Seventh Report of Session 2024-25, HC 361, February 2025.

42 We include interest payments, minimum revenue provision and leasing payments in our measure of debt servicing.

2.21 One local authority told us that, whatever happens to funding, it must provide resources for adult and children's social care. As a result, in local authorities with social care responsibilities, a high proportion of budgets are spent on a small proportion of the population. Local authorities spent £27.7 billion (38% of their revenue expenditure) on adult social care in 2023-24 for 2% of the adult population, approximately, who are accessing publicly funded care. They spent £14.6 billion (20% of their revenue expenditure) on children's social care in 2023-24, with just over 3% of children needing these services.

2.22 Figure 10 on pages 43 and 44 shows a scatter plot of two metrics that can provide a sense of the financial resilience of English local authorities. Local authorities located towards the bottom-right of the figure are less financially resilient to future shocks. They must continue to fund demand-led costs but have limited ability to absorb future cost pressures in the short term because of their low levels of unallocated reserves, which they hold to help manage uneven cash flows and mitigate the impact of unexpected events or emergencies.

2.23 As spending on demand-led costs has increased, local authorities have made significant cuts to discretionary services. Local authorities reported spending, in real terms, £3.1 billion on cultural and leisure services in 2015-16 compared with £2.6 billion in 2023-24, a decrease of 16%. Spend on these services had previously been cut by 29% between 2010-11 and 2015-16, from £4.4 billion to £3.1 billion in real terms. Of those senior council leaders who responded to the 2024 Local Government Information Unit (LGIU) state of local government finance survey:

- 31.9% planned to make cuts to parks and leisure;
- 30.6% planned to make cuts to arts and cultural services; and
- 21.2% planned to make cuts to library services.

Local authority financial responses to pressures

2.24 Individual local authorities are responsible for their own service and financial performance. How well they can meet the current finance and service challenges will be influenced not just by their current choices and attitude to risk but by their financial position, the choices and trade-offs they have made in the past, and their current capacity and capability. However, their ability to react to and absorb swiftly rising service demand and cost pressures can be constrained.

2.25 To reduce costs or provide services more efficiently they may:

- change the way services are provided to lower costs quickly, such as reducing service provision or opening hours where they have the power or scope to do so; and/or
- transform and reconfigure services to deliver them more cost-effectively and meet customer needs better.

Figure 10

A measure of the financial resilience of English local authorities, 2023-24

Local authorities that have low levels of unallocated reserves relative to their spending on demand-led costs, and high spending on these costs compared with their Core Spending Power (CSP), are less resilient and less able to handle financial shocks

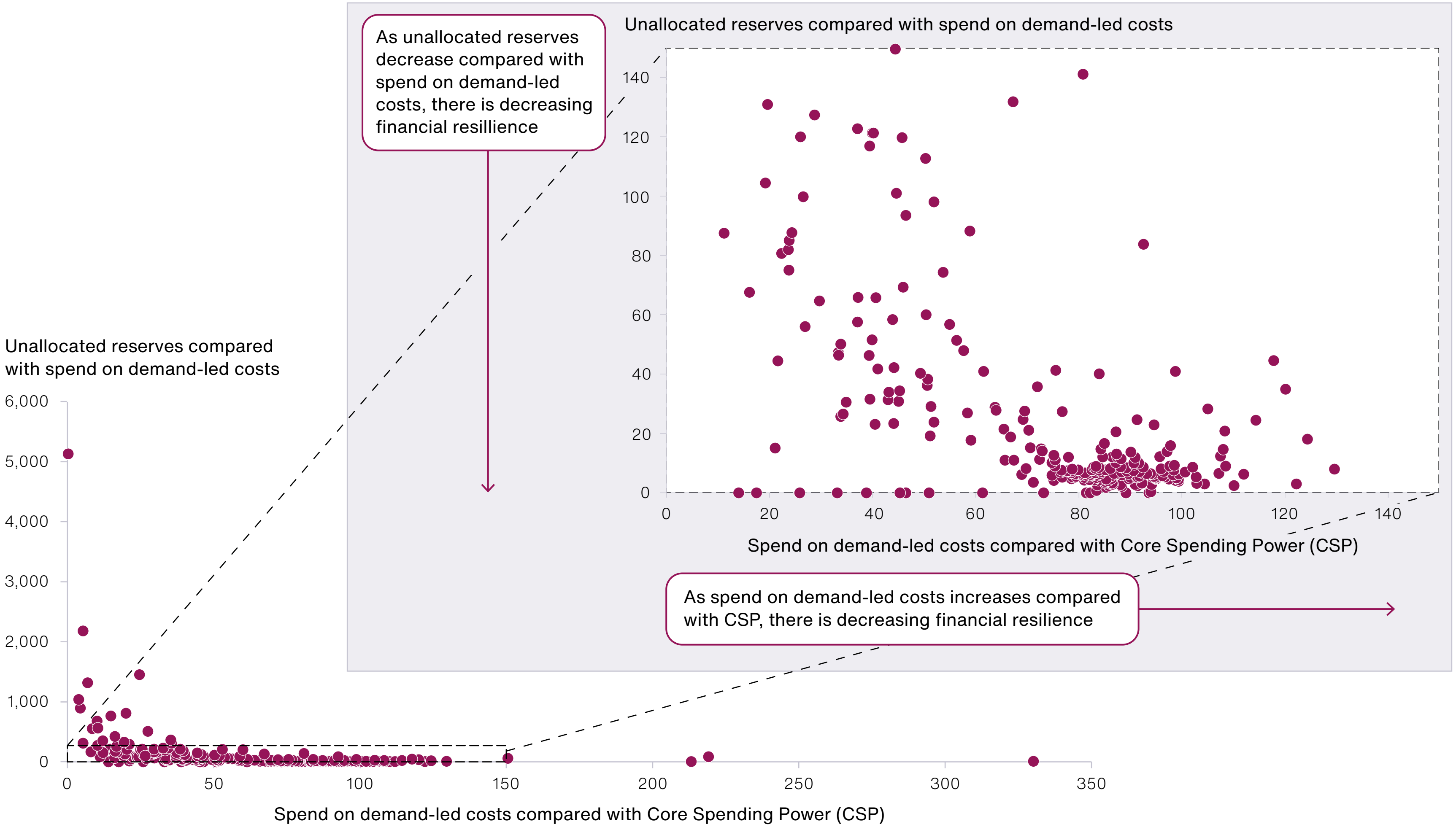


Figure 10 *continued*

A measure of the financial resilience of English local authorities, 2023-24

Notes

1 CSP is the measure of funding available from government grants, council tax and locally retained business rates. It does not include other forms of income such as sales, fees and charges, or income from the NHS. The Ministry of Housing, Communities & Local Government (MHCLG) assumes that council tax is raised to the maximum threshold limit and incorporates an estimate for locally retained business rates, though this may not fully reflect areas participating in higher retention pilots.

2 Unallocated reserves are held by local authorities for unexpected costs or emergencies.

3 Demand-led costs include statutory services such as adult and children's social care, homelessness, waste disposal and financing costs such as debt servicing.

4 Spend on demand-led costs compared with CSP refers to the amount a local authority spends on demand-led services and financing costs compared with CSP. The greater this percentage, the greater proportion of a local authorities CSP is spent on these costs.

5 Unallocated reserves compared with spend on demand-led costs refers to the unallocated reserves held by a local authority compared with an authoritiy's spend on demand-led services and financing costs. The lower this percentage, the lower an authority's unallocated reserves to support spend on these costs.

6 This figure uses a nested scatter plot – a zoomed-in plot within a zoomed-out plot – to highlight trends in the data. The axes of the zoomed-in plot are limited to 150% to emphasise the majority of local authorities, preventing extreme values from skewing the visualisation. This approach, informed by analysis of histograms, provides greater clarity and focuses on the central tendencies within the dataset.

7 This figure includes data for 301 local authorities in England. Fourteen local authorities are absent from this figure as they did not submit data to MHCLG in time for publication in *Local authority revenue expenditure and financing England: 2023 to 2024 – second release*. Separately, we excluded two local authorities to maintain a positive y-axis, making the figure easier to interpret: one which reports income on demand-led services and the other due to a large negative unallocated reserve.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government revenue outturn data

2.26 However, the ability of a local authority to successfully manage transformation at the same time as its existing services is dependent, in part, on the capacity and capability of the individual local authority. Such transformation can also take time to implement and may incur upfront costs. To support this type of transformation, in November 2024, the government extended the flexibility to use the proceeds from asset sales to fund the revenue costs of projects that result in ongoing cost savings or improved efficiency.

2.27 To provide more funding they have a number of options available to them.

- They can use available reserves to balance their budget and fund in-year overspends (paragraph 1.25). Local authorities told us that they were using reserves to balance their budgets for the next financial year. The LGIU state of local government finance survey 2024 reported that 77% of councils said they had used reserves in 2023-24 and that 66% planned to do so in 2024-25. However, as the Local Government Association (LGA) reports, this is a short-term solution, as reserves are assets which can only be used once.

- They can raise sales, fees and charges. The 2003 Local Government Act allows local authorities to charge users for certain services that they have a power to provide. Income from sales and discretionary fees and charges is one of the key income-generating options available to local authorities. Between 2015-16 and 2023-24, local authorities increased this income by £1.4 billion, from £14.1 billion to £15.5 billion in real terms. Local authorities told us there should be greater local discretion on setting fees and charges. They told us there are restrictions on the level at which they can set some fees and charges, and on where the money raised can be spent. They also feel that where fees, such as planning fees, are set nationally, they should enable full cost recovery.

- They can increase council tax. Local authorities have a choice on how much to raise council tax each year within yearly referendum thresholds, although in its calculations of core spending power MHCLG assumes the maximum amount within the referendum threshold. However, as **Figure 11** overleaf shows, the amount a local authority can raise in income from council tax varies depending on the proportion of domestic properties in each valuation band. Some local authorities have a higher proportion of properties in lower bands. An increase in the domestic properties in a local authority area will also increase the amount of council tax available. However, this is offset by an increase in residents using local services and residents who may be exempt from charges.

- They can seek to grow their local economies and therefore their business rates income. Since 2013-14 local government as a whole has retained 50% of business rates income. Where individual local authorities grow the business rates above a baseline, they are able to retain a portion of that growth, providing them with an incentive to develop their local economies.

2.28 In January 2024, at the same time as announcing additional funding for adult and children's social care, the government said it was increasing its focus on local government productivity. It called for local authorities to produce plans setting out how they would "improve service performance and reduce wasteful expenditure". These plans were due to be monitored and used to inform future funding decisions. Following the general election in July 2024, the status of these plans is uncertain.

Figure 11

Illustrative example showing the variation in the amount of council tax local authorities can raise

The amount a local authority can raise from council tax varies depending on its circumstances

	Local authority A (London borough)	**Local authority B** (Metropolitan district council)	**Local authority C** (District council)	**Local authority D** (County council)
Number of households	125,000	204,000	84,000	405,000
Annual council tax charge for a band D property (based on 1991 valuations)	£1,970	£2,189	£2,153	£1,740
Percentage of band D or above properties	64%	9%	29%	52%
Maximum permitted council tax increase for next year (without requiring a local referendum)	4.99% (with social care precept)	4.99% (with social care precept)	2.99%	4.99% (with social care precept)
Additional income raised for next year	£11.8mn	£14.5mn	£4.4mn	£33.0mn
Additional income per household for next year	£94	£71	£52	£82

- Local authority type
- Variables
- Council tax raised

Notes

1 The percentage increase in council tax is a choice for a local authority within the relevant referendum principles. Referendum principles are set each year at the local government finance settlement. If a local authority wishes to raise its council tax above these principles, then it must hold a referendum. For 2024-25 the referendum principle for local authorities with social care responsibilities for the core council tax was 3% and 2% for the their adult social care precept. For district councils the referendum principle was the greater of £5 or 3%. In addition, some local authorities have bespoke arrangements for specific years whereby they can increase their council tax by a greater amount without a referendum.

2 Local authorities A, B, C and D are generated from real-world data and are created by averaging band D values and the number of properties from real councils identified through the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Resilience Index (based on council tax requirements and spending).

3 The method used to create this figure can be found in Appendix Two.

Source: National Audit Office analysis of local authority data

Part Three

The government's approach to local government financial sustainability

3.1 This part of the report examines responsibilities for local government finances and the government's approach to local government financial sustainability.

Responsibilities

3.2 The Ministry of Housing, Communities & Local Government (MHCLG) has overall responsibility for the accountability framework for local government that provides assurance on the financial health of local government. The ministry is responsible for the local government core funding and leads on the oversight of financial risk in individual local authorities and the sector as a whole. It has powers to intervene to support in individual cases and in response to system-wide risks.

3.3 Other government departments, including the Department of Health & Social Care (DHSC) and the Department for Education (DfE), set policy in their respective areas which can affect the financial and service sustainability of local authorities. Departments are supported by HM Treasury, which allocates and controls public spending, including through spending reviews which set spending limits for departments.

3.4 Local authorities are responsible for their own financial management and performance. This includes setting a balanced budget each year. Local councillors need to make choices that balance government policies with local policy ambition, as well as the local authority's financial position and residents' needs. While local authorities are working to balance their budgets, the government recognises that rising service pressures in key areas are making this increasingly difficult.

Cross-government working

3.5 Some of the services which are putting pressure on local authority finances are overseen or influenced by other government departments and public sector organisations, such as the financial pressures arising from the special educational needs and disability (SEND) overspends which are overseen by DfE. MHCLG told us it has good working relationships with these other departments, particularly DHSC and DfE on the social care services they oversee. Our previous work has highlighted the need to look across departmental boundaries to deliver value for money. 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 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.[43]

3.6 We have reported before on the need for whole-system, cross-government approaches to tackle wide-ranging issues. In our recent lessons learned report *Making public money work harder* we highlighted that value for money is wider than day-to-day efficiency and that a whole-system approach recognising interdependencies and consequences and looking across departmental boundaries needs to be taken.[44] In addition, our recent report on *Support for children and young people with special educational needs* recommended the government explicitly consider whole-system reform and building a more integrated system.[45] Our report on *The effectiveness of government in tackling homelessness*, recommended MHCLG lead on developing a genuinely cross-departmental approach. The government has subsequently set up a cross-government taskforce on homelessness.[46]

3.7 Similarly, on health and social care, we have previously identified barriers to improving joint working in a whole-system. These include:

- financial pressures for both the NHS and local government;
- short-term funding arrangements and uncertainty about future funding;
- use of additional funding to address immediate service and financial pressures; and
- complex structural and governance arrangements.[47]

43 Ministry of Housing, Communities & Local Government, *New burdens doctrine: guidance for government departments*, July 2022.
44 Comptroller and Auditor General, *Making public money work harder: Learning from recent NAO work,* Session 2024-25, HC 131, National Audit Office, July 2024.
45 Comptroller and Auditor General, *Support for children and young people with special educational needs*, Session 2024-25, HC 299, National Audit Office, October 2024.
46 Comptroller and Auditor General, *The effectiveness of government in tackling homelessness*, Session 2024-25, HC 119, National Audit Office, July 2024.
47 Comptroller and Auditor General, *The health and social care interface*, Session 2017–2019, HC 950, National Audit Office, July 2018.

3.8 Our most recent report on *NHS financial management and sustainability 2024* said the NHS's future financial sustainability will be significantly affected by what happens in other parts of government and in wider society to improve health outcomes.[48] We also heard that ongoing differences in accountability arrangements and misaligned strategic objectives have made it challenging to progress with joint working.

MHCLG's stewardship of the sector

3.9 MHCLG reviews local authorities' governance, financial management processes, and commercial operations, as well as the sustainability of their medium-term financial outlooks, and the delivery of corporate and key services. It uses the seven themes in the best value guidance to inform this work: continuous improvement, leadership, governance, culture, use of resources, service delivery, and partnerships and community engagement.[49] MHCLG works with other departments, the Local Government Association (LGA) and others to identify local authorities in need of support. The Secretary of State will then decide whether to intervene on a statutory or non-statutory basis where there is evidence of failure or risk of failure.

Assessing local government's funding needs

3.10 MHCLG told us that it convenes other departments to talk about their policy plans and the potential impact on local authority sustainability; however, each department is responsible for making its own decisions and negotiates with HM Treasury at spending reviews for any grants it might provide to local authorities outside of the local government finance settlement.

3.11 To support the government's decisions at events such as the local government finance settlement, budget or spending review, MHCLG carries out a 'need to spend' analysis. As mentioned above, while individual departments are responsible for their own spending plans, MHCLG works with them to deliver a single projection of local authority income and expenditure to HM Treasury which reflects the full range of services delivered by local government.

48 Comptroller and Auditor General, *NHS Financial Management and Sustainability 2024*, Session 2024-25, HC 124, National Audit Office, July 2024.
49 Ministry of Housing, Communities & Local Government, *Best value standards and intervention: a statutory guide for best value authorities,* May 2024.

3.12 The 'need to spend' analysis estimates the funding gap between current funding and future requirements over the spending review period, to maintain services at their current level. To do this MHCLG considers demand drivers such as number of households, population changes and cost drivers such as inflation and wage growth, while factoring in a flat efficiency assumption across local government of 0.5% for the 2024 spending review period. MHCLG told us that it knows some local authorities will be able to achieve this efficiency assumption while others will not because they all have different financial positions and pressures. However, it does not know what level of efficiency saving individual local authorities can achieve. It said it plans to work with other government departments to understand the scope for efficiency savings. Other government departments can supplement the standard analysis with more bespoke data such as service-specific cost drivers for further discussion. The analysis is not a forecast of actual local authority expenditure needs but rather estimates the potential gap in funding between the previous and current years.

3.13 Basing the analysis on service spend in the previous year means that, if spending on a service was reduced, then that reduced spending becomes the new baseline, risking a gradual diminution of services over time. Conversely, if spending increases, then that equally becomes the new baseline. Any bids for additional funding by a department which improves or expands service provision, including addressing unmet need or backlogs in some way, is treated as a 'policy pressure' outside the 'need to spend' analysis.

3.14 While this process identifies funding changes at fiscal events, it is done on a service-by-service basis through bilaterial discussions between MHCLG and other departments. While MHCLG can take a view across departmental submissions, the process does not support a conversation on a joined-up approach to local government funding that helps inform coordinated choices between departments and prioritise competing funding demands. Our recent lessons learned report *A planning and spending framework that enables long-term value for money* highlighted that it is important to have clear priorities at whole-of-government and departmental level, and to use them as a basis for making affordable spending choices.[50]

3.15 In recent years, funding for local government has been allocated in single-year settlements, although the government has published policy statements setting out its intentions (paragraph 1.11). The Hudson review recommended the provisional settlement should be announced around 5 December; however, it has been announced later, limiting the time local authorities have to plan.[51] Other funds are also announced late in the planning cycle. For example, the public health grant was announced in February 2024 for the 2024-25 financial year. Stakeholders have consistently called for multi-year funding settlements to aid long-term planning and decision-making. In response, the government has committed to a return to multi-year settlements in 2026-27.

50 Comptroller and Auditor General, *Lessons learned: a planning and spending framework that enables long-term value for money*, Session 2024-25, HC 234, National Audit Office, October 2024.

51 Andrew Hudson, *Local Government Finance: Review of Governance and Processes*, October 2018.

Cash injections to support local authorities in the short term

3.16 The government has recognised that it is becoming increasingly challenging for local authorities to make choices that sustainably balance the competing service demands they face with available resources. In recent years, it has increased, in cash terms, the funding available to local authorities through the annual finance settlement. However, it has also needed to provide funding injections to help local authorities balance their budgets in the short term. These have included:

- adjustments to the local government finance settlement such as the £500 million additional funds for social care in 2024-25;[52] and
- additional targeted funds such as the £3 million to support local authorities with the rising costs of internal drainage board levies in both 2023-24 and 2024-25.

3.17 The local government finance settlement 2025-26 announced £2 billion of new funding for local government to deliver core services. This includes £880 million for adult and children's social care, £240 million of which will be used to equalise the variation in yield different local authorities can make from the adult social care precept; £270 million for the Children's Social Care Prevention Grant; £502 million to support local authorities with the costs associated with the increase in employer National Insurance contributions; and a £600 million recovery grant targeted at places with greater need and demand for services and less ability to raise income locally.[53]

3.18 There were also additional sums announced including:

- £1 billion uplift for SEND and alternative provision funding;
- £233 million for homelessness services; and
- an uplift to the drainage board levy support grant to £5 million.

3.19 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. On occasion, as with extra money for social care announced in January 2024 (paragraph 3.16), the distribution of these additional monies may also be announced late in the year and after local authorities have set their budgets. On this occasion the local authority allocation for the additional social care grant was published in April 2024.

52 The £500 million in 2024-25 was consolidated into the social care grant.

53 The £502 million made available to support local authorities with the costs associated with the increase in employer national insurance contributions includes monies made available to fire and rescue authorities and the Greater London Authority.

How MHCLG monitors risk in the sector

3.20 Our review of MHCLG's risk monitoring reports covering the period from early 2024 to autumn 2024 shows the overall risk of financial failure across the local government sector remains high. While some of these local authorities appear in more than one category:

- Forty two local authorities have received exceptional financial support from the government to help manage financial pressures;
- between January 2018 and January 2025, seven local authorities had issued ten Section 114 reports between them saying they could not balance their budgets (**Figure 12**); and
- there are currently seven statutory interventions which relate to a local authority's financial governance (Figure 14).[54]

Figure 12

Section 114 reports issued by local authorities between January 2018 and January 2025

Seven local authorities have issued 10 reports under Section 114 saying they cannot balance their revenue budgets

A local authority must set a balanced revenue budget each year. This is unlike an NHS Trust which can run a deficit. If a local authority cannot set a balanced revenue budget or it knows in year that it cannot meet its spending needs, the chief statutory finance officer must issue a Section 114 report under the Local Government Finance Act 1988.

Between 2001 and 2018 there were no Section 114 reports issued. But between 1 January 2018 and 31 January 2025 nine local authorities have issued 13 Section 114 reports between them. Ten of the reports from seven local authorities have been because they could not balance their revenue budget. The remaining three were because of unlawful payments.

Issuing the Section 114 report either stops the unlawful activity or restricts expenditure – usually stopping any new agreements or unnecessary expenditure – and the local authority must debate the notice publicly within 21 days.

Note

1 Section 114 reports are a mechanism to report a financial concern. They are so called as they come from Section 114 of the Local Government Finance Act 1988. The chief statutory finance officer in a local authority is under a duty to issue a formal report if the authority has done or is about to do something that results in unlawful expenditure (Section 114(2)); or the authority is not able to set or maintain a balanced revenue budget (Section 114(3)).

Source: National Audit Office analysis of published information

54 Each intervention is tailored to the circumstances of the local authority. However, it will normally include the appointment of commissioners to oversee specific functions of the council, alongside directions to the council to act in a certain way.

3.21 In February 2024, the previous Levelling Up, Housing and Communities Committee inquiry into financial distress reported that, while some local authority failures have been caused by specific local issues with management or governance, local authorities across the country were facing a “tipping point” due to the systemic issue of insufficient funding to meet their statutory duties.[55]

3.22 MHCLG uses specific risk models to help identify local authorities at greatest risk and to test future funding scenarios. This informs discussions with other government departments, stakeholders and ministers. Being high risk in the models does not mean a particular local authority will fail. So MHCLG uses its risk models alongside a range of other information to help it understand the level of risk both in individual local authorities and overall. This includes:

- direct conversations with local authorities and sector bodies such as the LGA;
- reviewing documents such as local authority governance reports and committee papers, performance and financial data;
- ombudsman inspection findings, LGA corporate peer challenges, and the Chartered Institute of Public Finance and Accountancy (CIPFA) finance and governance reviews; and
- local auditor reports, including on value for money arrangements.

3.23 MHCLG has reviewed and refined its modelling based on learning from those local authorities which have requested exceptional financial support. In response to risks developing in the sector, MHCLG strengthened its oversight of capital borrowing linked to commercial investment.

3.24 MHCLG told us that this strengthened approach to risk monitoring has helped it understand better the risk in the local government sector and to mitigate delays in the local audit system. Although auditors continue to issue a small number of audit opinions on the financial statements and report on significant failings, such as the recent *Report in the Public Interest for Woking Council*, there are significant gaps in the external assurance that local authorities, taxpayers, MHCLG, and central government more widely, should be able to rely on (**Figure 13** overleaf). With hundreds of late reports there is a risk that value for money arrangements have either not been comprehensively reviewed nor reported in good time.

55 Levelling Up, Housing and Communities Committee, *Financial distress in local authorities,* Third Report of Session 2023-24, HC 56, February 2024.

Figure 13

The state of local audit in England

At 31 March 2024, 642 local government body external audit opinions had not been completed and remained outstanding

Role of external local audit	The problem	Actions to resolve
Local government external audit provides transparency and accountability to both taxpayers and their local elected representatives. It provides assurance on the financial information which local authorities use to plan and manage their services and finances. Local audit is also a key part of the Accounting Officer's external assurance, providing them with an independent check on the financial information and arrangements to achieve effectiveness, efficiency and economy in each local authority.	The government has acknowledged that the local audit system is broken, evidenced by a backlog of local government body accounts, including an audit opinion, published by government deadlines. The COVID-19 pandemic exacerbated long-standing problems in local government audit, particularly around competition in the audit market; supply of qualified auditors; and auditing increasingly complex accounts to higher regulatory standards. At 31 March 2024, 642 local government body external audit opinions were outstanding. Of this total, 348 related to 2022-23, and 294 to earlier years. For 2022-23 out of the expected 467 audit opinions due, just 119 were delivered on 2022-23 accounts, meaning only 25% of local audited bodies had up-to-date external audit assurance on their 2022-23 financial statements.	The government has introduced regulations to set backstop dates by which local government bodies must publish their audited accounts. A revised *Code of Audit Practice 2024*, came into force in November 2024 which requires auditors to give their their audit opinion in time to enable local bodies to comply with a backstop date. It also requires auditors, even where they have not been able to complete all their work, to issue their Annual Report, including their work on arrangements to secure value for money by the end of November each year from 2025. At the first back stop date of 13 December 2024 for the audit of accounts up to 2022-23, 215 (or 46%) local audited bodies received 361 disclaimed opinions. This happened because the legal requirement for audited accounts to be published by 13 December 2024 created a time constraint which meant the auditor was unable to gather sufficient appropriate evidence to conclude on whether the financial statements were materially misstated. In December 2024 the government published a strategy to overhaul the local audit system, which includes a range of reform measures to 'fix the broken local audit system'.

Notes

1 The 642 covers all the local government bodies for which Public Sector Audit Appointments (PSAA) appoints an external auditor. PSAA contracts cover around 98% of eligible bodies.

2 Local government bodies include local authorities, local police bodies, local fire bodies and other bodies such as combined authorities, functional bodies, local transport authorities, national parks authorities, pensions authorities and waste disposal authorities.

3 At the first backstop date of 13 December 2024 some local bodies received more than one disclaimed opinion because they had more than one audit opinion outstanding.

4 The National Audit Office *Local Audit Reset and Recovery Implementation Guidance (LARRIG-03) Modifications of independent auditor's opinions on the financial statements for audits of English local authorities,* (issued on 13 November 2024), Section 3 explains disclaimed opinions further.

Source: National Audit Office analysis of published government and Public Sector Audit Appointments information

The government's response to failure

Intervention

3.25 Where there is evidence that a local authority is not meeting the Best Value Duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in how it carries out its work, the government has powers to intervene. Failing to meet the Best Value Duty could relate to governance, the delivery of services or financial management.

3.26 Due to the specific risks attached to capital expenditure, such as excessive borrowing and inappropriate investments, The Levelling Up and Regeneration Act 2023 gave government powers to investigate and remediate extreme risk. The Act includes specific capital risk metrics that can trigger the powers and prompt consideration of further actions, including seeking further information, setting limits on borrowing, and selling assets.

3.27 MHCLG's statutory best value guidance, sets out the case to engage early to support local authorities to prevent any challenges experienced by the local authority from escalating. The guidance sets out the guiding principles (paragraph 3.9) and models of intervention, including the non-statutory measures available to ministers.

3.28 Where concerns remain, MHCLG has a range of interventions it can use to support a local authority (**Figure 14** overleaf). DfE and DHSC have their own service-specific inspection regimes and means of intervention. For DfE, this includes interventions to address overspending on high needs school budgets.

3.29 The aim of intervention is to resolve incidents of failure to the point where the authority can demonstrate that it has the capacity and capability to maintain its improvement without the need for further external involvement. The exit strategy out of intervention will be tailored to the circumstances of the local authority.

Measures to support local government finances

Exceptional Financial Support

3.30 To support local authorities facing unmanageable financial pressures MHCLG has the Exceptional Financial Support (EFS) framework. Since its introduction in 2020-21, 42 local authorities have received over £5 billion of support through the EFS framework. Thirty received support to balance their budgets in 2025-26, 13 of these receiving support for the first time. The reasons for EFS vary. They include poor financial management, overspends on adult and children's social care, rising temporary accommodation costs, and equal pay claim liabilities.[56]

56 Details of support granted to local authorities that have requested Exceptional Financial Support are available on the government website: https://www.gov.uk/government/collections/exceptional-financial-support-for-local-authorities

Figure 14

Overview of the Ministry of Housing, Communities & Local Government's (MHCLG's) intervention powers to support a local authority at financial risk

As at 31 January 2025 MHCLG was using a range of interventions to support local authorities

Assurance and early engagement

- **Assurance visits,** eg targeted risk visits and engagement calls
- **Best Value notices** to set expectations
- **Section 230 letters** for more information

- **Current Best Value notices: 2**
- **Lapsed Best Value notices: 9**

Evidencing failure

- **Statutory Best Value inspection**
- **Independent reports**, eg external audit
- **Government commissioned reviews**, eg Chartered Institute of Public Finance and Accountancy (CIPFA) governance and/or finance reviews

- **Current statutory inspections: 2**

Non-statutory interventions

- **Improvement boards** appointed by the Secretary of State
- **Improvement boards** requested by ministers
- **Sector-led intervention**

Statutory interventions

- **Commissioner-led intervention** able to exercise powers over specified functions
- **Improvement board** with a power to direct certain actions
- **Local inquiry**

- **Current statutory interventions: 7**
- **Previous statutory interventions: 6**

Note

1 One of the current Best Value notices is for a combined authority. And two of the lapsed Best Value notices were for one combined authority.

Source: National Audit Office analysis of published government information

3.31 In most cases MHCLG has provided support through an in-principle agreement to use capital flexibilities, followed by a formal capitalisation direction. This relaxes normal local government accounting rules that would prohibit using capital finances to fund day-to-day spending. EFS allows a local authority to either borrow or sell assets and use the proceeds to set a balanced revenue budget. Before EFS is finalised, MHCLG commissions an external finance or governance review or both from CIPFA. These findings inform ministerial advice and conditions of support, which may include further engagement with the local authority.

3.32 EFS helps local authorities avoid issuing a Section 114 report, where they have not already done so. Although six of the local authorities that have received EFS had previously issued a Section 114 report because they could not balance their budgets, it has likely helped other local authorities avoid one.[57] An LGA survey published in October 2024 found that as many as 44% of single-tier authorities and county councils considered they would be likely to issue a Section 114 report at least once in 2025-26 or 2026-27 if EFS did not exist.

3.33 While EFS has provided support in the short term, it does not address the underlying cause of overspending and creates longer-term risks for local authorities as they must borrow or sell capital assets to finance revenue. Any borrowing must be from the Public Works Loan Board and paid back within 20 years. Prior to the Autumn 2024 budget which removed the condition, the borrowing attracted a 1% penalty premium. Any additional borrowing will add to local authorities' debt and interest costs, removing money available to pay for services to people over the long term.

Safety Valve and Delivering Better Value programmes

3.34 Each year, since 2016-17, most local authorities with SEND responsibilities have overspent their DfE funded annual dedicated schools grant (DSG) high-needs budget. This budget supports pupils and students with SEND and alternative provision. As well as the immediate financial pressure, this annual overspend has built up deficits.

3.35 In 2022-23, 101 local authorities overspent their high-needs budget. To ensure there is enough cash to meet high-needs payments in year, local authorities have told us they have had to use reserves, which could mean borrowing more than they otherwise would for other purposes. Local authorities' budgets indicate that this overspending will lead to a total deficit of £2.9 billion at the end of 2024-25. Estimates suggest that, by 2027-28, the total in-year overspend on DSG may be between £2.9 billion and £3.9 billion.

3.36 From 2020-21 onwards, DfE introduced support for local authorities to manage financial challenges with their DSG. Its Safety Valve programme aims to support those local authorities with the highest DSG deficits. DfE committed funding of up to £1.2 billion in grants to local authorities between 2020-21 and 2031-32 to reduce cumulative deficits. In May 2024, it assessed that 22 out of 33 participating local authorities were on track to realise expected savings. In 2022, DfE launched the Delivering Better Value programme for local authorities without a Safety Valve agreement but with substantial deficits. Now in its second phase, the programme has been focusing on implementation plans for improving outcomes and optimising finances for the 54 local authorities which opted in.

57 Northamptonshire County Council issued a Section 114; however, it has since undergone reorganisation into North and West Northamptonshire, who have both received EFS.

3.37 Since 2020, MHCLG has allowed local authorities to exclude DSG deficits from their main revenue budgets until March 2026. This accounting treatment (the 'statutory override') means local authorities do not breach their statutory duty to set a balanced revenue budget. However, the override does not address the underlying financial pressure.

3.38 DfE recognises that immediate action is needed to address short-term financial challenges given the accumulated deficit, which under its central estimate will be £4.6 billion by March 2026. It also estimates that 50 local authorities (33%) will have cumulative deficits larger than their reserves at the end of 2025-26, with a further 16 (10%) estimated as needing to spend 75% of their reserves to clear their deficits. Some 43% of local authorities may therefore be at risk of needing to issue a Section 114 report if the statutory override ends as planned in March 2026.[58]

3.39 Our report on *Support for children and young people with special educational needs* found there is currently no identified solution which can be implemented quickly and which ensures pupils and students with special educational needs continue to have their needs met.[59] DfE is working with HM Treasury and MHCLG to develop a longer-term solution. We recommended they explicitly consider whole-system reform, to improve outcomes for children with special educational needs and put special educational needs provision on a financially sustainable footing.

3.40 Following our report, in December 2024 DfE announced that £740 million of new funding will be made available to adapt classrooms to be more accessible for children with SEND, and to create specialist facilities within mainstream schools. DfE also announced that it will not enter into any more of its Safety Valve agreements for local authorities in financial deficits, pending wider reform of the whole-system to prioritise early intervention.

Local government finance system reform

3.41 Central government acknowledges the local government finance system is complex and outdated with long-standing plans for reform not taking place. The previous Levelling Up, Housing and Communities Committee emphasised in 2023 that, while there had been some failures of local leadership and decision-making which have caused acute financial distress in specific local authorities, system-wide issues are driving general financial distress across the sector.[60]

58 Comptroller and Auditor General, *Support for children and young people with special educational needs*, Session 2024-25, HC 299, National Audit Office, October 2024.

59 In that report we use 'special educational needs' to refer to all children and young people with special educational needs, including those whose needs arise because of a disability.

60 Letter from the Chair of the Levelling Up, Housing and Communities Committee to the Secretary of State for Levelling Up, Housing and Communities dated 27 November 2023 concerning *Financial Distress in Local Authorities:* https://committees.parliament.uk/publications/42311/documents/210399/default/

3.42 In our 2021 finance overview we highlighted that the reform of relative funding levels of local authorities and business rates reform have been delayed several times.[61] We stressed the importance of these changes for keeping the system, and elements underpinning it, current.

3.43 Locally generated income, particularly council tax, business rates, and sales, fees and charges now make up most of a local authority's income. Council tax, like business rates, is a property-based tax and, as the previous Levelling Up, Housing and Communities Committee found, the ability to generate business rates and council tax does not relate to the cost of services or the needs of the residents.[62] As Figure 11 showed, the ability to raise council tax depends on several factors, including the number or percentage of properties in each council tax band, the current value of the band D equivalent, and the existing council tax rate. Services which can raise sales, fees and charges (see paragraph 2.27) may not be those that are putting pressure on a local authority's budget and there are often restrictions on the level that can be charged (for example, planning fees), or market competition (for example, leisure centres) that dictate the level of charges and the services for which they can be used to fund (for example, parking fees can only be used to support transport services).

3.44 Local government funding, as set out in the local government finance settlement (paragraph 1.10), as well as other grants to deliver specific policy objectives, is distributed based on outdated assessments of need. For example, the formula for the adult social care grant has not changed since 2013-14. We heard from local authorities how growing populations, the change to the mix of younger and older residents, and growing levels of deprivation were putting different pressures on local services and had broken any link between funding assessments and current needs. As a result, the government has needed to top up, redistribute and equalise core elements of funding, such as the social care grant, to compensate for different local circumstances.

Plans for reform

3.45 Local government finance reforms have been promised over the years. These include reforms to council tax, business rates and funding distribution. Some reforms are long-standing; business rates reform was first proposed in 2015. In late 2017, a consultation on proposed changes to the relative needs and resources for local authorities was launched. However, work on all reforms was paused in April 2020, during the COVID-19 pandemic, to allow local authorities to focus on meeting the immediate public health challenge.

61 Comptroller and Auditor General, *The local government finance system in England: overview and challenges*, Session 2021-22, HC 858, National Audit Office, November 2021.
62 See footnote 55.

3.46 In autumn 2024 the government committed to a set of reforms aimed at returning the local government sector to a sustainable position over the medium term. It also announced a return to multi-year finance settlements in 2026-27. In December 2024, three consultations on local government reform were launched alongside the consultation for the provisional local government finance settlement 2025-26. These included reforms to:

- strengthen the standards and conduct framework for local authorities in England;
- the objectives and principles for local authority funding reform; and
- the local audit system in England.

3.47 In November 2024, the government announced plans to reform children's social care, taking a whole-system, child-centred approach, and in December 2024, published a devolution white paper. This white paper set out plans for strategic authorities and local government reorganisation in two tier areas, and unitary authorities where there is evidence of failure or where their size or boundaries may be hindering their ability to deliver sustainable and high-quality public services.

3.48 As the government considers how best to reform the local government finance system it will need to consider several finance issues while also considering how to address the service pressures we have highlighted in Part Two. These pressures are wide-ranging, and addressing them will require a fundamental overhaul of all components of local government funding as well as the way specific services, such as homelessness and social care, are funded (**Figure 15**).

Figure 15
Local government finance system reform

Selected issues for government to consider as it reforms the local government finance system

Issue	Description
Underpinning methodology to the funding assessment	The methodology behind the funding assessment was introduced in 2007 and has not been updated since the introduction of the 50% business rates retention system in 2013-14. This means the methodology may not accurately reflect demographic changes or the costs of delivering services by local authorities.
Needs indices	Needs indices for formula funding have not been updated since 2013-14. The government has not updated the adult social care relative needs formula it uses as part of its overall funding formula since 2013-14, which itself uses assumptions from the 2001 census.
Council tax distribution	Council tax funding is based on property values from 1991. Since then, the relative prices of different properties have changed significantly. Official estimates suggest the average price in London is now more than six times what it was in 1995, compared with three times in the North East.
Business rates	Previous plans set out the intention to increase the proportion of business rates retained by local authorities to 75%. However, this aim was abandoned in late 2021. A reset of accumulated business rates growth proposed to take place in 2020-21 did not take place. This means that business rates retained by local authorities have not been reset since 2013-14.
Social care precept	Authorities with social care responsibilities can raise additional funds through the council tax social care precept. Since less deprived areas can generate more funding this way, equalisation funding is provided to more deprived areas from the social care grant. Equalisation funding helps address funding disparities in the short-term but shows the disjointed nature of funding and the reliance on additional central government funding.
Adult social care charging reform	In July 2024, the planned charging reform and the proposed cap on care costs was postponed. £3.1 billion of funds previously provided by the government to prepare for these reforms were diverted to fund existing adult social care services.
Local Housing Allowance (LHA) rates	The Temporary Accommodation Subsidy – the amount local authorities can reclaim from government – is based on Housing Benefit rules and the LHA rate from January 2011. This rate has not kept up with rising temporary accommodation costs, and local authorities have told us this gap (around £205 million in 2022-23) is having a significant increasing impact on financial pressures.
Fees and charges	These make up a substantial portion of local authority income. Where services are discretionary, local authorities can decide how much to charge if they do not make a profit. Other services have their fees and charges set centrally. Central government recognised the important role fees and charges play in local authority income with its compensation scheme during the COVID-19 pandemic. Local authorities told us that they feel there should be greater local discretion on setting fees and charges and, where they are set nationally, they should enable full cost recovery.

Source: National Audit Office analysis of government announcements and information

Appendix One

Our audit approach

1 This report focuses on the work of the Ministry of Housing, Communities, & Local Government (MHCLG) as the responsible department for the core local government accountability framework for local authorities. It examines whether MHCLG's management of the local government financial system will provide financial sustainability. The evaluative criteria that we used to assess value for money included:

- the context of local government finances in 2024;
- service and financial pressures; and
- the government's approach to local government financial sustainability.

2 Our fieldwork was completed between May 2024 and October 2024, spanning the change in government at the July 2024 General Election.

3 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 allow us to present the longest time frame for which there were consistent, comparable data. Where possible we have presented the most recent data. However, some government datasets cover different time periods, for example, some cover financial years and others cover calendar years. Where we have used data covering different time periods we have stated it in the notes.

4 Responsibility for local government is devolved to the governments of Northern Ireland, Scotland and Wales. The situation of local government finances in those nations is not considered in this report.

5 We define 'local authorities' as principal councils. These include London borough councils, metropolitan district councils, county councils, district councils and unitary authorities. We exclude combined authorities, Police and Crime commissioners, stand-alone fire and rescue authorities, national park authorities and the Greater London Authority.

6 In forming our conclusions, we drew on a variety of evidence sources, outlined in the following paragraphs. We structured and analysed this evidence using our evaluative criteria as a framework, synthesising insights from multiple sources to support each finding. Our approach combined qualitative and quantitative analyses conducted throughout our fieldwork, with ongoing analysis refining our understanding as the work progressed. For clarity, we have arranged this methodology appendix by method and divided it into separate sections for quantitative and qualitative approaches.

Qualitative analysis

Literature review

7 We reviewed relevant research and publications on local government financial sustainability, including past National Audit Office (NAO) reports, academic studies and reports from charities and other interest groups. This ongoing review informed the scope of our study, shaped our audit questions and methods, and helped refine our approach and analysis throughout the fieldwork and drafting stages. It was particularly useful in guiding our interviews, quantitative analysis, and local authority case examples.

Interviews with government departments

8 We carried out 10 interviews with officials from MHCLG, selected to participate because of their job roles and their relevance to the audit. We selected these officials because they were involved in, and were therefore able to provide insights about, MHCLG's approach to local government financial sustainability. This included staff responsible for (or involved in):

- risk modelling, data and analysis;
- local taxation and pensions;
- local government funding strategy;
- funding distribution and reform;
- system reform and grants;
- financial stewardship; and
- service provision – namely social care, and special educational needs.

9 Interviews with MHCLG officials took place between June 2024 and October 2024. Interviews were carried out online and typically lasted one hour, and detailed notes were taken. Interviews focused on the following topics and were tailored to the job roles of those being interviewed:

- roles and responsibilities;
- context and challenges for MHCLG and local authorities for the areas covered; and
- future challenges and opportunities and potential solutions.

10 We summarised our interview notes into key points at the top of each notes document. These summaries were guided by our audit questions, evaluative framework, and themes emerging from our data analysis and fieldwork. We regularly reviewed these summaries to:

- inform further lines of enquiry that were followed up with MHCLG officials;
- enhance our understanding of the context and challenges facing the sector, and potential solutions;
- draw comparisons between interviewees;
- triangulate evidence from other sources (including our literature review, document review, and evidence from wider stakeholders and service users);
- identify key findings and track the evolution of these findings over time; and
- report on MHCLG's perspective and its views on the financial and wider position of the sector.

Interviews with officials from other government departments

11 To understand the broader policy context within which local authorities operate, we also interviewed officials from other government departments whose policy remits impact on local government service delivery and financial sustainability. A list of relevant officials was provided to us by MHCLG and triangulated with our internal knowledge base and expert consultations to identify departments whose policies have the most significant impact on local authority financial sustainability.

12 We conducted interviews with officials from the following departments:

- the Department for Culture, Media & Sport (DCMS);
- the Department for Education (DfE);
- the Department of Health & Social Care (DHSC); and
- HM Treasury.

13 Interviews with officials from other government departments took place between June 2024 and August 2024. Interviews were carried out online and typically lasted one hour, and detailed notes were taken. Interviews focused on the following topics and were tailored to the job roles of those being interviewed and the services that fell under the remit of each department:

- roles and responsibilities;
- key issues facing services; and
- engagement and joint working with MHCLG and other government departments.

14 We summarised our interview notes into key points at the top of each notes document. These summaries were guided by our audit questions, evaluative framework, and themes emerging from our data analysis and fieldwork. This analysis was used to:

- inform further lines of enquiry that were followed up with either MHCLG or other government departments;
- report on the views of other government departments;
- understand the interaction cross-government on local government; and
- triangulate evidence from other sources (including our literature review, document review, and evidence from wider stakeholders and service users).

Interviews with wider stakeholders

15 To ensure a comprehensive understanding of local government financial sustainability, we engaged with a wide range of stakeholders throughout the study. This engagement served to:

- refine the scope of our research and ensure it addressed the most pressing issues;
- develop our knowledge base of the topic and identify relevant existing literature;
- test emerging findings and hypotheses to ensure their validity and relevance;
- gather diverse perspectives on the challenges and potential solutions related to local government finance; and
- triangulate evidence from various sources to strengthen the robustness of our findings.

16 Stakeholders were identified through a combination of:

- desk research, including reviewing relevant reports, publications, and academic literature;
- consultations with MHCLG; and
- our internal knowledge-base of experts and contacts in the field of local government finance.

17 We conducted online interviews, typically lasting an hour. These interviews occurred between March 2024 and October 2024. We spoke to the following stakeholder groups:

- Sector experts:
  - Centre for Urban and Regional Development Studies at Newcastle University;
  - the Institute for Fiscal Studies (IFS); and
  - the Institute for Government (IfG).
- Local government representatives:
  - the Society of Local Authority Chief Executives and Senior Managers (SOLACE);
  - the Chartered Institute of Public Finance and Accountancy (CIPFA);
  - the Local Government Association (LGA);
  - London Councils;
  - the District Council Network (DCN);
  - the County Council Network (CCN);
  - the Special Interest Group of Municipal Authorities (SIGOMA); and
  - the Society of County Treasurers (SCT).

18 In these interviews, we explored a range of topics, including:

- the context of local government finance in 2024;
- the impact of local government finance on service delivery and quality;
- the government's approach to the local government finance system; and
- key priorities for reform to the local government finance system.

We took interview notes and identified key points raised against our audit questions and evaluative criteria.

Case study discussions with local authorities

19 To gain in-depth insights into the operational realities faced by local authorities we conducted case study discussions with local authorities. These discussions took place between September 2024 and November 2024. These discussions aimed to:

- develop our understanding of the key financial challenges and demand pressures facing local authorities;
- explore how government departments engage with and support local authorities in addressing these challenges; and
- understand the impact of changes in funding, costs, demand, and need on service delivery, performance, and quality.

20 Case study local authorities were recruited through wider stakeholder groups (DCN, SIGOMA and London Councils) to ensure a diverse sample, including different authority types and geographical spread. While this approach was inherently self-selecting, efforts were made to mitigate this limitation by requesting that wider stakeholders provide a broad range of potential case study authorities.

21 In total, we were in contact with 16 case study authorities. In most cases, we spoke to the local authorities' finance director or chief executive. We conducted online interviews, and meeting notes were taken. The local authorities we spoke to were:

- Great Yarmouth Borough Council;
- Tunbridge Wells Borough Council;
- Chelmsford City Council;
- West Lindsey District Council;
- Wyre Forest District Council;
- Hull City Council;
- Newcastle City Council;
- Manchester City Council;
- Southwark Council;
- Newham Council;
- Barnsley Metropolitan Borough Council;
- Havering Council;
- Cornwall Council;
- Adur & Worthing Councils;[63] and
- Greater Manchester Combined Authority.

63 Adur and Worthing Councils are two separate local government bodies that operate under a joint management structure, with a single chief executive.

Roundtable discussion with district councils

22 To further our understanding of the challenges faced by district councils, we hosted a 90-minute online roundtable discussion in September 2024, facilitated by the DCN. The insights from the roundtable informed the remainder of our interviews with local authorities and other fieldwork. We aimed to use this discussion to:

- understand the specific financial challenges facing district councils;
- challenge and refine our emerging findings; and
- test whether our findings were realistic and relevant to the experiences of district councils.

23 The following district councils attended the roundtable:

- Brentwood Borough Council and Rochford District Council;[64]
- South Derbyshire District Council;
- Hinckley & Bosworth Borough Council;
- North Herts Council;
- Havant Borough Council;
- Crawley Borough Council;
- Tamworth Borough Council;
- South Hams District Council;
- Broxtowe Borough Council;
- West Devon Borough Council; and
- Wyre Forest District Council.

Data analysis

24 Data from all stakeholder engagement activities with local authorities (case study interviews and roundtable discussion) were analysed thematically. We used a descriptive approach, organising key points and insights from interview notes under the following themes:

- the cost and demand pressures faced by local authorities;
- how pressures differ across different types of local authorities;
- workforce capacity and capability challenges; and
- engagement with MHCLG and other government departments.

64 Brentwood Borough Council and Rochford District Council operate under a strategic partnership with a single chief executive.

25 We used the analysis to:

- inform further lines of enquiry that were followed up with MHCLG and other government departments;
- provide specific, real-world examples to illustrate key points in our report; and
- triangulate evidence from other sources, including our literature review, document review, and evidence from wider stakeholders and service users.

Document review

26 We reviewed a range of departmental documents to assist with defining the parameters of the audit and deepen the study team's understanding of the topic. This included a review of:

- example agendas for relevant board meetings and meeting minutes;
- outcome metrics included in relevant modelling;
- organograms and management structures;
- evidence on Section 31 grant guidance;
- documents relating to MHCLG's 'need to spend' analysis; and
- performance-monitoring dashboards.

27 Our review was carried out between June 2024 and August 2024.

28 We captured information from the documents with reference to our key audit questions. This was done to help ensure that documents sent to us were within scope. We used our review of documents to inform questions we asked MHCLG during interviews; contextualise our interview notes with government officials, stakeholders, and local authorities; and triangulate against other evidence sources.

Quantitative analysis

Adjusting for inflation

29 Unless otherwise stated, all financial data are presented in cash terms (not adjusted for inflation). Where financial data have been converted into real terms, we use the GDP deflator series published by HM Treasury in December 2024, with 2023-24 as the base year (unless stated otherwise). This allows for a fair comparison of financial data over time by removing the effects of inflation and isolating real changes in spending or revenue. HM Treasury have created guidance on GDP deflators.[65]

65 HM Treasury, *GDP deflators at market process, and money GDP*, January 2025.

Missing data

30 In some instances, our analysis is conducted at the individual local authority level. Local authorities with missing data were excluded from any calculations that require a complete time series. This ensures that our calculations are based on consistent and comparable data across all authorities included in the analysis. For revenue expenditure, to avoid situations where a local authority did not submit data, we have used MHCLG's grossing estimation for class totals. In 2023-24 there was a 96.6% submission rate for the second release of the *Local authority revenue expenditure and financing England* dataset. Class totals are estimated by MHCLG by drawing on raw data from the previous year and adjusting for average changes in the relevant financial year. Where individual local authorities have been excluded, this is clearly indicated in the relevant analysis.

31 For analyses conducted at an England-wide level, data are calculated by summing the totals for each of the five types of local authority. These data are imputed by MHCLG to account for missing or irregular data (see above for grossing estimates). It is important to note that, due to this imputation, England-wide data presented in this report may not equal the sum of data submitted by individual local authorities. The approach taken in this report is consistent with previous NAO analysis, and we have checked the validity of this approach with MHCLG analysts.

Data quality

32 While we have removed authorities with missing data where appropriate, we have not attempted to identify or address any other potential reporting errors in the datasets. It is possible that reporting errors in the underlying data could affect our findings. Readers are encouraged to consult other data sources, such as authorities' annual accounts, to understand local authority accounts in further detail.

Datasets

33 To assess the financial position of local authorities and analyse trends in spending, revenue, capital and reserves, and service demand we analysed the following publicly available datasets from MHCLG.

Core Spending Power (CSP)

34 CSP is a measure of the funding available to local authorities, from government grants, council tax, and locally retained business rates through the local government finance settlement. MHCLG assumes that council tax is raised to the maximum threshold limit and incorporates an estimate for locally retained business rates, though this may not fully reflect areas participating in higher retention pilots.

35 We have used CSP to:

- present changes in funding for local authorities since 2015-16; and
- provide context for other financial indicators, such as reserves, by presenting them as a proportion of CSP.

Local Authority Revenue Expenditure and Financing data

36 Local authorities submit annual returns to MHCLG detailing their funding sources and day-to-day service expenditure. We used data from the RO (revenue outturn), RS (revenue summary) and RG (revenue outturn specific and special revenue grants) spreadsheets within this dataset to analyse and present local authority revenue expenditure. For 2023-24 we used the *Local authority revenue expenditure and financing England: 2023 to 2024 – second release* dataset, which was published on 12 December 2024.

37 To facilitate our analysis, we:

- aggregated expenditure data by service type: this allowed us to examine spending patterns across key service areas; and
- focused on net current expenditure: this measure reflects spending funded by an authority's own resources (business rates, grants and council tax), providing a clearer picture of financial pressures on local authorities. In some cases, an authority may have negative net expenditure in a particular service area. This indicates that income generated from that service (for example, fees and charges) exceeded its net cost, effectively resulting in net income for that service.

38 There have been a number of adjustments made to net revenue expenditure for different services to reflect accurate service expenditure.

- For adult social care, we have included income from the NHS (from the *Adult Social care Activity and Finance Report*). Although district councils do not have social care responsibilities, we have included any reported expenditure in the final value.
- For environment and regulatory services, we have included the Waste Disposal Authority Levy paid by local authorities to waste disposal authorities.
- For highways and transport services, we include the Integrated Transport Authority Levy paid to passenger transport authorities.
- For education spend, we have removed spending by schools and spending passed through local authorities. This includes the Dedicated Schools Grant, the Education Services Grant, the Pupil Premium Grant, Universal Infants Free School Meals, Adult and Community Learning and Skills Funding Agency, Sixth Form Funding from the Education Funding Agency, appropriations to/from dedicated schools' grant reserves, and appropriations to/from schools' reserves.

Local Authority Capital Expenditure and Financing data

39 Local authorities also submit annual returns to MHCLG detailing their capital expenditure and financing. We used data from MHCLG's annual capital outturn return (COR) dataset for this analysis.

Capital expenditure

40 We analysed total capital expenditure by service area and type, including expenditure on fixed assets and financial expenditure. To ensure consistency and comparability, we:

- excluded 'other transactions': this category includes transactions that are not directly related to capital investment in service areas;
- excluded expenditure on education services: we excluded capital expenditure on education services as it is not possible to identify and fully exclude individual elements from the data; and
- included expenditure on council-owned housing stock: from the data we cannot isolate capital spending on council-owned housing stock; all capital spending on housing is included here as we believe excluding it would remove substantial relevant capital spend.

Capital funding

41 Local government capital expenditure and financing figures may not match in a single year due to the multi-year nature of capital projects, use of reserves, and timing of asset sales. In addition, our analysis of capital financing includes capital spending across all service areas, as it is not possible to identify individual service areas within these data. This means that the capital financing data are not directly comparable with the capital expenditure data, which exclude certain service areas as described above.

42 Local authority borrowing is largely self-regulated within the prudential framework of underlying legislation and four statutory codes and thus is known as 'prudential borrowing'. Within the parameters of this framework, authorities are responsible for their own borrowing and investment decisions. In particular, the CIPFA Prudential Code sets out guidelines for local authorities to make sure their capital programmes and borrowing are prudent, affordable and sustainable, given the impact on revenue.[66] Data on prudential borrowing include both external borrowing and internal borrowing. Internal borrowing is a treasury management practice where an authority temporarily uses cash held for other purposes (for example, earmarked reserves) to fund capital expenditure, delaying the need for external borrowing.

66 CIPFA, *The prudential code for capital finance in local authorities* (2021 Edition), December 2021.

Local authority reserves data

43 Local authorities submit annual returns to MHCLG detailing their reserves, which are funds set aside for future needs. We used data from the RS section of the revenue expenditure and financing data for our analysis of reserves.

44 To monitor reserves, MHCLG uses a metric called 'non-ringfenced reserves', which consists of 'other earmarked' and 'unallocated' reserves. These are reserves that are not designated for specific purposes and provide local authorities with greater flexibility in how they are used.

45 To collect data on total reserves held by local authorities, we used the gross totals for each type of local authority. This is because some individual local authorities do not submit complete reserves data, and MHCLG conducts an imputation process to create estimates by type of authority.

46 To ensure accurate comparisons of reserves over time, we accounted for local authority reorganisation by presenting authorities based on their current (2023-24) configuration and tracking local authority code changes over time. We used the Office for National Statistics Code History Database to track these reorganisations.

Engagement with MHCLG

47 To ensure the accuracy and appropriate interpretation of our data analysis, we held discussions with MHCLG officials to:

- discuss the presentation of key contextual numbers, including CSP, revenue expenditure, capital financing and expenditure, and reserves;
- determine the most appropriate start date for our analysis, considering the trade-offs between data availability and comparability; and
- ensure that our analysis aligned with MHCLG's understanding of the data and their limitations.

48 These discussions were conducted in addition to our formal interviews with MHCLG officials, which are described in the stakeholder engagement section of this report.

Individual service areas

49 We analysed publicly available data to provide insight on local government services, including adult social care, children's social care, special educational needs, and homelessness. The key data sources used in this report are as follows.

- **H-CLIC:** MHCLG releases quarterly statistics on statutory homelessness applications, activities under different duties to combat homelessness (prevention, relief and main duties), and use of temporary accommodation. We analysed these data to present data on homelessness levels and trends.
- **Education, health and care plans data:** DfE publishes data on children and young people with an education, health and care (EHC) plan in England and, historically, for those with a statement of special educational needs (SEN). Data are presented as at January of each year. We analysed these data to present data on EHC plan caseloads and trends.
- **Local authority and school expenditure:** DfE publishes data relating to income, expenditure and revenue reserves of local authority-maintained schools for the financial year. The dataset includes expenditure on schools, education and community services, and children's and young people's services. These data are based on Section 251 returns, and we used this dataset to show expenditure on children's and young people's services (including early and late intervention spend). Data are published in December each year.
- **Children looked after in England including adoptions:** DfE publishes data on children looked after (CLA) in England, including numbers of CLA adopted, care leavers, CLA who were missing from their placement, and the number of unaccompanied asylum-seeking CLA. Data are released as at March of each year. We analysed these data to present data on the number of CLA in England.
- **Adult Social Care Activity and Finance Report (ASC–FR):** NHS England publishes data regarding adult social care activity and finance on local authorities with Adult Social Services Responsibilities in England. Data cover financial years. We analysed these data to analyse trends in adult social care in England.

Appendix Two

Figure 11 methodology

1 Figure 11 demonstrates how council tax revenue can vary significantly across local authorities in England. To illustrate this, we developed a comparative model creating four fictional local authorities, each representing a common type of council:

- London borough council (local authority A);
- metropolitan district council (local authority B);
- district council (local authority C); and
- county council (local authority D).

2 These council types were selected to encompass the range of local authorities found in England.

3 For each council type, we selected a real local authority as a starting point. We then used the Chartered Institute of Public Finance and Accountability (CIPFA) Resilience Index to identify similar authorities based on their council tax requirements and spending patterns. This ensured our fictional authorities were grounded in real-world data while allowing for necessary anonymity.

4 To estimate council tax income for each fictional authority, we followed these steps.

a Calculated the average number of band D properties: We determined the average number of band D equivalent properties for each authority type. This data was sourced from the Council Taxbase Local Authority Level Data 2023.

b Calculated the average band D charge: We collected the average band D council tax charge for each authority type from official council websites.

c Estimated current council tax income: We multiplied the average number of band D equivalent properties by the average band D charge to estimate the current income for each fictional authority.

d Projected future income: We factored in potential increases in council tax (up to the maximum of 2.99%) and the use of the social care precept (an additional 2%) to project potential future income.

e Calculated income per household: We averaged data on the number of households for each real local authority we used and divided estimated council tax income by the average number of households. This is to show how council tax income is distributed across a local population.

5 This model allowed us to compare different types of local authorities and show how their ability to raise revenue from council tax varies. This variation is driven by several factors, including the number of properties in each council tax band, the local tax rate set by the authority, and the use of the social care precept. Additional factors, such as council tax support schemes and discounts, may also affect the amount of revenue generated. However, our analysis does not account for every possible influencing factor.

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