

press release

Regional inequalities in England weakening councils' financial resilience

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New research from leading business and financial adviser Grant Thornton UK LLP finds that a combination of deprivation, levels of reserves and economic output are exacerbating existing issues within the local government funding system and resulting in a disparity in council resilience across the country.

In just twelve months, the analysis finds that one in five councils in England will be at risk of financial failure* without additional income or further spending cuts, with councils in the North (30%) twice as likely to be 'at risk' compared to those in the South (17%) and London (15%).

The number of councils 'at risk' increases to 41% in five years' time. By this time, the North still has the highest percentage of councils in trouble (55%), compared to the South (35%) and London (39%).

This is partly due to the make-up of councils within each region. The North has a much higher number of metropolitan boroughs and unitary authorities, which are five times as likely to be at risk than county councils, which are predominantly located in the South.

Reserve levels limiting resilience for Northern councils

The analysis finds that another main contributor to this position is that councils in the South have a much higher proportion of reserves as a percentage of net revenue expenditure, compared to those in the North.

Those in the South average at 152% of net revenue expenditure held as reserves, compared to 49% for councils in the North. This gives Southern councils a much greater ability to withstand one-off events or financial shocks, and a longer timeframe to be able to draw on reserves to counteract any income and expenditure deficit.

Deprivation and low economic output exacerbating strain on local councils

The analysis also finds that deprivation levels in local communities in the North far exceed those in the South of the country.** One in five people in the North live within one of the 10% most deprived areas in England. Compared to 1 in 49 people in London, and 1 in 27 people in the South.

Region

London	1 in 49	live in the most deprived areas
Midlands	1 in 8	live in the most deprived areas
North	1 in 5	live in the most deprived areas
South	1 in 27	live in the most deprived areas

The economy in the North also has the second lowest GVA(B) output, behind the Midlands (15%), making up just 22% of the national economic output across all industries.*** Whereas London and the South account for almost two-thirds (63%).

Economic output is naturally linked to factors such as: local house prices, which impacts the amount councils can raise from council tax; and the level of business activity, which impacts the amount councils can collect and retain from business rates.

The firm also notes that consumer spending is normally significantly higher in areas of stronger economic performance, allowing councils to collect much higher levels of fees and charges for elements such as car parking, leisure, tourism and cultural activities.

[Phillip Woolley](#), Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“On current trajectories, the number of councils at risk of financial failure is set to double in the next five years. As more councils start to become financially vulnerable, we can see that the challenges already facing local government, from increased demand and service pressures, is being exacerbated by regional disparities across the country. Factors such as local deprivation and economic output combined with councils’ reserves levels has a significant impact on how resilient the local council may be to financial pressures in the future.

“But while our analysis shows that councils in the North are more likely to become ‘at risk’ of financial failure more quickly, the financial vulnerability of councils is a sector-wide issue. While more funding is one part of the solution, we know from previous analysis that there are also significant efficiency gains to be made in council services. Through effective investment in digital and technology, we estimate that councils could unlock an estimated £2billion across the sector as a whole. But councils don’t currently have the financial headroom available to invest in and unlock these opportunities.

“A combination of more fundamental reform to local government finance and funding, alongside a national programme of digital and technology investment to enable service modernisation, could offer a route out of the current crisis.”

*Financial failure’ is defined as when a council’s reserves fall below 5% of their net revenue expenditure.

** [English indices of deprivation 2019 - GOV.UK \(www.gov.uk\)](#)

*** [Regional gross value added \(balanced\) by industry: local authorities by ITL1 region - Office for National Statistics \(ons.gov.uk\)](#)