



The State of Local Government Finance in England 2024

A report by the Local Government
Information Unit (LGIU)

Local Democracy Research Centre

About this report

Authors: Dr Greg Stride, Researcher, LGIU and Mike Woods, Associate, LGIU

About the LGIU

The LGIU – Local Government Information Unit – is a not-for-profit, non-partisan membership organisation. We are for local government and anyone with an interest in local democracy and finding local solutions to the challenges that we all face. Our resources, innovative research and connections are relied on by colleagues across the globe.

About the Local Democracy Research Centre

The Local Democracy Research Centre was set up by the LGIU to carry out practical research on some of the key challenges for local democracy around the World.

We have a broad, international programme that engages universities and local authorities to develop new ideas and approaches for governance, municipalism and citizen participation.

Contents

Foreword	4
Executive summary	5
Introduction	6
Effective bankruptcies: a sector on the edge	7
Confidence in council finances	9
The multiple crises facing local government	10
Balancing the budget	11
Pressures on council finances	20
The central-local relationship	24
Fixing local government funding	26
The potential of local government	28
Conclusion	30
Appendix 1: Respondent characteristics	31
Appendix 2: Regional breakdown	33



Foreword

Jonathan Carr-West,
Chief Executive, LGIU

This report, the 11th annual state of local government finance survey in England, tells a story that is at once both familiar and distinctive. It is a familiar story of councils struggling to deliver essential services with inadequate funding, pulling all of the levers available to them to make ends meet, increasing numbers of councils falling into effective bankruptcy, and residents paying more to get less.

But this year, there is a difference. The balance has tipped. It is no longer possible to ignore or misunderstand the problems local government faces, they are undeniable. Up to now, reactions to bankruptcy have rightly scrutinised the individual councils' finances. Poor governance and risky investments have certainly played a part.

However this report, for the first time, demonstrates how widespread councils' desperate funding situation is. That there is a structural funding issue is now impossible to deny.

This is an especially pressing issue in an election year. This research reveals that, whoever forms the next government, they will have to reform local government funding or risk seeing up to half the councils in England becoming bankrupt over the next parliamentary term.

So the question has become: what are the solutions? As one of our respondents eloquently put it:

“Local government finance has been in limbo for too long. It is generally accepted that there are no easy solutions and difficult decisions will need to be taken about what the role of local government is in future and how it will be funded, but trying to avoid making those decisions is now proving more damaging and risks more local authorities reaching a point of financial failure.”

Executive summary

- The local government sector in England is increasingly in a state of financial crisis. Over half of respondents to the survey told us they were likely to declare effective bankruptcy in the next five years, 9% said they were likely to in the next financial year.
- Confidence in the sustainability of council finances across the sector has cratered from its previous low point of 14% in 2023, down to just 4% of respondents in 2024.
- There are multiple pressing challenges, with over 90% of respondents saying inflation and the cost of living crisis are problems for councils.
- Against this backdrop, 9 in 10 respondents said their councils are raising council tax, and the same proportion are increasing fees and charges. At the same time, two-thirds of councils are cutting spending on services, meaning that services are getting more expensive for most residents just as they are being cut.
- Most concerning for the financial resilience of councils, more than half of our respondents drew on their reserves this financial year (2023-2024) and plan to draw on them again in the upcoming year. A serious warning sign of problems to come if councils use up all their reserves.
- For councils with responsibility for social care, children's social care is by far the most urgent short-term pressure, and adults and children's social care together make up the most serious long-term pressure. Among councils without these responsibilities, housing and homelessness is the most serious short-term and long-term pressure, with environment and waste a close second place for long-term pressure.
- The central-local government relationship is in a critically poor state. Only 8% of respondents were happy with central government's performance in considering local government in wider policy decisions, and that was the highest level of satisfaction we measured. Only 1.4% were happy with the government's performance in delivering a sustainable funding system.
- There are popular options for reform: multi-year financial settlements were favoured by 97% of respondents, ending competitive bids for funding and 100% business rates retention by three-quarters. There is appetite for change, and proposals for fixing local government finance that command support across the sector.

Introduction

This survey was sent to every council leader, chief executive officer, section 151 officer (director of finance) and cabinet member for finance across all English authorities. We received 160 responses from across 128 unique English councils, with a good spread across council types, regions and party control (see Appendix 1).

The results paint a picture of councils beset by resource constraints, struggling with the pressures of setting legal budgets against ever-increasing demands for services, and with critically low confidence in central government's progress on fixing local government finance.

However, these results should not be seen as simply more evidence of continuing difficulties in local government finances, an issue [recognised by the LGA](#), the [Levelling Up, Housing and Communities Committee](#), the [Institute for Government](#), and the [Institute for Fiscal Studies](#). There is as close to a sector-wide consensus as it is possible to imagine on the diagnosis of the problem. As one participant in our survey said:

“It feels the worst I’ve ever known it (even than when I started in the early nineties) with no prospect of change. Chief Finance Officer conferences feel more like group therapy nowadays.”

This report seeks to go beyond restating the problem, towards looking at the solutions. Our [recent work](#) with the University of Northumbria has sought to understand how local government is funded differently in other countries, and has found that across Japan, Italy and Germany [there are lessons](#) for how to improve the system of local government finance in England. Making funding match needs, embedding systems to share wealth between different local authorities to make up for different capacities to raise income, bringing together central and local governments, and rethinking local taxes, these are all part of the solution.

This research reveals the appetite for change in the sector. Not aimless change, simply away from how things are, but purposeful change, aimed at improving the lives of residents, increasing the resilience of local government, and strengthening local democracy.

Effective bankruptcies: a sector on the edge

Since we published the results of our 2023 survey, three more councils have declared “effective bankruptcy,” and there is evidence that many more are poised to do the same. Nine per cent of all respondents to our survey this year said it was likely they would issue a section 114 notice in the next financial year. Fifty-one per cent said it was likely they would issue a 114 in the next five years.

This is a huge shift away from section 114 notices as exceptions – issued only by councils with seriously abnormal special factors in play, such as equal pay disputes or excessive borrowing – towards section 114 notices as a normal occurrence, regardless of the quality of councils’ governance.

A total of 14 unique councils have said they believe it is likely or very likely they will issue a section 114 notice in the next financial year. When we asked about the next five years, that number increased to 74 different councils. This includes upper and lower-tier councils, councils with different party control, and councils across every English region.

Section 114 notices

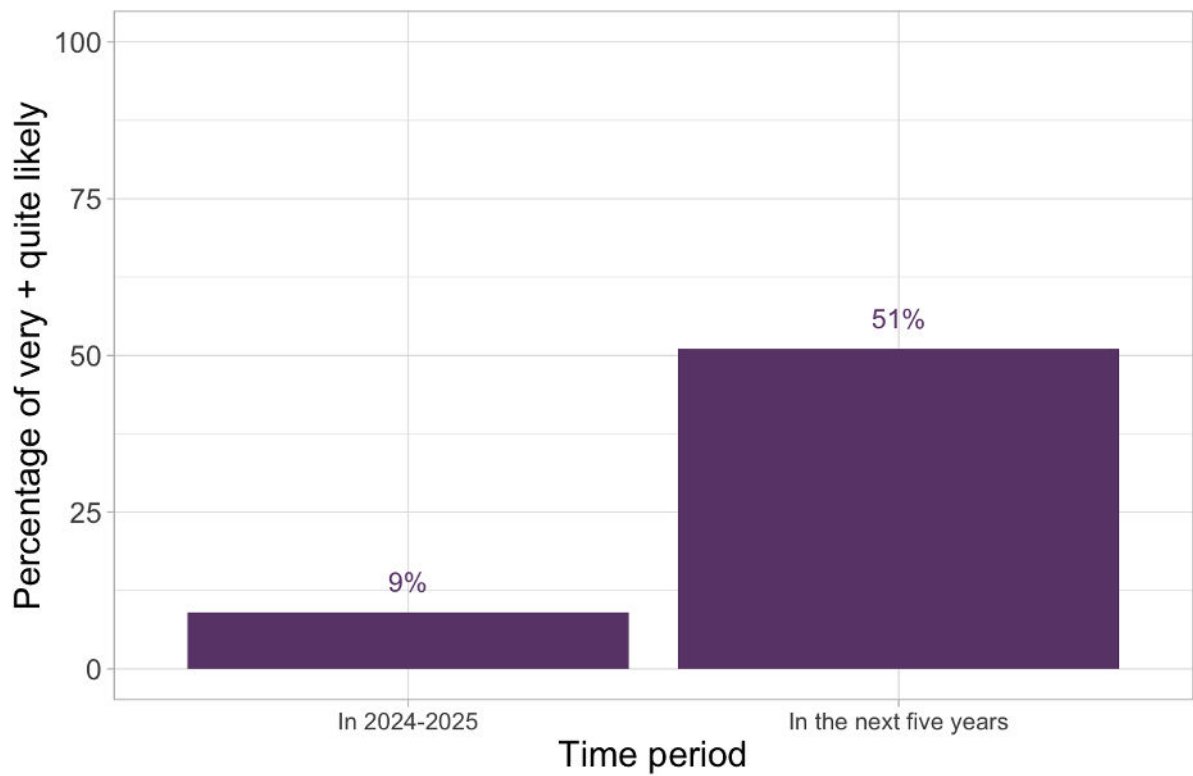
A council cannot go bankrupt or into liquidation as an individual or a business can, but if a council’s chief finance officer (or equivalent) considers that in-year expenditure is likely to exceed resources available, or if there is no prospect of setting a balanced budget for the forthcoming year, he or she must issue a report (a “section 114 notice”). The issuing of a section 114 notice is generally seen as demonstrating that a council is insolvent. Government intervention usually follows very quickly, all non-essential expenditure may cease, ministers may appoint independent commissioners to take control of the council, and special arrangements to borrow or increase council taxes beyond normal limits may be put in place.

Section 114 notices are relatively rare, but numbers have been growing in recent years and three were issued during 2023, by Woking, Birmingham and Nottingham. So far there have been special circumstances that have led to the issuing of notices, but the survey suggests that there are now many more councils, where special factors are not in play, that are teetering on the edge.

“Years of cuts have left local government on its knees. Reserves have been utilised and now many more 114 notices will follow. It is simply unsustainable and unacceptable to continue to place burdens on local authorities without sufficient funding to compensate them for these.”

“It does feel like local government is being left behind, the continual reduction in funding to local government is the worst thing anyone can do. There will be more councils that will issue S114 notices, the one[s] that have issued and are thinking to issue the notices, probably is just the tip of the iceberg.”

If there are no changes to local government funding
how likely do you think it is that your council will issue a section 114 notice...

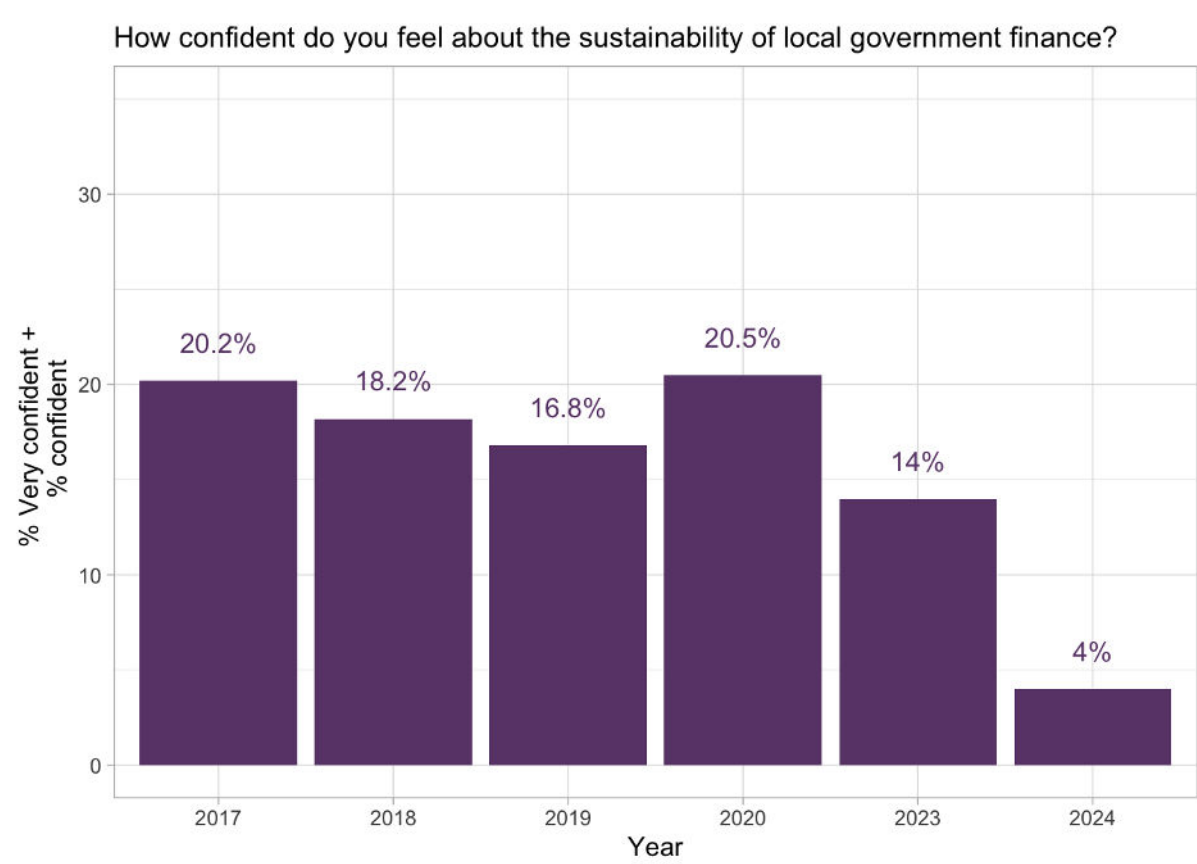


Confidence in council finances

In 2023, confidence in the sustainability of council finances reached the lowest level we had ever seen in our survey. From a high of 20.5% in 2020, by 2023 only 14% of senior council figures said they were confident.

Since then, confidence in the sustainability of council finances has fallen dramatically, beyond anything we have seen before with only 4% of respondents saying they were confident. This critically low level of confidence in the system was present across all regions, every type of council, every different type of local authority and councils controlled by different political parties. The senior figures in councils who still have any confidence in the system are in a vanishingly small minority. As one respondent put it, describing local government finances:

“The situation is catastrophic and is posing an existential threat to local government.”



It is difficult to find any single explanation for why confidence has fallen drastically since last year. Most likely it is a combination of different factors covered throughout this report. Local authorities are struggling to cope with multiple crises. The sector has watched more and more councils issue section 114 notices, the reserves that kept councils afloat in the difficult times are not being replenished as the hardship extends across years and years, and councils see no reason to be optimistic about the chance central government may intervene.

The multiple crises facing local government

“It’s terrible. We are in a perpetual state of crisis management which is not good for anyone.”

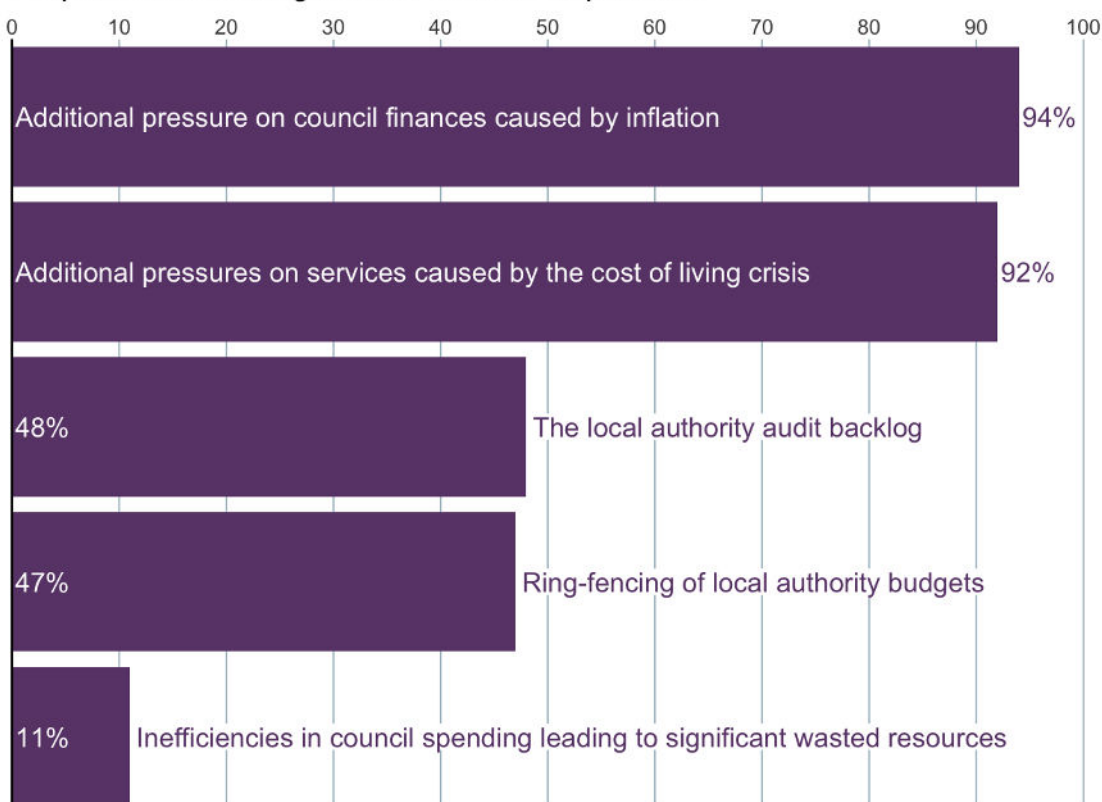
The same economic hardship that affects individuals has a corresponding impact on councils. Inflation makes everything more expensive. The cost of living crisis has increased the need for council services across the board, especially the services delivered to the most vulnerable residents. At the same time, councils are struggling to recruit essential staff and coping with increases in their statutory duties while their funding remains below their need.

The crises facing local government today are not unique to 2024, many of them were equally true in 2023, and several have their roots in decisions made years before – such as the systematic reductions in council funding since the early 2010s (the [National Audit Office](#) has reported that government-funded spending power reduced by 50% over the decade), or the decision to [alter local audit rules in 2014](#) following which there have been serious and sustained [delays in local audit](#) across the sector.

However, there is a general consensus across the responses we received that the situation now is worse than it has ever been and is in urgent need of reform.

“It is an urgent crisis, the financial resilience of the sector is at serious risk. Local government provides critical and essential [services], they should not have to worry that their council may fail financially.”

Proportion describing each of these as a problem



Balancing the budget

Against the backdrop of a decade of reductions in central government funding for local government and a [complete disconnect](#) between the levels of funding local government receives and the amount it needs to deliver services, local authorities are left with a strikingly small – [by international standards](#) – number of actions they can take to balance the budget.

In terms of raising income: increasing council tax, raising limited fees and charges, and increasing commercial activity, itself [not considered](#) as part of the council's core spending power by central government, constitute the only major reliable levers a council can pull.

The context

Councils are under a legal duty to set balanced budgets – their projected expenditure each year must match their forecast income for that year. Councils forecast their income by starting with the grants and business rates they expect to receive and then assessing their discretionary sources of income, including council tax, fees and charges, and commercial activities. In order to match their incomes, councils may seek to cut back on service expenditure and draw on reserves.

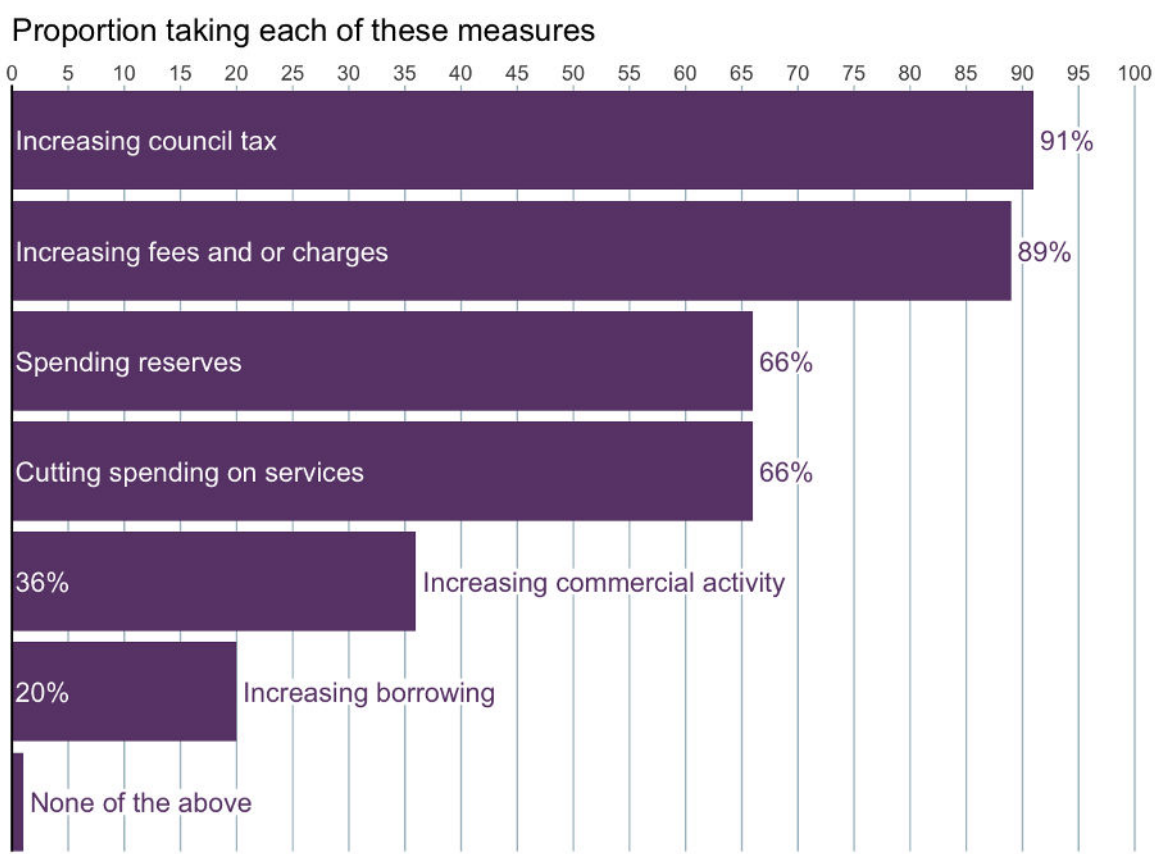
Cuts in grants, high inflation and pressure on services have eroded many traditional areas of discretion, and most councils are now finding themselves having to increase their council taxes and fees and charges by the maximum amounts allowable, arguably undermining long-standing democratic freedoms.

The evidence from our survey suggests, as with last year, that councils are pulling all of these levers. Around 91% are increasing council tax, 89% are increasing fees or charges, and just over a third are increasing commercial activity.

On the other side of the equation, councils are also struggling to reduce their expenditure. Two-thirds of our respondents are cutting spending on services, and this is on top of the cuts that these councils have already been implementing for years.

Then, there is the final part of the equation: the use of reserves. Reserves are like a council's savings, and like personal savings, they can only be spent once until they are replenished. The fact that two-thirds of councils are spending their finite reserves, suggests that as difficult as balancing the books is in 2024, it will become even more difficult when these reserves are depleted.

Overall, reductions in central funding, rising demand, the small number of levers they can pull to raise income and their diminishing reserves, all working against their legal duty to set a balanced annual budget, are putting councils in an untenable position. This is what it means when a council, or when 50% of all councils over the next five years, say they will issue a section 114 notice, that they will be unable to meet their legal duty to set a balanced budget.



Raising income: council tax

The largest locally-generated source of income for most local authorities is [council tax](#). As the total grant funding provided by central government has been reduced, councils' reliance on council tax has increased, and the tax now makes up around [a quarter](#) of all local authority income. Given that councils have so few ways to raise income, it is not surprising that council tax increases are an option that nearly all councils – over 90% – are taking. Eighty-three per cent of respondents to the survey said they were increasing council tax by the maximum legal amount in their authority. This is even higher in upper-tier councils, where 90% of respondents said they were aiming to increase council tax by the maximum amount or seek special measures from central government to increase it further.

This impact will not be felt equally. As council tax has become a greater proportion of income for different authorities, councils under more financial pressure, and with fewer high-value properties in their areas, have had to increase council tax by more, meaning that in some cases the difference is now vast. In 2023-24, Westminster had the [lowest Band D council tax rate](#) in the country at £914, significantly lower than the England average of £2,065.

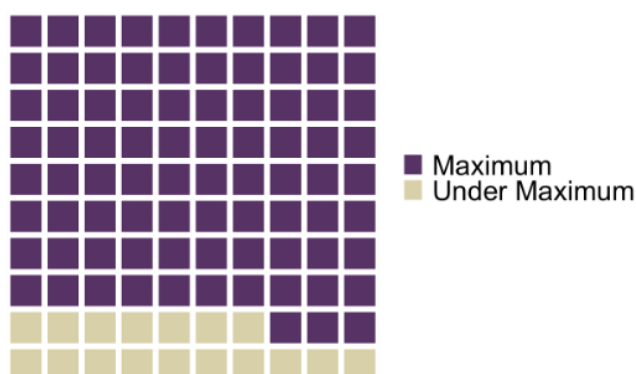
It is right that councils should have control over local taxes, as we have seen in [international evidence](#), this can lead to greater financial resilience. However, the dependence on one tax, with valuations 30 years out of date, and with grant funding that does not make up for differences between councils' needs, means that council tax is increasingly unfit for purpose as a means to fund local spending.

Council tax referendums

The council tax referendum principles require any council wishing to increase its council tax by more than a set amount to hold a local referendum before doing so. This sets an effective cap on council tax increases from year to year. The referendum limits for 2024/25 are similar to those for recent years; they allow lower-tier district councils to increase their council taxes by no more than 3%. Upper-tier and single-tier councils can add a supplement of no more than 2% which is ring-fenced for spending on adult social care.

Four of the authorities that have issued S114 notices: Birmingham, Slough, Thurrock and Woking are being allowed to increase their council taxes by up to 10% to help them tackle their financial problems.

Proportion of respondents raising council tax by the maximum



Raising income: fees and charges

Given that around 90% of respondents said they would be raising fees and charges, we wanted to know exactly which fees and charges councils would be raising. Although there is no definitive list of everything a council can charge for, we do know that the most common answer – appearing 54 times across the responses – was ‘all,’ meaning that every fee these councils can charge will increase.

“We have no choice but to maximise income across all services from car parking to pest control.”

“A blanket inflationary increase across all fees and charges where we are able”

“All of them will increase unless exceptional circumstances requiring them to be held at 23/24 level.”

Of the more specific responses, parking was mentioned most often, then waste, especially garden waste, planning charges, leisure services, licensing and bereavement were all mentioned on multiple occasions.

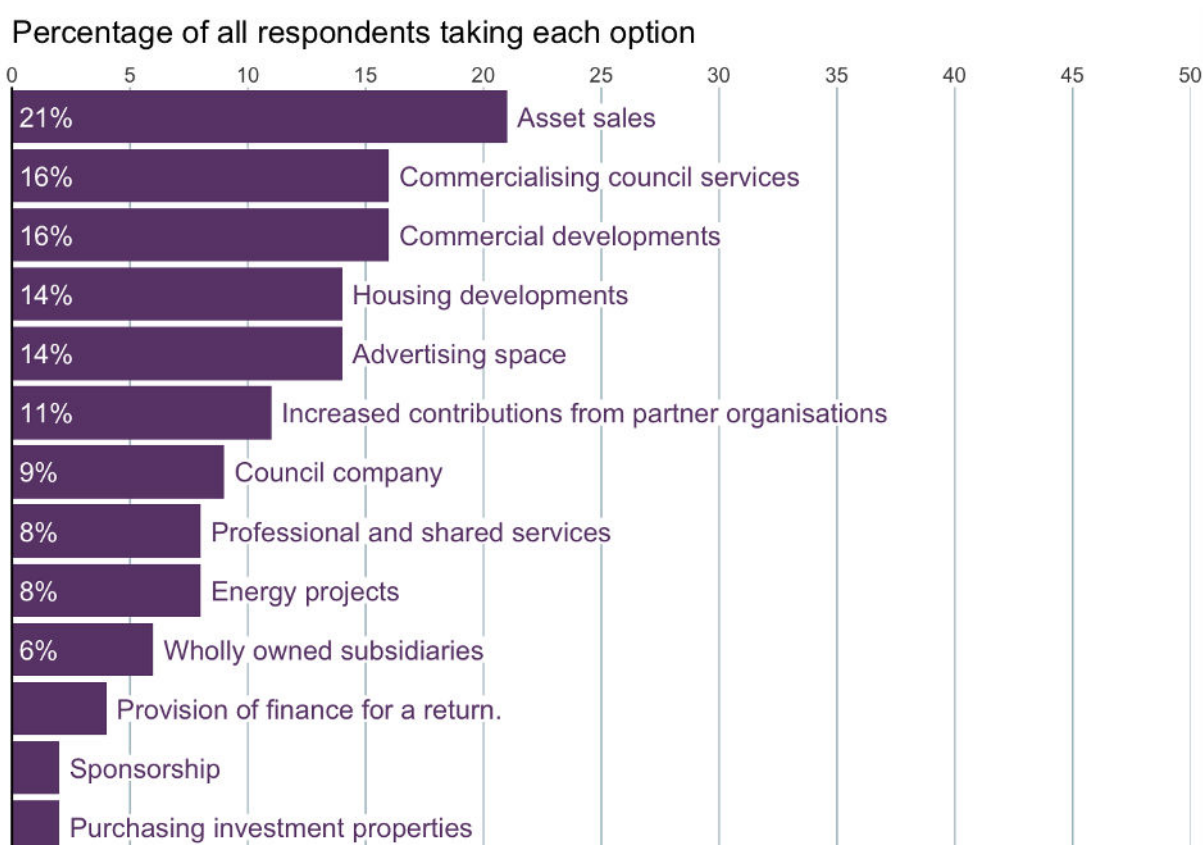
Councils can only raise fees and charges on a relatively small number of different services, and can usually only use them for restricted purposes, meaning that fees and charges are not a sustainable way to fund local authorities. The total income from fees and charges (and sales) [makes up roughly 6%](#) of all local authority funding: not enough to compensate for any of the widespread financial challenges councils are facing.

Raising income: commercial activity

Just over a third of councils told us they were increasing commercial activity as a means to balance their budgets this year. Commercial activity can be a reliable source of income for some authorities. In written evidence, we saw that councils with significant tourism, for example, are able to capitalise on this to increase their income. There are [many examples](#) of commercial activity that have resulted in significant increases in income for councils. When it comes to tourism, for example, various councils have seen successes in buying, regenerating and leasing out hotels.

However, commercial activity comes with corresponding risks. It ties the financial health of the local authority to the market, and often the failures of large investment schemes have contributed to the effective bankruptcies of local authorities such as [Woking](#) and [Nottingham](#). Equally, the capacity a local area has to generate commercial income does not relate to the resources a council needs to provide its services, the two are completely unrelated, meaning that commercial income is not a viable means to guarantee funding for local services.

The types of commercial activity are also important to note. The graph below shows the variety of commercial activities and the proportion of total respondents taking each option.



Compared to our 2023 survey, the proportion of councils engaging in asset sales has increased, and the proportion taking part in commercial and housing development has decreased. Asset sales are not a sustainable way to fund local government because assets can only be sold once, and not necessarily at a time when they guarantee the maximum return. As one respondent put it:

“[use of reserves and asset sales] are one-off, short-term measures which ultimately will affect future service delivery and do not address the structural funding issues with local government services.”

This change in emphasis away from investment and towards asset sales is more evidence of an unsustainable financial system. As another respondent put it:

“Relying on capitalisation and borrowing to fund ongoing service demands is not sustainable. Need clarity as to how much commercial risk central government wants local government to take – mixed messaging over recent years.”

Commercial activity – legal context

Councils have considerable freedom to undertake commercial activities under the general power of competence. The power allows councils to “do anything that individuals generally may do”, but certain limitations apply. For example, a council cannot use the power to impose new taxes and, if it wants to trade it must set up a company to do so. Commercial activities can range from charging commercial rates for discretionary services such as pest control or car-parking, providing services like payroll or revenues collection to other councils, setting up companies to provide energy supply or generation, airports or harbours, right through to large-scale investments in commercial properties both within a council’s area or elsewhere.

Problems with large-scale property investments have been contributory factors in some of the recent section 114 notices, notably at Thurrock and Woking.

Reducing spending: cutting services

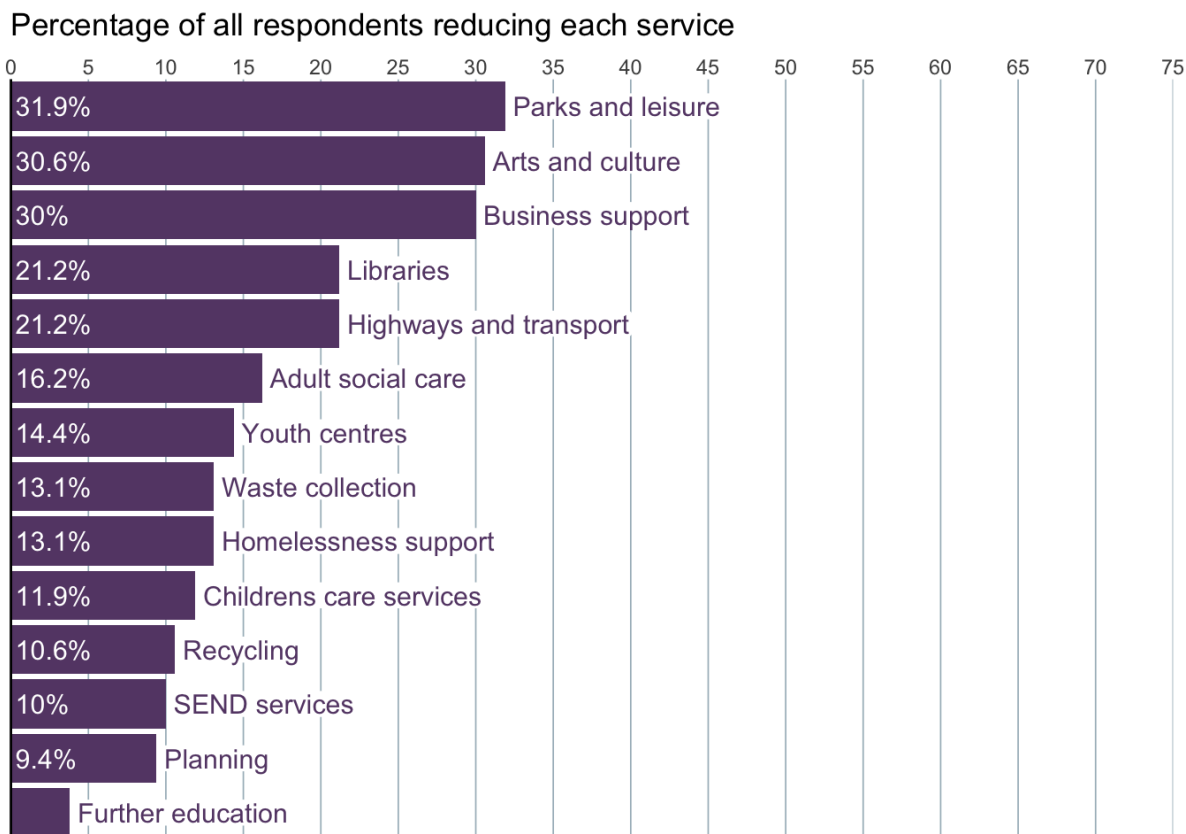
“Universal services such as parks, playgrounds, refuse collection, libraries tend to face cuts. As residents perceive they receive less and less for their Council Tax this brings the whole credibility of the system into question. Why should they pay more and receive less?”

Two-thirds of respondents told us they would be cutting spending on services this year, up from around half at the same time last year. This is a significant increase and could represent the shift many of our respondents have mentioned away from using reserves to make up for the gaps in their budget, towards having to make direct spending cuts. In other places, the shift has been from making cuts to discretionary services to statutory services, the services that councils legally have to provide.

“It’s been a long slow reduction of activity over the years but it’s now becoming evident that many of the non-statutory provision is becoming unsustainable.”

Statutory and discretionary services

English councils provide a vast range of services to their communities. Many of those services are statutory – meaning a council has to provide them by law. Some high-profile examples include adult and children’s social care, highways maintenance, libraries and planning. Other services are discretionary and may range from provision of car parks, culture and leisure activities through to pest control and advice services. Often the difference is not clear-cut. For example, although councils are under a duty to provide “a comprehensive and efficient library service for all persons”, exactly how that duty is carried out is open to interpretation. Many users will have seen branch libraries closing and the provision of books and periodicals reducing as councils have switched resources to meet pressures in other service areas.

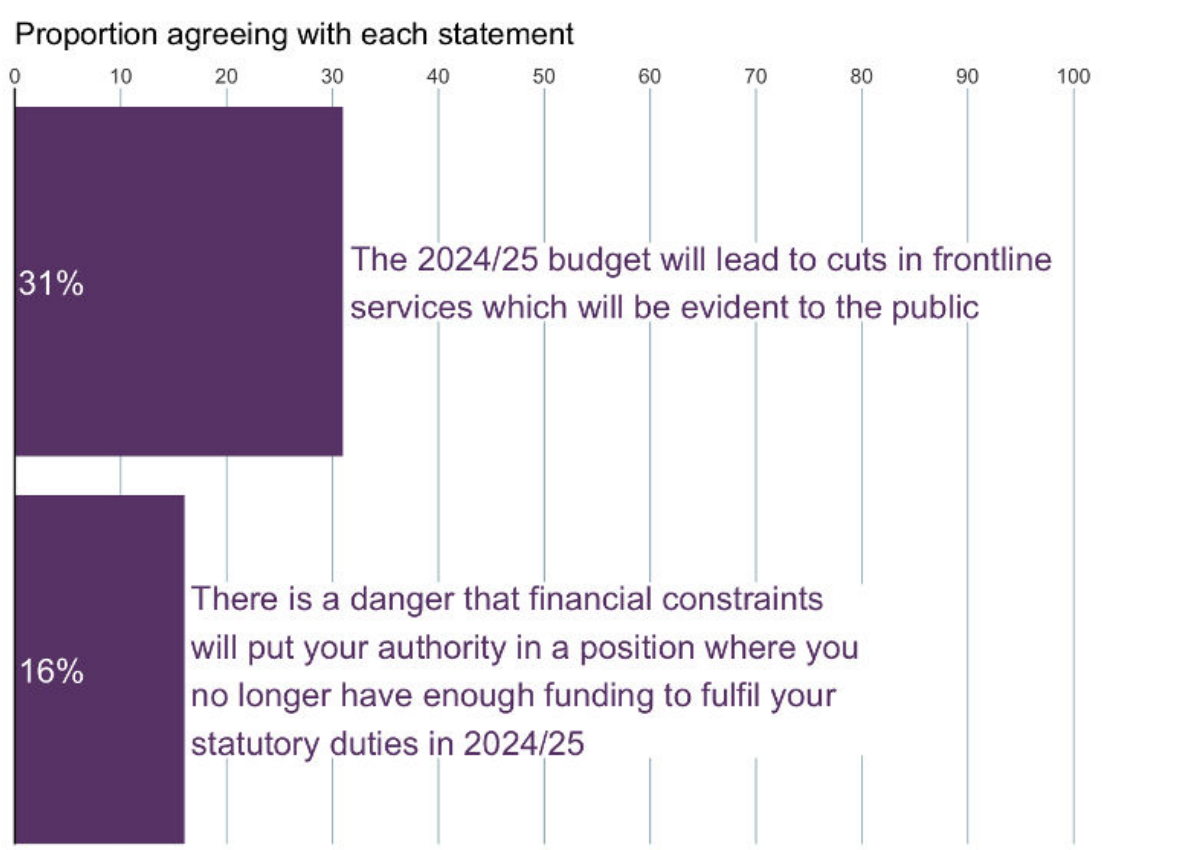


The survey shows that a large number of respondents are reducing service provision for parks and leisure, arts and culture and business support. The reductions mirror the results of last year’s survey and indicate just how hard these services are being hit. However the results do not reflect the scale of the reductions in cash terms, and it is perhaps more significant that many respondents are planning reductions in highways and transport, adult social care and children’s services.

“We try our very hardest to ensure that statutory service levels are available – cuts are made to discretionary but important services.”

Equally importantly, cutting spending on services to make sure the annual budgets balance does not necessarily mean that cutting these services is financially prudent in the longer term. Reducing spending on preventative services can actually increase the financial burden on local authorities and other public bodies in the years ahead, not to mention the residents whose quality of life will suffer from preventable conditions:

“So much more preventative work could be done in early years education, childcare, public health, improving housing, supporting healthier lifestyles. A lot of councils are now cutting back these programmes as they are discretionary. The impact in the long term will be to cost the public purse more.”



The impact these cuts will have is not clear. Sixty per cent of respondents who answered that they were cutting services believe that residents currently get the same level of service as they did this time last year. As one respondent put it:

“We are still providing the same services however we are now struggling to do that and the pressure is on staff to deliver with less.”

On the other hand, a third of respondents said that the upcoming budget would lead to cuts in services that would be evident to the public. One description of this dynamic emphasised how the cuts in universal services are made to protect the statutory services in areas such as adult and children's social care:

“Cuts tend to impact universal services so will be felt across all taxpayers, but are needed to support the targeted statutory services that support the most vulnerable.”

Finally, there is the most worrying group of respondents, the 16% who said that they are in danger of being unable to deliver their statutory duties in 2024/2025. There are two ways to interpret this. The first is that these places would issue a section 114 notice, effectively declaring bankruptcy, as 9% of council respondents told us they were likely to. But the difference between the two proportions (and the fact that behind the numbers, it was not always the same respondents answering that they would issue a section 114 notice and would be unable to deliver their statutory duties), suggests that a different interpretation is possible.

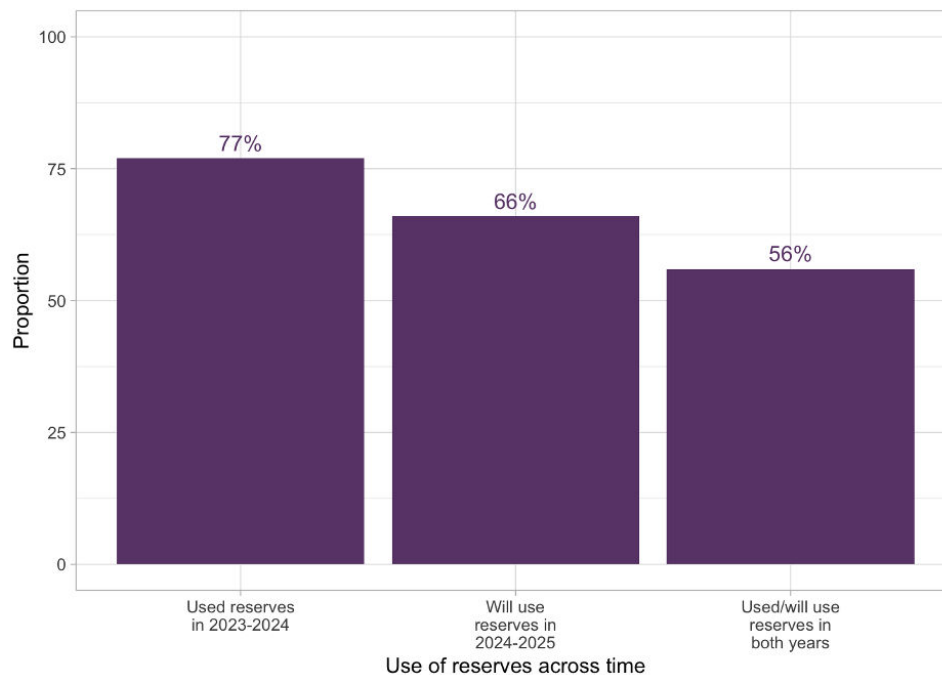
The second way to interpret it is that these places are concerned that they will not deliver statutory services to the level they should, but that for whatever reason, this will not result in an unbalanced budget. Perhaps this could mean that providing levels of service below the statutory minimum with the corresponding chance of a legal challenge is a risk that councils are pricing in. Or that the confusion over what constitutes a statutory minimum level of service provision, or even over the definition of a statutory service, means that councils will not necessarily be providing what they believe they should, but that there is no easy way to tell. Without further research, it is difficult to interpret the difference between these two answers.

Spending savings: using council reserves

Outside of raising more income or spending less, councils seeking to deliver a legally balanced budget have a third option, spending reserves they have built up over years where they raised more than they spent. In general, a council spending its reserves year-on-year is indicative of an unsustainable financial position.

The survey this year found that 77% of respondents said their council had drawn on their reserves in 2023-2024, and that 66% planned to draw on their reserves in 2024-2025. Most worryingly, 56% of respondents were from councils that were spending their reserves across both years, meaning that year-on-year spending of reserves, by all measures a warning sign of a struggling council, is now being used by over half of our respondents to make ends meet. This is unsustainable by definition, and as one respondent wrote, will not be possible forever:

“Difficult decisions are being deferred by use of reserves. This will hit a cliff face in 2025/26 demanding more difficult savings decisions.”



Reserves

All councils hold financial reserves which they may have built up over many decades. The majority of reserves will usually be “earmarked” for specific projects or initiatives (for example, to help pay for a new road or a community centre), but other general reserves are set aside as a buffer against budget pressures. There may be legitimate policy reasons for adjusting levels of general reserves and each year, as part of the budget-setting process, the council’s chief financial officer is required to comment on their robustness. If there is any ambiguity in those comments, particularly if the council is repeatedly drawing on reserves to meet budget pressures, it may be a warning sign of problems to come.

Pressures on council finances

Many of the pressures on council finances are based on their low levels of available funds, but others are demand-side pressures. These are pressures caused by the increasing costs of service provision, usually a combination of prices increasing, councils having more responsibility placed on their shoulders through changes to legislation, and – as this section demonstrates – residents' needs for services rising.

Council structures and responsibilities

The [structure of local government](#) in England is complicated. Most urban areas are covered by one of three types of authority: London boroughs, unitary authorities and metropolitan authorities. All three types are single-tier and provide nearly all the council services in their areas. Some historically more rural areas are two-tier, with county and district councils. In two-tier areas, counties are responsible for the most high-profile services including adult social care, children's services, highways and transport, with districts being responsible for housing, homelessness and waste collection.

The results of the survey tend to reflect these differences in responsibilities

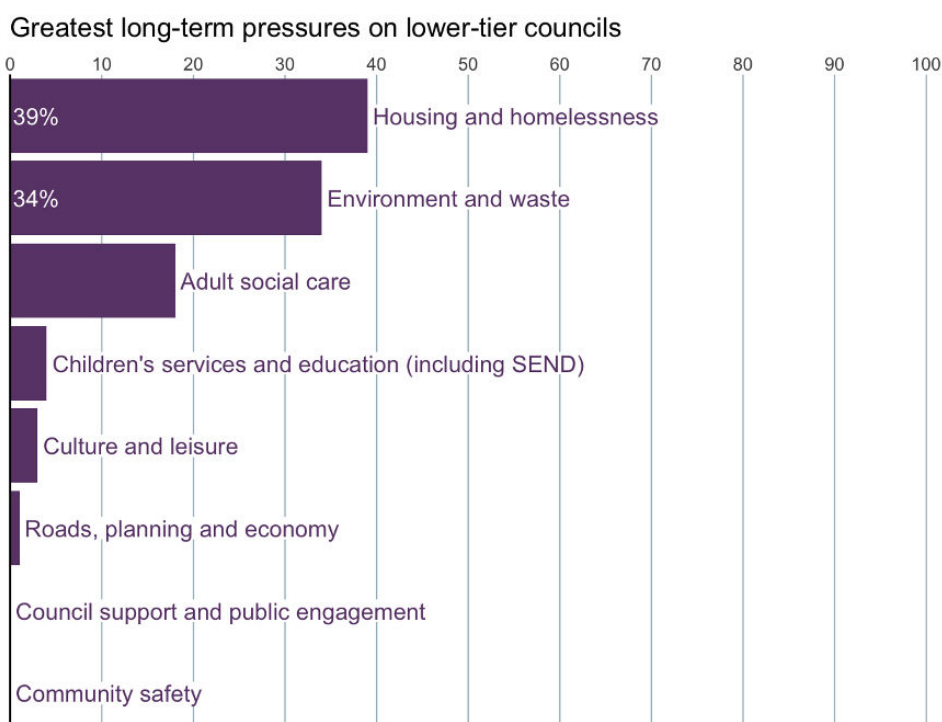
Different councils have different responsibilities, and this means that the greatest pressures they experience will differ depending on what services they have to provide. We have divided the pressures councils experience into lower and upper-tier (including unitary) councils, and into short and long-term pressures.

Lower-tier councils

There is a clear consensus on the greatest short-term pressure for lower-tier councils: housing and homelessness. Respondents to our survey mentioned the increased costs of housing, the costs of temporary emergency housing, growing demand, the state of the private housing market, the quality and quantity of housing stock, and the relationship between [local housing allowance](#) and local rent, as serious pressures on lower-tier council finances.

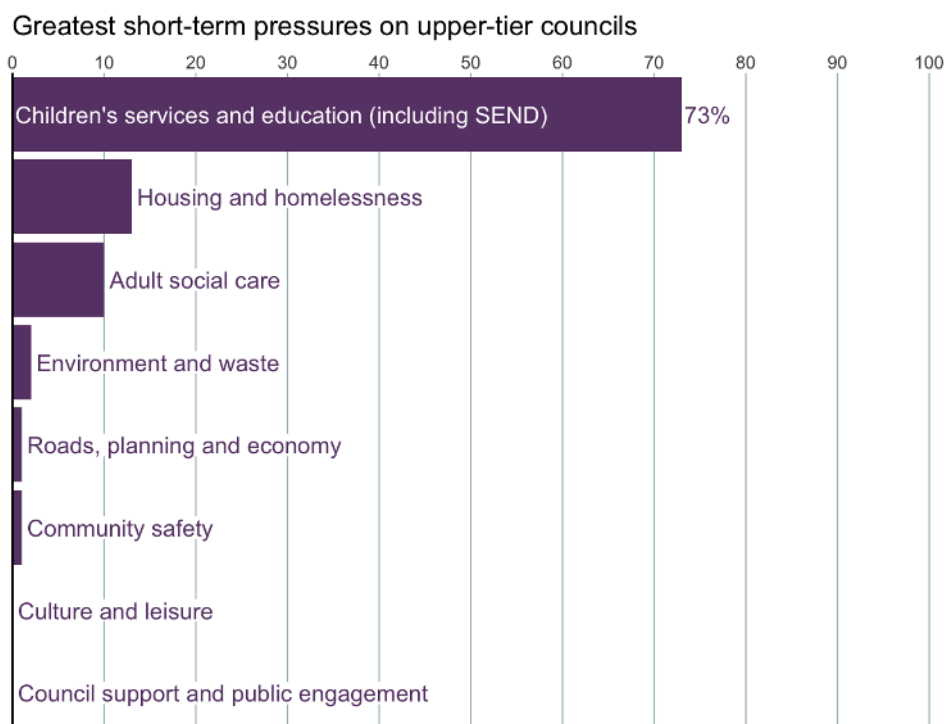


The greatest long-term pressures on lower-tier councils was more split, with around a third voting for housing and homelessness, and another third for environment and waste. Respondents mentioned the Environment Act (2021) which would make changes to the local collection of food waste, for example, with no guarantee of additional funding.



Upper-tier councils

Upper-tier councils, unlike their lower-tier equivalents, have responsibility for adult and children's social care, and these services loomed large in the responses about the greatest pressures facing councils.



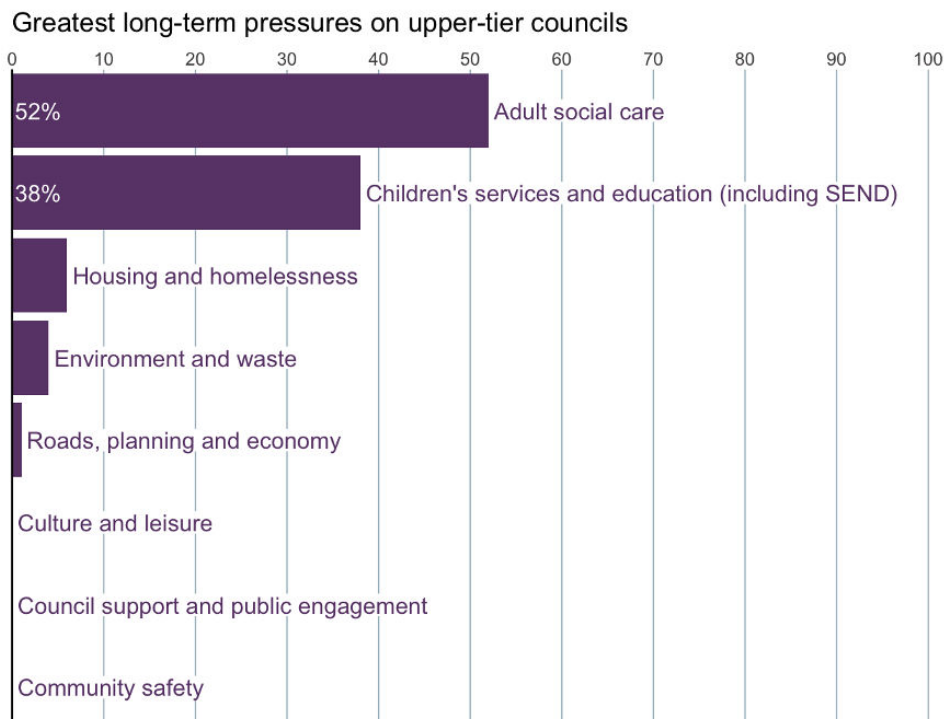
On the greatest short-term pressures, there was an overwhelming consensus that children's services and special educational needs spending was the most pressing of the pressures facing upper-tier councils. The increasing costs of home-to-school transport and inadequacies in the legislation were raised as causing financial pressures and failing to provide adequate services:

“The Children & Families Act 2014 needs revising. The current system is broken, with escalating overspends, an adversarial system which leaves parents exasperated and private providers making super profits.”

Other respondents directly linked this spending to their financial resilience:

“There needs to be reform of social care – government continue to ignore the issues with children's social care. We are using reserves to survive – they will soon deplete”

“SEND and the [Dedicated Schools Grant] deficit will lead to the risk of a s.114 within five years if the cumulative deficit is not cleared and the system reset on a financially sustainable basis. Wider pressures will contribute but SEND is the big issue for us.”



The greatest long-term pressure was split between 52% saying adult social care, and 38% children's services, with all other pressures paling in comparison. This is unsurprising when the proportion of upper-tier budgets which go on these services are considered:

“Four per cent of the population use social care which is 70% of our budget – and you wonder why residents are not happy the place doesn't look spotless and potholes need to be filled. Residents are not happy their council tax goes on so few. Social care needs reform.”

The increasing long-term pressures, and their solutions, were summarised by one respondent:

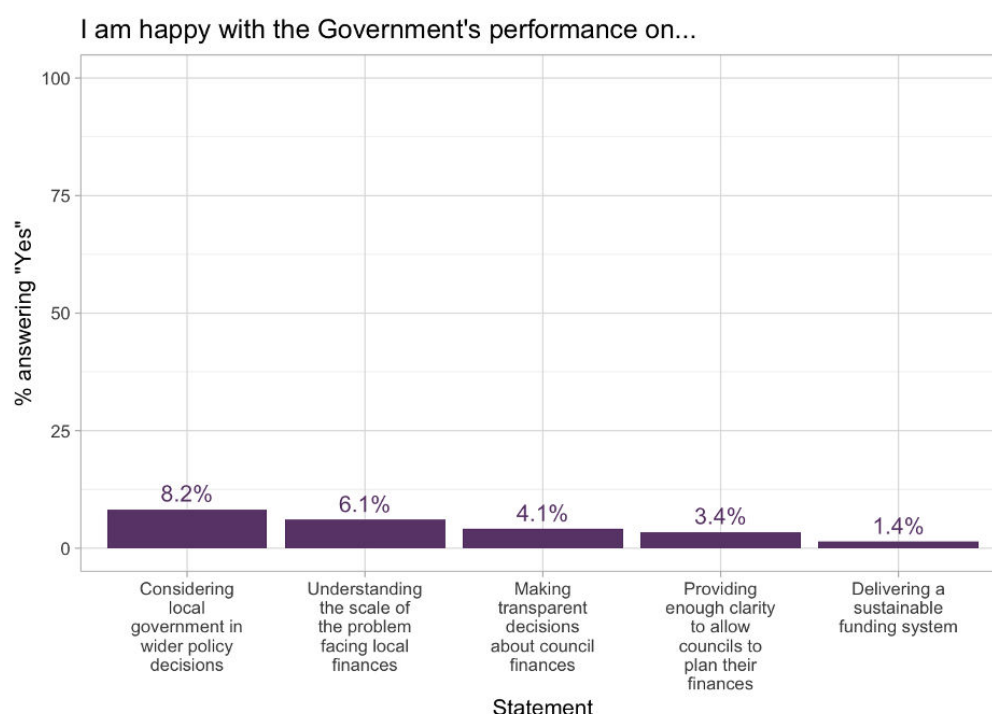
“We need cross-party, long-term consensus on how to sustainably finance local government. The ageing population will happen. The generation of children who were isolated during Covid will come of age and will need ongoing support. These things will manifest and impact quality of life and will be more expensive to deal with. Prevention is better than cure.”

The central-local relationship

The relationship between central and local government is critically important. Only by working together, with a relationship based on mutual trust, can the two levels of democracy ensure that they are meeting their obligations and serving their citizens as well as possible.

Unfortunately, that relationship, which has been long under strain, has comprehensively broken down. The graph below shows how dire senior local government figures' assessments of central government are today. Only 8% are happy with central government's performance in considering local government in wider policy decisions, and that is the highest level of satisfaction we measured.

Across all measures: understanding of local governments' problems, making transparent decisions, providing clarity for councils to plan their finances, and delivering a sustainable funding system, satisfaction was alarmingly low, even in comparison to other years when we have asked similar questions.



This needs to change. Our respondents provided advice to prospective governments, and often their advice revolved around restoring trust and rebuilding a positive working relationship between the two levels of government:

“Engage with the sector to find solutions...”

“Please take time to listen to the issues we are raising. We want to find solutions but sound financial foundations are important for us to be able to provide the best support for our communities. Please don’t politicise the problem. Authorities of all political controls are struggling to cope with demand and additional costs.”

One way we could [ensure communication](#) between central and local government is the creation of a standing conference, as with the [Italian Local Autonomies Conference](#), which would bring together central and local government representatives in a formalised network for communicating and working through challenges jointly.

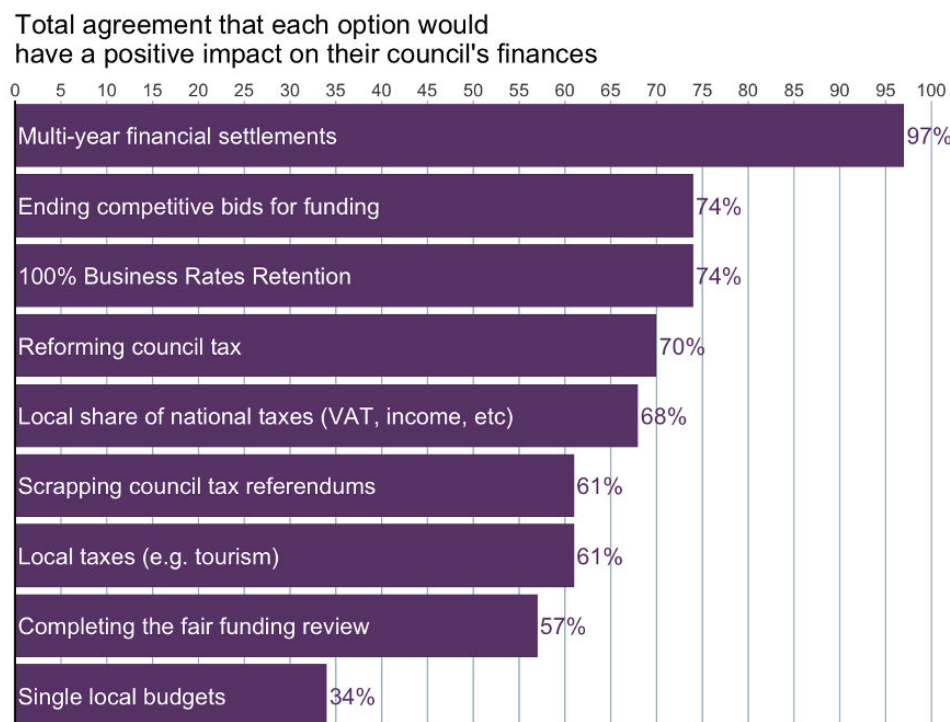
This would be a marked improvement from the unsystematic and dysfunctional way the relationship works now, which one respondent showed their clear dissatisfaction with:

“We are nearing the precipice. That more than 40 of the government’s own MPs had to beg them to find more money for councils so that their councils don’t fail before an election, shows the reality of where the country finds itself.”

Fixing local government funding

This report has so far been focussed on the problem: the unsustainable state of local government finances. But this is not the whole story; equally important are the steps that can be taken to fix the broken system.

We posed the following question to senior local government figures, with a list of a few of the most commonly suggested options for reforming local government finances:



Of these, the most popular, with 97% approval, was the proposal to introduce multi-year financial settlements. The current system relies on single-year financial settlements, where councils only have guaranteed funding from central government for one year at a time. This can have perverse consequences:

“Annual budgets are not good value for money and do not drive the behaviours needed for sustainable and quality services to local residents.”

They incentivise short-term financial planning, such as the reduction in preventative services to make ends meet annually, even if these end up costing more in the long term. They also inhibit councils’ powers to plan effectively, as one respondent said:

“We need stability and more importantly certainty around finances to allow us to plan accordingly.”

The next two most popular options, ending competitive bids and 100% business rates retention, are familiar from our [2023](#) survey. Competitive bids were widely seen as an ineffective way to distribute resources and a waste of councils’ time and money. Just over 82% of all respondents said their council had made at least one unsuccessful bid, and 21% that all of their bids had been rejected, meaning that these councils had, by definition, wasted their resources.

100% business rates retention is a policy that many of our respondents in 2023 also championed. Central government has run several pilots of the policy since 2017, and a few local authorities are currently able to retain all of their business rates.

Three of the popular options all relate to increased control over local taxes: reforming council tax, scrapping the council tax referendum requirement, and the introduction of new local taxes, such as tourism taxes. Respondents' written answers went into more detail on why council tax in particular needs to change, and how allowing councils more discretion, for example of bandings, could be helpful.

“Council tax reform is vital – it’s an inflexible, regressive tax. Councils need much more freedom to be able to raise the funds necessary to provide the services people expect.”

More local control over taxes would also give more flexibility to councils, as local governments in [other countries](#) with more resilient local government funding systems, such as Italy, Germany and Japan often have.

“We need far less reliance on central government funding and far more promotion of local accountability.”

Interestingly, the fair funding review received support from just under 60% of respondents, but many written answers referenced the important principle of making funding match needs:

“Council grant funding is not proportionate to needs. It must take account of what it costs to provide essential services to residents.”

The disconnect between these two ideas could be down to the difference between sharing out the existing funds in a more equitable way, versus increasing the existing funds to match needs across different authorities. As one respondent put it:

“The sector is at crisis point. Fair funding reviews will not help unless fundamentally more money is put into the sector as a whole.”

The sector is in clear alignment on several points: local government needs funding guaranteed over longer terms, councils need more flexibility in how to raise funds, and funding must match needs to avoid the intractable problems caused by “unfunded mandates.”

The potential of local government

Local government, funded properly, and with a positive working relationship with central government, has the potential to do much more for their residents than deliver essential services. We heard powerful arguments from our respondents that well-funded local government could deliver on a much wider range of policy priorities, including many aligned with central government priorities – such as the green transition and public health. We heard that stronger local government would enable more effective and democratic local leadership if councils had more financial space to make choices that fit the preferences of their residents. Finally, we heard about how local government could be made more resilient by changes to the funding system, less prone to financial collapse, and more capable of planning over the long term.

Policy/delivery argument:

If local governments had the fiscal flexibility to move beyond their statutory duties, they could deliver on a far greater range of policy priorities. Respondents across the survey listed a huge variety of different areas where they believe they could have a greater and more positive impact on the lives of their residents.

“Driving forwards climate work to help prevent, and deal with, the adverse impacts of climate change. Increasing access to leisure and health facilities that can support physical and mental wellbeing.”

“Improved homeless prevention and housing solutions. Quicker access to better social care support (including Hospital Discharge) and improved safeguarding.”

“Increase health and leisure options. Activities for children. Arts and culture offer.”

“Better Housing for people, improved leisure and wellbeing services, more highway and grounds maintenance, quicker response times to queries by the public, more community work.”

“Help lift people out of deprivation starting with housing and skills.”

“Providing statutory service to the right quality...”

Democratic argument:

A second, and equally powerful, argument made in regards to the impact councils have on the lives of residents is around the part councils play in UK democracy: with more adequate funding, respondents argued, councils could move beyond being the delivery agents for central government policies, and truly make choices around the preferences of local people.

“[T]he whole point with properly funding local government is that it could look quite different in different areas – local people would be able to decide what their priorities are, and the local council would have space to actually deliver on those aspirations.”

Resilience argument:

Finally, there were arguments that with more adequate funding, local government could become more financially resilient and reduce waste, plan for the long-term, and help to develop more resilient communities through preventative policies.

“Earlier intervention before individuals or families reach crisis. Would be way better outcomes and way cheaper in the long run but impossible to shift left in world of last minute annual funding model.”

“We could invest far more in preventative activities which would reduce the pressure on our services – particularly regarding adult social care and children, in the medium to long term.”

“We could be pouring more resource into services that prevent crisis for our residents. Resource shortages have taken away our capacity to do anything other than crisis manage.”

According to our respondents, a more adequate system of local government finance could make councils more resilient, more democratic, and capable of delivering on a wider range of policies beyond the minimum. Well-funded and empowered local government, as the democratic institutions that have the greatest impact on people’s daily lives, has the potential to improve the lives of millions of people across England.

Conclusion

Local government is in a state of perpetual crisis management. Across England, only 4% of senior local government figures are confident in the sustainability of council finances, 50% believe their councils could declare effective bankruptcy in the next five years, and only 1.4% are happy with the government's progress on delivering a sustainable funding system.

In the face of these challenges, the sector has not given up, in fact, quite the opposite. Councils still provide essential services to millions of residents, using imagination and skill to counteract the undeniable paucity of their funding. But this cannot continue forever. As our research demonstrates, there is only so long that councils can continue to provide when their funding is totally disconnected from their needs.

And the wider work of the Local Democracy Research Centre is also [providing ideas](#) – proven to work in other countries – that could be used to begin fixing the broken system of local government funding that exists in England.

The sector needs long-term, systemic, solutions. Multi-year financial settlements, ending competitive bids for funding, the reform of council tax and business rates, these are the tools central government should use to fix local government finance.

And a healthy system of local government finance will have benefits beyond simply allowing councils to continue to provide essential services. Well-financed councils can deliver policies that only local governments with connections to local communities are placed to deliver, unlocking the potential of local democracy and becoming more resilient in the long term as their financial plans reach beyond the immediate crisis. National success must be built on local foundations.

The services councils provide: care, housing, green spaces, learning, planning, economic development and so many more, are not optional extras or luxuries they are the bedrock of a civilised society.

The next government will have to decide if that is worth saving. How? In the words of one of our respondents

“Listen to local government feedback, understand the scale of the problem nationally and work with us to resolve the situation.”

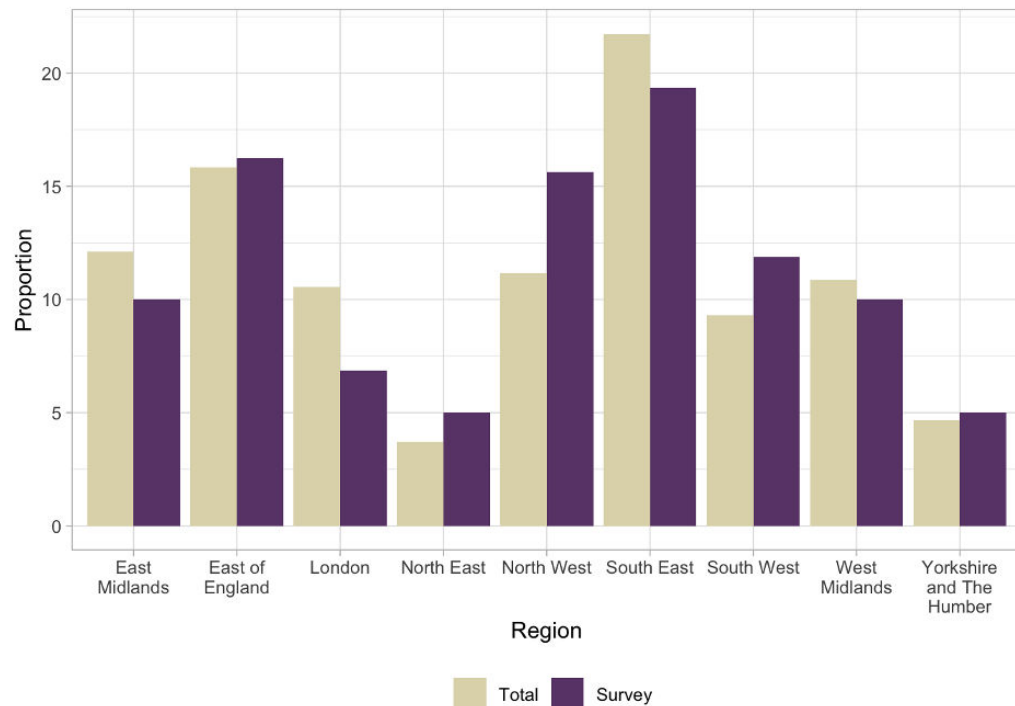
Appendix 1:

Respondent characteristics

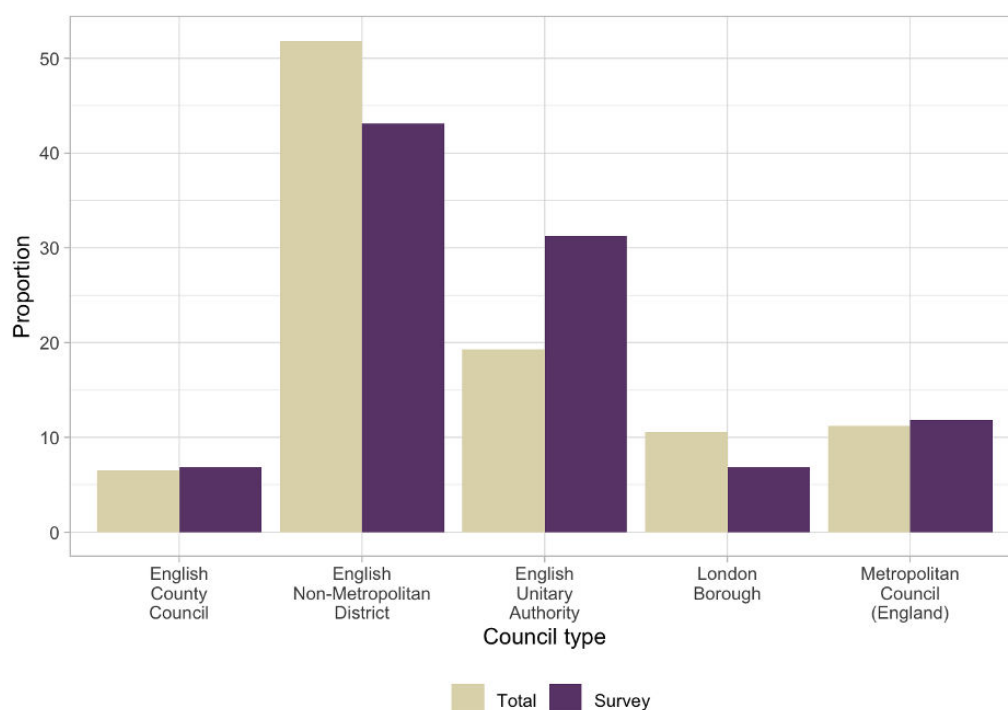
In total the survey received 160 responses from 128 (out of 317 total) unique councils across England.

Each of these charts compares the proportion of respondents in the survey to the total proportion across England in each relevant category.

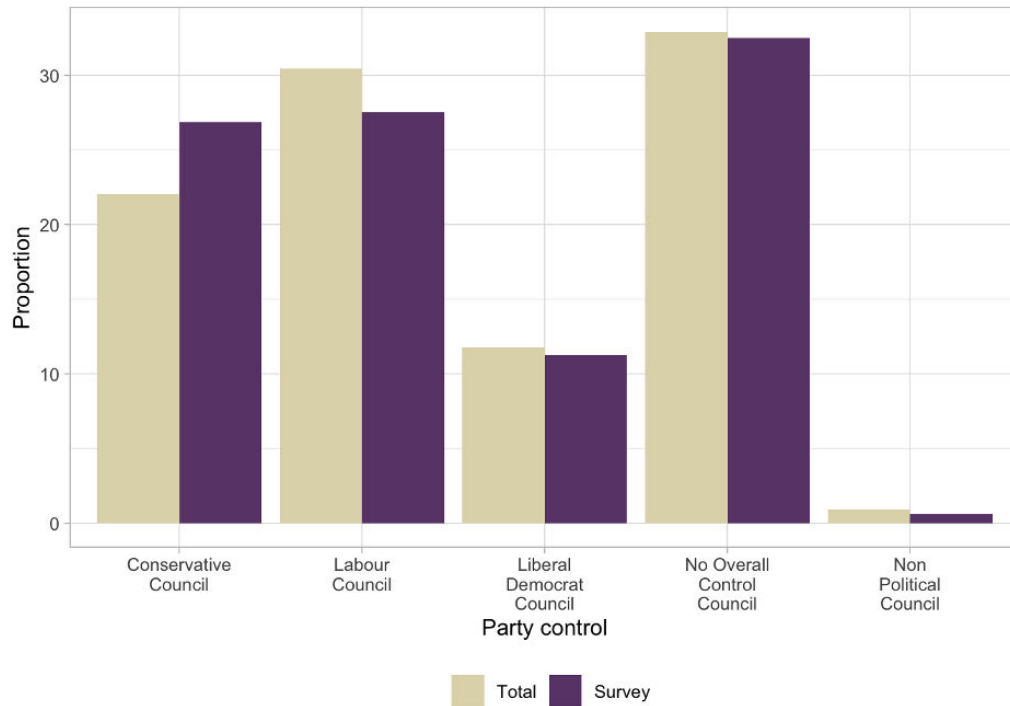
Region



Types of authority



Party control



Respondent roles

The respondents included 32 chief executives, 37 leaders of their respective councils, and 34 cabinet members for finance. The rest were split up between section 151 officers, and non-standardised role titles (such as Acting Chief Executive) with relevant responsibilities.

Appendix 2:

Regional breakdown

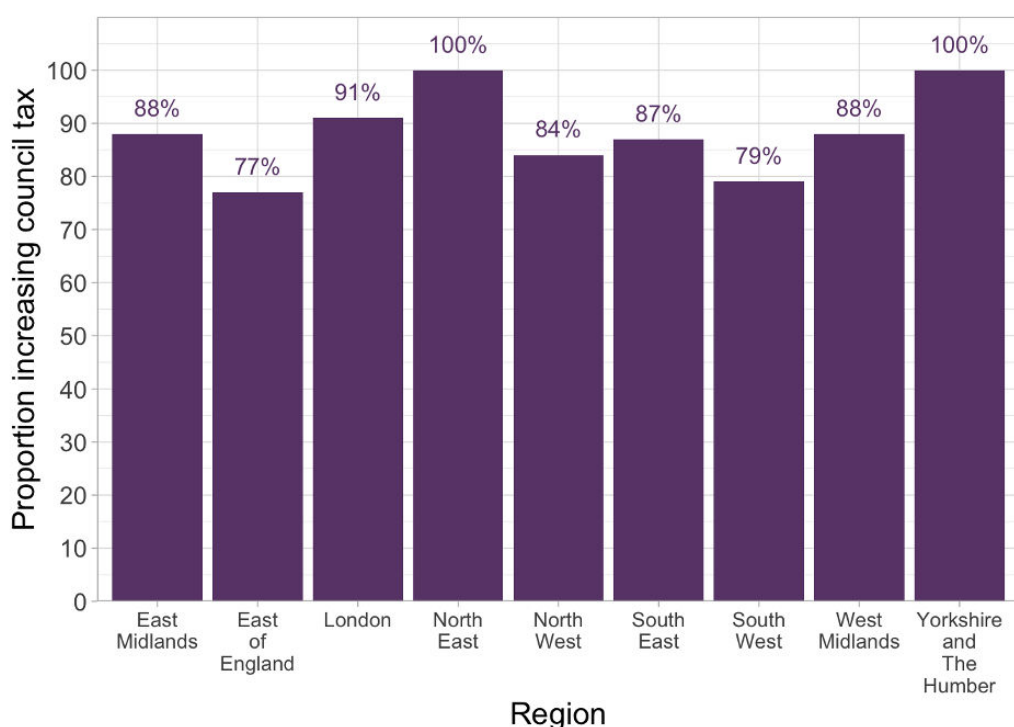
This section breaks down the answers to several questions by region. Because various regions have a smaller number of local authorities, for example the North East, and therefore a smaller number of respondents in our sample, the proportions may tend towards more extreme values.

Each proportion here is the proportion of respondents, not the proportion of councils, and could include multiple respondents from the same council.

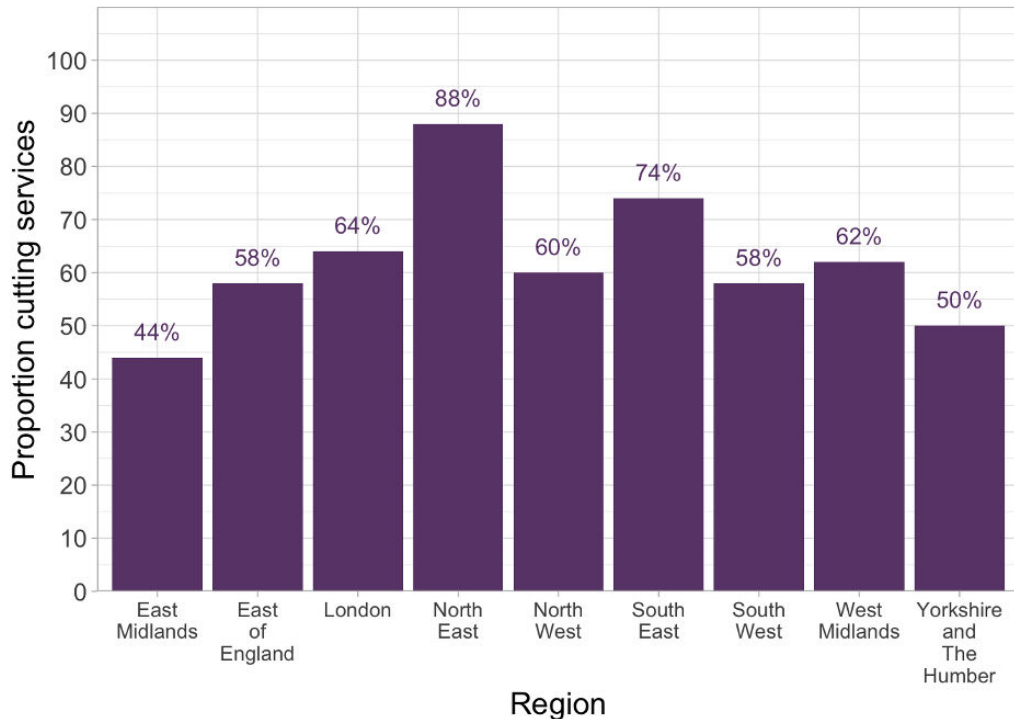
Total respondents across regions

Region	Respondents in the survey
East Midlands	16
East of England	26
London	11
North East	8
North West	25
South East	31
South West	19
West Midlands	16
Yorkshire and The Humber	8

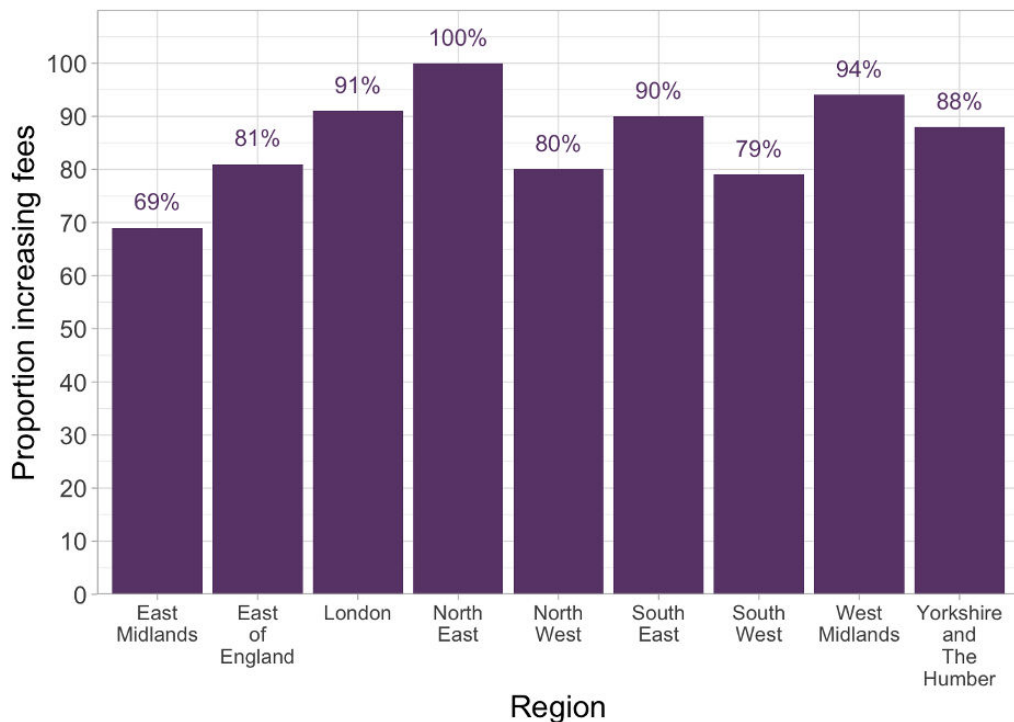
Proportion of respondents increasing council tax



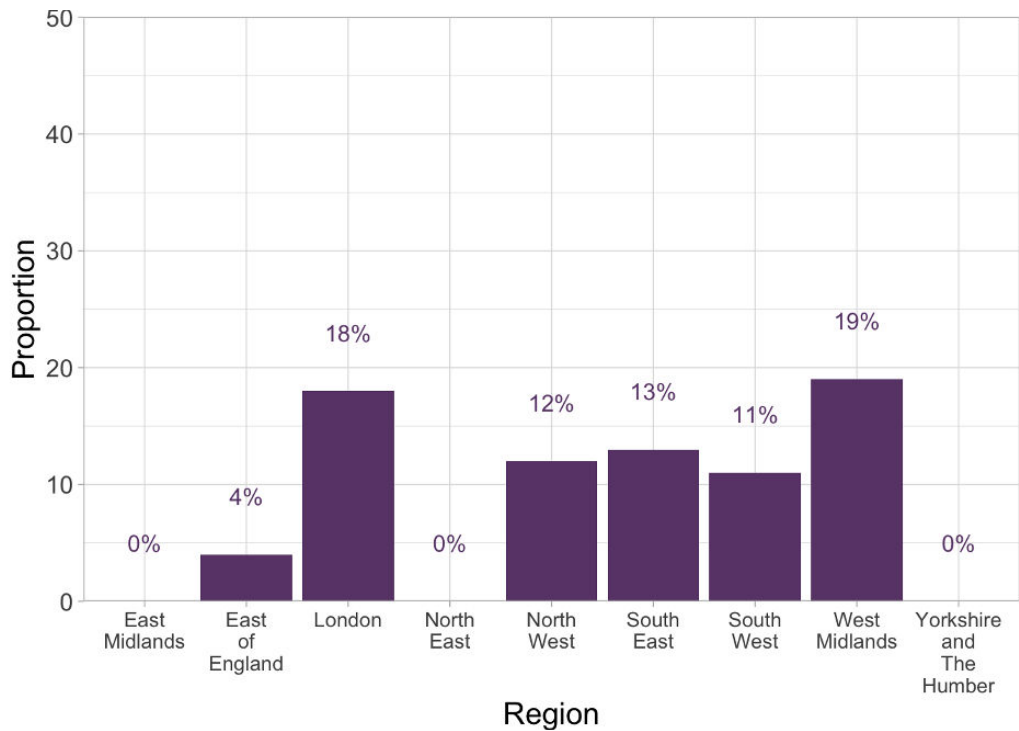
Proportion of respondents making cuts to council services



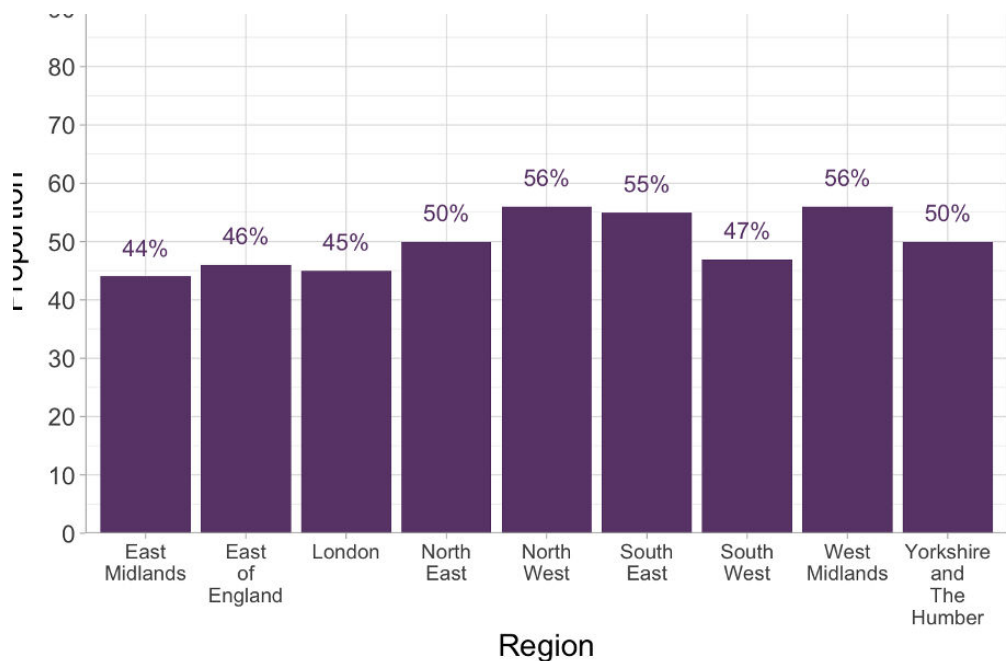
Proportion of respondents increasing fees and/or charges



Proportion of respondents saying they are likely to issue a section 114 notice in 2024-2025



Proportion of respondents saying they are likely to issue a section 114 notice in the next five years



Packages used

The statistics and data visualisations in this research were done using the statistical programming language R.

The following packages were used in this project:

- ggplot2
- kableExtra
- officer
- quanteda
- quanteda.textplots
- readr
- stringr
- tidyverse
- waffle

For more information on the code and data used to produce this report please contact:
greg.stride@lgiu.org



251 Pentonville Road
London, N1 9NG

info@lgiu.org | lgiu.org

