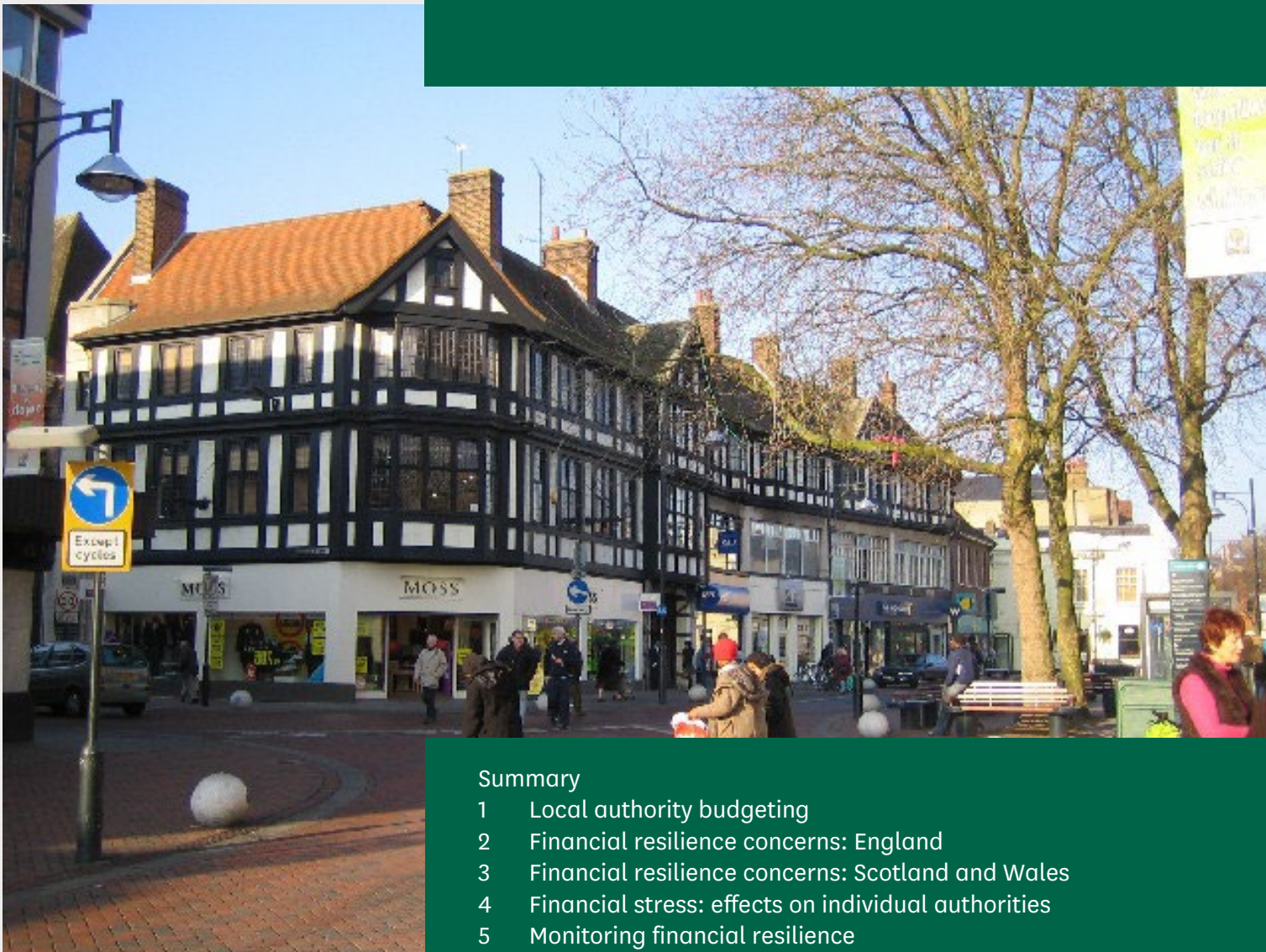


Research Briefing

15 May 2025

By Mark Sandford

Local authority financial resilience



Summary

- 1 Local authority budgeting
- 2 Financial resilience concerns: England
- 3 Financial resilience concerns: Scotland and Wales
- 4 Financial stress: effects on individual authorities
- 5 Monitoring financial resilience

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Summary

This briefing paper summarises concerns around local authority financial resilience, which initially rose in profile in the late 2010s.

The paper provides brief details of the legal accountability structures faced by local authorities, and of the process that they must follow when producing their annual budgets. This includes the role of the head of finance (the ‘section 151 officer’) and the procedure surrounding the issue of ‘section 114 notices’ within local authorities.

The paper provides details of concerns expressed by the local government sector in the late 2010s and the 2020s regarding the future funding of local authorities. These include analysis of falls in central government funding for local authorities; analysis of the ‘funding gap’ provided by the LGA’s ‘Future Funding Outlook’ reports in the 2010s, and then by their ‘Cost Pressures Model’ in the 2020s; and debates concerning whether English local authorities collectively have access to sufficient funding to continue to discharge their functions.

The paper provides some details of higher-profile financial difficulties experienced by individual councils, including Northamptonshire, Croydon, Slough, Thurrock, Woking, Birmingham, Nottingham and Spelthorne.

The paper provides details of the Local Government Association’s peer challenge system, and the monitoring framework for local authorities operated by DLUHC. Lastly, it notes the ‘financial resilience index’ created in 2018 by CIPFA (the Chartered Institute of Public Finance and Accountability).

Local government is devolved to Scotland, Wales and Northern Ireland. Local authorities in those areas have not been subject to the level of funding reductions that their counterparts in England have faced since 2010. Accordingly, debates about local authorities’ financial resilience have focused principally on England, and this briefing paper therefore principally covers England.

1 Local authority budgeting

1.1 Legal requirements

Local authorities must set a balanced budget for each financial year. They must also maintain a system of internal audit, and make arrangements for the external audit of their finances and the value for money achieved in their provision of services.¹

In England, Wales and Scotland, billing authorities (district and unitary councils) are required to set their budgets before 11 March each year,² in advance of the start of the new financial year on 1 April. Precepting authorities (including county councils and parish and town councils) must set their budgets by 1 March each year. The date in Northern Ireland is 15 February.³ There is no legal requirement for the Government, or any independent authority, to approve or sign off a local authority's budget.

Local authorities in England and Wales are required to set a balanced budget for each financial year, following a specific process. They must calculate “the expenditure which the authority estimates it will incur in the year in performing its functions”;⁴ and then they must subtract “any amounts which it estimates will be transferred in the year from its collection fund into its general fund”,⁵ not including business rates, revenue support grant or other grant funding. This calculation leads to a local authority's ‘budget requirement’ for the financial year in question.

The local authority must then subtract the amount that they expect to receive in Government grants and business rates. The amount remaining is the total amount that they must raise in council tax.⁶

These provisions have the effect of obliging a local authority to set a balanced budget, by providing that its forecast expenditure must align with its forecast income. ‘Income’ may include transfers from the authority's reserves, but this

¹ Due to the financial impacts of the Covid-19 pandemic, the Government made regulations in November 2020 permitting local authorities to balance their budgets over three years (2021-24) rather than one. See the [Local Authorities \(Collection Fund: Surplus and Deficit\) \(Coronavirus\) \(England\) Regulations 2020](#).

² [Local Government Finance Act 1992](#), section 30 (6) (England and Wales); section 93 (Scotland).

³ See the [Local Government \(Capital Finance and Accounting\) Regulations \(Northern Ireland\) 2011](#) (SI 2011/326), regulation 3

⁴ [Local Government Finance Act 1992](#) section 31A (2) (a)

⁵ *Ibid.*, s31A (3)

⁶ For Scotland, see section 93 of the [Local Government Finance Act 1992](#).

must be specified in the calculations. The provisions prevent a local authority from borrowing money to cover its annual revenue expenditure.⁷

Local authorities are required to undergo an annual external audit. The authority's auditor must provide an opinion on a local authority's accounts, and also a conclusion on whether the local authority has arrangements in place to ensure value for money. To this end, the auditor has various powers to ensure that the authority has managed its finances appropriately. They may investigate items in the authority's account at the request of an elector; they may apply to the court to have an item of expenditure declared unlawful; they may make a statutory recommendation which is copied to the Secretary of State; and they may make a 'public interest report' on matters of concern within a council's accounts. Further details are available in the Library briefing [Local audit in England](#).

Local authorities must also maintain a system of internal audit, as required by the [Accounts and Audit Regulations 2015](#). These "require that elected members maintain a sound system of internal control including arrangements for the management of risk, an effective internal audit, and that local authorities prepare annual accounts".⁸

1.2

Section 114 notices

In England and Wales, each local authority's chief finance officer (the 'section 151 officer') has statutory status and is responsible for financial administration. This includes a duty under section 25 of the [Local Government Act 2003](#) to report on the robustness of the council's budget estimates and the adequacy of its reserves.⁹

The chief finance officer is also under a statutory duty to issue a formal report if s/he believes that the council is unable to set or maintain a balanced budget. This is often known as a 'section 114 notice', after section 114 (3) of the [Local Government Finance Act 1988](#):

114 (3) The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely

⁷ Local authorities follow the standard accounting distinction between capital and revenue expenditure. Capital funding is spent on assets that last for several years, and that may depreciate over time (see the Library briefing [Local government in England: capital finance](#)). Revenue expenditure refers to regular annual spending on matters such as service provision and staffing costs.

⁸ MHCLG, [Accounting Officer System Statement](#), July 2018, p42. See also regulations 3-6 of the [Accounts and Audit Regulations 2015](#). For Scotland, see regulation 7 of the [Local Authority Accounts \(Scotland\) Regulations 2014](#) (SI 2014/200); for Northern Ireland, see rule 6 of the [Local Government \(Accounts and Audit\) Regulations \(Northern Ireland\) 2015](#) (SI 2015/106)

⁹ Section 6 (2) of the [Local Government Finance Act \(Northern Ireland\) 2011](#) makes an equivalent provision to section 25 of the 2003 Act for England and Wales. However, there is no equivalent of the section 114 notice in Northern Ireland.

to exceed the resources (including sums borrowed) available to it to meet that expenditure.

After a section 114 notice is issued, the local authority may not incur new expenditure commitments,¹⁰ and the full council must meet within 21 days to discuss the chief finance officer's report.¹¹ There is no legal provision regarding what action the council must take then. Although media reports have in the past described the issue of a section 114 notice as indicating 'bankruptcy', there is no procedure in law for a UK local authority actually to become bankrupt, and none have ever done so.

The issue of a section 114 notice is a statutory requirement upon the chief finance officer, but it only usually takes place when regular discussions have failed. The Chartered Institute for Public Finance and Accountancy (CIPFA) says:

To be at the point where a Section 114 report is a real possibility would suggest that the organisation has failed to heed or act effectively on the warnings of the CFO about the seriousness of the budgetary position. Warnings and conversations that CIPFA would expect to have been taking place at the highest level of the organisation. Facing a difficult financial outlook is not a reason in itself to expect a rush of Section 114 reports.¹²

Section 114 notices issued in the late 2010s and early 2020s are listed in the table below. Prior to these, the most recent issue of a section 114 notice relating to a failure to balance the budget was by the London Borough of Hackney in October 2000.

In addition to the notices listed in the table, section 114 (2) notices have been issued by Barnet Council (January 2025), Northumberland Council (23 May 2022), Pembrokeshire Council (February 2022), and Nottingham City (15 December 2021). Section 114 (2) of the 1988 Act requires the chief finance officer to issue a notice if the authority "has made or is about to make a decision which involves or would involve the authority incurring expenditure which is unlawful". This power is separate from a notice under section 114 (3) relating to balancing the budget.¹³

¹⁰ See section 115 (6) of the [Local Government Finance Act 1988](#)

¹¹ See section 115 (2-3) of the [Local Government Finance Act 1988](#)

¹² CIPFA, [Balancing local authority budgets](#), 2016

¹³ See Aysha Gilmore, "[Northumberland county council issues s114 for unlawful expenditure](#)", Room 151, 24 May 2022; Nick Golding and Jessica Hill, "[Nottingham issues s114 over 'unlawful' use of HRA funds](#)", [Local Government Chronicle](#), 15 Dec 2021

Section 114 notices: 2018 onwards

Nottingham City Council	29 Nov 2023
Birmingham City Council	5 Sep 2023
Woking Borough Council	7 Jun 2023
Thurrock Borough Council	18 Dec 2022
Croydon Borough Council	22 Nov 2022
Croydon Borough Council	2 Dec 2021
Slough Borough Council	2 Jul 2021
Croydon Borough Council	11 Nov 2020
Northamptonshire County Council	24 Jul 2018
Northamptonshire County Council	2 Feb 2018

During the later months of 2023, a number of commentators suggested that ongoing pressures on local authorities' finances meant that further section 114 notices could be expected in 2024 and coming years. The chief executive of CIPFA, Rob Whiteman, speculated about possible consequences in July 2023:

My judgement is we may see more s114s from commercialism and excessive borrowing that were in the pipeline before the rules tightened. ...More likely, however, if we see more councils in close proximity to issuing a s114 it will be owing to difficulty covering significant pressures, such as adult and children's social care.

...sooner or later we will reach a point when a well managed authority, whose costs benchmark well and resources are managed effectively, hits the buffers through a lack of funding to meet service demands.

There is a risk, of course, that many more s114 notices may normalise financial management failure. I think there is scope for a double moral hazard developing. The Government worries if it 'bails out' councils that can't manage their budgets or debt repayments then it creates an incentive to borrow and take imprudent risk. ...

If this happens it's a game of chicken that will end with some flattened and bloodied feathers. I am in no doubt the Treasury and DLUHC will allow a council to go bust and default on its debts pour encourager les autres if there is any hint that serving a s114 notice becomes something of a fashion.¹⁴

Since 2020, a system of 'exceptional financial support' has been developed, allowing authorities to access capital funding to shore up gaps in day-to-day spending (see section 2.6 below).

¹⁴ Rob Whiteman, [Section 114s: where are we headed next?](#), Municipal Journal, 31 July 2023

2 Financial resilience concerns: England

2.1 Local authority financial resilience in the 2010s

Financial resilience became a significant concern in English local government in the late 2010s. This arose in the context of substantial reductions in grant funding for local authorities from the UK Government from 2010 to 2016. Discussions of resilience generate discussion of governance issues – good planning, strong financial control, and audit – that apply to all local authorities in the UK. During the 2010s and early 2020s, the profile of such issues was higher in England, generating a greater quantity of debate in Parliament and amongst stakeholders.

Central government grant funding for local authorities in England has fallen substantially since 2010. England-wide and regional figures can be found in the Library briefing [Local government finances](#). Figures for individual local authorities can be found in the Library's [interactive local authority finance data pages](#).

English local authorities have also experienced a fall in their 'spending power' since 2010. Spending power is a UK government calculation of their capacity to spend funds: in essence, it takes account of a local authority's grant funding, business rates revenue, and its capacity to raise council tax (not the authority's actual rise in council tax). The government has produced a note explaining how it calculates spending power.¹⁵

In 2018 the Public Accounts Committee stated that central government funding for local authorities fell by 49.1% in real terms between 2010 and 2018. This was equivalent to a real terms reduction in spending power of 28.6%.¹⁶

In March 2018, the Bureau of Investigative Journalism suggested that a number of county councils faced financial stress in the short- to medium-term.¹⁷ Pixel Financial Management carried out some research on local authority reserve levels in 2018, which suggested that district councils too

¹⁵ See MHCLG, [Core spending power: explanatory note](#), January 2019

¹⁶ Public Accounts Committee, [Financial sustainability of local authorities](#), HC-970 2017-19, 2018, p7

¹⁷ Gareth Davies, [County councils in crisis: three more named as showing signs of financial distress](#), Bureau of Investigative Journalism, 8 Mar 2018. See also CIPFA, [Surrey County Council finance](#), July 2018, p2

might face difficulties in the medium term owing to uncertainties over business rates income.¹⁸

The NAO published a report titled [Local government financial sustainability](#) in February 2025. This report stated that:

- Funding for local authorities had increased between 2015 and 2024: core spending power increased by 4%. In the same period, core spending power per person fell by 1% in real terms (having reduced by 7% between 2015 and 2020, then having risen).
- Core spending power per person is expected to rise by 7% between 2023 and 2026.
- Levels of reserves vary significantly between authorities. In total, unallocated reserves fell from £4.9 billion in 2020/21 to £3.8 billion in 2023/24. The NAO noted that MHCLG “does not know how much [of these sums] can be used to support day-to-day spending”, and that “there is a lack of transparency and consistency around how reserves are reported”.¹⁹
- Unringfenced reserves fell from £35.8 billion in 2020/21 to £24.6 billion in 2023/24. Much of this total will comprise funds that local authorities have already allocated for specific uses in future years. The NAO said that “three-quarters of local authorities used reserves to balance their budgets in 2023-24 and two-thirds planned to do so in 2024-25”.²⁰
- Local authority spending has increased considerably between 2015 and 2024, from £60 billion to £72.8 billion in real terms.

2.2 Cost pressures and the ‘funding gap’

The Local Government Association publishes estimates of the ‘cost pressures’ falling on local authorities. These are used to provide an estimate of the additional funding needed by the sector to maintain services at the level of the recent past. For instance, its submission to the Spending Review in October 2023 said:

Our analysis shows that by 2024/25 cost and demand pressures will have added £15 billion (28.6 per cent) to the cost of delivering council services since 2021/22. Local government received additional funding in 2023/24 and there is a commitment to a further uplift in 2024/25. Despite this we estimated in July that councils were facing funding gaps of £2.0 billion in 2023/24 and £900 million in 2024/25. But following an updated inflation forecast from the Bank of England in August our analysis now shows funding gaps of £2.4 billion in

¹⁸ Adrian Jenkins, “[Research: financial stresses remain despite stabilisation of reserves](#)”, Local Government Chronicle, 28 June 2018

¹⁹ National Audit Office, [Local government financial sustainability](#), HC-691 2024-25, 28 Feb 2025, p7

²⁰ As above, p10

2023/24 and £1.6 billion in 2024/25. These gaps relate solely to the funding needed to maintain services at their current levels. The implication here is that councils do not have enough funding simply to stand still.²¹

The LGA's estimates of cost pressures include modelling the impact of pay, energy prices, inflation, and population changes, based on data from the Office for National Statistics. Cost pressures that are unique to individual local government services are also taken into account, and income from sales, fees and charges is taken into account.²²

The NAO's 2025 report [Local Government Financial Sustainability](#) gave examples of cost pressures between 2015 and 2024:

...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).... Immediate financial pressures are limiting local authorities' ability to invest in prevention. ...Local authorities are spending more on some late intervention services and less on early intervention or preventative services which will help manage demand...²³

The NAO also noted a number of examples indicating that individuals were struggling to access certain local authority services. Costs of provision of local authority services have also increased since 2015, and staff costs have increased in the early 2020s due to inflation-driven increases in the National Living Wage.²⁴ Pressures of this kind have led to reductions in the provision of discretionary services:

In response to a survey in 2024, 31.9% [of local authorities] 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...

Previously, the National Audit Office's 2018 report [Financial sustainability of local authorities](#) stated that demand for certain services had risen during the 2010s.²⁵ The report stated that, between 2011 and 2018, the number of looked-after children had grown by 11%; the estimated population in need aged 65 or over by 14%; and the number of unintentionally homeless people by 34%.

The LGA published a series of reports in the 2010s entitled 'Future funding of local authorities'. Each of these identified a 'funding gap' that was forecast to arise by a particular date, based on the difference between government

²¹ LGA, [Autumn Statement 2023: LGA submission](#), 24 Oct 2023

²² For further information on the LGA's cost pressures methodology, see LGA, [Cost pressures and funding gap modelling 2023 - Technical Annex](#), 2023

²³ National Audit Office, [Local government financial sustainability](#), HC-691 2024-25, 28 Feb 2025, p8

²⁴ As above, p9

²⁵ National Audit Office, [Financial sustainability of local authorities 2018](#), HC 834 2017-19, 2018, p19

figures for projected local authority income and projected demand for service spending at that point.

Although central funding of local authorities fell throughout the 2010s, the LGA's forecasts of funding gaps varied in size. This is because they were based on comparing service provision at the point at which they were published with projected service provision at a future date: they were not all based on the same starting date. Figures of this kind should be treated with caution. They cannot necessarily be compared with one another to draw conclusions about the comparative health of local government finances in different years.

The first of these reports, published in 2012, was entitled [Funding outlook for councils from 2010-11 to 2019-20: preliminary modelling](#). It estimated a £16.5 billion annual funding gap by 2019-20 compared with 2010-11. A further paper in 2015 revised the projected funding gap for 2019-20 to £9.5 billion.²⁶ This figure was lower because it used local authority spending in 2015 – which had fallen from levels in 2010 – as its baseline. In a briefing published on 1 October 2018, the LGA estimated an annual funding gap of £3.85 billion in 2019-20, rising to £7.81 billion by 2024-25.²⁷

MHCLG too estimates potential funding gaps for local authorities. It carries out a “need to spend” analysis, as part of its annual local government finance settlements and at national financial events. It works with other relevant departments to provide a “single projection of local authority income and expenditure” to the Treasury. This projection includes an estimate of a ‘funding gap’ over the relevant Spending Review period, calculated by comparing current funding plans and estimates of future funding requirements. This analysis, and funding gap figures, are not made public.²⁸

2.3 How much funding do local authorities need?

There exists no agreed, objective measure of ‘need’ for local authority services, nor is there a settled mechanism to translate ‘need’ into total levels of funding. MHCLG uses various formulae to assess need when allocating local government funding. However, these formulae assess relative need, comparing local authorities to one another. They do not assess the total sum that a local authority requires in order to deliver a particular service.

The local authority finance website Room 151 reported in September 2018:

Local authorities need to unite to make the case for overall greater funding, rather than argue over how the money is divided, heard delegates at the

²⁶ LGA, [Future funding outlook for councils 2019-20: interim 2015 update](#), July 2015

²⁷ LGA, [Local services face further £1.3 billion government funding cut in 2019/20](#), 1 October 2018

²⁸ National Audit Office, [Local government financial sustainability](#), HC-691 2024-25, 28 Feb 2025, p49-50

summit, which is being held alongside the Local Authority Treasury Investment Forum.

Tony Kirkham, director of resources at Newcastle City Council, said: ‘The cake needs to be bigger. The question of who gets what out of the distribution is in some ways secondary for me – the cake isn’t big enough.

The government has not validated that we have not got enough money in the first place. It hasn’t assessed the 1400 statutory requirements placed on us and the amount needed to deliver them. And it doesn’t allow us to raise council tax.’

Tony Travers, visiting professor at the London School of Economics, also speaking at the summit, said: ‘The truth is that national politicians in government and indeed at the top of the opposition are unwilling to face the fact that local government can’t deliver £100 worth of services for £70.’²⁹

The outgoing Comptroller and Auditor General, Sir Amyas Morse, said in a blog post in September 2018:

...During this progressive reduction in funding [since 2010], I have not seen any evidence-based effort to reconcile funding to local needs. In my view, the policy objectives for local government and the local government statutory duties have not been properly weighted against potential efficiency savings. The 2015 Spending Review made some headway here but it was not a comprehensive approach.³⁰

Sir Amyas also drew attention to a lack of local government sector-wide statistics to indicate changes in patterns of service use in response to the changes identified.

2.4

Responses to funding pressures

Local authorities have been required to respond to falling levels of funding, within the constraints of balancing their budgets annually. In a report in 2018, the NAO identified changes in their patterns of response to funding challenges throughout the 2010s:

1.23 Our modelling indicates a shift in the way that authorities have used these different options since 2010-11.... For the first three years of funding reductions, local authorities as a whole reduced service spending at a rate in excess of their income reductions. This allowed them to build up their reserves and also offset growth in other spending.

1.24 In the second three-year period, the scale of funding reductions was similar to the first period, but net reductions in service spend accounted for less than half of the required savings. Instead, at the aggregate level, local

²⁹ Colin Marrs, “[FDs’ Summit 2018: Funding crisis poses ‘existential threat’ to public services](#)”, Room 151, 20 Sep 2018

³⁰ Sir Amyas Morse, “[When ‘more for less’ becomes ‘less for less’: the implications of central decision-making for the delivery of frontline services](#)”, LSE Politics and Policy, 21 September 2018

authorities have increasingly offset funding reductions by reducing other spending, reducing their net contributions to reserves or drawing them down, and growing alternative income such as commercial trading profits or external interest.

1.25 This suggests that authorities have moved from simply reducing service spend to looking for alternative savings and sources of income. However, a growing reliance on the use of reserves to offset funding reductions raises questions about the sustainability of the current model.³¹

In June 2019, the Housing, Communities and Local Government Committee published a report entitled [Local government finance and the 2019 Spending Review](#). One of its conclusions was that “if HM Treasury wants local government to continue providing the services it currently does it needs to provide local government with a significant real-terms increase in its spending power”.³² Like the LGA and NAO reports cited above, it identified significant rises in demand for local government services during the 2010s, with which funding had not kept pace.³³

The NAO’s 2025 report noted that local government’s financial sustainability was also impacted by policy choices made by government departments other than MHCLG, but that MHCLG was not able to influence those choices. The NAO stated that this highlighted “the need for a whole-system, cross-government approach to tackle wide-ranging issues affecting local government”.³⁴ The NAO specifically recommended that MHCLG should begin the work of developing a whole-system approach of this kind, which would include providing other departments with “an up-to-date understanding of the priorities, pressures and opportunities across services local authorities are expected to deliver”.³⁵

The think-tank Localis suggested in 2024 that one effect of reduced levels of funding had been to decrease the wider governance capacity of local authorities:

Years of austerity have eroded governance structures across local government, particularly in back-office functions such as finance, legal and administrative support. This has hindered authorities’ ability to manage finances, oversee contracts, and ensure sound decision-making...

English local government operates under an unsustainable and highly centralised funding model that leaves local authorities overly dependent on central government grants, with minimal local tax-raising powers. This financial dependency undermines long-term strategic planning and

³¹ National Audit Office, [Financial sustainability of local authorities 2018](#), HC 834 2017-19, 2018, p21

³² Housing, Communities and Local Government Committee, [Local government finance and the 2019 Spending Review](#), HC-2036 2017-19, 21 Aug 2019, p5

³³ Ibid., p.8-9

³⁴ National Audit Office, [Local government financial sustainability](#), HC-691 2024-25, 28 Feb 2025, p11

³⁵ As above, m p13

investment, forcing local authorities into short-term budget cycles and reactive decision-making.³⁶

SEND budgets

A specific problem has arisen from significant deficits in local authority budgets for the provision of services for children with special educational needs and disabilities (SEND). These deficits exist because provision of ring-fenced funds by the Department for Education has not kept pace with the spending on SEND children that local authorities have been legally required to incur.

The government has instituted a ‘statutory override’ that permitted local authorities to disregard these deficits when calculating their annual budget. This disregard currently runs from 2020 to 2026.³⁷ The Department for Education estimated in 2024 that, if the disregard is not renewed at that point, and the full deficits were recorded on local authorities’ balance sheets, “fifty county or unitary authorities will have cumulative deficits larger than their reserves at the end of 2025/26, with a further 16 estimated as needing to spend 75% of their reserves to clear their deficits”.³⁸

Some authorities’ SEND deficits are also significant enough that they could affect local authorities’ cash flow in spite of the statutory override. That is because, although the deficits can be ignored for the purposes of setting a balanced budget, the funds needed for service provision still have to be found in the short term. Local authorities have used reserves up till now for this purpose.³⁹ The local government finance website Room 151 noted this issue in March 2025:

According to a recent survey by ALATS, many councils are now having to take out loans to manage cashflow crises caused by SEND spending, with the cost of these loans, including interest payments, amounting to to over £226m a year and lost investment income of some £395m a year. Figures which will only rise as debt grows.⁴⁰

The NAO’s 2025 report stated that the total SEND deficit had reached £2.9 billion at the end of 2024/25, and that the cumulative deficit would be £4.6 billion at the end of 2025/26.⁴¹ A further report on Room 151 noted alarm in parts of the sector at the scale of the issue:

A ‘financial catastrophe’ looms with ‘unmanageable’ special educational needs and disabilities (SEND) deficits risking bankruptcy for half of England’s

³⁶ Callum McLinden and Joe Fyans, [Present Tense: renewing and reforming local financial governance towards long-term resilience and sustainability](#) [PDF], Localis, 2024, pp12-13

³⁷ See the [Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) \(No. 2\) Regulations 2022](#)

³⁸ NAO, [Support for children and young people with special educational needs](#), HC-299 2024/25, 24 Oct 2024, p43

³⁹ National Audit Office, [Local government financial sustainability](#), HC-691 2024-25, 28 Feb 2025, p57

⁴⁰ Aysha Gilmore, [Michael Hudson: ‘only radical solutions left’ to sort out SEND deficit](#), Room 151, 25 March 2025

⁴¹ As above

largest local authorities, the County Councils Network (CCN) has warned. It said some £6bn in SEND deficits could be placed on local authority balance sheets in March 2026 when the statutory override ends, without government action.

A CCN survey found that in this scenario, 18 county and unitary councils will be insolvent overnight, with a further six following in 2027.

The organisation pointed to Society of County Treasurers estimates that the nationwide SEND deficit was £2.4bn last March, rising to £5.9bn by the time the override runs out in March 2026.⁴²

2.5 Commercial property investment

During the 2010s, a number of English local authorities made substantial investments in commercial property, many using sums of money borrowed from the Public Works Loan Board (PWLB). The aim was to bolster their income, and protect local services, by letting commercial properties at a net profit. More information on these developments can be found in the Library briefing paper [Local government: commercial property investment](#).

Concerns were expressed at that time that borrowing and investing comparatively large sums of money could damage the resilience of local authorities. The National Audit Office reported on these developments in March 2020:

There are inherent potential risks associated with the acquisition of commercial property. These include ‘specific risk’ associated with each individual property such as the length of the lease or the financial strength of the tenant. Local authorities also face ‘systematic risk’, which reflects movements in markets; in the last recession UK commercial property values and market rental values both fell.⁴³

The NAO also noted a lack of centrally-held data on the investment decisions made by local authorities:

The Department has data on local authority debt levels and costs and it has used these to support its work on the financial sustainability risks of commercial investments. However, there are a range of other areas such as trends in buying out of area, the contribution of commercial income to service expenditure, and the scale of contingency funds where the Department needs better and more timely data and analysis.⁴⁴

Government concerns over the effects of large-scale borrowing led to the Government raising the PWLB interest rate by 100 basis points (1%) [on 9 October 2019](#), and proposing to prevent local authorities that borrow money

⁴² Jason Holland, [Councils heading for ‘financial catastrophe’ over SEND deficits](#), Room 151, 21 March 2025

⁴³ NAO, [Local authority investment in commercial property](#), HC-45 2019-21, March 2020, p8

⁴⁴ Ibid., p10

to purchase property for yield only from using the PWLB at all. A consultation on this proposal concluded in November 2020, and it came into effect on 26 November. The 1% increase was reversed on the same day.⁴⁵ The Government also published additional guidance on the lending terms of PWLB loans following this change.⁴⁶

These changes will not affect local authorities' powers to invest in property for purposes other than purely for financial yield. The majority of property investment by local authorities is directed towards their functional responsibilities, such as regeneration. Local authorities may still borrow from the PWLB if they are spending money on their functional responsibilities in a way that will also generate commercial income. However, they cannot do this if their financial plans include transactions intended solely to generate income. This issue is discussed further in the Library briefing [Local government: commercial property investments](#).

The Public Accounts Committee expressed concern in July 2020 that local authority commercial property investments constituted a severe financial risk in a small number of cases:

The behaviour of these authorities not only means that they are highly exposed to risk, but it also alters the terms of the debate; the outlier authorities are viewed as behaving poorly, while other authorities borrowing for yield at relatively lower levels are now not necessarily seen as an issue. Extreme behaviour needs to be curtailed not only for the risk it represents for those specific cases, but also for the mixed messages it sends across the sector, normalising behaviour that may be relatively less risky but nonetheless is still not within the spirit of the framework.⁴⁷

2.6

Exceptional financial support

The Government has made bilateral agreements with a number of authorities in financial distress since 2020/21. This has become known as 'exceptional financial support'.

Normally, local authorities are not permitted to transfer money from their capital account to their revenue account. This is known as 'capitalisation'. The government has regularly issued statutory directions and guidance to all local authorities setting out a limited set of circumstances in which funds may be capitalised.⁴⁸ The current guidance applies from 2025 to 2030. More information on capitalisation can be found in the Library briefing paper [Local government in England: capital finance](#).

⁴⁵ See PWLB, [Operational Circular 162](#), 26 November 2020.

⁴⁶ See PWLB, [Treasury guidance](#), 26 November 2020.

⁴⁷ Public Accounts Committee, [Local authority investment in commercial property](#), 11th report, HC-312 2019-21, p6

⁴⁸ See MHCLG, [Guidance on flexible use of capital receipts](#), 26 March 2025

Exceptional financial support comprises the government making separate bespoke ‘capitalisation directions’ to each individual local authority, using section 16 of the [Local Government Act 2003](#). These capitalisation directions give the authority permission to transfer a specified sum from its capital to its revenue account, and to use that sum to bolster its revenue spending.

The gov.uk website contains government guidance on the terms of exceptional financial support, and full details of the amounts received by individual local authorities since 2020/21.⁴⁹ The sums set out in exceptional financial support agreements for the 2025/26 financial year total £1.314 billion.

In financial years up to 2024/25, the government published some or all of the individual capitalisation directions sent to local authorities. These also clarified that using capitalised funds to address funding pressures from services could lead to a local authority’s capital financing requirement increasing. That is, the authority might need to borrow more money to bolster their capital account after the capitalisation had taken place. Indirectly, the authority would be borrowing to fund revenue spending. In contrast to this, the standard capitalisation guidance explicitly says that “local authorities cannot borrow to finance the revenue costs of service reform”.⁵⁰

When local authorities that had accessed exceptional financial support borrowed additional funds in this way, these initially had to be borrowed from the PwLB, at an interest rate 1% above the standard rate. Angela Rayner, the secretary of state for Housing, Communities and Local Government, announced in October 2024 that the 1% premium would be ended.⁵¹

Some of the published directions from 2020/21 and 2021/22 made additional provisions: for instance, for external assurance reviews of the local authority’s spending, and how the authority should make its minimum revenue provision in its accounts (normally a matter of local discretion). These types of condition have not featured in the directions published in 2024/25 and 2025/26.

Exceptional financial support has been erroneously reported as consisting of ‘bailouts’ in many parts of the media. This is not accurate. It comprises government permission for local authorities to use existing money in a different way. A local authority that uses asset sales to plug gaps in spending will have fewer assets, and a local authority that borrows additional money to cover gaps in its capital programme will have to repay that money.

⁴⁹ MHCLG, [Exceptional Financial Support for local authorities](#), 13 Mar 2025

⁵⁰ See MHCLG, [Guidance on flexible use of capital receipts](#), 26 March 2025, paragraph 7

⁵¹ MHCLG, Angela Rayner’s speech at the [Local Government Association Conference](#), 24 October 2024

Growth in exceptional financial support

Applications for exceptional financial support have grown in number since 2020/21. Some commentators have suggested that an alternative mechanism will be needed in the long term to address financial sustainability issues:

CIPFA chief executive Owen Mapley said he was “increasingly seeing” pressure on section 151 officers to “do, or not do, things that they are not comfortable with”.

The “only way out” of “the volume, complexity and cost spirals that councils face at the moment is policy reform”, he said. “We’ve got to have a look at what the state can actually provide, because I think no government could or should spend its way out of the sort of issues that we face,” he added. Mapley also called for a “fundamental shift into prevention and early intervention investment”.⁵²

Government practice in the past has always been not to provide any direct financial support when local authorities have encountered severe financial difficulties. This was true in two of the most recent large-scale threats to local government financial stability – interest rate swaps (in the late 1980s) and Icelandic banks (2008-09). More information on these episodes can be found in the Library briefing [Local government: commercial property investments](#). Exceptionally, the Government loaned Western Isles Council (Comhairle nan Eilean Siar) £30 million after it lost £24 million following the collapse of the Bank of Credit and Commerce International (BCCI) in 1991.

Reports in April 2025 indicated that the government may break with this practice in respect of high levels of debt in Woking and Thurrock councils. Both these councils are likely to be restructured in the mid-2020s within the government’s programme of devolution. Exact details of how much support will be provided and on what terms are not available at the time of writing.⁵³

⁵² Jason Holland, [Exceptional financial support no longer ‘exceptional’ – with policy reform the ‘only way out’](#); Owen Mapley, Room 151, 15 Jan 2025

⁵³ See Woking BC, [Government confirms support for Woking’s debt position](#), 29 April 2025; Essex CC, [Local Government Reorganisation Interim Plan Feedback: Essex, Southend on Sea and Thurrock](#), 2 May 2025

3 Financial resilience concerns: Scotland and Wales

3.1 Scotland

Audit Scotland produces an annual ‘financial overview’ report on the local government sector in Scotland.⁵⁴ It states that Scottish government revenue funding for local authorities – in effect, grant – had risen by 5.7% in real terms between 2023/24 and 2024/25.⁵⁵ However, much of this extra funding was targeted towards Scottish Government priorities and meeting costs driven by Scotland-wide pay deals. Funding from this sum also included a contribution towards the cost of a council tax freeze in Scotland, equivalent to a 5% rise in council tax.

There is no equivalent in Scotland (or Wales) of the concept of ‘spending power’ used by the UK Government with regard to English local authorities.

Unlike in England, local government grant funding in Scotland includes school education funding and redistributed business rates revenue, but it does not include fire and rescue or public health; thus these figures are not directly comparable with England.⁵⁶

3.2 Wales

The Wales Audit Office issued a report entitled [Financial sustainability of local government](#) [PDF] in December 2024. This report stated that funding for Welsh councils had decreased since 2008, and that they had also faced financial challenges traceable to world events. The report said:

15 Few councils have a comprehensive understanding of how they will close their projected budget gaps over the medium to long term – beyond the next two years. Whilst some councils have identified some of the savings required, there is a continued reliance on annual savings rounds, rather than longer-term transformation plans. This has meant a reliance on short-term savings, and/or short-term use of reserves. This increases the risk over time that

⁵⁴ Accounts Commission [Audit Scotland], [Local government budgets 2024/25](#), 15 May 2024

⁵⁵ As above, p3

⁵⁶ Fraser of Allander Institute, [Fiscal issues facing local government in Scotland](#), 2017, p.10-12

funding gaps will not be bridged, or that short-term solutions will not help councils to secure value for money over the longer term.⁵⁷

The report provided a high-level definition of financial sustainability:

To be financially sustainable, a council needs to provide the services required of it, by law and expectation, within its available resources in the longterm. Part of this may involve re-defining what 'reasonable' expectations might be for service users as demand pressures, priorities and the funding position changes.⁵⁸

It suggested that most Welsh councils had no perspective on their financial sustainability beyond the medium term (of two to three years). In particular, reserves were often not used in a strategic manner, though the report acknowledged that in some cases in-year pressures would mean that reserves had to be used in ways that could not be anticipated.

A previous report from the Wales Audit Office, in 2016, identified that several local authorities intended to cover unplanned budget gaps by using earmarked reserves; or by allowing underspending in one service area to mitigate overspending in another in any given financial year. It suggested that "as relatively easy savings have already been made, local authorities would need to develop longer-term transformational projects to address the significant budget pressures they face".⁵⁹

⁵⁷ Wales Audit Office, [Financial sustainability of local government](#), 2024, p9

⁵⁸ As above, p11

⁵⁹ Wales Audit Office, [Financial resilience of local authorities 2015-16](#), 2016, p17

4 Financial stress: effects on individual authorities

This section outlines some details of events in seven local authorities that have issued section 114 notices since 2018.

4.1 Northamptonshire County Council

During 2016, evidence became available of the potential for substantial financial failings at Northamptonshire County Council. In response to these concerns, on 9 January 2018 Sajid Javid, then Secretary of State for Housing, Communities and Local Government, commissioned a Best Value inspection by Max Caller, a former Boundary Commissioner and local authority chief executive. In a written statement, Mr Javid said:

For some time there have been concerns about financial management and governance at Northamptonshire County Council, and in recent months a number of reports have been published which have led me to question whether the authority is failing to comply with its best value duty. Particular reports include the external auditor's (KPMG) "adverse" value for money opinion in relation to the 2015-16 and 2016-17 accounts, publicly available budget documents, and the September 2017 Local Government Association peer review into the council's financial planning and management.

While the Best Value inspection was in progress, the county council's section 151 officer [issued a section 114 notice](#), on 2 February 2018. On 20 February 2018, KPMG issued an [advisory notice](#), indicating that they believed that the council was about to set an unlawful budget.

The county council met to discuss the section 114 notice on 22 February. It eventually passed a revised budget on 1 March 2018, which reduced spending for 2018-19 by a further £10 million.⁶⁰ This met the council's legal requirement to set a balanced budget.

Mr Caller's report was published on 15 March 2018. It found that Northamptonshire had failed to exercise proper budgetary control since 2013-14. Earmarked reserves had fallen from £57.7 million in 2013-14 to £8.8 million by 1 April 2017. The council had "repeatedly under-assessed the level of spending pressures it will experience across the years within its medium-term

⁶⁰ Colin Marrs, "[Northamptonshire plans for £10m in cuts a week after 'unlawful' budget](#)", Room 151, 1 Mar 2018

financial plan”.⁶¹ The report also noted that the council had used capital receipts to compensate for overspending in its revenue budget, but that no strategy document directing this use was in existence, contravening statutory guidance.⁶²

On 10 May 2018, the Government intervened formally in Northamptonshire, appointing two commissioners to run the council for the period up to March 2021.⁶³ However, the section 151 officer issued a [second section 114 notice on 24 July](#), in respect of the 2018-19 financial year, believing that the council was not on track to make necessary in-year savings. Further reductions in spending were subsequently voted through.⁶⁴

The Government then agreed to allow Northamptonshire to use £70 million of capital receipts to bolster revenue expenditure (a ‘capitalisation direction’).⁶⁵ £42 million of this sum came from the sale and leaseback of the county council’s headquarters, One Angel Square.⁶⁶ The council was subsequently also permitted an extra 2% of ‘headroom’ in the council tax referendum regime for 2019-20.⁶⁷

Mr Caller’s report also recommended that, in the medium term, the county council area should be restructured into two unitary authorities. A proposal to this effect was submitted to the Secretary of State in August 2018.⁶⁸ Two new unitary authorities, North Northamptonshire and West Northamptonshire, held their first elections in May 2021 (postponed from 2020 due to the coronavirus pandemic).

Unlike many other authorities covered in this section, commercial property investment was not a factor in Northamptonshire’s financial difficulties. A major cause was its use of reserves and capital budgets to plug gaps in revenue spending.

In July 2020, the Government published a ‘lessons learned’ document written by the commissioners appointed to Northamptonshire.⁶⁹

⁶¹ DCLG, [Northamptonshire County Council Best Value Report](#), 2018, p23

⁶² See the Library briefing [Local government in England: capital finance](#) for an explanation of capital receipt use and ‘capitalisation’, and details of the current statutory guidance.

⁶³ See [HCWS673 2017-19](#), 10 May 2018; MHCLG, [Northamptonshire County Council: Directions and explanatory memorandum](#), 10 May 2018

⁶⁴ Robert Cusack, “Northants votes to ‘significantly reduce spending’”, [Local Government Chronicle](#), 8 August 2018

⁶⁵ MHCLG, [First progress report of commissioners at Northamptonshire county council published](#), 29 November 2018. ‘Capitalisation’ is discussed in section 1.5 of the Library briefing [Local government in England: capital finance](#).

⁶⁶ See paragraphs 2.7 and 2.8 of the [second section 114 notice](#), issued on 24 July 2018

⁶⁷ In other words, Northamptonshire would be able to raise its basic rate of council tax by 5% - 2% more than all other county councils – without holding a referendum. See the Library briefing paper [Council tax: local referendums](#) for more information.

⁶⁸ See MHCLG, [The proposed reorganisation of local government in Northamptonshire](#), 25 November 2018

⁶⁹ MHCLG, [Northamptonshire County Council: lessons learned from the first year of intervention](#), July 2020

4.2

London Borough of Croydon

The London Borough of Croydon [issued a section 114 notice](#) on 11 November 2020. This followed the publication of a [public interest report by the council's auditors](#), Grant Thornton, on 26 October 2020. The Government also ordered [a rapid review into the council's governance structures](#) on 29 October. The public interest report noted:

- a rapid running down of council reserves over a few years, in order to plug overspends on services. The report anticipated an overspend of £49.1 million in 2020-21;
- a lack of challenge by councillors of financial decision-making, through overview and scrutiny or audit committees;
- evidence that Government guidance around capitalisation had not been followed. Some £73 million had been capitalised – transferred from capital to revenue budgets – between 2017 and 2020. Capitalisation is permissible only for specific circumstances, defined by Government guidance, or with explicit permission from the Government;
- concerns being raised by auditors over more than one financial year, which were largely disregarded by officers and elected councillors;
- a lack of documentation surrounding companies established by the council, including Brick by Brick, a housing delivery company, and London Borough of Croydon Holdings, which was struck off by Companies House. Croydon had borrowed some £545 million to direct towards property investments since 2017.

David Simmonds MP led an adjournment debate on Croydon's financial difficulties on 9 December 2020. Responding to his points, Kelly Tolhurst, for the Government, said:

On 29 October, my right hon. Friend the Secretary of State for Housing, Communities and Local Government announced a rapid, non-statutory review of the council to be conducted by an independent review team. ...I am pleased to confirm that the independent review team has reported its findings to the Secretary of State. He is considering the report and will respond in due course. I can reassure Members that the Secretary of State will take a keen interest in the steps the council will need to take to address the governance and financial management issues that have been identified through the independent review, ensuring that the residents of Croydon receive the services they have every right to expect.⁷⁰

An 'improvement and assurance panel' [was appointed on 1 February 2021](#).

The Government granted a capitalisation direction of £50m to Croydon on 7 March 2022, in respect of the 2021/22 financial year.⁷¹ This was provided in support of the council delivering the [Croydon Renewal Plan](#) [PDF], intended to

⁷⁰ [HC Deb 9 Dec 2020](#) c952

⁷¹ Sarah Calkin and Jessica Hill, [Croydon, Nottingham and Slough set to balance books after eleventh hour support](#), Local Government Chronicle, 7 Mar 2022

restore the council's financial sustainability. The Government had also agreed to a further £145m in respect of the 2020/23 period.⁷²

Grant Thornton published [a further public interest report](#) in January 2022, examining the council's refurbishment of Fairfield Halls. This stated that the contract for the refurbishment was given to Brick by Brick without a formal procurement process, and that this process was likely to have been unlawful. Croydon also loaned some £67.5 million to Brick by Brick (over twice the original budget) to carry out the work, but has since written off the debt, adding to its financial difficulties.

A referendum in October 2021 expressed support for moving to an elected mayoralty in Croydon. In May 2022 the first mayor, Jason Perry (Conservative), was elected. He proposed a six-month scrutiny exercise of Croydon's financial situation. A report to the council in July 2022 identified budget gaps of £42.9m in 2023/24 and £15.7m in 2024/25 at that stage.⁷³

A third section 114 notice was issued in November 2022, in response to significant additional financial difficulties. These were described in a report to the cabinet on 30 November 2022.⁷⁴ It said:

The Council owes £1.6bn (including £300m HRA debt) and this costs the Council at present £47m a year from the General Fund (16% of the Council's net budget) before the Council can spend any money on services for the people of Croydon. This could rise to over £60m a year (over 20% of net budget). The Council also has significant levels of negative equity on its assets.

Given the emergence of these further legacy issues, the significance of the impact of the toxic debt burden on the Council's budget and the lack of financial and operational resilience the Council has to withstand major shocks in the national and local economy, the original 2020/21 Croydon Renewal Plan and the accompanying transitional Capitalisation Direction are unable to cope with the now more fully understood financial position. This is despite significant savings of some £90m and £50m in asset sales being delivered over the past two years.⁷⁵

The report also stated that the council's capital spending exceeded the value of the assets it held by some £320m. It estimated that capitalisation directions totalling £269m between 2023 and 2027 would be a necessary condition of future financial sustainability.⁷⁶ It also proposed complementary options, such as higher increases in council tax, and greater allowance in Government funding for the pressures on services caused by Government locating asylum seekers and ex-offenders in Croydon.

⁷² MHCLG, [Exceptional financial support for local authorities](#), 7 April 2021

⁷³ Croydon BC, [Opening the Books: returning the council to financial sustainability](#) [PDF], 6 Jul 2022

⁷⁴ Croydon BC, [Medium Term Financial Strategy Update](#) [PDF], 30 Nov 2022

⁷⁵ As above, p3

⁷⁶ Croydon received capitalisation directions of £25m in 2022/23 and £63m in 2023/24, plus an extra £161.6m in respect of 2019 to 2023. See the DLUHC webpage [Exceptional financial support for local authorities](#)

In July 2023 the Government launched a formal intervention into Croydon. Documentation related to the intervention can be found on the gov.uk website.⁷⁷ The commissioners appointed to Croydon to implement the government's intervention have written to the Secretary of State several times, most recently on 25 April 2024 and 15 November 2024. Core points in these letters included that:

- Croydon had set a balanced budget for 2024/25, although this was dependent on £63 million derived from the 'exceptional financial support' procedure. Further sums from this procedure were expected to be required in future financial years;
- A cumulative debt of £1.3 billion in the council's general fund remained in place. Capital receipts from asset sales at the time of the letter totalled £113 million.
- A subsequent letter in November 2024 identified a deterioration in the council's financial projections, which at that point anticipated a £45 million deficit arising in the 2025-29 period.
- At the time of writing the commissioners expected their involvement with Croydon to end in July 2025.⁷⁸

4.3

Thurrock Borough Council

During 2022 a number of concerns were expressed about the financial strategies pursued by Thurrock Council. An LGA peer review in January 2022 had suggested that the council was taking on too many tasks and would not have the capacity to deliver on its ambition. In financial terms, the peer review noted that Thurrock's investment strategy had delivered considerable revenues in recent years, but that from 2022/23 savings would need to be delivered. At that point Thurrock planned to draw a large sum from its reserves for 2022/23.⁷⁹

On 2 September 2022 the Government announced an intervention into Thurrock Council.⁸⁰ Essex County Council was appointed as a commissioner for three years, and will have full power over Thurrock's financial decision-making.⁸¹ Essex will also conduct a best value inspection, with the prospect that its powers will be increased if Thurrock's financial situation is found to

⁷⁷ See MHCLG, [Statutory intervention: London Borough of Croydon](#), 2025

⁷⁸ MHCLG, [London Borough of Croydon Improvement and Assurance Panel: eighth report and subsequent letter](#), 25 Nov 2024

⁷⁹ Local Government Association, [Corporate Peer Challenge: Thurrock Council](#), January 2022

⁸⁰ DLUHC, [Government announces intervention into Thurrock Council](#), 2 Sep 2022

⁸¹ This is the first occasion on which another local authority has been appointed as a commissioner: the Government's previous practice has been to appoint a small group of individuals. Thurrock BC was a district council, falling within Essex County Council's area, until it became a unitary authority in 1998.

have knock-on effects. On 24 January 2023, the Government announced that it was minded to expand its intervention.⁸²

At the time of the intervention, Thurrock's total borrowing stood at some £1.5 billion. A large proportion of this constituted borrowing from other local authorities: Thurrock put the figure at £1.162 billion at the end of the 2021/22 financial year, whilst the Government estimated it at £940 million in September 2022.⁸³ Inter-authority borrowing is a normal element of English local government finance, but it is unusual for an authority to borrow either such a large amount, or such a large proportion of its total borrowing, on the inter-authority market. Following the intervention, Thurrock converted some £687.5 million of inter-authority borrowing into borrowing from the Public Works Loan Board.⁸⁴ This was done at considerably higher interest rates than the original borrowing – reflecting the substantial rises in interest rates in the second half of 2022 – which increased Thurrock's ongoing costs further.

Thurrock then issued a section 114 notice on 19 December 2022. This was discussed at a meeting on 9 January 2023.⁸⁵ Thurrock had already identified that an in-year budget gap of £469.5 million existed for 2022/23, with a projected gap of £184.4 million for 2023/24.⁸⁶ These gaps have two principal causes:

- the assets that Thurrock had purchased with its borrowed funds had been 'written down': that is, accounting rules deemed them to have lost £275 million in value.
- Thurrock had not made sufficient minimum revenue provision in its accounts for 2022/23 and 2023/24. Correcting this required an additional £129 million and £75 million respectively to be set aside for debt repayment.

Thurrock's general reserves had fallen from £66.3 million to £12.2 million during 2022/23. An update paper in December 2022 also stated that "in accordance with directions there will be a necessary divestment of those commercial investments, with a consequent reduction of debt and treasury costs".⁸⁷

Some £550 million of Thurrock's borrowed funds were invested in a solar farm company called Toucan Energy Holdings 1. This company entered administration in November 2022. The Local Government Chronicle reported that its assets were estimated at £339m, against £692m owed to Thurrock.⁸⁸

⁸² See [HCWS516 2022-23](#), 24 Jan 2023

⁸³ See DLUHC, [Thurrock Council: Explanatory Memorandum](#), 2 Sep 2022; Thurrock Council, [Update on Council Borrowing Briefing Note](#) [PDF], 6 Oct 2022

⁸⁴ See Thurrock Council, [Update on Council Borrowing Briefing Note](#) [PDF], 6 Oct 2022

⁸⁵ Thurrock Council, [Government intervention into Thurrock Council](#)

⁸⁶ Thurrock Council, [Financial Update - Quarter 2 2022-23](#) [PDF], 7 Dec 2022. See also [Appendices 1-7](#)

⁸⁷ As above, p3

⁸⁸ Kirsty Weakley, [Thurrock owed more than £690m by collapsed firm](#), Local Government Chronicle, 4 Jan 2023

Events at Thurrock have been extensively covered by the Bureau of Investigative Journalism: see for instance an article from November 2022 entitled [Thurrock council reveals £500m black hole caused by ruinous business deals](#).

The Government published a best value inspection report on Thurrock on 15 June 2023.⁸⁹ A further update was provided in a commissioners' report on 5 October 2023.⁹⁰ This report stated that some progress had been made in improving decision-making and strategic planning, but concerns remained over many aspects of the decision-making process. From 5 October 2023 Essex County Council was replaced as commissioner by Gavin Jones and Nicole Wood, Essex's chief executive and chief financial officer, acting on an individual basis.

A fourth report from the commissioners, in March 2025, said that Thurrock had recovered £650 million from sales of Toucan Energy holdings and other assets. However, Thurrock would still require additional government support to achieve financial sustainability. Positive progress had been made on savings in various directorates, leaving "good opportunity for further transformational savings in future years".⁹¹

The Minister's response to the March 2025 report noted that the intervention was expected to end on 1 September 2025.⁹² Thurrock's elections scheduled for 2025 have been postponed, anticipating the council being restructured as part of plans for devolution to 'Greater Essex'.

Some reporting of discussions during 2025, around local government restructuring in Essex and Thurrock, suggested that the government was considering writing some of Thurrock's debt off (see section 2.6 above).

4.4

Slough Borough Council

Slough Borough Council approached the Government in late 2020 seeking exceptional financial support for the 2021/22 and 2022/23 financial years. The council had suffered financial strain after losing a large business rates appeal and paying off debts relating to its children's trust.⁹³ It was permitted £12.2 million in support in advance of the 2021/22 financial year.

Whilst setting the budget for 2021/22, several additional financial issues were uncovered. The council then issued a section 114 notice on 2 July 2021. An

⁸⁹ DLUHC, [Thurrock Council: Best Value Inspection report](#), 15 Jun 2023

⁹⁰ DLUHC, [Thurrock Council: Commissioners' second report](#), 5 Oct 2023

⁹¹ MHCLG, [Thurrock Council: Commissioners' fourth report](#), 6 Mar 2025

⁹² MHCLG, [Thurrock Council: Ministerial response to Commissioners' fourth report](#), 6 Mar 2025

⁹³ CIPFA, [Local government finance review: Slough Borough Council](#), October 2021, p18

external financial and governance review was then commissioned by the Government, which reported in October 2021.⁹⁴

Slough had increased its borrowing from £180 million in 2016/17 to £760 million in 2020/21. The funds were spent on a variety of investments: commercial property both inside and outside the borough, a new headquarters, and regeneration projects. The reviews criticised Slough's lack of a strategy for its capital spending. Unlike in other councils that have experienced financial difficulties, neither overspending on services, nor very large commercial property investments, were the core causes of Slough's difficulties.

However, a major cause of Slough's financial difficulties was its failure to make sufficient minimum revenue provision in its accounts to repay the borrowing. This was a major cause of a budget gap, identified by the October 2021 review, of £59 million for 2021/22. The review also identified liabilities arising from previous financial years of some £52 million, and projected a further £62.4 million gap in respect of 2022-25. Another cause of the budget gaps was the transfer of funds from capital to revenue accounts for impermissible purposes.

The October 2021 financial review and governance review both stated that Slough would need to dispose of a substantial quantity of assets in order to rebalance its books (giving figures of £200m and £400m respectively). To enable these funds to be transferred out of the council's capital account, the financial review suggested that further exceptional support of some £174m would be required to set a balanced budget in 2021/22: however, it also said that further support was likely to be required in the forthcoming years.

The Government formally intervened in Slough on 1 December 2021.⁹⁵ The commissioners (led by Max Caller) published their first report on 9 June 2022.⁹⁶ This report did not comment on the budget gap figures noted above, but it suggested that Slough would need to raise council tax by 12-20% per year for a number of years in order to balance its books. Slough was permitted to raise council tax by 10% in the 2023/24 local government finance settlement, and by a further 10% in the provisional 2024/25 settlement.⁹⁷

The Government agreed to exceptional support for Slough totalling £782 million in respect of financial years prior to 2022/23 and financial years

⁹⁴ See [HCWS353 2021-22](#), 25 Oct 2021; DLUHC, [Slough Borough Council: external assurance review](#), 25 Oct 2021

⁹⁵ DLUHC, [Commissioners sent into Slough Borough Council - GOV.UK \(www.gov.uk\)](#), 1 Dec 2021

⁹⁶ DLUHC, [Best Value Intervention - Slough Borough Council](#) [PDF], 9 Jun 2022

⁹⁷ See DLUHC, [Provisional local government finance settlement 2023-24 consultation: summary of responses](#), 6 Feb 2023; DLUHC, [The Referendums Relating to Council Tax Increases \(Principles\) \(England\) Report 2024/25](#), Dec 2023, paragraph 11

through to 2047/48. A report from the council in September 2022 suggested that the capitalisation requirement had fallen to £369 million.⁹⁸

In a written statement on 20 November 2024, the government announced that the intervention would be extended to 30 November 2026.⁹⁹ This was in response to concerns expressed in the Commissioners' fifth report that Slough remained some way from meeting its duty of best value.¹⁰⁰ That report made a number of specific recommendations, which were then reflected in several statutory directions to Slough issued by the government in November 2024.¹⁰¹

4.5

Woking Borough Council

The Government commissioned an external review of Woking BC in January 2023. Woking had been in dialogue with DLUHC (Department for Levelling Up, Housing and Communities – the predecessor of MHCLG) regarding its financial situation throughout 2022, and had earlier applied for a capitalisation direction in 2021.¹⁰² The external review was published in May 2023.¹⁰³ It stated that the council might be able to set a balanced budget in 2023/24 and 2024/25, but that this was contingent on several assumptions and the issue of a section 114 notice could not be ruled out.

Following publication of the external review, the Government announced that it would formally intervene in Woking on 25 May 2023.¹⁰⁴ [Documentation relating to the intervention](#) can be found on the gov.uk website.

[Woking issued a section 114 notice](#) on 7 June 2023. The notice stated that the council had passed PWLB loan funding to wholly-owned companies for many years, based on a 50-year payback period. Woking held some £1.8bn in loans in 2023, most of which was being intended for large-scale regeneration in the town centre and of housing stock in Sheerwater. Passing on PWLB funding in this way is permitted, but the notice stated that some £160 million of this funding may have been used for revenue instead of capital spending, breaching capital finance regulations. This would imply correcting the accounts to treat this sum as spending from the council's general fund.

The notice also stated that minimum revenue provision had been too low since 2007/08. This would require a 'prior period adjustment' to be made to

⁹⁸ Slough BC, [Agenda Supplement for Council](#) [PDF], 22 Sep 2022; see also Jessica Hill, [Commissioner on why Slough's capitalisation requirement has been slashed](#), Local Government Chronicle, 18 Oct 2022

⁹⁹ [HCWS 235 2024-25](#), 20 Nov 2024

¹⁰⁰ MHCLG, [Slough Borough Council: Commissioners' fifth report and update letter](#), 20 Apr 2024

¹⁰¹ MHCLG, [Slough Borough Council: Directions made under the Local Government Act 1999](#), 20 Nov 2024

¹⁰² DLUHC, [Governance, Financial and Commercial Review of Woking Borough Council](#), 25 May 2023, paragraph 19

¹⁰³ DLUHC, [Governance, Financial and Commercial Review of Woking Borough Council](#), 25 May 2023

¹⁰⁴ See [HCWS 813 2023-24](#), 25 May 2023.

previous years' accounts. In essence, a prior period adjustment requires money from current financial years to be set aside to correct accounting mis-statements in previous years. This would create an additional charge of some £75 million on the council's 'revenue account' (its general spending). Woking's net budget is in the order of £24 million, thus this level of extra expenditure would wipe out all of the council's spending twice over. In addition, a budget shortfall of £9 million was already anticipated for 2024/25, leaving aside the accounting issues identified by the section 114 notice. The notice said:

...the Council presently has an estimated negative General Fund balance of c. £350m at 31 March 2023. The negative value of the General Fund at this date is forecast to more than triple to around £1.20bn by 31 March 2024. In order to resolve this position the Council will need a commensurate injection of cash or removal of liability.¹⁰⁵

The section 114 notice also stated that assets held by Woking's wholly-owned companies had diminished in value by some £600 million. These assets were purchased with loaned funds from Woking, borrowed in turn from the PWLB.

Woking was permitted to take on some additional debt in late 2023.¹⁰⁶ The Government independent review had anticipated that up to £100 million in additional debt, for each of the three following financial years, might be required whilst the council transitioned to a more sustainable footing.¹⁰⁷

The second report from the commissioners appointed as part of the Government intervention stated, in December 2023, that "a legal budget cannot be set for 2024/25 without a significant and carefully structured government support package".¹⁰⁸ Woking's auditors, Grant Thornton, published a public interest report in November 2024 detailing its concerns about corporate and financial governance at the council.¹⁰⁹

The council has consulted on significant budget reductions and is planning to sell a range of its physical assets, but income from these sources will be insufficient to clear its debts. This aligns with a suggestion from Rob Whiteman, chief executive of CIPFA, in May 2023, that Woking "cannot afford the costs of then servicing the debt and so the government is likely to have to write it off".¹¹⁰ The 2024/25 local government finance settlement permitted Woking to increase council tax by up to 10% without a referendum.¹¹¹

The commissioners' fourth report, issued in December 2024, stated that:

¹⁰⁵ Woking BC, [S114 Notice](#), 7 Jun 2023, paragraph j

¹⁰⁶ Jason Holland, [Woking receives approval to borrow extra £78m from PWLB](#), Room 151, 14 Nov 2023

¹⁰⁷ DLUHC, [Governance, Financial and Commercial Review of Woking Borough Council](#), 25 May 2023, paragraph 39

¹⁰⁸ DLUHC, [The Commissioners: Woking Borough Council second update](#), December 2023, p3

¹⁰⁹ Grant Thornton, [Grant Thornton Public Interest Report](#), November 2024

¹¹⁰ Jonathan Knott, [Scale of Woking mismanagement revealed](#), Local Government Chronicle, 7 Jun 2023

¹¹¹ DLUHC, [The Referendums Relating to Council Tax Increases \(Principles\) \(England\) Report 2024/25](#), Dec 2023, paragraph 10

The first year of intervention has largely been around discovery, firefighting and establishing a robust plan. The focus now is on getting the right building blocks in place for good financial management and supporting the delivery of the Asset Rationalisation and Debt Reduction Plans, as well as normal financial management of the Council's affairs. This will enable a much greater focus in the third year of intervention on embedding the culture required to support an effective, sustainable, and high performing local authority.¹¹²

The report stated that Woking's total debt stood at £2.1 billion in March 2024, alongside asset book valuations of £1.5 billion. £400 million of this consists of council-owned housing, which must be ringfenced within the council's Housing Revenue Account and cannot therefore be sold to pay off general debt. Woking's annual interest costs are some £70 million, against spending power of £16 million. The exceptional financial support programme has been used to mitigate this disparity for 2024/25 and 2025/26. The report says:

With no ability to repay EFS [exceptional financial support] through asset sales, let alone all the legacy debt, the position is not sustainable. Work is underway to determine the best exit strategy from the commercial legacy, which we are engaging with government on, and it is recognised that a long-term financial solution will not be in place for the 2025/26 budget process. However, the current position is not viable and Commissioners are keen to continue engaging with government on the route forward.¹¹³

The Government invited authorities in Surrey to submit plans for local government reorganisation by May 2025, and postponed elections to Surrey County Council. Woking's significant debts (as well as those of some neighbouring authorities, such as Runnymede and Spelthorne) have been raised as a live issue in debates over reorganisation in Surrey.¹¹⁴ Reports in 2025 have suggested that the Government has indicated that it might write off some of Woking's debts (see section 2.6 above).

4.6

Birmingham City Council

[Birmingham City Council issued a section 114 notice](#) on 5 September 2023. It identified two main causes for the notice: an in-year financial gap in the budget of £87 million, and the ongoing cost of equal pay claims.

On 28 June 2023, Birmingham City Council [announced that new analysis showed it had liabilities of between £650 million and £760 million](#) with respect to equal pay claims, with this liability increasing at a rate of between £5 million and £14 million per month.

¹¹² MHCLG, [Woking Borough Council: Commissioners' fourth report](#), December 2024, p4

¹¹³ As above, p8

¹¹⁴ Caitlin Webb, [District debt drives reorganisation resistance](#), Local Government Chronicle, 27 Jan 2025; Surrey County Council, [Interim Proposals - Devolution and Local Government Reorganisation - Surrey County Council](#)

The background to these claims was a dispute that has been running for over ten years. In 2012, former cleaners and dinner ladies [won a court case against the council](#), arguing that female staff on the same pay grades as their male colleagues had not been given access to the same bonuses and had been paid less as a result. Further claims from former staff followed. In 2014, [the council sold off the National Exhibition Centre](#) to help to meet the bill.

The Government intervened in Birmingham on 5 October 2023.¹¹⁵ The Secretary of State, Michael Gove, had signalled his intention to launch an intervention in a short debate in the House of Commons on 19 September.¹¹⁶ Alongside the intervention itself, he said:

I intend to launch a local inquiry to consider the more fundamental questions around how Birmingham got to this position and options for how it can become a sustainable council moving forward that secures best value for its residents.¹¹⁷

Birmingham published the report of an independent governance review, commissioned from the Centre for Governance and Scrutiny, in cabinet papers on 12 December 2023.¹¹⁸

The commissioners' second report, in January 2025, stated that a balanced budget had been set for 2025/26, though a funding gap of £148 million by 2028/29 is projected. These figures exclude the cost of the equal pay claim. The commissioners' report stated that "the Council has reached a high-level settlement with the unions of £250 million", though this was still subject to legal agreement between the two sides.¹¹⁹ £260 million of asset sales had been agreed by the end of 2024, with another £100 million in the pipeline. The commissioners stated:

...in recent months the Council has shifted towards a better understanding of the work required for recovery. ...The Council has a major improvement journey ahead and has started to make progress, but the organisation is not yet effecting change at the pace needed. Progress, although more evident in some areas, is fragile, and the path to stability ...remains long and demanding.¹²⁰

4.7

Nottingham City Council

Nottingham City Council has issued two section 114 notices: one on 15 December 2021, and one more recently on 29 November 2023. The December 2021 was a section 114 (2) notice (see section 1.2 above). It related to the

¹¹⁵ DLUHC, [Government launches intervention at Birmingham City Council](#), 5 Oct 2023

¹¹⁶ [HC Deb 19 Sep 2023 c1265&ff](#)

¹¹⁷ As above, c1266

¹¹⁸ Birmingham City Council, [Report to cabinet](#), 12 Dec 2023

¹¹⁹ MHCLG, [Birmingham City Council: Commissioners' second report](#), January 2025, p7

¹²⁰ MHCLG, [Birmingham City Council: Commissioners' second report](#), January 2025, p1

discovery of unlawful payments from Nottingham's Housing Revenue Account to its general fund.

Nottingham's second section 114 notice was not triggered by financial movements related to a large-scale financial anomaly such as a commercial property portfolio. It was triggered by an anticipated in-year (2023/24) shortfall of £23.4 million. The section 114 notice said that budgetary pressures were arising from:

- Increased demand (Adult social care volume and need, Children's social care package volumes and complexities, home to school transport and temporary accommodation)
- Non-delivery of Transformation savings
- Increased costs (particularly in Children's social care packages and temporary accommodation) and broader provider inflationary pressures
- Nationally agreed pay agreement, above the 2023/24 budgetary provision
- Income shortfalls
- Pressures relating to non-qualifying capital recharges¹²¹

Background

In November 2020 the Government announced a rapid review into Nottingham City Council, following the collapse of the council's wholly-owned company, Robin Hood Energy.¹²² A report from the BBC suggested that the council had lost some £38 million on the venture.¹²³ The review report was published on 21 January 2021.¹²⁴

An improvement and assurance board, chaired by Sir Tony Redmond, was announced on 17 December 2021. It was to produce a three-year improvement plan by the end of January 2021.¹²⁵

In late 2021, Nottingham then discovered historic accounting errors associated with its housing revenue account (HRA). Some £15.8 million had in effect been diverted into the council's 'general fund'.¹²⁶ This was potentially unlawful, as HRA funding is ring-fenced from the general fund. This led to the

¹²¹ Nottingham City Council, [Section 114 notice](#), 29 Nov 2023

¹²² Nottingham's auditors, Grant Thornton, published a public interest report on this issue in August 2020. This report appears not to be available online but a summary can be found at on the Local Government Lawyer website: [Lack of adequate governance arrangements and "institutional blindness" led to council energy company losing over £34 million, report finds](#), 13 Aug 2020.

¹²³ BBC, [Nottingham council 'sorry' as Robin Hood Energy collapses](#), 4 Sep 2020

¹²⁴ DLUHC, [Non-statutory review of Nottingham City Council](#), 21 Jan 2021

¹²⁵ DLUHC, [Jenrick acts to tackle failure of Nottingham City Council](#), 17 Dec 2020. The board's terms of reference were set out in [a letter to Sir Tony Redmond](#).

¹²⁶ Richard Penn (independent investigator), [Key Findings Report for Nottingham City Council](#), March 2022, p4

issue of the section 114 (2) notice on 15 December 2021, owing to the need to set aside revenue at that point to correct historic errors.

The Government then intervened in Nottingham City Council on 23 June 2022, issuing directions under section 15 of the Local Government Act 1999.¹²⁷ The Government announced plans to appoint commissioners to run the council: in the end these did not proceed, but they were revived in December 2023.¹²⁸ The commissioners provided a first report to the Secretary of State in December 2024.¹²⁹

4.8 Spelthorne Borough Council

In December 2022 [KPMG issued a Public Interest Report](#) in respect of commercial property acquisition by Spelthorne Borough Council. Spelthorne's commercial acquisitions had had a high profile for several years. The council had total loans in the region of £1 billion, against a revenue budget of some £25 million. The Public Interest Report says:

- Three properties that Spelthorne bought in 2017-18 for £225m were purchased unlawfully. This is because these properties were outside Spelthorne's area and therefore could only have been bought for a commercial purpose.¹³⁰ The [Localism Act 2011](#) requires councils to use a wholly-owned company in this scenario, but this was not done;
- Commercial property acquisition was not mentioned in the council's investment strategy. This meant that, in deciding to acquire commercial property, the council could not claim to be meeting its statutory duty to 'have regard' to its own strategy;
- The report criticised the governance of the investments and the lack of in-house expertise. It noted that the rate of return on the purchased properties was below what an institutional investor would expect.

The report also noted that Spelthorne has "brought its policy of borrowing to invest in commercial property to an end" (see its [Capital Strategy 2021-2026](#)). KPMG suggest that, whilst Spelthorne's strategy has not led to financial difficulties to date, this could change in the longer term. Many of its loans are 50 years in length but many of its commercial properties are leased for only 20 years, making it difficult to assess the risk posed by the commercial strategy.

¹²⁷ See [HCWS 135 2022/23](#), 23 Jun 2022; DLUHC, [Statutory Intervention: Nottingham City Council](#), 23 Jun 2023

¹²⁸ [HCWS121 2023/24](#), 13 Dec 2023

¹²⁹ MHCLG, [Nottingham City Council: Commissioners' first report](#), Dec 2024

¹³⁰ See Adam Carey, [Council and external auditors at loggerheads over lawfulness of commercial property investment spree](#), Local Government Lawyer, 2 Dec 2022. This article notes that Spelthorne remained unpersuaded by KPMG's findings.

The then government commissioned a review from CIPFA in 2023. This was completed in July 2023, and the government then published on 8 May 2024.¹³¹ The review stated that the council's commercial property portfolio was well managed, but that future plans for affordable housing were a cause for concern:

The council's c.£1 billion commercial property portfolio is managed in a reasonably professional and proactive manner. However, the portfolio has an anticipated 50-year lifespan. It would benefit from a more long-term management approach. This should be characterised by clear strategic principles and underpinned by assessments of the interplay of net income, building specification, maintenance, and prudential saving. It should also feature a sensibly managed approach to disposals.

Alongside the portfolio, SBC has ambitious affordable housing plans. These plans represent £325.2 million of borrowing over the next four years. The council's approach is problematic. SBC's position is such that it will seemingly face exacting challenges and serious costs whether it proceeds with these housing plans or discontinues them altogether. The plans require an immediate and detailed review.¹³²

The review recommended that DLUHC should provide independent external support to Spelthorne to assist with decision-making around risk mitigation.

The government then commissioned a Best Value inspection of Spelthorne, which reported in March 2025.¹³³ This inspection report was considerably more critical than the 2023 CIPFA review. It said:

1.3 [Spelthorne's] financial model is not sustainable, The Council is already experiencing a decline in commercial income, with expiring leases in the short-to-medium term likely to exacerbate the situation. The Council has recognised the need to halve its expectations for net commercial income to £5.0 million per annum by 2030/31 and has identified the need to make savings of £8.6 million by 2028/29.

1.4 Our findings indicate the situation is even more critical. Minimum Revenue Provision (MRP) is insufficient, and the sinking fund – monies set aside to fund future costs – is inadequate. Additionally, projected commercial income is already overly optimistic, given current void levels and the risks tied to expiring leases. Revenue costs of suspended regeneration and housing projects have been incorrectly charged to capital and not accounted for in the revenue budget.

... 1.5 In essence, the Council's revenue budget is under far greater pressure than recognised by the Council. Inherent risks are beginning to materialise, and could accelerate rapidly.¹³⁴

¹³¹ CIPFA, [Spelthorne Borough Council: Capital Assurance Review](#), 8 May 2024

¹³² As above, p4

¹³³ MHCLG, [Spelthorne Borough Council: Best Value Inspection report](#), 17 March 2025

¹³⁴ MHCLG, [Spelthorne Borough Council: Best Value Inspection report](#), 17 March 2025, paragraphs 1.3-1.5

On the same day, Jim McMahon, the minister for local government, stated that he was minded to intervene in Spelthorne.¹³⁵ That decision was confirmed on 8 May 2025.¹³⁶ The Minister also issued a number of directions to Spelthorne, including the preparation of an improvement and recovery plan.¹³⁷

Local authorities in Surrey submitted two different plans for reorganisation of the county into unitary authorities in May 2025.¹³⁸ It is not yet clear how developments at Spelthorne will interact with those proposals.

¹³⁵ [HCWS 527 2024-25](#), 17 March 2025

¹³⁶ [HCWS 620 2024-25](#), 8 May 2025

¹³⁷ MHCLG, [Spelthorne Borough Council: Directions made under the Local Government Act 1999](#), 8 May 2025

¹³⁸ See a proposal from Surrey's district councils for three unitary authorities to cover Surrey, at Spelthorne BC, [Shaping Surrey's Future](#), 9 May 2025; and a proposal from Surrey County Council for two unitary authorities, at Surrey County Council, [Plans - Devolution and Local Government Reorganisation](#)

5 Monitoring financial resilience

5.1 Sector led improvement

The Audit Commission was the main body responsible for financial and performance oversight of local authorities in England, until its inspection powers were removed in 2010 and its responsibility for audit lapsed in 2015. The Commission's audit activities have been taken over by a range of different bodies. In a consultation response in early 2025, the government proposed to create a new 'system leader' body for local audit: see the Library briefing paper [Local audit in England](#).

The Local Government Association (LGA) runs a programme of self-improvement for local government known as Sector Led Improvement. For a number of years, MHCLG and its predecessors have provided in the region of £18-19 million per year for this programme. Sector led improvement is available to all local authorities in England irrespective of whether they are members of the LGA.

Sector led improvement comprises a range of support programmes for councils [that are set out on the LGA website](#). They are based on strong leadership, challenge from peers, comparative performance information and sharing good practice.

The LGA also publishes comparative data on local authority value for money and performance on its LG Inform website.¹³⁹ This includes the 'value for money profiles' previously published by the Audit Commission, and financial diagnostic reports available to councils.¹⁴⁰

As part of sector led improvement, the LGA runs a programme of corporate peer challenges for local authorities in England. Participation by local authorities is voluntary. Any action to address issues identified is the responsibility of the council concerned. This has always been the case for peer challenges. The Audit Commission too had no formal powers of intervention, as these were reserved to the Secretary of State.

The LGA publishes [a description of the process of peer challenge](#). This is concerned with local government operations generally, though financial management will naturally feature frequently within it. In 2018 the LGA commissioned research to identify the outcomes and benefits of the peer review process. An interim report published in November 2018 identified a

¹³⁹ See <https://lginform.local.gov.uk/>

¹⁴⁰ See <https://vfm.lginform.local.gov.uk/>

number of benefits (with named examples from local authorities and individuals). The research identified the following as key points:

- The input of local government peers;
- The need for formal vs. informal learning;
- The timing of sector-led improvement; and
- The value of the self-assessment process.¹⁴¹

The LGA states that 105 peer challenges were expected to take place in 2024/25.¹⁴²

The LGA has an ongoing programme to evaluate the impact and effectiveness of this sector led approach to improvement.¹⁴³ It has also [published a 'sector support offer'](#) for councils.

5.2 Government monitoring

The MHCLG accounting officer statement, from 2020, sets out how MHCLG monitors the financial sustainability of English local authorities. It collects financial data from local authorities and the Office for National Statistics, information on service provision, and 'soft intelligence'.¹⁴⁴ MHCLG had faced criticism previously for its oversight of the financial resilience of local authorities. This first appeared in the 2014 National Audit Office report [Financial sustainability of local authorities](#):

...the Department uses limited information to monitor financial and service pressures in the sector. It relies for information on systems designed for different purposes. ...the Department's view that the accountability system has been effective to date in preventing financial failure is reasonable. However, the Department is poorly placed to understand the scale of financial pressures within local authorities. As a result, it does not know enough about whether local authorities are close to failing financially and whether they are diverting financial pressures onto their services.¹⁴⁵

A further report from the NAO in 2018 stated that the Government's assurance systems had improved. It stated that MHCLG used a 'local authority sustainability tool', comparing levels of reserves with shares of 'inflexible spend', mainly on social care and the servicing of debt:

The Department uses the tool to:

¹⁴¹ LGA, [Case study: the impact of sector-led improvement](#), November 2018, p6

¹⁴² LGA, [Corporate, finance and governance peer challenge programme: Annual report 2023/2024](#), 2024

¹⁴³ See LGA, [Evaluation of sector-led improvement: phase two interim summary report](#): November 2018

¹⁴⁴ MHCLG, [Accounting Officer System Statement](#), November 2020, p47

¹⁴⁵ NAO, [Financial sustainability of local authorities](#), 2014, p33-34

- model the impact of different scenarios, such as new policies, on financial risk;
- track how far assumptions underpinning the 2015 Spending Review modelling have been borne out; and
- inform the Department’s assessment of the level of risk of widespread financial failure.¹⁴⁶

The NAO’s 2019 report [Local authority governance](#) stated that MHCLG produces “detailed financial risk analysis reports that identify authorities about which the Department has concern and highlight the extent to which governance factors may be contributory to financial risk”.¹⁴⁷ These analyses are not made public. The Public Accounts Committee has suggested that this hinders assessment of MHCLG’s conclusions about sustainability and risk. In its 2019 report [Local government spending](#), the PAC recommended that MHCLG should “revisit its refusal to publish a shared definition of financial sustainability”,¹⁴⁸ and that:

The Department should write to the committee by May 2019 setting out a step-by-step model of how it assures itself that the sector is sustainable... this should include a detailed account of how adequate funding need has been defined and calculated including assumptions over service levels (including both statutory and discretionary) and demand projections.¹⁴⁹

The HCLG Committee’s August 2019 report on local government finance included a number of pieces of evidence suggesting that data on financial sustainability, and other aspects of council performance, was hard to find:

The Government should develop a more regularised and consistent approach to the collection and monitoring of comparative data about councils’ performance, efficiency and financial sustainability. The current situation means there can be no certainty about the state of individual councils or the sector as a whole.¹⁵⁰

The NAO’s 2025 report [Local government financial sustainability](#) adopted a more neutral tone towards MHCLG’s monitoring of financial risk. It said that 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:

¹⁴⁶ National Audit Office, [Financial sustainability of local authorities 2018](#), HC 834 2017-19, 2018, p43

¹⁴⁷ NAO, [Local authority governance](#), HC-1865 2017-19, 2019, p44

¹⁴⁸ Public Accounts Committee, [Local government spending](#), HC-1775 2017-19, February 2019, p7

¹⁴⁹ Public Accounts Committee, [Local government spending](#), HC-1775 2017-19, February 2019, p7

¹⁵⁰ Housing, Communities and Local Government Committee, [Local government finance and the 2019 Spending Review](#), HC-2036 2017-19, 21 Aug 2019, p16

- 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.¹⁵¹

5.3 Financial Resilience index

In response to concerns about financial resilience in the local government sector in the late 2010s, CIPFA (the Chartered Institute for Public Finance and Accountancy, the membership body for local government finance professionals) announced plans to produce a ‘financial resilience index’ for English local authorities. These were initially published on 2 July 2018. The consultation suggested six resilience indicators:

- Level of reserves as a proportion of net revenue expenditure;
- Change in reserves over the past three years;
- Ratio of government grants to net revenue expenditure;
- Proportion of net revenue expenditure going to social care and debt financing;
- Ofsted inspection score for children’s social care;
- Auditor’s value for money judgement.¹⁵²

CIPFA stated:

... the index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure.¹⁵³

The consultation also included proposals for how scores should be allocated against each indicator, and the weighting that would be given to each of them when combining them into a single overall score. Data would be made available in an interactive tool, permitting the production of a ‘league table’.

¹⁵¹ NAO, [Local government financial sustainability](#), HC-691 2024-25, 28 Feb 2025, p53

¹⁵² CIPFA, [Consultation – local authority financial resilience index](#), July 2018, p5

¹⁵³ CIPFA, [Consultation – local authority financial resilience index](#), July 2018.

The consultation provoked some disquiet in the sector. For instance, the LGA's response said:

...the LGA does not believe that financial health of large and complex organisations such as local authorities can be adequately summarised and forecast by a handful of indicators. ...Although not CIPFA's intention, we believe that it is inevitable that the index will be seen by some as a performance table. This is particularly likely given that the index will be published by a respected institute such as CIPFA as it will give the index a perceived credibility.¹⁵⁴

John Sinnott, chief executive of Leicestershire County Council, said in July 2018:

There is no performance information vacuum. Chief executives should ensure that their councils have systems to measure and compare performance using data from LG Inform, Public Health England and government departments. You know how well your council is doing; unofficial league tables exist for cost effectiveness and value for money, prompting questions around financial sustainability.

There may be no perfect set of performance measures on which to draw up a league table but that is not to deny its potential worth.¹⁵⁵

Further perspectives on the construction of a resilience index can be found in Dan Bates, "[How should we measure financial resilience?](#)", August 2018; and Don Peebles, "[Save your bacon through financial resilience](#)", April 2018.

CIPFA published a response to the consultation on 4 December 2018.¹⁵⁶ This document proposed fifteen indicators, an increase from the original six. It omitted the proposal to produce a weighted 'total' indicator. It proposed to distribute the resilience index confidentially to finance teams in local authorities, with a commitment to making it publicly available in subsequent years.¹⁵⁷

A high-level briefing on the initial findings of the resilience index was published by CIPFA in December 2018.¹⁵⁸ The press release said:

...the majority of councils are in a stable financial position, and are not showing signs of financial failure in spite of managing severe budget cuts. Clearly this shows effective financial management against a challenging context.

¹⁵⁴ LGA, [Response to CIPFA Consultation on a Local Authority Financial Resilience Index](#), August 2018, p1

¹⁵⁵ John Sinnott, "[CIPFA deserves backing over resilience](#)", Local Government Chronicle, 25 July 2018

¹⁵⁶ CIPFA, [Local authority financial resilience index: consultation response](#), December 2018

¹⁵⁷ Ibid., p6. The reference to the Public Accounts Committee is to a recommendation in the report [Financial sustainability of local authorities 2018](#), HC-970 2017-19, 2018, p6

¹⁵⁸ CIPFA, [Measured resilience in English authorities](#), 2018

However, there is a tail, of 10-15% of councils, where there are some signs of potential risk to their financial stability. Having now provided data, CIPFA will discuss professional support for CFOs in those authorities.¹⁵⁹

A similar high-level finding was made public in December 2019.¹⁶⁰ A further edition of the financial resilience index, with nine indicators and interactive graphs, has been published in respect of the 2023/24 financial year.¹⁶¹

¹⁵⁹ Ibid.

¹⁶⁰ Colin Marrs, "[CIPFA hopes updated resilience index will strengthen s151s](#)", Room 151, 16 Dec 2019


¹⁶¹ See CIPFA, [Resilience index](#), 2024. Further explanation of the indicators that make up the index can be found on the [Contextual information](#) page.

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