

Committee of Public Accounts

Local Government Financial Sustainability

Thirty-First Report of Session 2024–25

HC 647

Committee of Public Accounts

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Contacts

All correspondence should be addressed to the Clerk of the Committee of Public Accounts, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 8480; the Committee's email address is pubaccom@parliament.uk. You can follow the Committee on X (formerly Twitter) using [@CommonsPAC](https://twitter.com/CommonsPAC).

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Summary

Local government finance is in a perilous state. Despite a real terms funding increase in central government grants, council tax and locally retained business rates of 4%, over the period 2015–16 to 2023–24, the amount per person fell over the same period. Funding has not kept pace with population growth, demand for services, complexity of need, or the rising costs of delivering services. As demand for targeted services such as social care, special educational needs, and temporary accommodation has grown, there has been a significant reduction in spending on commonly used discretionary services, such as street cleaning and lighting, parks and gardens, and leisure services. With exponential increases in demand for services they must provide, local authorities have less money for early intervention or preventative services, which can help reduce demand and deliver better outcomes for people. Yet government does not know if funding to local authorities is spent well, and there are signs that service quality is declining. At the same time local authorities' ability to improve outcomes for people is made harder by having to navigate an overly complex funding system.

Local authorities fund their services from multiple sources including central government grants, council tax, locally retained business rates, commercial activities, sales fees and charges and their reserves. They spent over £72.8 billion in 2023–24, of which 58% went on adult and children's social care. Some local authorities are spending as much as 80% of their budget on these services. Increases in national insurance contributions may have a significant impact on local service providers, particularly smaller charities. Yet neither the Ministry of Housing, Communities and Local Government (MHCLG) nor HM Treasury has assessed the impact.

With promised funding reforms delayed alongside rising demand, funding has not matched need nor local circumstances. Instead, MHCLG has implemented short-term and unsustainable approaches to keep local government afloat. Since 2020–21, 42 local authorities have received exceptional financial support from government to help manage financial pressures. Spending on special educational needs and disabilities (SEND) has outstripped the money available from the Department for Education (DfE) to pay for it. Local authority deficits from these overspends are expected to be between £2.9 billion and £3.9 billion a year by the end

of 2027–28. The mechanism which allows local authorities to keep these deficits off their books is due to run out in March 2026 and without it, many local authorities are at risk of effectively going bankrupt.

Government has a huge local government reform agenda, including reforms to the finance and local audit systems, and key services such as adult and children’s social care, SEND and homelessness. This is in addition to extensive reorganisation of local government structures. With reforms all happening at once, it is not clear what transitional arrangements will be and whether local authorities will have the capacity to cope.

Introduction

Local authorities provide a range of essential services, including targeted services to those most in need of support. Local authorities are funded through multiple funding streams, notably central government grants, council tax, locally retained business rates, commercial activities, sales fees and charges. They may also use their own reserves to support their services.

The Ministry of Housing, Communities and Local Government (MHCLG) is responsible for distributing core funding to local authorities, has overall responsibility for the accountability framework for local government and leads on overseeing the financial health of local government. Responsibility for services local authorities deliver is spread across government departments. HM Treasury allocates and controls public spending, including setting departmental spending limits at spending reviews.

Core Spending Power (CSP) – a measure of the core funding available from central government grants, council tax and locally retained business rates - increased by 4% over the period 2015–16 to 2023–24 in real terms, but the amount per person fell over the same period. In 2023–24, English local authorities spent £72.8 billion delivering services - 21% more in real terms than in 2015–16. To support local authorities, government has provided cash injections and implemented short term financial measures. In autumn 2024 government outlined a series of reforms aimed at returning the sector to a sustainable position.

Conclusions and recommendations

- 1. MHCLG do not know if the billions spent delivering services locally results in better outcomes for people.** Despite local authorities spending £72.8 billion on locally delivered services in 2023–24, government does not know whether it is getting value for money. Only 25% of local audited bodies had up-to-date external audit assurance on their 2022–23 financial statements, leading to significant gaps in information available to local authorities, taxpayers, MHCLG and other government departments. There are signs of declining services, with only 50% of Education, Health and Care plans being issued within the 20-week statutory limit in 2023, and more families in bed and breakfast accommodation beyond the maximum six-week limit. MHCLG acknowledges that it does not measure the outcomes from all the money local authorities spend, although it claims there is significant work under way to shift its approach to deliver better value for money. Although the shift to focussing on outcomes sounds promising, MHCLG’s description of an outcomes framework to come is vague and lacks detail on how and when it will be implemented. Outcomes are poorer in places that receive less money, and, without further detail, we remain unconvinced that this framework will help improve outcomes in all local areas.

RECOMMENDATION

Alongside the Treasury Minute Response, MHCLG should write to the Committee setting out the details of its proposed outcomes framework, including how this will be used to ensure effective provision of services, and when it will be in place by.

- 2. Local authorities’ ability to improve outcomes for people is undermined by an overly complex funding system, with competing policy demands and funding streams.** Local authorities receive funding through the annual local government finance settlement, which includes formula-based grants and locally retained business rates. They can also raise income locally through council tax, and other local charges. Government has committed to a return to multi-year finance settlements from 2026–27, the first in a decade, which will provide local authorities with more certainty and ability to plan and invest, to achieve greater efficiency. Estimates suggest that

there are still several hundred unique grants available to local government from central government departments outside of the finance settlement. These are often small and ring fenced for a specific purpose, but the administrative work involved for local authorities can be considerable. In the past, government has not had a grip on how many of these grants existed, but it is now working with HM Treasury to consolidate grants to provide better value for money and flexibility to meet the needs of people. Many departments rely on local authorities to deliver policy initiatives, although lack of joined-up working can result in competing policy demands. We understand that as part of the upcoming spending review government is encouraging join-up between departments to help deliver the government missions.

RECOMMENDATION

As part of the multi-year funding settlement in autumn 2025, MHCLG must work with other departments to implement its plan to simplify funding across the system, including the consolidation of cross-government grant funding to local authorities.

- 3. Significant financial pressures are constraining local authorities' ability to invest in prevention, leading to less early intervention services which could help manage demand.** Preventative services can be used to manage demand by helping to stop, delay or reduce the extent of need for statutory services and can help deliver better outcomes. Government has different approaches to encourage spending on prevention, including providing dedicated funding or ringfencing spend within existing funds. However, immediate financial pressures are limiting local authorities' ability to invest in prevention. For example, local authorities are spending more on late intervention in children's social care services (£12.1 billion), while the amount invested in early support (£2.8 billion) has gone down at the same time as there are more children entering the care system. Preventative health services have been de-prioritised, with the Public Health Grant falling in real terms by £846 million (20.1%) over the period 2015–16 to 2024–25. We are encouraged that in February 2025, MHCLG confirmed £270 million of new funding for the children's social care prevention grant. MHCLG has also introduced a ringfence within the Homelessness Prevention Grant for 2025–26. HM Treasury claims that moving to multi-year settlements, reform and targeted investment will support the shift to prevention and save money in later years, although it recognises that this will be a gradual process and take time.

RECOMMENDATION

Following the spending review in June 2025, HM Treasury should write to the Committee to provide more detail on how the next local government finance settlement will support greater investment in prevention, and how this can be done without just relying on more ringfencing.

4. **Neither MHCLG nor HM Treasury have assessed the impact that increases in national insurance contributions (NICs) will have on local government services.** In April 2025, the NIC employer rate increased from 13.8% to 15% whilst the threshold at which employers start paying NICs on employee earnings reduced from £9,100 to £5,000 with the aim of raising more tax to fund the increase in public spending. In February 2025, government made £515 million available to support local authorities with the NIC-related increases in their direct employment costs. This amount was never intended to fully compensate local authorities, and neither MHCLG nor HM Treasury undertook an assessment of the indirect costs to local authorities. These increases will inevitably have implications, particularly for small charitable organisations, and knock-on effects to the markets, such as in Adult Social Care - which may result in private providers passing on cost increases to local authorities or handing back contracts. Some local authorities may be able to provide financial support to service providers for these increases in costs, but it is unacceptable that MHCLG and HM Treasury have not assessed how much impact this could have on local authorities.

RECOMMENDATION

Before the local government finance settlement, MHCLG working with HM Treasury should carry out a post implementation review of the increase in National Insurance Contributions and report back to the committee on:

- the immediate impact on third-party providers and care markets;
 - the longer-term knock-on effect on the provision of local government services; and
 - any action that may be taken to reduce any adverse impact.
5. **Financial pressures have led to short-term and unsustainable approaches to managing overspends in local government.** In 2020–21, MHCLG introduced the Exceptional Financial Support (EFS) framework to help local authorities that are in financial trouble. Since then, 42 local authorities have received over £5 billion of support through EFS. While EFS has provided support in the short term, it does not address the underlying cause of overspending and creates longer-term risks for local authorities, as they must borrow or sell capital assets to raise funds. MHCLG acknowledges

that EFS was a short-term fix and not a solution to financial sustainability. Many local authorities have seen rises in Special Educational Needs and Disabilities (SEND) demand, resulting in local authorities overspending their SEND-related budgets. The Department for Education estimates suggest that by the end of 2027–28, overspending on SEND-related budgets could be between £2.9 billion and £3.9 billion per year. As a short-term workaround, since 2021 MHCLG has allowed local authorities to exclude these deficits from their main revenue budgets until March 2026. The end is looming without a proposed solution in sight for this ‘statutory override’, leaving hundreds of local authorities in a financially precarious position. Despite us calling before for a solution as a matter of urgency and by March 2025, one has yet to be brought forward.

RECOMMENDATION

As a matter of urgency, MHCLG, HM Treasury and the Department for Education should work together to set out their solution for ensuring local authorities can achieve a sustainable financial position when the statutory override ends in March 2026. The solution must include how cumulative deficits will be treated.

- 6. There is significant uncertainty around how the proposed local government finance reforms and reorganisation will be implemented.** Long standing plans for funding and service reforms have been delayed several times. The government has now announced a huge reform agenda for local government, including an overhaul of local audit, local finance reform, service reform including for SEND and children’s social care, and extensive local government reorganisation. With these reforms happening simultaneously, there are significant risks. There are capacity constraints within local authorities which risks their ability to plan for and implement such wholesale changes at once. And with the Casey Commission not concluding on adult social care until 2028, plans may yet need to be adapted. Professor Tony Travers warned that given the delays in finance reform, updating how funding is distributed will now result in significant shifts of spending power between local authorities, but transitional arrangements are currently still unclear. It is uncertain whether the reforms will significantly improve local government’s financial position given MHCLG’s acknowledgement that there is not enough money to go around.

RECOMMENDATION

- a.** To allow local authorities to plan, MHCLG should set out a detailed timetable of its proposed reforms and implementation plans as part of the provisional settlement, including what transitional arrangements it will put in place.

- b.** MHCLG should include detail on what the timetable is for reducing the financial pressure on social care, special educational needs provision and temporary accommodation and an indicative proportion of remaining resources it expects Councils to have to manage commonly used discretionary services.
- c.** MHCLG and HM Treasury should also review how the switch from government to council tax funding has affected the provision of local services.

1 Challenges to delivering local services

Introduction

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Ministry of Housing, Communities and Local Government (MHCLG) and HM Treasury on local government financial sustainability.¹ We also heard evidence from Professor Tony Travers, Professor in Practice and Associate Dean of the School of Public Policy at the London School of Economics and Political Science, Councillor Pete Marland, Leader of Milton Keynes City Council and Chair of the Local Government Association Economy and Resources Board, and Iain Murray, Director of Public Financial Management at the Chartered Institute of Public Finance and Accountancy. We received written submissions from many interested parties about local authority finances and the impact on specific services.²
2. Local authorities provide essential services to residents, some of which are available to all residents while others are targeted to those most in need of support. For example, targeted services include social care, special educational needs, and temporary accommodation. While spending on these targeted services has increased, local authorities have made significant cuts to discretionary services, such as street cleaning and lighting, parks and gardens, and leisure services available to all.³ Local authorities are funded through multiple funding streams, including core funding from central government grants, council tax, locally retained business rates as well as income from commercial activities, and sales, fees and charges. They may also use their own reserves to help fund the services they provide.⁴ MHCLG is responsible for distributing core funding to local authorities, has overall responsibility for the accountability framework for local government and leads on overseeing the financial health of local government. Responsibility for the services local authorities deliver is

1 C&AG's Report, [Local government financial sustainability](#), Session 2024–25, HC 691, 28 February 2025

2 [Local Government Financial Sustainability - Written evidence - Committees - UK Parliament](#)

3 Q 1; C&AG's Report, paras 1.2, 2.23

4 C&AG's Report, para 1.8

spread across government departments. Departments are supported by HM Treasury, which allocates and controls public spending, including through spending reviews which set spending limits for departments.⁵

3. Core Spending Power - a measure of the funding available from central government grants, council tax and locally retained business rates for local authorities - increased by 4% in real terms over the period 2015–16 to 2023–24, but the amount per person fell over the same period. In 2023–24, local authorities spent £72.8 billion delivering services. Spending on services increased in real terms by 21% between 2015–16 and 2023–24, reflecting both increasing cost pressures and a rise in demand for key statutory services.⁶
4. To help manage financial pressures, government has provided short-term funding injections, including £2 billion of additional grant funding in 2025–26 to deliver core services. Since 2020–21, 42 local authorities with unmanageable financial pressures have received exceptional financial support (EFS), with 30 receiving support to balance their budgets in 2025–26 budgets. MHCLG has also implemented a ‘statutory override’, whereby overspends relating to Special Educational Needs and Disabilities (SEND) have been excluded from main revenue budgets until March 2026.⁷
5. In Autumn 2024 government promised a return to multi-year settlements from 2026–27 and outlined a series of reforms aimed at returning the sector to a sustainable position. These include funding reforms to both simplify and align the distribution of funding more closely with needs, service reform and shift to focus on prevention, alongside reform of the local audit system. Government has also embarked on large-scale reorganisation of local government structures, with new authorities going live in 2028.⁸

Measuring outcomes

6. Local authorities fund their services from multiple sources including central government grants, council tax, locally retained business rates, commercial activities, sales fees and charges and their reserves. Of the £72.8 billion local authorities spent delivering services in 2023–24, 58% (£42.3 billion) was spent on adult and children’s social care, with some local authorities spending up to 80% on social care.⁹ We asked how MHCLG ensured value for money for this spending. It told us that whilst the accounting officer for

5 C&AG’s Report, para 3

6 C&AG’s Report, paras 9, 10

7 C&AG’s Report, paras 20, 3.30, 3.37

8 C&AG’s Report, para 24

9 C&AG’s Report, paras 24, 1.7

local government was accountable for overall local government spend, individual local authorities are responsible for decisions taken on projects and spending.¹⁰

7. Local audit, including reports on value for money arrangements within local authorities, helps to provide transparency and assurance to both central government and taxpayers on local authorities' plans to achieve effective services. At 31 March 2024 only 25% of local government bodies had up-to-date external audit assurance on their 2022–23 financial statements, leading to significant gaps in information available.¹¹ MHCLG told us that since the introduction of the first backstop in December 2024 (by which date a local government body should have published its audited accounts up to and including 2022–23), it now has returns from around 94% of the sector, although these may be disclaimed audit opinions because the auditor ran out of time to complete their work.¹² MHCLG specified that local audit is one of a range of tools it uses to understand the position of local government, as audited accounts provide a retrospective view of local authority finances.¹³ Nevertheless, it stated its intention to set up the local audit office, with the aim of having no disclaimed accounts because of local audit delays by the end of 2027–28.¹⁴
8. Despite increased spending, there are indications that services are not meeting peoples' needs, such as only 50% of Education, Health and Care (EHC) plans for children and young people being issued within the 20-week statutory limit in 2023.¹⁵ MHCLG acknowledged that although spend on SEND services had increased, parent and children's satisfaction had not increased.¹⁶ Local authorities' spending on temporary accommodation has nearly doubled from £1.10 billion in real terms in 2015–16 to £2.13 billion in 2023–24, with MHCLG noting that outcomes "are not good" for citizens in temporary accommodation, particularly for families and children. This is coupled with an increasing number of families placed in bed and breakfast accommodation beyond the statutory maximum of six weeks.¹⁷
9. Councillor Pete Marland and Iain Murray both stressed the importance of focussing on outcomes.¹⁸ In response to our question on supporting greater transparency of spend and delivery of outcomes, MHCLG told us that there was significant work under way to produce a simple and

10 Q 41

11 C&AG's Report, para 3.22 and Figure 13

12 Q 4; C&AG's Report, Figure 13

13 Qq 35, 40

14 Q 40

15 C&AG's Report, para 2.11

16 Q 59

17 Q 63; C&AG's Report, paras 2.12, 2.17

18 Qq 16, 17

accessible outcomes framework for local government. It acknowledged that, unsurprisingly, outcomes were poorer in places that had traditionally received less money. It said that it wanted the framework to provide metrics to judge performance without being too onerous for local government.¹⁹ MHCLG acknowledged that it had probably been guilty of focussing on specific areas of spend, rather than overall expenditure as a whole. For example, MHCLG will measure the outcomes for a £1 billion grant on adult social care, but not for total adult social care spend. MHCLG did not provide any further details of when the outcomes framework would be published or implemented.²⁰

Complexity of funding

10. The funding system for local government is extremely complex. The local government finance settlement provides formula-based funding to local authorities, which MHCLG distributes through a combination of formula-based grants, general grants and locally retained business rates. Local authorities also fund services through locally raised income, such as council tax and sales, fees and charges.²¹ Written evidence we received from London Councils pointed out that the complexity of local funding “perpetuates a lack of transparency and erodes public trust of both central and local government”.²²
11. In recent years, government has provided single-year finance settlements, with stakeholders consistently calling for multi-year settlements to aid longer term planning and decision making. Written evidence from Cornwall Council highlighted how single year settlements compound the financial challenges it faces and makes longer-term financial planning almost impossible.²³ Government has now committed to multi-year funding settlements in 2026–27, the first in a decade, with MHCLG stating they are a crucial way to achieve greater efficiency in local government.²⁴
12. Outside of the finance settlement, local authorities can receive hundreds of different local grants from several government departments. While there is no official count, Councillor Pete Marland suggested that there are around 300 funding streams coming from central government to support specific services or policy objectives.²⁵ These are often small, and ring fenced for a specific purpose, but the administrative work involved for local authorities

19 Qq 97, 102

20 Q 103

21 C&AG’s Report, para 1.10

22 [LGFS0001](#)

23 [LGFS0017](#)

24 Qq 43, 56; C&AG’s Report, para 3.15

25 Q 21

to review and account for the spending can be considerable.²⁶ MHCLG acknowledged that it had previously not had the ‘best grip’ on how many grants there were outside the local government settlement.²⁷ However, it stated that it was working with HM Treasury to consolidate the individual stream of grants that local authorities both receive and report on, believing consolidation could achieve greater value for money by giving local authorities greater flexibilities to meet need.²⁸ MHCLG told us that the need to reduce funding streams to local government to achieve value for money was well understood by the permanent secretaries of other departments.²⁹ We asked HM Treasury to give assurance that reducing the number of funding streams was one of its top priorities. HM Treasury told us that it could “absolutely give that assurance”, and that it was using the upcoming spending review to consolidate grants across the whole of government, with MHCLG adding that between five and 10 grants had already been consolidated as part of the 2025–26 finance settlement.³⁰

13. Many departments rely on local authorities to deliver policy initiatives, although lack of joined-up working has resulted in competing funding demands. Our predecessors warned that competition between the Home Office and local authorities for local accommodation was “driving up prices and exacerbating the homelessness challenges that local authorities already face”.³¹ HM Treasury told us that it was using the spending review to encourage join-up across different parts of the system to help deliver government missions.³² MHCLG said it wanted to implement more integrated budget models between local government and other parts of government to facilitate joint-planning.³³

Investing in prevention

14. MHCLG recognises the importance of investing in prevention but also the challenge of funding it when finances are constrained.³⁴ Preventative services help stop, delay or reduce the need for statutory services and can help to deliver better outcomes.³⁵ Over the period 2015–16 to 2023–24, local authorities have spent more on some later intervention services and less on

26 C&AG’s Report, para 1.12

27 Q 97

28 Qq 43, 97

29 Q 46

30 Qq 46, 97

31 Committee of Public Accounts, [The Asylum Transformation Programme](#), Seventy-Sixth Report of Session 2022–23, HC 1334, 27 October 2023

32 Q 96

33 Q 95

34 C&AG’s Report, para 14

35 C&AG’s Report, para 2.5

early intervention or preventative services. For example, spending on the public health grant, used to fund preventative services such as alcohol and drug and children’s health services, fell in real terms by £846 million (21%).³⁶ Local authority spending on late intervention services for children and young people (such as a looking after a child, safeguarding or youth justice services), rose from £8.5 billion to £12.1 billion, whilst spending on early interventions (such as family support) fell from £3.2 billion to £2.8 billion.³⁷ MHCLG told us that at the same time as decreases in spend on children’s social care prevention, more children are entering the care system. Written evidence we received from Hampshire County Council stated that it spends around £26 million a year looking after 37 of the most vulnerable children in its care.³⁸

15. HM Treasury told us how the shift to prevention takes time and needed to be done gradually.³⁹ We challenged HM Treasury and MHCLG on how the spending review and local government finance settlement would support this shift and incentivise prevention.⁴⁰ HM Treasury told us that spend was not the only way to incentivise prevention, but that regulation and tax played an important role - such as regulation on smoking and the soft drinks levy. HM Treasury highlighted three aspects of the spending review that are designed to shift spending from “downstream to upstream prevention”. First, the introduction of multi-year settlements to invest upfront; second, a focus on policies for prevention which will pay dividends in future years; and third, investing upfront to shift to prevention which can save money in later years of the spending review.⁴¹
16. MHCLG said it had already begun to focus funding on prevention in a number of ways, including the introduction of a new £270 million grant for children’s social care prevention. It had also increased the overall homelessness prevention grant for 2025–26 and specified that 49% must be spent on prevention, relief and staffing activity rather than on providing temporary accommodation.⁴² MHCLG told us that there was compelling evidence that shifting to prevention, particularly for children’s social care, homelessness and temporary accommodation, results in improved outcomes for people along with quick payback periods. MHCLG did recognise the challenge for local authorities of ringfencing funding and said that, although it avoided this where possible, it had been necessary to shift spending to help manage demand for homelessness services given the poor

36 C&AG’s Report, para 2.6

37 C&AG’s Report, para 2.6

38 [LGFS0006](#)

39 Q 64

40 Q 104

41 Q 104

42 Q 104; MHCLG, [Homelessness Prevention Grant 2025–26: technical note](#), 18 December 2024

outcomes for people in temporary accommodation.⁴³ MHCLG told us that pooling of funding in a place, flexibility of funding and the right performance measures can help improve outcomes for people over time.⁴⁴

43 Qq 63, 104

44 Q 104

2 Government's response to local funding pressures

National Insurance Contributions (NICs)

17. In April 2025 the NIC employer rate increased from 13.8% to 15%, while the threshold at which employers start paying NIC on employees' earnings reduced from £9,100 to £5,000. HM Treasury told us the aim was to raise more tax to fund the increase in public spending announced in the autumn budget.⁴⁵ At the autumn budget the government set aside £4.7 billion to support the public sector with the additional cost of employer NICs.⁴⁶ Government made £515 million available to support local government with increased NICs costs relating to their direct employment costs.⁴⁷
18. HM Treasury told us that it calculated the level of compensation for public authorities by apportioning the expected increase in direct NICs between the different work forces within the public sector. We were told that this did not account for any increase in charges passed on to the public sector, as these would be taken into account in the overall funding to local authorities and addressed over time.⁴⁸
19. MHCLG told us that it consulted with the sector on how best to allocate the £515 million so that it did not discriminate against local authorities that had chosen to outsource or insource specific services. It went on to say that it revised its approach based on sector-feedback.⁴⁹ MHCLG recognised that some local authorities had fully funded the NIC increase with care providers, while others had not.⁵⁰
20. Written evidence we received from Mencap, a social care provider supporting over 4,000 people with learning difficulties, indicated that the changes to employer NICs coupled with increases in the National Living Wage, could potentially cost it an additional £18 million a year. Mencap stated that if local authorities did not receive support from central

45 Q 47

46 [Letter from MHCLG to Committee](#), 16 April 2025

47 Q 47

48 Q 47

49 Q 47

50 Q 53

government, it would be forced to renegotiate and potentially hand back social care contracts, affecting 60% of its services.⁵¹ The Homecare Association in its written evidence highlighted the significant impact the NIC rise will have on the homecare sector because of the number of part-time workers. It gave us an example of how changes in the employer NICs threshold could result in the employer's NI costs, for a carer working 16 hours a week, rising from £61.23 to £777.73. For a carer working a more typical 25 hours a week, it illustrated that the employer's NI costs could more than double from £802.06 to £1,637.09.⁵²

21. We asked whether an impact assessment had been carried out to consider whether local authorities would be able to fully compensate organisations, particularly smaller charities providing local government services, for the increased NIC costs out of the £515 million.⁵³ MHCLG told us that at every spending review it looks “in the round” at local authority spending and need with the NICs factored into that assessment. It said that through the autumn statement and the local government finance settlement, it had put in an additional £5 billion in grant funding.⁵⁴ When pressed MHCLG told us this significant uplift in funding, some of which would help compensate for increased costs, was a best estimate and they could not control or comment on the actions of individual councils. However, neither MHCLG nor HM Treasury could point us to any assessment of the impact of the NIC changes on local government services.⁵⁵
22. We drew MHCLG's attention to the Local Government Association's calculations on the costs to local government of the increases in NICs. These suggest that the direct cost to local government is an estimated £637 million. The LGA also calculated indirect costs of £1.1 billion to private sector organisations who provide services to local government. When we challenged MHCLG on a potential funding shortfall of more than £1 billion, it again referred to the £5 billion of extra grant funding provided through the local government finance settlement for 2025–26. However, MHCLG had not carried out its own assessment of the LGA's figures.⁵⁶

51 [LGFS0002](#)

52 [LGFS0024](#)

53 Qq 47, 48, 49

54 Q 48

55 Qq 50, 51

56 Qq 75,76, 77; [LGA statement on provisional Local Government Finance Settlement](#), 18 December 2024

Managing overspends in local government

- 23.** Central government has introduced measures to help local authorities manage budget overspends. In 2020–21, MHCLG introduced the Exceptional Financial Support (EFS) framework to help local authorities that are in financial trouble.⁵⁷ Since then, 42 local authorities have received over £5 billion of support through EFS.⁵⁸ Thirty local authorities received support in 2025–26 to help them balance their budgets.⁵⁹ Councils need to either sell off capital assets or borrow to raise these funds.⁶⁰ In most cases, MHCLG has provided support through allowing local authorities to use capital finances to fund day-to-day spend.⁶¹ Written evidence we received from CIPFA explained that this does not result in significant additional funding being provided to the Councils affected.⁶² Iain Murray from CIPFA told us that an increasing number of councils that are otherwise well run are finding themselves in financial difficulties.⁶³
- 24.** Written evidence we received highlighted that EFS was no longer considered exceptional and there were concerns that some local authorities required measures ‘over and above’ the EFS framework, given the scale of their financial distress.⁶⁴ MHCLG told us it recognised that whilst EFS provided support in the short term, it formed “part of a toolkit”, and was not a long term strategy to deal with local government funding.⁶⁵ It added that it saw EFS as a short-term intervention until it can make the more fundamental changes it plans.⁶⁶
- 25.** Many local authorities have seen rises in Special Educational Needs (SEND) demand, and the NAO has previously reported that 101 local authorities overspent their SEND-related budgets in 2022–23.⁶⁷ Department for Education (DfE) estimates suggest that by the end of 2027–28, overspending on SEND-related budgets could be between £2.9 billion and £3.9 billion.⁶⁸ Since 2021, MHCLG has allowed local authorities to exclude these deficits from their main revenue budgets, termed the ‘statutory override’. The override is only in place until March 2026. We previously asked government to develop a fair and appropriate solution for when the statutory override

57 C&AG’s Report, para 3.30

58 C&AG’s Report, para 22

59 Q 3

60 Q 57

61 C&AG’s Report, para 3.31

62 [LGFS0019](#)

63 Q 12

64 [LGFS0001](#), [LGFS0004](#), [LGFS0019](#)

65 Qq 56, 57

66 Q 57

67 C&AG’s Report, para 3.35

68 C&AG’s Report, para 3.35

ends and to set out its plans, as a matter of urgency by March 2025.⁶⁹ However, although our recommendation was accepted, a solution for the override and plans for how local authorities will manage cumulative deficits after March 2026 have not yet been brought forward.⁷⁰

- 26.** Iain Murray from CIPFA warned that even if these deficits were written off, local authorities would immediately start to accumulate new deficits due to high levels of demand in SEND.⁷¹ MHCLG told us that there was huge amounts of work currently going on in central government on special educational needs funding, specifically on the statutory override, and government plans to publish details as part of the spending review in June and the provisional local government finance settlement in the autumn.⁷² MHCLG was clear that any plan would have to involve reform of the SEND system, as well as a plan for local authorities to manage their deficits.⁷³ HM Treasury added that the upcoming spending review would aim to set out a sustainable position for local government in regard to special education needs funding for the whole of the spending review period.⁷⁴

Local government reform

- 27.** Central government acknowledges the local government finance system is complex and outdated, with long-standing plans for reform not having taken place.⁷⁵ In autumn 2024 government committed to reforms over the medium term. Alongside confirming the reintroduction of multi-year funding settlements from 2026–27 and funding simplification, it launched consultations on local audit and local authority funding reform in December 2024.⁷⁶ At the same time, government set out its vision for local government reorganisation, with initial proposals for reorganisation from local authorities sought by March 2025.⁷⁷
- 28.** We asked MHCLG how its reforms will help councils deal with the immense financial challenges they face. It told us it recognised the problems and, through funding reform, it was seeking to align the way funding is distributed much more closely with changes in demographics, levels of

69 Committee of Public Accounts, [Support for children and young people with special educational needs](#), First Report of session 2024–25, HC 353, 15 January 2025

70 HM Treasury, [Government Response to the Committee of Public Accounts on the First to the Fourth and the Sixth to the Ninth reports from Session 2024–25](#), April 2025

71 Q 14

72 Q 78

73 Q 78

74 Qq 78, 80

75 C&AG's Report, para 3.41

76 C&AG's Report, para 3.46

77 MHCLG, [Local government reorganisation: letter to two-tier areas](#), 16 December 2024

deprivation, and the need for services.⁷⁸ It recognised that the funding formulae had not been updated for many years and, as a result, was “out of kilter” with the actual needs of people.⁷⁹ MHCLG acknowledged the risk highlighted by Professor Tony Travers that because reform has not been tackled for so long, it will lead to huge losses for some and massive gains for others across the local government system.⁸⁰ A second consultation, likely in June, would set out more detail and give local authorities an indication of their future funding and the transitional arrangements.⁸¹

- 29.** We challenged MHCLG as to whether its reforms will put local government finance on a sustainable footing. It acknowledged that there was not enough money in the system, so the aim of the reforms was to use the money available more efficiently and productively. But MHCLG also recognised the need to manage the demand pressures on local government and referenced planned reforms for children’s social care, SEND, homelessness and adult social care (the Casey Commission).⁸² It asserted that its approach was the right one, but with the caveat that it did not know the outcome of the spending review and international events could affect the overall economic position.⁸³
- 30.** Given the range of proposed reforms as well as local government reorganisation, we pressed MHCLG on the timing and sequencing. MHCLG responded that “it is all happening at once”.⁸⁴ It accepted that funding reform plans may need to be adapted depending on the outcome of the Casey Commission, which is not due to report until 2028. However, newly formed local authorities would not go live until April 2028 and so it was not planning to factor in local government reorganisation into the multi-year settlement from 2026–27.⁸⁵ We asked MHCLG whether local government is in a fit state to cope with all this change.⁸⁶ It told us it did not underestimate the complexity and capacity constraints on councils, but the reforms and reorganisation needed to be done to make sure local government could succeed into the future. MHCLG was optimistic about achieving the necessary reform and reorganisation, saying “we need to achieve all of it”, while recognising that it did not have a choice due to the seriousness of the current state of local government.⁸⁷

78 Q 43
79 Q 54
80 Qq 4, 53, 57
81 Q 45
82 Q 43
83 Q 88
84 Q 89
85 Qq 89, 90
86 Q 110
87 Q 110

- 31.** Written evidence we received from the Chartered Institute of Public Finance and Accountancy pointed out that funding reform and local government reorganisation were opportunities to improve sustainability in the sector, but that local government approached these extensive reforms from a very fragile position.⁸⁸ While MHCLG recognised there would be upfront costs to reorganisation, it expected to see savings in local government quite quickly due to simpler local government structures.⁸⁹ Professor Tony Travers was unconvinced that reorganisation would lead to savings in local government and highlighted the challenge of distributing deficits between local authorities.⁹⁰

88 [LGFS0019](#)

89 Q 62

90 Qq 8, 22

Formal minutes

Monday 9 June 2025

Members present

Sir Geoffrey Clifton-Brown, in the Chair

Mr Clive Betts

Luke Charters

Anna Dixon

Peter Fortune

Rachel Gilmour

Sarah Green

Sarah Hall

Lloyd Hatton

Chris Kane

Sarah Olney

Declaration of interests

The following declarations of interest relating to the inquiry were made:

3 April 2025

The Chair declared the following interest: chartered surveyor.

Mr Clive Betts declared the following interest: Vice-President of the Local Government Association, member of Unite.

Anna Dixon declared the following interest: former professional working in adult social care.

Sarah Hall declared the following interest: former member of Warrington Borough Council, Cabinet member for Children and Young People, member of trade unions.

Lloyd Hatton declared the following interest: member of GMB.

Rebecca Paul declared the following interest: councillor at Surrey County Council, member of the Institute of Chartered Accountants in Scotland, and the Chartered Institute of Taxation.

Michael Payne declared the following interest: former member of Nottinghamshire County Council and Gedling Borough Council, Vice-President of the Local Government Association, member of trade unions that represent staff in local government.

Oliver Ryan declared the following interest: Vice-President of the Local Government Association, a member of trade unions that represent staff in local government, former councillor on the Local Government Association economy and resources board, former executive of the Local Government Association labour group.

Local Government Financial Sustainability

Draft Report (*Local Government Financial Sustainability*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 31 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Thirty-First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available (Standing Order No. 134).

Adjournment

Adjourned till Thursday 12 June at 9.30 a.m.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Thursday 3 April 2025

Professor Tony Travers, Professor in Practice and Associate Dean, The LSE School of Public Policy; **Councillor Peter Marland**, Chair of the Economy and Resources Board, Local Government Association; **Iain Murray**, Director of Public Financial Management, Chartered Institute of Public Finance and Accountancy (CIPFA) [Q1-25](#)

Sarah Healey, Permanent Secretary, Ministry of Housing, Communities and Local Government; **Will Garton**, Director General Local Government, Growth and Communities, Ministry of Housing, Communities and Local Government; **Nico Heslop**, Director of Local Government Finance, Ministry of Housing, Communities and Local Government; **Conrad Smewing**, Director General, Public Spending, HM Treasury [Q26-115](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

LGFS numbers are generated by the evidence processing system and so may not be complete.

1	Capital Letters	LGFS0016
2	Centre for Homelessness Impact	LGFS0009
3	Chartered Institute of Public Finance and Accountancy (CIPFA)	LGFS0019
4	Cornwall Council	LGFS0017
5	Hampshire County Council	LGFS0006
6	Homecare Association	LGFS0024
7	Leonard Cheshire	LGFS0025
8	Local Government Information Unit (LGIU)	LGFS0021
9	London Councils	LGFS0001
10	Mencap	LGFS0002
11	Murphy, Professor Peter (Professor of Public Policy and Management, Nottingham Trent University); Dom, Dr Bernard K (Lecturer Accounting and Finance , Nottingham Trent University); Eckersley, Dr Peter (Associate Professor, Nottingham Trent University); Lakoma, Dr Katarzyna (Research Fellow, Nottingham Trent University); and Jones, Dr Martin (Head of Department Accountancy and Finance, Nottingham Trent University)	LGFS0014
12	NHS Confederation	LGFS0013
13	National Association of Local Councils	LGFS0020
14	Phillips, Dr Amber (Senior Lecturer in Criminology, University of the West of England)	LGFS0011
15	Pike, Professor Andy (Henry Daysh Professor of Regional Development Studies, Centre for Urban and Regional Development Studies (CURDS), Newcastle University)	LGFS0004
16	Research for Action	LGFS0007

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| 17 | Sense | <u>LGFS0003</u> |
| 18 | South East Councils | <u>LGFS0012</u> |
| 19 | Steccolini, Professor Ileana (Professor of Accounting and Public Management, University of Essex, UK; and University of Bologna, Italy); Dom, Dr Bernard K. (Lecturer in Accounting and Finance, Nottingham Trent University); and Lino, Dr André (Lecturer in Accounting, University of Essex) | <u>LGFS0022</u> |
| 20 | The National Association of Local Councils | <u>LGFS0023</u> |
| 21 | Travers, Professor Tony (Associate Dean, School of Public Policy and Department of Government, London School of Economics & Political Science) | <u>LGFS0015</u> |
| 22 | Women's Budget Group | <u>LGFS0010</u> |

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website.

Session 2024–25

Number	Title	Reference
30th	Antimicrobial resistance: addressing the risks	HC 646
29th	Condition of Government properties	HC 641
28th	Decommissioning Sellafield	HC 363
27th	Government's relationship with digital technology suppliers	HC 640
26th	Tackling Violence against Women and Girls	HC 644
25th	DHSC Annual Report and Accounts 2023-24	HC 639
24th	Government cyber resilience	HC 643
23rd	The cost of the tax system	HC 645
22nd	Government's support for biomass	HC 715
21st	Fixing NHS Dentistry	HC 648
20th	DCMS management of COVID-19 loans	HC 364
19th	Energy Bills Support	HC 511
18th	Use of AI in Government	HC 356
17th	The Remediation of Dangerous Cladding	HC 362
16th	Whole of Government Accounts 2022-23	HC 367
15th	Prison estate capacity	HC 366
14th	Public charge points for electric vehicles	HC 512
13th	Improving educational outcomes for disadvantaged children	HC 365
12th	Crown Court backlogs	HC 348
11th	Excess votes 2023-24	HC 719
10th	HS2: Update following the Northern leg cancellation	HC 357

Number	Title	Reference
9th	Tax evasion in the retail sector	HC 355
8th	Carbon Capture, Usage and Storage	HC 351
7th	Asylum accommodation: Home Office acquisition of former HMP Northeye	HC 361
6th	DWP Customer Service and Accounts 2023-24	HC 354
5th	NHS financial sustainability	HC 350
4th	Tackling homelessness	HC 352
3rd	HMRC Customer Service and Accounts	HC 347
2nd	Condition and maintenance of Local Roads in England	HC 349
1st	Support for children and young people with special educational needs	HC 353