



LGIU

2025 State of Local Government Finance in England

A report by the Local Government
Information Unit (LGIU)

Local Democracy Research Centre

About this report

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About the LGIU

The LGIU – Local Government Information Unit – is an independent, not-for-profit membership organisation working to make local democracy around the world collectively stronger through shared ideas, resources and connections for local government.

About the Local Democracy Research Centre

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

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

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Foreword

Jonathan Carr-West,
Chief Executive, LGIU

This year's State of Local Government Finance survey was carried out on the crest of a wave that is heralding an almost unprecedented reorganisation of the local government landscape. The results – presented in this report – tell that story.

The primary purpose of this annual research is to gauge how confident senior local government leaders are feeling both about their own council's finances and the sustainability of the sector as a whole. But this year, devolution and reorganisation have added a new layer of uncertainty that is inextricably bound to councils' financial position.

On the one hand, the government has had some success in resetting the central-local relationship and there is near-total consensus that the promised multi-year settlements will benefit council finances.

Conversely, many councils are anticipating that reorganisation and the increase in National Insurance Contributions will heap added pressure onto already overextended council budgets.

At the end of last year, the government was clear that devolution, reform of the local government finance system and public sector reform should go hand in hand. Our survey shows in quite stark detail that they are not currently aligned in any meaningful way. To put it bluntly, respondents are not happy with the way that reorganisation is being carried out. The vast majority feel that the government is not providing enough clarity, enough genuine involvement for councils in the process, or realistic timeframes. And, critically, most do not believe that it will solve the financial problems that councils face.

But these are by no means insurmountable problems. The LGIU has strongly argued for a number of practical measures that would go a long way towards addressing many of these concerns, including a standing commission focused on local government reorganisation, clearly defined roles for councils in delivering the government's five 'missions', and a plethora of proven-to-work revenue-raising options for councils to draw on.

We have a once-in-a-generation opportunity to recalibrate English local government and reconfigure the local government finance system so that councils can be the democratic engines of opportunity that our communities need. And it can be done. The government's commitment to reform is to be commended and we stand ready to support them and the sector as we continue on this journey together.

Executive summary

- This survey has found that effective bankruptcies are likely in 6% of councils in the next financial year and 35% of councils over the next five years.
 - This equates to 19 councils bankrupt by March 2026 and 111 bankrupt by March 2030, out of a total of 317.
- Fewer than 1 in 10 senior council officials are confident in the sustainability of local government finance.
 - Most are less confident than last year (55%), while less than one quarter are more confident (23%).
- Local government reorganisation and National Insurance Contribution rises represent significant new pressures for council finances.
 - This deepens the existing crises of high council debt, the local authority audit backlog, ring-fencing constraints, inflationary pressures, and workforce shortages.
- This survey reveals concerns about the impact of the government's reorganisation plans. Only 1 in 10 believe they have been adequately involved in the process, while just 1 in 5 believe the timescales for reorganisation are deliverable.
 - Equally, fewer than 1 in 5 officials believe that there has been sufficient clarity surrounding reorganisation, while fewer than 1 in 4 believe that it will improve council finances.
- However, surging service demand remains the greatest pressure on local government finance, and is a major problem for over 90% of councils.
 - Particular flashpoints of this crisis are temporary accommodation, children's services, and adult social care, which were most commonly identified as councils' greatest pressures.
- Councils will take an array of income-raising measures in the next financial year, including: increasing council tax (94%); increasing fees and charges (88%); selling or transferring public assets (60%); increasing commercial activity (32%); and increasing borrowing (22%).
- Nearly two-thirds of councils will reduce spending on services (63%), although many will make savings through the restructuring of services (47%).
- Alarmingly, most councils will draw from their reserves this year (56%) – the second successive year for nearly half of those surveyed (49%).
- There is near-total consensus in the sector that multi-year financial settlements will benefit council finances (92%), with very strong support for council tax reform (77%) and a greater fiscal toolkit (~75%).
- This survey finds that satisfaction with the UK government's performance is notably higher than last year, yet remains low across an array of issues (~25%).

Introduction

This report, the LGIU's 12th annual 'State of Local Government Finance in England' survey, illustrates a sector that remains in a state of crisis management. Councils face an array of challenges, both old and new, which make their positions increasingly untenable. Despite pulling all the levers available to them, confidence in financial sustainability remains critically low, and the risk of effective bankruptcies remains high. A recent report by the [National Audit Office](#) estimates that effective bankruptcies are likely in 43% of councils, based on fieldwork from May to October 2024. Today, we put that figure at 35%, down from 51% this time [last year](#). This, we argue, is evidence of a marginally improving, yet continually difficult, situation in the local government sector – something echoed in indications of optimism among some officials, who believe that actions of the UK government are ameliorating circumstances. However, opinion remains divided, with issues including local government reorganisation experiencing very low support in the sector.

Local government reorganisation represents just one instance of the major shakeup of the sector that has been observable in recent months. This began with the [local government finance policy statement](#) of November 2024, which marked the government's plans for funding reform, indicating a move towards more targeted, needs-based grant funding. This was followed by plans set out in the [Devolution White Paper](#) of December 2024: universal coverage of strategic authorities, mostly led by directly-elected mayors, and reorganisation for two-tier areas, which will now be unitarised into one streamlined tier. Change accelerated into February 2025 with the [final local government finance settlement](#) and the confirmation of the authorities fast tracked in the move towards elected mayors in the [Devolution Priority Programme](#).

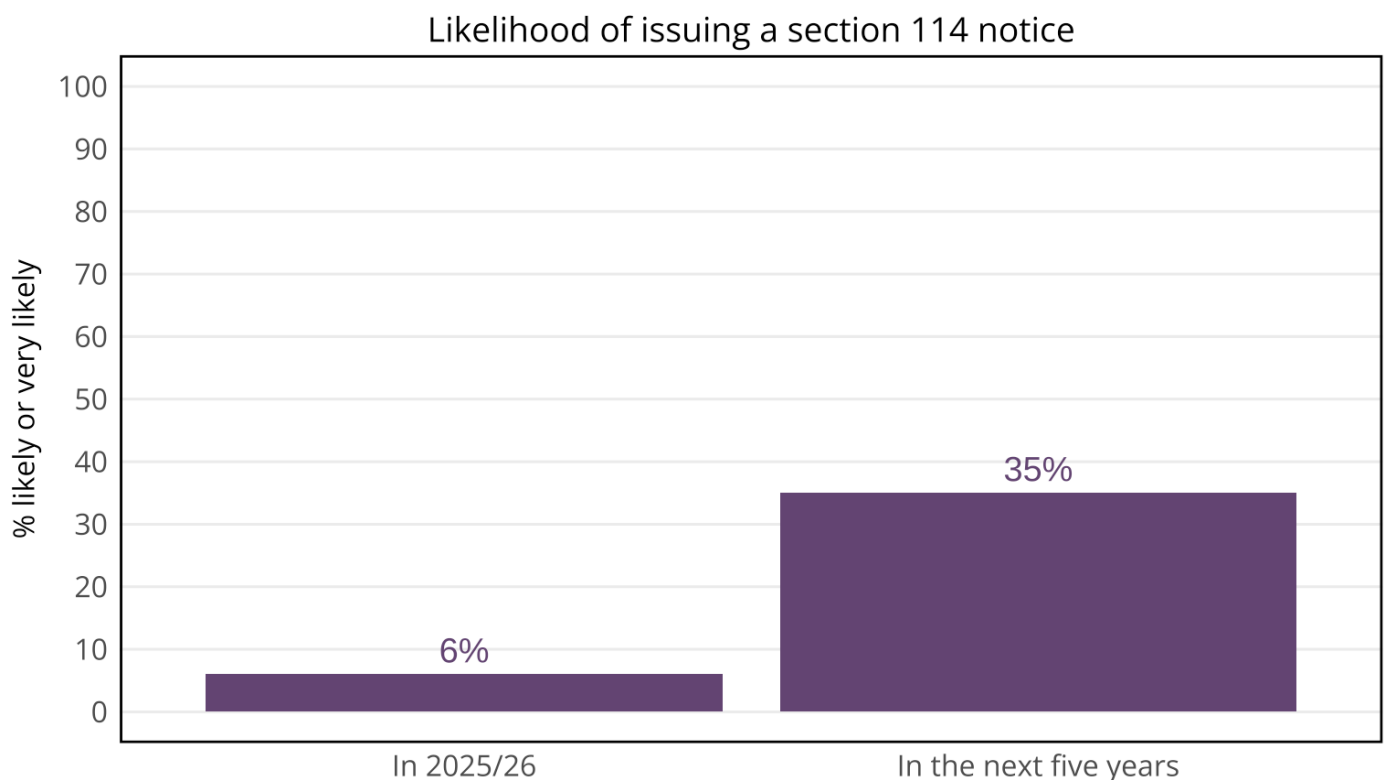
As we have previously discussed, there is much to be commended in the steps that the government is taking, and our findings reflect this in several areas. However, this survey demonstrates that the sector is not out of the woods yet. As the leader of a unitary council told us:

"I have worked in local government for 42 years and this is the worst it has ever been".

This survey was sent to every council leader, deputy leader, chief executive, section 151 officer (director of finance) and cabinet member for finance (or equivalent) across all English local authorities. Between 4-21 February, we received 186 responses from 150 unique English councils (from a total of 317) across a broad range of council types, regions, and political control (see Appendix 1). The successive sections of this report outline what we heard from these senior local government figures.

Effective bankruptcies: a sector on the edge

Our survey has revealed that 6% of senior council officials believe it is likely that they will issue a [section 114 notice](#) in the next financial year, with 35% deeming it likely over the next five years. Although representing reductions against our 2024 survey – which showed these proportions to be 9% and 51% respectively – these figures are once again alarmingly high. In our sample of 150 councils, this represents effective bankruptcies in 9 local authorities by March 2026 and a further 43 by March 2030. When extrapolating our findings to all 317 English councils, this suggests section 114 notices are deemed likely in 19 and 111 unique councils, over the short and medium term respectively.



Section 114 notices

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

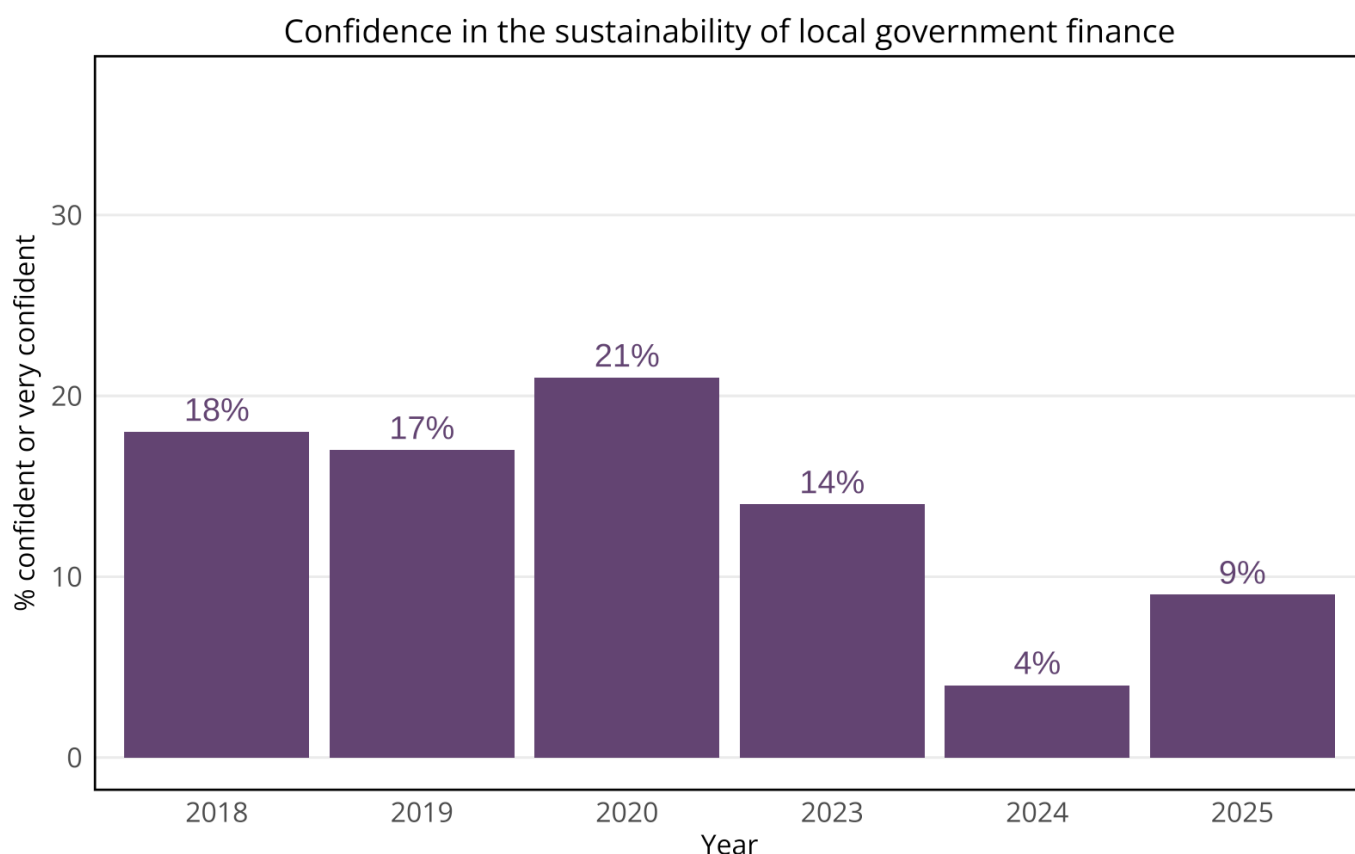
Last year's survey highlighted a shift of section 114 notices from occurring in only the most exceptional circumstances to becoming a real possibility for the majority of councils in the long term. High profile section 114 issuances in 2023 included Woking Borough Council, Birmingham City Council and Nottingham City Council; however, in February 2024, 16 councils at high risk of also doing so were given exceptional financial support by the UK government in a [£2.5bn package](#). Equally, in February 2025, [a similar yet smaller package](#) of 'emergency funding' was extended to 30 councils to assist with 'unmanageable pressures' in failed attempts to prepare balanced budgets. Although representing what has been described as 'panicked injections of cash', these measures [will have likely](#) abated what would have otherwise been a catastrophic string of effective bankruptcies in the sector.

Nevertheless, this year's results demonstrate that despite these ad hoc 'bailouts', a significant proportion of councils remain at risk of issuing section 114 notices. Put simply, although exceptional financial support may stave off immediate threats of effective bankruptcies, it is not a sustainable solution to remediate the financial challenges in the local government sector. As the Director of Finance for a London Borough Council told us:

“Unless there is a fundamental shift in funding ... all councils will fail – it is a question of when.”

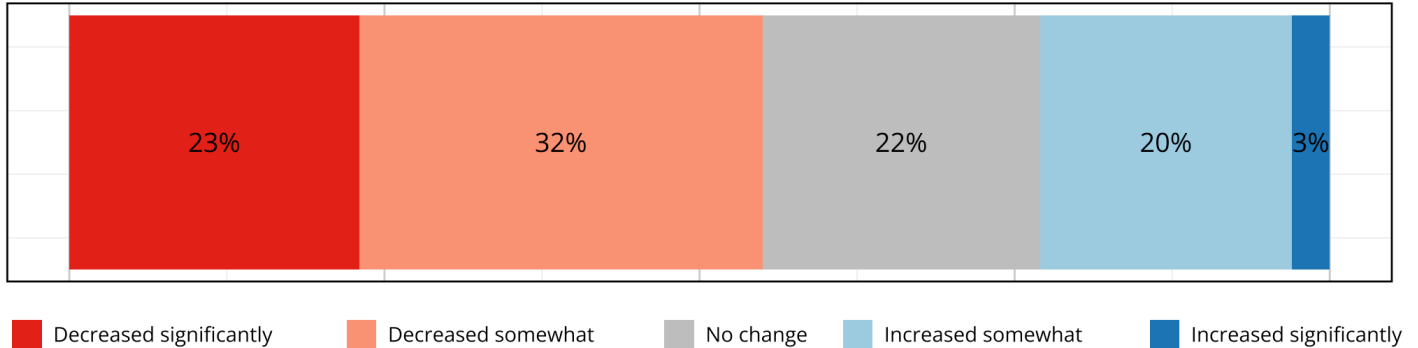
Confidence in council finances

This year, we have seen a moderate uptick in the level of confidence in the sustainability of local government funding, with 9% of senior council officials indicating that they were confident or very confident, up from an [unprecedented low](#) of just 4% in 2024. This is notable and represents the greatest increase in confidence in any year since we began this survey in 2012. However, with more than 9 in 10 respondents continuing to express a lack of confidence in the sector, and levels remaining below that of 2023, this is nothing to celebrate.



Moreover, when investigating further into how confidence has changed in the past year, it becomes clear that this uptick is confined to a small proportion of sector leaders, with only 23% of respondents indicating greater confidence against 2024. For the majority of respondents – 55% – they have experienced a decrease in confidence in the sector’s financial sustainability in the past year. Therefore, although the overall proportion of respondents who are confident in the sector’s financial sustainability has increased, most surveyed council officials are less confident than they were a year ago.

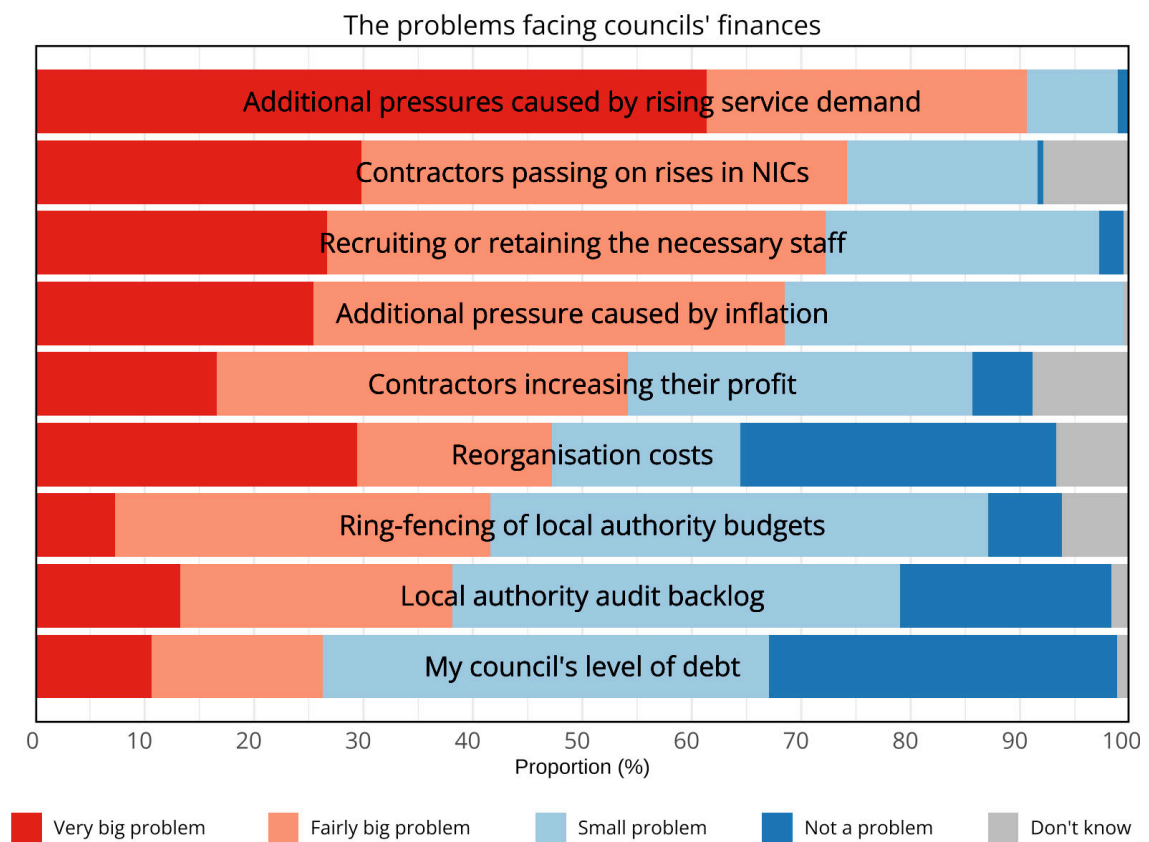
Change in confidence in the past year



As a result, it appears that recently announced plans to reform the local government sector have failed to inspire notably higher levels of confidence among council representatives. Together with the persisting danger of councils issuing section 114 notices – as outlined earlier in this report – these results represent a continued poor outlook for the sector. The subsequent sections of this publication therefore seek to uncover why this is the case.

Multiple crises: old and new

While sector-wide spending power remains lower than in the early 2010s, local authorities face an array of intersecting pressures, pushing many councils to the brink of collapse. Some of these are sustained pressures, with surging service demand and inflation being repeatedly reported as major challenges for councils over a number of years. Equally, the ring-fencing of budgets is a persistent frustration in the sector, while levels of debt and the local authority audit backlog continue to contribute to [elevated levels of risk across councils](#). However, several pressures reported in this year's survey have arisen due to policies introduced since the 2024 general election, representing new, additional challenges that local authorities must now navigate.



For instance, National Insurance Contribution (NIC) increases – as announced in the 2024 Autumn Budget – represent an additional pressure on council finances. Despite the declaration that councils would be ‘immune’ from these rises due to additional funding, this will inadequately compensate for the cost facing councils and, crucially, does not account for those associated with externally contracted service providers. Councils rely on contractors for a variety of services, including nursing, social work, and construction. These suppliers will now likely pass on NIC rises to councils, with this expense not accounted for in funding allocations despite being estimated to represent [over £1bn](#) in additional costs for the sector. The chief executive of a rural district council discussed the impact of this shortfall, highlighting that of the £711,000 cost of NIC rises facing their council, only £200,000 will be compensated, thus representing what they described as an **“additional burden”**.

Simultaneously, the cost of contracted services has also risen due to increased profits among providers, with leading contractors in children’s social care, for example, shown to be making

[an average of 23% in profits](#). This was highlighted by the chief executive of a metropolitan borough council:

“The ability of external providers to raise prices above inflation is having considerable impacts on the council’s finances with no sign that this will change The council would like to see legislation enacted that would address the problem of private companies exploiting the issues that the sector is facing by increasing costs by significant amounts.”

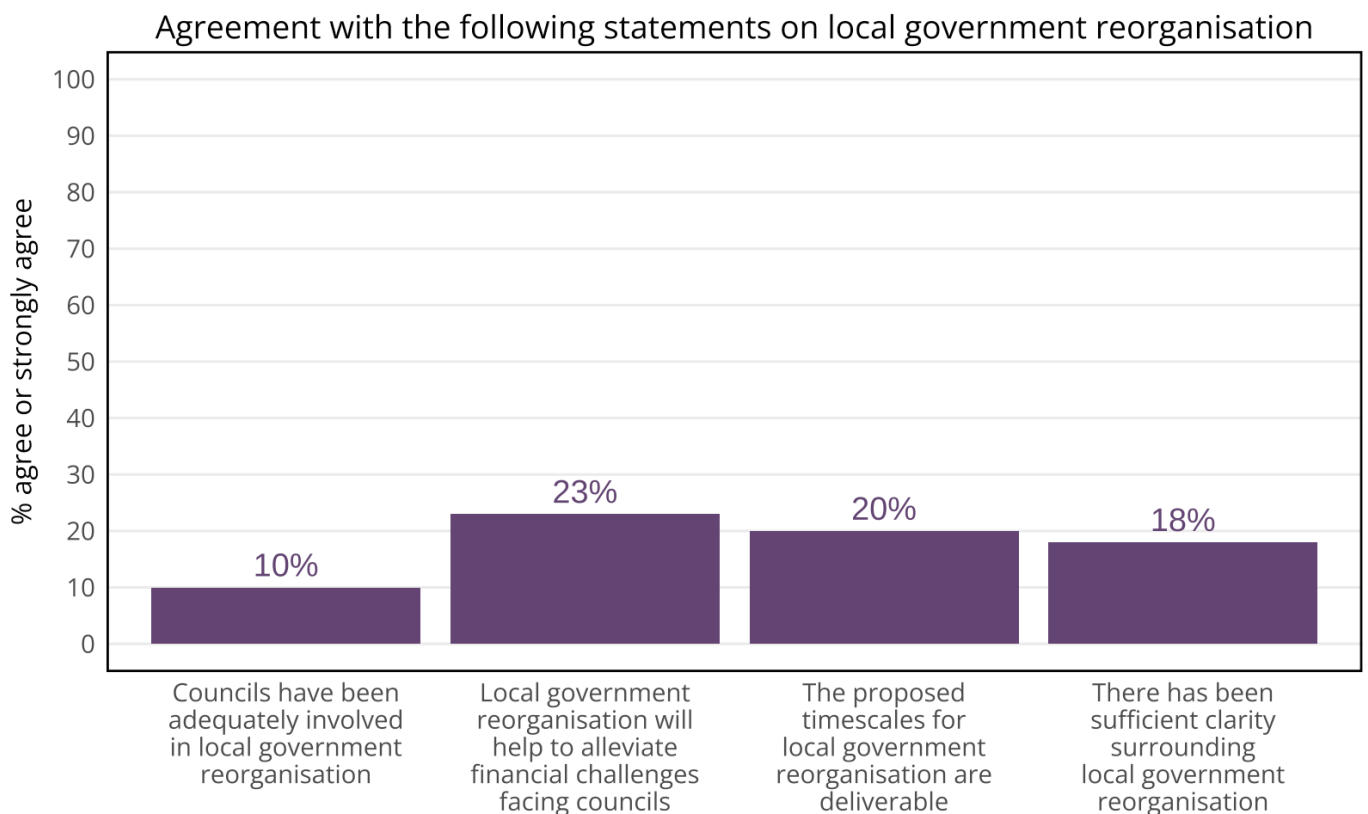
Another additional cost is local government reorganisation. Outlined in the [2024 Devolution White Paper](#), the UK government has indicated its intention to abolish two-tier local government; unitarising areas that have been historically governed by both county and district councils into one streamlined tier. This has been identified as a major problem for council finances by many respondents in this survey. Although likely resulting in long-term financial savings, the input costs for this upheaval are enormous, with one estimate putting reorganisation costs at an average of [£16m per two-tier area unitarised](#). Reorganisation was therefore described by one respondent as a “diversion of resources”, and by another as a “bizarre distraction” and “the last thing we need at the worst possible time”.

Amid inflationary pressures, surging demand for services, high council debt, an extensive local authority audit backlog, ring-fencing constraints, and workforce shortages, councils simply do not have the headroom to deal with these additional costs. The UK government must therefore fully compensate any additional costs that may be brought by its fiscal and devolutionary agendas – otherwise, these policies will only deepen this crisis.

For a more comprehensive breakdown of survey responses to this question please see Appendix 2.

Local government reorganisation

Outlined in the [2024 Devolution White Paper](#), the UK government has indicated its intention to abolish two-tier local government; unitarising areas that have been historically governed by both county and district councils into one streamlined tier. Despite [significant input costs](#), local government reorganisation is predicted to result in long-term financial savings, by ending what Minister Jim McMahon MP describes as a [‘two-tier premium’](#) paid by tax payers. However, our survey has revealed low support for the UK government’s approach to reorganisation. Only 1 in 10 councils believe that they have been adequately involved in the reorganisation process, while fewer than 1 in 4 believe that it will alleviate the financial challenges facing councils. Equally, only 1 in 5 councils believe that the timescales for reorganisation are deliverable, while fewer than 1 in 5 believe that there has been sufficient clarity surrounding the whole process.



Despite there being low support for local government reorganisation in the sector, there are some senior officials who are proponents of the process. For instance, the cabinet member for finance at a unitary authority described it as **“long overdue”**, while the leader of a different unitary authority described it as **“the right thing to do”**, albeit something that should be done **“together but slower”** – indicating dissatisfaction with reorganisation timescales and the level of involvement of councils. In reference to the debate surrounding the costs and savings of local government reorganisation, the director of finance at a non-metropolitan district council explained:

“In the short-term, there is an alleviation of financial challenges; however, in 5+ years there should start to be savings.”

The cabinet member for finance at a different district council disagreed:

“Reorganising local government to save money is insane. Local government has already had a 40% real-terms cut since 2010. Reorganise to deliver more local outcomes, sure, but not to save money.”

Equally, the director of finance at a county council argued:

“Local government reorganisation will be a distraction from needing to balance the books for all councils ... It is making everything much more uncertain and challenging.”

Even among those who supported the notion that local government reorganisation may unlock long-term savings, the majority of respondents were critical of proposals that it could resolve the crisis facing councils' finances. For instance, the chief financial officer at a county council stated: “[Local government reorganisation] isn't a sustainable solution in itself, only a step towards it”. This was echoed by the director of resources at a non-metropolitan district council, who argued: “The underlying demand for services will not disappear with local government reorganisation”, and again by the chief financial officer at a different district council:

“By combining councils there will be efficiency savings ... but it won't get to the root of the issues causing a poorly funded public sector ... Reorganisation will not change the fundamental financial issues with housing, adult social care and children's services.”

Furthermore, many highlighted the “staggering” input costs, which one respondent said would **“exhaust the reserves we have [left]”**. As discussed earlier in this report, local government reorganisation represents a substantial, additional burden on councils' finances. As a result, the director of finance at a county council stated: **“the government needs to provide the funding for this”**, while the cabinet member for finance at a different county council elaborated:

“There needs to be a recognition of, and support for, the costs of the [local government reorganisation] process given the accelerated timeline and existing significant pressures on services.”

The issue of deliverability was widely mentioned by respondents, who were largely critical of the government's timescales for local government reorganisation. A council chief executive mentioned the pressure that they were under to deliver at speed:

“Government timescales for local government reorganisation are ambitious, and rightly so ... but the complexity and scale of the change has been underestimated ... I am literally spending time every single day on devolution and reorganisation, and we haven’t even started yet.”

The cabinet member for finance at a district council was more explicitly critical of the deliverability of these timescales, which they described as “ludicrous” due to their “previous experience of such changes”. Others were more blunt about their opinions on the matter, with the deputy mayor of a unitary authority describing the government’s plans as:

“Rushed, ill-thought-out and potentially undeliverable.”

Therefore, the vast majority of senior local government officials are not on board with the government’s reorganisation of the sector. Respondents to our survey believe that timelines are undeliverable, there has been insufficient clarity surrounding the government’s actions, they have been inadequately involved in the process, and, most critically, they do not believe that it will alleviate the financial pressures that they face at present. When asked if respondents had any final comments on local government reorganisation, one official replied: **“none that are polite”**.

Spending pressures

As highlighted in the previous section of this report, rising demand for services was identified by survey respondents as the greatest problem facing council finances. This is due to various societal changes which have compounded the prevalence of need in local populations, including [rises in the number of people with a disability](#), increased rates of [statutory homelessness](#), and a [mental health crisis](#) among young people. This has simultaneously occurred alongside a reduction in real-terms local authority funding since 2010, forcing councils to 'do more with less' under the dual pressures of surging demand and reduced spending power. However, the precise pressures have not been uniform across councils, partly arising from variation in population dynamics between places, but largely due to the differences in statutory responsibilities between tiers of local government. For this section we have therefore divided responses into 'lower-tier' and 'upper-tier' authorities, to examine the greatest spending pressures facing council budgets over the short and long term.

Council structures and responsibilities

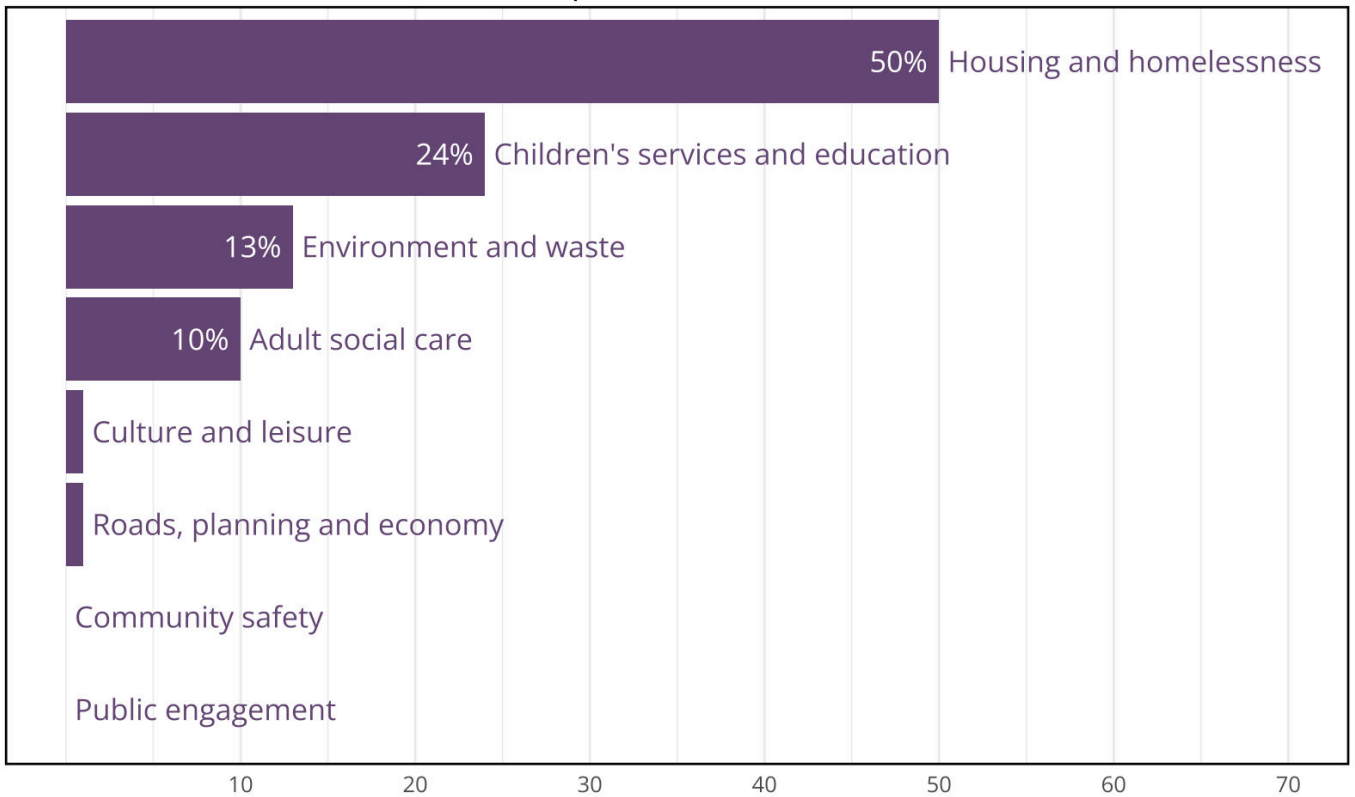
The current, though evolving, structure of local government in England is complex. Most urban areas fall under one of three types of single-tier authority: London boroughs, unitary authorities and metropolitan authorities. These provide nearly all the council services in their areas. In contrast, many historically more rural areas are two-tier, where responsibilities are split between county and district councils. In these areas, counties manage most major services including adult social care, children's services, and transport, with districts typically managing housing, homelessness and waste collection.

Lower-tier councils

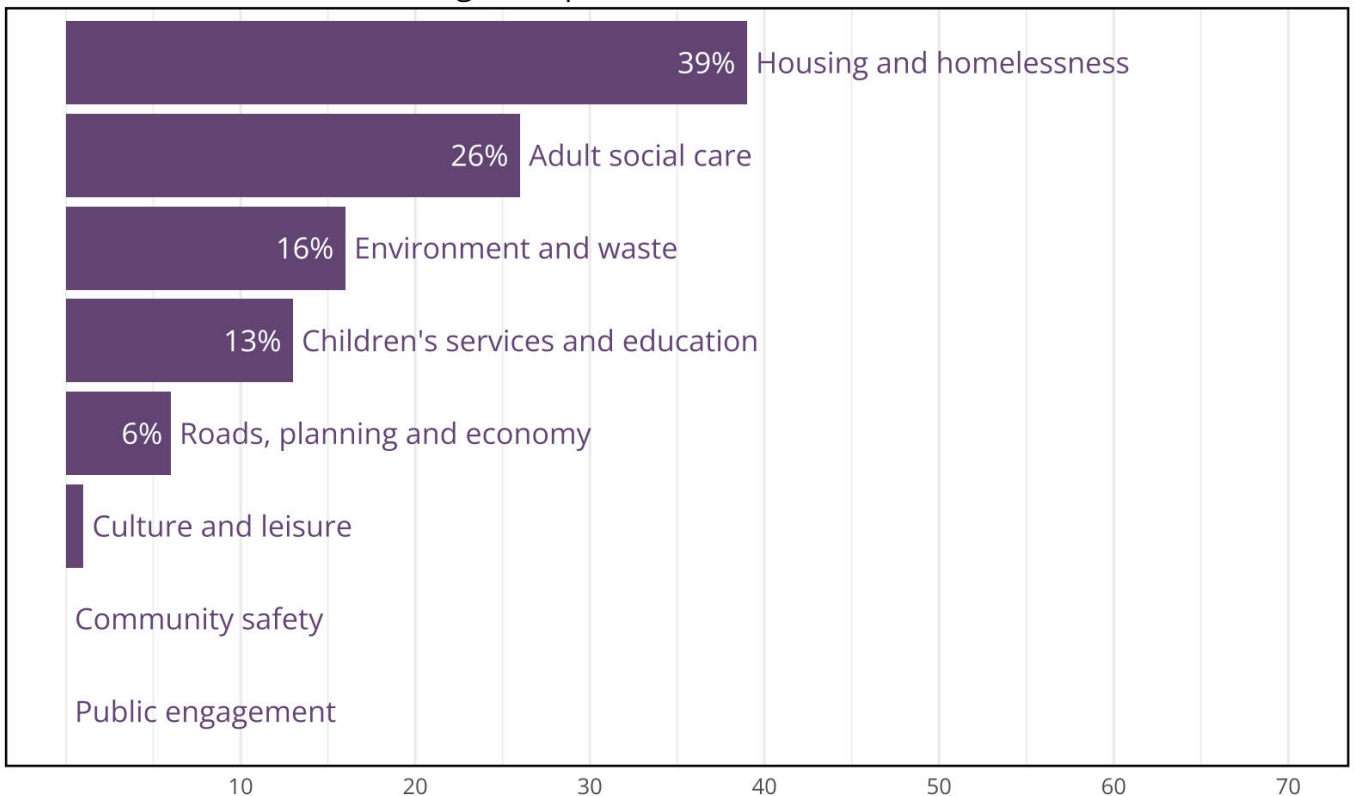
Our survey has found that housing and homelessness represents the greatest short-term spending pressure for 50% of all lower-tier authorities, with 24% identifying children's services and education as their greatest pressure. The vast majority of the remaining respondents identified environment and waste (13%) and adult social care (10%) as their greatest short-term pressures.

In terms of long-term pressures for lower-tier authorities, housing and homelessness is again the most commonly identified (39%), followed by adult social care (26%), environment and waste (16%), children's services and education (13%), roads, planning and economy (6%), and culture and leisure (<1%).

Greatest short-term pressures on lower-tier authorities



Greatest long-term pressures on lower-tier authorities



When considering the supplementary comments made in the survey by senior officials from district councils, it is not surprising that housing and homelessness represents both the greatest short-term and long-term pressure for lower-tier authorities. For instance, the chief financial officer for a non-metropolitan district council told us that **“40% of [the council’s] total budget is now being directed to housing costs”**, with the deputy leader of a different district council stating that **“49p in every pound”** of their budget was being spent on housing. The director of finance at a non-metropolitan district council discussed the changes in spending that they had seen for housing lately:

“Homelessness has mushroomed in recent years. We have put an extra £2.5m into the budget in the last few years. The budget used to be only around £800,000 five years ago”

Temporary accommodation is a notable flashpoint of these extreme housing pressures. As the leader of a non-metropolitan district council pointed out: **“there are various sub headings under ‘housing’ and they are all under pressure, but temporary housing is the most difficult”**, with the chief financial officer at another lower-tier council describing demand for temporary accommodation as **“unprecedented and extremely costly”**. The UK government has recognised the acute pressures that this represents through a £233m boost in the Homelessness Prevention Grant in the 2024 Autumn budget; however, the head of finance at a district council stated that, even after their share of this allocation, their council’s **“expenditure gap in this area alone will rise to £3m”**.

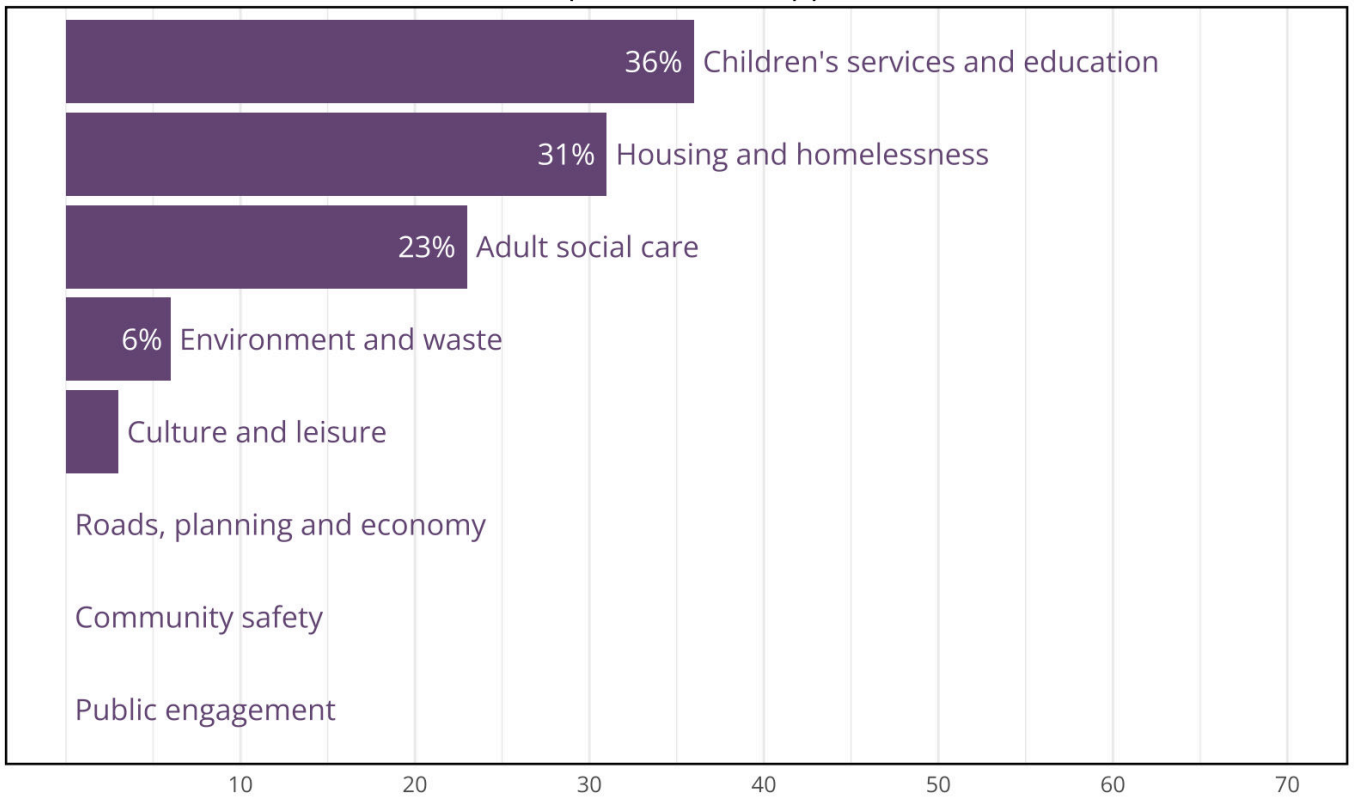
Aside from housing and homelessness, a moderate proportion of lower-tier councils identified children’s services as the greatest short-term pressure – quadrupling from 6% last year to 24% this year. Equally, more than a quarter of respondents from lower-tier areas identified adult social care as their greatest long-term pressure. However, as mentioned earlier, the relatively low identification of children’s services and adult social care as councils’ greatest pressures in comparison to housing and homelessness is predominantly due to these being largely the responsibility of upper-tier councils. As a senior financial officer from a district council explained: **“as a second-tier authority we don’t have the major problems of adult social care and SEND”**.

Upper-tier councils

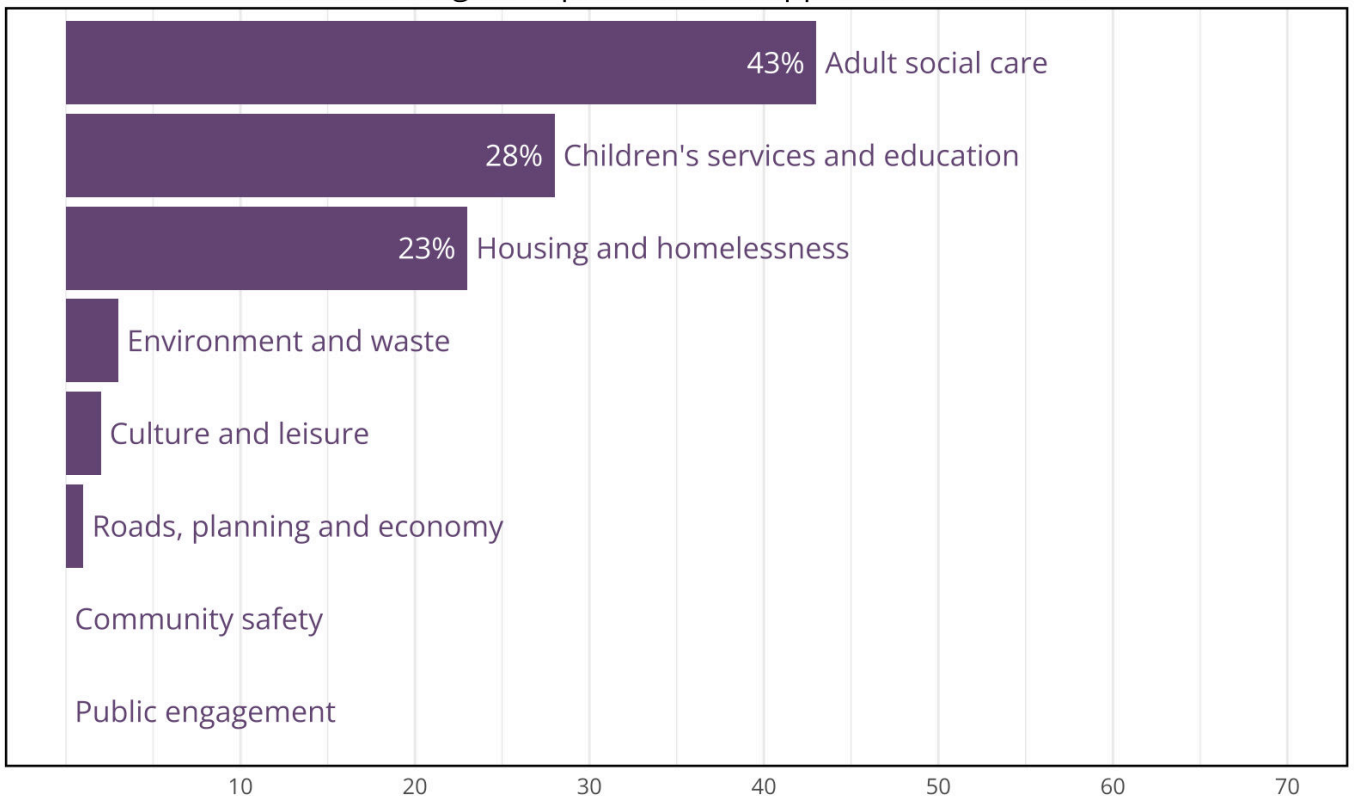
In upper-tier councils, children’s services and education represents the greatest short-term pressure (36%), followed by housing (31%), adult social care (23%), environment and waste (6%) and culture and leisure (4%).

Over the long term, however, adult social care represents the greatest pressure on upper-tier council finances, followed by children’s services and education (28%) and housing and homelessness (23%).

Greatest short-term pressures on upper-tier authorities



Greatest long-term pressures on upper-tier authorities



For the same reasons discussed in relation to lower-tier authorities, housing and homelessness represent significant pressures on both the short-term and long-term finances of upper-tier authorities. However, children's services and education represent a greater burden in both the short and long term due to the statutory responsibilities of upper-tier councils. This is also a growing pressure – as the leader of a unitary authority told us:

“I have been [a councillor] for 25 years and the financial pressures from children's social care ... are placing more pressure on financial sustainability than I have ever seen.”

Moreover, the deputy leader of a different upper-tier council told us that **“the cost of children's services is totally unsustainable”**, while the leader of another unitary authority told us that children's social care costs had made a section 114 notice **“inevitable”** in the future. Within this 'children's services' umbrella, which includes home-to-school transport for children with Special Educational Needs and Disabilities (SEND) and full-time residential care for children who need round-the-clock specialised care, there has been both a rising demand due to increased prevalence of SEND conditions, but also an increased cost due to increased profits among providers. For one child, this round-the-clock care can be as expensive as £20,000 per week, while home-to-school transport was described by a county council chief executive as the **“largest area of pressure over recent years”** which has therefore caused **“resources to be prioritised in this area at the expense of other services”**.

Adult social care represents a significant pressure now, however it is the long-term projections of cost which are most alarming for upper-tier authorities. According to the Centre for Ageing Better, the number of people in the UK aged 65-79 is predicted to increase by 30% in the next 40 years, while the number of people aged 80 and over is set to more than double. Costs associated with adult social care are therefore set to rise in line with this demographic shift. As the leader of a unitary authority stated: **“people living longer with more complex needs is a real challenge”**. However, the leader of a county council emphasised that **“working age disability and lifelong conditions now account for over 50% of our [adult social care] spend and rising”**; demonstrating that this surge in adult social care demand is not solely explained by the ageing nature of populations. Nevertheless, together with housing and homelessness and children's care and education, adult social care represents another spending pressure which threatens the sustainability of local government finance, with consequences for other areas of service delivery. As was stated by the cabinet member for resources at a metropolitan borough council:

“Uncontrollable care spending continues to cripple us, squeezing out everything else.”

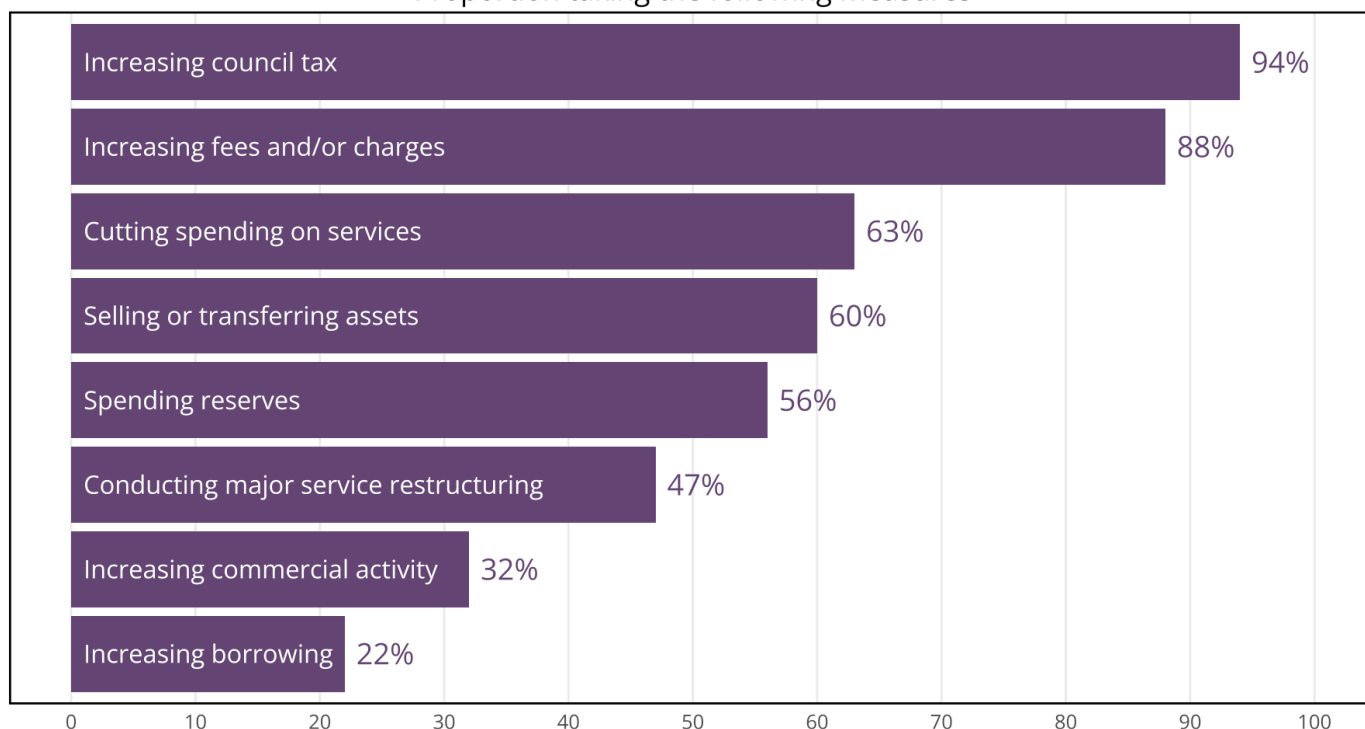
Balancing the budget

Due to the dire financial situation facing councils in England, many have increasingly found themselves taking drastic measures to raise additional funding in order to fulfil their legal obligation of passing a balanced budget. Our survey has found that 94% of councils intend to increase council tax in the next financial year, with 88% increasing fees and charges, 60% selling or transferring assets, 32% increasing commercial activity, and 22% increasing borrowing. Equally, in order to reduce outgoing expenses, 63% of councils will reduce their spending on services, with 47% of councils planning to conduct major cost-saving restructuring of services. Lastly, we find that 56% of councils plan to draw on their reserves in the next financial year.

Budget setting

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

Proportion taking the following measures



This is not a snapshot of a healthy sector. However, due to the aforementioned financial pressures facing councils, many councils must pull all the levers available to them in order to be able to pass a balanced budget. Furthermore, with the limited fiscal autonomy afforded to councils, authorities are severely hamstrung in what options they can take, with the vast majority thus taking highly unpopular decisions in order to meet service demand, with implications for the health of local democracy – as will subsequently be explored.

Raising income: council tax

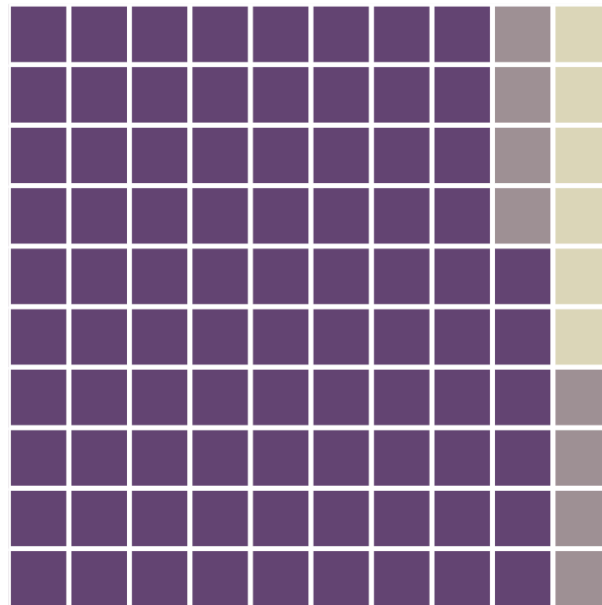
Council tax represents the largest locally-generated source of income for most local authorities. As grant funding provided by central government has been reduced, councils' reliance on council tax revenue has increased – [rising from 36% of core spending power in 2010-11 to around 56% in 2025-26](#). It is important to note, however, that while council tax makes up a higher proportion of council funding, it has not increased sufficiently to fill the gap left by the grant reduction.

Given that councils have so few ways to raise income, it is not surprising that council tax increases are an option that the vast majority of councils are taking. In the next financial year, 86% of councils surveyed will be increasing their council tax by the maximum, with a further 8% increasing council tax below the maximum, leaving only 6% of authorities where residents won't see an increase. Our survey also found that 4% of councils (equating to 13 local authorities) intended to, or had already, written to the Secretary of State to request the ability to increase council tax above the maximum – a power ultimately [given to six councils](#), where residents will see rises of closer to 10%.

Council tax referendums

The council tax referendum principles require any council wishing to increase its council tax by more than a set amount to hold a local referendum before doing so. This sets an effective cap on council tax increases from year to year. The referendum limits for 2025/26 are the same as in recent years; they allow lower-tier district councils to increase their council taxes by no more than 3%. Upper-tier and single-tier councils can add a supplement of no more than 2% which is ring-fenced for spending on adult social care.

Proportion taking each decision on council tax



- Increasing by the maximum
- Increasing below the maximum
- No increase

The impact of this will not be felt equally. Councils under more financial pressure or with fewer high-value properties in their areas have had to increase council tax by more than their more prosperous counterparts in recent years. This has led to a significant [variation in costs](#) for households across different communities: although the average Band D council tax rate in England was £2,171 in 2024/25, it was only £961 in the London Borough of Wandsworth, and over £2,500 in four authorities. It is right that councils should have control over local taxes – as we have seen in [international evidence](#), this can lead to greater financial resilience – however, the dependence on one tax, with wide variations between areas and valuations that are more than 30 years out of date, means that council tax is increasingly [unfit for purpose](#).

The rising burden of this tax on many households has also increased the level of disillusionment with local authorities, as repeated tax hikes do not appear to translate into increased quality of services. The deputy leader of a unitary authority told us:

“The choices we are having to make are unfair and totally unsustainable ... We have an extremely regressive and rapidly increasing local tax [that is] funding social care for the poorest, but this is not explained ... Most residents just want their bins emptied and for their tyres not to blow out on potholes – they don’t understand why their council tax is so high but they receive so little for it.”

Raising income: fees and charges

When asked which fees or charges councils planned to increase, the 88% of councils doing so mentioned a diverse array of services, ranging from everyday expenses like car parking, planning and green waste collection, to more emotive areas such as social housing rent, school dinner charges, and burial and cremation charges. The most common response, however, was **“all of them”**.

In some councils, this sweeping increase of fees and charges is to keep them in line with inflation, though many respondents explicitly stated that these increases would be at above-inflation rates. For instance, the chief executive at a non-metropolitan borough council explained that, following a corporate review, they would be increasing **“all non-statutory fees and charges by 5.5%”**, while the cabinet member for finance at a unitary authority said that **“everything will go up, by [Consumer Price Index] + 1% at least”**.

Many respondents reflected on the implications of this for dissatisfaction among local communities – something that is also seen to be rising due to council tax rises. For instance, the leader of a unitary authority explained that **“the introduction of parking charges has caused huge disquiet, particularly amongst volunteer groups and low paid workers who have no alternative to using cars due to complete lack of bus services in rural locations”**. However, the cabinet member for the economy at a different unitary authority pointed out that **“car parking charges create the most noise [despite being] a very tiny part of the budget”**.

Nevertheless, together with 94% of respondents implementing council tax rises, 88% plan to increase fees and charges in the next financial year – the vast majority doing so across the board – with real consequences for public appreciation of local democracy.

Raising income: commercial activity

Our survey has found that 32% of councils will be undertaking greater commercial activity in the next financial year, down from 36% in 2024, and 52% in 2023. Areas which respondents identified as avenues for raising income included property portfolio expansion, regeneration, the leasing of events spaces, and investment in a local airport. However, out of the proportion that will be taking these actions in 2025/26, many highlighted the limited ambition of their ventures. For instance, the cabinet member for finance at a unitary authority explained that their commercial activity would be **“relatively modest in totality”**, with the deputy leader of a different unitary authority explaining that they would be undertaking **“very limited activity”** as they had **“little appetite for risk”**.

Risk was mentioned on several occasions by respondents and is suggestive of a sector that has become increasingly cautious towards tying the financial health of local authorities to market forces. However, when considering that failures of investment schemes have contributed to the effective bankruptcies of [several local authorities](#) in recent years, it is perhaps unsurprising that the sector has become more risk averse. Nevertheless, many councils have not been put off by these dangers, and are instead taking steps to minimise risk levels. For instance, the director of finance at a metropolitan borough council explained that they would be expanding their **“private sector partnership for delivery to share risk”**.

Commercial activity – legal context

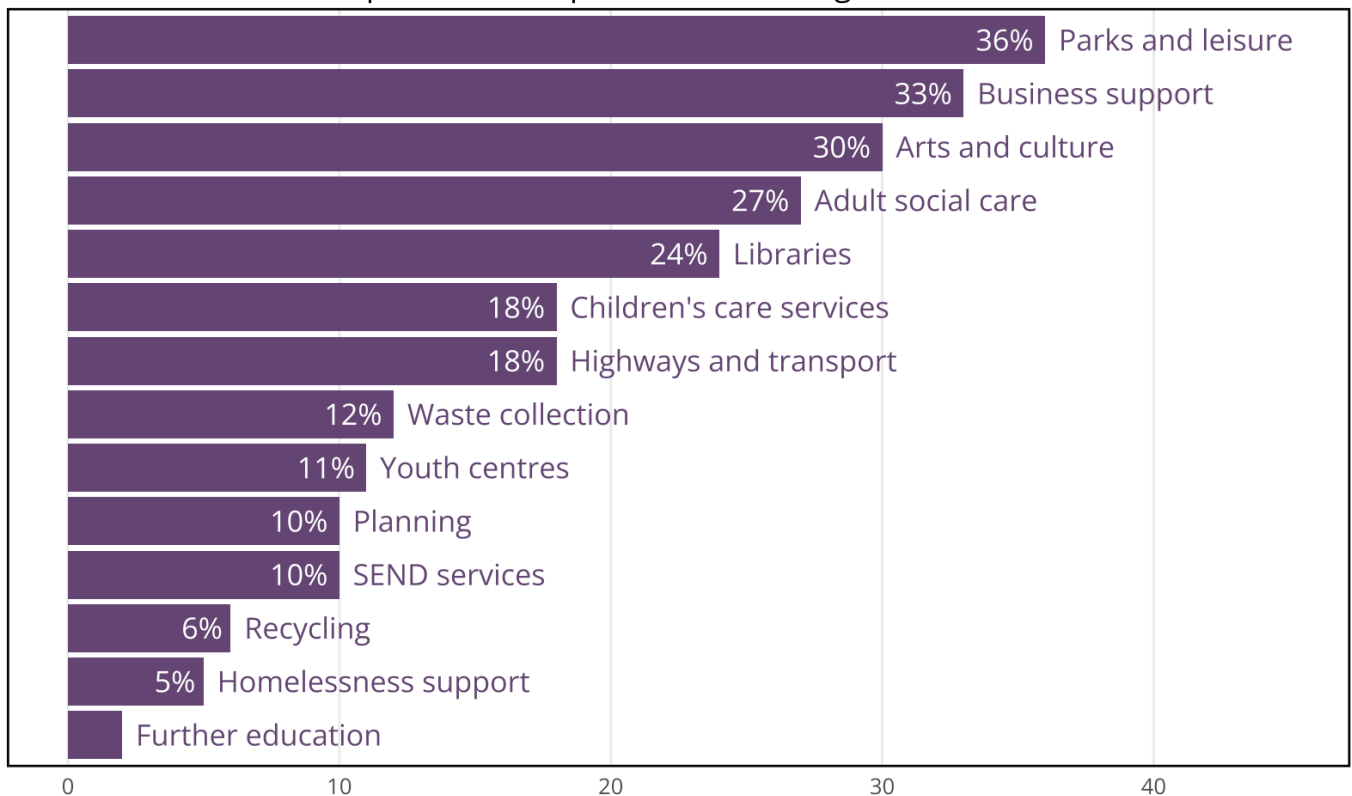
Councils have considerable freedom to undertake commercial activities under the general power of competence. The power allows councils to “do anything that individuals generally may do”, but certain limitations apply. For example, a council cannot use the power to impose new taxes and, if it wants to trade it must set up a company to do so. Commercial activities can include setting up companies to provide energy supply or generation, airports or harbours, right through to large-scale investments in commercial properties both within a council’s area or elsewhere.

Some councils instead highlighted how they would be raising funding through selling assets to other organisations – a move that 60% of councils told us they would be undertaking, in comparison to 21% last year. Representing a less risky alternative to other commercial activities, it is estimated that [75,000 local public assets](#) have been sold since 2010 – worth a total of £15bn. Respondents told us that they were selling land, property, and other assets including libraries to private sector organisations; however, some told us that they would be transferring assets to the voluntary sector and town and parish councils. These moves, although easing financial pressures in the short term, are not a long-term solution. Shedding assets can only be done once, and sales are not always agreed at the optimum time to maximise returns for councils, therefore this move away from investment and towards ‘selling the family silver’ is indicative of decreasing sustainability in the local government sector.

Reducing spending: cutting services

Our survey has found that 63% of councils will be cutting spending on services this year. However, the areas in which respondents indicated that they would be making savings were highly varied between authorities. The most common services identified as areas for reductions in the next financial year were parks and leisure facilities, business support services, arts and culture programmes, adult social care, and libraries, though a notable proportion of respondents are making reductions in other areas.

Proportion of respondents reducing each service



Statutory and discretionary services

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

For the vast majority of councils, this will not be the first year that they have made cuts to their service expenditure, with many areas making sustained reductions since the early 2010s. The cabinet member for finance at a county council, for example, explained that their council had **“cut 90% of discretionary spend”** in the past decade, while the leader of a non-metropolitan district council said that their council was **“only avoiding a [section 114 notice] by reducing services to a bare minimum”**. When asked what the impacts of these changes would be for residents, major long-term challenges were highlighted by respondents. The deputy leader of

a district council explained: **“It is counterintuitive. If you cut preventative services such as youth services, then you will spend more on social services [in future]. It is a false economy”**. Therefore, although these changes represent savings in the short-term, they have the potential to create larger costs in the long run.

Furthermore, many respondents highlighted the impact of these changes for local democracy, with the leader of a unitary authority explaining that the council would have serious issues with **“justifying value for money”**. This is largely due to the impact of service reductions occurring in tandem with hikes in both council tax and fees and charges. As the leader of a different unitary authority illustrated: **“The burden of paying for services continues to shift to our residents ... In short, residents are paying more for worse public services – they can’t understand why”**. The issues of this increasing burden are directly linked with the pressures facing councils outlined earlier in this report; for example, the deputy leader of a unitary authority explained:

“Rising demand in adult and children’s social care is sucking up the entirety of council tax receipts. We cannot keep cutting the public realm and every other area of service delivery without it having an impact.”

Therefore, councils’ growing expenditure pressures mean that an increasing burden on the public is necessary in order to fund a narrower selection of services, with negative implications for the health of local democracy.

Reducing spending: service restructuring

Despite reducing the amount of spending on services, some councils are confident that the impact of these changes will be minimal for residents in their areas. This is because savings are reported to have been largely made through efficiency measures. The chief executive at a metropolitan borough council explained that **“budget reductions have been focused around working differently so residents do not feel the impacts”**, while the deputy leader at a unitary council said: **“we are attempting to change how we deliver things, not what we do”**.

As outlined earlier in this report, 47% of councils will be undertaking a major restructuring of service provision in the next financial year. This sectoral shift towards ‘working differently’ was accompanied with significant enthusiasm in responses to the survey. The leader of a non-metropolitan district council explained:

“The council has identified £4.9m [per annum] of savings, an unprecedented sum. This was made possible through service redesign.”

The chief executive at a metropolitan borough council explained that the steps being taken to increase this efficiency included moving towards **“more in-house provision”** of services, as this is often at a lower cost than external providers, and **“maximising independence for service users”** in adult social care, while the chief financial officer at a unitary authority

explained that **“front line impacts have been minimised as far as possible”** due to **“savings in headcount across services, procurement and managing demand”**. This evidence indicates that many councils who are reducing expenditure on services do not anticipate a change to the quality of said services. Therefore, it is possible that efficiency measures can help to ease financial pressures in some areas, while having little to no impact on the health of local democracy.

Nevertheless, some respondents highlighted that efficiency measures will not suffice to stave off the rising demand for services that is omnipresent in the local government sector. For example, the director of finance at a metropolitan borough council explained:

“A lot of what we will cut in 2025/26 can be achieved without significant impact on the services and residents ... Over the medium-term, however, there is a significant risk that services will have to be cut/reduced.”

Furthermore, the leader of a unitary council stated:

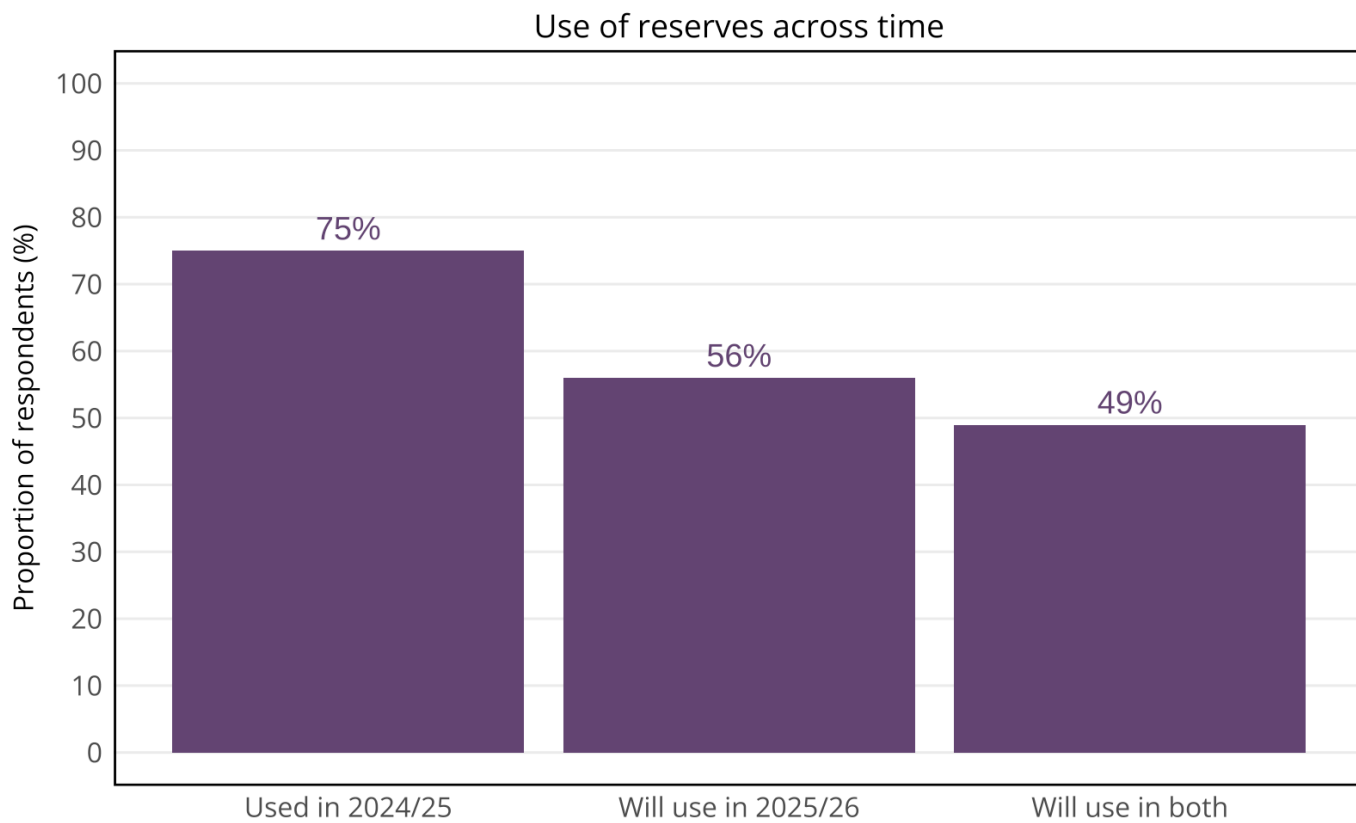
“This is the last year we can meet our savings target largely through efficiency measures. From hereon in, we will be forced to cut services that people value.”

Spending savings: using council reserves

Outside of raising income and reducing spending, councils may resort to a third option in order to pass a balanced budget: spending their reserves. Our survey has shown that 56% of councils plan to spend reserves in the next financial year. As 75% of councils declared that they also spent reserves in the last financial year, this means that 49% will use reserves across both years. This high level of sustained use of reserves across the sector is a clear sign of a local government finance system in distress. These reserves will have been built up over a number of years where the council found itself in a more viable position – now they find themselves mobilising their savings in order to stave off section 114 notices.

Reserves

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



Despite other efforts to help meet spending demand, the director of finance at a district council explained the necessary turn to reserves:

“Even with a major transformation plan, the ability to set a balanced budget without use of reserves is nigh on impossible. Reserves will run out in the next three years without extended funding support.”

However, even with the mobilisation of reserves, the cabinet member for finance at a unitary authority explained that spending pressures were **“growing exponentially”** and thus **“can not be absorbed within our budget and reserves”**. Therefore, many councils have exhausted the actions that they can take to ensure the passing of a balanced budget, yet still face the likelihood of a section 114 notice. This has led many sector officials to lose faith in the sustainability of local government finance without radical change in how authorities are funded. As the chief executive of a metropolitan borough council explained:

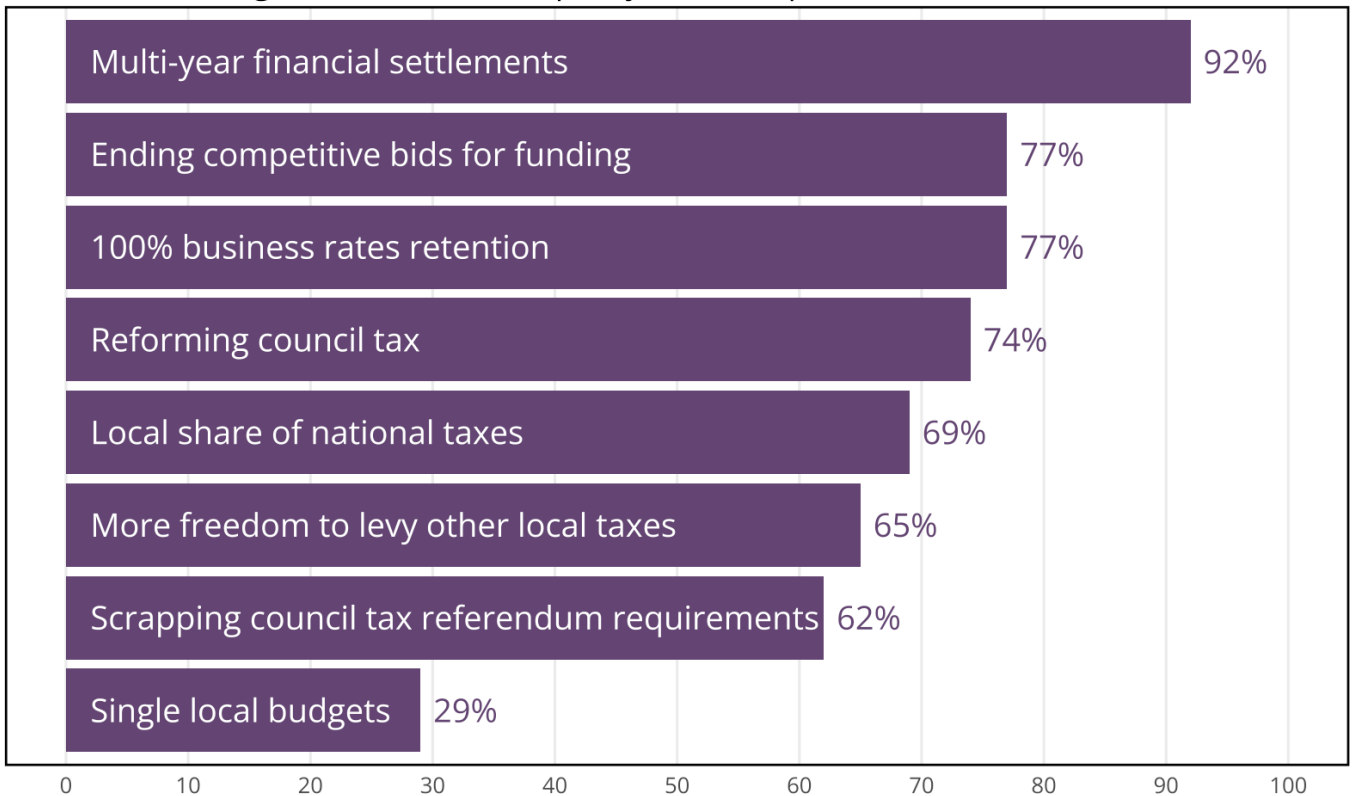
“The council’s financial sustainability relies upon a fundamental change in local government funding...Despite efforts from the council, it is highly likely that the council will find its position unsustainable. It is imperative that reform happens and happens quickly to support those areas that need it the most.”

Fixing local government funding

The previous sections of this report have illustrated a local government sector which is taking all the available steps to tackle spending pressures. Despite these measures, confidence in financial sustainability remains critically low, and there is a strong appetite for change.

Our survey has found that 92% of respondents support multi-year financial settlements as a measure to improve council finances, while 77% are in favour of 100% business rates retention and ending competitive bids for funding. As with previous years, there is significant demand for council tax reform (74%), giving local authorities a share of national taxes (69%), more freedom to levy other local taxes (65%) and scrapping the council tax referendum requirement (62%). However, there was relatively low support for single local budgets (29%).

Agreement that each policy would improve council finances



Some of these policies are already enjoyed in certain areas, whether due to greater fiscal freedoms (e.g. Manchester’s [‘City Visitor Charge’](#)), or exceptional financial arrangements (e.g. the extension of the [100% business rates retention](#) for the West of England Combined Authority, Cornwall, and Liverpool City Region for 2025/26). Therefore, responses reflect whether councils believe that these policies would, or already do, help improve their financial sustainability, depending on their arrangement.

Equally, the UK government has committed to implementing some of these policies in the near future. Multi-year financial settlements, for example, [have been promised from 2026/2027](#) to provide greater certainty and stability to councils. The most popular policy surveyed, multi-year settlements were highlighted by the leader of a unitary authority as a change that will **“help us plan ahead”**, while the head of finance at a non-metropolitan district council echoed that this will **“aid financial planning”**. This move therefore partly remediates the ills of

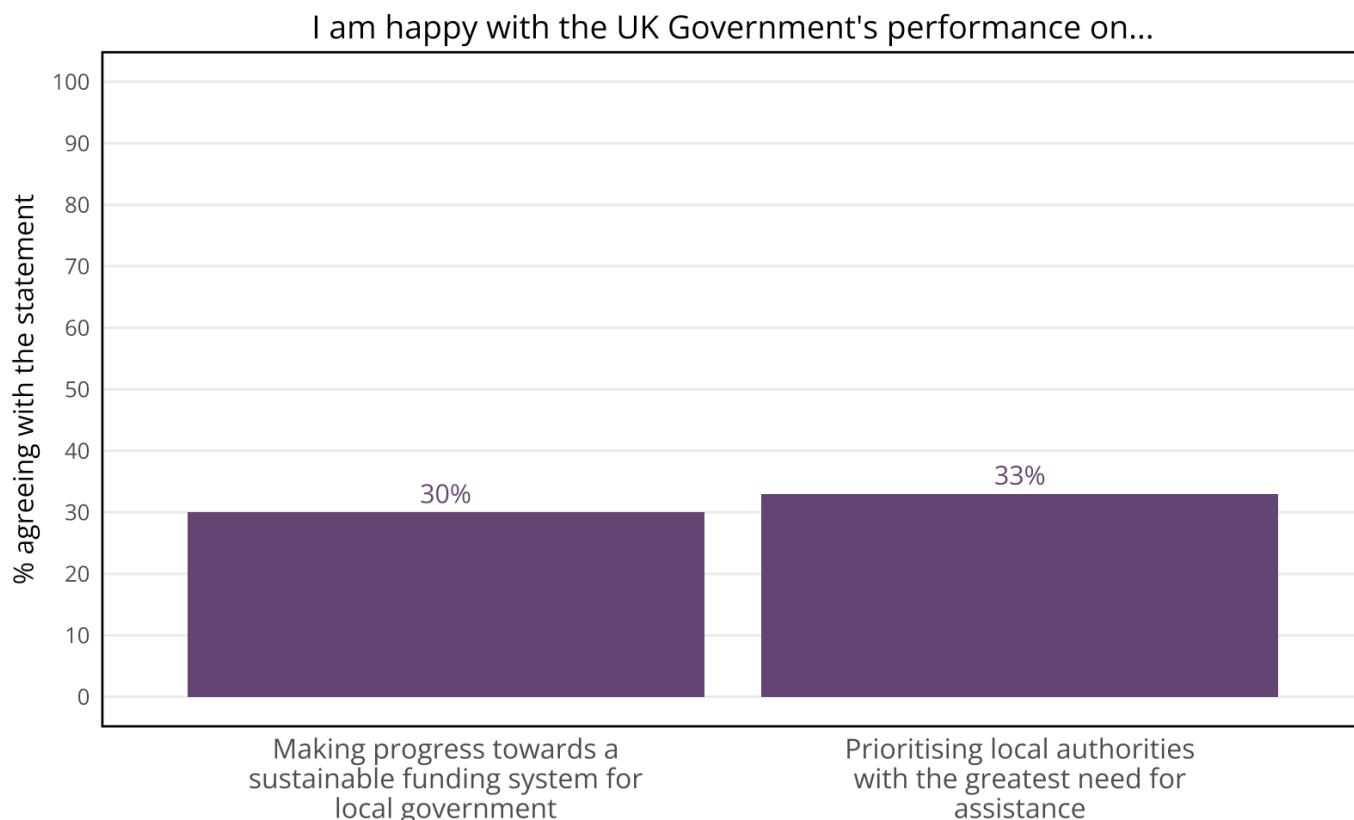
annually determined financial settlements, which have made sustainable long-term spending plans incredibly difficult under the political and economic turmoil of recent years. However, many respondents stressed that these multi-year settlements were **“only for two years”**, which represents a prominent limitation of this move in the eyes of sector officials. Instead, settlements could be improved by including an indicative settlement for the third year; thus allowing councils to plan beyond a two-year horizon. Furthermore, this reform – together with the planned ‘review of relative needs and resources’ and the reform of business rates – are more than a year away. For many councils, these changes will not come soon enough.

The UK government has also [expressed its desire to move away from](#) competitive bids for funding, which were described by critics as evidence of a [‘begging bowl culture’](#) that pitted councils against each other and wasted significant resources. This was echoed in the [2025/26 local government finance settlement](#), where targeted grant funding based on areas’ needs was highlighted as evidence of a new approach to local government financial allocations. As our survey shows, this move receives overwhelming support among sector officials.

Furthermore, our findings underscore a strong appetite for tax-related change, including reform of council tax, scrapping the council tax referendum requirement, and the ability to levy new local taxes, such as tourism taxes. We have argued previously that a much broader set of revenue-raising fiscal options should be made available to councils, and the responses to this survey indicate that the sector agrees. [Our research](#) comparing local government finance systems around the world shows that if there is a basket of fiscal options available at the local level then the system is more resilient and flexible. Where options are limited many areas will struggle. Furthermore, as discussed earlier in this report, council tax is increasingly [unfit for purpose](#), due to its regressive impacts and outdated valuation base. However, there appears to be less flexibility in government surrounding these changes – aside from exceptional powers to increase council tax above referendum limits in [a handful of cases](#) – despite the significantly high support for them in the sector.

The central-local relationship

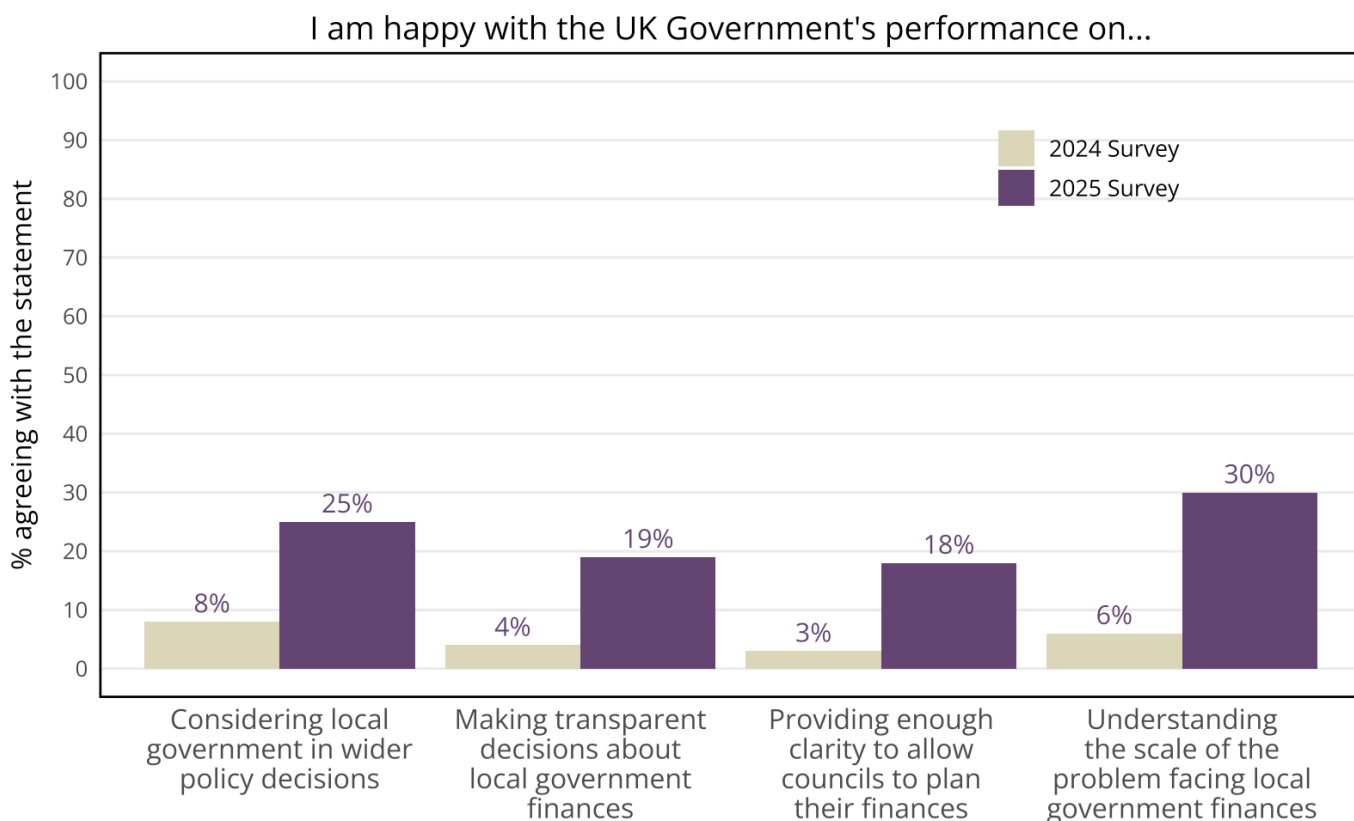
Our survey has found that 30% of respondents are happy with the progress made by the UK government towards a sustainable funding system for local government and 33% are happy with the government's performance on prioritising local authorities with the greatest need for assistance. Although representing a minority of responses, this is a notable proportion of senior council officials who are satisfied with the UK government's efforts to remediate the present situation in the local government sector.



Multi-year financial settlements were identified by respondents as an instance where the government has made progress towards a more sustainable funding system, whereas the move away from a bidding culture and towards targeted grants was cited as an example of how the government is prioritising authorities with the greatest need for assistance. As the cabinet member for the economy at a metropolitan borough council told us: **“there have been some positive steps by the new government in terms of fairer distribution of funding”**. However, they went on to say that **“the fundamental problem is that there’s not enough funding in the system to meet the demands being placed on [council spending]”**. Therefore, this council official highlights how the changes that the government has made thus far are yet to have impacted the surging demand for services in authorities – which is ultimately the greatest pressure on local government finances.

When examining how satisfaction with the UK government's performance has changed in the last year, our survey reveals that there has been a significant increase across an array of issues: 25% of respondents are happy with the consideration of local government in wider policy decisions, compared with just 8% last year; 19% are happy with the transparency of

decisions made about local government finances, compared with just 4% last year; 18% are happy with the clarity provided by the government and believe it to be enough to allow them to plan their finances, compared with just 3% last year; and 30% are happy with the government’s understanding of the scale of the problem facing local government finances, compared with just 6% last year.



This improved perception of the UK government in the past year was attributed by respondents to various changes that have occurred since we last completed this survey. For instance, the leader of a unitary authority attributed this to a change in government:

“Things are really tough still, but the change of government has made a difference. Moving away from a punishment regime to working with councils who are struggling is the right thing to do and has made a real difference.”

This reference to a change in the government’s overall approach to the sector was echoed by the leader of a different unitary authority:

“The government is listening and working with [local authorities] in a new way and it seems much more of a partnership than previously.”

Others attributed this improvement to the outcomes of the 2025/26 local government finance settlement, which the chief executive of a metropolitan borough council describes

as **“positive”**, though emphasising that it was **“only a first step towards balancing in the future”**. Equally, another metropolitan borough council chief executive who was positive about the settlement stated:

“Financial pressures remain, one good settlement does not make a summer.”

Therefore, among those who expressed satisfaction with the UK government’s approach, many remain sceptical of any major improvement to the sector’s financial sustainability. Also, it is worth emphasising that, despite the fact that satisfaction rates are notably higher than last year, the vast majority of respondents to our survey expressed a negative view of the UK government’s approach to local authorities. For instance, the leader of a unitary authority explained how the recent local government finance settlement had worsened their situation, indicating that:

“A [section 114 notice] in the next five years is inevitable. The latest settlement has given us no confidence whatsoever that the government understands the costs of delivering services in a sparsely populated rural county. We are circa £28m worse off than last year.”

Furthermore, the chief executive at a non-metropolitan district council criticised the uncertainty surrounding their financial future:

“The future is especially opaque right now and significant challenges are gathering on the horizon. For the first time, I’m genuinely worried about the medium-term prospect of a section 114 notice.”

Rather ominously, the mayor of a non-metropolitan district said:

“Good luck to my colleagues, who will need it.”

Conclusion

Local authorities are the backbone of their communities. They deliver an array of essential services, including social care, housing, transport, and waste collection. However, while councils have been remarkably resilient in recent years, their ability to provide these services is being directly undermined by a broken system. Although recent proposals signal positive change, we implore the government to go further.

Without more radical reforms, the crisis in the sector will continue to threaten both the prosperity of communities and the health of local democracy. But there are options available to develop a stronger, resilient system. As [our research](#) in other nations shows, a sustainable local government funding system requires financial allocations that match demand and a broader fiscal toolkit. In authorities where these are granted, there is more resilience, certainty, and scope for innovation. The government must therefore afford greater fiscal freedoms to local authorities, such as tourism taxes, local sales taxes, and other measures that are common across the world. A long-term programme to look at assigning national tax revenues to local authorities should be explored, while a system of equalisation based on sound needs assessment would reduce the risk of section 114 notices.

Ahead of the Devolution White Paper, the government was clear that devolution, financial reform, and public service reform must go hand in hand. Our survey demonstrates that they are not yet aligned. This can be fixed. The government must work with mayors and leaders to develop formal communication structures, clearly defined roles for councils in delivering the government's '[missions](#)', a standing commission focused on reorganisation, as well as a systematic and robust approach to gathering and sharing data. This would better align policy priorities, measure progress against key aims, and highlight the impact of reform.

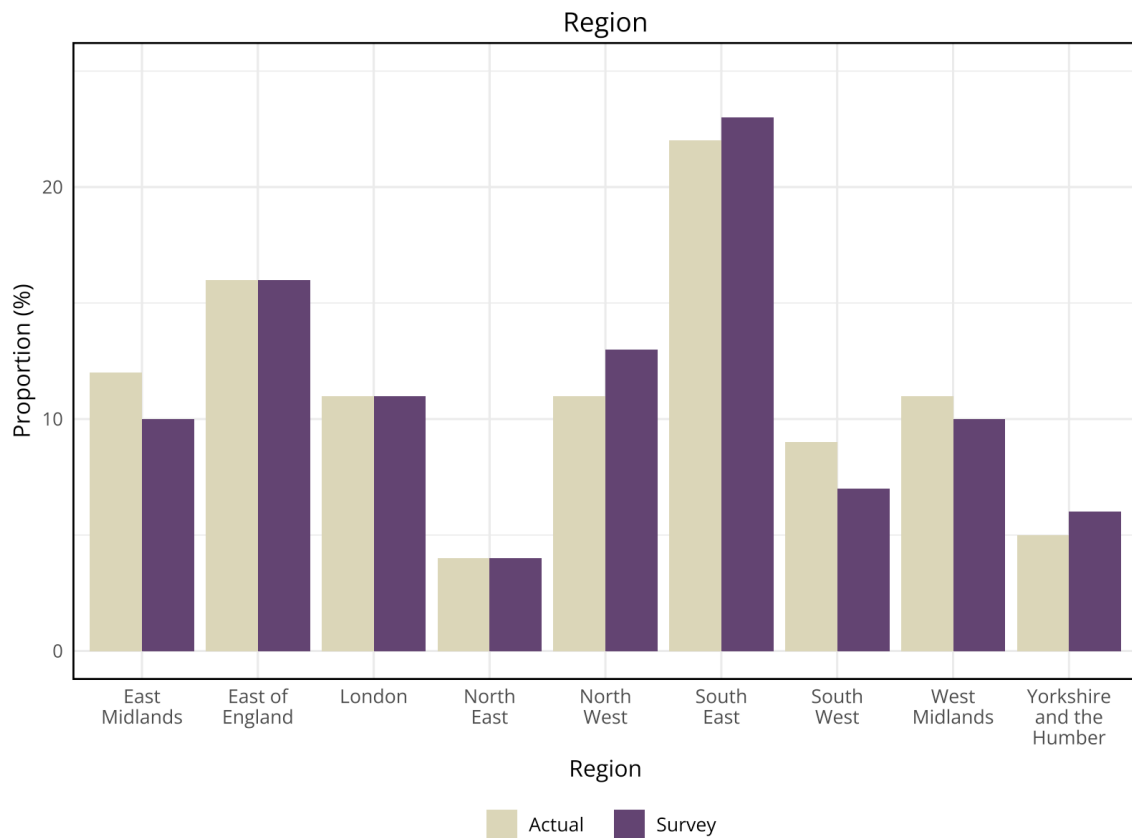
At present, local government reorganisation and rises in National Insurance Contributions are exacerbating financial pressures. However, this need not negate the progress being made in the sector – particularly if the government fully compensates these costs. Local government reorganisation is happening, and by providing greater clarity of purpose surrounding reorganisation and increasing the involvement of councils over more manageable timeframes, a success can be made of these reforms.

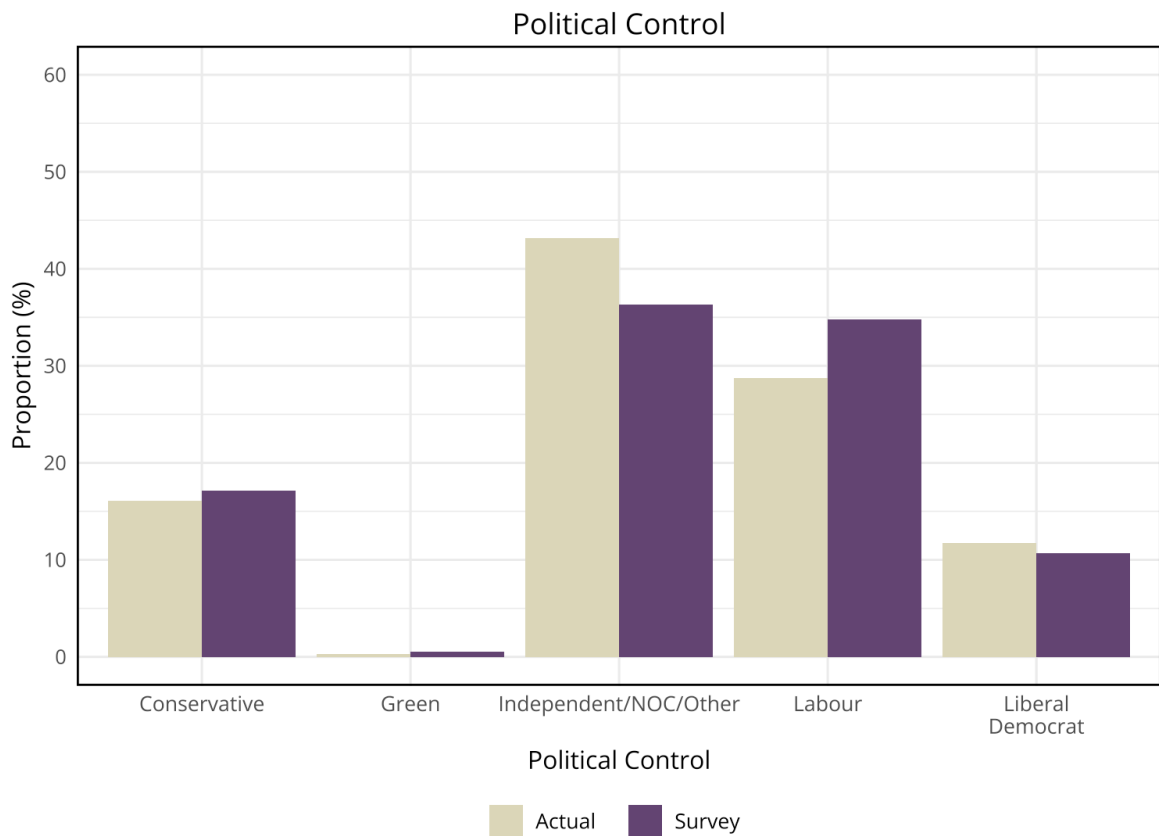
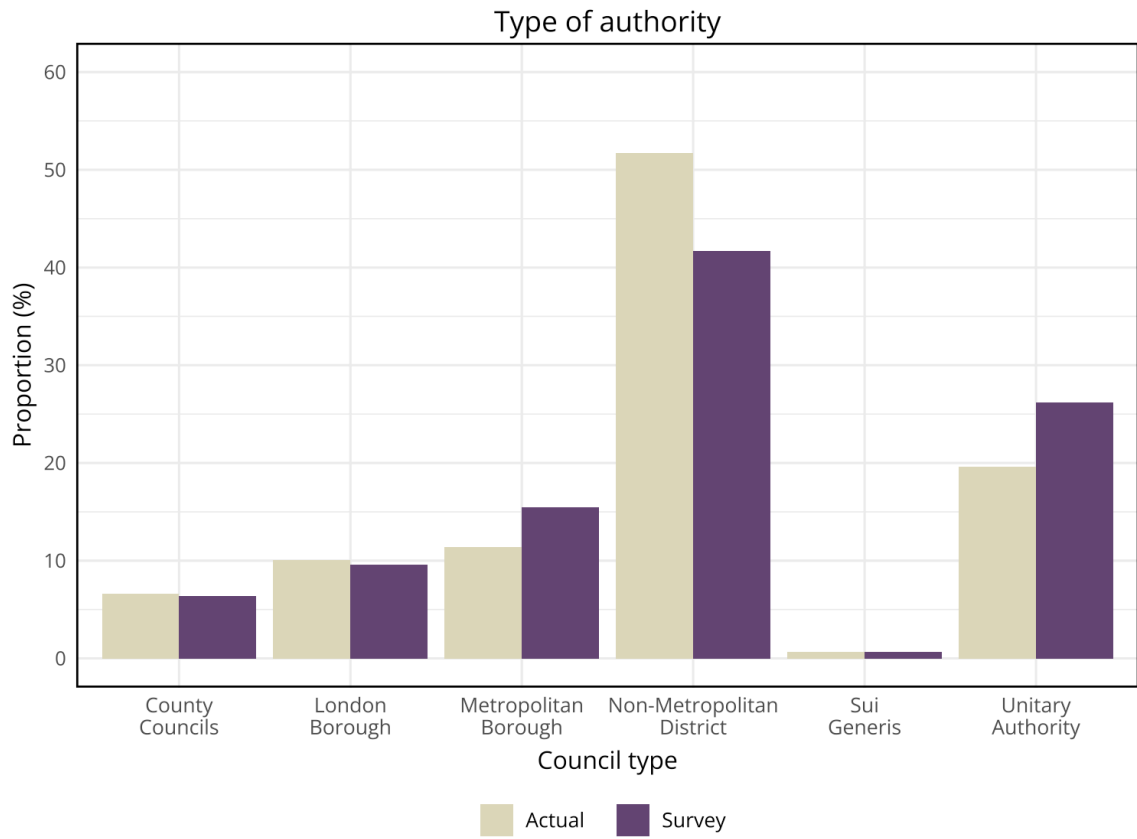
Appendix 1: Respondent characteristics

In total, the survey received 186 responses from 150 unique councils across England (out of 317 total). Each of these charts compares the proportion of respondents in the survey to the actual proportion across England in each relevant category.

Respondent roles

The respondents to this survey included 30 chief executives, 41 leaders of their respective councils, and 30 deputy leaders, with the remaining 83 responses being from section 151 officers, cabinet members for finance, or other equivalent senior financial officers.





Appendix 2: The problems facing council finances

	Responses										Total
	Not a problem at all		A small problem		A fairly big problem		A very big problem		Don't know/ Prefer not to say		
	%	Count	%	Count	%	Count	%	Count	%	Count	
Additional pressure caused by inflation	0.00%	0	30.94%	56	43.09%	78	25.41%	46	0.55%	1	181
Additional pressures caused by rising service demand	1.10%	2	8.29%	15	29.28%	53	61.33%	111	0.00%	0	181
Recruiting or retaining the necessary staff	2.22%	4	25.00%	45	45.56%	82	26.67%	48	0.56%	1	180
Ring-fencing of local authority budgets	6.74%	12	45.51%	81	34.27%	61	7.30%	13	6.18%	11	178
The local authority audit backlog	19.34%	35	40.88%	74	24.86%	45	13.26%	24	1.66%	3	181
Contractors/ suppliers increasing their profit margins	5.52%	10	31.49%	57	37.57%	68	16.57%	30	8.84%	16	181
Contractors/ suppliers passing on rises in National Insurance Contributions	0.56%	1	17.42%	31	44.38%	79	29.78%	53	7.87%	14	178
My council's level of debt	31.84%	57	40.78%	73	15.64%	28	10.61%	19	1.12%	2	179
Costs associated with local government reorganisation	28.89%	52	17.22%	31	17.78%	32	29.44%	53	6.67%	12	180
										Answered	181
										Skipped	5

Appendix 3: The RStudio packages used in data analysis

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

The following packages were used in this project:

- Tidyverse
- Ggplot2
- Dplyr
- Tidyr
- Readr
- Lubridate
- Forcats
- Stringr
- Reshape2
- Plyr
- Caret
- Shiny
- Data.table
- Plotly
- RSQLite
- Xts
- Zoo
- Ggbreak
- Extrafont
- Treemapify
- Showtext
- Waffle
- Extrafonts

For more information on the code and data used to produce this report please contact dan.godley@lgiu.org

More from LGIU

Future Local Lab

Launched in January 2025, Future Local Lab is a holistic programme of resources to help local government prepare for and respond to the emerging challenges facing the sector internationally. From embracing the opportunities of new technology to tackling the threats of climate change, join us for ideas and inspiration. [Explore the Lab and sign up.](#)

LGIU@40: For the future of local government

Since 1983, LGIU has supported our members with the insights, ideas and connections they need to navigate a changing world. Based on research the LGIU has undertaken over the last decade and on a programme of in-depth conversations with our members, this manifesto sets out what we believe needs to happen to set local government on the right path for the next forty years. [Read the manifesto.](#)

Navigating risk in local government: challenge, change and capacity

This report – supported by Browne Jacobson and ALARM – explores how the role of risk managers is evolving and makes recommendations to ensure that a healthy and dynamic approach to risk management prevails across local governments. [Read the report.](#)

Learning from local government finance across the world

Over the last 10 years, a sustained failure to properly fund local services in England has become undeniable. We know local government finance in England is broken, the next question is: how can we fix it? To answer this, the LGIU's Local Democracy Research Centre has worked with a team of experts, led by Professor Kevin Muldoon-Smith at the University of Northumbria, to see how other countries have managed it. [Read the report.](#)

Latest on local government finance and devolution in England

Following the government's Devolution Priority Programme announcement and the final Local Government Finance Settlement, experts from LGIU's Local Democracy Research Centre dissected what these announcements mean for the sector. [Read this briefing.](#)

2024 Budget – the highlights for local government

We summarise the highlights for councils from the 2024 Budget, including increases in grant funding, an extension of the shared prosperity fund, new integrated settlements, and more funds for SEND pupils and homelessness prevention. [Read the briefing.](#)

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