

2026 State of Local Government Finance in England

A report by the
Local Government Information Unit (LGIU)

About this report

Authors: Dr Greg Stride, LGIU; Dan Godley, LGIU

This is the 13th State of Local Government Finance report. Each year we survey council leaders, chief executives, cabinet members for finance and senior finance officers so we can provide evidence in real time about how local government is managing in a fast-moving and challenging fiscal environment. The insights and recommendations generated by these reports are one strand of LGIU's in-depth programme of local government finance work. We are focused on securing the reforms needed to give us the thriving, sustainable democratically elected councils that local people and local places need.

About the LGIU

LGIU exists to help local government think big, act boldly and shape the future with confidence.

More than an information source, more than a membership organisation, LGIU is a partner for change. We help councils make sense of what's happening, cut through to what matters and respond confidently.

We do this by supporting staff and councillors at our 300+ member councils with noise-cancelling insight, practical, accessible guidance, connections that foster learning on shared challenges, and agenda-driving advocacy.

Contents

| | |
|--------------------------------------------------------------------------------------|----|
| Forewords | 4 |
| Executive summary | 6 |
| Introduction | 7 |
| Confidence in council finances | 8 |
| Exceptional Financial Support | 10 |
| Pressures on council finances | 15 |
| Service pressures | 17 |
| Balancing the budget | 22 |
| Fixing local government funding | 29 |
| The central-local relationship | 33 |
| Local government reorganisation | 35 |
| Conclusion | 36 |
| Appendix 1: Respondent characteristics | 37 |
| Appendix 2: The problems facing LGR councils | 39 |
| Appendix 3: The problems facing non-LGR councils | 41 |
| Appendix 4: The problems facing all councils | 43 |
| Appendix 5: Support for current government policies | 44 |
| Appendix 6: Support for potential government policies | 45 |
| Appendix 7: agreement with statements on reorganisation (LGR vs non-LGR councils) | 46 |
| Appendix 8: Likelihood of needing EFS by region | 47 |
| Appendix 9: Council tax decisions by region | 49 |
| Appendix 10: The RStudio packages used in data analysis | 50 |
| More from LGIU | 51 |



Foreword

Jonathan Carr-West,
Chief Executive, LGIU

How much has changed in the last year? On the one hand, we have the first multi-year settlement in a decade, the results of the Fair Funding Review, the ongoing process of local government reorganisation, a welcome and necessary decision from central government to take on 90% of SEND deficits and, just a few days before we finished this report, the release of the much-anticipated Schools White Paper. It certainly feels like a lot has happened since this time last year.

But the results in our survey tell a slightly different story. Although there have been welcome changes at the margins, the fundamental reality of local government finance – that councils cannot raise enough money to meet service demands – has not gone away. SEND, temporary accommodation, and adults' and children's services still make up the vast majority of council expenditure, and these pressures are only continuing to grow.

Given that we are still expecting major policy changes in both SEND provision and adult social care, this survey captures a moment in time where several reforms surrounding local government finance have been made, but more fundamental reforms to service provision are yet to be seen. Couple this with the continuing need for Exceptional Financial Support, and it is no surprise that the overall mood in the survey is not celebratory.

The changes made are useful, but very few will meaningfully increase the amount of money in the system as a whole. This is where the next policy shift must happen: fundamental reform of how money gets into the system through fiscal devolution, and reviews of how these high-needs services are funded. Anything less and we will continue to see more and more councils moved into Exceptional Financial Support, saddled with unsustainable debt, and eventually unable to fund their essential services.



Foreword

Tracy Bingham,
Deputy Chief Executive and Executive
Director – Resources & Transformation,
South Derbyshire District Council

It has been a privilege to contribute to this year's State of Local Government Finance survey. From a practitioner perspective, these findings reflect the reality of rising demand, increasing costs and persistent structural pressures that councils across England are grappling with daily.

This year has already brought us some important developments, including the first multi-year settlement in a decade, the implementation of the Fair Funding Review 2.0, and the Government's decision to underwrite 90% of historic SEND deficits. These changes have been welcomed by the sector and have helped restore confidence. But the survey makes clear that councils still cannot raise enough money to meet the growing needs of their communities and many pressures continue to intensify.

The sector's reflections on Exceptional Financial Support, temporary accommodation costs, waste reforms and social care resonate and what particularly stood out is the narrowing set of levers available to balance budgets. The ingenuity, professionalism and commitment shown in our sector remains extraordinary, but resilience alone cannot cancel the effects of a structurally constrained system.

This survey highlights where recent reforms are helping and where deeper, long-term solutions are now essential and the report recommendations set out form a constructive and practical basis for the next phase of policy development.

I am grateful to LGIU for continuing to amplify the sector's lived experience. The work of building a sustainable future for local government finance must continue and this report is an important step in that journey.

Executive summary

- ➔ Our survey found that 15% of the sector indicates that they are likely to need Exceptional Financial Support (EFS) this year, with 39% expecting to do so within the next five years.
 - The scheme is widely seen as an unsustainable mechanism that is likely to load councils with additional debt and worsen the financial challenges facing the sector.
- ➔ Pressures linked to temporary accommodation and SEND continue to spiral, while councils anticipate the long-term burden of adult social care on the horizon.
 - To balance budgets, council tax rises and increased charges are planned in nearly all councils (>90%), while most will cut spending (57%) and draw down reserves (56%).
- ➔ Some government reforms attract strong support among those who benefit, particularly multi-year financial settlements and the UK government's takeover of SEND deficits.
 - However, wider reforms receive limited backing — Fair Funding (36%), tourist tax (24%), local government reorganisation (13%), and mansion tax (7%).
 - By contrast, there is strong support for greater fiscal devolution, expanded financial freedoms for local government, and radical reform of council tax.

Recommendations

1. The government should commit to a full analysis of what councils are expected to provide, with the aim of rationalising statutory duties, and use estimates of these costs to inform the overall level of funding necessary for local government.
2. The government should review local taxation. We will continue to investigate alternatives as part of our upcoming work on fiscal devolution.
3. The government should legislate to provide a statutory standing commission or representative body where local and central government can communicate on relevant policy issues, and through which local government is consulted on changes to policy areas that will affect them.

Introduction

The more things change in local government finance, the more they stay the same. The last 12 months have seen finance reforms at a dizzying pace, not to mention all the other reforms relevant to the sector. The twin processes of local government reorganisation and devolution have continued, the government announced intentions to introduce a mansion tax, mayors may get the opportunity to charge a visitor levy, and there is a new scheme for funding areas through the “Pride in Place” programme.

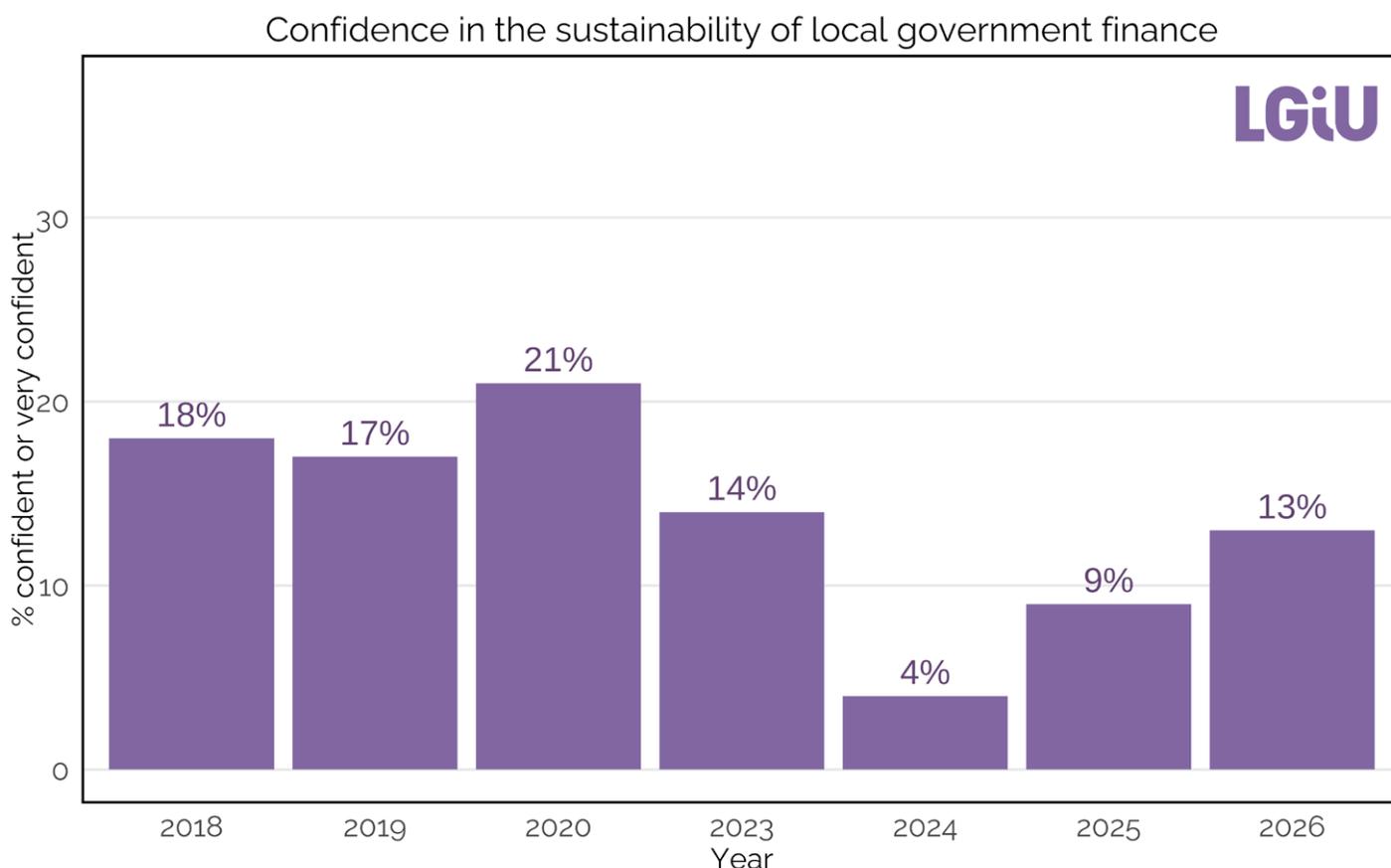
Perhaps most importantly, we’ve been through the Fair Funding Review, which resulted in a new final settlement just days before this survey closed. The settlement contained a few last-minute surprises, including the welcome decision to take on 90% of historic SEND deficits. Although this survey will not inform us about the overall reception of the final settlement, it can tell us about the sector’s response to the direction of travel.

We sent this survey to every council leader, chief executive, section 151 officer and, in councils that have them, cabinet members for finance. The survey was open from 20 January – 13 February and received 189 responses across 148 councils. The sample was broadly representative across region, political control and council type (see **Appendix 1**).

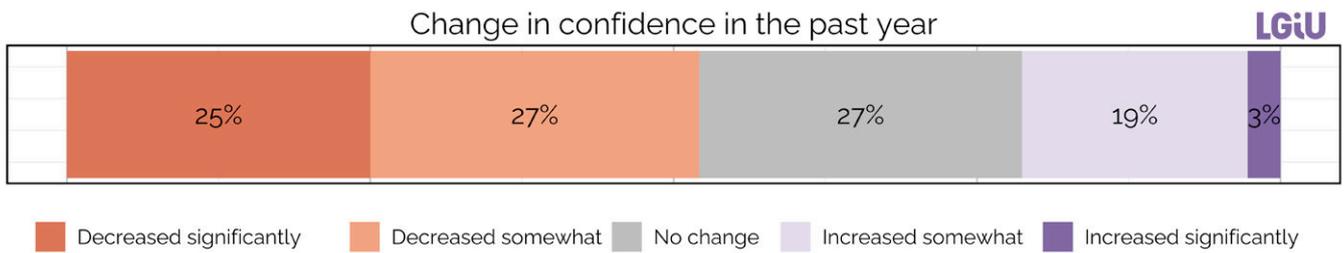
The overall message we received is striking in its similarity to last year’s. Despite welcome changes at the margins, the overall pressures councils face have not substantially changed. This is clearest to see in the large proportion of councils (just under 40%) who say they are likely to need Exceptional Financial Support (EFS) in the next five years. The threat of imminent section 114 notices has been deferred by the EFS scheme, but as many of our respondents raised, by increasing council debts and relying on asset sales, it is not saving council finances; it is just saving up problems for the next few years.

Confidence in council finances

Our survey has found that confidence in the sustainability of local government finance has risen for the second year in a row, with 13% of those surveyed stating that they were confident or very confident – up from 4% in 2024 and 9% in 2025. But make no mistake, this 13% figure should not be celebrated, and illustrates a sector which continues to look to the future with dismay, while confidence levels remain below where they were before the Covid-19 pandemic.



Furthermore, when looking at how the sector’s confidence levels compare to last year, most (52%) said that they felt less confident now than this time last year. Therefore, although a higher proportion of the sector said that they feel ‘confident’ in local government finance, a majority perceive a worse outlook on the horizon than they did 12 months ago.



This continued – and in some cases worsening – lack of confidence in the sector’s sustainability may come as a surprise to those who have celebrated the Government’s attempts to improve council finances. However, as this report will illustrate, the current state of local government finance is a complicated one, marked by surging, acute pressures without obvious solutions, and Government reforms that are yet to have their intended effect, plus scepticism across the sector about whether the eventual effects of these reforms will lead to more sustainable council finances.

Exceptional Financial Support

In [previous editions of this survey](#), we have documented the increasing prevalence of section 114 notices – through which councils declare effective bankruptcy when they are unable to set a balanced budget year-on-year. However, the Government appears set to avoid such occurrences, preferring instead to stabilise council finances through the Exceptional Financial Support scheme. The number of councils given this support has increased since the scheme started in 2020, and involved 16 councils in 2024, and 29 councils in 2025.

Exceptional Financial Support

Exceptional Financial Support (EFS) has become the preferred mechanism for stabilising councils unable to balance their budgets. In practice, what this means is that the government gives permission for certain councils to use their capital budgets, or borrow, to balance their revenue (day-to-day) budget. EFS does not give councils any new money from the government, although it can be granted alongside council tax flexibilities.

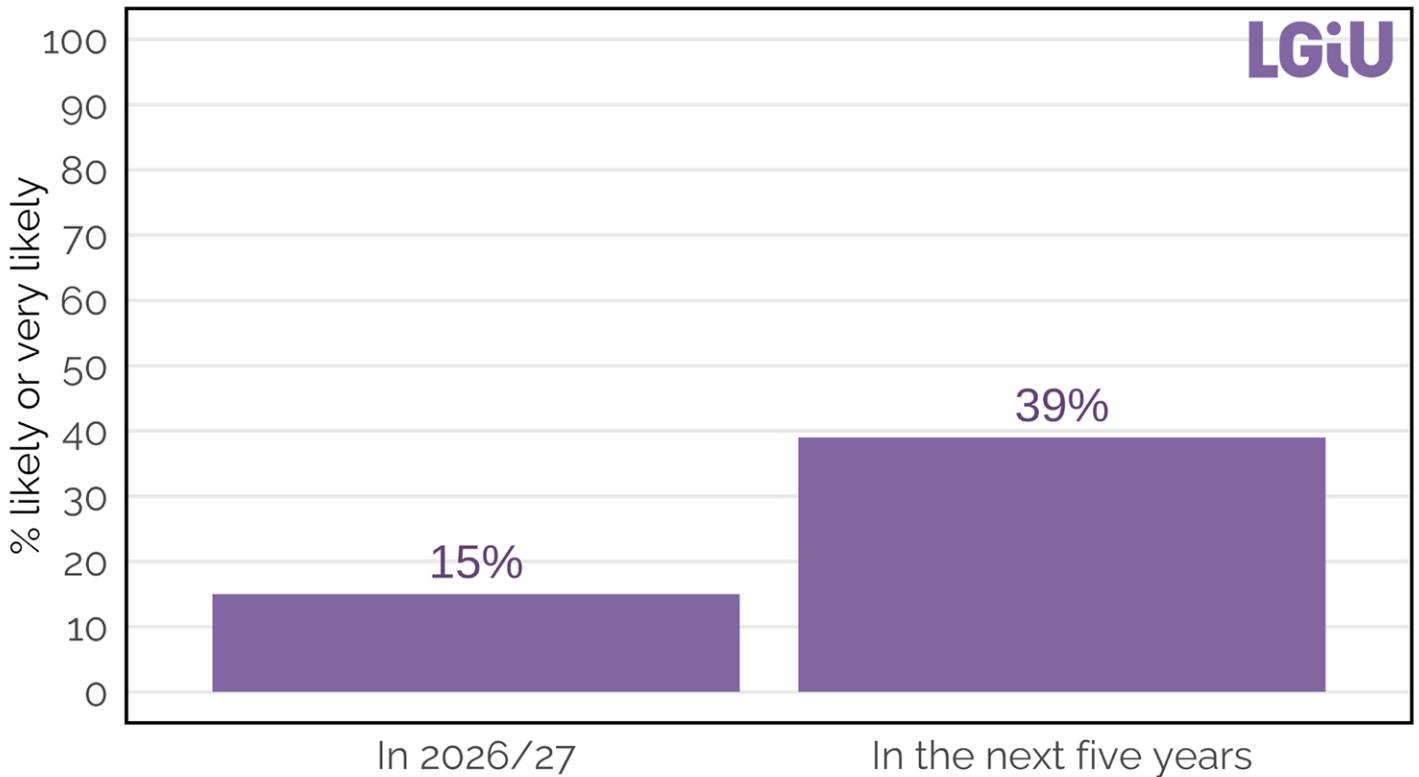
This is different to a [section 114 notice](#), although there are overlaps. A section 114 is an official notice by a council's chief finance officer (or equivalent) that a council cannot meet their legal duty to balance their budgets in-year. Government intervention usually follows very quickly; all 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. EFS does not usually mean commissioners will be involved or that any expenditure will be immediately stopped, but otherwise the special arrangements can be similar. A section 114 notice is a legal procedure, whereas EFS is more ad hoc.

Our survey has found that the number of councils set to need EFS in the future will likely increase, with 15% (approximately 50 councils) signalling that they are likely/very likely to require EFS to balance budgets this year and 39% indicating that they are likely or very likely to need EFS in the next five years. This is higher than the equivalent proportions who suggested they would issue a section 114 notice last year.

Since publishing the survey, the government has announced EFS for 35 councils. The difference between this result and our survey responses could be due to a significant difference between the provisional and the final settlement figures, which have granted councils more flexibility in the coming financial year. Or it could indicate that there are councils in need of EFS who have not been granted it, in which case we should expect more declarations of financial difficulties throughout the year.

In either case, the issues with EFS as a long-term solution remain. Of the 21 unique councils who told us they would need EFS, 16 have been granted it.

Likelihood of needing exceptional financial support



For some, the Exceptional Financial Support scheme has achieved what it was designed to do, with the leader of one unitary authority stating that it has *“given [their council] some much needed flexibility whilst we deal with some longstanding challenges”*, while a chief executive from a metropolitan borough council stated that the scheme *“provides short-term stability for councils facing unmanageable pressures”*. However, for the most part, respondents to our survey see the scheme as an unsustainable sticking plaster that is in some cases going to *“make the problem worse”*.

The most common observation from those who contributed to the research was that the scheme was *“no longer exceptional”*, but some, such as one Director of Finance, went even further to say:

“It is completely misnamed as it is no longer exceptional and provides no real financial support.”

The number of local authorities receiving this package has indeed risen sharply, and our survey indicates that it will continue to do so. In such a case, the scheme will of course no longer be exceptional. But why is it that some survey respondents see it as an ineffective tool to assist struggling councils?

First, the money provided to councils in this scheme must eventually be paid back, leading one district council chief executive to explain, *“It’s not really support as it is not hard cash!”*.

While a unitary authority cabinet member for finance added: *“It is not free money!”*.

However, it is the rates of interest on this payment that are deemed particularly problematic, with the chief executive of a London borough council outlining:

“It’s like a payday loan, the interest rates are high and it seems like those councils who did borrow are now unable to get out of the cycle of borrowing to stay afloat”

A district council director of finance explained:

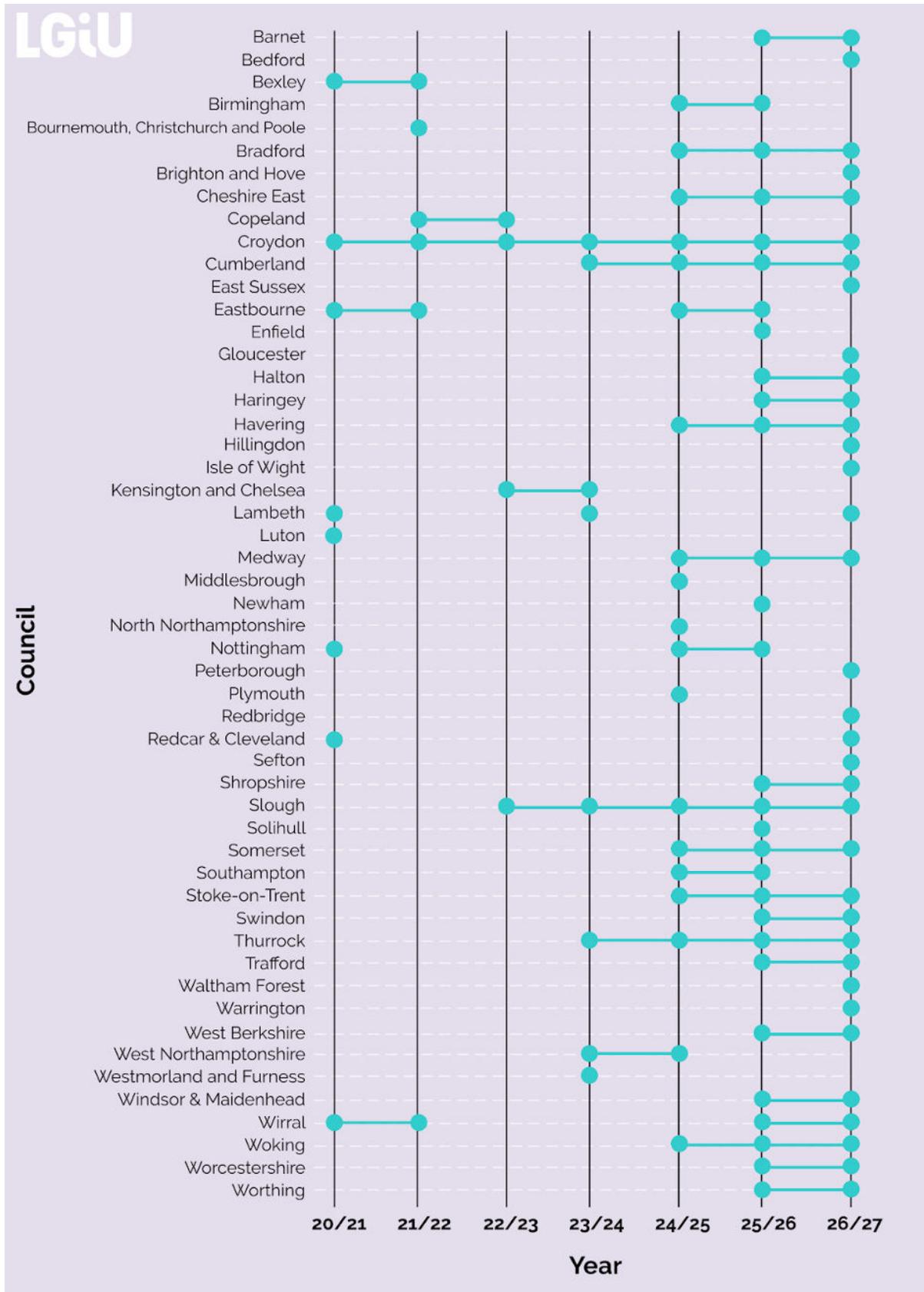
“It helps to support balancing the budget but increases the level of debt and ... is an additional burden on the council.”

Therefore, while these payouts provide local authorities with the short-term ability to pass a balanced budget, the scheme saddles struggling councils with debt, which creates additional pressures on their future revenue budgets as they attempt to pay it off. The frustration surrounding the scheme may make it unsurprising that one cabinet member for finance went so far as to describe it as a *“scam”*.

Looking ahead, what is of great concern is that many local authorities who begin to receive EFS appear to be unable to leave the scheme, and become dependent on these payments over multiple years of budget setting – or as another chief executive of a London borough council put it:

“There is no escape once you start.”

Councils receiving Exceptional Financial Support



Another particular concern is the complex intersection between the scheme and [local government reorganisation](#) (LGR), whereby the Government has mandated universal coverage of unitary authorities in England. In cases where LGR is occurring, the financial challenges of existing councils are set to be inherited by new councils, as the leader of a district council explained:

“The only reason we won’t need [Exceptional Financial Support] is because the Government is forcing LGR on us, so it’ll be the unitary authority that is left to wrestle with the chronic underfunding of services.”

There is clearly great dissatisfaction with the EFS scheme – and in the increasing likelihood that councils may find themselves applying for it. Councils do not see the scheme as a solution. Instead, it is viewed as an unsustainable, short-term sticking plaster that may avert section 114 notices in a given financial year but fails to address the root causes of the problem, and crucially, results in councils taking on more debt. We urge the government to confront the fundamental reality that there is simply not enough money in the system.

Pressures on council finances



As ever, rising service demand tops the table of problems facing council finances, with 85% of respondents describing this as a very/fairly big problem – compared with 71% for the increasing costs of contractors and 60% for pressures from inflation. Therefore, the growing need for council services, together with the rising cost of running those services, continues to seriously constrain local authority budgets.

This year, however, these familiar pressures are joined by the outcomes of the [Fair Funding Review](#). The Review intends to reform how local government is funded by moving towards a more needs-based approach, meaning that some councils would see an uplift in their allocations in line with government assessments of ‘need’. However, this redistribution has clearly also created a challenge for many councils, who are set to receive lower levels than anticipated following the Review, which is therefore described as a very/fairly big problem for council finances by 62% of survey respondents.

[Local government reorganisation](#) (LGR) was described as a fairly/very big problem by 49% of respondents, demonstrating the far-reaching impacts of this generational wave of reform. Among councils undergoing reorganisation, however, this figure

rises to 76%, which is higher than for any other pressure reported by reorganising councils. A comparison of the pressures facing LGR and non-LGR councils is provided in **Appendix 2** and **Appendix 3**, respectively.

Recruitment and retention of staff was described as a fairly or very big problem by a majority of respondents (53%). However, this marks a decline from last year's survey, when nearly three-quarters (72%) identified it as a major issue. The ring-fencing of local authority budgets also continues to pose challenges, with 28% describing it as a fairly or very big problem. A further 49% characterise ring-fencing as a small problem, suggesting that while it may not always be viewed as acute, it remains a persistent constraint on local financial flexibility

Last, but by no means least, levels of debt were described as a fairly or very big problem by 28% of respondents. While a minority, this has clear implications for those councils' financial outlooks. Among councils that view debt as a major problem, 33% say they are likely to need Exceptional Financial Support (EFS) in 2026/27, compared with just 10% of councils that do not. The relationship is even stronger over the medium term: 62% of councils reporting debt as a major problem expect to need EFS within the next five years, compared to 29% of other councils. Debt is therefore a significant challenge to financial sustainability for those most impacted, but nonetheless affects a minority of the sector.

For a comprehensive breakdown of survey responses from all councils to this question, please see **Appendix 4**.

Service pressures

Not all services create the same pressures for local authorities, and not all local authorities are affected by these pressures in the same way. However, there are evident patterns.

In the short term, acute services with rapidly increasing demand, such as temporary accommodation and Special Education Needs and Disabilities (SEND) services, were the greatest concern for local authorities, alongside waste services, where a [recent policy change on recycling](#) is causing significant issues for district councils.

In the long term, demand for social care and SEND services was seen as the greatest pressure for nearly all councils with responsibility for them. Ageing, the growing number of children receiving SEND services, and the increasing number of working-age adults receiving support from councils were all seen as significant pressures. As one chief executive told us:

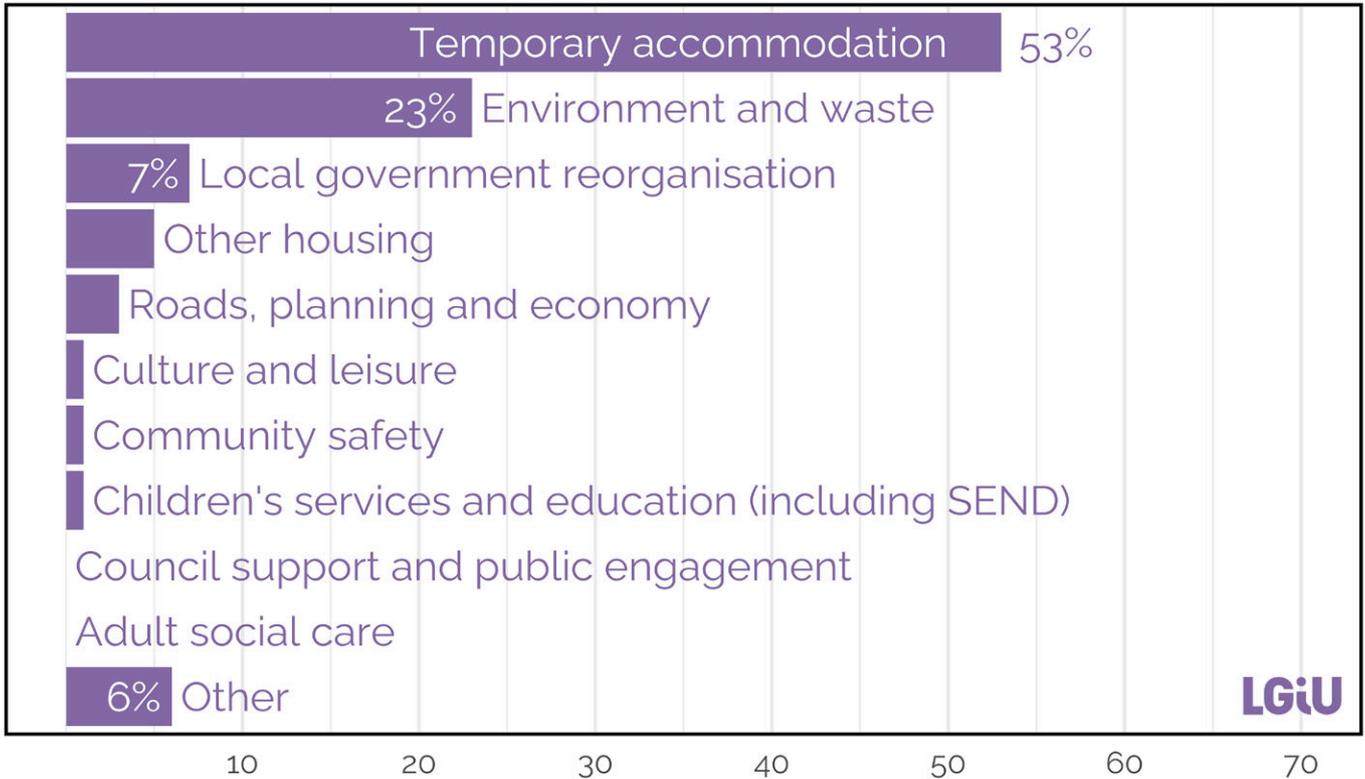
“The demand arising from socio-demographic factors is exponential.”

Council structures and responsibilities

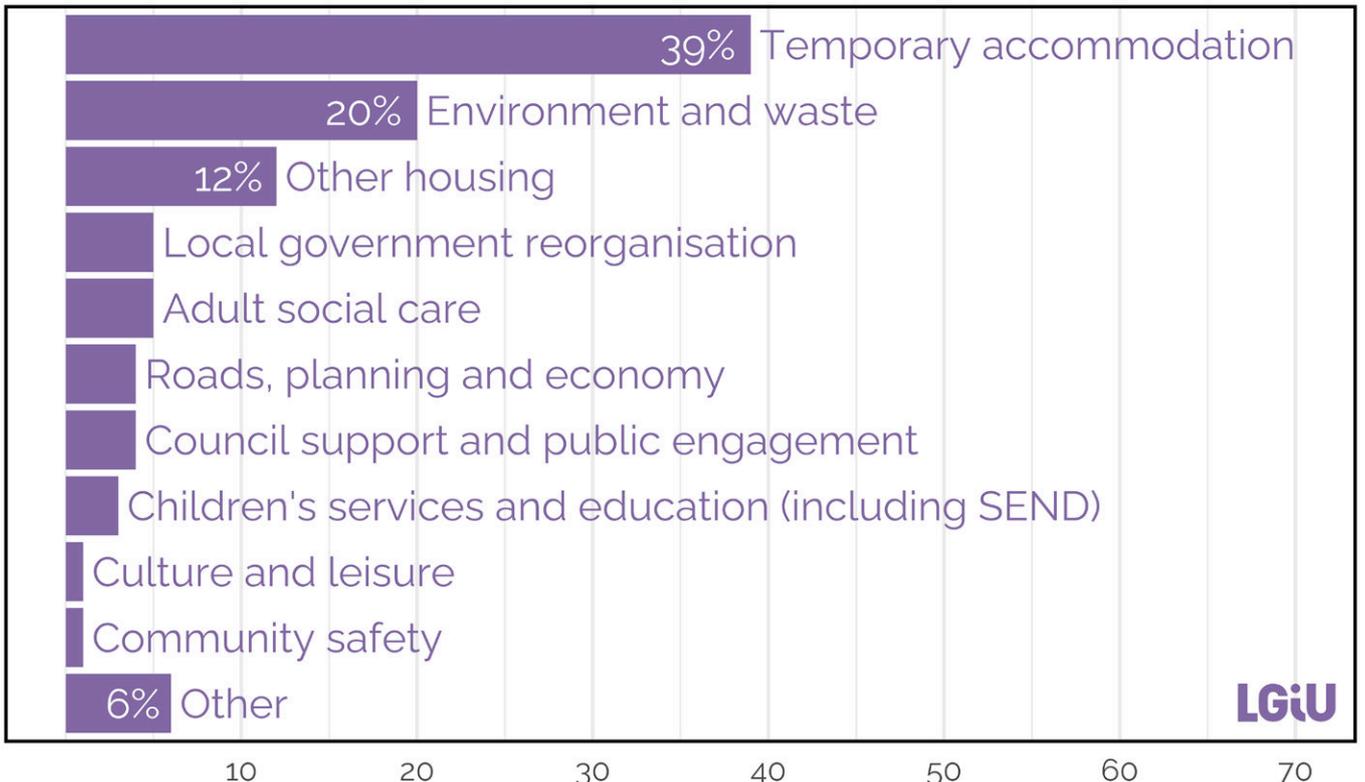
The current, though evolving, structure of local government in England is complex. Most urban areas fall under one of three types of single-tier authority: London boroughs, unitary authorities or metropolitan authorities. These provide nearly all the council services in their areas. In contrast, many 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, while districts typically manage housing, homelessness and waste collection. This will change after reorganisation, when there will be no more two-tier areas.

Lower-tier councils

Greatest short-term pressures on lower-tier authorities



Greatest long-term pressures on lower-tier authorities



For lower-tier councils, temporary accommodation was by far the biggest short-term and long-term pressure. Several flaws were identified in the current system of temporary accommodation, and many respondents cited increasing demand as a significant challenge, alongside the limited increase in supply. For instance, one director of finance from a district council told us:

“Our demand for housing is at record levels and we are not seeing any decrease. The rate at which affordable housing is being built is slow.”

Another added:

“This is the hardest to resolve as the demand and cost growth is out of control, unfunded, and the hardest issue to address. There is simply not enough affordable supply. Should rent controls be introduced? Ownership controls?”

There were also several policy criticisms, particularly towards the [Local Housing Allowance](#) (LHA). While households receive the full housing benefit they are entitled to, the amount of Local Housing Allowance that councils can recover from central government is capped at 90% of LHA rates from 2011 (see [LGA, 2024](#)). As a different director of finance explained:

“It is baffling that the government continues to ignore that LHA rates are pegged at [2011] levels when calculating the amount of subsidy that councils can reclaim. They are simply pushing a problem onto local government.”

On the waste side, this was often attributed to a recent change in recycling policy through the [simpler recycling scheme](#), due to be implemented at the end of March 2026. Several lower-tier councils raised concerns that they did not have the revenue needed to fund these changes, as one chief executive stated:

“[We are] unlikely to roll out food waste collections in April, but even if we did it in-year, it still has a 6-figure cost when we have 0% change in core spending power!”

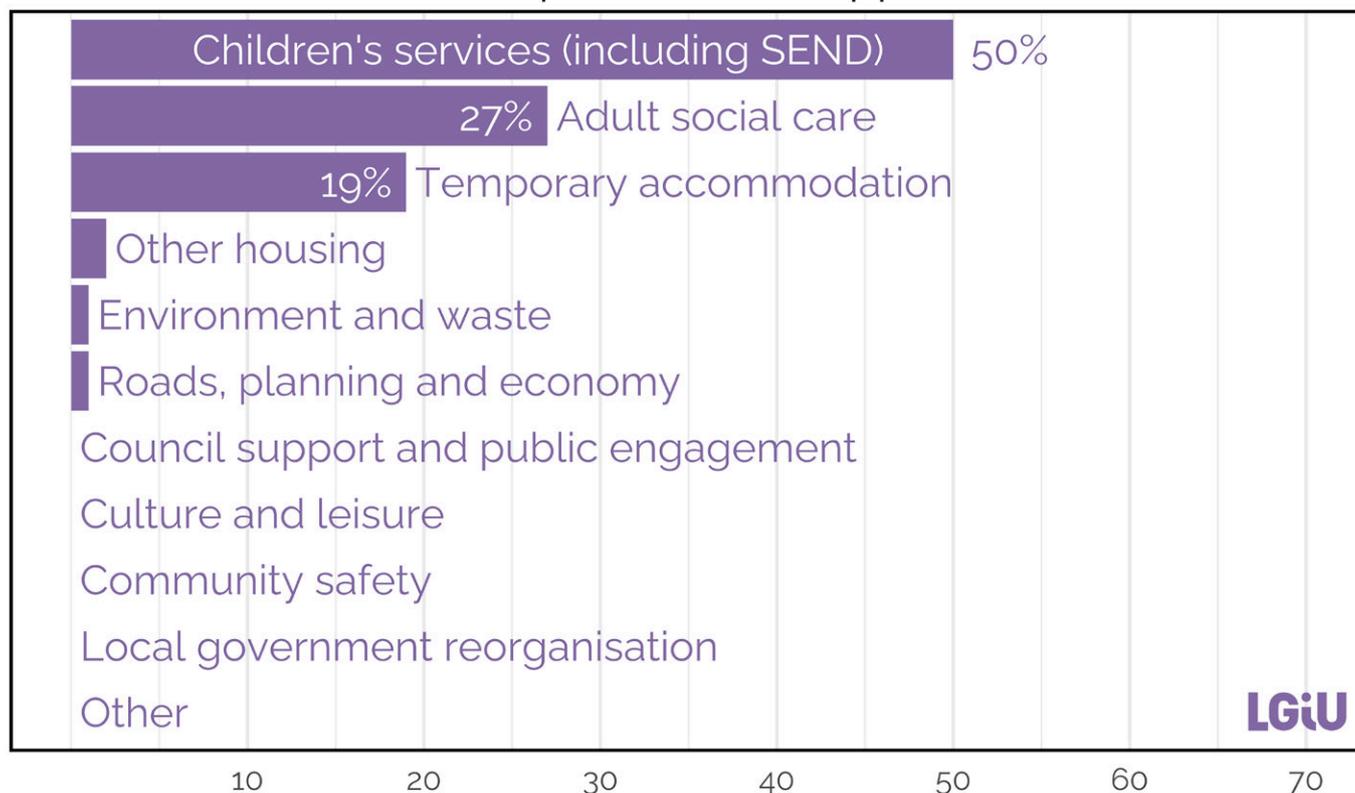
Others pointed out that there is a significant added burden on rural councils given their larger geographical areas, which makes the collection and disposal of waste more complex and expensive. As one cabinet member for finance explained:

“Large rural districts face disproportionate costs with waste services and the domestic food waste collection requirement places a significant cost burden on this council.”

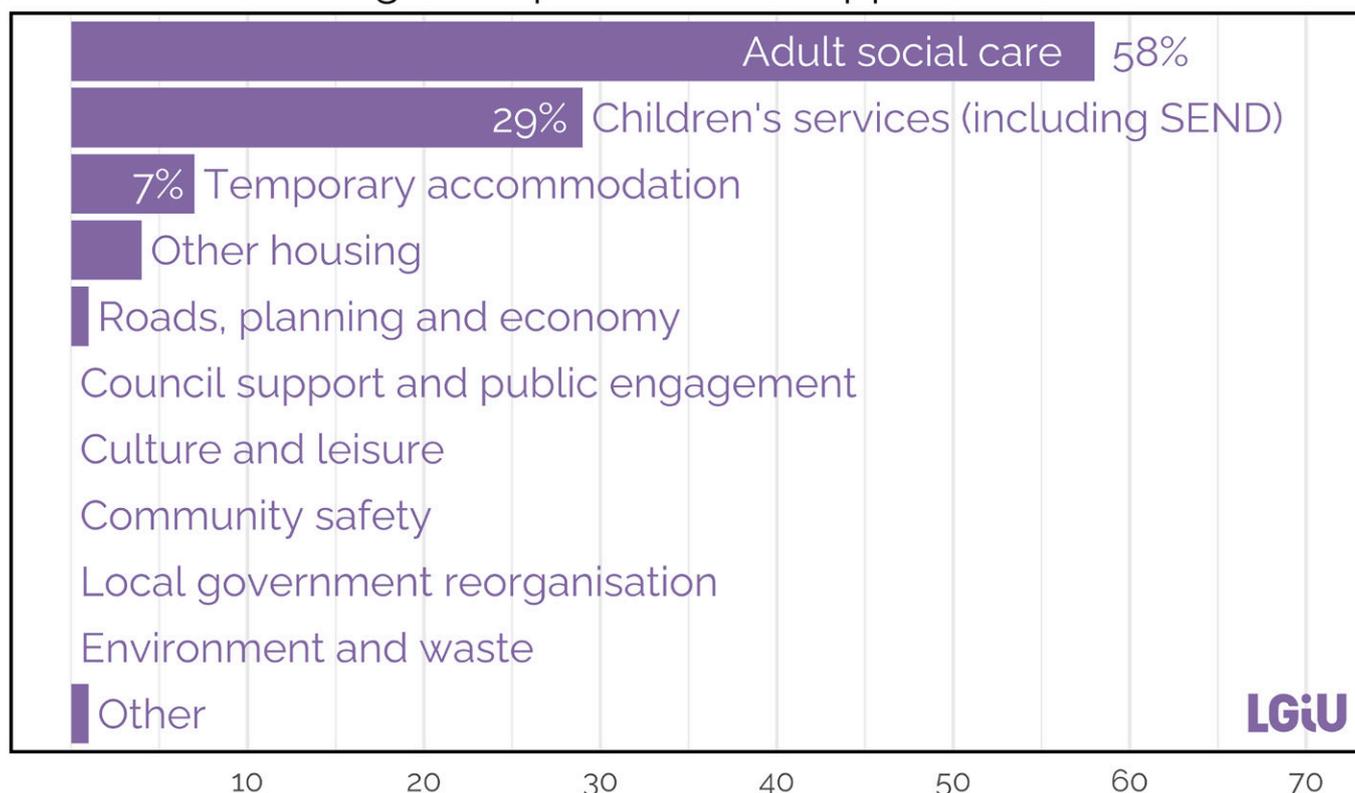
Overall, temporary accommodation and waste services made up the vast majority of significant spending pressures on lower-tier councils, though local government reorganisation and other housing costs were identified as the greatest pressures among some lower-tier local authorities.

Upper-tier/unitary councils

Greatest short-term pressures on upper-tier authorities



Greatest long-term pressures on upper-tier authorities



In upper-tier councils, children's social care, including SEND spending, was seen as the greatest short-term pressure. Several factors were raised to explain how and why children's social care spending has become such an overwhelming cost pressure. These included the cost of SEND debt servicing and the cost of children's social care placements with private providers. The SEND debt servicing costs will hopefully be addressed by [the government's recent announcement](#) that it would cover 90% of historic SEND deficits. One cabinet member for finance commented:

“SEND ... has the potential to sink the local government community in one hit. The announcement of the 90% underwriting of SEND deficits is helpful, but is not really a medium-term solution as a new deficit will continue to accrue.”

The same member added:

“[SEND] reform needs to be radical.”

Addressing the long-term pressures caused by adult social care, many councils pointed to the rising costs associated with ageing populations, the fragility of the market, and failures of coordination between health and social care. As the director of finance at a London borough explained:

“Continued chronic underfunding, continual battles between social care and the NHS, lack of clear direction and policy of the future of social care all add up to a stark situation where care standards are falling rapidly whilst costs are escalating.”

Fundamentally, however, there are many unknowns in the changing landscape of cost pressures in local government. The financial implications of [planned SEND reforms](#) are, currently, ambiguous, and the future of social care in England is opaque. Our [recent work with CIPFA](#) has highlighted the important principles for moving forward with social care reform, and in both policy areas it is of crucial importance that local government is involved in the decision-making, that local government responsibilities and resources are central to the final policy decisions, and that local delivery is duly considered in the context of significant and continuing financial pressures.

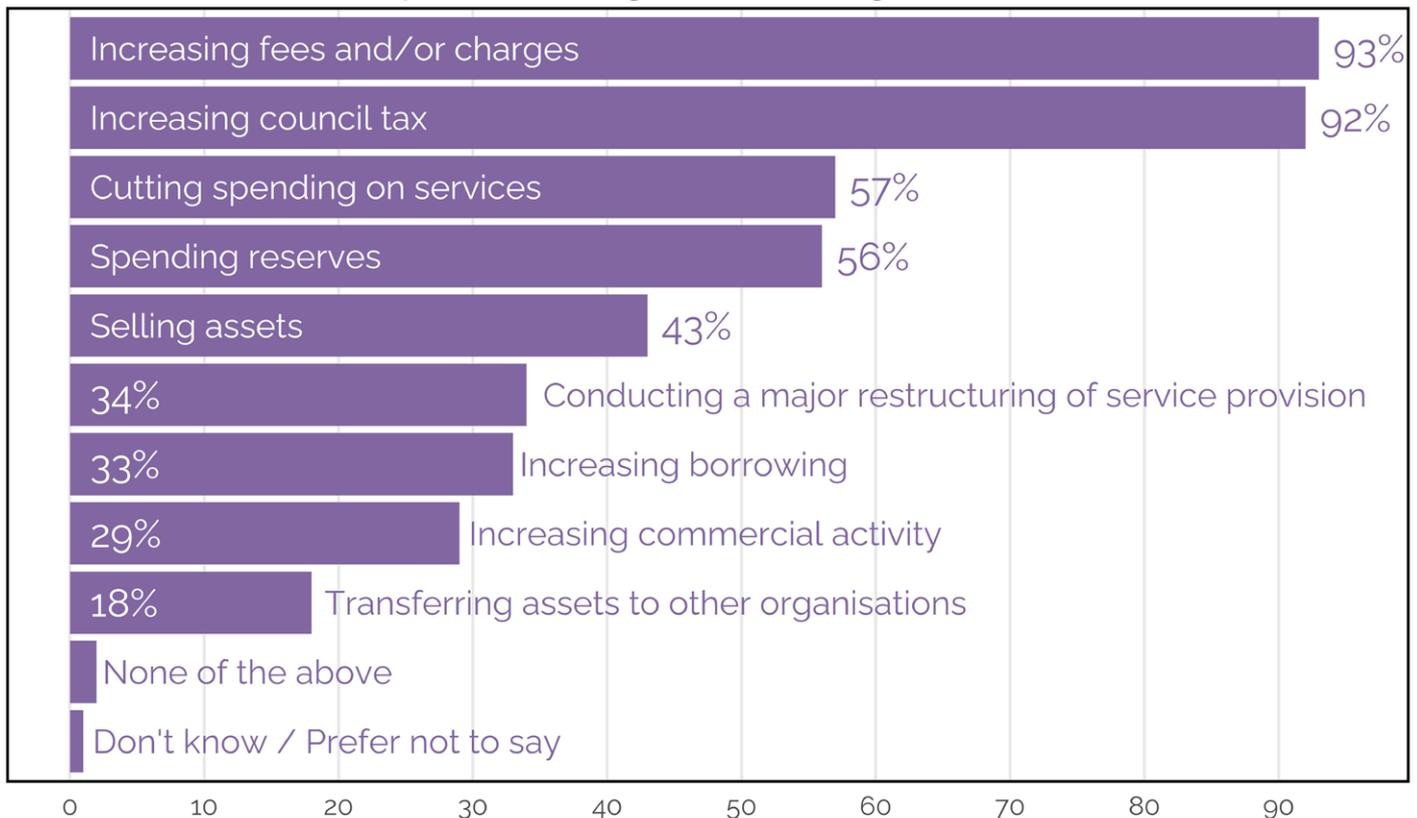
Balancing the budget

Councils need to balance their budgets year-on-year, and failure to do so results in the issuing of a section 114 notice – often referred to as “effective bankruptcy”. The number of levers a council can pull to balance its budget is small, and, as in all of our recent surveys, most councils are doing everything they can to make ends meet.

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. To match their incomes, councils may seek to cut service expenditure and draw on reserves, but most are now finding they have to increase council tax, and fees and charges by the maximum amounts.

Proportion taking the following measures



Raising income: council tax

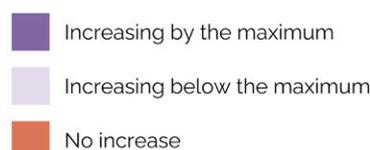
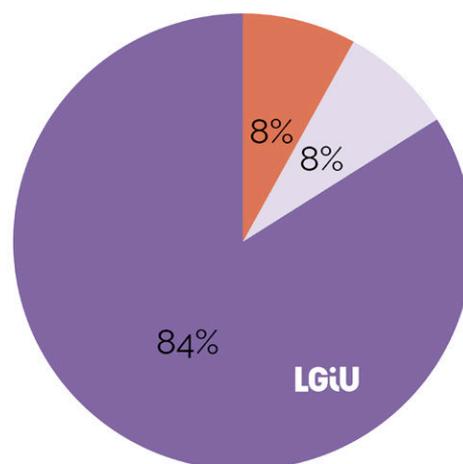
For the 2026/27 financial year, 92% of respondents said they intended to increase council tax: 84% by the maximum permitted amount and 8% by less than the maximum. The remaining 8% said they did not intend to increase council tax. In an era of high inflation and surging demand, council tax is the main lever councils have to increase their income; therefore, this is the familiar pattern that has emerged in recent years.

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 effectively caps council tax increases from year to year. The referendum limits for 2026/27 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. Although this is true in nearly all cases, some councils have recently been given special dispensation to raise council tax by above this amount without a referendum, either because they have exceptional financial difficulties or because they have historically low council tax and would be disadvantaged by the Fair Funding Review.

Most councils told us they are increasing council tax by the maximum amount they can. This depends on the type of council and is usually 5% for councils with social care responsibilities.

Proportion taking each decision on council tax



Raising income: fees and charges

Councils charge for various services, from everyday expenses like car parking, planning and waste collection, to more emotive areas such as school dinners and burial and cremation charges. Fees and charges make up a relatively small proportion of council budgets (roughly 6%) and local authorities have limited flexibility in what they can spend generated income on.

In recent years, most councils have chosen to increase fees and charges by around the rate of inflation. This is unsurprising given that keeping them the same in cash terms would represent a real-term decrease in the amount raised by councils. This year, 93% of respondents said they were increasing fees and charges. Some of these rises, as one director of finance told us, were substantial:

“[The council conducted a] fundamental review of fees and charges, resulting in some substantial uplifts to ... progress towards full cost recovery.”

Raising income: commercial activity

Councils have the power to raise funds through commercial activity under the general power of competence, and, since its introduction in the early 2010s, many councils have used these powers to raise additional revenue.

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, either within a council’s area or elsewhere.

This year, 29% of survey respondents told us they were expanding their commercial activity in 2026/27. The issue with commercial activity as a means to raise revenue is that it is disconnected from the amount of money a council needs to deliver services. Nevertheless, one council told us:

“We have successfully supported our revenue spending for years through our 100% owned trading company, which is well managed and delivers new homes ... This has enabled a council tax freeze for the 13th year in a row this year and no cuts to services.”

This, while commended, is not an option available to many councils and is largely dependent on local market conditions. Additionally, the more dependent that councils are on commercial activity to fund their revenue spending, the more exposed they are to downturns in the market, as has been seen in recent years.

Reducing spending: other innovations

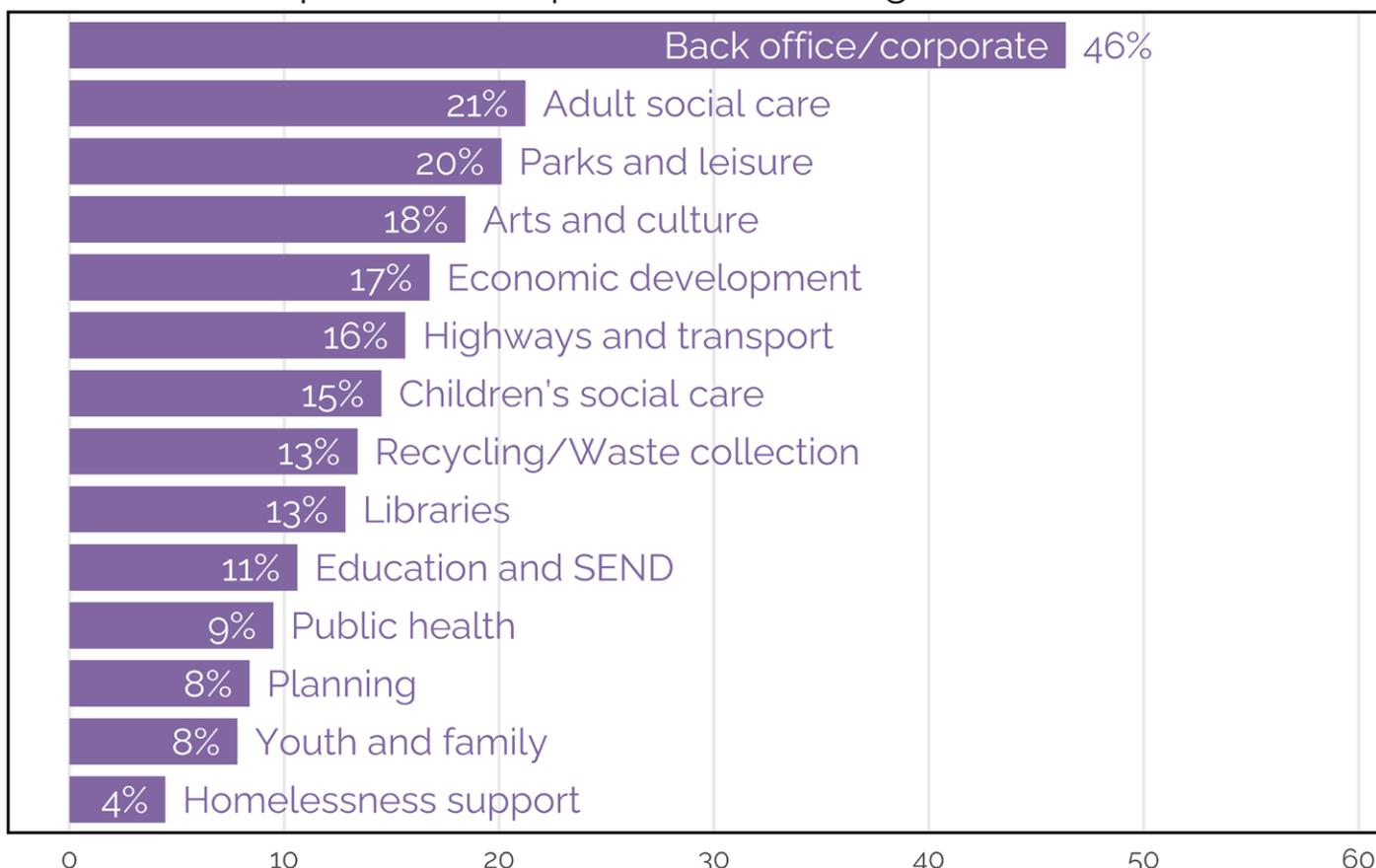
In terms of other innovations that local government is making in England this year, councils most commonly pointed to transformation and demand management. Many referenced a “*transformation programme*”, often with a focus on digitalisation and AI. For instance, one council leader explained how this year they would be “*cutting costs through using digital*”, while a director of finance explained that they would be putting “*investment in CRM systems and websites to reduce contact centre demand*”.

Several respondents highlighted efforts towards demand reduction in social care, such as “*early intervention and prevention measures*”, tighter control of the provider market, and investment in children’s homes, “*to reduce revenue costs*”. Others described strengthened financial grip, including “*spend control boards to change culture/mindset*”, “*tighter vacancy management*”, or freezing recruitment in non-frontline roles. Other efforts included the sharing of senior management across authorities, with one partnership reporting “*£47m of savings... in just five years*”.

However, not all of these changes are positive, with one council explaining that their savings were “*not innovative, just [a reduction in] recruiting and consolidating posts*”. After years of austerity and continued financial pressures, councils are left with minimal headroom to innovate, and widespread, impactful innovation may only again be possible once local government returns to a more sustainable funding environment.

Reducing spending: cutting services

Proportion of respondents reducing each service



Fifty-seven per cent of respondents told us they would cut spending on services in 2026/27. This is in line with recent years, and should be seen in the context of a sector that has been implementing cuts since the early 2010s. The cuts that councils will make are across service types, spanning both discretionary and statutory services.

Statutory and discretionary services

Councils in England 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.council’s area or elsewhere.

The first, and most prominent area being cut is back-office/corporate services. These are the backbone of council capacity, and include the staff necessary to operate all council functions. It is difficult to draw conclusions from the decision to cut these services, given that it could be due to planned efficiencies or because of budget shortfalls. However, it is worth noting that this is happening to a sector where total employment has already fallen from around three million in 2010, to nearer [two million today](#).

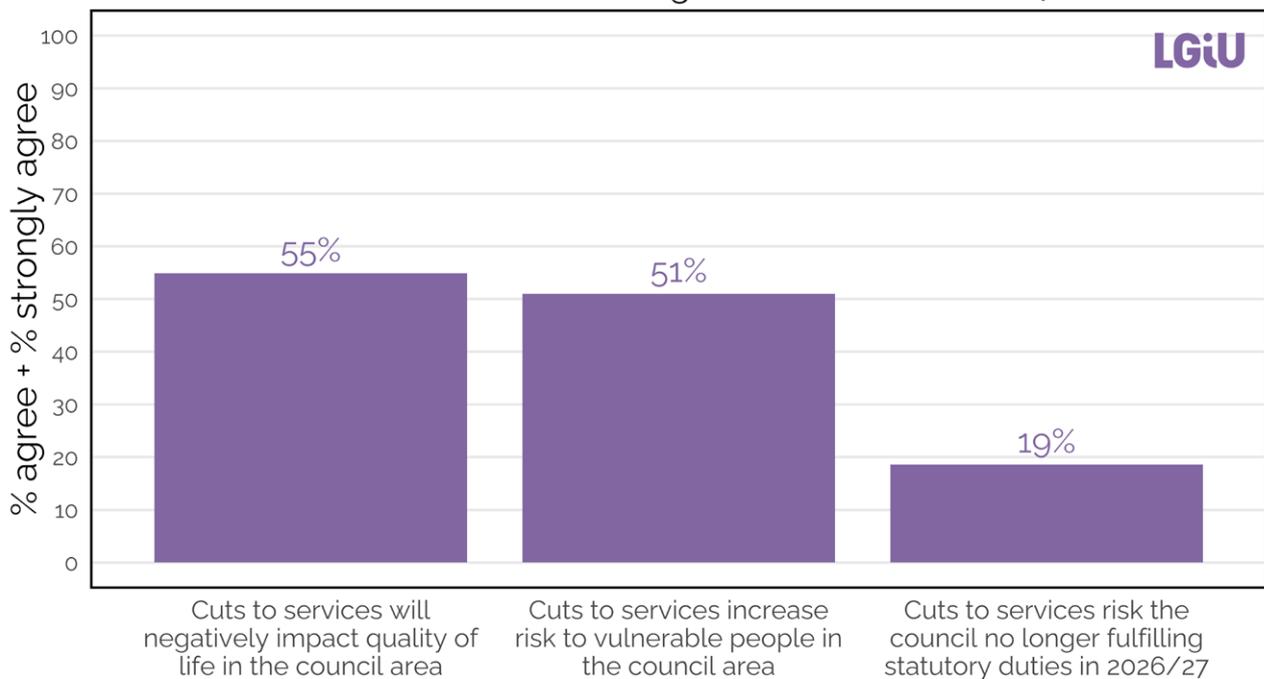
The second area where cuts are planned is in discretionary services. These are the services that councils have no statutory responsibility to deliver, but nonetheless have an important impact on the quality of life in an area. The planned cuts to arts and culture, or parks and leisure, have been a persistent feature of cuts across councils since the early 2010s.

However, perhaps the more concerning development is the planned reductions in statutory services, including adult and children’s social care. This year, we asked councils their views on the impact of these cuts:

- ➔ More than half of those making cuts believe they will have a negative impact on quality of life in their council area.
- ➔ More than half believe that these service cuts increase the risk to vulnerable people.
- ➔ Most importantly, nearly 1 in 5 of those making cuts believe they may not be able to fulfil their statutory duties as a result of these service reductions.

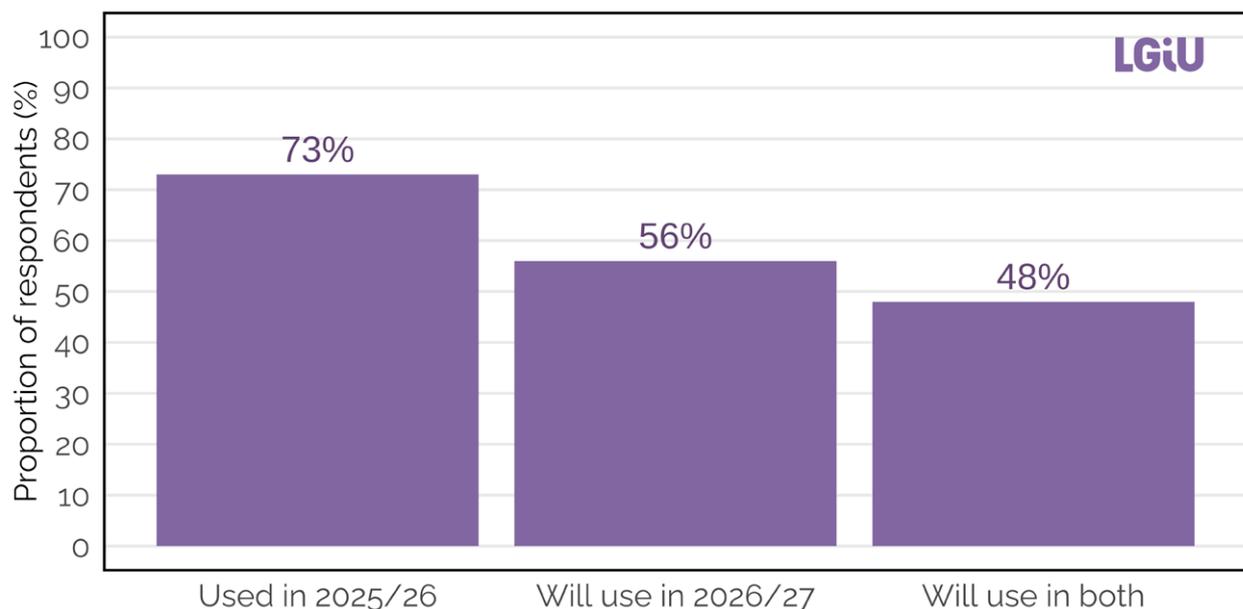
The final observation would put councils at risk of legal challenge, potentially effective bankruptcy, and represents a major threat to the quality of council services. Therefore, these reductions and their impacts indicate that while many suggest that ‘austerity is over’, cuts continue to be forced in many councils.

Views of councils making service cuts in 2026/27



Spending savings: using council reserves

Use of reserves across time

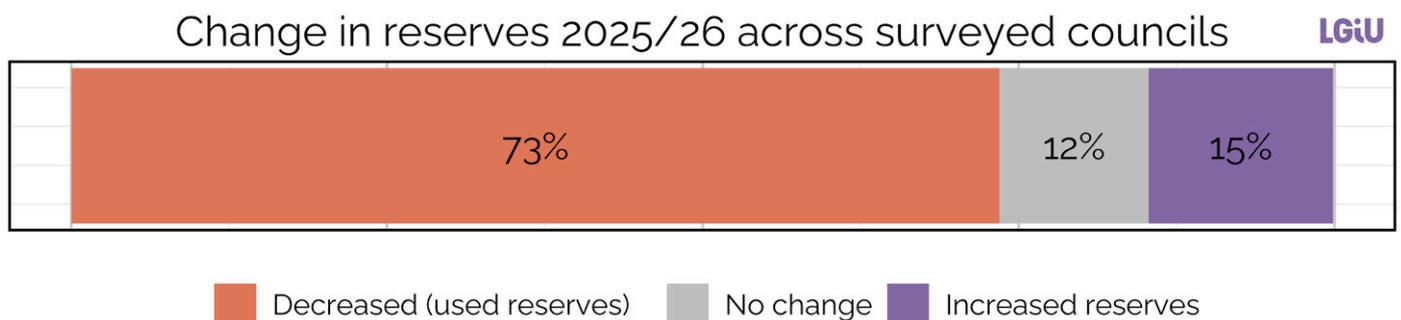


Councils are continuing to use reserves year on year. Seventy-three per cent said they had used reserves in the last financial year, 56% that they would use reserves in the next financial year, and 48% of respondents said they had both used reserves last year and intend to use them in the next year.

Reserves

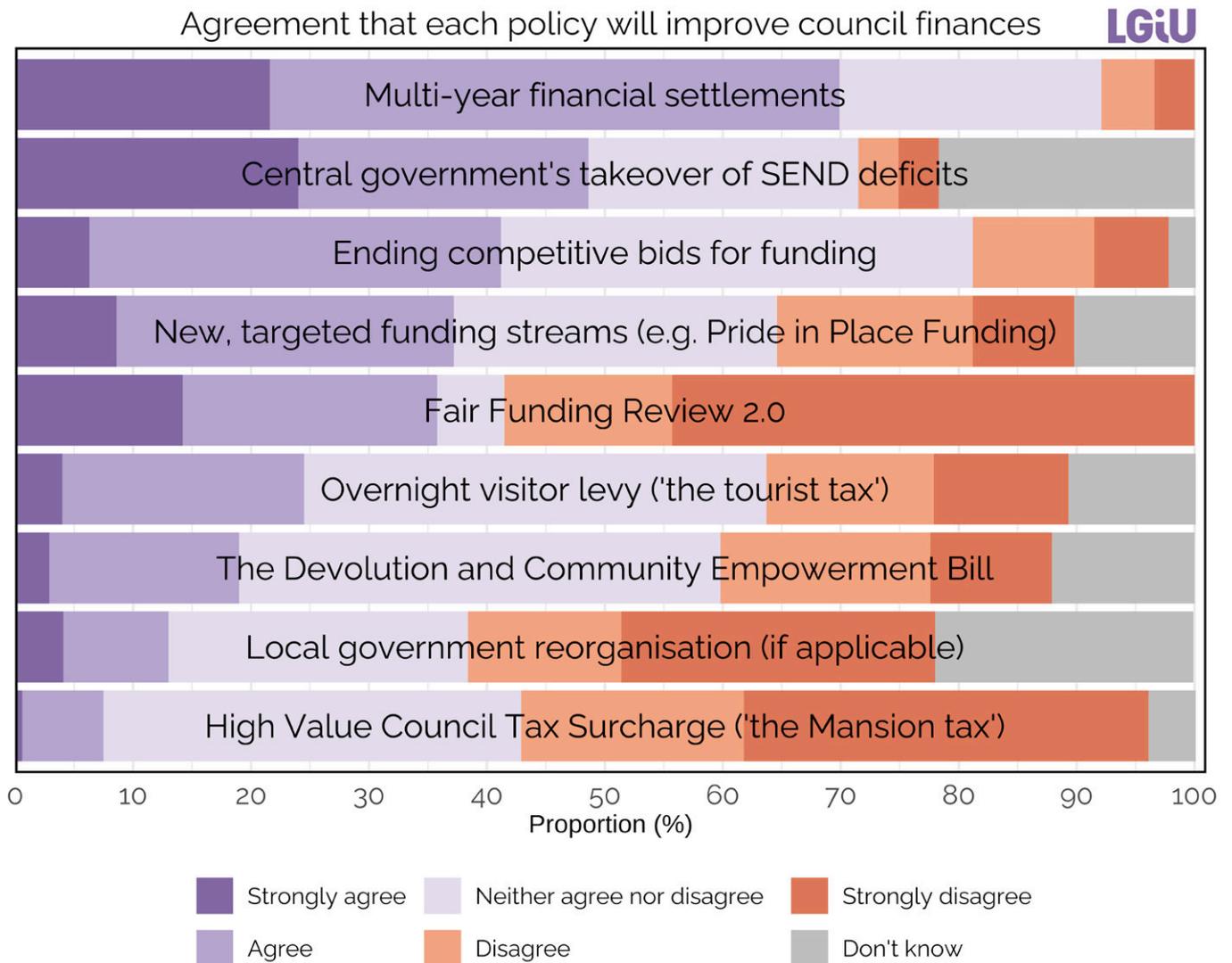
All councils hold financial reserves which they may have built up over many decades. The majority of reserves will usually be “earmarked” for specific projects or initiatives (for example, to help pay for a new road or a community centre), but other general reserves are set aside as a buffer against 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.

This year does indicate a reversal in the trend of recent years towards more councils using their reserves. For the first time since the pandemic, we have an uptick in the number of councils increasing their reserves in the past financial year, although only to 15%. However, the overall figure of 73% of respondents decreasing their reserves does demonstrate the extent to which most councils are still dependent on these finite resources to balance their budgets.



Fixing local government funding

This year, amidst rapidly changing local government finance policies, we sought to understand which changes have had a positive impact on council finances, which will improve council finances, and which other policies councils support.



When we asked about the policies announced by the government this year, there was strong support (70%) for multi-year financial settlements – the first of which was announced near the close of the survey. For many years, this has been one of the most supported policies in our survey, and it is encouraging to see that it will still have a positive impact.

Although only 48% of respondents said the [government takeover of SEND deficits](#) would have a positive impact on council finances, this rises to over 80% for upper-tier authorities – making it more popular among upper-tier authorities than even multi-year settlements. The 90% takeover of historic SEND deficits was announced near the

end of the survey and will help alleviate the pressures posed by the looming end of the statutory override for SEND spending.

Enthusiasm for Pride in Place (37%) and the Fair Funding Review was more limited. The former offers a means to move more money into local areas, but does not affect council revenue budgets. That only 36% of respondents believe that Fair Funding 2.0 will improve council finances is more complicated to explain. The results of the review were announced in the final settlement at the end of our survey, so most respondents would not have been fully aware of the outcomes. Analysis by the [House of Commons Library](#) has demonstrated that most local authorities will have more resources as a result of the final settlement. Perhaps the reason it is not seen as an overall benefit for councils is that the review has always aimed to change the distribution between councils rather than the overall amount of money in the system.

Two of the most prominent announcements made on council finances in recent months are the overnight visitor levy (or 'tourist tax') and the High Value Council Tax Surcharge (or the 'mansion tax'). Neither of these policies was seen as a significant benefit for councils. This is not entirely surprising: neither is projected to raise much money overall, the amount they raise will vary significantly across councils, and in both cases it is not clear how much councils will be able to keep from the money collected.

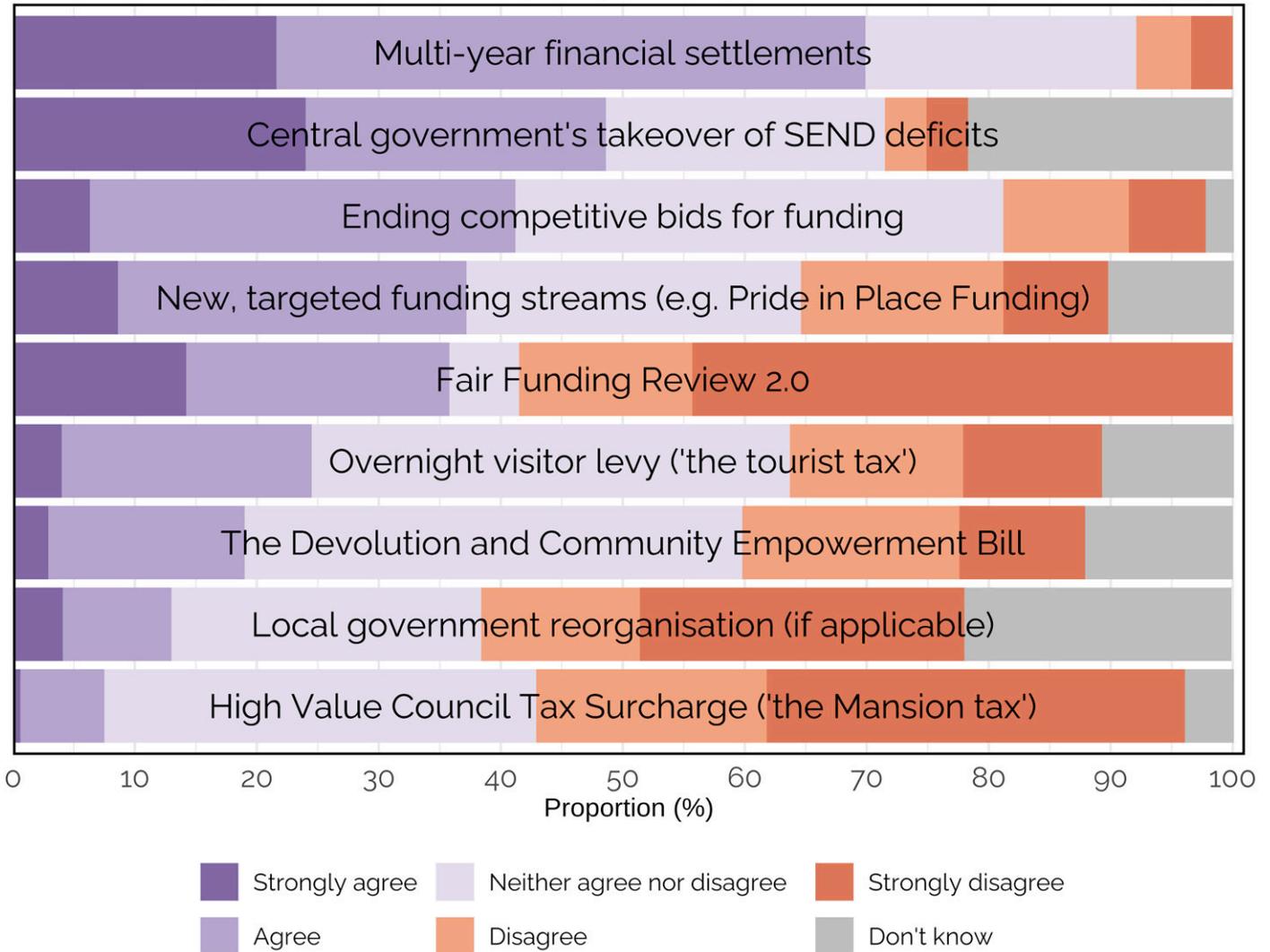
Finally, and most strikingly, neither devolution nor local government reorganisation were seen by our respondents as programmes that would improve council finances. Given that efficiency savings have always been at the [core of the argument](#) for local government reorganisation, it is significant that only 13% of our respondents believe it will improve council finances.

For a comprehensive breakdown of survey responses from all councils to this question, please see **Appendix 5**.

As well as asking about existing policies and their effect on council finances, we also asked if any other prospective policies would have a positive effect. There was varied support for reforms, ranging from over 70% for full business rates retention (a policy already in place in several councils), down to just over a third for single local budgets. The support for these reforms demonstrates an appetite for more radical changes, such as introducing a local share of national taxes or the power to levy other local taxes – both policies that are common [in other countries](#) with more robust local government finance systems.

For a comprehensive breakdown of survey responses from all councils to this question, please see **Appendix 6**.

Agreement that each policy will improve council finances



Over 60% of respondents supported council tax reform.

One council leader described the tax as “*deeply regressive*”, while a director of finance highlighted the issue of what they saw as a “*postcode lottery*”.

Another director of finance described the need for a “*complete overhaul*”, while a cabinet member for finance said that the tax “*should be abolished*”.

When asked to elaborate on how the tax should be reformed, respondents pointed to a wide range of different measures:

- ➡ Revaluation now, with periodic future revaluations.
- ➡ More and wider bands, or the ability to vary rates on higher bands.
- ➡ Greater flexibility/removal of referendum limits.
- ➡ Fairer equalisation of rates between places.

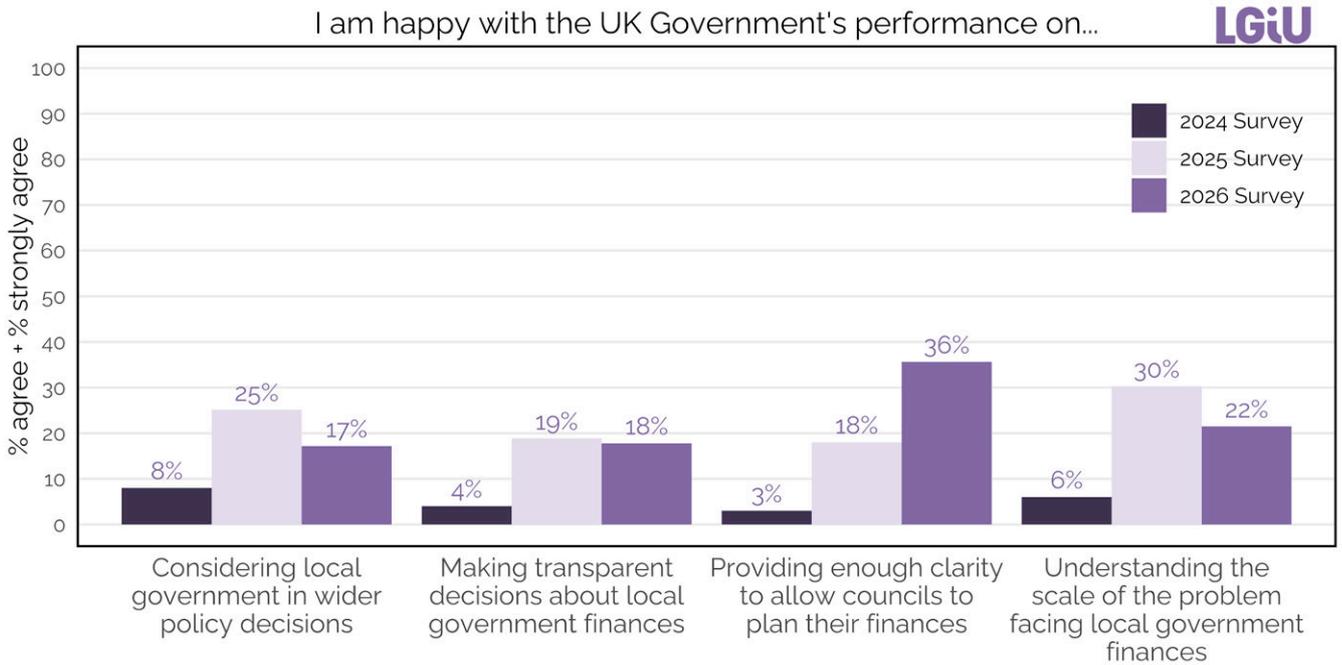
- ➔ Fundamental, nationwide reform, away from a regressive tax to a more progressive one.
- ➔ Land Value Tax as a replacement for council tax.

Council tax is one of the only truly devolved fiscal powers local government has, but that does not mean councils are unanimously in favour of keeping it as it is. Council tax was consistently criticised for being based on outdated valuations, regressive, and allowing for limited flexibility for councils. The high-value council tax surcharge (mansion tax) will not change any of these fundamental issues, and given that it will remove the additional proceeds from council ownership, will alter the longstanding principle that council tax collected by councils should stay within those councils.

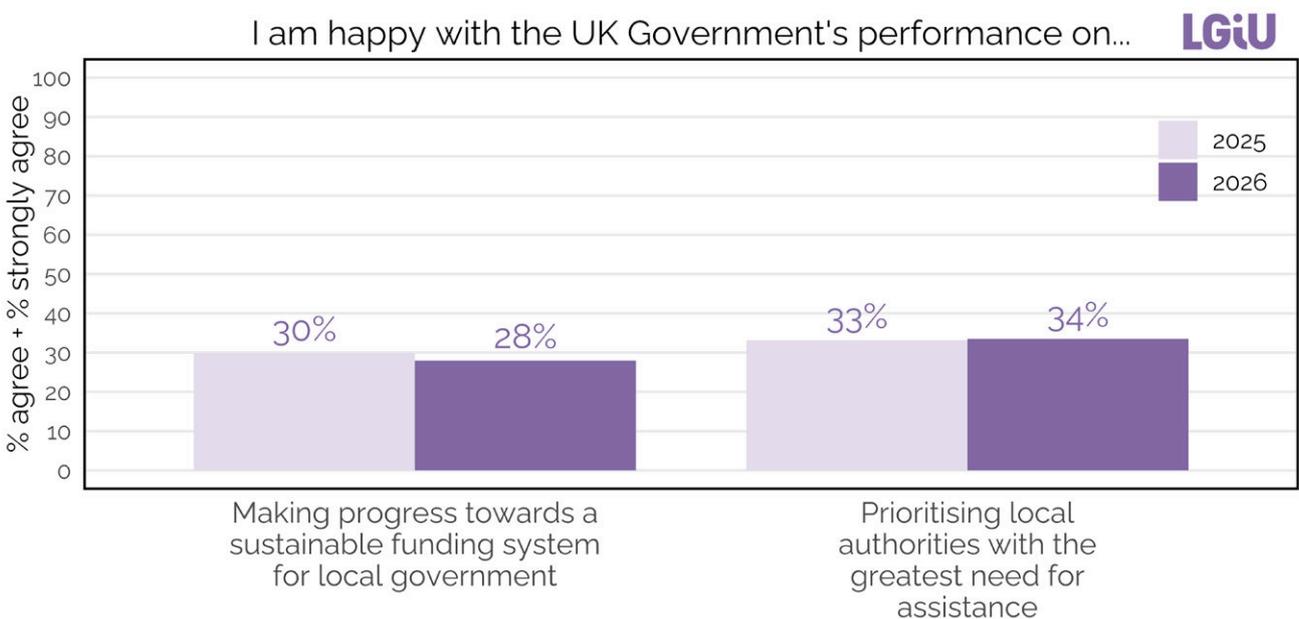
These sustained, varied criticisms of council tax should be the impetus for a more serious review into its suitability. We recommend that the government consider options for reform, and we will be exploring the topic in partnership with the APPG on local government through our inquiry into fiscal devolution.

The central-local relationship

A positive working relationship between central and local government is essential for ensuring progress on their shared goals and positive outcomes for citizens. In recent years, we have seen limited confidence in central government, which cratered to its lowest in early 2024.

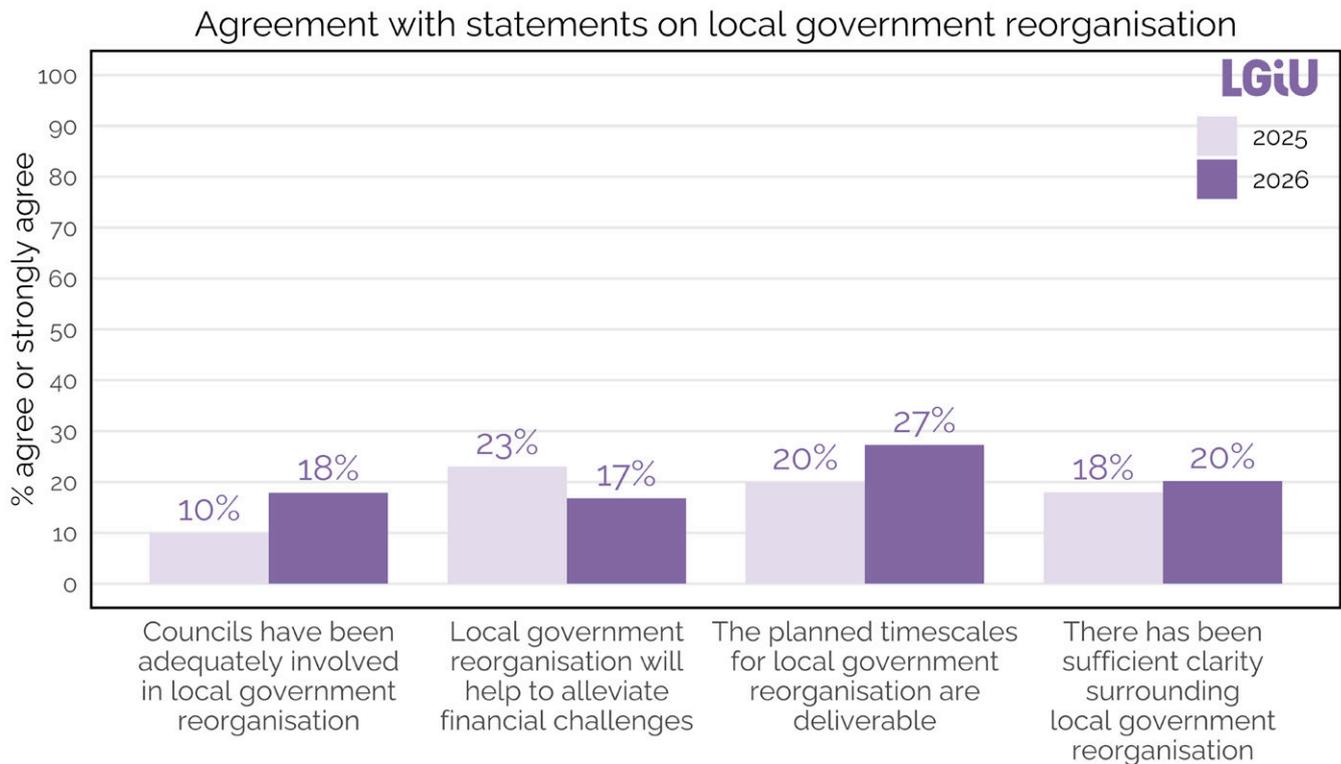


Satisfaction has doubled regarding the Government providing enough clarity to allow councils to plan their finances (+18%). We can likely infer that this is a result of the celebrated multi-year financial settlements that 70% of survey respondents have indicated will help their finances. However, satisfaction with the UK Government's performance has decreased in other areas, including whether the Government considers local government in wider decisions (-8%), and understands the scale of the problem facing council finances (-8%).



Equally, the proportion of respondents saying they are happy with progress towards sustainable funding, or with prioritising local authorities with the greatest need for assistance, are both remarkably similar to last year. This will be a disappointing result for the Government, which would have hoped that reforms such as the Fair Funding Review might result in an increasing confidence that this administration takes the challenges facing local government finance seriously.

Local government reorganisation



The landscape of local government reorganisation (LGR) has also changed significantly since last year. We have seen every LGR area put forward their [competing visions](#) for how they should be reorganised, a decision announcement in Surrey, and the ongoing process of preparing for the changes in every affected council.

The sector's view of these developments (and there are strikingly similar views inside and outside the affected areas – see [Appendix 7](#)) has stayed remarkably consistent. A slightly larger proportion (although still a minority) believe that councils have been adequately involved, and that the planned timescales are deliverable. Although on the timescales point, it is worth noting that this survey closed just before the unexpected announcement that elections [would go ahead](#) in 30 councils where they had recently been postponed.

On the other side, even fewer (17%) of respondents believe that LGR will help to alleviate financial challenges. This is similar to the 13% who agreed with the statement that LGR would improve council finances, and overall demonstrates very limited support for the programme on financial grounds.

Conclusion

Confidence in the sustainability of council finances is still critically low. Although several reforms have been introduced to stabilise the system, there is limited consensus from the sector that these have yet had a positive effect, with the exception of multi-year financial settlements. The sector still faces short-term challenges with passing balanced budgets and long-term structural weaknesses.

In the short term, councils have reported major concerns about the effectiveness of the Exceptional Financial Support scheme for stabilising council budgets. Even though nearly 40% of respondents believe they will have to apply for EFS in the next five years, very few respondents view the scheme as useful. It is seen as a necessary step that allows councils to balance their budgets in-year, therefore avoiding effective bankruptcy, but exposes them to significant long-term debt-servicing costs.

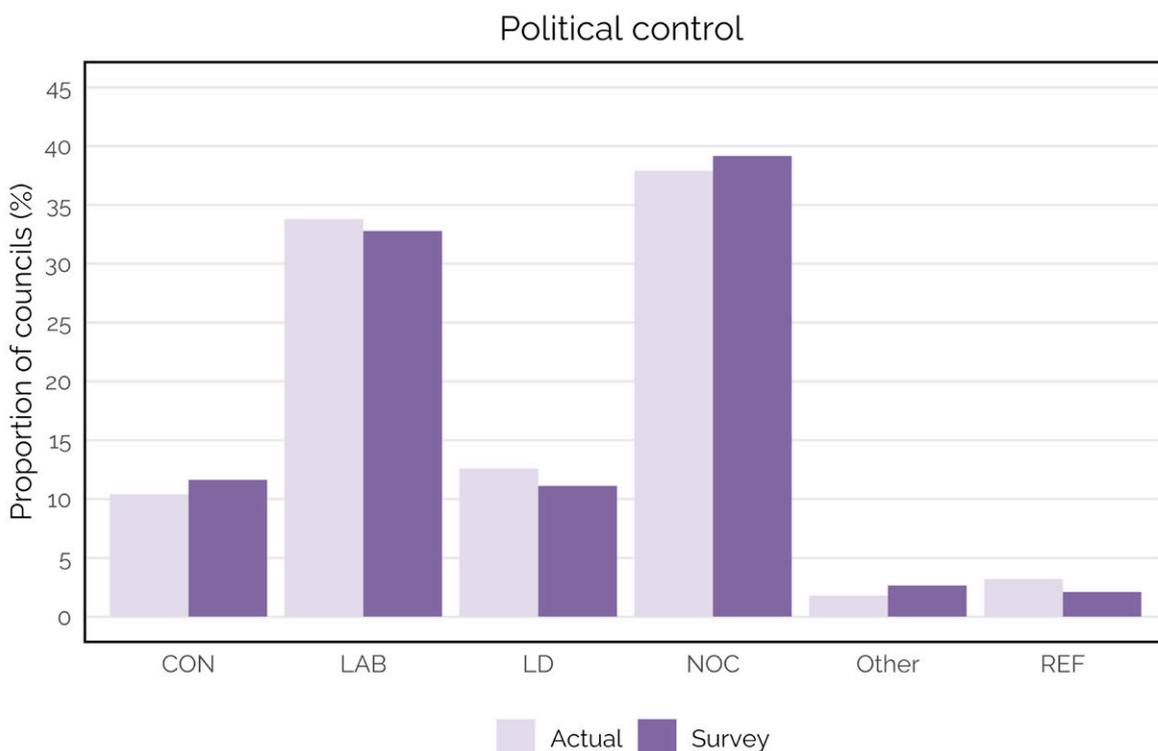
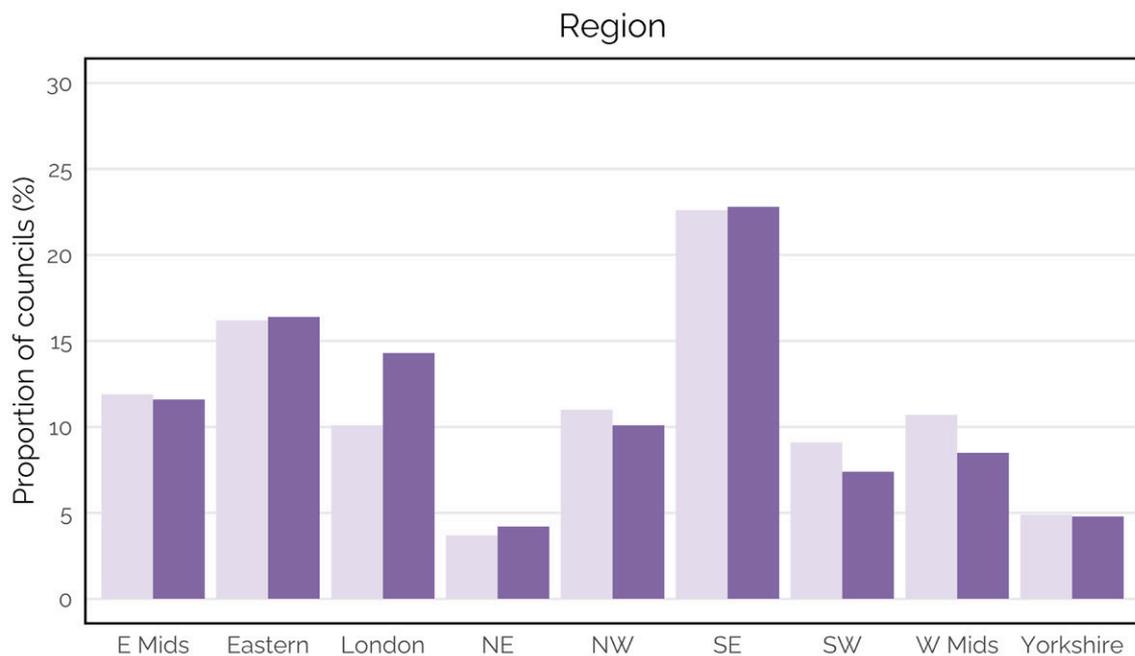
The largest cost pressures, both in the short and long term, are continuing to expand, and local government still has no obvious way out of the pressures caused by rising demand for temporary accommodation or social care. These answers are essential for the long-term sustainability of local government finance.

Equally, there is an appetite in the sector for more radical reforms. The total amount of money in the system remains the number one issue facing councils, and reforms to the ways councils can raise income are much-needed. The last year has seen positive moves, but we are still some way from a local government finance system that can sustainably do what the public needs it to.

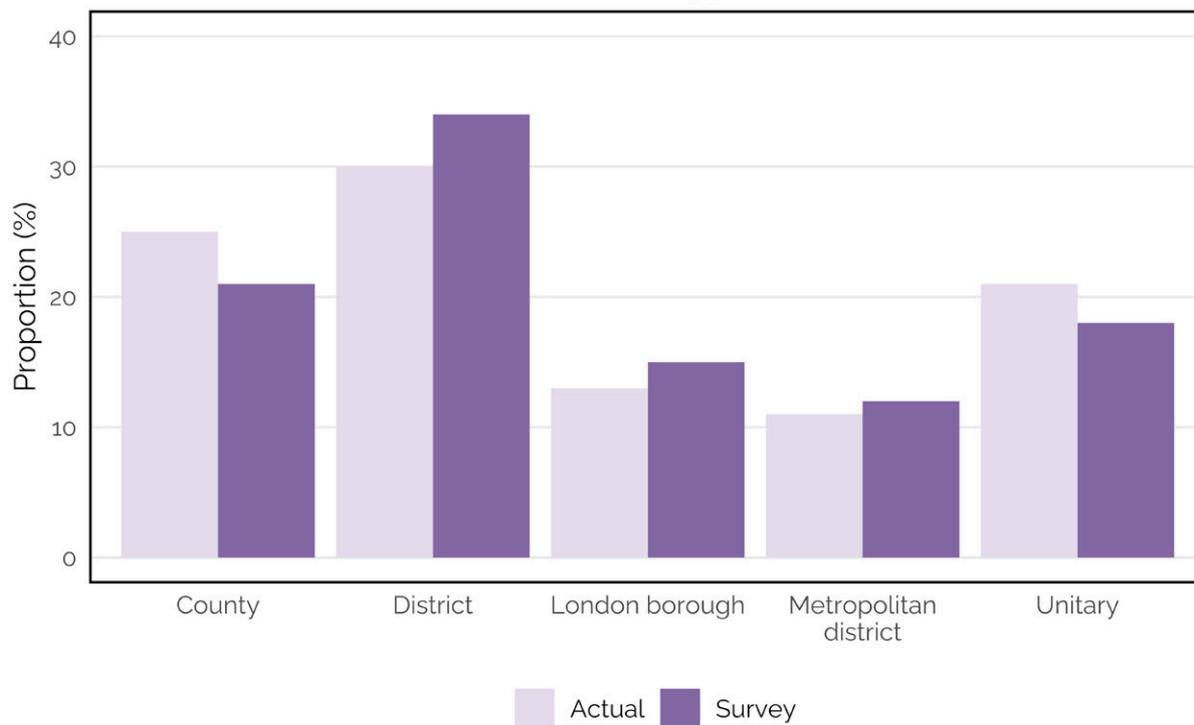
Appendix 1: Respondent characteristics

In total, the survey received 189 responses from 148 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.

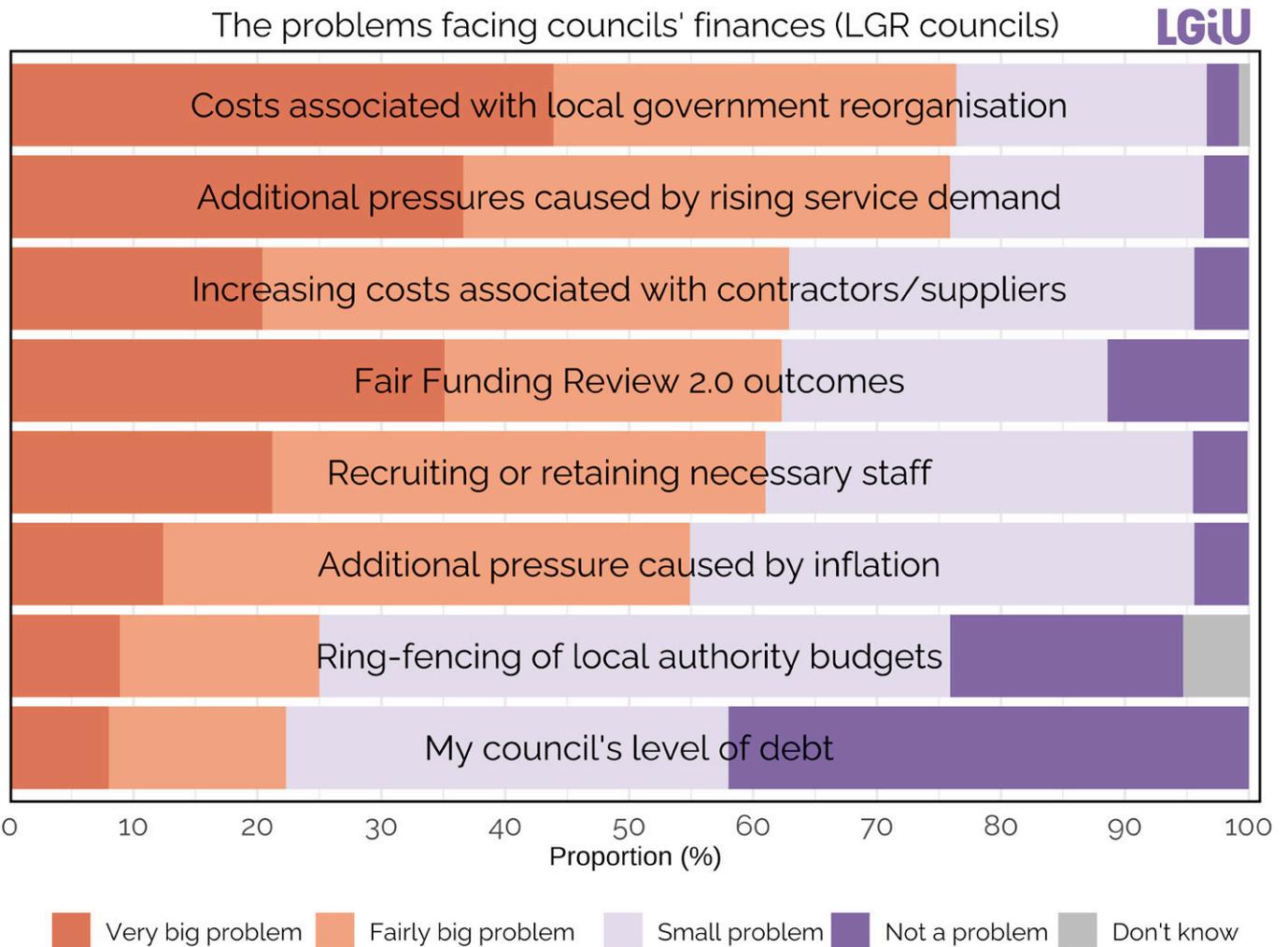
The respondents to this survey included 32 chief executives, 39 leaders of their respective councils, and 31 cabinet members for finance, with the remaining 87 responses coming from directors of finance / section 151 officers (or equivalent senior finance officers).



Council type



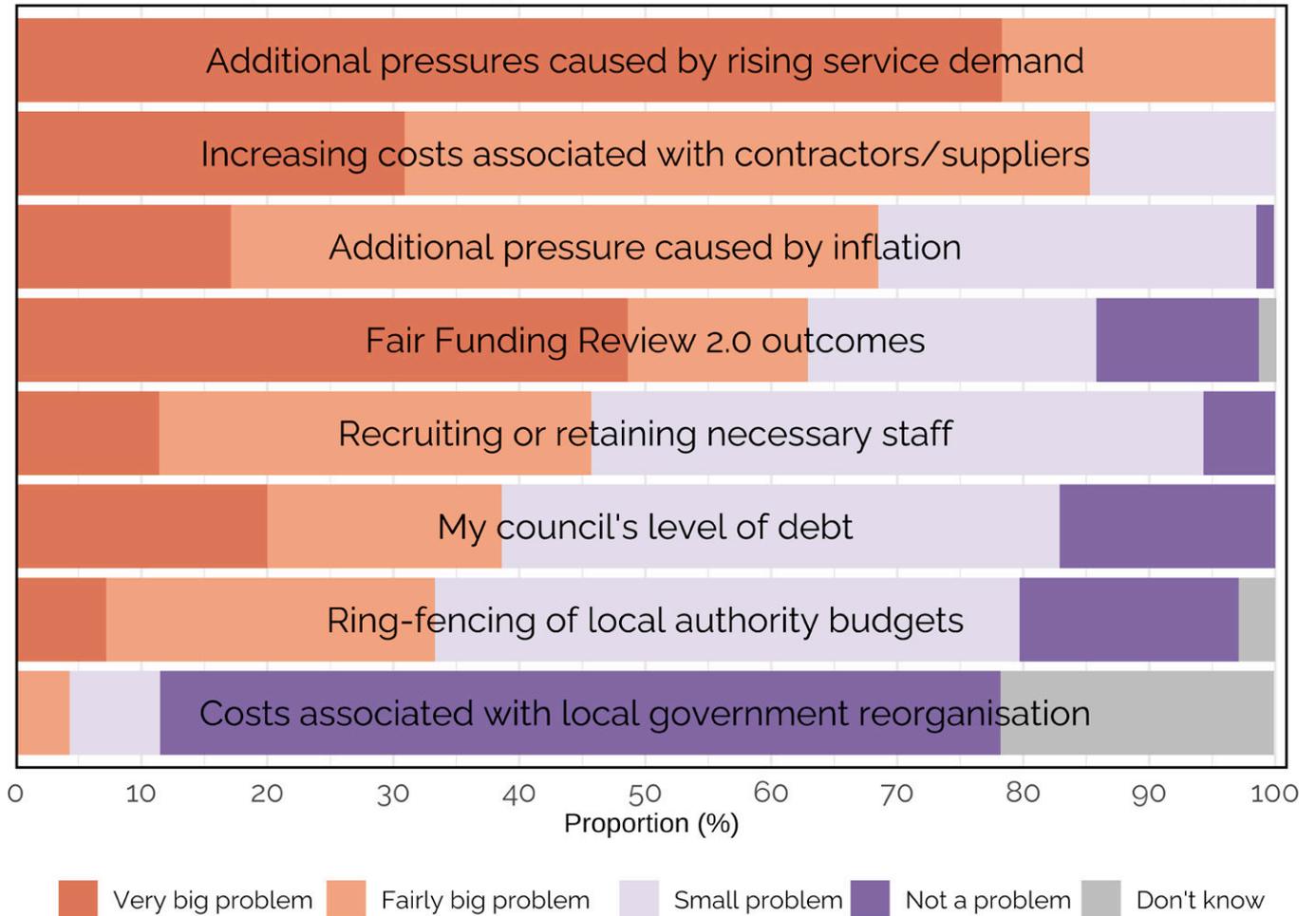
Appendix 2: The problems facing LGR councils



| Issue | Not a problem | Small problem | Fairly big problem | Very big problem | Don't know |
|--------------------------------------------------------|----------------------|----------------------|---------------------------|-------------------------|-------------------|
| Additional pressure caused by inflation | 4.4% | 40.7% | 42.5% | 12.4% | 0.0% |
| Additional pressures caused by rising service demand | 3.6% | 20.5% | 39.3% | 36.6% | 0.0% |
| Recruiting or retaining necessary staff | 4.4% | 34.5% | 39.8% | 21.2% | 0.0% |
| Ring-fencing of local authority budgets | 18.8% | 50.9% | 16.1% | 8.9% | 5.4% |
| Increasing costs associated with contractors/suppliers | 4.4% | 32.7% | 42.5% | 20.4% | 0.0% |
| My council's level of debt | 42.0% | 35.7% | 14.3% | 8.0% | 0.0% |
| Fair Funding Review 2.0 outcomes | 11.4% | 26.3% | 27.2% | 35.1% | 0.0% |
| Costs associated with local government reorganisation | 2.6% | 20.2% | 32.5% | 43.9% | 0.9% |

Appendix 3: The problems facing non-LGR councils

The problems facing councils' finances (Non-LGR councils)



| Issue | Not a problem | Small problem | Fairly big problem | Very big problem | Don't know |
|--------------------------------------------------------|----------------------|----------------------|---------------------------|-------------------------|-------------------|
| Additional pressure caused by inflation | 1.4% | 30.0% | 51.4% | 17.1% | 0.0% |
| Additional pressures caused by rising service demand | 0.0% | 0.0% | 21.7% | 78.3% | 0.0% |
| Recruiting or retaining necessary staff | 5.7% | 48.6% | 34.3% | 11.4% | 0.0% |
| Ring-fencing of local authority budgets | 17.4% | 46.4% | 26.1% | 7.2% | 2.9% |
| Increasing costs associated with contractors/suppliers | 0.0% | 14.7% | 54.4% | 30.9% | 0.0% |
| My council's level of debt | 17.1% | 44.3% | 18.6% | 20.0% | 0.0% |
| Fair Funding Review 2.0 outcomes | 12.9% | 22.9% | 14.3% | 48.6% | 1.4% |
| Costs associated with local government reorganisation | 66.7% | 7.2% | 4.3% | 0.0% | 21.7% |

Appendix 4: The problems facing all councils

| Issue | Not a problem | Small problem | Fairly big problem | Very big problem | Don't know |
|--------------------------------------------------------|---------------|---------------|--------------------|------------------|------------|
| Additional pressure caused by inflation | 3.3% | 36.4% | 45.7% | 14.1% | 0.0% |
| Additional pressures caused by rising service demand | 2.2% | 12.6% | 32.4% | 52.2% | 0.0% |
| Recruiting or retaining necessary staff | 4.9% | 39.7% | 37.5% | 17.4% | 0.0% |
| Ring-fencing of local authority budgets | 18.1% | 48.9% | 19.8% | 8.2% | 4.4% |
| Increasing costs associated with contractors/suppliers | 2.7% | 25.8% | 46.7% | 24.2% | 0.0% |
| My council's level of debt | 32.2% | 38.8% | 15.8% | 12.6% | 0.0% |
| Fair Funding Review 2.0 outcomes | 11.9% | 24.9% | 22.2% | 40.0% | 0.5% |
| Costs associated with local government reorganisation | 26.6% | 15.2% | 21.7% | 27.2 | 8.7% |

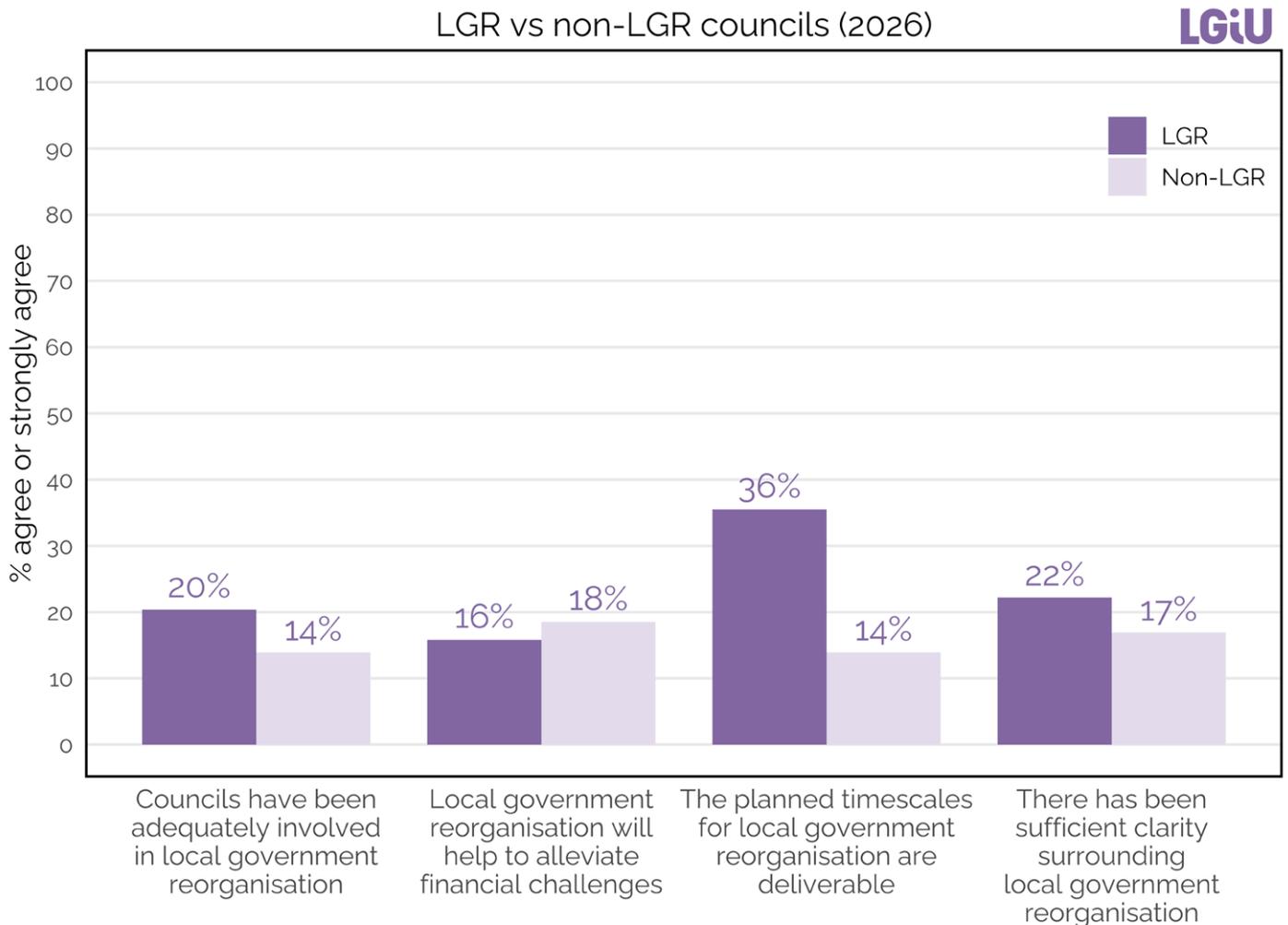
Appendix 5: Support for current government policies

| Policy | Strongly Disagree | Disagree | Neither | Agree | Strongly Agree | Don't know |
|----------------------------------------------------|-------------------|----------|---------|-------|----------------|------------|
| Fair Funding Review 2.0 | 44.3% | 14.2% | 5.7% | 21.6% | 14.2% | 0.0% |
| High Value Council Tax Surcharge ("Mansion tax") | 34.3% | 18.9% | 35.4% | 6.9% | 0.6% | 4.0% |
| Ending competitive bids for funding | 6.3% | 10.3% | 40.0% | 34.9% | 6.3% | 2.3% |
| Local government reorganisation (if applicable) | 26.6% | 13.0% | 25.4% | 8.9% | 4.1% | 21.9% |
| Multi-year financial settlements | 3.4% | 4.5% | 22.2% | 48.3% | 21.6% | 0.0% |
| Overnight visitor levy ("Tourist tax") | 11.4% | 14.2% | 39.2% | 20.5% | 4.0% | 10.8% |
| Devolution and Community Empowerment Bill | 10.3% | 17.8% | 40.8% | 16.1% | 2.9% | 12.1% |
| Central government takeover of SEND deficits | 3.4% | 3.4% | 22.9% | 24.6% | 24.0% | 21.7% |
| New targeted funding streams (e.g. Pride in Place) | 8.6% | 16.6% | 27.4% | 28.6% | 8.6% | 10.3% |

Appendix 6: Support for potential government policies

| Policy | Strongly Disagree | Disagree | Neither | Agree | Strongly Agree | Don't know |
|-------------------------------------------------------------------|-------------------|----------|---------|-------|----------------|------------|
| 100% Business Rates Retention | 5.7% | 6.2% | 11.9% | 27.8% | 46.0% | 2.3% |
| Having more freedoms to levy other local taxes (tourism tax, etc) | 2.3% | 8.0% | 19.3% | 43.2% | 23.9% | 3.4% |
| Local share of national taxes (VAT, income, etc) | 1.1% | 4.0% | 9.7% | 38.3% | 35.4% | 11.4% |
| Council tax reform | 1.1% | 6.3% | 22.3% | 27.4% | 34.3% | 8.6% |
| Scrapping the council tax referendum requirement | 2.8% | 5.1% | 26.7% | 31.8% | 31.2% | 2.3% |
| Single local budgets (across all public services) | 5.7% | 5.7% | 32.6% | 26.9% | 9.7% | 19.4% |

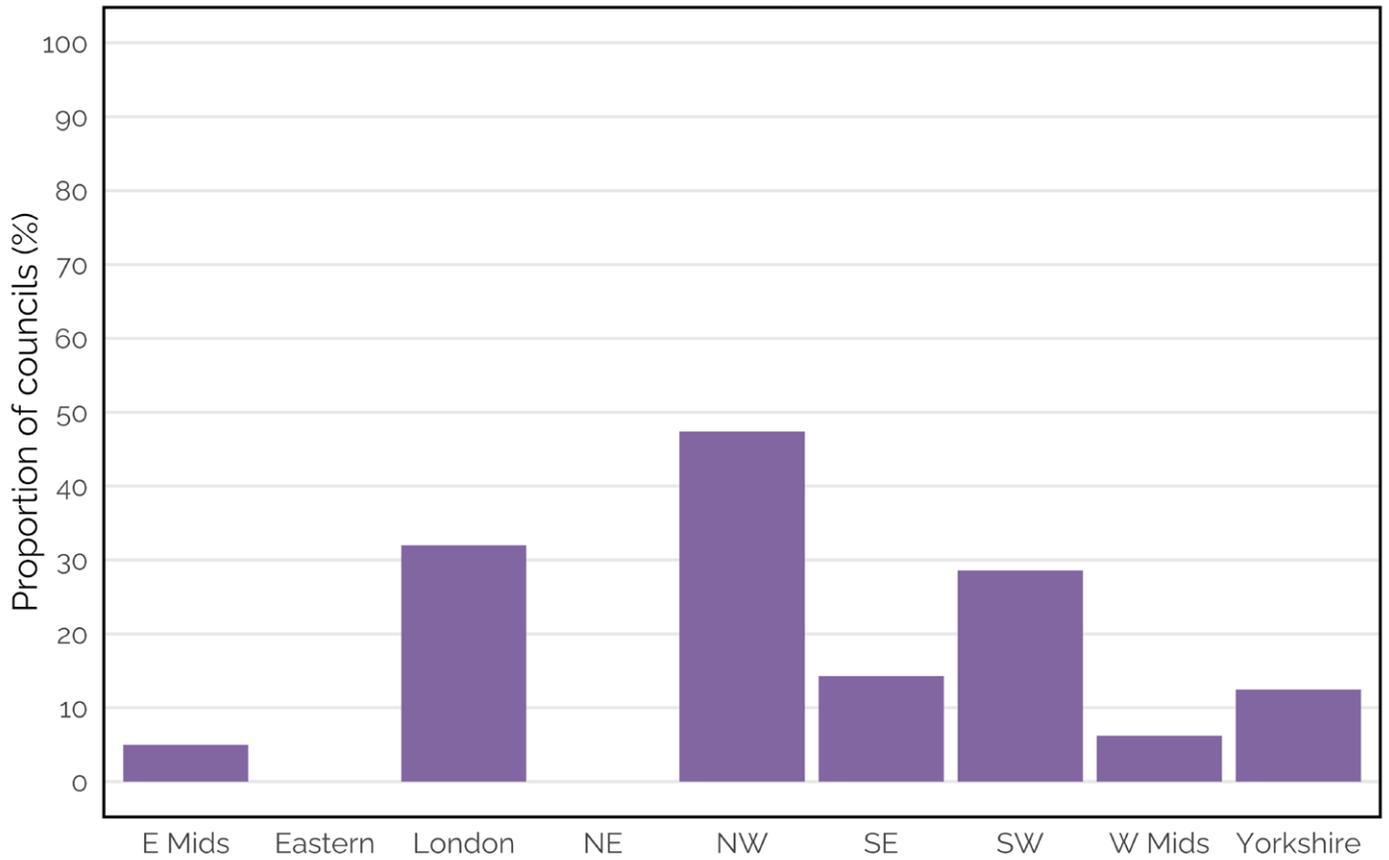
Appendix 7: agreement with statements on reorganisation (LGR vs non-LGR councils)



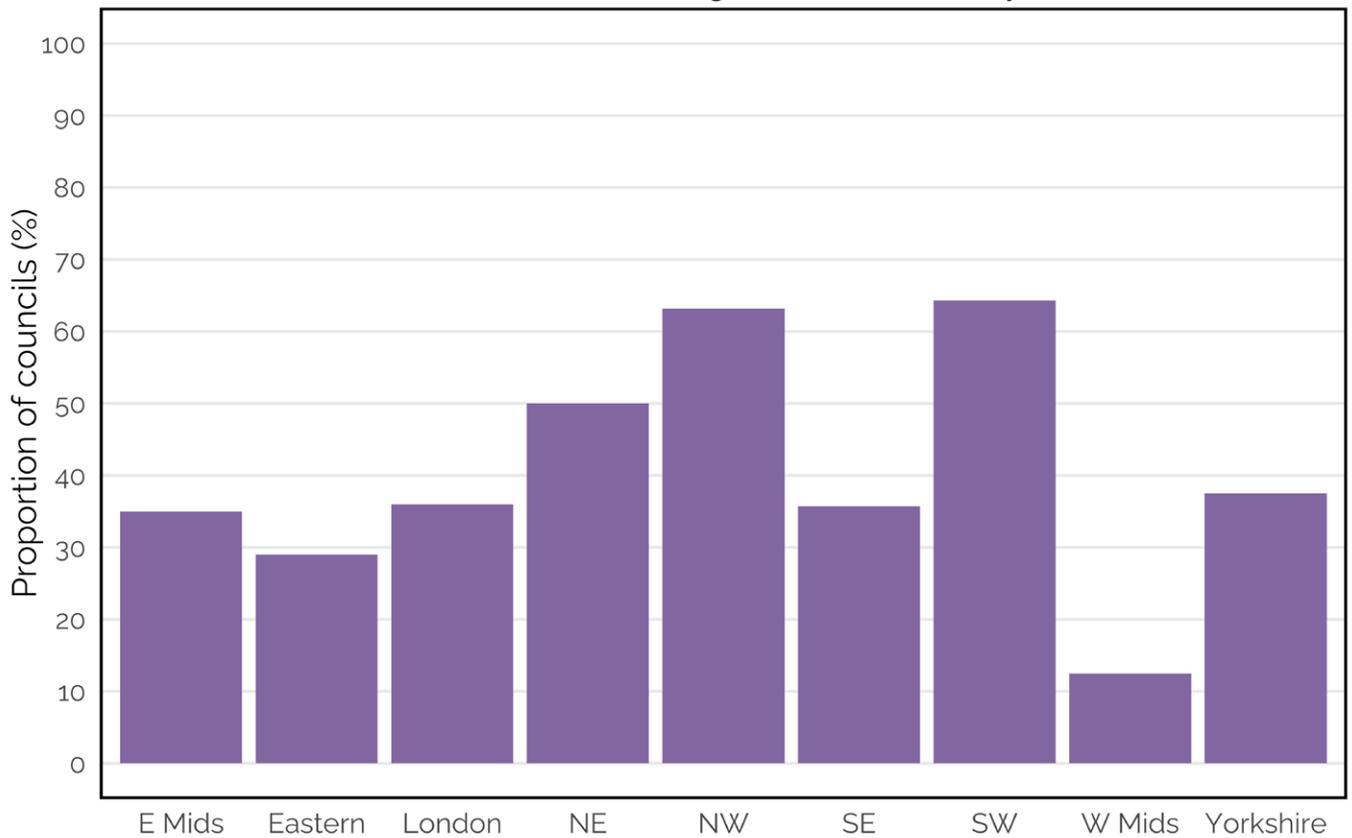
Appendix 8: Likelihood of needing EFS by region

| Region | % Likely 2026/27 | % Likely Next 5 Years |
|--------------------|------------------|-----------------------|
| East Midlands | 5.0% | 35.0% |
| Eastern | 0.0% | 29.0% |
| London | 32.0% | 36.0% |
| North East | 0.0% | 50.0% |
| North West | 47.4% | 63.2% |
| South East | 14.3% | 35.7% |
| South West | 28.6% | 64.3% |
| West Midlands | 6.2% | 12.5% |
| Yorkshire & Humber | 12.5% | 37.5% |

Likelihood of needing EFS (2026/27)



Likelihood of needing EFS (Next five years)



Appendix 9: Council tax decisions by region

| Region | % Increasing at Maximum | % Increasing Below Maximum | % Total Increasing | % Not Increasing |
|--------------------|--------------------------------|-----------------------------------|---------------------------|-------------------------|
| East Midlands | 55.0% | 20.0% | 75.0% | 25.0% |
| Eastern | 87.1% | 0.0% | 87.1% | 12.9% |
| London | 91.7% | 4.2% | 95.8% | 4.2% |
| North East | 87.5% | 0.0% | 87.5% | 12.5% |
| North West | 84.2% | 5.3% | 89.5% | 10.5% |
| South East | 92.3% | 2.6% | 94.9% | 5.1% |
| South West | 100.0% | 0.0% | 100.0% | 0.0% |
| West Midlands | 66.7% | 26.7% | 93.3% | 6.7% |
| Yorkshire & Humber | 100.0% | 0.0% | 100.0% | 0.0% |
| National | 84% | 8% | 92% | 8% |

Appendix 10: 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

A national care service in England, Scotland and Wales:

LGIU, in partnership with CIPFA, is publishing a three-part series on progress towards National Care Services (NCSs) in England, Scotland and Wales, and what this means for local government. The [first briefing](#) examines the ‘story so far’ in each nation. The [second briefing](#) learns from the Scottish and Welsh experiences. The third and final briefing will explore the future direction of reform and what a viable path forward could look like.

State of Local Government Reorganisation (LGR): the final proposals

LGIU has conducted a comprehensive analysis of the final Local Government Reorganisation (LGR) proposals, asking two key questions: where are we now, and what comes next? The member-only report unpacks the submissions, examining proposed boundaries, key statistics and the detail behind each proposal, and highlights the main lessons emerging from this wave. Explore the analysis for [Devolution Priority Programme \(DPP\) areas](#) and [non-DPP areas](#).

Looking to 2050: The future of local government in England

LGIU, supported by Local Partnerships, has published a new report on the future of England’s subnational government landscape. We surveyed/interviewed senior officers, elected leaders and mayors across all combined authority areas, finding strong support for a strategic regional tier — but limited clarity about its purpose and powers. [The report](#) argues that without a clearer settlement, England will remain highly centralised, and we set out a framework for the government to define the roles of local authorities, strategic authorities and central government for the next phase of reform.

Service delivery in uncertain times

LGIU, supported by Norse Group, has published [new research](#) exploring how local government reorganisation (LGR) is affecting service delivery arrangements. Drawing on surveys and interviews with senior figures in councils undergoing reorganisation, it finds an uneven landscape: in some areas, LGR is reshaping delivery models and prompting a reset of provider relationships, while in others, councils are maintaining a business-as-usual approach amid uncertainty and compressed timelines.

LGIU

251 Pentonville Road
London, N1 9NG

info@lgiu.org | lgiu.org

© LGIU March 2026

Images: Laurence Berger;
WhiteWolfMedia
via istock

