# MPs warn of councils' financial cliff edge amid government complacency



MPs have raised serious concerns over the precarious financial state of local councils, warning that the Government appears to accept the growing crisis as "normalised background noise." A cross-party report from the Public Accounts Committee (PAC) highlights deep-rooted and persistent challenges in the local government funding system, with many issues remaining unresolved despite repeated warnings. The report points to councils reaching a financial "cliff edge," with an audit assurance backlog obscuring clarity on whether nearly £73 billion spent in 2023/24 delivered value for money. It emphasises that deteriorating service quality, delayed support for children with special needs, and prolonged temporary accommodation for many families reflect major systemic failings.

The committee called on the Minister for Housing, Communities and Local Government to collaborate with other departments to simplify the convoluted funding system. Currently, hundreds of unique grants outside the main finance settlement are administered through complex, resource-heavy bidding processes, hindering timely and effective allocation of funds. Councils face acute financial strains, notably marked by underinvestment in preventive services that could mitigate crises in social care and homelessness. Official data reveals a stark imbalance: local authorities spend over £121 billion on late intervention in children’s social care annually, while only £2.8 billion is directed towards early support, coinciding with a rise in children entering care systems.

Despite Government pledges of £270 million for children’s social care prevention and nearly £193 million for homelessness prevention, the report warns these efforts remain insufficient in the face of escalating needs and financing complexities. Treasury officials acknowledge that transitioning to more robust, multi-year funding models will be gradual and require sustained effort. The committee also criticised the Government’s failure to assess the impact of increased national insurance contributions (NICs) on local services, with councils unsure whether additional funding fully offsets these costs. Concerns exist that private adult social care providers may pass on increased expenses to councils or terminate contracts, further straining local budgets.

One of the gravest pressures highlighted is the surge in demand for special educational needs and disabilities (SEND) services, with budget overspends projected to hit up to £3.9 billion annually by 2028. While councils have a temporary ability to exclude these deficits until March 2026, the committee warns of potential widespread council bankruptcies once this measure expires, with no clear Government solution yet proposed. The Local Government Association (LGA) echoed these fears, urging the Government to write off existing deficits and implement comprehensive SEND reforms focusing on inclusion in mainstream education settings. The need for a clear timetable and detailed implementation plans for broader local government reform—including funding allocation, council restructuring, and service delivery innovation—was also underscored.

Voicing frustration, PAC chairman Sir Geoffrey Clifton-Brown described the Government's approach as dangerously complacent, noting the recurring nature of these financial challenges and urging a "paradigm shift" in local government funding. London Councils chairwoman Claire Holland highlighted how ongoing financial constraints undermine councils' ability to advance shared priorities such as prevention, housing development, and economic growth, stressing the urgent necessity for bold reform of the outdated finance system.

However, local government minister Jim McMahon dismissed the report’s findings as unsupported by evidence. He claimed that the Government has made significant strides, including restoring audit functionality, introducing new legislation for audits, and injecting over £5 billion in new grant funding this year atop £69 billion already allocated. McMahon pointed to improved submission rates for audited accounts and lower claims on financial support compared to previous years as evidence of progress. He also cited ongoing reforms targeting key services like SEND as proof that the Government is adequately supporting local authorities.

Complementary reports from other parliamentary committees and unions paint a similarly stark picture of local government finances. Unison recently revealed that UK councils face a £4.3 billion deficit in 2024-25, expected to worsen to £8.5 billion in the following year, warning of a potential collapse in local services without urgent Government intervention. The Levelling Up, Housing and Communities Committee called for immediate action to close a £4 billion funding gap, highlighting systemic underfunding and increasing social care demand as critical drivers of fiscal instability. The committee recommended reforms to council tax and the funding system and a comprehensive review of SEND provision to ensure long-term sustainability.

Additional parliamentary scrutiny reports add weight to concerns over financial distress, noting an alarming rise in councils issuing section 114 notices—formal signals of financial crisis in England—over recent years. Labour MP Clive Betts, chairing the Levelling Up, Housing and Communities Committee, described the situation as an "out-of-control financial crisis," urging the Government to use upcoming funding settlements to bridge the gap and implement long-term reforms, including exploring land value taxes and greater fiscal devolution.

Taken together, these assessments reveal a local government sector grappling with sustained funding shortfalls, escalating service demands, and complex, fragmented financing arrangements. While the Government asserts progress and plans, cross-party consensus among MPs, local authorities, and unions stresses the urgent need for comprehensive reform and adequate multi-year funding to prevent further deterioration of essential local services and avert widespread council insolvencies.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.irishnews.com/news/uk/mps-suggest-government-treats-councils-financial-woes-as-normalised-noise-EHS5N3QVYZJZDDNLRURCR4CYOU/), [[4]](https://committees.parliament.uk/committee/17/housing-communities-and-local-government-committee/news/156651/council-finances-unsustainable-without-reform-say-mps/)
* Paragraph 2 – [[1]](https://www.irishnews.com/news/uk/mps-suggest-government-treats-councils-financial-woes-as-normalised-noise-EHS5N3QVYZJZDDNLRURCR4CYOU/), [[2]](https://www.ft.com/content/76c5fd20-04da-4651-8740-e52d21d04541), [[5]](https://www.civilserviceworld.com/professions/article/4bn-funding-gap-puts-councils-at-tipping-point-mps-warn)
* Paragraph 3 – [[1]](https://www.irishnews.com/news/uk/mps-suggest-government-treats-councils-financial-woes-as-normalised-noise-EHS5N3QVYZJZDDNLRURCR4CYOU/), [[3]](https://committees.parliament.uk/committee/17/levelling-up-housing-and-communities-committee/news/199671/government-must-tackle-4bn-council-funding-gap-or-risk-severe-impact-to-services-%C2%A0), [[6]](https://www.independent.co.uk/news/uk/labour-mps-government-michael-gove-communities-b2488467.html)
* Paragraph 4 – [[1]](https://www.irishnews.com/news/uk/mps-suggest-government-treats-councils-financial-woes-as-normalised-noise-EHS5N3QVYZJZDDNLRURCR4CYOU/), [[4]](https://committees.parliament.uk/committee/17/housing-communities-and-local-government-committee/news/156651/council-finances-unsustainable-without-reform-say-mps/)
* Paragraph 5 – [[1]](https://www.irishnews.com/news/uk/mps-suggest-government-treats-councils-financial-woes-as-normalised-noise-EHS5N3QVYZJZDDNLRURCR4CYOU/), [[7]](https://publications.parliament.uk/pa/cm5804/cmselect/cmcomloc/56/report.html)
* Paragraph 6 – [[1]](https://www.irishnews.com/news/uk/mps-suggest-government-treats-councils-financial-woes-as-normalised-noise-EHS5N3QVYZJZDDNLRURCR4CYOU/)
* Paragraph 7 – [[2]](https://www.ft.com/content/76c5fd20-04da-4651-8740-e52d21d04541), [[3]](https://committees.parliament.uk/committee/17/levelling-up-housing-and-communities-committee/news/199671/government-must-tackle-4bn-council-funding-gap-or-risk-severe-impact-to-services-%C2%A0), [[5]](https://www.civilserviceworld.com/professions/article/4bn-funding-gap-puts-councils-at-tipping-point-mps-warn), [[6]](https://www.independent.co.uk/news/uk/labour-mps-government-michael-gove-communities-b2488467.html), [[7]](https://publications.parliament.uk/pa/cm5804/cmselect/cmcomloc/56/report.html)

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## Bibliography

1. <https://www.irishnews.com/news/uk/mps-suggest-government-treats-councils-financial-woes-as-normalised-noise-EHS5N3QVYZJZDDNLRURCR4CYOU/> - Please view link - unable to able to access data
2. <https://www.ft.com/content/76c5fd20-04da-4651-8740-e52d21d04541> - A report by Unison reveals that UK councils are facing a £4.3 billion deficit for the upcoming year, a figure significantly higher than previous estimates. The union warns of a potential widespread collapse of local government services in England, Scotland, and Wales without emergency relief from the government. The deficit is expected to rise to over £8.5 billion by the following year. Prime Minister Sir Keir Starmer attributes the financial crisis to the previous Conservative government's £22 billion deficit in public finances. A challenging Budget is anticipated on October 30 by Chancellor Rachel Reeves. The deficit is exacerbated by funding cuts from Westminster after the 2008-09 financial crisis, with adult social care funding reforms also contributing to the issue. Several councils, impacted by homelessness and social housing shortages, are nearing bankruptcy, with painful savings measures and service cuts becoming increasingly necessary. The government has promised longer-term funding stability but has yet to commit to increasing central government funds for councils.
3. <https://committees.parliament.uk/committee/17/levelling-up-housing-and-communities-committee/news/199671/government-must-tackle-4bn-council-funding-gap-or-risk-severe-impact-to-services-%C2%A0> - The Levelling Up, Housing and Communities Committee has called on the Government to address the £4 billion funding gap in council financing for 2024-25 to prevent severe impacts on services and the risk of further councils in England facing effective bankruptcy. The report highlights systemic underfunding of local councils and recommends reforms to council tax and the wider funding system to ensure financial sustainability. The committee identifies rising demand for children’s and adults’ social care as significant contributors to unmanageable bills for some local authorities and calls for a full review of the Education, Health and Care (EHC) plan system to make SEND provision financially sustainable.
4. <https://committees.parliament.uk/committee/17/housing-communities-and-local-government-committee/news/156651/council-finances-unsustainable-without-reform-say-mps/> - The Housing, Communities and Local Government Committee has stated that reforms are necessary to ensure the sustainability of local government finances, including an urgent solution to the funding of social care in England. The report acknowledges that councils have faced various budget pressures in recent years, including increased demand for services, especially social care, and that these financial challenges have been exacerbated by Covid-19. The committee recommends that the Government urgently reform the funding of social care in England, implement the Fair Funding Review and business rates reset as soon as possible, and consider wider options for reform, including possibly replacing council tax and business rates with a proportional property tax.
5. <https://www.civilserviceworld.com/professions/article/4bn-funding-gap-puts-councils-at-tipping-point-mps-warn> - MPs have warned that councils in England are facing a £4 billion funding gap for 2024-25, despite recent financial packages from ministers. The Levelling Up, Housing and Communities Committee's report indicates that without additional funding, essential services are at severe risk, and more authorities may declare effective bankruptcy. The committee highlights increased cost pressures from children’s and adults’ social care, services for children and young people with special educational needs and disabilities, and services for homeless people as principal drivers of the predicament faced by councils. The report calls for the Government to bridge the funding gap to prevent already strained council services from becoming stretched to breaking point.
6. <https://www.independent.co.uk/news/uk/labour-mps-government-michael-gove-communities-b2488467.html> - Labour MP Clive Betts, chair of the Levelling Up, Housing and Communities Committee, has stated that there is an out-of-control financial crisis in local councils across England. He emphasized that councils are facing increased demands for services while experiencing a significant hit to their real-terms spending power in recent years. Betts called on the Government to use the local government financial settlement to help bridge the £4 billion funding gap for 2024-25 to prevent already strained council services from becoming stretched to breaking point. He also highlighted the need for long-term reform of the way councils are financed, including considering options such as land value taxes and wider fiscal devolution.
7. <https://publications.parliament.uk/pa/cm5804/cmselect/cmcomloc/56/report.html> - The Levelling Up, Housing and Communities Committee's report on financial distress in local authorities highlights that eight local authorities in England have issued a section 114 notice in the past six years, indicating severe financial distress, whereas none had done so in the preceding eighteen years. The report expresses concern over the increasing number of local authorities reporting financial distress and their ability to maintain service delivery. The committee recommends that the Government address the systemic issues leading to financial distress in local authorities and work with them to ensure the sustainability of local services.