

Financial Sustainability in Local Government

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Reviewing pressures, funding, financial governance and future resilience

- Review of funding and cost pressures facing local government
 - Forward look through the rest of the spending review period and beyond.
 - Financial resilience and governance of councils, review of policy and support for the sector
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Big wage pressures in recent years

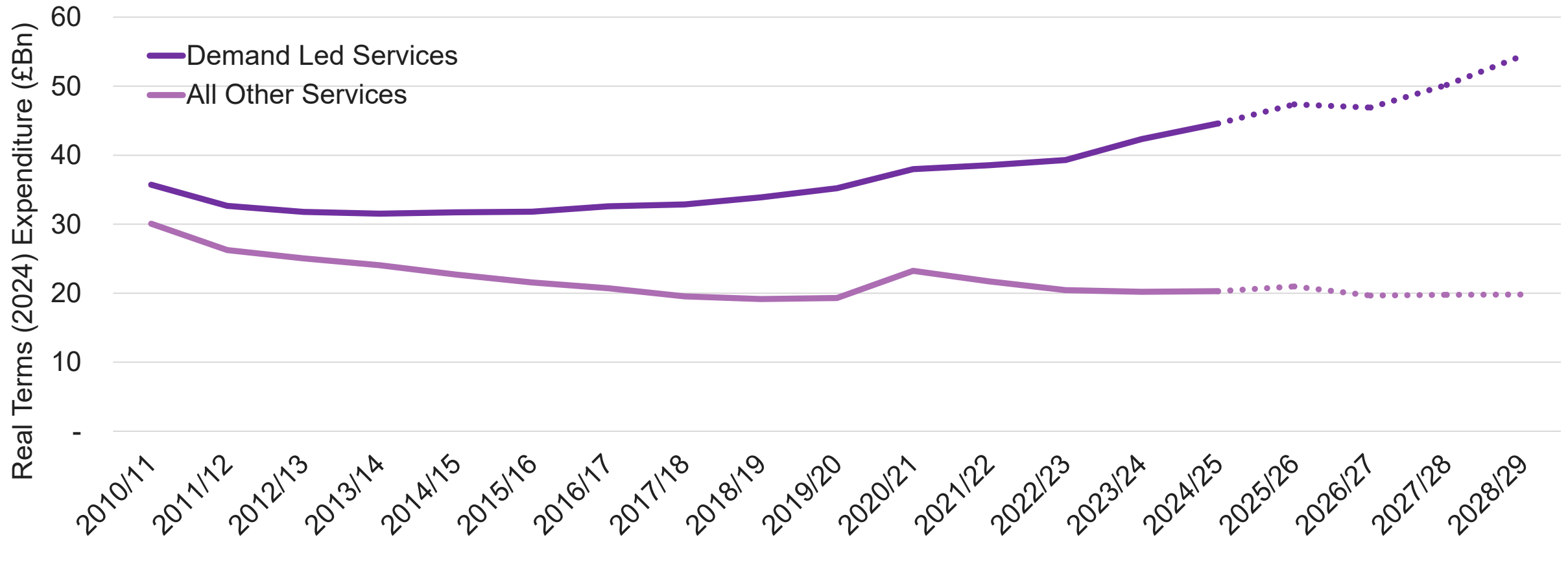
- National living wage (NLW) – impact on commissioned adult social care services
 - 2023/24: 9.7% = £1.4 billion
 - 2024/25: 9.8% = £1.6 billion
 - 2025/26: 6.7% = c£1.2 billion
 - Employer national insurance contributions (NICs)
 - £637 million in direct costs to councils' wage bills
 - Up to £1.1 billion in indirect costs passed on from providers of outsourced or contracted out services.
 - £502 million in compensation from Government
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And big cost and demand pressures in services

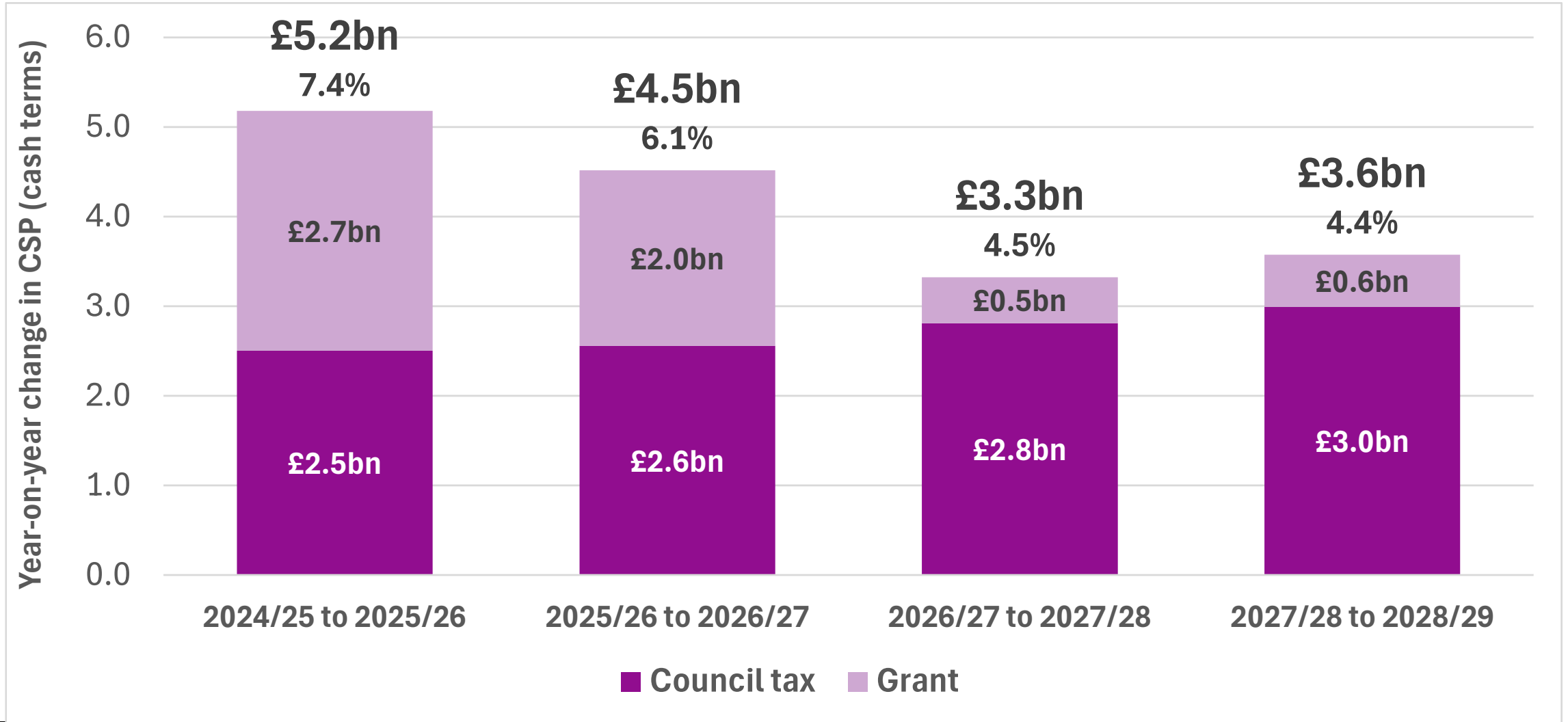
- Increasing complexity of need and rising placement costs in **children's social care**. 25.7% real terms increase in budgeted spend 2019/20 to 2024/25.
 - Increasing costs and demand in **adult social care** leading to a £3.7 billion (18.1%) real terms increase in spend from 2019/20 to 2024/25.
 - **Spend on homelessness** increased by 77.4% from 2019/20 to 2024/25 in real terms - growing demand for, and costs of, temporary accommodation.
 - 64.3% real terms rise in spend on **home-to-school transport** for children with special education needs and disabilities (SEND) from 2018/19 to 2023/24.
 - Increased demand for **SEND services**, resulting in an expected 'deficit' of £5 billion by 2025/26 for these services.
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Demand Led Service Pressures

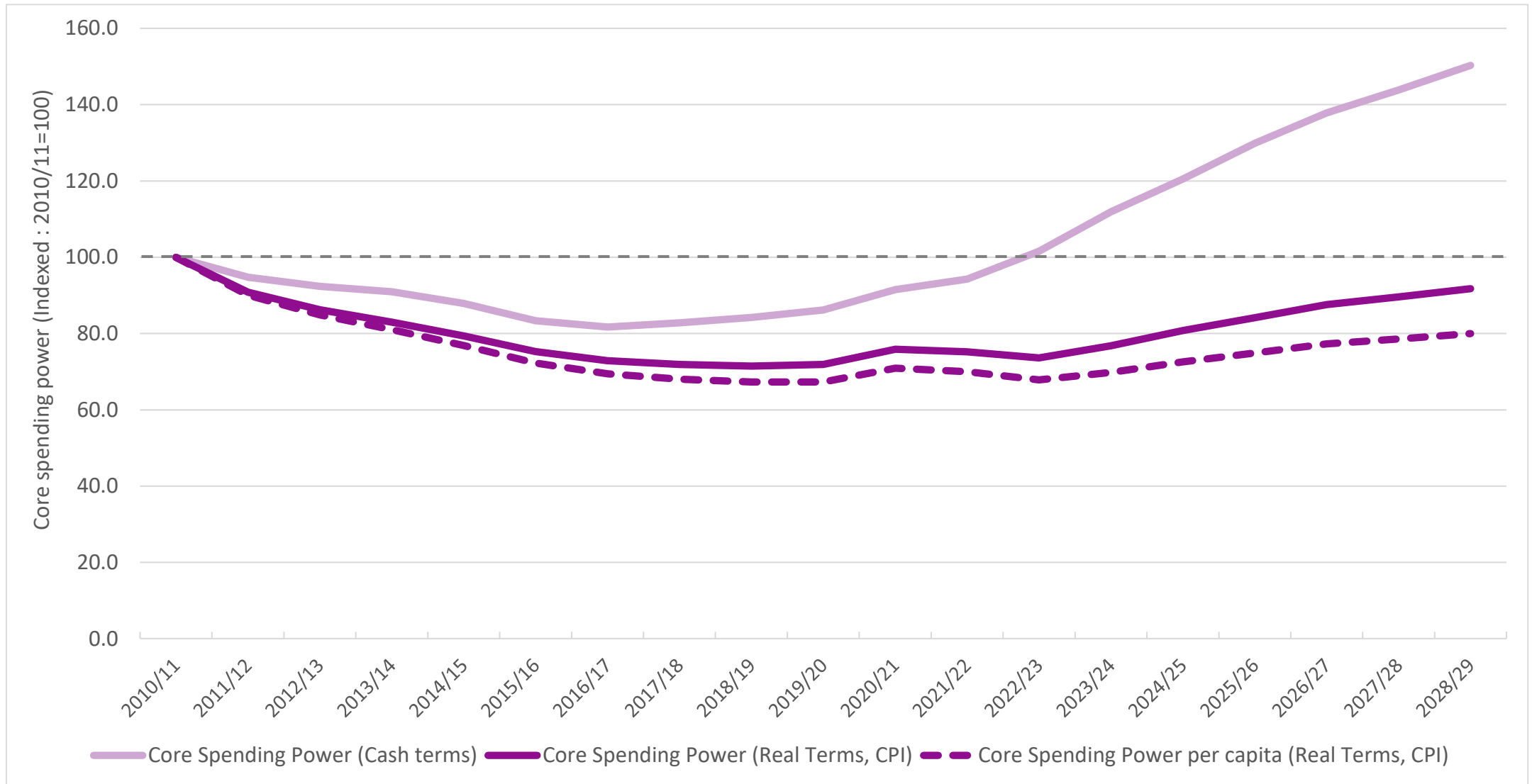
LAs have been required to spend proportionally more on demand led services (ASC, CSC, SEND & Homelessness) than all other services.



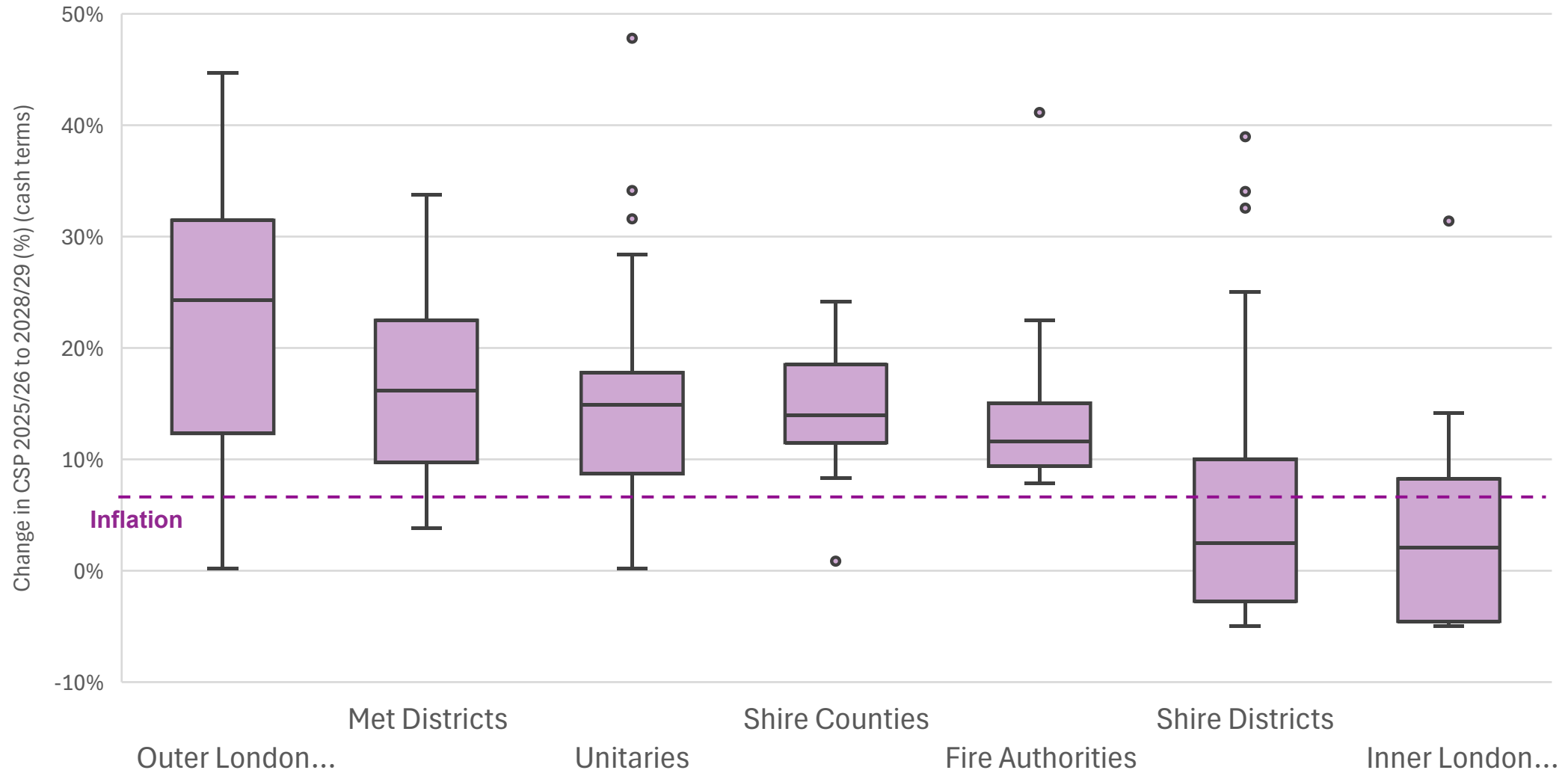
Year-on-year change in Core Spending Power



Trends in Core Spending Power



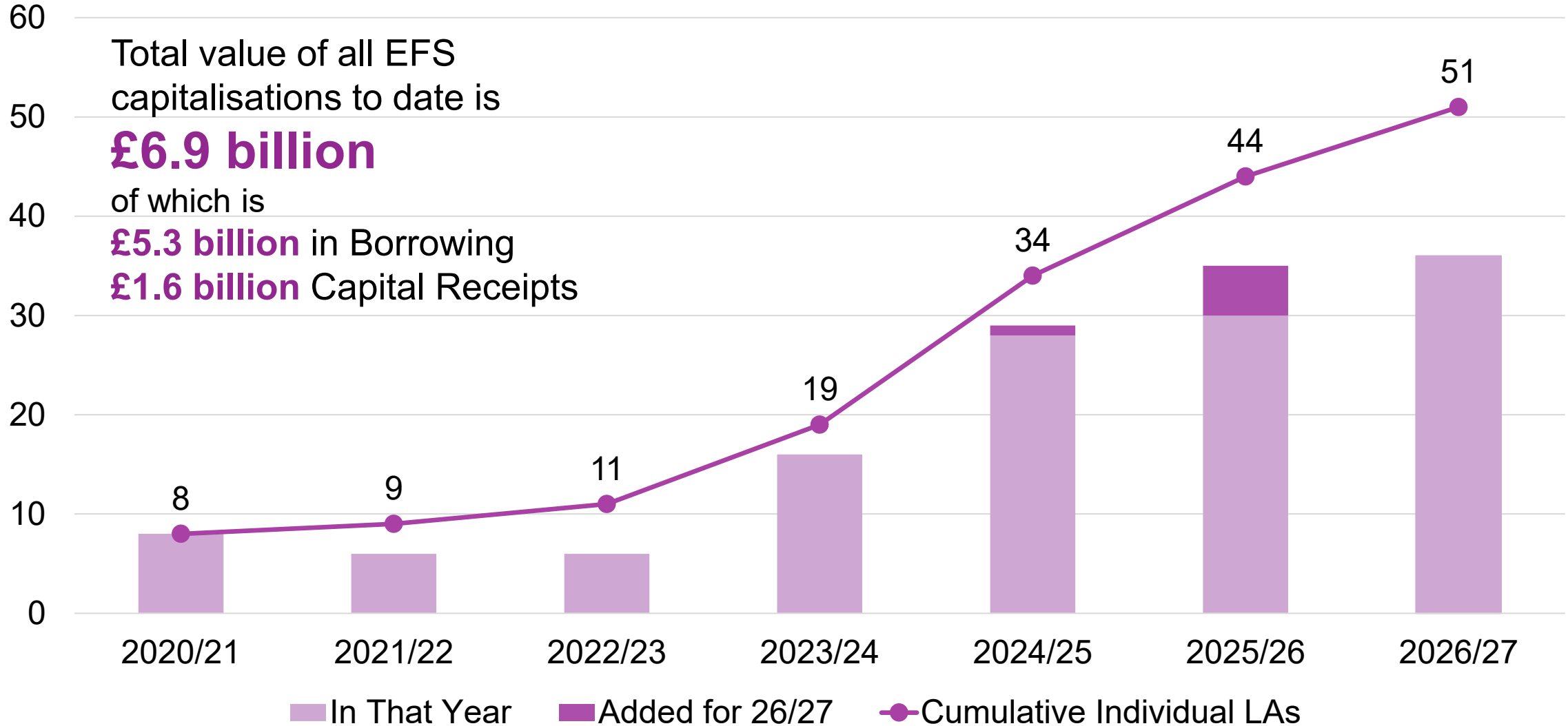
Change in Core Spending Power by authority type 2025/26 to 2028/29 in cash terms



LGA survey 2026: Exceptional Financial Support (pre final settlement)

- Councils more likely to feel the Fair Funding Review has weakened their finances:
 - All councils – 58% weaker vs 32% stronger
 - Social care councils – 53% weaker vs 34% stronger
 - Shire district councils – 64% weaker vs 28% stronger
- Councils are confident they will be able to deliver statutory duties in 2028/29:
 - 43% of all councils
 - 33% of social care councils
 - 55% of shire district councils
- Many councils expect to require Exceptional Financial Support (EFS) at some point in the next three years in order to set a balanced budget:
 - 34% of all councils
 - 47% of social care councils
 - 16% of shire district councils

The number of councils requiring EFS is increasing



Note: *In That Year* data category includes retrospective cases.

LGA key messages

- **Additional resources are desperately needed:** Even with the increase in funding for some councils announced at the final settlement, the settlement funding envelope does not provide the funding councils need to ensure their financial sustainability and protect services.
- **Exceptional Financial Support is not the answer:** EFS is no longer exceptional, and we have growing concerns over its efficacy as a method to support councils experiencing severe financial pressure.
- **Further funding reform is needed:** The sector's financial challenges are not resolved by the announcements in the settlement, and the core components of the system are largely unchanged by the reforms.
- **The Government's announcement on DSG deficits is welcome:** It removes the immediate threat of insolvency for many councils but fully writing off historic and future high needs deficits remains critical. It is important the Schools White Paper delivers the much-needed reform of the SEND system, leading to better outcomes for children and families. Overall budget-setting will be another hugely challenging task for many councils this year and beyond.

LGA Sector Support Offer

An [extensive finance offer](#) to help local authorities manage their finances including:

- Finance Improvement & Sustainability Associates (FISA) Programme
- Finance and corporate peer challenges
- Bespoke support for councils facing significant challenges includes assurance reviews focused on capital strategies, and business cases for services / programmes at risk of overspending.
- Tools and resources for councillors and officers including training and [Finance Unpacked videos](#)
- Guidance and publications e.g. [Guidance on navigating financial uncertainty](#) and [LGR Finance essentials guides](#)
- LG Inform – free benchmarking tool
- [CFO mentoring scheme](#)

Governance – local audit reform

- Local audit backlog – over 900 accounts outstanding at peak
 - “Backstops” implemented over 5 years, to 30 November 2028
 - Feb 2026 backstop for 2024/25 accounts – more than half of all councils have modified audit opinion
 - Build back of assurance long process - assessment of likely position of each local body being undertaken
 - Whole of Government Accounts for last three years have been disclaimed due to local audit issues; likely 2025/26 will be fourth.
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Governance – local audit reform (2)

- English Devolution and Community Empowerment Act established Local Audit office (LAO)
 - LAO will be launched in the autumn and take on full role April 2027
 - Significant reforms planned to audit approach, accounts, and processes – but will be a very long process
 - Act also made changes to Audit Committees – enabling regulations expected in the autumn
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