



Fair Funding for Councils

Summary

UK Local authorities are in a deepening financial crisis. Years of reduced central government funding, rising service demands (especially in social care), high inflation, and limited revenue-raising powers have pushed many councils to the brink of insolvency, leading to continued job losses and service cuts. While governance failures have contributed to some collapses, overwhelming evidence suggests the crisis is structural and widespread, requiring urgent reform.

1. Councils in Crisis: Rising Section 114 Notices

- What is a Section 114 notice? It is issued when a council can't balance its budget —signifying effective bankruptcy. It halts non-essential spending and triggers central government intervention, usually resulting in job losses and service cuts.
- The number of Section 114 notices has surged in recent years. From 2001 to 2018, none were issued; since then, 12 have been declared by eight councils, including Woking, Nottingham, and Birmingham in 2023.
- This is likely to get worse, with an LGIU survey finding that over half of councils' fear issuing a Section 114 within five years, and many expecting to do so in the next year.
- That same survey found that only 9% of senior local government leaders believe council finances are sustainable following an all-time low of just 4% in 2024. This sentiment spans all regions and political affiliations. Councils describe a "perpetual state of crisis," with many fearing the situation threatens the very existence of local government. (LGIU, 2025)
- While central government has tried to attribute this trend to mismanagement, the problems are now undeniably systemic.

2. Cuts to the workforce and services

- UK local authorities are facing severe workforce and service cuts due to escalating financial pressures. Years of underfunding, rising demand, and legal obligations to balance budgets have forced councils to reduce staffing and scale back services.
- Two-thirds of councils are cutting expenditure, increasingly affecting not just discretionary services like parks, leisure, and arts, but also statutory services such as adult social care, children's services, and highways.



FIGHTING FOR FAIR PAY, FAIR FUNDING AND TO SAVE OUR SERVICES
UNITETHEUNION.ORG/FAIRFUNDING

   @unitetheunion  @unitetheunion1

- Workforce reductions, hiring freezes, and restructures are widespread. Many councils are also relying heavily on temporary reserves to delay deeper cuts, a tactic widely seen as unsustainable beyond 2025 without urgent central government reform.
- Structural Reform: The drive to more unitary authority models could, if not managed correctly, have the potential to lead to further cuts.

3. Budget Strains and Limited Revenue Powers behind this system crisis

- Councils must legally balance budgets, but doing so is increasingly difficult:
 - Council Tax now makes up 56% of core spending (up from 40% in 2009–10). Yet it's outdated (based on 1991 valuations), regressive, and restricted by referendum limits on increases, forcing most councils to raise it to the maximum allowable.
 - Business Rates are viewed as outdated and unequal, benefiting wealthier areas and misaligned with modern business realities.
 - Fees and Charges have increased as councils try to offset funding shortfalls, but these add costs to residents, contributing to the cost-of-living crisis.
 - Commercial Ventures offer some relief but carry high risk. Asset sales and borrowing to fund services are rising but unsustainable.
 - Reserves Use is widespread. Over three-quarters used reserves in 2023–24, with many doing so again in 2024–25. More than half used reserves both years—an unsustainable trend that could hit a “cliff edge” if not reversed.
 - Debt Levels and Interest Burdens Local government debt has more than doubled since 2010. Councils now spend £6.5 billion annually on servicing debt—surpassing the sector's entire budget shortfall. In 2023–24, some councils spent more on debt than on core services like housing and waste. Nottingham, for instance, had a £53m deficit but £55m in debt servicing. Most borrowing is via the Public Works Loan Board, which charges an added 0.8% interest.

4. Key Service Demand Pressures

- Social Care now consumes over 70% of some councils' budgets.
- Children's Services are under intense pressure, especially from rising demand and costly residential placements—sometimes exceeding £1 million per child per year.
- SEND Deficits pose long-term risks. Without reform, deficits in the Dedicated Schools Grant could trigger further Section 114 notices.
- Housing and Homelessness is a growing issue for lower-tier councils.
- Environmental Costs are rising due to new obligations under the 2021 Environment Act—often unfunded.

5. Sector Demands: Structural Reform

Unite support the following key reform proposals include:

- Multi-Year Settlements: To allow for long-term planning.
- End to Competitive Bidding: Seen as wasteful and inefficient.
- Reform of Business Rates: To make the system fairer and incentivize growth.
- Council Tax Reform: Replace outdated, regressive structures and remove the referendum cap on increases.
- Fair Funding Review: Increase funding and distribute fairly based on need.
- Fiscal Devolution: The government to explore potential options for granting councils broader powers to raise money e.g. municipal bonds, local shares of income tax, tourism and environmental levies, as exist in other countries.
- Social Care Reform: A core driver of financial pressure, requiring national action.
- Insourcing: Reversing costly outsourcing by bringing services back in-house.

6. Potential of a Well-Funded Local Government

With proper funding and genuine autonomy, councils could play a major role in delivering national priorities like climate action and public health. Empowered councils would better reflect local needs and build resilience by investing in prevention rather than reacting to crises.

Conclusion

The financial health UK councils is in critical condition. While individual mismanagement has played a role, the dominant issues are structural: inadequate funding, outdated tax systems, and strained local-central relations. Without urgent reform, the viability of essential services—and local democracy itself—is at risk. The sector is united in its call for change: long-term settlements, more local control, and a funding model that meets real-world needs.

“The sector is at crisis point.”

S114 Notices since 2020:

- Croydon- November 2020
- Slough- July 2021
- Croydon- Late 2021
- Nottingham- December 2021
- Croydon- November 2022
- Thurrock- December 2022
- Woking- June 2023
- Birmingham- September 2023 x 2
- Nottingham- November 2023

Councils who have not released audits:

- Warrington
- Spelthorne
- Slough
- Scarborough
- Rossendale
- Luton
- Tower Hamlets
- Copeland (now merged with Cumberland)

Councils receiving exceptional financial support from 2024:

- Birmingham
- Bradford
- Cheshire East
- Croydon
- Cumberland
- Eastbourne
- Havering
- Lambeth
- Medway
- Middlesbrough
- North Northamptonshire
- Nottingham
- Plymouth
- Slough
- Somerset
- Southampton
- Stoke-on-Trent
- Thurrock
- West Northamptonshire
- Woking