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Mapping the gaps: the geography of local authority financial distress in England

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London, United Kingdom - May 24, 2019: Close-up of the ornate entrance to an English town hall (Barnet, London)
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Summary

Local authorities in England face acute financial distress within a broken funding system. Various estimates of their shortfalls between expenditure and income have been produced, but little is known of the geography and institutional and political nature of the financial gaps.

Mapping the gaps, this report provides perspectives on the geography of financial distress across local authorities in England and aims to contribute to the wider debate on how to improve their financial sustainability and resilience. The plight of local authorities in providing essential services is a critically important issue for the UK economy, society, and polity, and the new Labour government.

The geography of local authority financial distress across England reveals a highly differentiated landscape that defies any convenient or simple shorthand. While the structural issues with the funding system are common and shared, the sets of challenges facing local authorities play out in different, place-specific contexts with different outcomes. Using data collected from the Medium Term Financial Strategies (MTFS) produced by each of England's 317 local authorities, the main findings are:

- Taking 2024-25 as the starting point, the 317 local authorities in England forecast their total deficit as £9.3 billion (bn) by 2026-27.
- Almost all of the 317 councils estimate a funding shortfall by 2026-27, with only 14 able to balance their budgets or be in surplus.
- Significant regional variations are evident in the local authority financial landscape across England. Councils in London and the South East are the worst affected regions, facing shortfalls of £3.9bn by 2026-27. Councils in the North of England face deficits of £2.3bn over the same period.
- The scale of the financial challenge facing councils differs according to their local authority type and responsibilities. Large county councils must find £1.7bn by 2026-27, equivalent to £79 million (mn) for each authority. Single-tier metropolitan districts, London boroughs and unitary councils need to find nearly £6.9bn by 2026-27, equivalent to £52mn for each authority. Smaller district councils need to find over £800mn by 2026-27, equivalent to £5mn per authority, however, as a proportion of their total budget this is more than double that of counties, metropolitan districts and unitaries.
- The relationship between financial condition and political control cannot be reduced to simplistic conclusions - with authorities led by all major political parties in difficult financial positions which are untenable in the long term.

Principles are needed to guide a coherent overhaul of the funding system rather than further incremental and shorter-term tinkering.

1. Introduction

Financial stress is nothing new for local authorities in England. Crisis, as W. A. Robson noted in the late 1960s, is "all too appropriate as a description of the present situation in which local government now finds itself".[1] Yet, in 2024, a consensus has emerged between central government and sector leaders that the local authority funding system is at a tipping point. The outgoing Conservative government conceded earlier this year that it was "all but broken", and the new Labour government has made "repairing the foundations" of local authorities a central feature of reforming public services.[2]

The number of local authorities receiving 'Exceptional Financial Support' from the renamed Ministry for Housing, Communities and Local Government (MHCLG) has now reached a historically unprecedented level.[3] The Ministry's 'at risk' list – informed by the Local Government Association, Office for Local Government and Chartered Institute of Public Finance and Accountancy – is not in the public domain but is rumoured to contain dozens of England's 317 authorities. Eight local authorities have had to issue Section 114 notices since 2018, which are legally required when they are unable to balance their annual budgets, including Birmingham, Thurrock, and Woking.[4] The prospect of failing authorities was rumoured to be on the new Labour Government's "shit list" of potential crises it inherited following the General Election in July 2024.[5] Such experiences are symptomatic of an acute period of financial stress amongst authorities in England which has been ongoing for more than a decade since the introduction of austerity by the Conservative-Liberal Democrat Coalition in 2010. Such financial pressures and their impact on local services are being felt by the public: value for money in local government is currently considered the lowest since records began in 2012.[6]

A series of estimated shortfalls in funding have been calculated using different data and methodologies, including asking local authorities directly through survey questions, forecasting expenditure, or – in some cases – drawing on a specific indicator, such as the proportion of local authorities with reserves equivalent to five per cent of their net revenue expenditure or less.[7] Last year the Local Government Association identified a £4bn funding gap by 2024-25, rising to £6.2bn by 2026-27.[8] The BBC's Shared Data Unit found a £5.2bn shortfall by 2025-26, even accounting for local authorities making £2.5bn in savings.[9] And the County Councils Network identified an estimated £52bn shortfall by 2029-30 if council tax remains frozen and the Government does not increase the Local Government Finance Settlement.[10] While each methodology has its own strengths and weaknesses, this report presents the first England-wide analysis of local authorities based on practice within local government. While the existence of funding gaps is clear, we know little of the scale, geography, and institutional and political nature of the financial shortfalls and – in a small number of cases – surpluses. This understanding is necessary to help inform what corrective action can be taken. Mapping the gaps, this report aims to provide a more detailed picture of the geography of financial distress across local authorities in England and contribute to the wider debate about local authority financial sustainability and resilience. The funding of local authorities is an enduring and critical issue of national significance for the UK economy, polity, and society. At stake are fundamental questions about the purpose of local government and how it can be funded, and more philosophical questions about what a good society looks like, including the social contract the public expects from those that govern.

1. Robson, W. A. (1966: 6) Local Government in Crisis, George Allen & Unwin: London.
2. Local Government Minister Simon Hoare quoted in Ford, M. (2024) "Minister calls for cross-party solution to 'broken' funding", The Municipal Journal, 24 May; Boakye, K. (2023) "Nottingham leader: 'Broken system means we won't be the last to issue a S114'", Local Government Chronicle, 29 November; HMT (2024: 16-17) Fixing the Foundations: Public Spending Audit 2024-25, HMT: London.
3. Ford, M. (2024) "Councils in financial crisis predicted to double", The Municipal Journal, 5 June.
4. Slough, Northamptonshire (which has subsequently re-organised), Croydon and Nottingham have also issued Section 114 notices as a result of unbalanced budgets. The eighth local authority to issue a Section 114 notice is Northumberland County Council due to unlawful expenditure rather than an unbalanced annual budget. In addition, on 27 September 2024, the South Yorkshire Mayoral Combined Authority issued a Section 114 notice because of incorrect accounting.
5. Pickard, J., Fisher, L. and Gross, A. (2024) "Labour faces a series of crises if elected, internal dossier warns", Financial Times, 21 May, Financial Times: London.
6. LGA (2024) Polling on Resident Satisfaction with Councils Round 38, LGA: London.
7. LGA (2024) Local Government White Paper, LGA: London; House of Commons Levelling Up, Housing and Communities (2024) Financial Distress in Local Authorities, Third Report of Session 2023-24, HC 56, House of Commons: London; Local Government Association (2024) Cost Pressures and Funding Gap Modelling 2024, LGA: London; Grant Thornton (2024) Regional inequalities in England weakening councils' financial resilience, 29 February, Grant Thornton: London.
8. LGA (2023) Funding gap growing as councils 'firmly in eye of inflationary storm', 20 October.
9. Tomas, P. and Lynch, P. (2023) "Black hole in town hall budgets rises to £5bn", BBC Shared Data Unit, 21 August.
10. Ames, E. (2023) "London councils face £400mn shortfall", LocalGov, 11 October.

Specifically, this report maps the financial situation of England's 317 authorities using data collected from their Medium Term Financial Strategies (MTFS). It reveals differences in the financial landscape by local authority type and political control. Recognising the – real or perceived – political and institutional limits, the report concludes by outlining broad principles to inform what can be done to address the financial distress of local authorities.

In summary, the geography of financial distress in local authorities across England reveals a highly differentiated landscape that defies any convenient or simple shorthand. While the structural issues with the funding system are common and shared, the sets of challenges facing local authorities are playing out in different, place-specific contexts with different outcomes. The main findings are:

- Taking 2024-25 as the starting point, the 317 local authorities in England forecast their total deficit as £9.3bn by 2026-27.

- Almost all of the 317 councils estimate a funding shortfall by 2026-27. With only 14 able to balance their budgets or be in surplus, the remaining 303 will have to increase taxes, raise other revenue sources or reduce services over the next two years.

- Significant regional variations are evident in the local authority financial landscape across England. Councils in London and the South East are the worst affected regions, facing shortfalls of £3.9bn by 2026-27. Councils in the North of England face deficits of £2.3bn over the same period. Councils in London will need to make cuts to services or increase their income by £209 per person by 2026-27 compared with £103 per person in the South West – meaning the reductions will affect London, which includes some of England's most disadvantaged authorities, twice as much as the South West. Councils that have issued Section 114 so-called 'bankruptcy' notices – legally required reports published when they are unable to balance their annual budgets – have significant distorting effects on regional shortfalls. The relatively small unitary authority Thurrock, for example, accounts for 24 per cent of the entire shortfall in the East of England which includes another 47 local authorities.

- The scale of the financial challenge facing councils differs according to their local authority type and responsibilities. Large county councils with responsibilities for delivering high-cost services – such as social care and special educational needs – must find £1.7bn by 2026-27, equivalent to £79mn for each authority. Single-tier metropolitan districts, London boroughs and unitary councils – responsible for social care and special educational needs as well as housebuilding and homelessness – need to find nearly £6.9bn by 2026-27, equivalent to £52mn for each authority. Smaller district councils with responsibilities for housebuilding and homelessness, but not social care or special educational needs – have to find over £800mn by 2026-27, equivalent to £5mn per authority. As a proportion of their total budget this is more than double that of counties, metropolitan districts, and unitaries.

- The relationship between financial condition and political control does not enable simplistic conclusions to be drawn. The majority of authorities forecast deficits under £100m or under £200 per capita by 2026-27 regardless of political party, though there are a number of outliers. Croydon, Buckinghamshire, Kent Hampshire and North Northamptonshire are Conservative outliers; Birmingham Leicester, Southampton, Warrington and Bradford are Labour outliers. And there are similar authorities with histories of political 'yo-yo-ing' or experience of being under no overall control, such as Havering in East London, that are outliers.

- Principles are needed to guide coherent overhaul of the funding system rather than further incremental and shorter-term tinkering. Drawing upon international practice from local authorities around the world, these principles include appropriate resources to match responsibilities, local fiscal autonomy and flexibility, equalisation, and voice.

The research is based on an analysis of data collected from each of the 317 local authority's Medium Term Financial Strategies (MTFS). The MTFS is an annual statutory forecast by each authority in England of likely income and expenditure over a three-year period. This research therefore meets authorities where they are, considering the voices of financial officers within local authorities. It is a bottom-up perspective rather than the usual top-down approach that uses inflation, historic changes in Core Spending Power, and council tax increases as its starting point, none of which provide any certainty. The shortfalls – or in a small number of cases, surpluses – have been calculated by drawing on data for the financial years 2024-25, 2025-26 and 2026-27. These shortfalls consider service-by-service overspends as well as a series of external factors over which local authorities have little control including the macroeconomic environment, investor confidence, inflation, and sector pay deals.

The shortfalls forecast in the MTFS provide a useful indicator of the existence and scale of the gap between expenditure and income. These data provide a novel information source and the first analysis of MTFS across local authorities in England. It is important to note that the data is produced by each local authority in different ways, reflecting their particular financial arrangements and conditions. Each local authority often uses different assumptions, for example, on projected income from commercial activities, revenue from fees and charges, interest rates, and inflation. This analysis is also a 'best guess' scenario by financial officers in local authorities based on the information they can access at that moment in time. As a result, as is the case with other indicators, a MTFS is also an imperfect tool to analyse funding shortfalls. Nevertheless, this analysis has given priority to quantifying the current shortfall in part because much of the qualitative research has tended to overestimate the likelihood of local authorities having to issue a Section 114 report.[11] The departure point of this analysis has not framed it in those terms, but nevertheless highlights the scale of the challenge. A more standardised approach to reporting would provide greater certainty.

11. Shaw, J. (2024) "Better measures needed to flag financial health of local authorities", Bennett Institute for Public Policy Blog, 7 February.

2. The geography of local authority financial distress in England

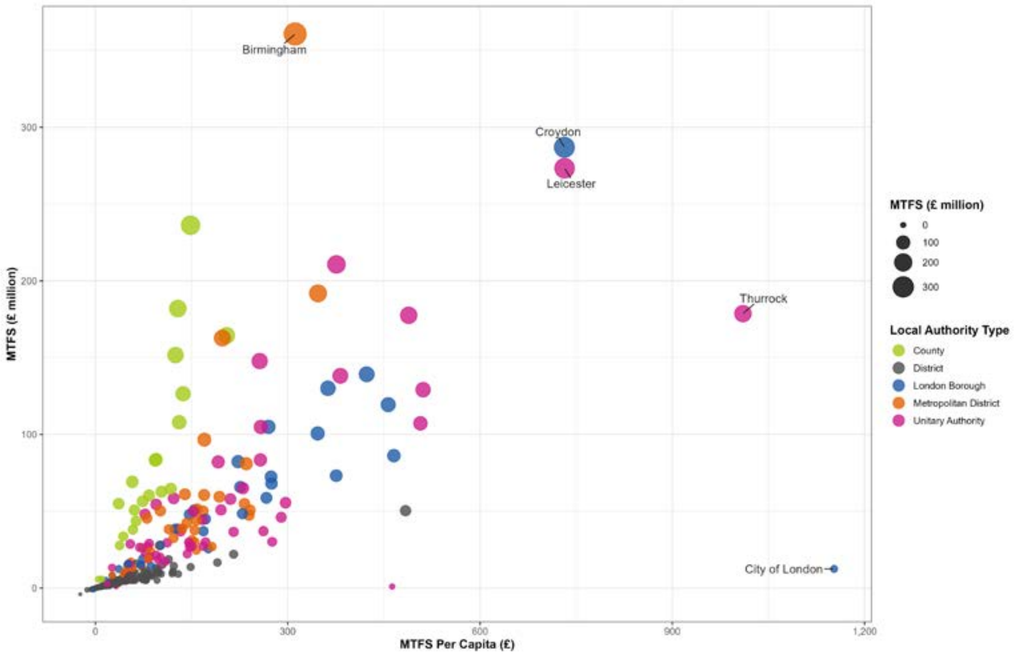
The overall landscape of local authority finances reveals a stark picture of imbalance with expenditure exceeding income. To address immediate shortfalls emerging from 2010, authorities adopted a series of strategies.[12] In the early stages of austerity introduced by the Conservative and Liberal Democrat coalition government, authorities identified the most straightforward savings: reducing discretionary services and corporate costs such as back-office administration; pursuing digitalisation; and seeking voluntary redundancies. Later Conservative administrations continued the funding reductions and reform of the financial system, leading to especially disadvantaged local authorities losing deprivation-related funding. Salami-slicing services gave way to more widespread service transformation as authorities were compelled to identify more substantial savings, including through redesigning and integrating services, sharing them with neighbouring authorities or a combination of both. Services continued to be reduced – or in some cases discontinued altogether – throughout the mid-2010s. Authorities were forced more proactively to pursue income generation strategies, though some did more aggressively than others: introducing a broad range of fees or increasing the amount charged for services, from burial and wedding ceremonies to waste collection and parking.[13] Investing in commercial property, primarily retail and office space, was taken forward in what has been described as "debt-driven entrepreneurialism".[14] In 2015-16, authorities invested £236 million in commercial assets. In 2016-17, that increased seven-fold to £1.8 billion.[15]

Throughout the pandemic, relatively generous UK Government support combined with the temporary closure of both discretionary and statutory services – such as leisure centres and libraries – reduced financial pressure on authorities and enabled the sector to increase its reserves. Not all authorities benefitted and in other cases reductions in income had adverse effects. Though nuanced, this increase in reserves during COVID-19 has bred scepticism in Whitehall that the financial challenges facing authorities are as acute as suggested. And this in part shaped the post-pandemic response by successive Conservative administrations.[16]

As local authorities came out of the pandemic, service transformation, commercial investment, and 'salami-slicing' have increasingly become inadequate to address shortfalls. This situation is partly driven by post-pandemic pressure on services, with suppressed demand arising from the temporary closure of services increasing later-stage, costlier interventions across social care and public health. The acuteness of the challenge has also been driven by the macroeconomic environment. High inflation has increased the cost of delivering services and rising interest rates have raised borrowing costs. The cost-of-living crisis has continued to increase the demand for services, though this is now likely abating, while the rise in council tax arrears has increased the debt owed to authorities. Pay awards set by the National Joint Council for the sector have also increased pressure on authorities. These cost pressures have, at points, outpaced economy-wide inflation and by March 2025 the additional pressures on authorities are expected to increase by £15bn, which is equivalent to a 29 per cent increase in the cost of delivering services relative to 2021-22.[17] The rising costs of homelessness and social care have been especially problematic. The cost of homelessness is 26 per cent higher and children's social care 16 per cent higher for the period of April-September 2023 compared with the same period in 2022.[18] The culmination of over a decade of pressure has upped the ante on authorities. Voluntary redundancies have returned, and in many cases, compulsory redundancies have replaced them. In Shropshire, nearly 200 employees have been made redundant, with hundreds more redundancies expected to follow.[19] Emergency spending controls have been introduced in many authorities in the last 24 months. And credit ratings agency Moody's has raised concerns about the increased levels of debt held by authorities, downgrading Warrington Council in 2022 and removing their credit rating altogether in 2024. Given the number of interdependent challenges facing authorities,

12. Pike, A. (2023) Financialization and Local Statecraft, Oxford University Press: Oxford.
13. Shaw, J. (2024) 'The State of Local Government Finances', UK Economic Outlook Winter 2024, 1 February, NIESR: London.
14. Dagdeviren, H. (2024) "Austerity urbanism, local government debt-drive, and post-COVID predicaments in Britain", Journal of Economic Geography, 24, 1, 79-94.
15. NAO (2020) Local Authority Investment in Commercial Property, NAO: London.
16. Levelling Up, Housing and Communities Committee (2023) Financial Distress in Local Authorities, HC 56, House of Commons: London.
17. LGA (2023) Save Local Services: Council Pressures Explained, LGA: London.
18. Institute for Fiscal Studies (2023) The 2024-25 Local Government Finance Settlement: The Real Pain is Still to Come, 19 December, IFS: London.
19. BBC News (2024) "Compulsory redundancies likely at council", BBC News, 18 July.

Figure 1: Deficit (+) and surplus (-) per capita, 2026-27



Source: Analysis of local authorities' Medium Term Financial Strategies (excluding counties)

there is no clear typology of failure.[20] Each type of local authority – from large urban authorities with high levels of deprivation to affluent suburbs – are attempting to cope with their particular manifestations of financial distress and the challenges and risks this entails. Hence the need for a more geographically sensitive understanding of the differentiated financial landscape across local authorities in England, which this report seeks to provide.

Amidst the setting in which local authorities are operating, our analysis of the geography of financial distress reveals that 303 of England's authorities forecast a shortfall by 2026-27 – equivalent to 96 per cent. The remaining 14 authorities either forecast surpluses or a balanced position. The overall gap between income and expenditure is £9.3bn. This figure is higher than the previous studies noted above, in part because of the complexity of financial accounting in large organisations supporting hundreds of services with different financial practices in place that respond to shortfalls with different levers or financial controls. As a result of the complexity of local government finance, the evidential and analytical framework inevitably remains incomplete.

The overall landscape is geographically differentiated with total deficits up to £360mn and deficits per capita varying from close to zero to nearly £1,000 per capita. Most authorities have deficits that cluster under £100mn by 2026-27 and under £300 per capita – though there are several dozen that sit outside of these ranges (Figure 1). Specifically, there are 24 authorities with more than a £100mn shortfall over the next three years and 18 that identify a shortfall by 2026-27 of more than £300 per person. In a number of those cases, authorities overlap – meaning their deficits are more than £300 per capita and £100mn over three years. Unitary, London borough, metropolitan district, and county authorities are represented. Though six counties are facing significant shortfalls of over £100mn, per capita those shortfalls pale in comparison to unitary and London borough authorities in particular since counties are more populous. District authorities, on the other hand, are relatively small authorities and therefore while the highest forecast shortfall for a district authority – Woking at £50mn – may appear relatively small in the first instance, per capita it is comparable with the worst-hit upper-tier authorities (Appendix II). Given how shortfalls are both recorded and reported, per capita analyses have

20. Gray, M. and Pike, A. (2025) Failing Local Government, Book manuscript in preparation.'

been largely unappreciated. Nevertheless, the outliers with relatively high total and per capita deficits compared to all local authorities include three of the eight that have issued Section 114 notices Birmingham, Croydon, and Thurrock. While a Section 114 notice was considered "almost inevitable" for Leicester in autumn 2023, it has been avoided but the challenge it faces remains acute.[21] The City of London is an outlier due to its small population size.

Mapping the overall landscape presents a geographically differentiated picture with a mosaic of different situations across England for the upper-tier local authorities.[22] There is no clearly distinguishable or easily characterised description and no clear regional, urban, suburban or rural story. For the total deficit-surplus landscape, geographical concentrations of high levels of deficits are evident in virtually every region: including much of the South East, East and West Midlands and East of England, West Yorkshire, and England's northernmost authorities (Figure 2). 'Deficit belts' – where several neighbouring local authorities have high deficits – are evident in the northern parts of the North East, Greater London and across the South East and South West. The few cases of surpluses are located around the Tees Valley, North West, West Midlands beyond the major cities, London and the south coast.

The landscape of per capita deficit or surpluses – which take into account variation amongst local authorities by population size – presents a similarly geographically differentiated picture. High levels of deficits are spatially concentrated in the northernmost authorities, across the centre of England and the South East and South West (Figure 3). Seen through this lens, the financial challenges in the North West in particular appear less acute, as well as the East of England. Surpluses are only evident in parts of London and the South East – which likely reflects lower levels of deprivation, buoyant business rates and council tax bases or a combination of all three.

The picture for total deficit or surplus situations in lower-tier local authorities presents a similar geographical mosaic across England as presented by the upper-tier authorities. Although it is important to note that district councils only exist in two-tier areas in England alongside county councils. No easily characterised geographical patterns or splits are evident. The financial challenge is much less diffuse among district councils compared with unitaries, counties, London boroughs or metropolitan districts.

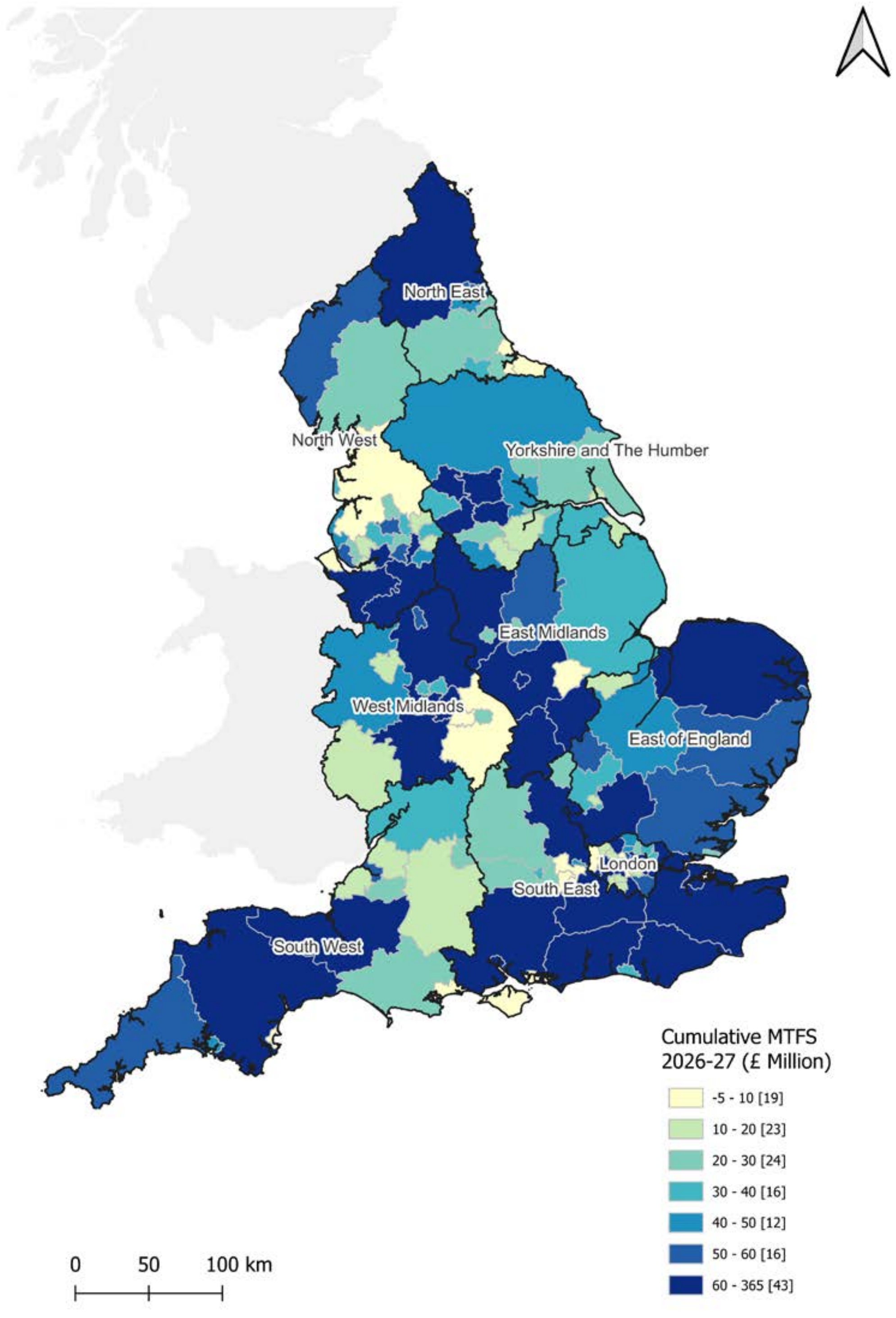
Where upper-tier authorities in the East of England had relatively low deficits, in the case of districts they fare worse, with a number of authorities with high deficits concentrated on the Norfolk-Suffolk border (Figure 4). There are spatially discontinuous pockets of high deficit districts in the South East, South West and East Midlands, and more geographically concentrated examples in Lancashire in the North West. The East of England and the West Midlands represent the most intra-regional diversity, recording half of England's 14 authorities that forecast surpluses by 2026-27.

Given the comparatively smaller deficits recorded by districts, viewing their deficits on a per capita basis provides limited additional insight – though it does highlight a central finding of the research: the geographical differentiation of the financial challenges facing authorities across England (Figure 5).

Nevertheless, there is a differential impact across regions, even if it is difficult to discern in the first instance. Across both upper-tier and lower-tier authorities, London, the South East and the East Midlands have the highest average per capita shortfalls, with the per capita shortfall in the South East being £189, rising to £202 in the East Midlands and £209 in London – or £2bn in the South East, £1bn in the East Midlands and £1.9bn in London. At the other end of the spectrum, the South West's shortfall per capita is £103 (£490m) and £119 (£740mn) in the East of England – though Thurrock accounts for 24 per cent of that figure. The median regions are Yorkshire and the Humber at £141 per capita (£780mn), North West at £147 (£1.1bn), North East at £148 (£400m), and West Midlands at £160 (£960mn) – though if Birmingham was excluded, the shortfall in the West Midlands would be the equivalent to £124 per capita. Therefore, the deficit per person by 2026-27 for the South West is expected to be less than half of that for London.

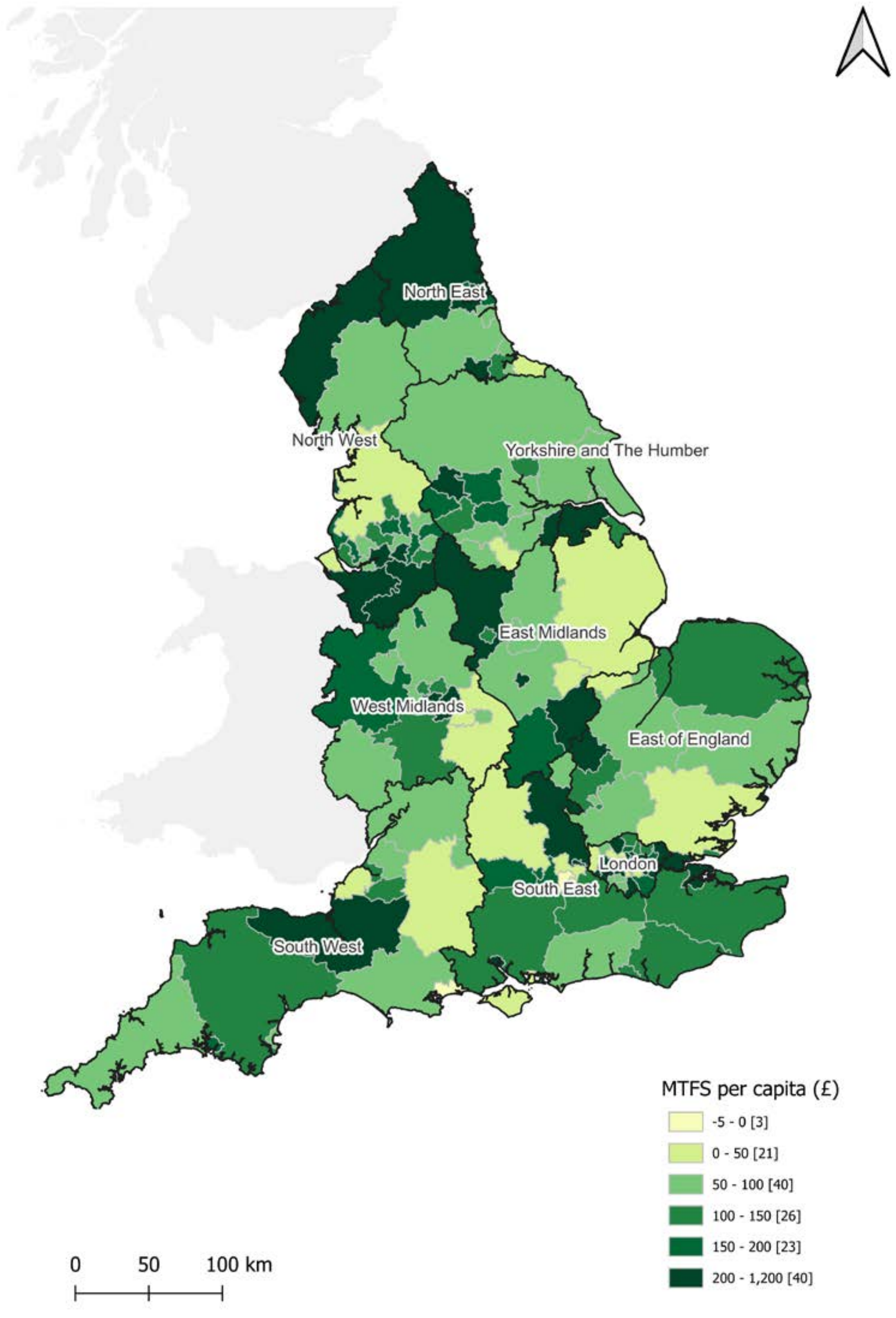
21. Ames, E. (2023) "Section 114 'almost inevitable' for Leicester", The Municipal Journal, 30 October.
22. The upper-tier local authorities comprise the 63 unitaries, 36 metropolitan districts, 33 London boroughs (including the City of London), and 21 counties.

Figure 2: Total deficit (+) and surplus (-) by upper-tier local authorities, 2026-27



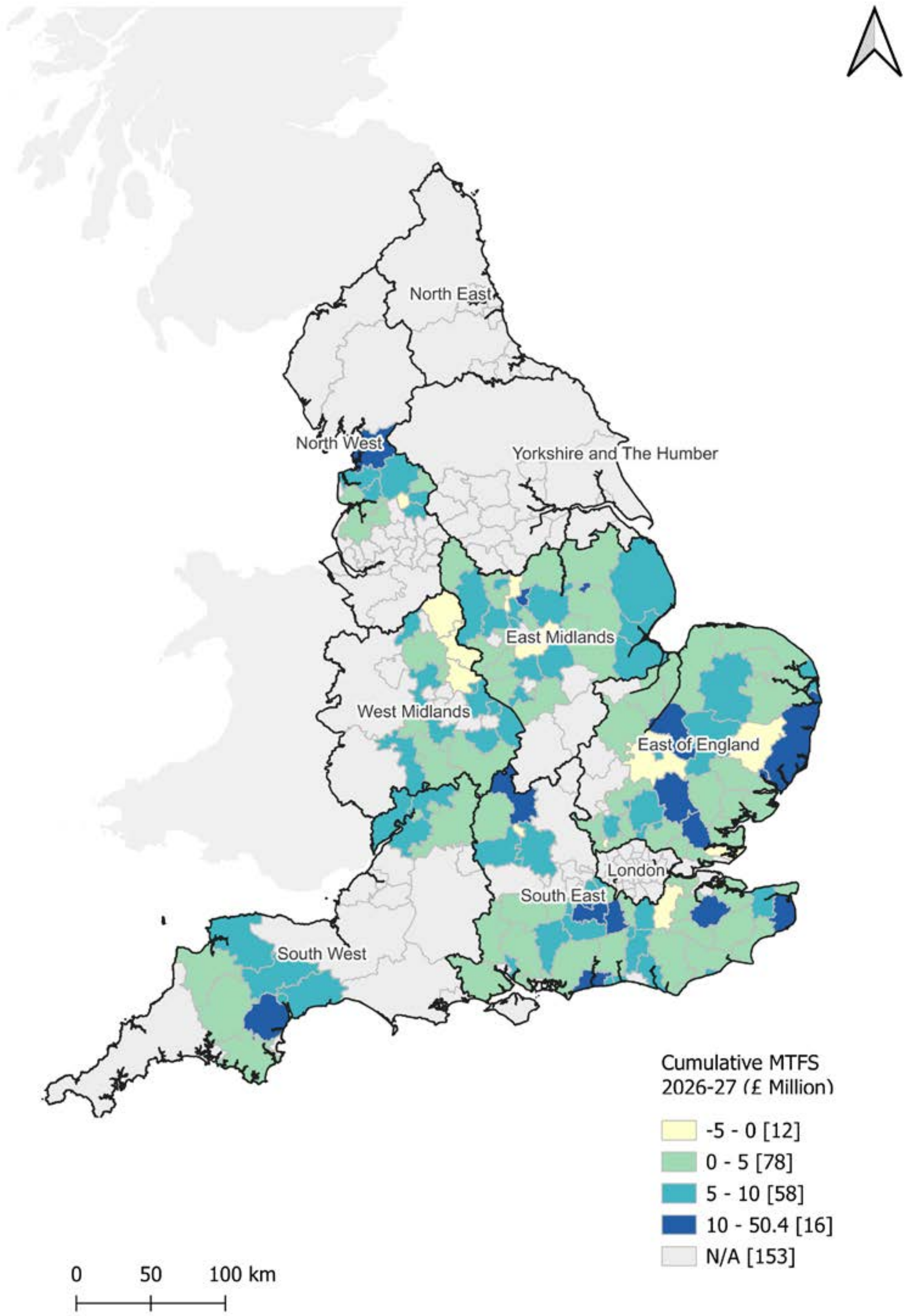
Source: Mapping of 153 unitary, metropolitan district, London borough and counties' Medium Term Financial Strategies

Figure 3: Deficit (+) and surplus (-) per capita by upper-tier local authorities, 2026-27



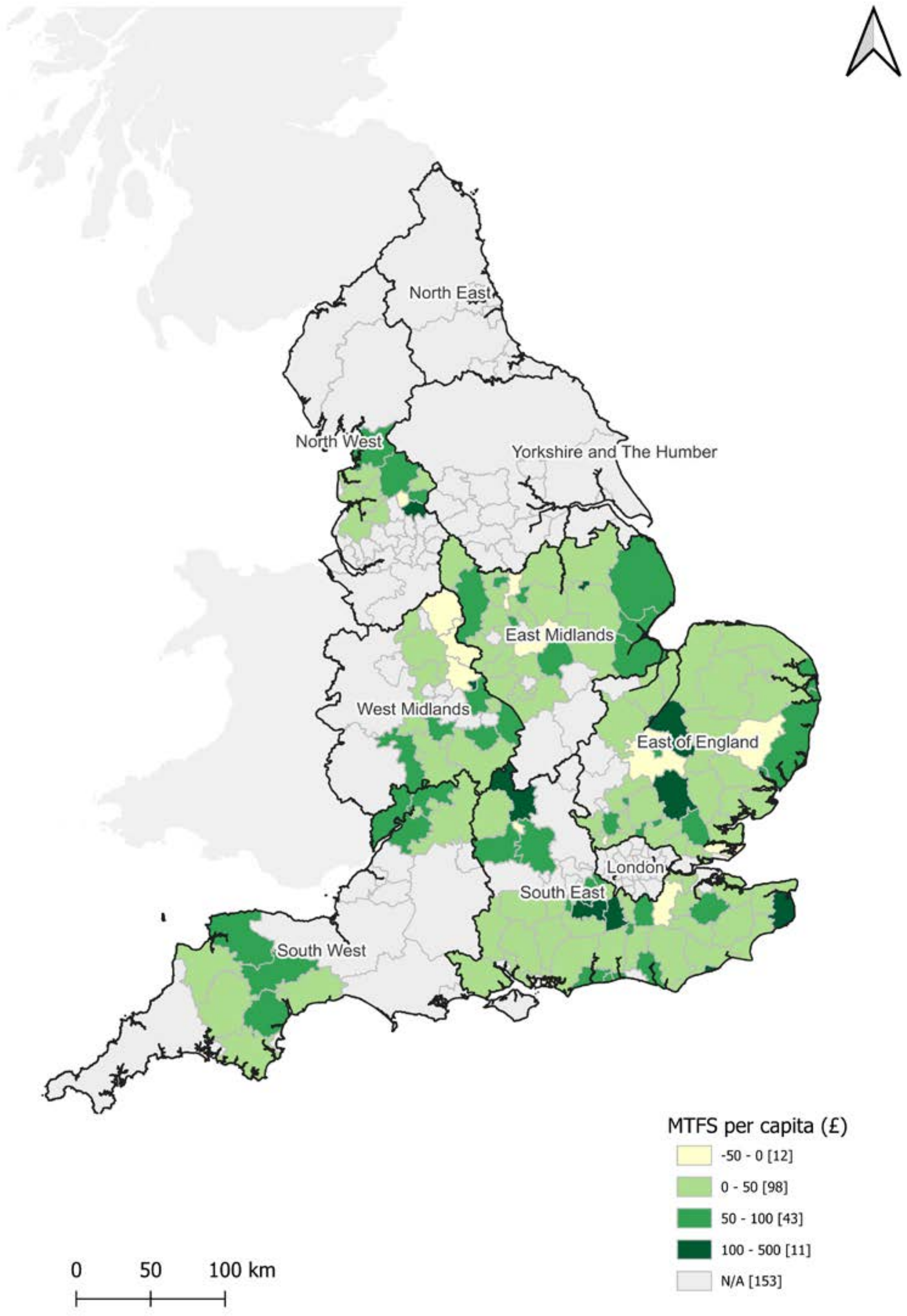
Source: Mapping of 153 unitary, metropolitan district, London borough and counties' Medium Term Financial Strategies

Figure 4: Total deficit (+) and surplus (-) by lower-tier local authorities, 2026-27



Source: Mapping of 164 districts' Medium Term Financial Strategies. Areas with no data are single-tier authorities, with no lower-tier representation.

Figure 5: Deficit (+) and surplus (-) per capita by lower-tier local authorities, 2026-27

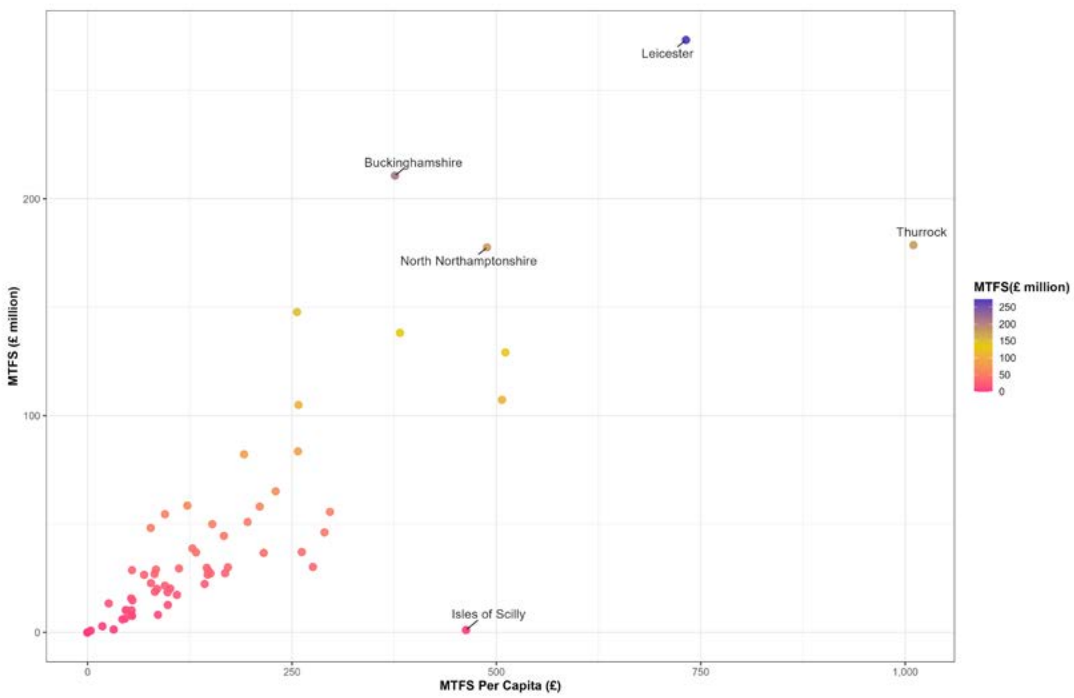


Source: Mapping of 164 districts' Medium Term Financial Strategies. Areas with no data are single-tier authorities, with no lower-tier representation.

3. The view by local government type

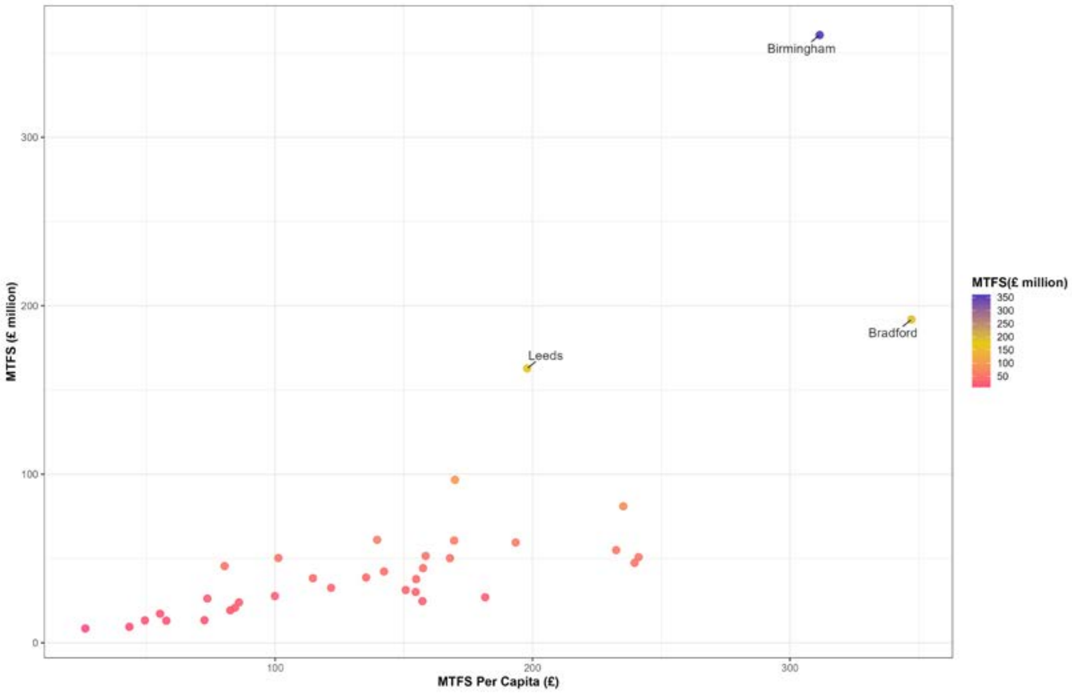
The view of the landscape by the five different types of local authorities provides a further geographical perspective on their financial challenges. For unitaries, the majority are concentrated in a group with under £100mn total deficits and under £250 deficits per capita (Figure 6). The outlier unitaries with relatively high total and per capita deficits are evident in places with specific challenges. These comprise one of the eight Section 114 authorities (Thurrock), one that avoided issuing a Section 114 in 2023 (Leicester), North Northamptonshire that is a new authority and dealing with the financial legacy of the abolition of Northamptonshire County Council in 2019, and Buckinghamshire which is in a similar position to North Northamptonshire having undergone a significant administrative change in 2020. The Isles of Scilly is an outlier because of its relatively small population.

Figure 6: Deficit (+) and surplus (-) per capita by unitary, 2026-27



Source: Analysis of 63 unitaries' Medium Term Financial Strategies

Figure 7: Deficit (+) and surplus (-) per capita by metropolitan district, 2026-27



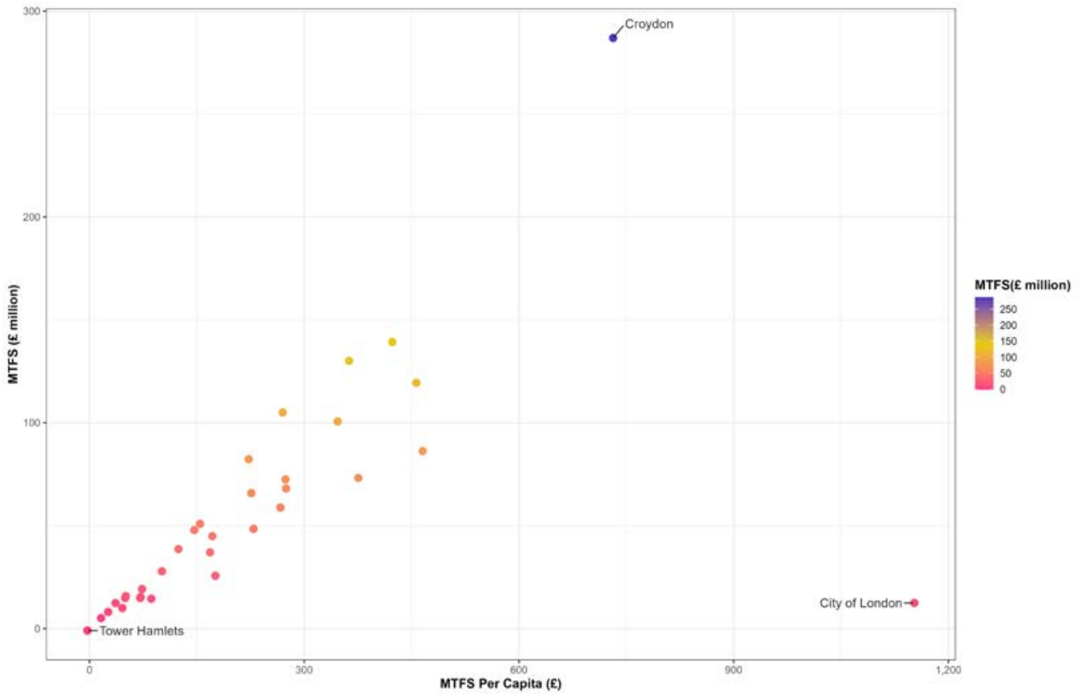
Source: Analysis of 36 metropolitan districts' Medium Term Financial Strategies

For the metropolitan districts, similar to unitaries, the majority are concentrated in a group with under £100mn total deficits and under £250 deficits per capita (Figure 7). Likewise, the outliers are in exceptional circumstances including one of the eight Section 114 authorities (Birmingham) and Bradford which has been in receipt of Exceptional Financial Support from the MHCLG. The other – Leeds – has been attempting to manage the systemic issue of overspend and an unbalanced budget, with no obvious challenges atypical to authorities of a similar type.

For the London boroughs, the majority are concentrated in a group with under £100mn total deficits and under £300 deficits per capita – higher than their metropolitan district or Unitary counterparts (Figure 8). Unlike unitaries and metropolitan districts, there is only one main outlier – Croydon – which has issued three Section 114 reports since 2020. The other outlier – the City of London – is treated similarly to the Isles of Scilly due to its relatively small population.

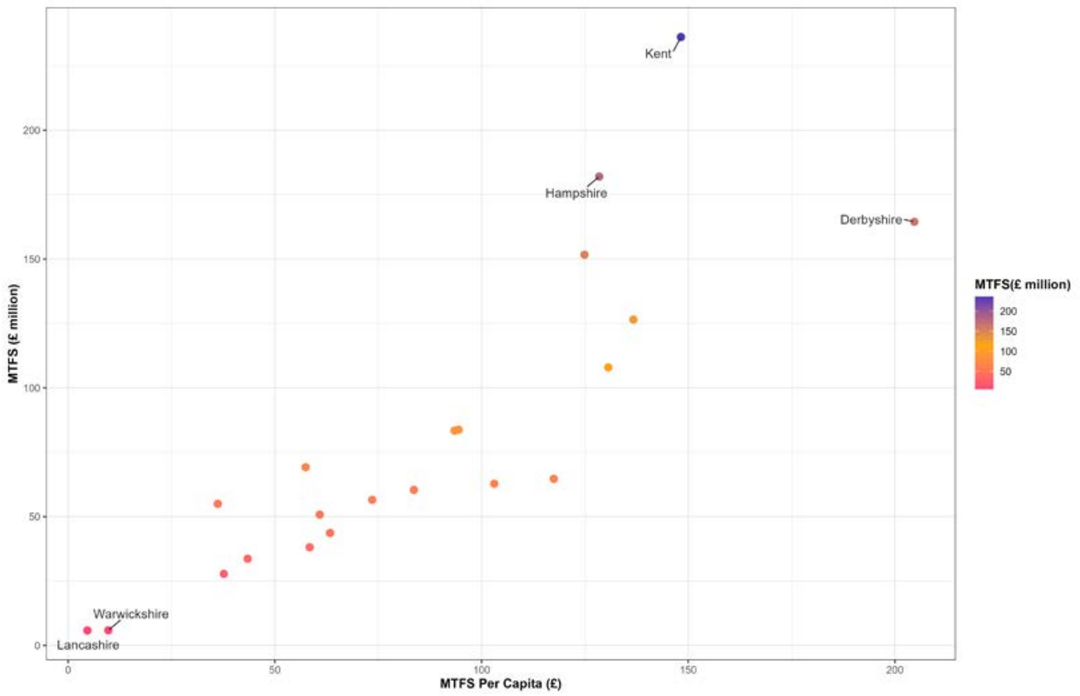
In contrast to the unitaries, metropolitan districts, and London boroughs, there is a range of financial situations amongst counties, spanning from relatively low levels of total deficits – under £6mn and around £12 per capita in the case of Lancashire – to over £200mn in total (Kent) and £200 per capita (Derbyshire) (Figure 9). These authorities are far from the only counties that are finding it challenging to control large scale structural overspending and service demand overload. Such situations present an additional challenge for the Government. Unlike metropolitan districts and London boroughs, unitaries and counties have less concentrated deficits and as a result are more likely to find it difficult to coalesce around a single narrative that explains the challenges they face, providing the space for competing (mis)diagnoses and (mis)aligned policy responses.

Figure 8: Deficit (+) and surplus (-) per capita by London borough, 2026-27



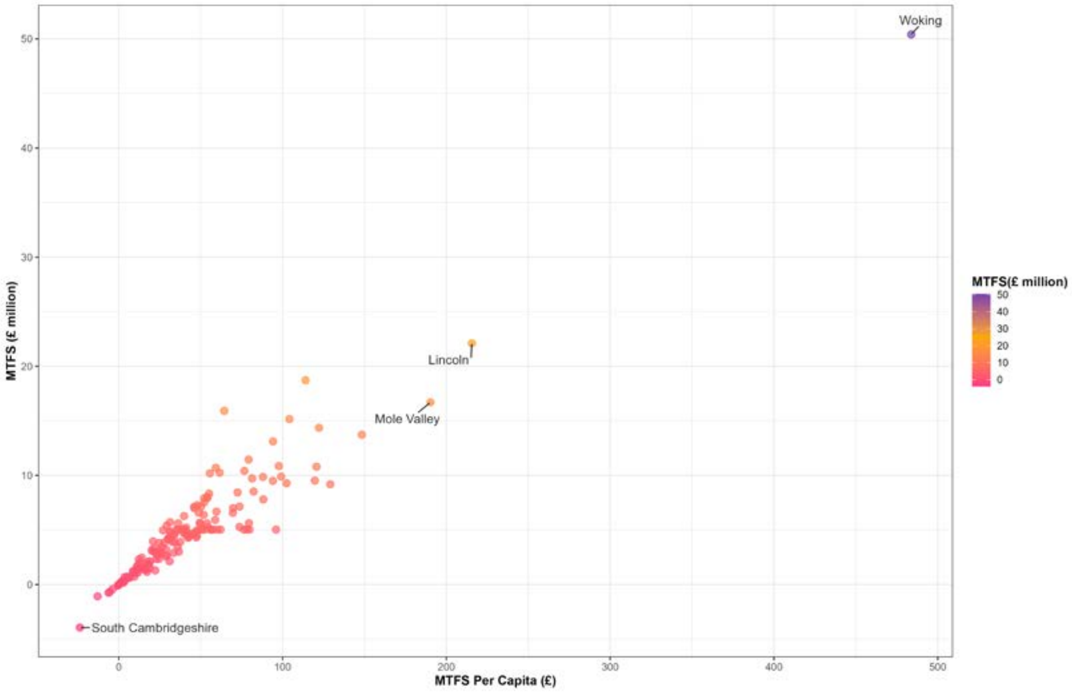
Source: Analysis of 33 London boroughs' Medium Term Financial Strategies

Figure 9: Deficit (+) and surplus (-) per capita by county, 2026-27



Source: Analysis of 21 counties' Medium Term Financial Strategies

Figure 10: Deficit (+) and surplus (-) per capita by district, 2026-27



Source: Analysis of 164 districts' Medium Term Financial Strategies

Turning finally to districts, similar to the unitaries, metropolitan districts, and London boroughs, most of them are grouped together. Their total deficits are less than £10mn – significantly less than other local government types, given their differing statutory responsibilities – but per capita they are more comparable (Figure 10).

A smaller group of 14 districts have deficits over £10mn, equivalent to £100 to £200 per capita. Lincoln and Woking are relative outliers with higher total and per capita deficits, and notably Woking is one of the eight Section 114 authorities. Districts constitute seven of the nine authorities with a surplus.

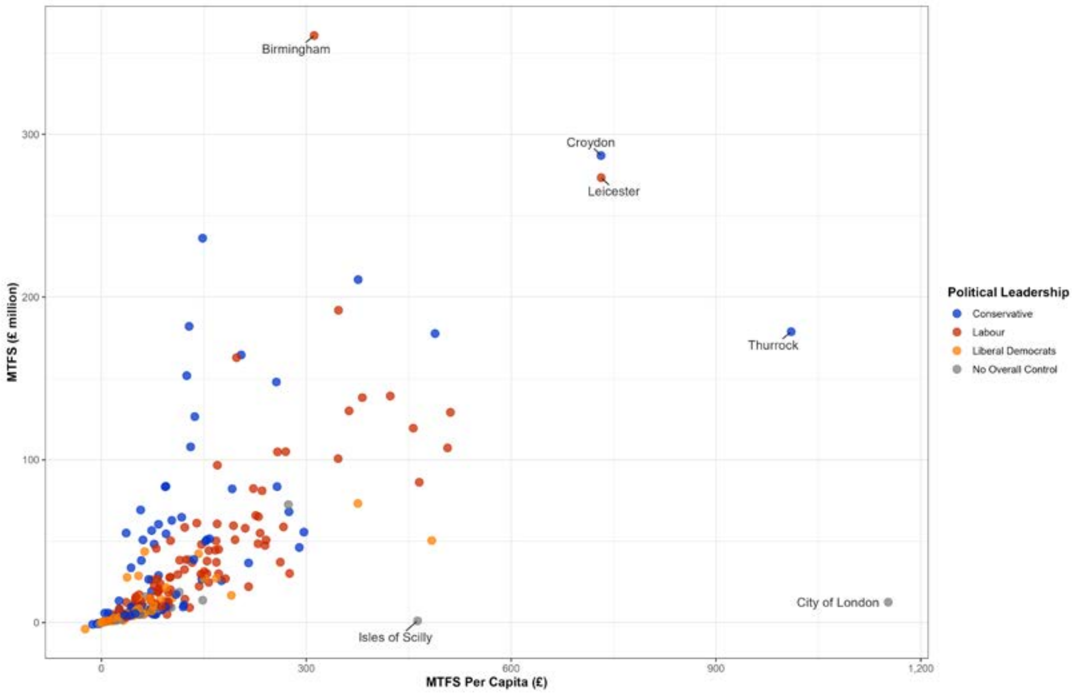
4. The view by political control

Electoral politics encourages political parties to seek political capital from the challenges facing their opponents. Then Conservative Prime Minister Sunak, for example, attributed to Birmingham City Council's Labour leadership his claim that the authority had "massively mismanaged" its finances leading to the issuance of its Section 114 report.[23] While the point is partly accurate, with Lord Kerslake outlining the challenges facing Birmingham a decade ago in 2014, it is not surprising that the Conservatives – who had been in government for 13 years when Birmingham issued a Section 114 notice and bear significantly responsibility for the current state of the sector England-wide – might seek to attribute blame for the financial difficulties with the city council's Labour political leadership.[24]

However, our research reveals that the relationship between financial condition and political control does not enable simplistic conclusions to be drawn. This is especially the case because the political control of many authorities has changed since 2010 and continues to do so. The most salient examples include Conservative-run Croydon and Labour-run Thurrock. Both issued a Section 114 notice under different political leaderships, with Labour running Croydon for a long period of time and the Conservatives similarly responsible for the issues that emerged in Thurrock.[25]

In terms of political control, the landscape is geographically differentiated (Figure 11). There is a mix of political control amongst the authorities with total deficits that are outliers. The majority of authorities forecast deficits under £100mn or under £200 per

Figure 11: Deficit (+) and surplus (-) per capita by political control, 2026-27

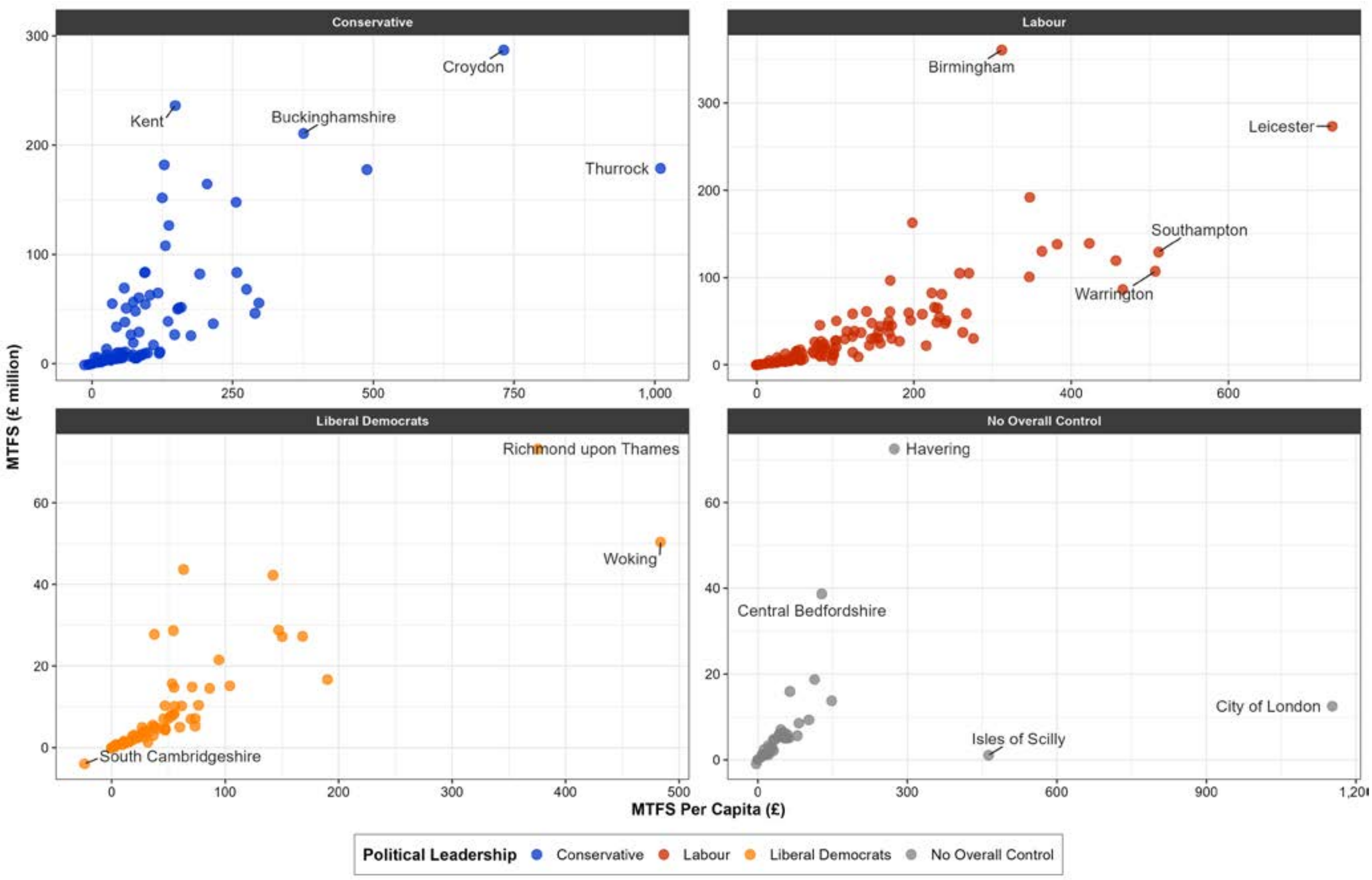


Source: Analysis of England's 317 Medium Term Financial Strategies

23. Omar, R. and Dawkins, A. (2023) "PM says Birmingham massively mismanaged finances", BBC News, 28 September.
24. MHCLG (2014) Kerslake Report: Birmingham Council Must Radically Improve, MHCLG: London.
25. This data was collected before the elections in May 2024 and does not account for changes in political control from then onwards.

capita by 2026-27. Alongside Croydon, Buckinghamshire and Kent are Conservative outliers, with many county authorities represented (Figure 12). Under Labour, alongside Birmingham (a Section 114 authority), Leicester, Southampton and Warrington are similarly outliers. Liberal Democrat political control is concentrated amongst authorities with under £20mn total deficits, except for outliers Richmond upon Thames and Woking (which changed from Conservative run to Liberal Democrats in 2022 amidst a Section 114 situation) – though the Liberal Democrats disproportionately represent lower-tier authorities with fewer statutory responsibilities. And there are similarly authorities with histories of political 'yo-yo-ing' or under no overall control, such as Havering in East London.

Figure 12: Total deficit (+) and surplus (-) 2026-27 by political control



Source: Analysis of England's 317 Medium Term Financial Strategies

5. Conclusions and principles for change

Previous responses to financial crises facing local authorities have resulted in "far-reaching changes in the structure and finance of local government, the relations of local authorities with central departments, and the powers entrusted to local councils".[26] As this report reveals, it is clear that with a total deficit of £9.3bn forecast for 2026-27 across England's authorities, the situation in 2024 demands no less thoroughgoing, but considered, overhaul. This analysis has sought to provide perspectives on the geography of financial distress amongst local authorities in England and contribute to the wider debate about improving their financial sustainability and resilience given it is a critical issue for UK economy, society and polity. The findings help articulate the nature and scale of the challenge that the Labour government faces. It is not plausible for politicians to ignore this challenge without inflicting significant electoral damage. And Whitehall will be expected to respond both by sub-national leaders with significant political mandates and the wider public, who remain deeply concerned about the poor state of public services.

The geography of local authority distress across England presents a highly differentiated landscape. Structural issues within the funding system are common and shared, but the challenges facing local authorities are playing out in different, place-specific contexts with different outcomes – notably significant regional variations, with London and the South East forecasting shortfalls of £3.9bn by 2026-27 in particular.

Further research is required to examine the differentiated financial landscape across England in more detail, explore the relationship between political control and financial condition and the role of deprivation in order to move towards a more nuanced and detailed explanatory account of the situation across England. Revealing the scale, geography, institutional, and political nature of the deficits and surpluses, the research findings in this report raise questions about what is to be done to address this financial situation amongst local authorities across England. The appropriate policy responses remain subject to significant political and academic debate, but underpinning them should be a set of long-term principles.[27] Seldom in the English local government funding debate have such principles been considered as a coherent basis for the kind of thoroughgoing refurbishment of the financial system now required in England – despite their influence internationally.[28] One such framework informs international practice in local authorities across the world and is articulated in the European Charter for Self-Government, which identifies agency to set the 'rules of the game', autonomy to make decisions locally, the ability to raise income unilaterally – without permission needed from national government, respect for local priorities, access to national and international capital markets and proportionate redistributive measures to 'protect' less financially resilience local authorities as central principles under which local government finance is built.[29] Given the extent and nature of the financial distress facing authorities, bold principles are necessary to the long-term sustainability of England's authorities; incremental and shorter-term tinkering is insufficient.

26. Robson, W. A. (1966: 10-11) Local Government in Crisis, George Allen & Unwin: London.
27. See, for example, IFS (2024) What is the Outlook for English Councils' Funding?, IFS: London and Philips, D. (2024) "Devolution may be sexier, but updating the local government finance system is vital", Local Government Chronicle, 3 Sept.
28. An exception is Sandford, M. (2016) "Public services and local government: the end of the principle of 'funding following duties'", Local Government Studies, 42, 4, 637-656.
29. Congress of Local and Regional Authorities of the Council of Europe (2013) European Charter of Local Self-Government, Council of Europe: Strasbourg.

Appendix I

Top 10 authorities with the highest forecast shortfalls by 2026-27 (£mn)

Authority	Shortfall (£mn)	Region
Birmingham	360.7	West Midlands
Croydon	287	London
Leicester	273.3	East Midlands
Kent	236.2	South East
Buckinghamshire	210.7	South East
Bradford	191.9	Yorkshire and the Humber
Hampshire	182	South East
Thurrock	178.7	East of England
North Northamptonshire	177.6	East Midlands
Derbyshire	164.5	East Midlands

Appendix II

Top 10 authorities with the highest forecast shortfalls by 2026-27 (£ per capita)

Authority	Shortfall (£ per capita)	Region
Thurrock	1,010	East of England
Croydon	732	London
Leicester	732	East Midlands
Southampton	511	South East
Warrington	507	North West
North Northamptonshire	489	East Midlands
Woking	484	South East
Hammersmith and Fulham	466	London
Hackney	463	London
Wandsworth	457	London

Note: The City of London and Isles of Scilly feature in the top 10 authorities with the highest per capita shortfalls, but have not been included in this analysis given their small populations.

Appendix III

All authorities which forecast surplus budgets by 2026-27 (£mn)

Authority	Surplus (£mn)	Region
South Cambridgeshire	3.9	East of England
Hyndburn	1.1	North West
Tower Hamlets	0.9	London
Rushcliffe	0.8	East Midlands
Sevenoaks	0.7	South East
Lichfield	0.4	West Midlands
Bournemouth, Christchurch and Poole	0.1	South East
Oxford	0.1	South East
East Staffordshire	0.1	West Midlands

Note: There were nine authorities that forecast surpluses and five authorities that forecast balanced budgets out of England's 317 local authorities.