English local councils face £4 billion funding gap, bankruptcy and maximum council tax hike

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Local councils in England will ramp up council tax, slash services already pared to the bone and sell off assets to balance the books after years of austerity measures.

A government committee last week called for an urgent £4 billion cash injection to stave off an "out of control" financial crisis, while ministers are encouraging the sale of council assets to meet shortfalls.

Last week, the Conservative government made an emergency announcement of an additional £600 million in council funding, much of it for social care, way below what was required.

The cross-party parliamentary committee on levelling up, housing and communities called for the cash injection, warning that more councils might issue section 114 notices, effectively declaring bankruptcy. Eight councils have issued these notices since 2018, four of them in the last year.

The committee has called for an urgent review by the next government of council service provision and funding, including overhauling council tax. Its chair, Labour MP Clive Betts, warned that without a massive financial settlement "to help bridge the £4 billion funding gap for 2024-25" then "well-run councils" could face "the very real prospect" of bankruptcy.

Local Government Association (LGA) estimates suggest increases of £2.4 billion in 2023-24 and £1.6 billion for the following year will be required. Even this would only maintain services at their current depleted levels.

Institute for Government figures show that even with the £600 million, the core money available to councils will still be 10 percent lower than in 2010-11. Some lower-tier councils have seen their core spending power cut by around half.

The increase in section 114 notices is only the most obvious symptom of the crisis facing local councils. Ministers have tried to present these councils as incompetent, but whether true or not, councils of all political stripes have engaged in catastrophic business and property speculation in response to swingeing austerity cuts that have worsened an existing situation.

The committee's report cites three areas of particular pressure on councils.

Adults' and children's social care takes up 70 percent of top-tier council spending. With funding slashed, councils have closed or shrunk non-statutory services to try and maintain essential services, turning to a rapacious private sector to do so.

Council spending on independent children's care in England more than doubled in the six years to 2023. In 2021-22, spending on independently run residential care for vulnerable children rose 11 percent on the previous year. In 2022, the 20 biggest independent providers of children's care charged £1.63 billion in fees, £310 million of which (19 percent) was recorded as profit. Half of those providers had private equity or sovereign wealth fund ownership.

The committee noted a £3.6 billion deficit caused by a widening gulf between funding and the need for Special Educational Needs and Disabilities plans. Ministers have allowed an "override" agreement for it to continue off the books, but it is due for repayment by March 2026.

The third pressure point is the freeze in housing allowances that has led to a rise in homelessness, leaving councils struggling to find temporary accommodation for evicted families. Homelessness has more than doubled year on year in some areas.

The Guardian last year reported that 10 councils devoted more than 10 percent of their core spending to temporary accommodation in 2022-23. The costs are accelerating at a staggering rate. Basildon's temporary accommodation spending rose from £7,000 in 2017 to £2 million in 2022. Hastings spent £750,000 in 2019 but anticipates an annual bill of £5.6 million by April 2024.

The impact will bankrupt councils and have a disastrous social effect. Hannah Dalton, a councillor who stands as an Independent, and representative of the District Councils' Network said, "The decline of the safety net which district councils provide will hit the most vulnerable members of our communities hardest."

Even maintaining reduced necessary spending has meant slashing other provision. Spending on sports development and community recreation has been cut by 59 percent per person, and on parks and open spaces by a third. Library spending has halved since 2010. Spending on community centres and public halls has been cut by around 40 percent.

Pest control budgets are down by two-thirds, replaced by private provision. Highways and transport spending is down 50 percent in more than half of all areas. Waste budgets are down 11 percent, street cleaning by more than 20 percent. There have been cuts to spending on housing services in 84 percent of English council areas.

Even Conservative-run councils have called for rent controls and increased housing benefit rates to offset their impending crisis.

Last week's £600 million top-up to December's funding package followed a threatened revolt by 40 Tory MPs, warning of the danger of more councils going bust. The MPs' letter warned of the "double whammy" of cuts to services and higher council tax rates.

The government's December £64 billion funding package was up just 6.5 percent on the previous year. Local government representatives warned this would not prevent more councils from going bust. The additional sum barely enables councils to stand still.

The preposterously titled Levelling Up Secretary Michael Gove told parliament the new funding would mean an increase in "core spending power of up to £4.5 billion next year, or 7.5 percent in cash terms." But almost half of this figure is calculated against every local authority applying the maximum allowable council tax rise, of 4.99 percent. Without that rise, the package would be around 4 percent in cash terms, roughly matching current inflation.

Councils that have issued section 114 notices can apply for higher council tax rises.

Poorer workers will be hit disproportionately by the property-based tax. *The Economist* reported that Buckingham Palace pays £1,828 in council tax annually, less than that paid for a three-bedroom semi-detached house in Blackpool.

Gove's department is considering plans to encourage councils to sell buildings and other assets worth up to £23 billion to meet budget shortfalls. Under the plans, sales to meet budget shortfalls could be conducted without government approval. Rob Whiteman of the Chartered Institute of Public Finance and Accounting called it "a sort of directive to break the rules—an allowance given to break all known usual accounting convention." Encouragement of such racketeering is another step towards the wholesale dismantling of social provision for profit.

The relaxation would push towards a fire sale of buildings intended for social provision. Councils including Leeds, Kent, Somerset and Woking have already earmarked libraries, civic halls, swimming pools and community centres for sale.

The plans encourage the speculation which has exacerbated the wider crisis. Selling to offset shortfalls is also finite. The Institute for Public Policy Research last year reported that 75,000 public council assets, worth around £15 billion, have already been sold since 2010.

Pete Marland, Labour chair of the LGA's resources board, has said that "any incoming government" needs to address the amount of available funding, as well as the entire funding system itself. But any claim that a Labour government might resolve this crisis is a lie.

Labour has committed itself to taking from workers and public services to pay for the capitalist crisis. Shadow Chancellor Rachel Reeves reassured the *Sunday Telegraph* that Labour would not have any spending plans requiring raising money through tax rises on the wealthiest. Instead, she urged shadow ministers "to come up with reforms and identify schemes that could be scrapped so that the money can be spent elsewhere," as "the money is simply not going to be there."