

New government, financial accounts and LGR

Adrian Jenkins/ Dan Bates

23 September 2026



Agenda

- Devolution agenda (Adrian)
 - Budget and Spending Review (Adrian)
- Financial accounts 2025-26 – latest data and findings (Dan)
- Local Government Reorganisation (LGR) update (Adrian)
 - MTFP forecasting – update issues
 - Real-terms Core Spending Power (CSP) trends from 2010-11
 - Extended Producer Responsibility (EPR) funding
 - Extraordinary Financial Support (EFS) survey

Andy Burnham – devolution agenda

- Radical agenda for devolving power to “devolved governments, strategic authorities, and local authorities”.
- Government’s objective is to deliver “good growth” across the country, principally via devolution.
- Main focus on elected mayors and strategic authorities – risk that local authorities become overshadowed by elected mayors and strategic authorities.
- Some speeches and documents so far – but real substance will only emerge in the Budget (28 October 2026) and in the Spending Review (spring/ summer 2027).
- There is the potential for radical change – particularly from fiscal devolution.
- Very considerable programme, which local leaders will struggle to digest and deliver (capacity, capability, resources).
- And unusually, no-one is really asking for anything more!

Devolution – key speeches, announcements

- Re-wiring the State: <https://www.gov.uk/government/publications/rewiring-the-state-cabinet-statement/rewiring-the-state-cabinet-statement-html>
- Social care speech: <https://www.gov.uk/government/speeches/prime-ministers-speech-on-social-care-29-july-2026>
- Overnight Visitor Levy: <https://www.gov.uk/government/news/local-leaders-handed-powers-to-drive-investment-in-communities>
- Business rates reliefs: <https://www.gov.uk/government/news/burnham-means-business-pm-slashes-business-rates-bills-for-pubs-clubs-and-live-music-venues>
- Budget 2026: <https://www.gov.uk/government/news/budget-to-move-power-and-money-out-of-westminster-and-into-every-postcode-around-britain>
- Fiscal devolution roadmap (alongside the Budget)
- Consultation paper on BR reform
- Spending Review 2027

Re-wiring the State

- Issued by the Cabinet on 31 July 2026, only 11 days after the formation of the new government:
[https://assets.publishing.service.gov.uk/media/6a6c7acf0ddb7e4831c62abd/REWIRING THE STATE - CABINET STATEMENT.pdf](https://assets.publishing.service.gov.uk/media/6a6c7acf0ddb7e4831c62abd/REWIRING_THE_STATE_-_CABINET_STATEMENT.pdf)
- “fundamental rewiring of the way our country works”, and a “surrendering” of power by Westminster and Whitehall
- “local leaders know what it takes to drive growth in their areas”
- “best placed to integrate public services”
- Creation of Number 10 North, which will be the “engine room making this happen” (civil servants, geographical perspective)
- New Model of Government – Elected mayors are “uniquely placed” to align priorities, and “tailor growth, investment and public services to local needs” – “single point of accountability”
- ***Supporting local leaders to drive growth and improve public services***
- ***Providing control over local tax revenue***
- ***Developing strong local institutions***

Re-wiring the State: Supporting local leaders to drive growth and improve public services

- **Skills and education:** “high-quality locally tailored technical or vocational route from age 16, underpinned by control of the budget for 16- to 19-year-olds.” “the powers, flexibility and accountability to bring together education, employment, health and local support” “also devolve employment support”
- **Local transport:** “control over local transport, housing, innovation, local energy and cultural investment” “take public control of buses more rapidly and implement fully integrated ticketing systems,” “more control over commuter rail services,” “remove the need for government approval of locally funded transport schemes for places with integrated settlements,” and increase “approval threshold to £500 million”. “replace the concept of “retained schemes” with Local Transport Infrastructure Partnerships.” “most strategically significant or complex local projects, drawing on the experience of delivering the Elizabeth Line”
- **Building council homes:** “Mayors will be equipped to support the building of council homes, including through greater devolution of the Social and Affordable Homes Programme”
- **“Place-based approach to budgeting”:** “give areas more local democratic control over their public services, from health to policing to education, including through the establishment of deputy mayor roles with responsibility for key public services”, “align key service boundaries”

Re-wiring the State: Providing control over local tax revenue

- MSAs get share of **business rates** from April 2027 and **share of income tax** from April 2028
- These are major changes that will happen within this parliament
- Income tax devolution previously proposed by Rachel Reeves, with a fiscal devolution roadmap in October Budget (not likely to be as significant as current government's): <https://www.gov.uk/government/speeches/mais-lecture-2026>
- **Fiscal devolution roadmap** that will set out the Government's "overall approach to revenue assignment and rates retention" (alongside Budget), then full details of devolution of income tax in SR27
- Plus a **White Paper**, "detailing our plans for the full set of reforms and a clear timetable for their implementation"
- Discussion taking place now between mayors/ MSAs and central government
- Fiscally neutral at outset – but future equalisation (political choice re: balance between incentives and fairness)
- Determining shares to fund existing integrated settlement and/ or funding allocations
- Indication only for mayors: "Next year, fiscal devolution will begin with mayors retaining a share of business rates from April 2027 and securing powers to introduce the Overnight Visitor Levy"
- Key ask is to allow mayors to borrow against future tax receipts (TIFs) – unlocks much more infrastructure investment

Funding settlements

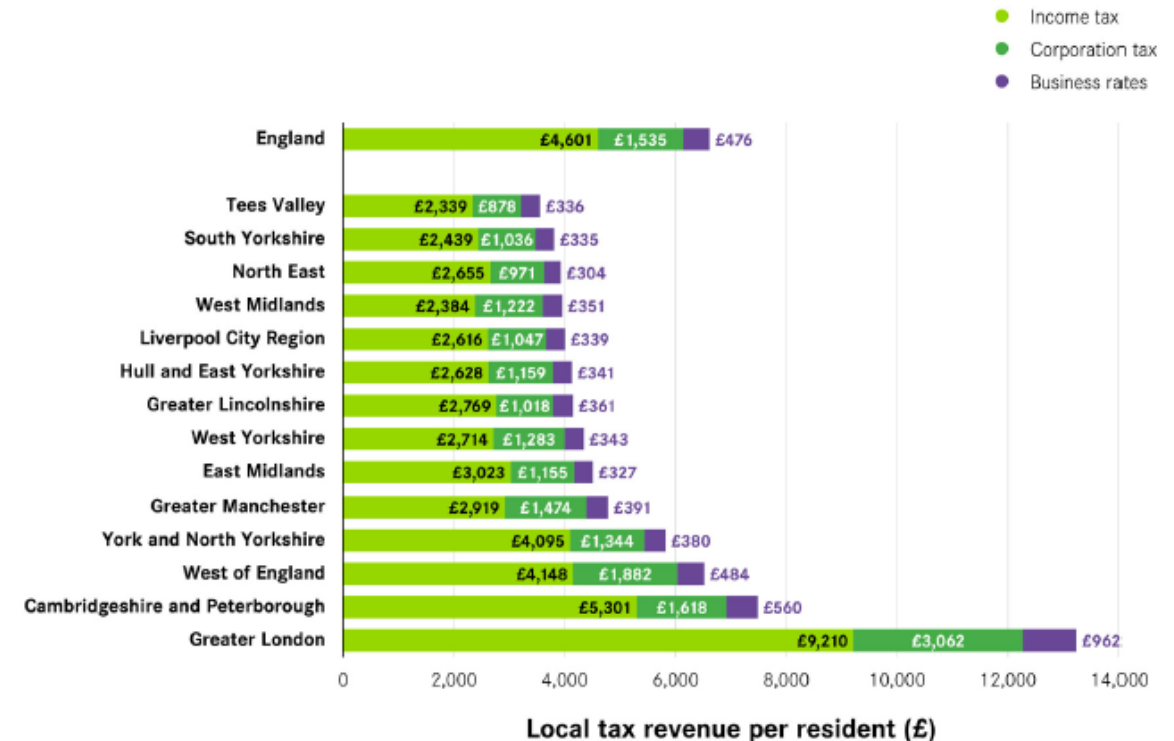
- Integrated financial settlements are already in place for 7 (of the 18) mayoral combined authorities, with nearly £16bn committed between 2025-26 and 2029-30. The settlements include 30 funding streams
- “greater flexibility to deploy funding within existing integrated settlements”
- Within Core Spending Power, there is funding for FFA (mostly fire, plus agreed BR retention in GM and WM, £23m and £15m respectively), Homelessness, and Mayoral Capacity Fund
- For the first time, the 2026-27 multi-year settlement announced funding for every Mayoral Strategic Authority (MSA).
- Expecting to see finance settlements fully including MSAs in future

Fiscal devolution – local tax per resident

- Very uneven taxbase nationally – London by far the highest per head for existing MSAs, but wide variance even between other MSAs
- “This explains London’s significant role in supporting national public finances. London sends £49 billion to the rest of the country every year – the amount of tax revenue it sends to central government minus the amount central government spends in the capital.”
- “The design of fiscal devolution must accommodate this variation without giving MSAs with larger taxbases vastly more resources, in a manner proportionate to the funding they already have, and without incurring additional costs for the Exchequer.”
- <https://www.centreforcities.org/publication/adding-up-how-to-deliver-fiscal-devolution/>

Figure 1: London’s tax base is much larger than the rest of the country

Local tax revenue per resident across Mayoral Strategic Authorities, 2026/27



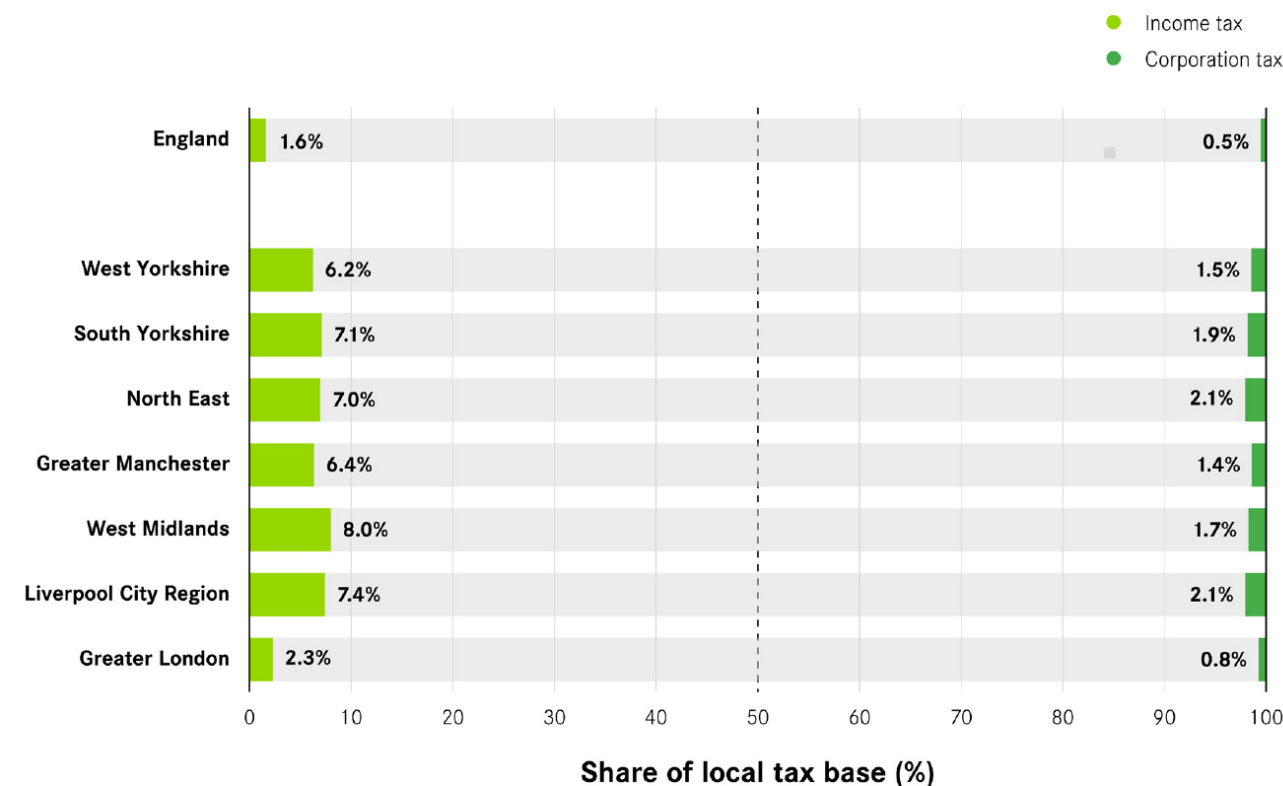
Source: Corporation tax: HM Revenue & Customs, Income tax: HM Revenue & Customs, Business rates: Ministry of Housing, Communities and Local Government

Fiscal devolution – possible retained tax shares

- Government proposal is to only devolve a share of income tax
- Fund existing operations entirely from retained income tax and greater retention share of business rates.
- Only established MSAs receive integrated settlements (in place for at least 18 months).
- Using the Centre for Cities proposal to illustrate different shares required to fund existing integrated settlements
- Replace Integrated Settlements with a matching share of income and corporation tax (not govt policy)
- Income and corporation tax sharing should vary between MSAs to match the funding of their Integrated Settlement. Around 7% of income tax and 2% of CT (lower in greater London).

Figure 3: MSAs would need around 7 per cent of income tax and 2 per cent of corporation tax to match their Integrated Settlements

Share of income and corporation tax needed to cover Integrated Settlement and selected GLA grants, 2026/27



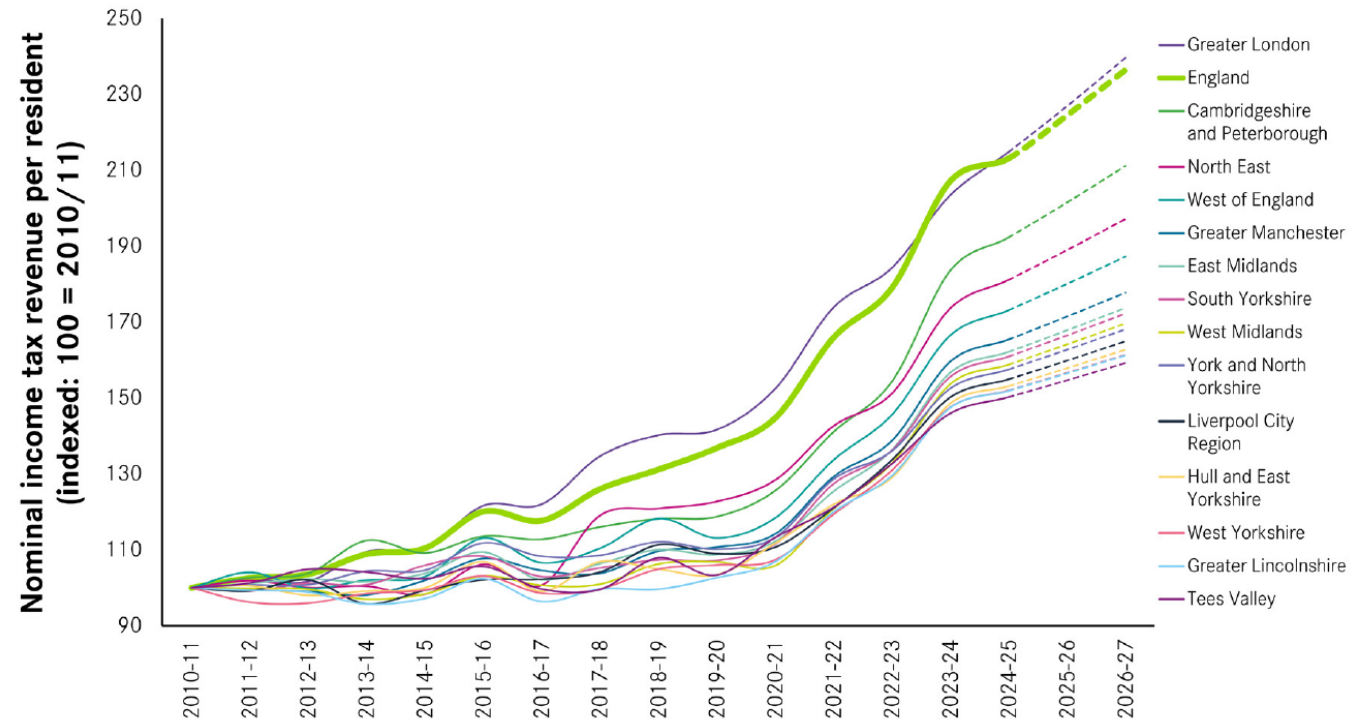
Source: [Corporation tax: HM Revenue & Customs](#), [Income tax: HM Revenue & Customs](#), [Ministry of Housing, Communities and Local Government](#)

Fiscal devolution – options for equalisation

- “fairness between places”, “different starting points across the country”
- Differential growth over time: “between 2010 and 2026 London’s income tax revenue per resident increased by 140 per cent. ...Tees Valley increased by just 59 per cent.”
- Growth driven by a combination of fiscal drag, impact of national tax changes, and underlying economic growth. **Assume system isolates the economic growth only?**
- Operate system of redistribution (suggests the Swiss system, with floors and tariffs for annual growth).
- **Complex system (fairness) or simpler (greater incentive effect)? Lessons from operation of the BRRS?**

Figure 4: MSAs’ tax bases grow at different rates

Nominal income tax revenue per resident across Mayoral Strategic Authorities, 2010/11 to 2026/27



Source: [Income tax: HM Revenue & Customs, Ministry of Housing, Communities and Local Government](#) • Note: Income tax revenues per person rapidly increase nationally through fiscal drag after Chancellor Rishi Sunak froze income tax thresholds in the Spring 2021 budget.

Income tax – forecasting and uncertainty

- Government claims this approach will also deliver greater “certainty”, and that authorities will get “long-term certainty of funding via taxation”
- Local leaders will not be dependent on decisions made in Whitehall (“micromanaging”)
- Responsibility for a taxation stream can also bring uncertainty (BRRS = appeals, bad debts, closures)
- Split out impact of fiscal drag, national taxation changes, and underlying economic growth
- BRRS: relatively stable and predictable over this period – and it is only in a handful of authorities where BR receipts have been materially below baseline for an extended period of time
- Income tax receipts would be more connected to overall economic conditions (locally and nationally), but would not suffer from the cyclical uncertainty associated with revaluations and appeals
- Benefit of greater certainty (forecasting, resets) combined with ability to borrow against future receipts (TIF)
- Risk management and potential for adverse financial consequences

Tax Increment Financing

- Mayors borrow to invest in new infrastructure based on future increase in taxation revenues:
<https://www.centreforcities.org/blog/fiscal-devolution-unlocks-infrastructure-investment/>
- Northern Line Extension is the only TIF in England. £1bn investment, with mayor already receiving £450m from increase in business rates and developer contributions; confident that can repay. **LINK**
- TIF makes many more infrastructure projects viable sooner.
- TIF requires local leaders to have confidence in future taxation streams: forecasting, clarity about future resets/redistribution, share of tax streams. Plus the ability to borrow against future tax streams (prudential borrowing).
- Tax streams in scope include retained BR and income tax (from 28-29). Potential to expand to Stamp Duty Land Tax and corporation tax.
- Area currently has to be designated an enterprise zone (in practice, suggests there are other TIFs in England; 25-year exemption from baseline reset).
- Elizabeth Line, which was constructed by Transport for London (TfL), was financed largely from a Business Rates Supplement (BRS), which is currently not available outside London. The extension to the Northern Line has been financed using a TIF.

Business rates retention – tier splits

- Consultation paper (alongside Budget?) on the new arrangement for retained business rates.
- Mayors will start to receive a share of business rates from 2027-28.
- Business rates pilots already show us how a 100% retention scheme will work (these have been in operation since 2017-18: Greater Manchester, Liverpool City Region, West Midlands, West of England, Cornwall, and Greater London Authority).
- Brings other parts of England in line with the existing BR pilots.
- Formal retention share for strategic authorities – how much?
- Currently only WECA and the GLA have formal shares (5% and 37% respectively).
- Will the full increase in retention (i.e. from 50% to 100%) go to the MSA, or will some of the increase will be shared with local authorities? Comment in Re-wiring the State suggests a higher share for existing local authorities: “This will include more retention of business rates raised locally”.
- Will the increased share be rolled-out to all strategic authorities, or only those with elected mayors?
- No impact on main 50% scheme but will affect those authorities already in 100% pilots

“Re-wiring the State”: Developing strong local institutions

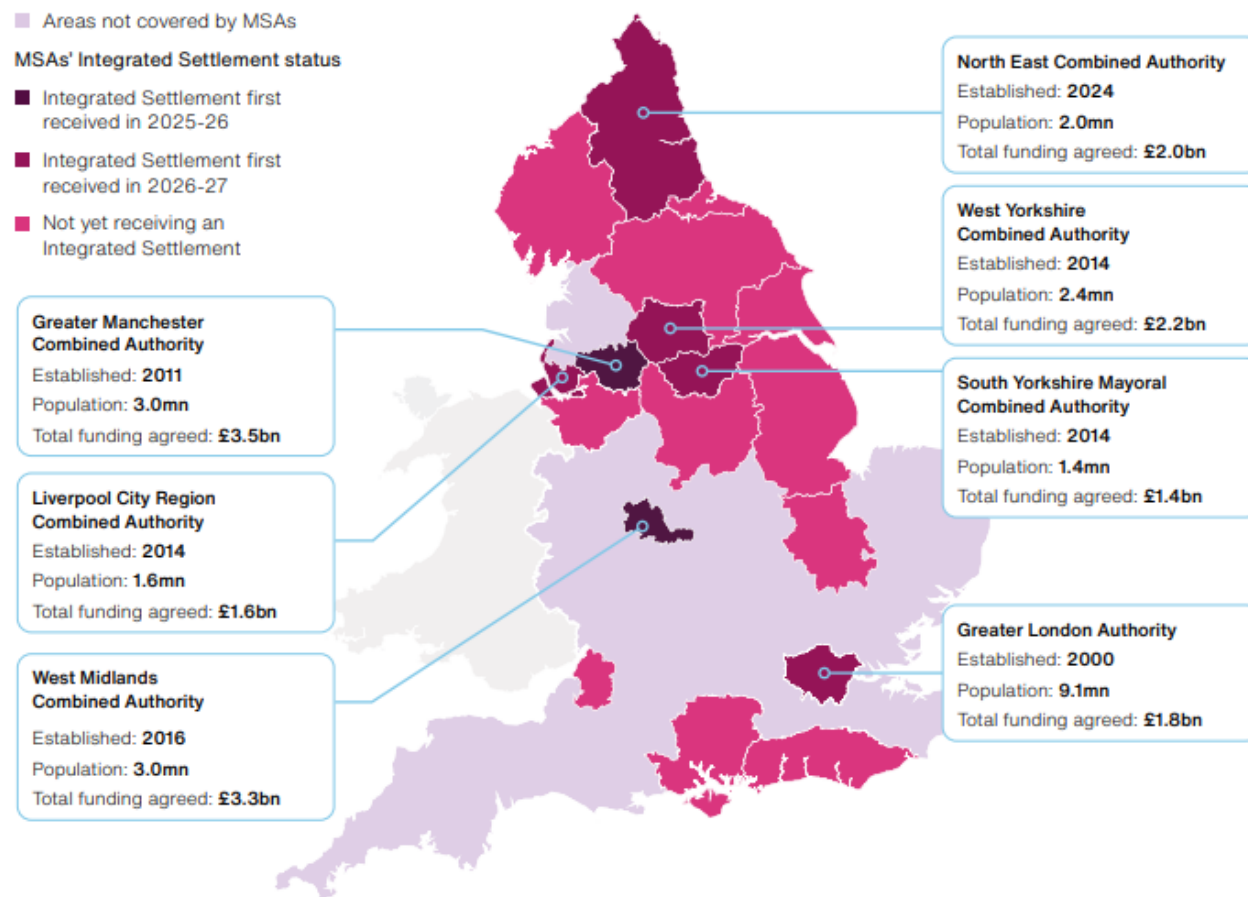
- New model of government requires “strong, capable strategic and local authorities”
- New MSAs will require funding, capacity and capabilities (direct funding? funding from future taxation growth?). New agenda is very significant and will require serious resources to deliver properly (maybe only a handful of MSAs capable of delivery full breadth of proposals)
- “directly accountable mayors represent the strongest form of governance available”, “the suite of powers available to areas with mayors will be commensurately greater”
- There are now 18 MSAs, plus 2 further strategic authorities. Established mayoral status has now been conferred on Cambridgeshire and Peterborough, East Midlands, West of England, and York and North Yorkshire
- “to ensure every area in England has, or is in the process of establishing, a strategic authority by the end of 2027, with strategic authorities in place everywhere by the end of 2028”, “not impose mayors on areas that do not want one”
- “align key public service boundaries”: “new local police units aligning with local authorities, and regional police forces, fire and rescue services and Integrated Care Boards aligning with the boundaries of strategic authorities by the end of the Parliament”, “Coterminosity”
- **Relationship with existing local authorities.** Still in the development phase. Likely to be tussles over the Overnight Visitor Tax, social care, and Local Government Reorganisation (LGR)

Mayoral strategic authorities in England

Figure 1

Established Mayoral Strategic Authorities (MSAs) with Integrated Settlement funding in England, June 2026

In 2026-27, seven out of 18 MSAs received funding via an Integrated Settlement, with £15.9 billion of funding committed over the period 2025-26 to 2029-30



- Source: <https://www.nao.org.uk/wp-content/uploads/2026/06/devolution-in-england-funding-and-accountability.pdf>

Overnight Visitor Levy

- Powers will be introduced for 2028-29, and will be given to elected “mayors and leaders of foundation strategic authorities”
- Levy will be applied as a percentage of the accommodation costs (rather than fixed fee), with voluntary maximum of 5%
- Mayors will be able to apply exemptions (e.g. campsites)
- Consultation paper was published by the previous government (and ran from 26 November 2025 to 18 February 2026):
<https://www.gov.uk/government/consultations/overnight-visitor-levy-in-england>
- Mayors will “work closely with” local authorities, but sharing is discretionary
- In practice, visitor numbers are not evenly distributed across a strategic authority area (e.g. central London, national parks)
- Pressure to invest receipts from overnight levy on visitor economy, and/or in area where generated

Overnight Visitor Levy – levels

- Potential levy per head is highest in London (£26), followed by South West (£12) and North West (£9)
- Bulk of visitors are domestic (except London)
- Unlikely that there will be national redistribution of overnight levy (choice about whether to have a levy and its level)
- Visitor levy in place in 3 local authorities in UK: Edinburgh (5%, July 2026), Manchester (£1, April 2023) and Liverpool (£2, June 2025)
- Pixel survey of 19 international cities: 10 set levy as a percentage (between 3% and 5%). Flat cash fee in others between £1.75 and £4.95.
- Flat cash fee is easier to calculate and collect (but percentage helps “protect budget holidays” and is more progressive).

Region	Tax raised (£m)	Receipts from trips by British tourists (£m)	Receipts from trips by overseas tourists (£m)	Share domestic (%)	Estimated revenue per head (£)
North East	15.3	13.6	1.7	89.0%	5.52
North West	73.5	58.1	15.4	79.0%	9.45
Yorkshire and The Humber	37.5	34.7	2.8	92.5%	6.61
East Midlands	28.5	25.5	3.0	89.4%	5.61
West Midlands	31.7	25.4	6.3	80.1%	5.10
East of England	40.6	34.7	5.8	85.6%	6.13
London	241.5	80.4	161.1	33.3%	26.47
South East	60.0	42.9	17.2	71.4%	6.19
South West	74.8	64.2	10.5	85.9%	12.66
England	603.2	379.3	223.9	62.9%	10.25

- Source: <https://taxpolicy.org.uk/2026/09/12/england-tourist-tax/>

Social care reform and funding

- Social care is clearly an important priority for Andy Burnham: <https://www.gov.uk/government/speeches/prime-ministers-speech-on-social-care-29-july-2026>
- “very integrated with the rest of the system [i.e. the NHS]”, but which is different from the NHS because it is more “person centred” and “preventative”
- National Care Service: “the fully fledged version” or “a lesser version”? A constraint will be “how you pay for all those options”
- Louise Casey review (Casey Commission) is being expedited (originally a two-phase report concluding in 2028, it will now report in Summer 2027): <https://caseycommission.co.uk/>
- Previous review under Conservative government focussed on reforming social care charging – very expensive (~£3.2bn per year). Unlikely a Burnham government will prioritise spending here, especially as main beneficiaries are in London and South East.
- “the government has agreed a fair pay agreement for social care staff to come in financial year 2028-29”, “turn the fair pay agreement into a bigger reform to improve the social care workforce”, and to “lift it closer to NHS standards”. £500m in FFA in 2028-29 for Fair Pay Agreement (not ringfenced). Potential funding pressure for local government.
- Potential focus on standardise eligibility and service standards, or on private/ in-house delivery. All costs money though.
- Greater links with strategic authorities, whilst remaining local (re-wiring agenda gives mayors oversight over ICBs)

Budget – 28 October 2026

- First Budget of the Burnham government will be on Wednesday 28 October 2026:
<https://www.gov.uk/government/news/budget-to-move-power-and-money-out-of-westminster-and-into-every-postcode-around-britain>
- Fiscal position: the Government is under pressure with deterioration in the fiscal position (£18.3bn in August 2026)
- “Focussed” budget, not going to be “expansionary” – same rules and limitations as previous budgets
- Chancellor had hoped to delay major fiscal decisions to SR27 (defence, welfare reform, social care)
- Devolution announcements – expecting some further detail on key announcements, plus devolution plan and white paper
- Specific local government announcements – likely to be limited. No change in multi-year settlements, but potentially additional funding for key services (social care?)

Budget – local government specific announcements

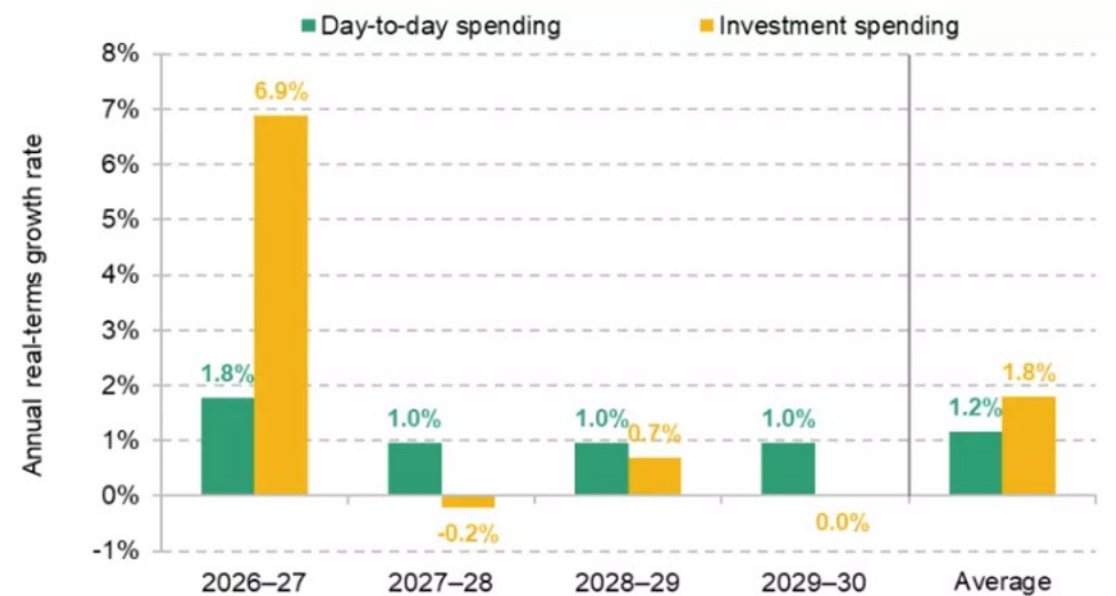
- Important statement in “Re-wiring the State” about the importance of financially viable local authorities:

“We recognise that strategic authorities are only as strong as the local authorities that constitute them. To that end, the government will take forward a **programme of reform to support the financial sustainability of local authorities**. This will include **retention of more of the business rates raised locally** instead of receiving grants from central government, and **ongoing and future reforms to the highest cost services**: adult and children’s social care, homelessness, and special educational needs and disabilities.”
- Not expecting any significant announcements on local government funding in the Budget – but possible indicators for treatment of the sector in SR27
- SEND High-Needs Deficit Grant – further announcement?
- Adult social care? Homelessness? Children’s social care?
- BR reliefs – already announced (23 July 2026). 20% cut for pubs, clubs and live music venues from 2027-28 (following on from 15% relief in 2026-27). Estimated cost of package is £100m. Cost of the reliefs for local authorities is now automatically fully funded.

Spending Review 2027

- SR25 sets allocations for 2026-27 to 2028-29
- SR27 will confirm/amend 2028-29 and set 2029-30 and 2030-31
- Fiscal squeeze limits scope for new spending – with planned cuts in spending towards end of SR period
- Limits room for manoeuvre for new government – but cuts in local government within current envelope seem unlikely
- Challenge for Chancellor will be finding additional resources for defence and other priorities (e.g. social care) – whilst balancing the budget

Figure 1. Planned annual real-terms growth rates in departmental spending, 2026-27 to 2029-30



Note: HM Treasury measure of Resource DEL excluding depreciation and Capital DEL.
Source: Authors' calculations using Spending Review 2025 and GDP deflators September 2025.

Accounts Analysis

2025/26

Published Accounts stats

Published Accounts Tracker				
	2024/25 (@31 August)		2025/26	
	Not published	Published Unaudited	Not Published	Published Unaudited
ILB	0	12	0	12
OLB	0	20	0	20
Met	1	35	0	36
Unitary	3	59	0	62
County	1	20	0	21
Upper Tier	5	146	0	151
Districts	9	155	6	158
Total England	14	301	6	309
		96%		98%
Information as at 22 September 2026.				

- Only six districts left to publish 2025/26 accounts.
- No accounts backlog.
- But is there an audit backlog?

Whole of (Local) Government Accounts - 2025/26 - Upper Tier only

<i>2023/24</i>	<i>2024/25</i>		<i>2025/26</i>	<i>Year Change</i>
3,496,350	3,215,918	General Fund Balance	3,496,883	9%
17,690,468	17,081,989	Earmarked Reserves	17,400,913	2%
21,186,818	20,297,907	Usable Revenue Reserves	20,897,796	3%
2,406,810	2,381,957	HRA Reserves	2,458,621	3%
1,791,787	1,698,159	School Balances	1,457,062	-14%
3,845,365	3,626,504	Usable Capital Receipts	3,950,447	9%
8,072,939	7,990,693	Capital Grants Unapplied	8,805,754	10%
37,303,719	35,995,220	Total Usable Reserves	37,569,680	4%
Unusable Reserves				
96,960,965	96,166,099	Capital Adjustment Account	96,717,471	1%
76,775,078	78,148,963	Revaluation Reserve	80,177,340	3%
-10,030,033	-10,295,121	Pensions Reserve	-8,294,369	-19%
332,836	240,531	Collection Fund Adjustment Acc	-2,929	-101%
-1,827,378	-3,644,617	DSG Adjustment Account	-6,439,080	77%
-771,021	-673,679	Other Adjustment Accounts	-351,438	-48%
161,440,447	159,942,176	Total Unusable Reserves	161,806,995	1%
198,744,166	195,937,396	Total Reserves	199,376,675	2%
53,307,867	57,426,584	Core Spending Power	61,646,057	7%
373%	341%	Total Reserves / CSP	323%	-5%

- Usable revenue reserves have increased after three years of reductions.
- £600m increase but nearly £1.5bn of EFS granted in 2025/26.
- School balances have reduced for the fifth consecutive year.
- Usable capital reserves have increased meaning that Usable reserves have increased overall by 4%.
- 77% increase in DSG deficits – now at £6.4bn nationally.
- Collection Fund adjustment accounts moved into deficit suggesting pressure on collection rates.

BALANCE SHEET ANALYSIS 2025/26: DISTRICTS

	District		
	202425	202526	
GF Balance	898,316	1,001,144	11%
Earmarked Reserves	3,580,760	3,767,764	5%
Usable Revenue Reserves	4,479,077	4,768,908	6%
HRA Reserves	1,040,999	973,791	-6%
Capital Receipts Reserves	1,151,630	1,217,663	6%
Capital Grants Unapplied	2,504,163	2,613,309	4%
	3,655,793	3,830,973	5%
Usable Revenue Reserves	9,175,869	9,573,672	4%
Collection Fund Adjustment Account	21,367	5,045	-76%
Capital Adjustment Account	18,301,756	18,696,745	2%
Revaluation Reserve	16,385,138	16,735,613	2%
Other Adjustment Accounts	505,354	968,383	92%
Unusable Reserves	35,213,615	36,405,786	3%
Net Assets / Reserves (excl. Pensions)	44,389,484	45,979,457	4%

- Usable revenue reserves have increased by 6% in 2025/26.
- However, HRA reserves have decreased by 6%.
- Usable capital reserves have increased (due to capital grants unapplied) and this has contributed to an increase in usable reserves and current resources.
- Unusable reserves have also increased meaning that district balance sheets have increased in size.

Whole of (Local) Government Accounts - 2025/26 - Upper Tier only

<u>2023/24</u>	<u>2024/25</u>		<u>2025/26</u>	<u>One Year Change</u>
35,809,177	32,591,134	Current Resources	31,127,671	-4%
11,322,260	14,290,204	Short Term Borrowing	16,981,875	19%
64,118,354	65,938,222	Long Term Borrowing	67,621,395	3%
75,440,614	80,228,426	External Borrowing	84,603,270	5%
8,635,793	11,312,088	PFI	10,441,065	-8%
27,741,699	27,129,467	Internal Borrowing	28,508,833	5%
111,818,106	118,669,981	Capital Financing Requirement	123,553,168	4%
3,650,537	3,870,935	Interest Payable	4,022,655	4%
-1,661,118	-1,598,274	Interest Receivable	-1,552,788	-3%
1,989,419	2,272,661	Net Interest	2,469,867	9%
2,615,056	2,919,569	MRP	3,080,724	6%

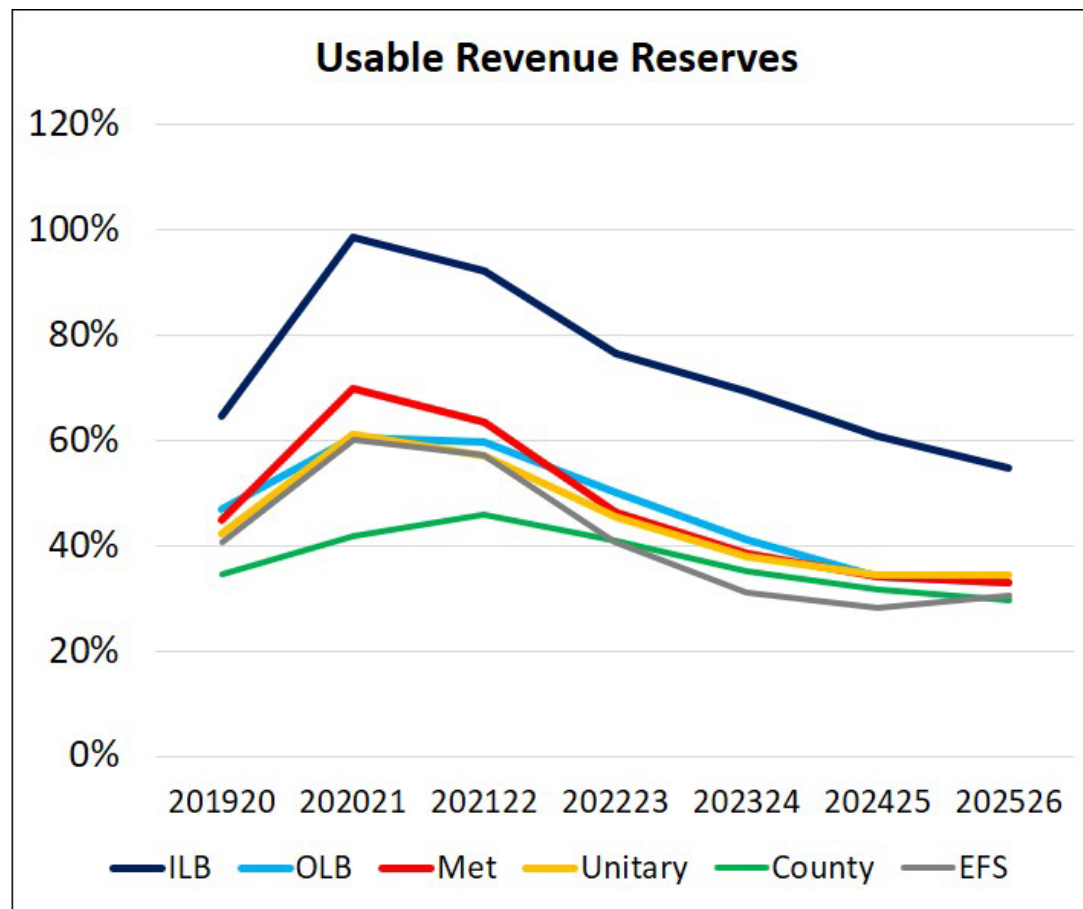
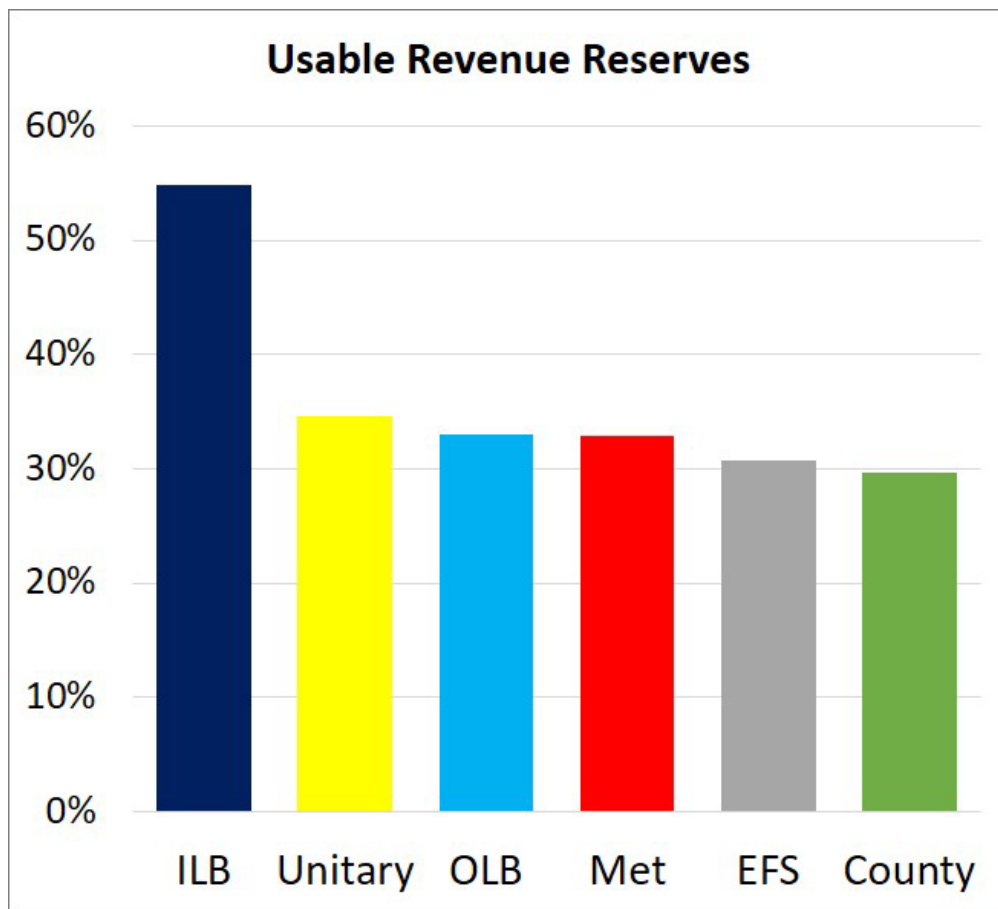
- Need to borrow has increased modestly (by 4%) in 2025/26.
- But short-term borrowing has increased significantly as current resources have reduced.
- Internal borrowing capacity is stretched across many upper tier authorities as DSG deficits have impacted balance sheet strength.
- Net interest payable has increased by 9% as borrowing increases and resources decrease.

BALANCE SHEET ANALYSIS 2025/26: DISTRICTS

	District		
	202425	202526	
Current Resources	4,671,139	4,910,617	5%
Short Term Borrowing	1,999,323	2,445,472	22%
Long Term Borrowing	10,075,914	10,008,019	-1%
External Borrowing	12,075,237	12,453,491	3%
Internal Borrowing	3,510,781	3,814,211	9%
Need to Borrow	15,586,018	16,267,702	4%
Interest Payable	440,029	442,341	1%
Interest Receivable	-250,313	-238,576	-5%
Net Interest	189,716	203,765	7%
MRP	162,161	169,498	5%

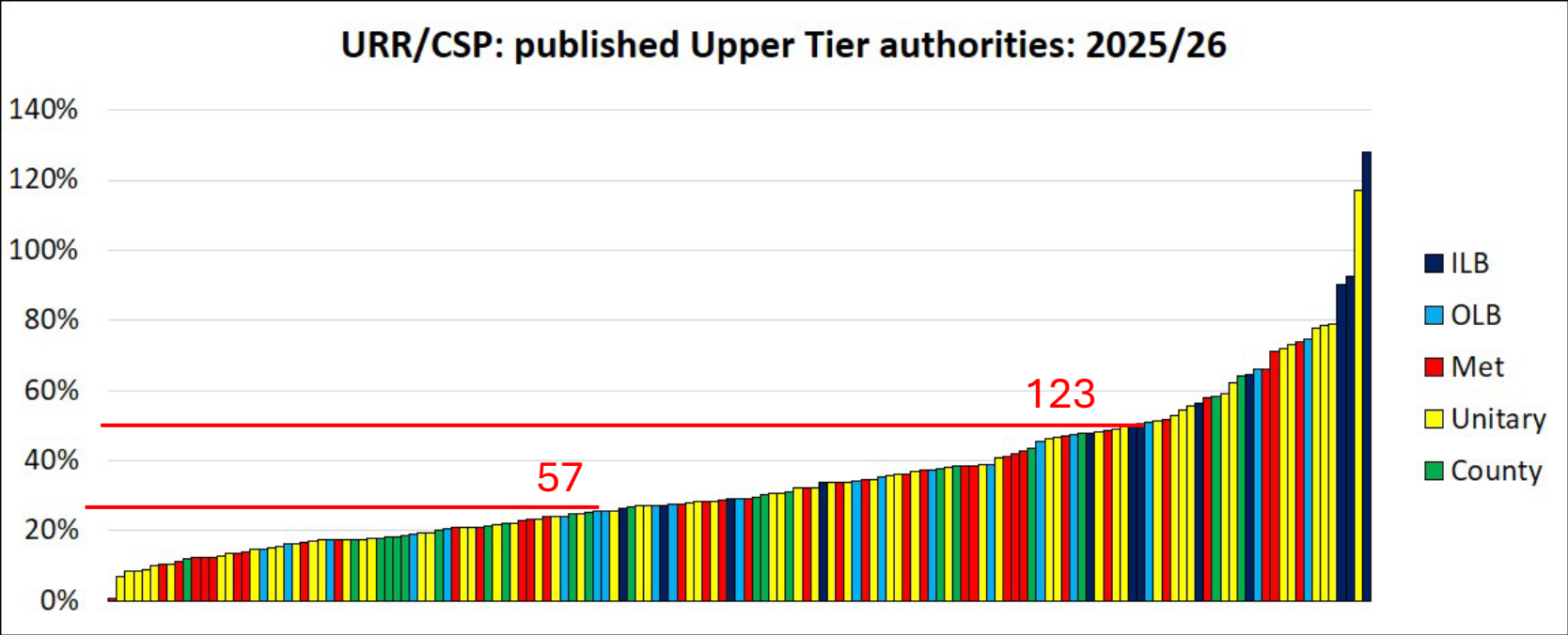
- Need to borrow has increased modestly (by 4%) in 2025/26, same as upper tier.
- The majority of this increased need to borrow has been funded via resources on the balance sheet (internal borrowing) enabled by an increase in current resources..
- Net interest payable has increased by 7% primarily due to a reduction in interest receivable.

Usable Revenue Reserves

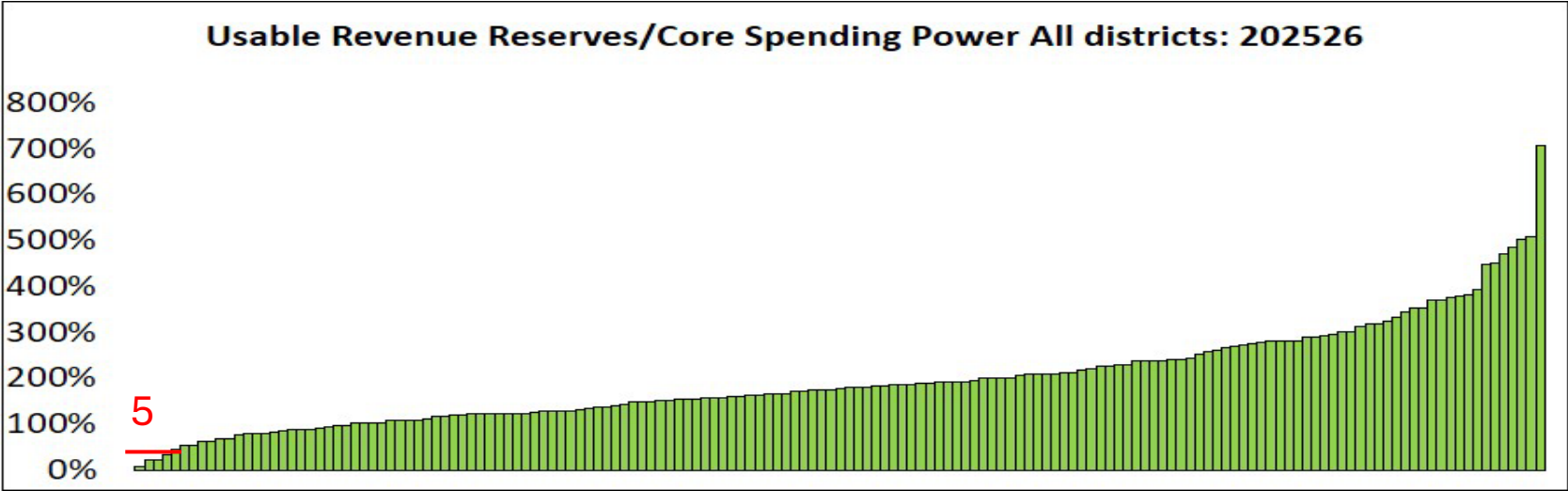


- Usable revenue reserves have reduced as a proportion of CSP across the upper tier in 2025/26 but the rate of reduction is slowing.
- URR actually increased across EFS authorities – nearly £1.5bn granted in principle for 2025/26.

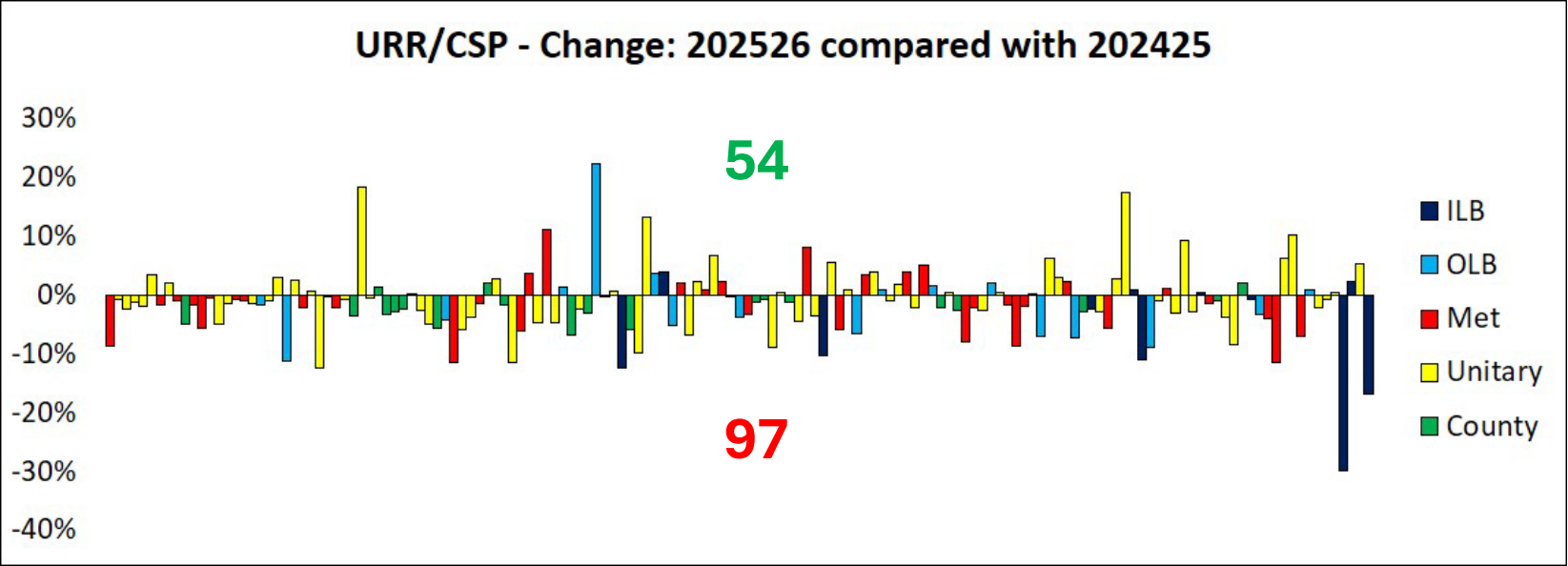
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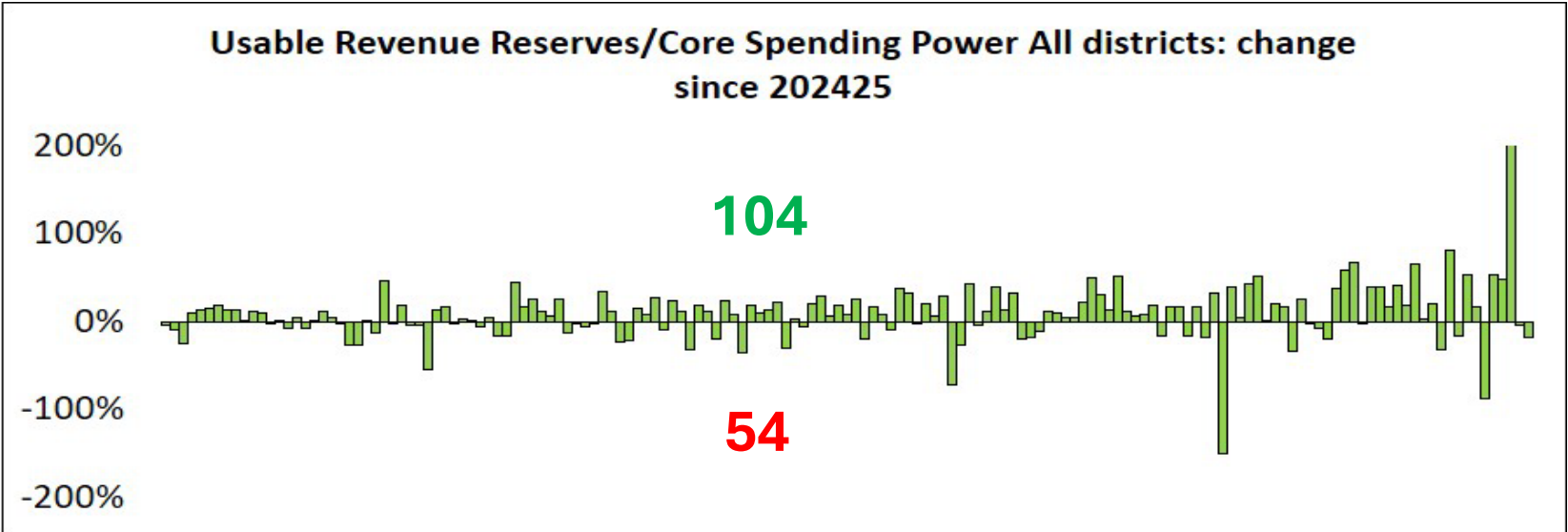
- 57 of 151 (38%) of upper tier authorities have less than 3 months expenditure held in URR.
- 123 of 151 (81%) of upper tier authorities have less than half a year's expenditure held in URR.
- Only 5 (3%) districts have less than a half year's expenditure held in URR.



Change in Usable Revenue Reserves

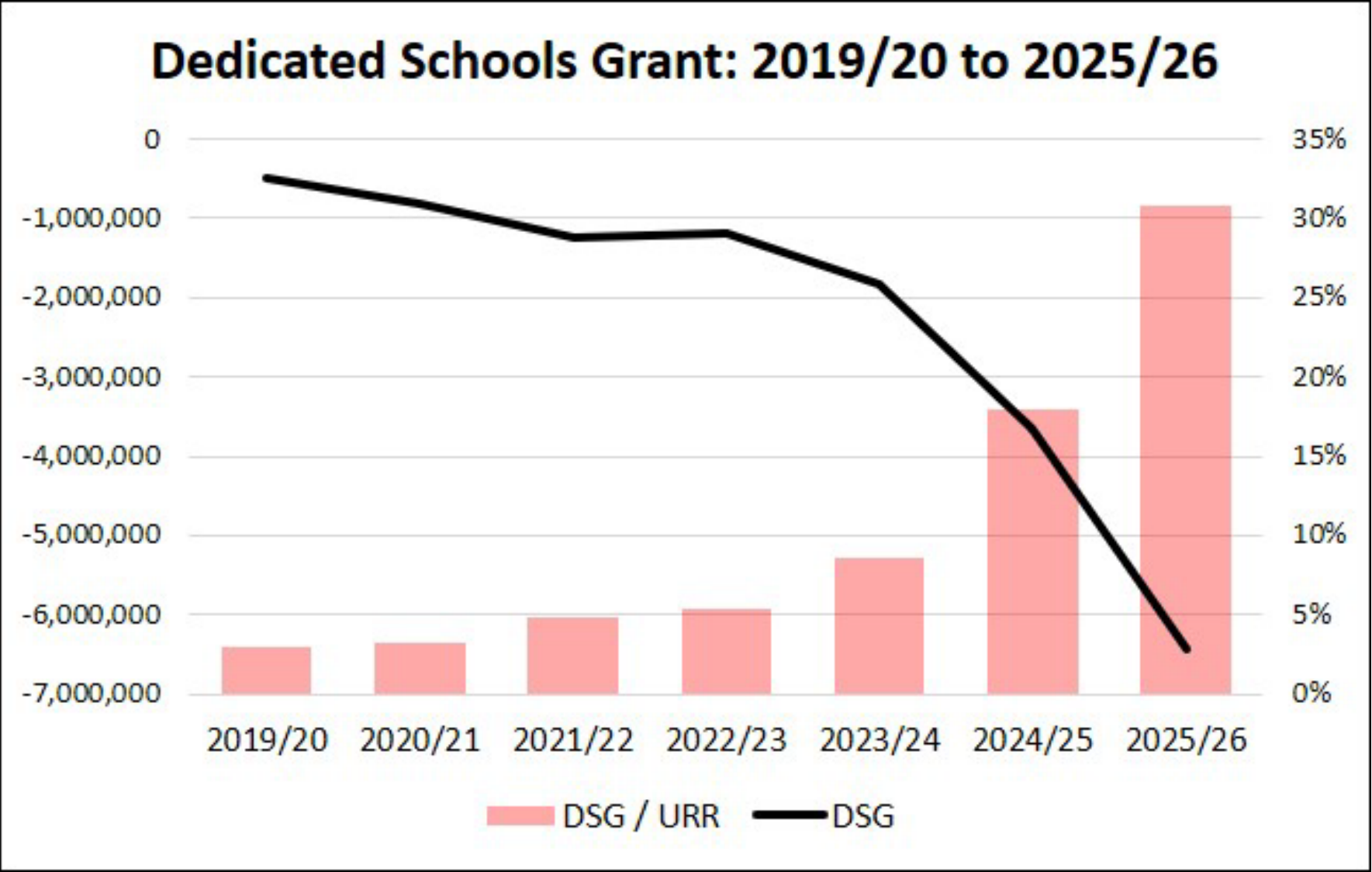


- Nearly twice as many upper tier authorities had reduced URR as a proportion of CSP in 2025/26. 15 EFS authorities increased URR (12 reduced).



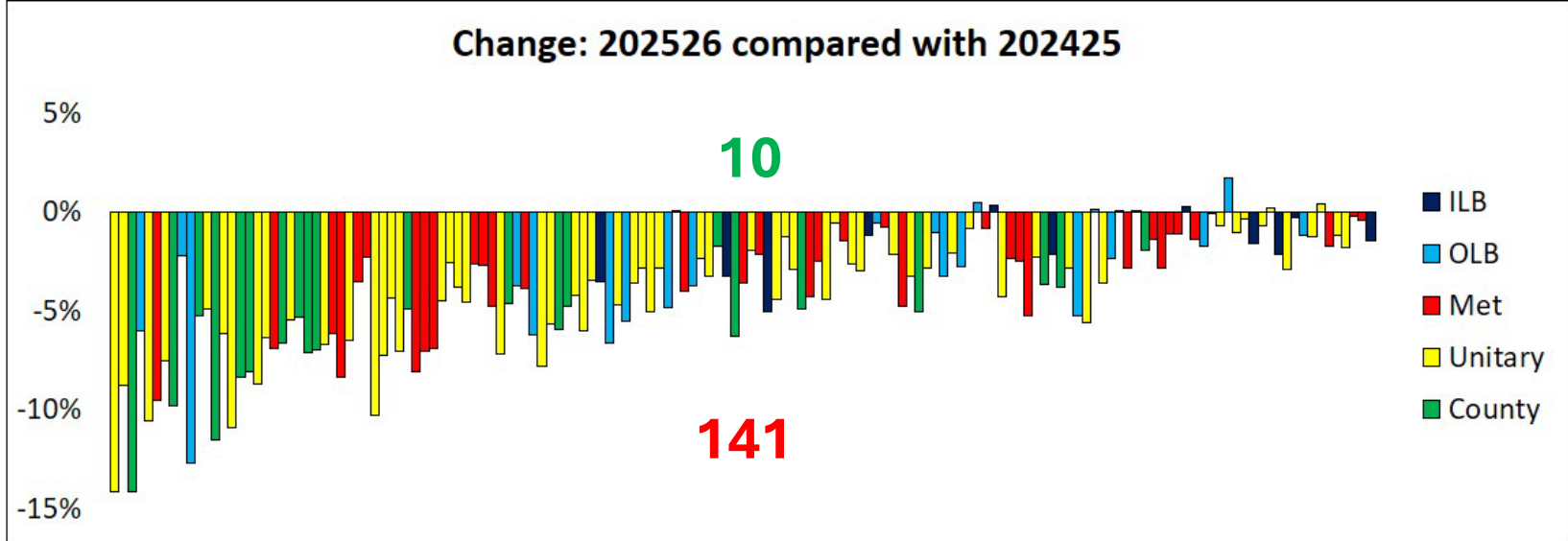
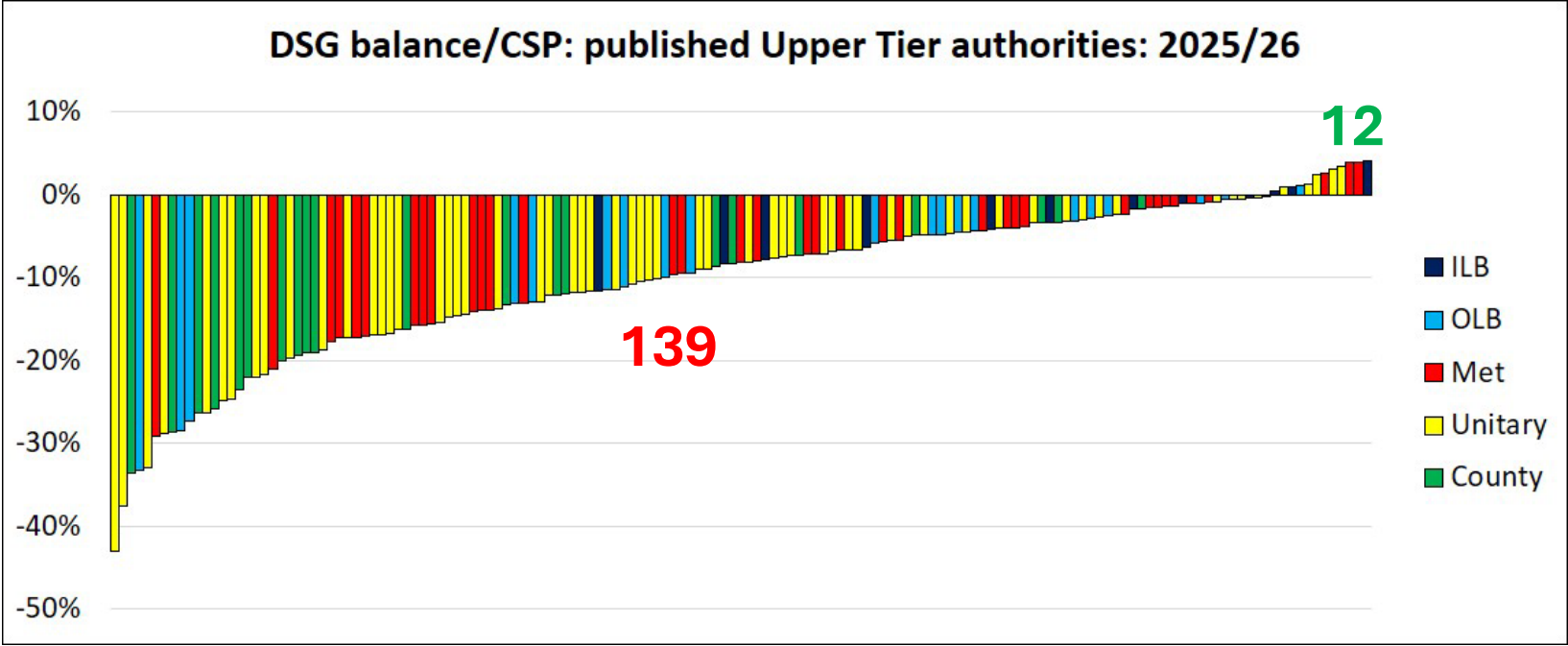
- Almost twice as many districts have increased usable revenue reserves (as a percentage of CSP).

Dedicated School Grants Deficits



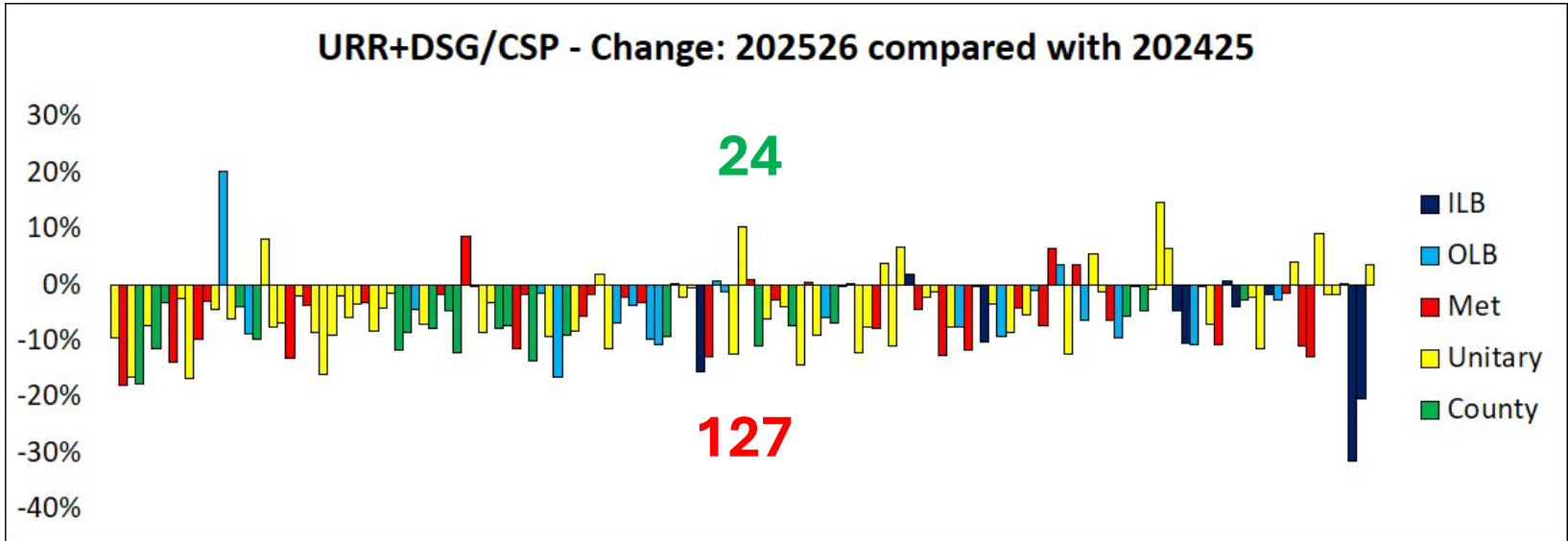
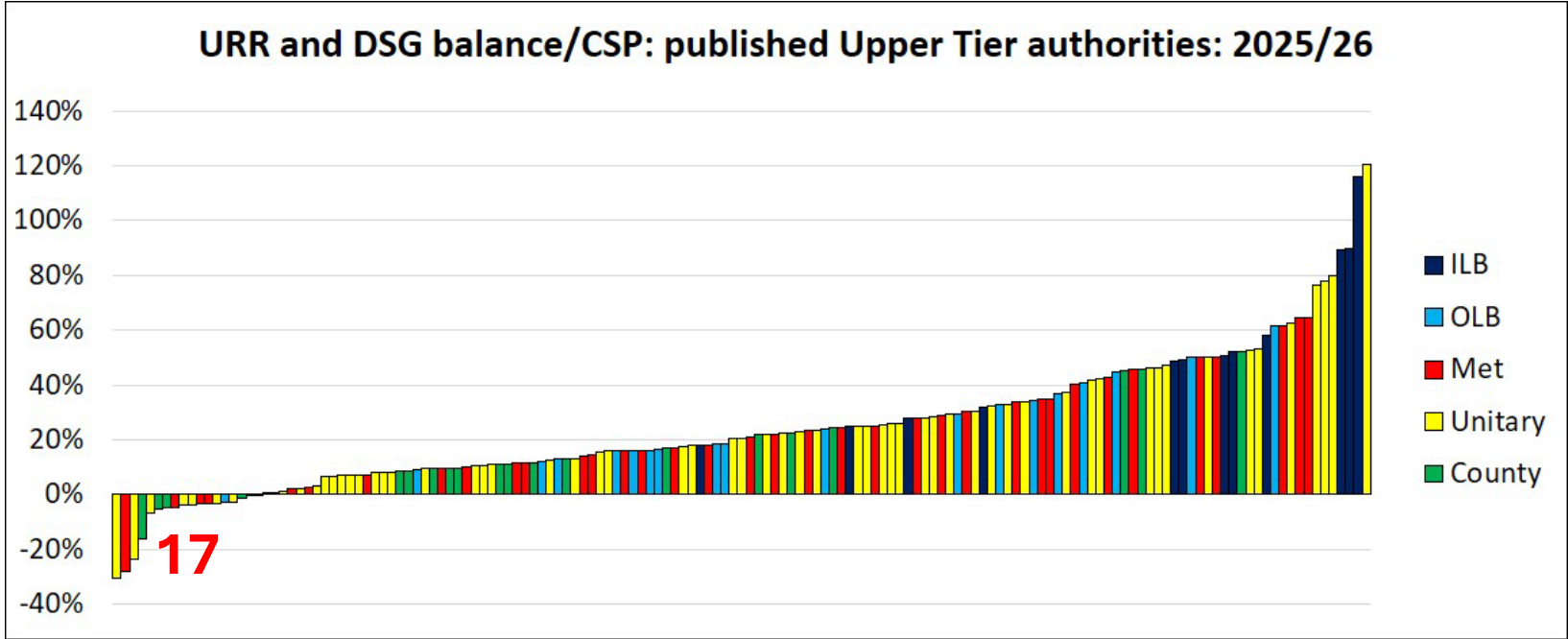
- Dedicated Schools Grant deficits continued to accelerate in 2025/26.
- From £3.6b to £6.4bn.
- More worryingly, deficits as a proportion of URR also accelerating.
- £5bn High Needs Stability Grant will reduce the £6.4bn accumulated deficit but will not address future increases,

Dedicated School Grants Deficits



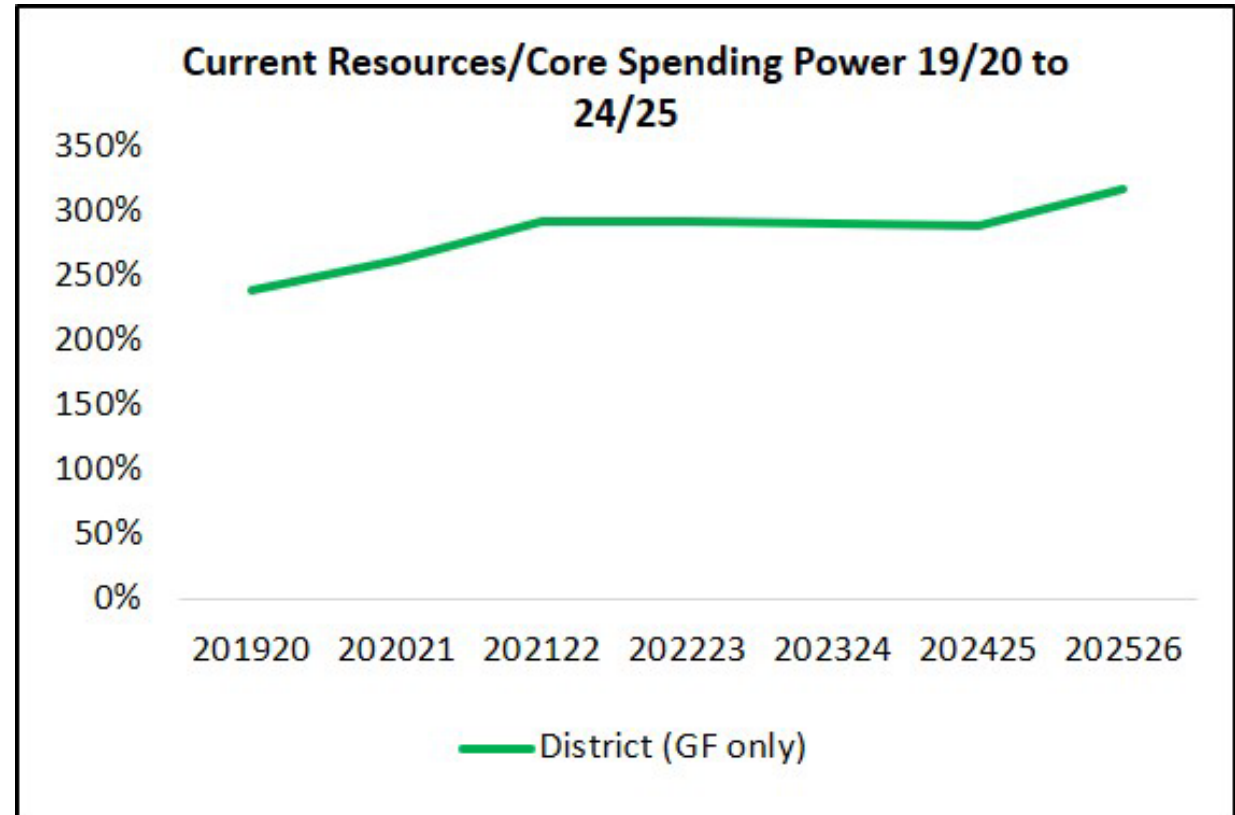
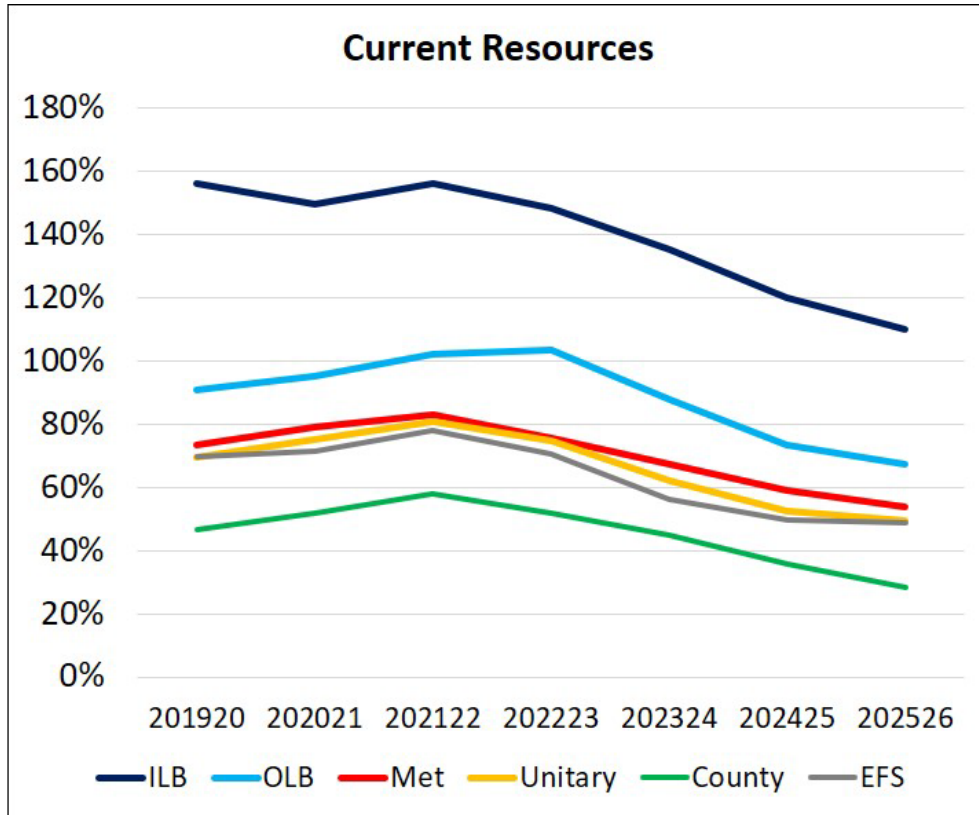
- 139 of 151 (92%) authorities now have an accumulated DSG deficit.
- High Needs Stability Grant should reduce these deficits significantly (for now!)
- 141 of 151 (93%) authorities had an in-year deficit in 2025/26.

URR + DSG



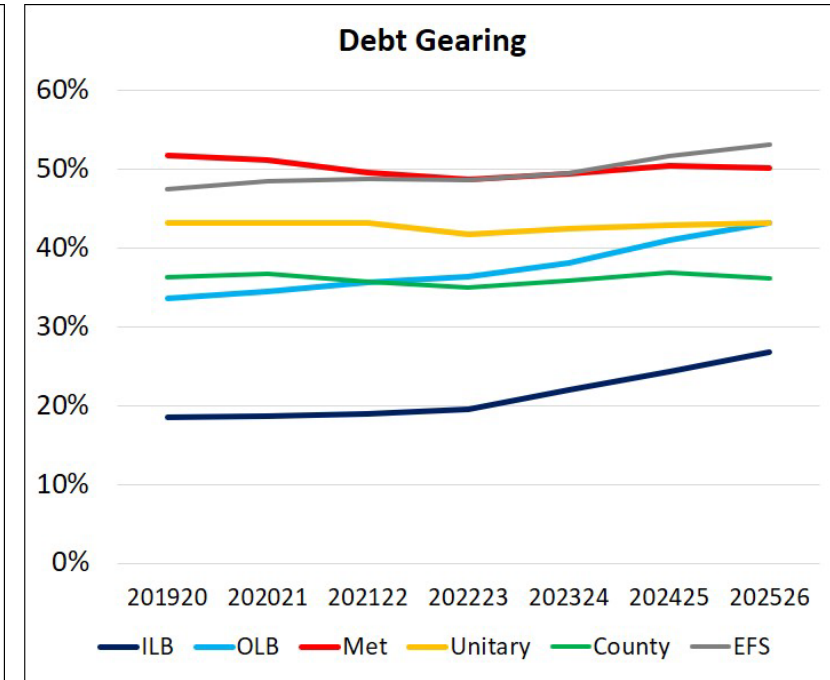
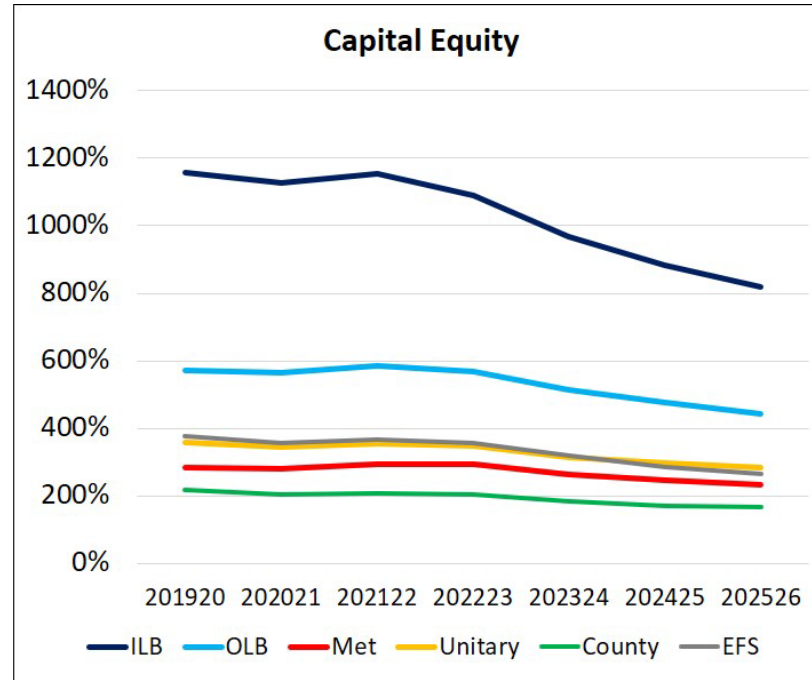
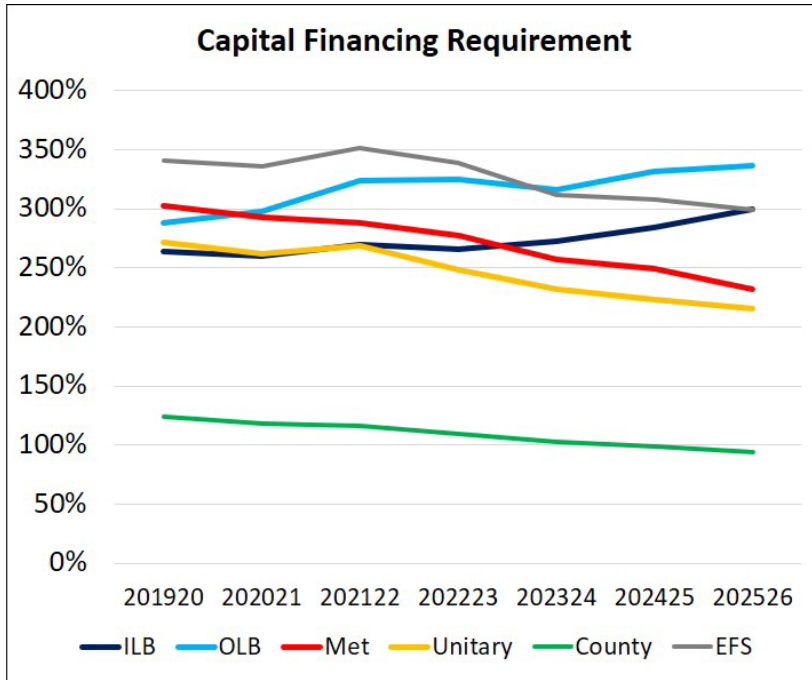
- 17 of 151 (11%) authorities have a higher DSG deficit than they have usable revenue reserves.
- The majority of authorities saw a reduction in URR + DSG during 2025/26 showing the DSG deficits continue to have the largest negative impact on local authority financial health.

Current Resources



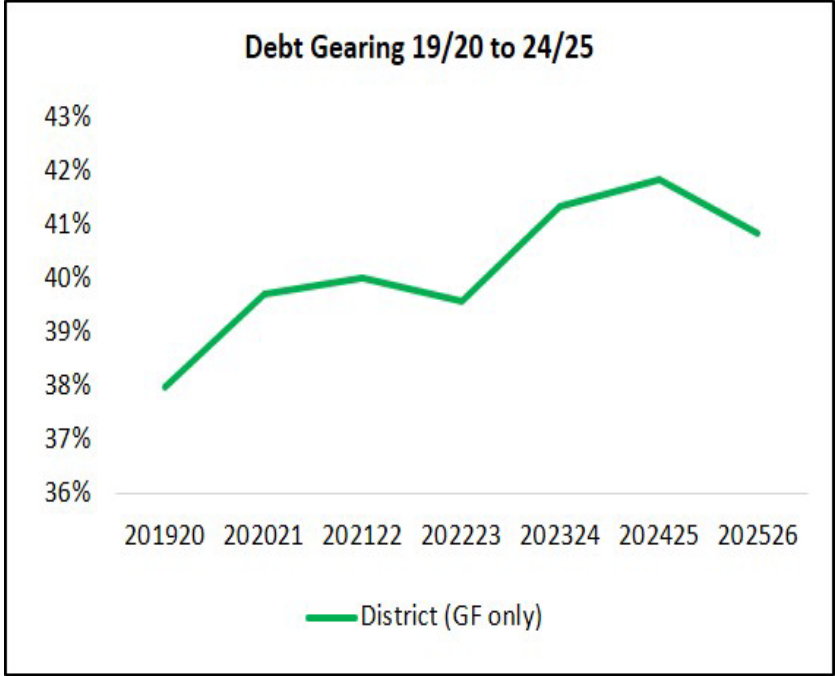
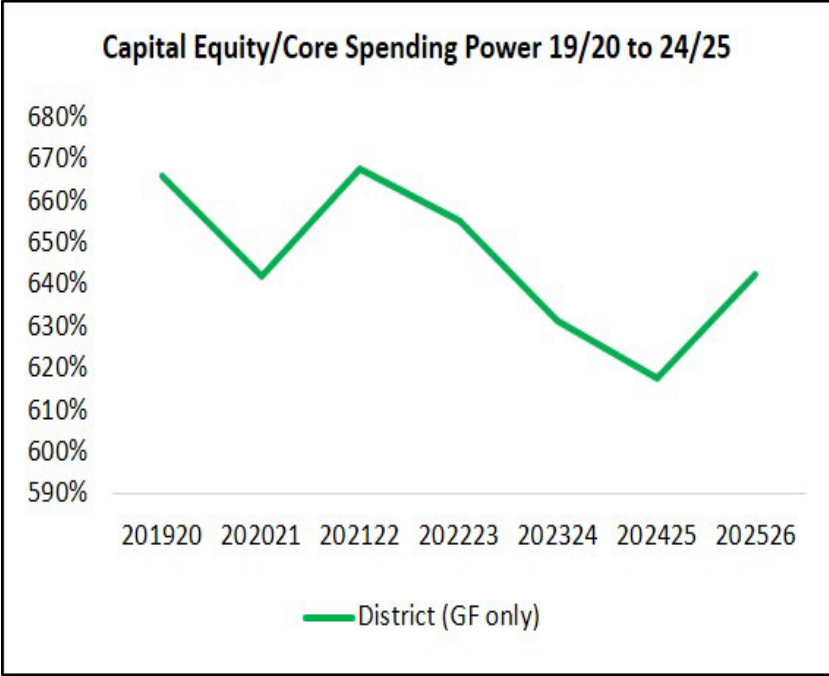
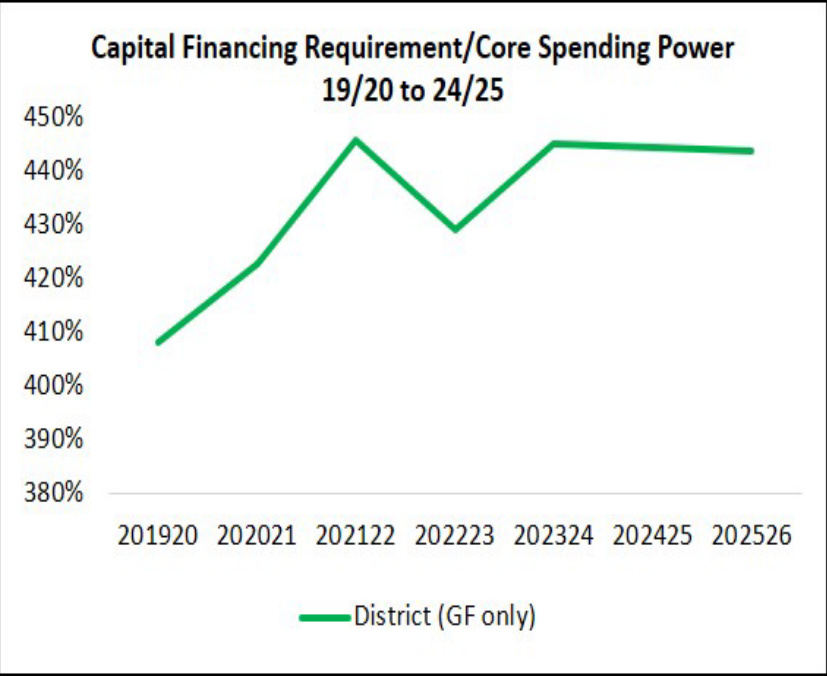
- Current resources combines all usable reserves (revenue and capital) with DSG deficits (or surpluses) and the Collection Fund Adjustment Account balance.
- Significantly reducing across upper tier but increasing across districts.
- **This is having the biggest impact on the sector's financial health as weaker balance sheets are translating into significant increases in short term borrowing at a time of volatile interest rates.**

Capital Health



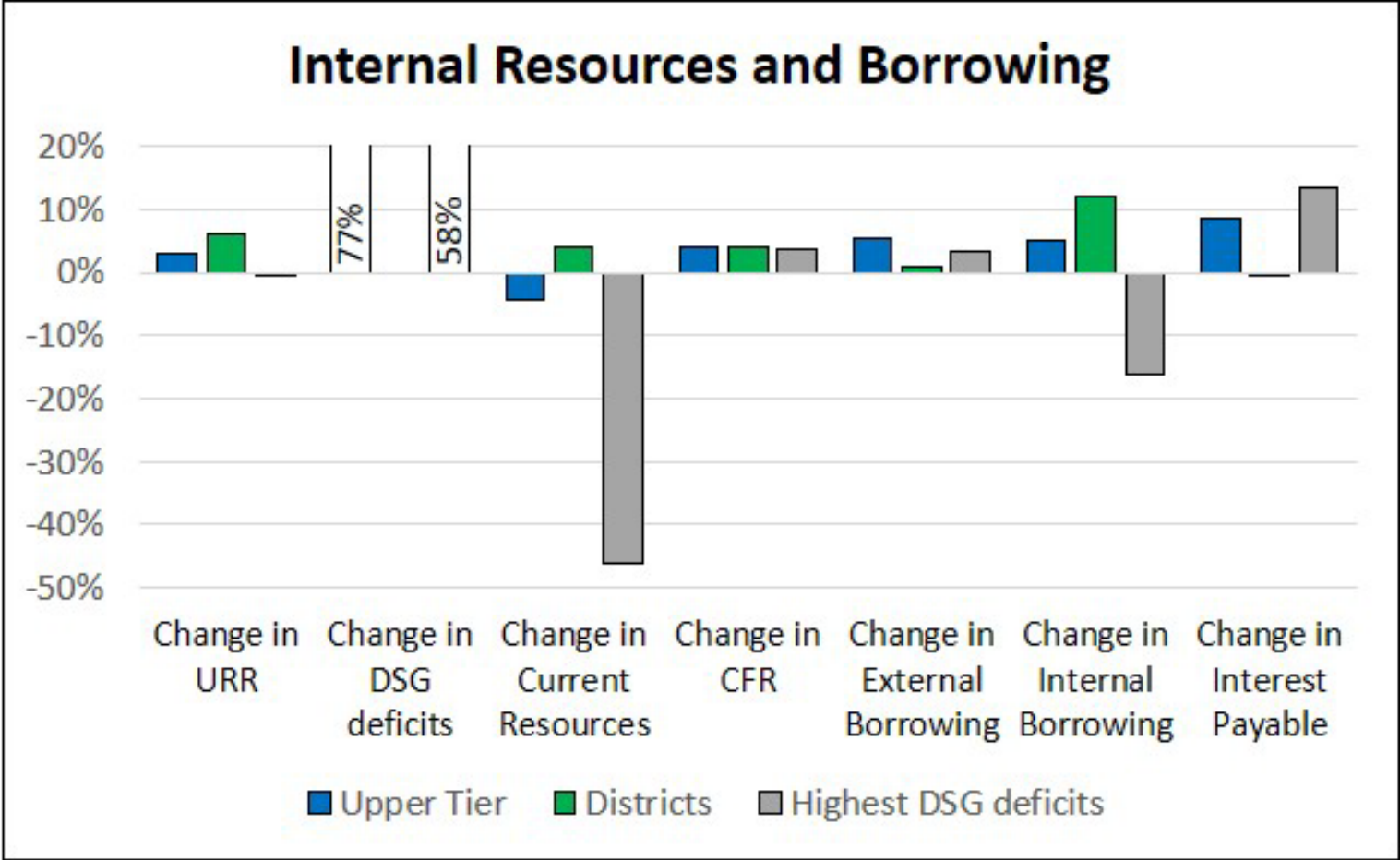
- Capital Financing Requirements are high and increasing in London where equity on the balance sheet is significantly higher (though decreasing).
- Need to borrow and debt gearing is high and debt gearing is increasing amongst EFS authorities, indicating that EFS, whilst boosting the revenue position, places increased vulnerability on capital health.

Capital Health

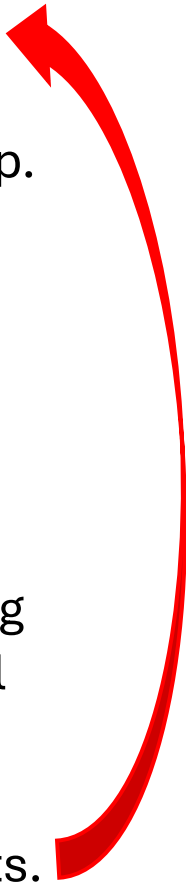


- Capital Financing Requirements are more stable across districts.
- Capital equity has increased over the last year and debt gearing has reduced.

Impact of Current Resources on Borrowing – Vicious Circle



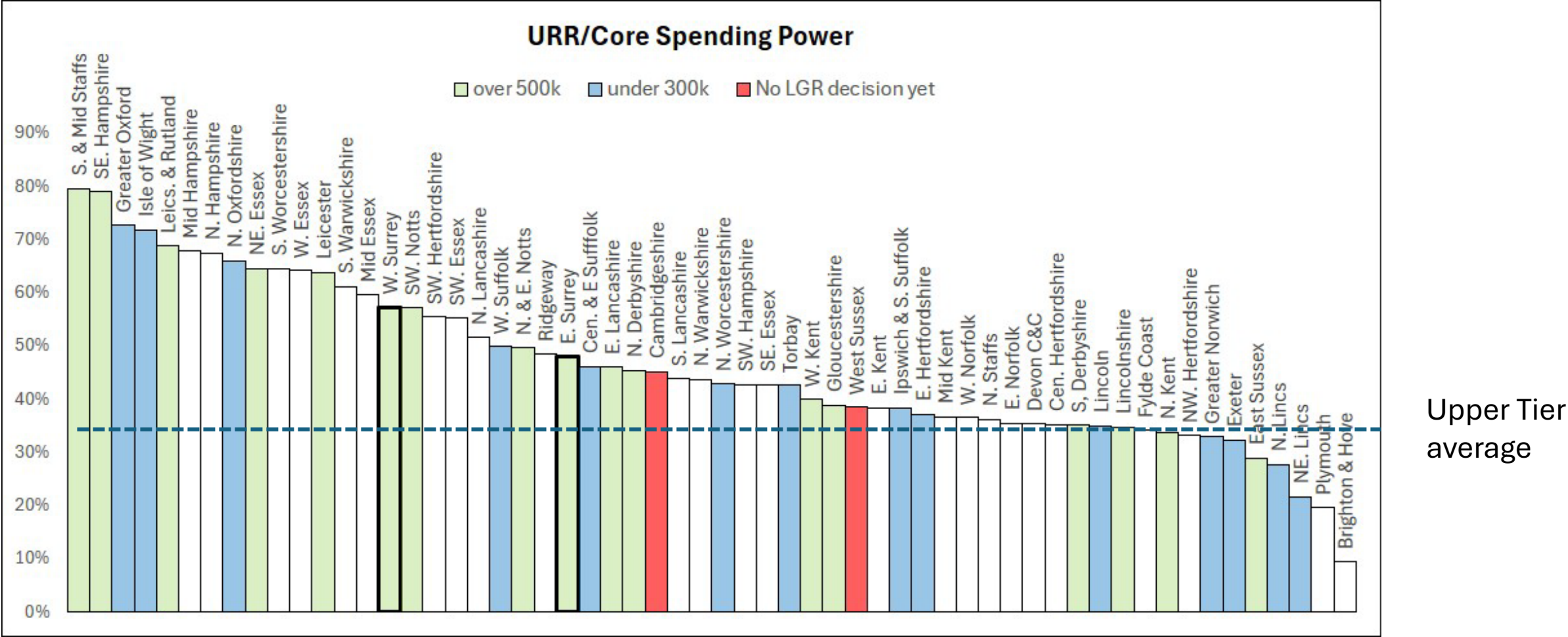
- Revenue budget gap.
- Reduction in URR to fill gap.
- DSG deficits increase.
- Big reduction in current resources.
- Existing and new borrowing externalised as no internal resources.
- Higher debt financing costs.



Conclusions

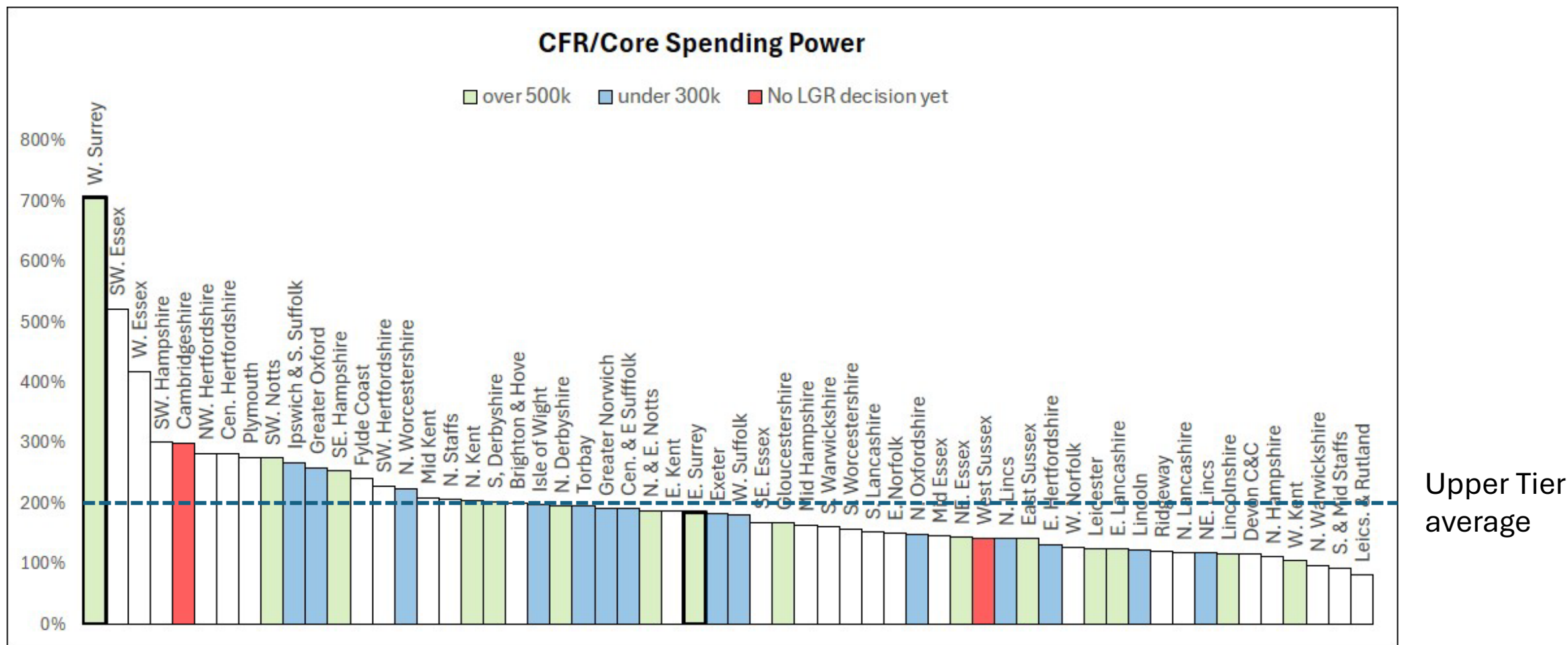
- There are signs of financial stress across local government in 2025/26 especially amongst upper tier authorities.
- But also early signs that declines in balance sheet health are easing with the help of Exceptional Financial Support.
- DSG deficits remain the single biggest threat to resilience of upper tier authorities but High Needs Stability Grant should provide significant, though temporary, relief for many authorities.
- Capital health issues are less about the amount of borrowing which is actually decreasing as a proportion of CSP and more about the composition of that borrowing. Reducing current resources across many upper tier authorities, mainly due to accelerating DSG deficits, has tested the sustainability of internal borrowing. Short term borrowing has increased significantly and this has increased debt financing costs.

Local Government Reorganisation – on pause!



- Most (though not all!) proposed unitaries would have higher than average usable revenue reserves when compared with the upper tier average in 2025/26.

Local Government Reorganisation – on pause!



- Just over half of proposed authorities would have lower than average CFR than the upper tier average.
- West Surrey has three and a half times the average.

Local Government Reorganisation (LGR)

- Ministerial announcement on 7 September 2026 cancelled or postponed all the new unitaries that were proposed for 2028-29
- <https://commonsbusiness.parliament.uk/Document/107523/Pdf?subType=Standard>
- <https://hansard.parliament.uk/Commons/2026-09-07/debates/BBDE7BC0-92C4-4B04-BFC8-CFB70302CD0E/details>
- <https://www.gov.uk/government/news/review-of-local-government-reorganisation-launched>
- Legal challenges from authorities in the first wave concentrated minds within MHCLG
- The proposals for unitary authorities in Essex, Suffolk, Norfolk and Hampshire, which were made in March 2026, have now been formally “withdrawn”.
- There will be a “full review” of the LGR programme, including decisions taken in July 2026 in 14 county areas, and the two county areas where decisions were expected later this year (Cambridgeshire, West Sussex).
- The Secretary of State asks that “reorganisation activity be paused” in these areas.
- Local elections in these areas will go ahead in May 2027 “on existing council boundaries”.
- The two unitaries in Surrey will continue as planned in 2027-28.

Local Government Reorganisation (LGR) scenarios

- Ministers want rapid review of options for end of October – but this is very ambitious and unlikely
- Almost no prospect of any of these unitaries being resurrected for 2028-29 (local elections postponed)
- 53 new unitaries were proposed for 2028-29, of which 31 would have been based in part on non-district boundaries (based on either wards or parishes)
- Our view is that an LGR programme on the scale that was announced in March and July this year is unlikely to be repeated (too broad, too complicated)
- Smaller scale programme for 2029-20? Some city-based unitaries based on political choice? Focus on delivering the easier unitaries (e.g. single county) or where there is local consensus?
- Others arguing for continuation of the programme – but based more closely on the original consultation paper (December 2024): <https://www.countycouncilsnetwork.org.uk/news/reorganisation-review-must-result-in-material-change-of-direction-the-county-councils-network-argues>
- See our briefing note on the LGR decision on 15 September 2026: <https://pixelfinancial.co.uk/subscribers>

Local Government Reorganisation (LGR) – impact on devolution

- Government’s “ambition” is for strategic authorities, with elected mayors, to be “in place everywhere by the end of 2028”.
- Where areas are not ready, the Government “will work with them to set up non-mayoral foundation strategic authorities”
- White Paper, December 2024: priority would be given to areas “where reorganisation can unlock devolution, where areas are keen to move quickly, or where this can help address wider failings”
- Can devolution and strategic authorities be created where two-tier local government still exists? Opinion divided within Whitehall about whether this is possible
- Unitary authorities will be the constituent authorities for the new strategic authorities
- But with LGR not deliverable until 2029-30, at the earliest, ministers might have to create new strategic authorities with two-tier local government still in place

Post-LGR settlement and forecasting

- No change from **multi-year settlement**. Settlement was not based on the LGR proposals. Allocations are confirmed for 3 years, and authorities can be confident no changes.
- **Tier split**. Changes in tier splits in 2027-28 following increase for MSAs. Unlikely to affect main 50% scheme, but could lead to higher tier splits for some LA classes.
- **Baseline reset**. Adjustment following 2026 Revaluation. Already expected (and included in our MTFP model).
- **District funding**. Many districts were not expecting to have to set a budget in 2028-29. MTPF model is set up for continuing authorities.
- **Adjustment Support Grant (ASG)**. Will this continue after 2026-27? Not likely but more possible now.
- **Recovery Grant**. Many districts received Recovery Grant but not the Uplift or Guarantee. Potential lobbying for district councils with high levels of deprivation.

Adjustments for prior-year reliefs in 2026-27

- Technical adjustment (see “BRB Calculations” in MTFP model). Updated gross rates calculated using the final rating list rateable values (for small and standard multipliers) – already covered in our previous webinar
- MHCLG is collecting data related to EZs and renewable energy over the Summer
- BRB now based on gross rates, with s31 grants payable for all BR reliefs (to collection fund)
- Letter to authorities, 21 September: **adjustments to prior-year reliefs in 2026-27** will be treated in the same way as in-year reliefs, i.e. adjusted for in s31 via the collection fund
- Objective is to ensure an authority’s non-domestic rating income is as close to Gross Rates as possible, i.e. collected had no reliefs been awarded, either in 2026-27 or in previous years
- Possibly some rough justice, but unlikely to be material

Next review of funding distribution (2029-30?)

- Expected to be “much less redistributive” than FFR 2.0 but there are the added factors of the new devolution agenda, new prime minister, and unfinished business from 2026-27
 - Changes likely limited to updated data, council tax assumptions, and BR baseline reset; but will need to update transitional support assumptions
 - Unknown: fiscal stance, regional distribution, pace of reform. Real impacts only clear once governing begins (Budget 2026 is on 28 October 2026, first official indications at that point)
- **Urban and deprivation funding.** Change in Prime Minister gives these factors greater priority. Recovery Grant (plus Guarantee and Uplift) worth £875m in 2028-29. How can this funding be replaced within remaining settlement in 2029-30?
 - **Cliff-edge authorities.** Many authorities face a cliff-edge when “funding floor” support ends in 2028-29. MTFP model has various options. Come back to look at this issue in a future webinar.
 - **Remoteness.** Major change between Summer consultation and provisional settlement. Not clear there was technical backing for removal of remoteness from all-but ASC RNF.
 - **Deprived district councils post-LGR.** Perennial losers from settlements since 2010-11. Can these authorities get more funding from a deprivation-focussed government?

Remoteness and accessibility

- Pixel briefing note and analysis published later this week: **“Funding for rural and urban authorities: sparsity, density, remoteness and accessibility”**
- Estimates the impact of replacing sparsity and density indicators with remoteness and accessibility factors.
- A key change introduced in the 2026-27 settlement and important for authorities to compare funding with actual costs (recent survey by Rural Services Network, RSN)
- Challenging because the Relative Needs Formulas (RNFs) and the Area Cost Adjustment (ACA) are difficult to replicate accurately.

Remoteness and accessibility – funding in 26-27 settlement

- Funding is zero-sum – higher scores in rural areas mean less funding in urban areas
- Funding for remoteness and accessibility is £217m for predominantly rural authorities and £62m for urban with significant rural in the 2026-27 settlement.
- Bulk of the funding is within the two ASC RNFs (£94m for younger adults and £87m for older people). Remoteness weighting in these two RNFs.
- Funding within other RNFs is much smaller because only the accessibility uplifts are included.
- The funding driven by the accessibility factors is relatively small. The two accessibility factors represent only a small part (6%) of the LCA, which in turn is worth only about one-half of the overall ACA.

Rural urban classification	Younger Adults Social Care RNF	Older People Social Care RNF	Children and Young People's Services RNF	Foundation Formula (Lower Tier) RNF	Foundation Formula (Upper Tier) RNF	TOTAL remoteness/accessibility in 2026-27 finance settlement
Predominantly Urban	-129.547	-120.255	-18.579	-23.396	-10.756	-302.533
Urban with Significant Rural	25.469	23.642	6.184	4.082	2.869	62.245
Predominantly Rural	94.312	87.547	11.296	17.248	7.229	217.633

Remoteness – impact of removing in 26-27 settlement

- Decision to remove remoteness from all-but ASC RNF in 26-27 shifted ~£320m out of rural authorities (£225m from predominantly rural, £85m from significant rural)
- Gain for urban authorities of ~£320m
- Remoteness distributes more funding than accessibility – so removing it reduced funding in rural authorities by more than 50%
- Predominantly rural authorities have only 46.6% of the remoteness/ accessibility funding in settlement that was implied in Summer consultation (lower share in significant rurals)
- MHCLG decision to remove remoteness from most RNFs was not well explained or justified – likely to be area of debate for 2029-30

Rural urban classification	TOTAL remoteness/ accessibility in 2026-27 settlement	TOTAL funding <u>removed</u> in prov settlement	NOTIONAL TOTAL remoteness and accessibility funding	Percentage still in settlement
Predominantly Urban	-276.971	-320.106	-645.131	42.9%
Urban with Significant Rural	59.338	85.541	175.788	33.8%
Predominantly Rural	217.633	225.461	466.611	46.6%

Remoteness – impact of removing in 26-27 settlement

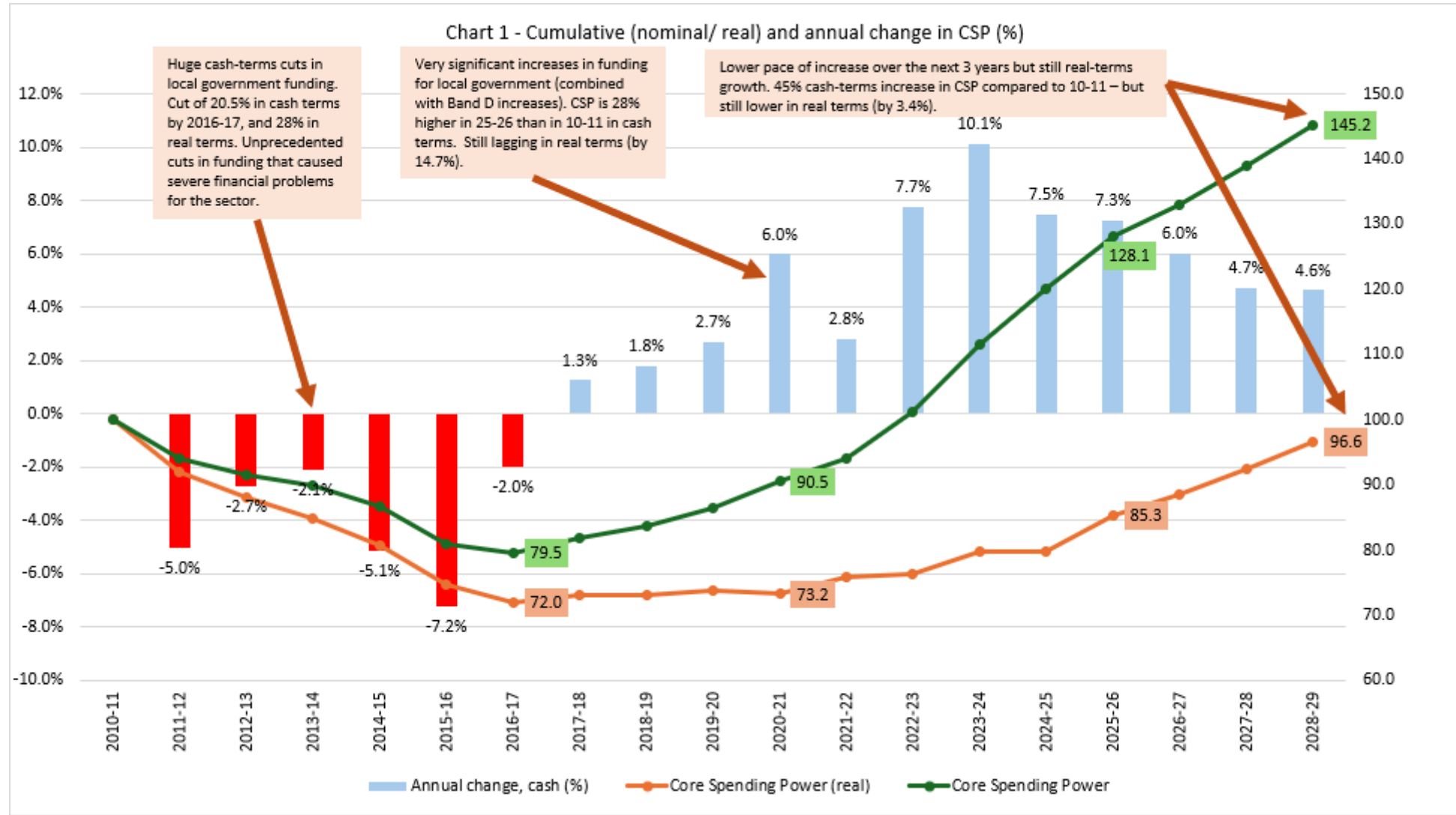
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CSP real terms

- **Updated time-series.** We have updated the time-series showing cash- and real-terms changes in Core Spending Power (CSP) from 2010-11 onwards. The data and briefing note are now available on the website:
<https://pixelfinancial.co.uk/subscribers>
- **Methodology.** Updating time-series has been challenging because it is difficult to treat retained BR consistently. Our pre-26-27 retained rates data is based on 50% scheme only, and excludes effect of pools and pilots. Adjusted CSP in 2025-26 calculated using amounts from BRRS including pools/ pilots, as does amount rolled into FFA in 2026-27.
- **Use results with caution.** They show reasonably good estimates for changes in CSP over the period but could be challenged.
- **Completes the time-series.** We are unlikely to update again, but the story from 2010 onwards is important (austerity).

Core Spending Power – real/ cash terms change since 2010



This analysis is available for each local authority on website.

Exceptional Financial Support (EFS) survey

- We are aware that increasing numbers of authorities will be applying for EFS this year.
- Useful intelligence for authorities to know (a) the amount of support others are asking for and (b) planned increases in Band D
- MHCLG has indicated that authorities will not be able to increase Band D above the average (but without specifying the threshold)
- Would it be useful to run an ongoing survey and to periodically share information? Confidentiality is particularly important, so would it be preferable to share information by email or using an automated survey (Google Forms)?
- Are there any other questions you would like to be asked?
- Feedback in the chat if you have views

Extended Producer Responsibility (EPR)

- Formula-based allocation for 2025-26 (for funding floor) and the subsequent EPR payments are based on local activity.
- Not included in our MTFP model because we viewed EPR is an income stream (akin to fees and charges) rather than a formula-driven grant payment.
- It is now a very material amount of income, and potentially more material to district councils following the LGR decision.
- Would you be interested in sharing of information and modelling? Is there any value in including EPR in the MTFP model?