

Local government financial settlement : this is not the break from austerity we need

LGA Labour Leader Bev Craig has said that the government's three year local government funding settlement indicates that “austerity is over”. Yet even she admits that the funding gap for local authorities has only been reduced from £6 billion to £4 billion. Look at the financial projections and you see that councils' 'core spending power' increases over three years to 2028/29 by £11.096 billion. Yet 'core spending power' includes council tax. The apparent extra funding is based on the assumption that councils will raise council tax by the full amount. Council tax is expected to increase by £8.343 billion. So the actual increase in government funding is £2.752 billion over 3 years. Less than £1 billion a year. Only 25% of the increased funding comes from the government; **75% is increased council tax.**

This financial settlement will not resolve the acute funding crisis of local authorities. The Local Government Chronicle reports that the government expectation for next year is that up to 74 councils may apply for “Exceptional Financial Support” (EFS). This would mark a significant increase from the 30 granted it in 2025/26 - 29 were for General Funds, Lambeth council was for its Housing Revenue Account. The government's estimate is set out in a tender issued by the Ministry of Housing, Communities and Local Government, to appoint external consultants to carry out 'financial assurance' reviews of local authorities identified as being at financial risk.

The National Audit Office explains ESF:

“In most cases MHCLG has provided support through an in-principle agreement to use capital flexibilities, followed by a formal capitalisation direction. This relaxes normal local government accounting rules that would prohibit using capital finances to fund day-to-day spending. EFS allows a local authority to either borrow or sell assets and use the proceeds to set a balanced revenue budget.”

The House of Commons Levelling-up Committee had previously expressed concern that

“There is a risk that local authorities, in using these flexibilities, are drawn into fire sales of local assets, or unsustainable borrowing, in attempts to bridge their chronic budget gaps. This could drive poor value for money for local authorities and their communities, and exacerbate existing financial distress.”

The government usually issues a 'capitalisation directive' (see these for [2025/26](#)) to enable councils to use existing capital receipts (from the sale of assets) or borrowing, to cover day to day expenditure. ESF is a misnomer because there is no financial support involved. It is merely government permission to take on more debt to fund revenue expenditure and pay for it by cuts in services and/or by selling off assets. That's why we have said it is [Austerity by another name](#).

In contrast with Bev Craig's assertion that “austerity is over”, LGA Chair Louise Gittins (also Labour) has said that

“An increase in overall government funding remains needed to ensure the financial sustainability of all councils and our local services...We remain concerned by the number of councils having to use unsustainable emergency bailouts which are a clear warning sign about the financial pressures facing local government. Unless sustainable solutions are found to the severe financial challenges facing local government, we anticipate more councils may need Exceptional Financial Support in the future.”

ESF is essentially a means of avoiding councils issuing a Section 114 Notice, a declaration that a council will be unable to balance its budget, which is a legal obligation every year (see Note below).

What the government has done with the settlement for 2026/7 is to share out the funding differently. Some will gain and some will lose. According to the Institute for Fiscal Studies, even Labour councils such as Hammersmith and Fulham, and Wandsworth will see a cut of 10%. Whilst funding should be based on social needs, updated annually, if the size of the pot stays the same, or is only marginally increased, there are insufficient resources for what councils are expected to do, be that housing or other services.

The impact of austerity on council housing

Whilst a council's Housing Revenue Account is "ringfenced"; that is, rents cannot be used in the General Fund and council tax cannot be used in the HRA, the crisis of local authority General Fund finance has an impact on it. For instance, it is common for a freeze on hiring to be applied to the HRA as well as the General Fund, even if there is no real need to.

The continuation of austerity has both a direct impact and indirect impact on council housing. The direct impact is the result of the continuation of Tory policies which were part of their austerity programme; the limits of funding owing to the government's "fiscal rules" and their overall approach to the housing crisis. The government has kept in place policies introduced as part of their austerity programme, such as "[affordable rent](#)" (up to 80% of market rent) and the hated "bedroom tax".

Austerity weighs on the government's Social and Affordable Homes Programme. It's commitment to funding only 18,000 social rent homes a year is far below [the 90,000+ social rent homes that are widely accepted as needed](#) to begin to resolve the housing crisis. In addition, whilst low interest loans are to be offered to housing associations, the government said it would not make them available to councils because of the "fiscal implications".

The government's self-imposed "fiscal rules" determine that day to day spending must be covered by revenue. Yet, given a decade and more of austerity, the income of Housing Revenue Accounts is insufficient for maintenance and improvement of existing homes, never mind new build. More is being asked of councils than they have the revenue for. They are facing increased spending for work in relation to damp and mould, an improved Decent Homes Standard (yet to be finalised) and decarbonisation of existing homes.

In October 2024 the Local Government Association pointed out that the 2012 'debt settlement' which introduced a new financial system, estimated that councils would need £64 billion over 30 years for maintenance and renewal of its housing stock. The LGA's latest research estimates that this would be £32 billion short of what is actually required.

In January 2025, in evidence submitted to the House of Commons Housing, Communities and Local Government Committee, London Councils said this in relation to HRA resources:

"For some boroughs, the Housing Revenue Account (HRA) is the largest immediate threat to financial resilience, with three London boroughs forecasting they will fully deplete their HRA reserves in the next three years. This is because of reduced resources (due to capping social rents) and growing costs (due to high inflation, London's ageing housing stock, additional costs of meeting fire safety standards and damp and mould mitigation). Boroughs are collectively planning real-terms cuts of more than £200m to balance their HRA budgets over the next four years."

The reference to capping social rents reflects the position of London Councils in support of a decade of above inflation rent increases, despite the fact that rent arrears in London

have soared from £75 million in 2015/16 to £175 million in 2024/25; that's 44% of arrears in England with 25% of the stock.

In reality the financial crisis of HRAs is not the result of capping rents but under-funding by the 'self-financing' settlement in 2012 and government policies since then. The under-funding cannot be resolved by [squeezing tenants with a decade of above inflation rent increases](#).

Homelessness

Homelessness is dealt with by a council's General Fund, rather than the Housing Revenue Account. Local authorities in England have a statutory duty to provide temporary accommodation to eligible homeless households, those in "[priority need](#)", "until they make a final offer of long-term housing". Yet the shortage of council housing, resulting from the loss of homes from Right to Buy, and [stock transfer](#), means that councils are forced to place homeless families in a variety of places, including private sector housing, bed and breakfast, and the worst and most expensive sort, nightly paid accommodation. (see [Stats in Brief](#) for a breakdown) The "final offer" can be a long time coming. More than 50,000 households have been in temporary accommodation for more than 2 years. Of those, 24,000 have been in it for more than five years.

The failure to deal with homelessness has an impact on councils' ability to tackle the housing crisis, **especially when they have no statutory obligation to provide their own housing**. Only 162 councils in England have council housing (there are less than 1.6 million council homes left in England). Because of the exorbitant cost of temporary accommodation councils are now tending to put more homeless people in their own accommodation; either existing council homes as 'temporary' tenants, or else in their own temporary accommodation, which some councils have bought for that purpose. In June 2025 31,750 households were housed in council or housing association accommodation on a 'temporary' basis. This has the knock-on impact that households on the waiting list will have to wait longer.

Increasing homelessness and the resulting costs of temporary accommodation is one of the key drivers of the local government financial crisis. It's true that the government has increased funding for "Homelessness, Rough Sleeping and Domestic Abuse" (£835.3 million in 2028/29 – up from £520 million in 2024/25) but that will do little to solve the homelessness crisis. In each of the first four quarters under the new government, numbers in temporary accommodation have continued to rise to record levels. The last budget maintained the freeze of Local Housing Allowance (LHA) at 90% of the 2011 rate. The gap between what the government gives councils and what temporary accommodation actually costs them, increases by the year. It is more than £2 billion a year now.

Conclusions

Campaigners for council housing will continue to press for adequate funding for existing council housing, and grant for a large scale new build/acquisitions programme. The 132,000 households in temporary accommodation and 1.3 million on the waiting lists require a step-change in the provision of social rent council homes to be rescued from their parlous situation. Yet, last year the number of social rent homes fell by more than 27,000. [For the first time ever there are less than 1.5 million social rent council homes in England](#).

Only a clean break from austerity and a return to a progressive taxation system (e.g. taxing capital gains tax as income, replacing council tax with a graduated property tax) will make this possible, or else we will face the prospect of the deterioration of existing council housing stock. The government will not end austerity for council housing at the same time as continuing it for local government overall. Therefore, it is in the interests of those

campaigning for council housing to challenge the overall strategy and work with those calling for an end to austerity in local government, especially the trades unions¹.

The homelessness crisis cannot be resolved without ending the freeze of LHA and promoting new build/acquisitions on a far greater scale. The households in temporary accommodation and on the waiting list will have nowhere to go if the government's commitment to funding of social rent homes remains at 18,000 a year. The Social and Affordable Homes Programme is [a flawed programme which will not solve the housing crisis](#).

Talk of a 'council housing revolution' was empty rhetoric. The fact is that there is no funding specifically for council housing in the Social & Affordable Homes Programme. Even in the case of funding for building social rent homes, councils will have to compete with housing associations.

We need to face up to the reality that austerity in local government, impacting on the General Fund and the HRA, has been continued by this government. Ultimately, councils that are undergoing financial collapse will not be focusing on building council housing. If the current government fails to begin to resolve the housing crisis it will open the way to a very right wing government which will definitely not support council housing and may well attack it. Making council housing the government's first housing priority is necessary to address the housing crisis and to begin to resolve it.

Martin Wicks

January 16th 2026

Note

Section 114 Notice

The use of ESF by the government is a means of preventing councils issuing section 114 notices – a declaration that they are unable to balance their budget, which they are obliged to do under law. The notice is issued by a chief finance officer. The council cannot then incur any new spending without his/her permission. The council is then obliged to meet within 21 days and decide how to balance their budget in that year. They will either have to

- Reduce spending (though without failing in their statutory duty to provide certain services (e.g. child care and adult social care);
- Sale assets or
- Borrow to cover day to day spending.

As the Institute for Government says

“Neither of these are sustainable approaches to funding local authority services. Local authorities can only sell assets once, while demand for an authority’s services is indefinite. Councils have to repay money they borrow and require them to pay interest in the interim, further adding to their cost base. Neither approach solves the underlying problems of insufficient funding and rising demand for councils’ services.”

Where a section 114 notice is issued it usually results in the sending in of government appointed Commissioners who essentially override local government democracy and take decisions on how a budget is to be balanced, usually with steep cuts and asset sales.

The government can also give dispensation to councils to raise council tax more than the limit above which a referendum is needed. They have done this, both last year and this.

¹ The FBU, which is an affiliate of our campaign is still facing service and jobs cuts – continued austerity. [FBU pledges to “fight for every job” as cuts averted in Avon and Leicestershire | Fire Brigades Union](#)