LOCAL NEWS PARTNERSHIPS

Council borrowing 2023

The Drum Online Media Awards Winner 2020

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Please note this report and accompanying dataset is subject to change

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Wincott Award Winner 2022

Contents

What's the story?

High levels of local authority debt will see residents face an "extreme and long-lasting" impact on local services, the Public Accounts Committee has said.

Shared Data Unit analysis of data by the Department for Levelling Up shows UK councils owe a combined **£97.8bn** to lenders, equivalent to **£1,455** per resident, as of September 2023.

Taking into account all types of local authorities, such as police and crime commissioners and combined authorities, the debt pile rises to **£122bn**.

Dame Meg Hillier, the committee's chair, said some examples of debt were "staggering".

But council leaders say years of under-funding mean they have been forced to take out loans and invest in commercial properties just to keep services running.

This pack contains:

Data showing the amount of debt held by each council in the UK, here:

- To give the figures a sense of scale, we have used population data to show how much that debt is worth per person in your area.

Analysis of the figures can be found on page 7**.**

Interviews and quotes [see 'Quotes and expert comment' section]:

- To help with writing your story, you can use any part of the full interviews with chief executive of the Local Government Information Unit (LGiU) **Jonathan Carr West** and with **Andy Carter**, the MP for South Warrington, who has criticised his council for acting "like a hedge fund." Warington has one of the highest proportional debt figures in the UK.

- You can also use statements from the Department for Levelling Up, Housing and Communities (**DLUHC**); **Dame Meg Hillier,** chair of the Public Accounts Committee; the **District Council's Network** and the **Local Government Association**.

- And you can use rights of reply from: **Woking, South Tyneside, East Lothian, Spelthorne, Warrington, Thurrock, Runnymede, Barking and Dagenham councils.**

Background

For the past decade, councils have been encouraged to make commercial investments to provide an alternative source of income aside from the usual mix of grants, council tax, rates and fees and charges.

Town halls across the country have bought hundreds of commercial assets from shopping centres, to office parks, cinemas, energy companies and housing developments.

But council leaders, who have seen government grant funding reduce by 40% in real terms since 2010, have had to borrow increasing amounts to pay for those investments. This has mainly been through an arm of the Treasury known as the Public Works Loan Board.

In recent years, various commentators have warned that the debts held by councils - which must balance their budgets every year - are unsustainable. In 2020, chair of the Public Accounts Committee Dame Meg Hillier said the Government was "blind to the extreme risks" of council borrowing levels.

Since then, six more councils have had to issue section 114 notices declaring themselves effectively bankrupt: Croydon, Slough, Thurrock, Birmingham, Woking and Nottingham.

In the case of Croydon, Slough, Thurrock, Woking and Nottingham - those effective bankruptcies could be directly linked to failed investments and spiralling debts. Thurrock's £469m funding black hole, for example, was caused by a series of failed investments in solar farms.

A 2023 report by credit agency Moody's warned that "weak government" and the falling value of commercial properties due to the pandemic meant more councils were likely to go bust.

Yet, despite the risks, a report by the Local Government Information Unit (LGiU) in March also found 52% of councils planned to increase borrowing to plug gaps in town hall funds.

Where councils have gone bust, savings and cuts have followed. Nottingham placed 500 jobs at risk in December, while Woking has revised its mid-term financial plan to include £12m in cuts next year, including the removal of all public toilets, a phased three-year closure of Pool in the Park and the ending of funding for the Lightbox Theatre.

The organisation said three leisure centres, 13 sports pitches and pavilions, Dance Woking and participation in the Specsavers Surrey Youth Games were all threatened with having funding removed.

Thurrock Council has planned to make £18.2million worth of cuts next year including a reduction in funding for social care packages and a near 10% rise in council tax. A further £13.65m of savings will have to be found every year for three years from 2025, under the proposals - which will be voted on early next year.

Methodology

We extracted **debt data** from the borrowing and investment live tables (Q2 2023 to 2024) by the Department for Levelling Up, Housing and Communities.

Following guidance from the Borrowing Statistics Data Collection Team (DLUHC), we have summed all the categories except Short Term Loans Local Authorities and Long Term Loans Local Authorities in order to avoid double-counting.

One of the most commonly used metrics in reports of council debt is the yearly amount an authority spends in servicing borrowing as a proportion of its core spending power. Core spending power is a measure of the resources available to local authorities to fund services.

However, we found measuring debt against core spending power was problematic.

This is partly because of self financing laws brought in under the Localism Act in 2012, which allowed many councils to effectively buy their existing social housing stock out of the Housing Revenue Account subsidy system.

This enabled some to keep all of the rent received from their social housing stock but also required them to take on a set amount of debt relating to the size of their stock. This debt is included in the “total amassed debt” in Oflog’s official figures.

However, some councils have argued that core spending power does not include any of the income they receive from social housing and is therefore a misleading metric. Income from commercial investments is also not included in core spending power.

When we took guidance from DLUHC we found the department was in the process of revising this measure after receiving representations from councils.

For instance, North East Derbyshire Council told us: “The HRA (Housing Revenue Account) debt makes up 95% of the Council’s total debt with less than only £7m relating to the general fund. This is not recognised in the publicly available measure of debt v net revenue spend, with revenue spend only taking into account general fund expenditure. If the HRA debt is separated out then our % debt to NRE on the General Fund is negligible.”

Population figures are published by the Office for National Statistics (ONS) (‘Dataset Estimates of the population for the UK, England, Wales, Scotland and Northern Ireland’, Dec 2022). This excludes Westmorland and Furness, Cumberland and Somerset Council, created in April 2023. We got population figures for Westmorland and Furness and Cumberland from their respective websites.

What we found

Our analysis consists of 380 local authorities in the UK.

It provides further insight into the financial condition of councils after the investigation the BBC Shared Data Unit published last August revealing a £5bn black hole in town hall budgets [see PACK and DATASET].

How much have councils borrowed?

- Local authorities in the UK (all classes, including Police and Crime Commissioner and Chief Constable, Fire and Rescue Authorities, Combined authorities…) owed a combined **£122bn**, equivalent to an average of **£1,823** per resident as of September 2023.

Nation (all local authorities)	Amassed debt, 2023-24 Q2 **(£)**
Scotland	14,068,618,000
Wales	5,684,341,000
United Kingdom	122,196,977,000
England	102,042,591,000
Northern Ireland	401,427,000

- Local councils owe **£97.6bn**, which accounts for 80% of the total amassed debt by local authorities in the UK. This is equivalent to an average debt of **£1,455** per resident as of September 2023.

Nation (only local councils)	Amassed debt, 2023-24 Q2 **(£)**	Average debt per person, 2023-24 Q2 **(£)**
Scotland	14,043,746,000	2,562
Wales	5,571,322,000	1,794
United Kingdom	97,553,033,000	1,455
England	77,536,538,000	1,371
Northern Ireland	401,427,000	211

- A total of **38 councils** (10% of the LAs in the UK) **had no borrowing** as of September 2023: Breckland, Bromley, East Cambridgeshire, Forest of Dean, Ribble Valley, Rochford, South Ribble, Stafford, Tunbridge Wells, Teignbridge, Newcastle-under-Lyme, North Norfolk, Malvern

Hills, Erewash, Maldon, Tonbridge and Malling, Swale, Fylde, Wyre, Hertsmere, Chichester, Rushcliffe, Horsham, Wychavon, Reigate and Banstead, West Oxfordshire, Broxbourne, Basingstoke and Deane, City of London, Amber Valley, Broadland, Bromsgrove, Cotswold, Lisburn and Castlereagh, Mid Sussex, South Oxfordshire, Stratford-on-Avon, Vale of White Horse.

- **Woking** had the largest average debt per resident in the UK (nearly **£19,000**), followed by Spelthorne (**£10,415**), Warrington (**£8,236**) and Thurrock (**£8,049**).

Local authority	Nation	Average debt per person, 2023-24 Q2 **(£)**	Amassed debt, 2023-24 Q2 **(£)**
Woking	ENG	18,756	1,948,583,000
Spelthorne	ENG	10,415	1,072,698,000
Warrington	ENG	8,236	1,739,678,000
Thurrock	ENG	8,049	1,415,889,000
Runnymede	ENG	7,270	637,900,000
Comhairle nan Eilean Siar	SCO	4,845	129,070,000
Aberdeen	SCO	4,825	1,097,330,000
Barking and Dagenham	ENG	4,735	1,034,818,000
South Tyneside	ENG	4,283	633,508,000
East Lothian	SCO	4,106	449,968,000

Quotes and expert comment

What the councils said

We asked for comments from all ten councils leading on "largest average debt per person in the UK".

Eight councils responded: Woking, Spelthorne, Warrington, Thurrock, Runnymede, Barking and Dagenham, South Tyneside and East Lothian.

While some councils answered directly to our set of questions, others issued a statement.

Woking - Council with the highest average debt per person

> "Woking Borough Council is subject to government intervention because of its high levels of debt, which at £2billion is unsustainable. An Improvement and Recovery Plan, approved by Commissioners, is publicly available. This plan includes the development of a financial recovery and debt reduction plan, funded by asset disposal that aims to achieve best value for the public purse by maximising asset values and avoiding further costs.
>
> "The Chief Executive, with the support of the S151 Officer, has requested that its new incoming auditor for the 2023/24 financial year, Grant Thornton LLP, undertake a Value For Money Review of the decisions relating to the Council's Investment Strategy under their audit Code of Practice responsibilities. The report produced will be a key component of the Council understanding the lessons and taking accountability."

Spelthorne - 2nd council with the highest average debt per person

What are the aims and priorities of the council's investment portfolio? The Council acquired investment assets during the period 2016-18 to generate long-term sustainable income streams to offset the impact of government grant support having been removed, to enable the Council to support the delivery of services for its residents.

- **How does the council oversee the acquisition and disposal of property? For example, is there a members-led Strategy and Governance Committee or equivalent, which reviews the portfolio? What are the key indicators to manage performance of the portfolio?** As stated above the Council stopped acquiring investment assets in 2018. The Council has put in place a Development Sub-Committee which has oversight of investment assets and reviews. The Development Sub-Committee reports in turn to the Corporate Resources Committee. There is also an informal Assets Portfolio Working Group which meets fortnightly and provides senior councillors with updates on investment assets issues.

- **What was the net income returned from the investment portfolio in 2020-21, 2021-22 and 2022-23?** After paying down part of the debt each year, paying the interest, paying management costs and setting aside part of the rental income to build up a “rainy day” fund to be available to cover dips in the rental income when there is turnover of tenants, the net income each year has been £10m.

- **What is the forecast return from property investments in 2023-24?** Net £10m towards support of services.

- **Has the financial officer issued, or has warned of issuing an S114 notice over the course of the financial year?** No

- **Has the council ever carried out an external audit of its investment portfolio?** We have periodically invited external experts to critically review our portfolio.

- **Has the council faced an external audit by auditors instructed by the Department for Levelling Up, Government and Communities?** No

- **If the council is unable to answer the above, will the council provide a statement about its debt levels to help provide context? For example, does the council believe the current level of debt is sustainable? Is there a strategy to reduce debt over the short or long-term?** Yes debt is sustainable as income generated by the assets associated with the debt comfortably exceeds the financing cost of the debt which is steadily being paid down on a year-by-year basis.

  You might also find this recent article useful: www.spelthorne.gov.uk/article/21431/Spelthorne-in-the-news-14-September-2023

Warrington - 3rd council with the highest average debt per person

- **What are the aims and priorities of the council’s investment portfolio?** Our approach has always been in line with policy aims of economic regeneration, increasing affordable housing supply and climate change. For example, one of our most significant investments, Birchwood Park, supports 6,000 local jobs, more than 150 businesses, and equally generates income through rent collection rates at 99%, which is used to support council services. During the 2022/23 financial year, rental income from our portfolio increased by more than 3% and remains strong.

  Likewise, our investments to support economic growth and regeneration are paying off, with record footfall figures recorded this summer at our Time Square leisure and hospitality quarter.

  We believe our level of borrowing is sustainable as it is asset-backed, and our current PWLB portfolio has an average term of 23 years, which reduces the risk of exposure to interest hikes. In short, we have made strategic, prudent, risk-based and long-term decisions. Due to the fact that we borrowed long-term to take advantage of previous historic low interest rates, we are sitting on around £300million of PWLB premiums and a very strong council balance sheet.

- **How does the council oversee the acquisition and disposal of property? For example, is there a members-led Strategy and Governance Committee or equivalent, which reviews the portfolio? What are the key indicators to manage performance of the portfolio?** Acquisition and disposal of property is always done in line with the council's constitution. No exceptions are made for investment properties – a tight and formal governance structure is always used for investment property acquisition and disposal. The decision on acquisition and disposal of property sits with the council's cabinet. Reports are presented to the cabinet for decision, including a business case, policy background, valuation matters, options analysis, risks, and financial and legal implications. External professional consultants are used, particularly in the areas of legal, financial, specialist environmental and property issues. All property value matters are always evidenced through external Chartered Surveyors RICS Red Book valuation reports.

  Performance reports are presented to two internal groups, (Investment Performance Review Group and Treasury Management Investment Review Group) and cabinet at least quarterly. In addition, there are reports and presentations to members through Audit & Corporate Governance Committee and member training.

- **What was the net income returned from the investment portfolio in 2020-21, 2021-22 and 2022-23?** 2020/21 – £19.7million, 2021/22 – £23.8million, 2022/23 – £22.4million

- **What is the forecast return from property investments in 2023-24?** A £7.738million net return (after the payment of borrowing costs, operational costs, and a 15% contribution to reserves).

- **Has the financial officer issued, or has warned of issuing an S114 notice over the course of the financial year?** No

- **Has the council ever carried out an external audit of its investment portfolio?** We have undergone multiple reviews and audits, alongside CIPFA review on behalf of the government, which we have welcomed and await final publication of their report.

- **Has the council faced an external audit by auditors instructed by the Department for Levelling Up, Government and Communities?** As above

Thurrock - 4th council with the highest average debt per person

- **What are the aims and priorities of the council's investment portfolio?** This portfolio is being wound down. Its aims were to support revenue budgets. More information can be found in the Financial Strategy Update report which went to Full Council in October: https://democracy.thurrock.gov.uk/ieListDocuments.aspx?CId=134&MId=6349

- **How does the council oversee the acquisition and disposal of property? For example, is there a members-led Strategy and Governance Committee or equivalent, which reviews the portfolio? What are the key indicators to manage performance of the portfolio?** The council's investments were not in a property portfolio. Decisions about the disposal of council owned properties are made democratically by Cabinet.

- **What was the net income returned from the investment portfolio in 2020-21, 2021-22 and 2022-23?** Overall income from the Investment portfolio is currently commercially sensitive due to a number of ongoing processes

- **What is the forecast return from property investments in 2023-24?** The council has not made property investments. Income from council owned property next year is forecast to be £3,788,000, this is from rent on commercial properties

- **Has the financial officer issued, or has warned of issuing an S114 notice over the course of the financial year?** Yes. Please see: https://www.thurrock.gov.uk/improvement/section-114-notice

- **Has the council ever carried out an external audit of its investment portfolio?** This has been carried out as part of wider external audits and currently in progress for 20/21

- **Has the council faced an external audit by auditors instructed by the Department for Levelling Up, Government and Communities?** Thurrock Council is currently in government intervention and a Best Value Inspection was carried out as part of that process. You can read the report and find out more at: https://www.thurrock.gov.uk/improvement/intervention-and-inspection

- **If the council is unable to answer the above, will the council provide a statement about its debt levels to help provide context? For example, does the council believe the current level of debt is sustainable? Is there a strategy to reduce debt over the short or long-term?** Please see the information and documents found at: https://www.gov.uk/government/collections/intervention-at-thurrock-council

Runnymede - 5th council with the highest average debt per person

Much of the reporting to date has focussed on debt, without reference to the income generated and so we welcome the opportunity to show a more complete picture by reporting on income generation. It is also important to highlight that Runnymede is a stock holding council i.e. it has retained its social housing stock and provides social housing for its residents. The total debt of the Council includes a significant multi-million-pound debt provision arising from policy changes outside the control of Runnymede Borough Council.

Runnymede Borough Council has borrowed to support capital spending plans for a variety of purposes, including investment in its social housing stock, for regeneration schemes which have delivered new housing and leisure activities across the Borough, and to build up a portfolio of commercial property investments from which it derives significant income to support it priorities and aims, as set out in its Corporate Business Plan.

The Council's investment portfolio was built up over a number of years, with its last purchase being in March 2020. All acquisitions were subject to rigorous scrutiny by Councillors. Our Capital Strategy no longer includes the acquisition of commercial property purely for investment purposes. The management of our property portfolio is governed under our Asset Management Strategy and continues to have close scrutiny from Councillors, most recently via a newly created cross-party Property and Assets Task Force. Key performance indicators are included in the Council's quarterly Treasury Management reports to both the Corporate Management Committee and the Overview and Scrutiny Committee. This data is supplemented by benchmarking data from leading market experts.

Net income from Investment properties after direct costs and borrowing costs (interest and provision for repayment):

2020-21 £10.725m

2021-22 £10.999m

2022-23 £11.182m

Forecast for 2023/24 £11.108m

The Council has a sound financial plan in place which recognises the risks and challenges facing local government and includes an action plan for the Council's on-going financial sustainability. The updated Medium-Term Financial Strategy will be considered by Members shortly, followed by the Capital And Investment Strategy, Treasury Management Strategy and detailed budget for 2024/25.

The Chief Financial Officer has not issued, or warned of issuing, a s114 notice over the course of the financial year.

The Council draws on considerable external expertise to support the management, benchmarking and reporting of its property portfolio and undertakes external benchmarking of the performance of its property portfolio using a range of specialist experts in determining options for individual assets.

Like all local authorities we have ongoing dialogue with DLUHC as we do with government departments on a range of issues that impact our residents. In that regard any queries relating to work undertaken by DLUHC should be directed to DLUHC.

Barking and Dagenham - 8th council with highest average debt per person

“We need funding that matches the size and needs of our population.

“Barking & Dagenham can be summed up as being ‘a bit of the north in the south and part of a fast-changing east end’. Quite simply, we need fair funding from the government that reflects our levels of need.

“We have delivered real growth and established more efficient ways of providing services in the last few years. This includes finding £175m of savings since 2010.

“And we have attracted record inward investment. This includes building a record number of homes - approaching 10,000 which includes 1 in 5 of all affordable homes in London. Two film studios. A brand-new overground train station serving Barking Riverside. The relocation of the three iconic markets of London (Billingsgate, New Spitalfields, Smithfields) over the coming years. A modern university. And London’s very first Youth Zone.

“However, the government also needs to act to tackle high interest rates, high inflation and encourage growth back in the economy and prioritise house building and job creation. Being part of the Thames Corridor with a Freeport, makes Barking & Dagenham a place of strategic significance to both London and the rest of the UK, and one which will readily benefit from growth.

“But we need a level playing field. Our geography places us in the ‘prosperous south’ and part of one of the richest cities in the world, London. However, our social trends tell a different story.

“We have the highest proportion of deprived households in the country and the third highest proportion of people living in council or social housing. When compared with the poorest 47 poorest northern metropolitan councils in the country, we have a higher percentage of residents in employment in receipt of Universal Credit and a significantly higher percentage of older residents in receipt of pension credit and Housing Benefit.

“We are also one of the fastest growing communities in the country. We have seen our population rise from 185,900 in 2011 to 218,000 in 2021 – the third highest increase in England and Wales.

“We also have 20,000 more children than 10 years ago, the biggest increase in the country – a fact reflected by having the highest number of under 16s in the country - 1 in 5 of our residents are not yet old enough to have sat their GCSEs.

"Alongside this we have some of the highest levels of child poverty. 12,000 of our children are eligible for free school meals and 26,600 children (under 16) living in poverty after housing costs are taken into consideration.

"We need funding that reflects our circumstances, alongside meeting the challenges every other local authority faces, of rising social care costs, including rising demand from an ageing population with higher long-term needs.

What are the aims and priorities of the council's investment portfolio?

The council's investment is part of its Investment and Acquisition Strategy (IAS) agreed in November 2016 as part of the Council's response to the challenges it faced as a result of government cuts to public sector spending and is reviewed annually.

IAS Report

TM 2023-24 Mid-Year Report

The council faces significant new demand for services and a need to support the local economy. As a result, the IAS also intends to support economic growth and create employment opportunities.

How does the council oversee the acquisition and disposal of property? For example, is there a members-led Strategy and Governance Committee or equivalent, which reviews the portfolio? What are the key indicators to manage performance of the portfolio?

The council has two governance routes for acquisition or disposal of property although both routes ultimately end up with a Cabinet decision.

If an acquisition is proposed to be funded by council borrowing, a report will be brought to the council's Investment Panel, an officer group established to review and approve due diligence and performance monitoring of all council investments. If the acquisition is supported by this group, a report proceeds to Cabinet where Members are responsible for the final acquisition decision. The ongoing performance of any acquisitions is then reported to the Investment Panel on a regular basis against an agreed set of financial metrics.

For disposals, a report must be brought through the council's Assets and Capital Board. This officer group ensures that all departments are sighted on the potential disposal, and reviews and monitors the due diligence surrounding the disposal route and value. If the disposal is supported by this group, a report then goes to Cabinet where Members are responsible for the final disposal decision. Professional valuations are secured to ensure that all disposals comply with the best consideration principle in section 123 of the Local Government Act 1972.

In advance of decisions being recommended to Cabinet Lead Members are kept updated on all acquisitions and disposals through established, regular portfolio meetings.

What was the net income returned from the investment portfolio in 2020-21, 2021-22 and 2022-23?

All treasury and investment returns are reported in the annual Treasury and IAS outturn, which goes to Cabinet and full Council and are public documents. A summary of the returns is provided below.

General Fund Treasury and IAS Returns	2020/21 Actual	2020/21 Budget	Variance
	£000s	£000s	£000s
Borrowing costs	7,730	13,069	-5,339
Interest Income	-8,817	-6,503	-2,314
IAS Income	-6,919	-6,637	-282
Net IAS & Interest Cost	**-8,006**	**-71**	**-7,935**

General Fund Treasury and IAS Returns	2021/22 Actual	2021/22 Budget	Variance
	£000s	£000s	£000s
Borrowing costs	8,370	14,121	-5,751
Interest Income	-9,156	-6,503	-2,653
IAS Income	-5,434	-6,782	1,348
Net IAS & Interest Cost	**-6,220**	**836**	**-7,056**

General Fund Treasury and IAS Returns	2022/23 Actual	2022/23 Budget	Variance
	£000s	£000s	£000s
Borrowing costs	6,687	11,681	-4,994
Interest Income	-9,111	-6,503	-2,608
IAS Income	-5,575	-6,077	502
Net IAS & Interest Cost	**-7,999**	**-899**	**-7,100**

The council has also received dividend income from its companies totalling c£30m over the past three years.

What is the forecast return from property investments in 2023-24?

Property forecasts for 2023/24 can be found within the Treasury Strategy Mid-Year review that is agreed by Cabinet and full Council and are public documents. The forecast is also reported as part of the monthly budget monitoring reports.

Table below provides a projection for 2023/24.

Projected General Fund Treasury and IAS Returns	2023/24 Forecast at Q2	2023/24 Budget at Q2	Variance
	£000s	£000s	£000s
Borrowing costs	10,098	10,139	-41
Interest Income	-10,894	-6,503	-4,391
IAS Income	-7,198	-6,861	-337
Provisions	4,124	0	4,124
Net IAS & Interest Cost	**-3,870**	**-3,225**	**-645**

Has the financial officer issued, or has warned of issuing an S114 notice over the course of the financial year?

No.

Has the council ever carried out an external audit of its investment portfolio?

The council's investment portfolio is audited as part of the annual audit on the council's accounts. However, the last accounts that have been signed off are 2018/19, with the 2019/20 accounts to be signed off in the next few months. Delays in signing off the accounts were not related to the IAS but are part of a wider delay in council audits.

Internal audits, provided by PWC have been carried out over the past two years on the capital programme, which includes the council's Investment Strategy.

Has the council faced an external audit by auditors instructed by the Department for Levelling Up, Government and Communities?

No

If the council is unable to answer the above, will the council provide a statement about its debt levels to help provide context? For example, does the council believe the current level of debt is sustainable? Is there a strategy to reduce debt over the short or long-term?

The Council's debt position as of 31 March 2023 was £1.191 billion. This debt can be split into:

HRA debt of £326.5m, including £266m of debt the council was required to take by the government as part of the 2012 The Housing Revenue Account Self-financing Determinations. The HRA debt of £266m was one of the largest amounts allocated to any council.

The General Fund debt of £895.2m, which is predominantly long-term fixed debt from the Public Works Loan Board and the European Investment Bank. This debt has been used to fund regeneration across the borough to build much needed social housing and regenerate several key areas. The borrowing has been supported by grants from the GLA, as well as the use of Right to Buy receipts.

As indicated within the Council's Treasury Management Strategy, the Council's debt position is reviewed regularly with the latest provided to Cabinet in November 2023.

South Tyneside - 9th council with the highest average debt per person

A Council spokesman said: "We take a very low risk, prudent approach to borrowing, with the Council's long-term borrowing levels managed in accordance with the statutory Prudential code.

"Through the setting of our Medium-Term Financial Plan, we ensure that they are affordable and sustainable and, in many cases, generate income streams back to the Council which offsets borrowing costs. For example, our leisure memberships have continued to grow in line with investment across our leisure portfolio.

"Borrowing is one component of strategic financial planning that has supported a wide range of capital investment across the Borough, in regeneration schemes, housing, schools, highways, footpaths, transport schemes as well as leisure.

"Debt servicing costs as a proportion of core spending power is forecast to fall by the end of 2023/24 and further over the next three years, as is our overall debt as a proportion of core spending power.

"Over recent years, we have also made substantial savings against a backdrop of unprecedented Government funding cuts. However, the Council's priority is to invest in the long-term future of the Borough for the benefit of local people and communities."

East Lothian - 10th council with the highest average debt per person

- **What are the aims and priorities of the council's investment portfolio?** "Investments made by the council are short term treasury investments for the purposes of managing our cash flow and the security of any surplus cash that we are holding. The council's investment strategy forms part of its Treasury Management Strategy which is approved annually by council. The investment strategy details the approach which the council will take to minimise the risk to investments and lists the investments which the council will be permitted to use. The regulations and guidance place a high priority on the management of risk. The council's investment priorities are security first, liquidity second and then return. This strategy has been developed in line with Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010) and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

  "Longer term investments align to the strategic objectives of the council, rather than with a view to generating financial returns."

- **How does the council oversee the acquisition and disposal of property? For example, is there a members-led Strategy and Governance Committee or equivalent, which reviews the portfolio? What are the key indicators to manage performance of the portfolio?** “Assets are built, acquired, operated/managed and disposed of aligned to service delivery need, the Council Asset Strategy and the Council Plan. Assets are maintained and assessed based upon condition and where service needs change or assets are no longer required we manage disposal though our asset strategy which has a governance structure.

  “Governance on asset decisions is based upon criteria, data and recommendations from services through officer governance groups with overview from members through the cross party group. Decisions are then taken to either progress disposal through delegated powers or through Council.

  “Revenue and capital consequences of all decision on assets are considered by Finance officers as part of the overall governance structure.”

- **What was the net income returned from the investment portfolio in 2020-21, 2021-22 and 2022-23?** “As noted above, the council does not hold an investment portfolio for the purposes of income generation.”

- **What is the forecast return from property investments in 2023-24?** “The council does not hold property or invest in property for financial return. Scottish councils specifically have not been able and still cannot invest in commercial activities (e.g. property investments) for gain.”

- **Has the financial officer issued, or has warned of issuing an S114 notice over the course of the financial year?** “Section 114 does not apply in Scotland.”

- **Has the council ever carried out an external audit of its investment portfolio?** “The council does not hold an investment portfolio. Our financial statements are subject to annual audit by our appointed auditors, Audit Scotland.”

- **Has the council faced an external audit by auditors instructed by the Department for Levelling Up, Government and Communities?** “External auditors of Scottish local authorities are appointed by the Accounts Commission.”

- **If the council is unable to answer the above, will the council provide a statement about its debt levels to help provide context? For example, does the council believe the current level of debt is sustainable? Is there a strategy to reduce debt over the short or long-term?** “We do not believe that the averages shown in the table reflect an accurate portrayal of debt levels based on current population data.

  “The data analysis provided does not reflect differences between council borrowing which may arise from different responsibilities of the local authorities listed (for example, unitary councils vs upper/lower tier, housing stock ownership compared to stock transfer authorities).

“East Lothian Council receives the lowest per capita funding of the 32 Scottish local authorities.

“Borrowing levels are driven by our capital programme. As one of Scotland’s fastest growing authorities, capital investment provides infrastructure to support our growing population. The number of homes in East Lothian has increased by almost 30% in the last 20 years.”

Department for Levelling Up, Housing and Communities - UK Government

"A DLUHC spokesperson said:

“Councils are ultimately responsible for their own finances, but we are very clear they should not put taxpayers' money at risk by taking on excessive debt.

“The Levelling Up and Regeneration Act provides new powers for central government to step in when councils take excessive risk with borrowing and investment. We have also established the Office for Local Government to further improve accountability across the sector, which will help detect emerging risks and support councils to continue delivering key public services.”

Background:

- We are making available a funding package for councils worth over £64 billion for the year ahead – an above inflation increase of 6.5%.
- Issuing a section 114 notice is a local decision made by a council’s section 151 officer and government has no role in the process.
- Local authorities have freedom to set their own capital strategies, on the basis that they are best placed to understand local need and consistent with devolved decision-making and accountability. The system has worked well for the majority of authorities. However, a small number of authorities have taken on excessive levels of risk with debt and investments.
- The government has taken a number of measures to strengthen the system to constrain this activity, including reforms to PWLB lending terms and strengthening statutory guidance.
- The Levelling Up and Regeneration Act provides new powers for central government to step in when councils take excessive risk with borrowing and investment. It will also provide powers to address risk from historic practices.

Local Government Association

A spokesperson for the Local Government Association, which represents councils across England and Wales, said:

“Councils have faced a choice of either accepting funding reductions and cutting services or making investments to try and protect them. This was an approach that was encouraged by the government.

“While councils have made investment decisions to help them replace funding shortfalls, the majority of council borrowing is focused on investing in projects that contribute to their local economies or help them provide core functions, such as housing and transport schemes. When making investments, councils are required to follow strict rules and assessments to ensure they invest wisely and manage the risk of their investments appropriately.

“The Government needs to come up with a long-term plan to sufficiently fund local services.”

District Councils’ Network

A spokesperson for the District Councils’ Network said:

“These metrics are misleading, in particular because of the way they include Housing Revenue Account debt. This distorts the metrics and means they do not compare like-with-like. They also do not fully take account of councils setting aside money to pay off debt and service the cost of borrowing. More fundamentally, we believe it is misleading to look at these metrics in isolation.

“District councils - and all councils - regularly and prudently borrow money to kick-start infrastructure, regeneration and other projects which are essential to their area’s future. The preventative services that district councils provide – such as housing, homelessness prevention, leisure and wellbeing, green spaces, community outreach and environmental health – save money downstream for the NHS, the wider public sector and the taxpayer. Prudent borrowing and investment helps grow the local economy and brings the council extra revenue for the benefit of local taxpayers.

“District councils continue to deliver excellent value for money. They receive much less central government grant than other types of council. On average, districts receive less than 10% of the total council tax bill in two-tier county areas. District councils have 15% less spending power in real terms now than in 2015. Spending power for other types of council has increased by 5-15% over the same period.

“Investment has helped to ensure councils can maintain vital services on which our residents and communities rely.”

Background Information

District council services and value

- District councils deliver a range of vital, valuable services to our residents and businesses: housing and planning, benefits support, homelessness prevention, economic development, waste collection, leisure and wellbeing, parks and green spaces, environmental health.
- Many district services are preventative and act to reduce pressure on and cost for the NHS and wider public sector by intervening to tackle problems early before they become acute.
- Past investments have enabled districts to maintain these services despite big cuts to funding from the central government.
- District councils only receive on average 9.5% of local council tax bills in two-tier county areas. For most this is now less than the amount received by the Police and Crime Commissioner.

Debt metrics

- Making a judgement on these metrics alone is misleading. They do not reflect that the vast majority of councils have developed prudent borrowing plans and regeneration plans over many years.
- In many cases councils have borrowed to safeguard key areas of our town centres, improve local leisure centres and ensure community assets provide the best value for our residents.
- These debt metrics include Housing Revenue Account (HRA) debt on one side of the ratio but not the other. This means that the ratio appears inflated for councils that have a HRA. For example, some district councils have almost no General Fund debt but may have significant levels of HRA debt. That debt will be serviced from income arising in the HRA – but the HRA income is not included in this debt ratio metric.
- Each year, as part of the budget-setting process, councils are required to assess whether their reserves and Minimum Revenue Provision (the money set aside each year to cover the cost of repaying borrowing over time) are sufficient. These metrics likely do not account for where money has already been set aside to pay off these debts.
- Comparing the debt to spending power ratio in isolation does not necessarily take account of all resources available to the local authority to service the debt
- Many councils also retain prudent reserves to ensure in case there is volatility in the income from these investments – such as from a vacancy or changes in market value. This ensures councils can still deliver services whilst changes to the asset may affect this income. undermine their working.
- District councils have a different set of responsibilities to unitary and county councils. Unlike them, district councils do not oversee adult social care and children’s services. Social care and children’s services are the biggest single areas of expenditure in local government but are not normally funded through borrowing, unlike the regeneration and economic growth work.

Jonathan Carr-West

Jonathan Carr-West is the chief executive of the Local Government Information Unit (LGiU), an independent think tank and membership body supporting innovation in local authority governance.

Q: Councils have a combined debt of £122 billion and 14 have gone bust since 2018 - how did we get here?

“It's no surprise to see that many councils across the country have significant levels of debt. often levels of debt that can look quite frightening when you place them against the council's income.

“How did we get here? Well, there's been 13 years of incredible pressure on local government finance. We've seen funding from the central government to councils reduced by nearly 50%.

“And at the same time we've seen the funding that they do get has become much more short-term and much more unpredictable. So we've moved from multi-year financial settlements to single-year settlements.

“We have moved from funding based on need to funding through these pots of money that councils have to bid against each other to get. We have moved from government grant being the majority of a council's income to the majority of its income being local sources, council tax business rates, charges for services, commercial activity and commercial investments.

“The impact of all of that is that councils have less money, and that the money they do have comes in much shorter term, much more unpredictable income streams which make it much harder for councils to plan.

“During this period councils have also been encouraged to undertake more commercial activity, to be more entrepreneurial.

“Successive secretaries of state have called for this since 2012, saying councils should be entrepreneurial, they should be investing in the economy they should be, making their money work harder. They shouldn't just be sitting on their reserves.

“We take all of this together, and what we find is that many councils have felt that they have had little choice but to undertake commercial investments, particularly commercial property investments, in order to refresh their public realm and in order to boost their finances.

“We should remember, by the way, that councils, unlike central government, unlike the NHS, councils have to balance their books each and every year they cannot run a deficit.

“So all of this comes together in a perfect storm to create a situation, a context in which councils are looking to maximise any revenue stream they can find, and that has led, with the availability of relatively cheap finance over this period from the Public Works Loans Board.

“That's led many councils to undertake quite substantial commercial borrowing.”

Q: Often when a council goes bust, critics will say that the council has behaved recklessly. Where do you stand on that argument?

Many people have accused councils of recklessness; councillors at the casino’ gambling with public money.

It's certainly true we've seen some high-profile failures, the most obvious being Woking, who effectively went bust with a two billion pound deficit.

They had investments that they were unable to service. At the same time, there are dozens and dozens and dozens of councils who have made these sorts of investments, who haven't gone bust.

I think the reality is that it's very, very hard to tell. So you have councils with debts that way exceed their yearly revenue. But what they would say is, that's not the real question. The question is, can we afford to service those debts while delivering all of our services? Are those investments creating a sufficient return that it services the debt?

Many councils would say, with some justification, that they have had very little choice but to enter into these sorts of arrangements.

The money that they have coming in from central government, the money that they have coming in from council tax, particularly from any district councils, is not enough
to cover rapidly rising bills, particularly around housing and homelessness.

The avenue that has been open to them is to borrow money from the Public Works Loan Board to invest it in property which for most of the last 15 years has seemed like a very, very safe bet indeed, and to use the return on those investments, to pay off the debt.

Q: Is there an issue with scrutiny?

So one of the questions we need to ask, I think, is, what has been the scrutiny around this decision making and and and how has that been supported or not supported? There's this. No one works in a council because they secretly want to work in a hedge fund.

People within councils are making these decisions because they think it's in the best interest of the council and the residents of their area. The question is - are we supporting that properly? Are we developing people in order to do that?

Particularly in some of the places where this has gone quite spectacularly wrong, I think there are valid questions about whether the councillors, scrutinising those decisions, really understood these complex financial transactions.

But there's also a question about government scrutiny of this. This money is being borrowed from the Public Loans Works Board. That's a Treasury.institution. It's public money.

Why isn't the PWLB putting a brake on this rather than allowing councils to keep borrowing and borrowing borrowing to dangerous levels? In other countries. In Germany, for example.

There is a legal brake on council borrowing. They are only allowed to borrow up to a certain percentage of their financial size. We don't have anything like that.

Q: Is there a way out of the current levels of debt councils find themselves in?

A: “People often focus on council debt because it's quite eye-catching. But actually, what we need to be looking at is the bigger picture of how we fund or don't fund local government and local public services.

“That system is close to breaking point.

“We survey every council in the country every year and only 14 percent of council leaders have any confidence at all in the sustainability of the local government finance system. We've seen council after council going bust. We saw Birmingham back in September. We've seen Nottingham just in the last few days - the system is broken.

“But there are things that we can do about this that a government could do relatively quickly.

“We need to end the wasteful, bureaucratic, inefficient process of bidding competitively for small pots of money.

“We need to return to multi-year financial settlements and we need to restore the link between the level of need in an area and their level of funding by picking up the Fair Funding Formula process that was dropped back in 2018. These are all things that a government could do straight away

“In the longer term we should go further. We should look at more constitutional clarity around how local governments are funded in the way that they have in Germany, Italy or Japan.

“Do we keep a portion of income tax for councils? For example, we could look at single budgets for public services within an area of delivery so that you can start to get effective spending across social care, health or housing.

“We should look at increased fiscal freedoms for local authorities to spend and raise money, local tourism taxes, local business taxes - all of these things, by the way, are done in countries like Germany or the United States, or France or Italy. They're not crazy ideas.

“We need to urgently look at the whole system for how we fund local governments. Otherwise we are going to see councils going bust time and time again. And, by the way. When a council goes bust, the central government has to step in, it would be better to be acting before failure. Not afterwards.”

Dame Meg Hillier

Dame Meg is the chair of the Public Accounts Committee and MP for Hackney South and Shoreditch. The PAC examines the value for money of government projects, programmes and service delivery.

“Some of the outlier examples of high local authority debt are staggering, and the impact on services for residents is liable to be extreme and long-lasting. There are of course many drivers of the present situation, not least the day-to-day pressures experienced by local authorities with squeezed spending power and ageing populations living through difficult economic times.

“Small district councils have very little room for manoeuvre when finances are squeezed, relying on charges (such as parking fees) for a lot of their income. Unitary authorities are facing the demographic pressures on social services, social care and special educational needs.

“But beyond these day to day pressures, the PAC warned in 2020 that some councils had not only pursued strategies of commercial investment exposing them to high levels of risk, but normalised behaviour and optimistically believed that there was little downside to commercial activity. Add to this the delay in public sector audits and many councillors and taxpayers were blind to the risk.

“Government action to address this behaviour was too little, too late at the time, and though it agreed with our recommendation to ensure that future interventions are more timely and effective, our latest scrutiny in this area indicates that there is much more work to do to ensure the future stability of local government finance.

“In particular, the impoverished state of the local financial audit landscape has left the vast majority of English local authorities without signed-off accounts. There is a potential as a result for financial disasters to grow undetected at other local authorities in the future.”

Andy Carter MP

Andy Carter is the Conservative MP for Warrington South. He has previously referred to Warrington Council as operating “like a hedge fund” rather than a council.

Q: Warrington Council says its £1.8bn worth of investments return around £25m a year for the authority. Where do you stand on its investment strategy?

“Look, the strategy that Warrington has employed has gone beyond what I think is reasonable, and I think there is nothing wrong with small levels of borrowing to fund public infrastructure in the community that the council serves.

“That's what the Public Works Loan Board (PWLB) is there for - to invest in leisure centres, to provide funding for essential facilities.

“Where I think Warrington Council have got it wrong is they borrowed 1.8 billion pounds and invested into projects that have high levels of risk.

“And we've seen that by the fact that a number of the projects invested in have returned nothing, or have even gone into administration. They invested into an energy company which went into bankruptcy and has lost the council a significant amount of money.

“There is a good use of borrowing to invest in facilities locally, the problem that I see in Warrington is that the leisure centre in South Warrington is the same leisure centre that was there 40 years ago, and has seen no investment yet. Borrowing has gone on to invest in a business park in Warrington that was bought offshore to avoid tax.

“Now, when we talk about losing the council a significant amount of money - it's taxpayers money, and that's what's different between investment in the private sector where shareholders, directors are investing for shareholders. But here in Warrington it's councillors with little or no expertise investing public money. And if that goes wrong, it's the public that will ultimately pay the price. And that's really what's concerning me.”

Q: Previously you have described Warrington as acting “like a hedge fund” rather than a council. Could you explain that?

“Let's be clear, councils are there to provide public services to ensure that the potholes are filled to ensure that there's social care for elderly and young, vulnerable children. That's their focus, and that's their expertise. But here we have senior council officers and council elected council members making decisions on investments with 1.8 billion pounds at stake.

“That, for me, is something that's really concerning. Now, if a council is going to do that they need to ensure they’ve employed the right people, I don't think it has in Warrington's case. And it needs to be absolutely certain the investments it's putting its money into are rock solid. And I'm afraid in Warrington's case they've been junk bonds. They've been businesses that have gone into bankruptcy, and that's for me the real concern that we've got with councils investing this sort of money into risky investments.”