

Section 151 Confidence Barometer

Issue III
2025-26



The better the question.
The better the answer.
The better the world works.



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Foreword

The third edition of the Section 151 Confidence Barometer is published at a moment of profound transition for local government finance.

Councils continue to operate in an environment unlike any they have faced in a generation: rising demand for statutory services, persistent macroeconomic and geopolitical volatility, and a funding system in flux. The sector is being asked to absorb long-term societal challenges, respond to acute pressures in social care and housing, drive economic growth and deliver infrastructure, manage growing exposure on its balance sheet and, at the same time prepare for major reforms to the way the sector is funded and governed.

Against that backdrop, the findings of this year's Barometer reveal a system that has become more disciplined, more risk-aware and more operationally controlled – but also more structurally fragile.

The findings demonstrate that many councils are now better at managing in-year pressures than at any point in recent history. Financial controls have tightened, risk management has matured, and finance teams are more deeply embedded in organisational decision-making. Yet these improvements mask a more worrying risk: Financial sustainability is increasingly coming at the expense of future financial resilience. Long-term priorities are being cut to protect short-term budgets, capital programmes are becoming increasingly exposed to market and delivery risk, and medium-term plans continue to be underpinned by reserve drawdowns and asset disposals.

The findings also suggest a polarisation within the sector, with a growing number of authorities struggling to find a path to stability and medium-term financial sustainability.

At the same time, the role of the finance function has continued to evolve. Finance capability goes well beyond stewardship of budgets; in many cases, it has become a central actor in service design, transformation, capital investment and organisational survival. Trust in finance as a strategic business partner has risen sharply, reflecting the reality that financial leadership now shapes political choices as much as it does financial ones.

This growing influence is being exercised under extreme strain. Severe recruitment and retention pressures mean that too much of the system now rests on small numbers of overstretched, highly skilled individuals. The risk this creates is not just fatigue – it is the loss of institutional memory, technical depth and independent challenge that councils increasingly depend on to remain solvent.

The Section 151 Confidence Barometer seeks to capture a snapshot of these challenges and evolutions beyond what exists in statutory returns. It aims to reflect a perspective of those carrying statutory responsibility for financial sustainability in an increasingly unstable system.

This year's results show a sector that understands the scale of the challenge it faces; but for many authorities they are being forced to trade long-term resilience for short-term survival. Unless the structural drivers of financial fragility, from funding uncertainty and capital risk to workforce capacity, the need for improved productivity and the empowerment of local areas and decision-makers are addressed, that gap will continue to widen.

It is our hope that the Confidence Barometer will help inform not only how councils respond but also how the wider system chooses to support them.

Section 151 Confidence Barometer 2025-26 highlights

Short-term control

52%

of councils have confidence in being able to deliver their in-year budget, an improvement compared with 35% last year.

Medium-term polarisation

27%

of councils have confidence in being able to deliver a balanced budget over the MTFP. However, 40% state they are not confident in being able to do so.

Systemic risk

36%

of councils state they are concerned about having to issue a Section 114 Notice over the course of the MTFP, an increase compared with 26% last year.

Strategic erosion

64%

of councils state they are having to cut funding from longer-term priorities to meet short-term budget requirements, an increase compared with 45% last year.

Capital fragility

57%

of councils state they are not confident in being able to deliver capital programmes on budget or on time.

Structural reform

87%

of councils state that the devolution of fiscal powers would help to support better financial sustainability.

Risk management

76%

of councils have confidence in their risk management practices compared with 53% in 2024-25

Capacity and capability risk

90%

of councils state a significant degree of concern about the ability to attract and retain talent within the finance function.

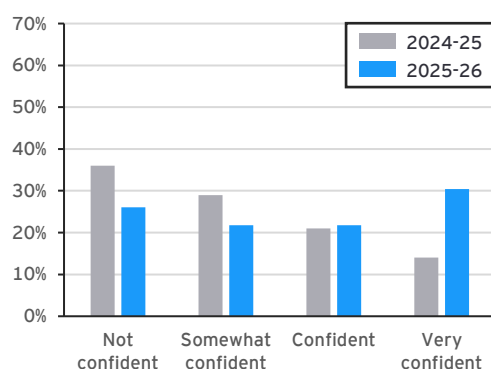
Financial outlook

The 2025-26 Confidence Barometer reveals a sector that is becoming more confident in its ability to survive the year, but not in its ability to achieve longer-term sustainability.

While 52% of councils now report being confident or very confident in delivering their in-year budget (up from 35% in 2024-25), confidence in delivering a balanced MTFP remains deeply polarised. 40% of councils still state they are not confident that they can maintain balance across the medium term, although a smaller cohort (23%) report being very confident.

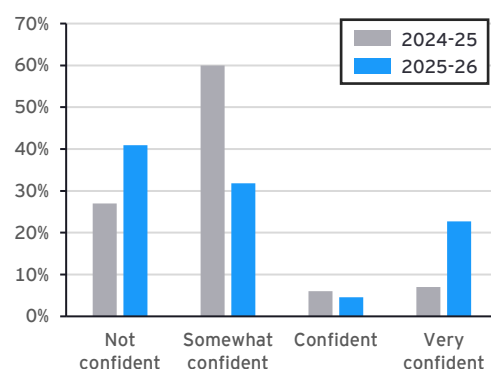
This divergence reflects the emergence of two distinct financial trajectories:

- A minority of authorities that have stabilised their financial position through restructuring, asset rationalisation and political alignment
- A growing group for whom the MTFP is no longer a sustainable plan but a holding position



How confident are councils that they will deliver against their in-year budgeted position?

52% state confident or very confident compared with 35% in 2024-25.



How confident are councils in delivering a balanced budget over the MTFP?

Increased confidence, with 23% stating very confident. However, a significant proportion (40%) state that they are not confident. There appear to be two definitive cohorts amongst authorities.

The increase in Section 114 concern (36% now moderately or very concerned, up from 26%) confirms that this is not simply a perception issue – for a significant and growing proportion of councils, statutory failure is now a live medium-term risk.

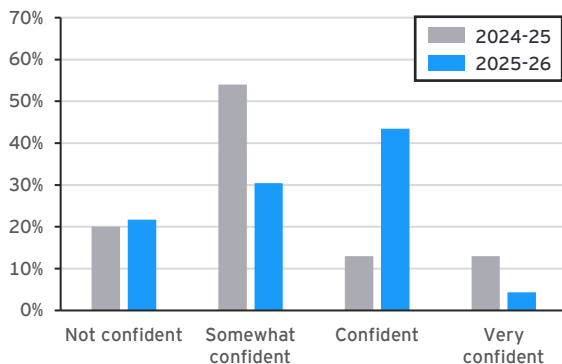
In-year delivery

A growing number of councils are now cutting funding from areas identified as long-term priorities in order to meet short-term budget requirements compared with last year. This creates the risk of a shift from temporary deferral to structural disinvestment in programmes that can underpin future financial sustainability: prevention, transformation, regeneration and growth.

64% of councils are having to cut funding in areas that are considered long-term priorities to meet short-term budgeting requirements, compared with 45% in 2024-25.

At the same time, confidence in delivering in-year savings has improved (48% are now confident compared with 26% last year), and reliance on reserves has fallen (65% compared with 93%).

However, there is a risk that these measures are further embedding financial resilience risk into the local government system. Without the necessary investment, savings initiatives run the risk of not focusing on driving productivity. The continued reliance on reserves comes at a point when external volatility is likely to further the need for balance sheet capacity; whilst the reliance has fallen in the short term, the majority of councils surveyed are still seeking to rely on drawdowns in the current year.



How confident are councils that they will deliver their in-year budgeted savings position?

48% of councils state confidence in being able to deliver their in-year budgeted savings, compared with 26% in 2024-25.

65%

of councils will be reliant on drawing down reserves in the current financial year, compared with 93% in 2024-25.

Capital and the balance sheet

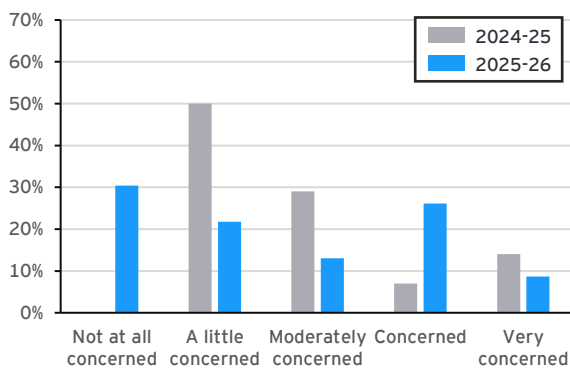
Confidence in delivering capital programmes within budget and on time remains low. 61% state that the affordability of capital programmes is dependent on asset disposals.

This further highlights the more complex interactions that determine MTFP viability. Capital activity is becoming increasingly reliant on public-private sector collaboration and more complex delivery structures. Issues in the delivery of these schemes often have direct revenue and service delivery implications.

57% of councils state they have limited confidence in being able to deliver capital programmes within budget and on time.

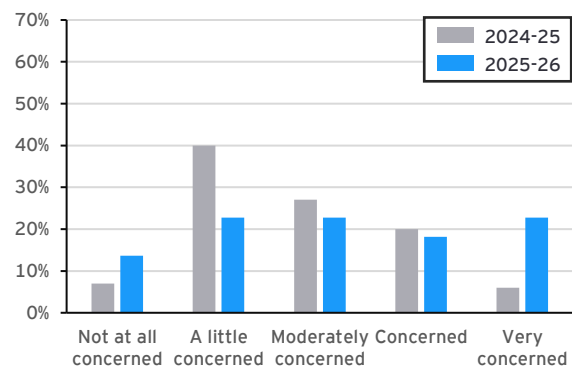
The balance sheet remains a material strategic challenge for much of the sector. For many councils, escalating debt and the continued erosion of usable reserves are limiting their ability to manage volatility.

These trends demonstrate that the viability of the MTFP is no longer primarily shaped by service delivery and funding; it is now increasingly shaped by capital activity and balance sheet health.



To what extent are councils concerned with their debt position and their ability to service this position?

Whilst for some, debt has been brought under control, for others, concern with regard to debt positions are increasing, with 35% of councils now stating they are concerned or very concerned about debt levels, compared with 21% in 2024-25.



To what extent are councils concerned with their reserve position?

41% of councils now state that they are concerned or very concerned about their reserve positions, compared with 26% in 2024-25.

Contextual factors

The sector's financial outlook continues to be shaped as much by policy uncertainty as it is by local delivery.

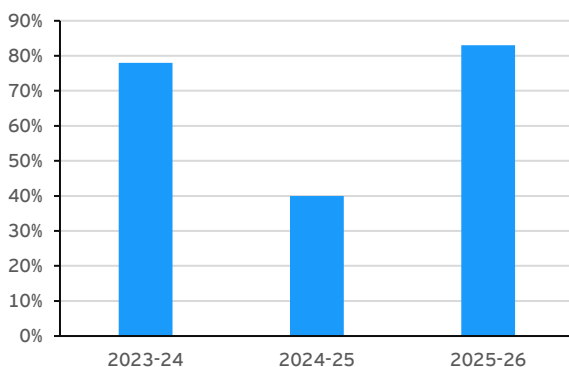
The majority of councils believe that greater fiscal devolution would improve financial sustainability, yet uncertainty over government funding has risen sharply, returning to levels last seen around the general election. This undermines the credibility of MTFPs that extend beyond the next settlement.

87% of councils state that the devolution of fiscal powers would help to support better financial sustainability.

The Fair Funding Review 2.0 reinforces this instability. With councils split between expecting positive, neutral and negative impacts, the reforms are not yet providing a platform for confidence – instead, they are being treated as another major financial risk variable.

Uncertainty around the ongoing SEND reforms and the future of the DSG deficit override continues to present a significant and immediate financial exposure for many authorities. The scale of accumulated deficits and unpredictability of future funding and system reforms mean that councils cannot rely on a stable medium-term planning environment in the future.

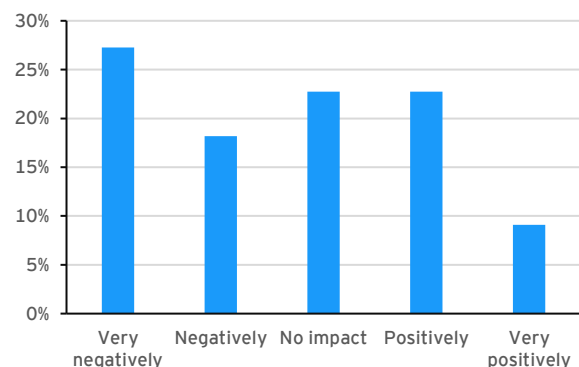
At the same time, increasing fragility in the adult social care market is creating further risk. The challenges of provider failure, workforce shortages and escalating fee pressures are driving volatile and unplanned cost growth, making it harder for councils to maintain financial resilience and to forecast with confidence.



Is uncertainty with respect to government funding a factor in councils' confidence in delivering a balanced budget over the MTFP period?

Graph indicates the percentage that state that uncertainty is a factor.

Uncertainty with respect to government funding has increased as a material concern for councils, back to levels last seen at the point of the previous general election, following some respite for these concerns in 2024-25.



How will the Fair Funding Review proposals impact on councils' MTFP budgeted position?

32% of councils suggest the Fair Funding Review will have positive implications, compared with 45% suggesting a negative impact.

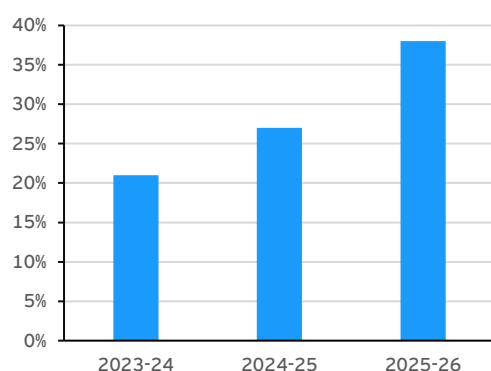
Operational resilience

The Barometer shows a material improvement in councils' confidence in their ability to manage financial risk, with 76% now expressing confidence in their risk management practices, up from 53% last year.

This suggests that, after several years of crisis, councils have become well attuned to foreseeing risks, quantifying them and escalating them.

However, whilst this improvement may reflect technical and governance maturity, it doesn't suggest that the operating environment has become easier to manage, nor that the financial headroom exists to deal with these risks.

The steady increase in preparedness for unexpected external events reinforces this picture: Councils are no longer surprised by volatility – but that does not mean they have the capacity to absorb it without hindering core services or long-term plans.



How prepared are councils to address the financial implications of unexpected external events?

Graph indicates percentage that state they are prepared.

Councils have indicated a year-on-year improvement in being able to address unexpected external events, with 38% now stating they are prepared, compared with 27% last year.

76%

of councils have confidence in their risk management practices, compared with 53% in 2024-25

Contextual factors

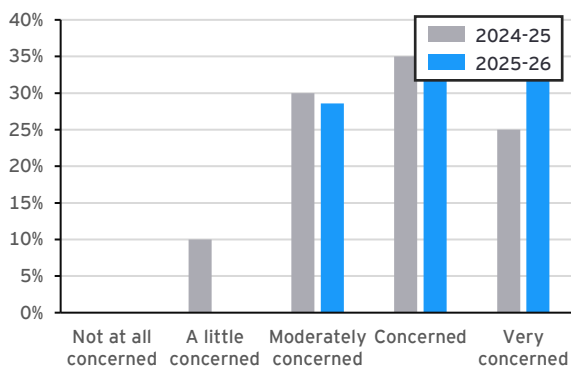
All councils report concern that the macroeconomic environment will drive higher costs, with a large proportion stating they are very concerned. At the same time, 52% are concerned or very concerned about the impact on income and revenue streams, up sharply from 40% last year.

This creates a structurally asymmetric risk profile:

- Costs are rising in areas councils cannot easily control (social care, construction, pay, contracts).
- Income is increasingly volatile (business rates, council tax collection, commercial income).

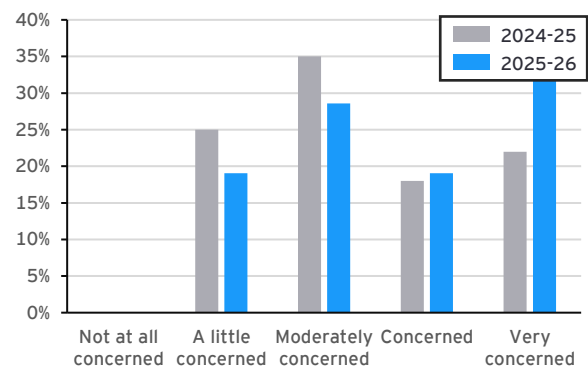
Councils have reiterated that the priorities for finance function transformation remain recruitment and retention, automation and data analytics.

The result is that even councils with strong financial controls and mature risk frameworks are operating in a permanently stressed financial envelope, where adverse variance is more likely than favourable surprise. The need for resilient finance teams, and the reliance on automation and more sophisticated data analytics, become more paramount in such environments.



To what extent are councils concerned that the current macroeconomic environment might negatively impact costs?

All councils surveyed cited concerns regarding the current macroeconomic environment and its potential negative impact on costs, marking a marginal deterioration compared with last year.



To what extent are councils concerned that the current macroeconomic environment might negatively impact council income or taxation revenue streams?

Councils also remain concerned about the impact of the macroeconomic environment on their income streams, with 52% citing they are concerned or very concerned, an increase from 40% last year.

Subsidiaries

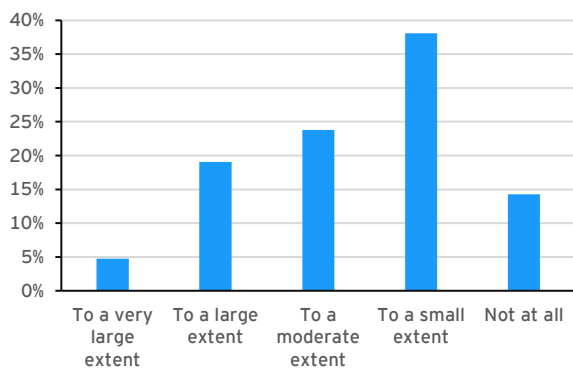
Subsidiaries remain a central but unstable pillar of many councils' operating models.

While 48% of councils say their subsidiaries make a significant contribution to strategic objectives, nearly half also report that subsidiaries create moderate to very significant commercial risk, and 43% cite concerns about subsidiary viability.

48% of councils state that subsidiaries make a significant contribution to strategic objectives.

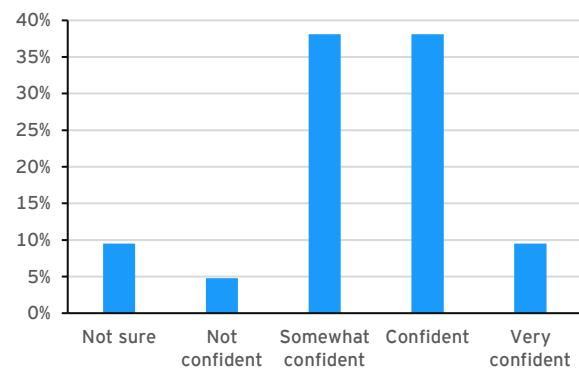
This highlights a fundamental tension: Subsidiaries are being used to deliver regeneration, housing, energy, development and trading activity – but they are also introducing commercial and financial risk into balance sheets that are already stretched.

For many councils, subsidiaries have moved from being optional vehicles to core delivery mechanisms – yet governance, capitalisation, risk management and exit strategies have not kept pace with this shift.



To what extent do subsidiaries create commercial risks to councils?

Nearly a half of all councils stated that subsidiaries create moderate to very significant commercial risk.



How confident are councils in the viability of their subsidiaries?

43% of councils cited viability concerns regarding their subsidiaries.

Organisational capabilities

This year's results show a finance function that is becoming more strategically central – but more operationally fragile.

On the positive side, trust in finance is rising sharply. 62% of councils now see finance as a trusted business partner to a large or very large extent, almost double last year's figure (34%). This reflects the reality that finance teams are now deeply embedded in service decision-making, transformation, capital, and recovery planning.

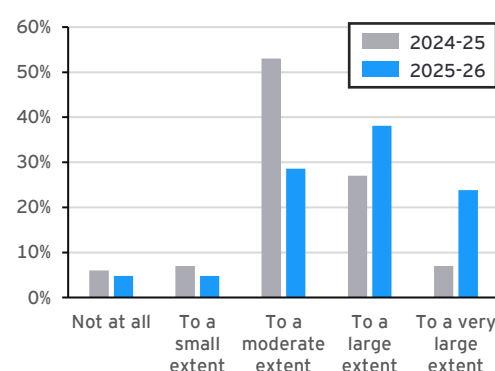
However, this growing strategic role is colliding with a severe capacity constraint. 90% of councils report significant concern about their ability to attract and retain finance talent. The sector is increasingly reliant on small numbers of overstretched, highly skilled individuals holding together highly complex financial systems.

Finance is becoming more important at exactly the moment it is becoming harder to staff and sustain.

The risk is not just burnout – it is the loss of institutional memory, technical depth and strategic challenge that councils now depend on to remain solvent.

90%

of councils state a significant degree of concern about the ability to attract and retain talent within the finance function.



To what degree is the Finance Function considered to be a trusted business partner across councils?

Trust in the finance function is improving, with 62% stating that it is considered a trusted business partner to a large or very large extent, compared with 34% in 2024-25.

Financial leadership

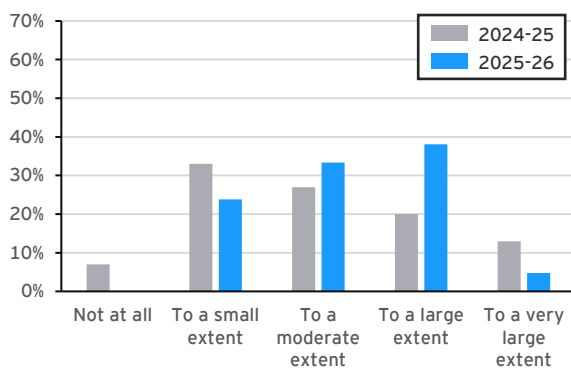
The 2025-26 Confidence Barometer shows a material improvement in the recognition of financial challenge and engagement across councils' wider organisation:

- 43% of councils now say members understand financial challenges to a large or very large extent, up from 33% in 2024-25.
- 67% say service and corporate directors have that level of understanding, up from 60% in 2024-25

Councils consider that the most important attributes of the finance function are to **provide effective financial challenge, to provide data-driven insights that power decision-making and to ensure appropriate stewardship of financial resources.**

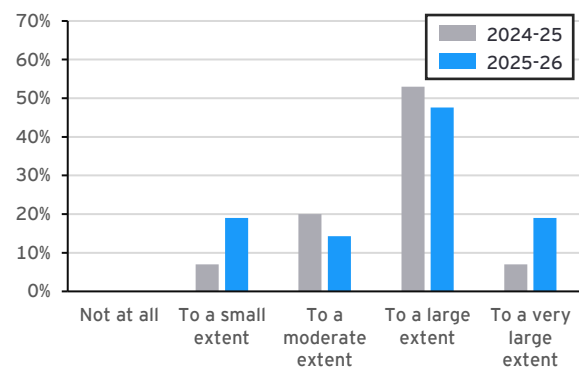
This is a significant shift. It reflects the reality that financial distress is no longer confined to the finance function – it is now a whole-organisation issue, shaping service design, capital priorities, workforce decisions and political choices.

However, this growing understanding is not yet translating into system-wide financial ownership. Finance teams still report that they are expected to both provide challenge and solve the problem – often without the authority, capacity or political cover required to do so.



To what extent do council members understand and appreciate the financial challenges that councils are facing?

43% of councils consider that members understand and appreciate the financial challenges they are facing to a large or very large extent, compared only 33% last year.



To what extent do service and corporate directors understand and appreciate the financial challenges that councils are facing?

67% of councils consider that service or corporate directors understand and appreciate the financial challenges they are facing to a large or very large extent, compared with 60% last year.

4 Key contacts



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