

# Local government finance - Delivery Design (implementation-ready)

*The operational detail behind the local-government-finance worked product: how a rebuilt funding settlement for English councils would actually be legislated, built, resourced, governed, sequenced and - if it fails to deliver - corrected. This is the **empirical reform core**: the machinery that should hold regardless of how the three genuine value choices are answered.*

**Discussion draft · version 1.0 · June 2026.** Companion to the [Evidence Annex](#), the [delivery-vehicle sub-study](#), the [costing model](#) and its [results](#), and the plain-language public-choice framing. It answers, for the reform core, the questions any implementation-ready policy must settle: the legislation needed, the delivery bodies and their powers, the funding and settlement mechanism, the equalisation engine, the governance/audit/commercial-risk regime, the deficit-and-insolvency route, sequencing and the critical path, measures of success and an independent evaluator, and the failure modes and exit conditions. England only - Scotland, Wales and Northern Ireland run separate local-finance systems.

**Where Pragma's product sits in the live reform.** Unlike most areas the Register covers, government is reforming local-government finance right now. Four live reforms matter, and this document builds on each rather than duplicating it: the **Fair Funding Review 2.0** (a new needs-and-resources formula and a business-rates reset, redistributing roughly £2bn toward need across the 2026-29 settlement); the **May-2026 capital-risk powers** (real-time monitoring of council borrowing, investment and debt with an early-warning intervention trigger); the **Local Audit Office** (a new body to rebuild the collapsed local-audit system); and the **English Devolution and Community Empowerment Bill** (which devolves *spending flexibility* but not real *tax-raising power*). The discipline throughout is to accept what is sound in those reforms and concentrate on the gaps they leave - above all the tax base untouched since 1991, the fiscal-devolution gap the Bill ducked, the allocation-of-functions question no reform has answered, and a principled equalisation engine.

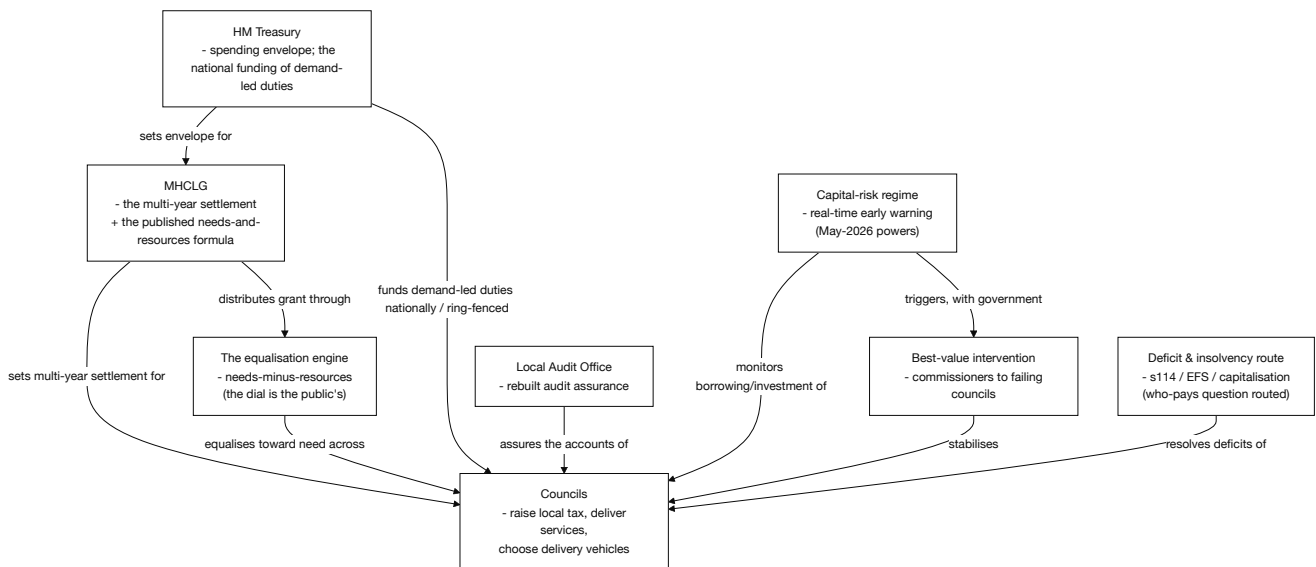
**What this document decides, and what it does not.** Following the Method's separation of empirical from value questions, this is the part that is largely an evidence question: how to make a council-funding system structurally sound. It is designed directly on the graded evidence. **Three genuine value choices are deliberately excluded and routed to the public** (set out in the public-choice document, no option labelled "recommended"): (1) **what councils are for and how each service is delivered** - local accountability and responsiveness against national equity and standardisation; (2) **the revenue and tax base** - the costed menu, each option with its winners-and-losers map; (3) **how far to equalise** - local autonomy against national equity. A fourth question - **who pays for the cost of past failure** - is surfaced honestly inside the governance regime, never dressed as a technical allocation. **This core is built to hold under any answer to all of them** - the settlement machinery, the equalisation engine, the governance regime and the insolvency route are the same whether the tax base is gently reformed or radically replaced, and whether equalisation is set high or low. (§8 explains exactly where the choices plug in.)

**Evidence and grades.** Every figure below inherits its grade from the [Evidence Annex](#) (A robust/official · B strong official projection or quantified sector estimate · C single estimate/modelled/illustrative · D weak/absent). Costing figures are model outputs at the grade the annex records. Two guards are carried throughout: the **revaluation data gap** - England's council tax still runs on 1991 property values, so there is no measured answer to "who wins and who loses from a fair property tax", and that absence is itself the strongest argument for revaluation, never a reason to duck the analysis; and the **two non-comparable council counts** - section 114 notices (the local-bankruptcy signal: eight councils, twelve notices, 2018-

2023) and Exceptional Financial Support recipients (8 → 19 → ~30 across 2023/24-2025/26) are never added together or treated as the same population.

# 1. The institutional landscape - what the reform builds, replaces and uses

The first delivery risk in local-government finance is the same as in water: the machinery already exists, and much of it is mid-reform. A government department sets the annual settlement; a needs formula (now being rebuilt) distributes grant; a business-rates pool is redistributed; an audit system (lately collapsed) is meant to provide assurance; an intervention regime sends commissioners to failing councils. The failure was not the absence of structure - it was a structure built on a **frozen tax base, single-year settlements and a centralised architecture** that concentrates fiscal power and leaves councils unable to plan, while a few demand-led duties cannibalise everything else. So this reform mostly **re-powers and completes bodies and reforms that already exist** rather than inventing new ones.



Body / reform	Its function today	The reform's relationship
<b>MHCLG (the funding settlement)</b>	Confirms a largely <i>single-year</i> settlement, often only weeks before the financial year, on a needs formula being rebuilt as Fair Funding Review 2.0	<b>Re-powered</b> - the settlement becomes <b>multi-year (3-5 year)</b> on a <b>published</b> needs-and-resources formula (§3), building directly on Fair Funding Review 2.0's 2026-29 settlement rather than replacing it.
<b>HM Treasury</b>	Sets the spending envelope; funds most local services through grant on terms set centrally	<b>Completes</b> - Treasury takes the demand-led duties (adult social care, SEND, homelessness) onto a <b>national / ring-fenced</b> footing (§7) so they stop cannibalising discretionary services; it sets the multi-year envelope the settlement needs to be credible.
<b>The needs-and-resources formula</b>	Fair Funding Review 2.0's new formula and business-rates reset, redistributing ~£2bn toward need (Grade B)	<b>Builds on</b> - the reform accepts FFR 2.0's shift and supplies the <b>principled equalisation engine</b> (needs-minus-resources, §4) the formula implies, plus the <i>published, multi-year</i> discipline the current cycle lacks.
<b>Local Audit Office</b>	A new body (live reform) to fix the collapsed audit system - on-time audits fell from ~97% to ~1% (Grade A)	<b>Builds on</b> - the reform makes the LAO the standing assurance backbone (§5), effectively rebuilding the central oversight lost when the Audit Commission was abolished in 2015.
<b>The capital-risk regime</b>	New May-2026 powers for real-time monitoring of council borrowing, investment and debt with early-warning intervention (Grade B)	<b>Builds on and hardens</b> - the early-warning trigger becomes the front of a graduated ladder (§5.2) running through to best-value intervention, the direct answer to the debt-for-yield pattern (Woking ~£1.9bn, Thurrock ~£1.5bn).
<b>The best-value intervention regime</b>	Government appoints commissioners to councils in severe difficulty (used at Woking, Thurrock, Croydon, Birmingham, Nottingham)	<b>Re-powered</b> - it becomes the <i>graduated, evidenced</i> end of the early-warning ladder (§5.2), triggered on transparent thresholds rather than only after failure is visible.
<b>The deficit / EFS mechanism</b>	Exceptional Financial Support - capitalisation directions letting councils borrow or treat asset sales as revenue (8 → 19 → ~30 councils; >£5bn of directions in 2025/26, Grade A/B)	<b>Replaced as a fix, kept as a route</b> - EFS is a sticking plaster that converts a structural deficit into debt and depleted assets; the reform supplies a <b>defined deficit-resolution route</b> (§6) with the <i>who-pays-for-past-failure</i> value question surfaced, not decided.
<b>The councils</b>	Raise a capped local tax, deliver statutory and discretionary services, choose how each is delivered	<b>Funded and held to account</b> by the same core whatever their tax base or delivery choices. The reform regulates the <i>system</i> , not a particular political answer (§8).

The single thing the reform genuinely *adds* sits at the bottom of the stack: a **defined deficit-and-insolvency route** that resolves past failure on stated rules instead of papering over a structural gap with borrowing - and the honest surfacing of *who pays for that past failure* as a value choice (§6). Everything above it re-powers or completes a reform already in motion.

## 2. Legislation

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Five pieces of law are needed. Two largely build on legislation already moving (the settlement reform and the audit/capital-risk powers); the value of this product is in specifying the rest to implementation-readiness and in closing the fiscal-devolution gap the Devolution Bill left open.

### 2.1 A multi-year settlement and equalisation statute

- **Establishes a statutory 3-5 year settlement cycle** with a **published needs-and-resources formula**, so that councils are funded on a horizon long enough for invest-to-save, prudent reserves management and medium-term planning - ending the single-year, confirmed-weeks-before-the-year cycle that makes all of those near-impossible (Grade A that the current cycle is single-year). It builds on Fair Funding Review 2.0's 2026-29 settlement and gives it permanence and transparency.
- **Puts the equalisation engine on a statutory footing** as a transparent, formula-driven **needs-minus-resources** mechanism (§4), with the *strength* of equalisation set by an explicit, publishable dial - the value choice (Choice 3) the statute exposes rather than buries.
- **A standing duty to publish the formula, the per-council allocations and the winners and losers** before each settlement period - the transparency that turns equalisation from a black box into a public, contestable choice.

### 2.2 The revenue / tax-base enabling legislation

- **A revaluation and reband power** for council tax - the legal authority to revalue the ~25.7m dwelling stock off 1991 values and to add or steepen bands. Pure revaluation is revenue-neutral; any yield comes from the band changes (Grade B for the ~£3.9bn revalue-and-reband yield, with the IFS revaluation *mechanism* at Grade A). This power is the precondition for **every** value-based option on the menu - it is enabling, not a decision to use any particular option.
- **A deferral / government-equity-stake power.** Authority to allow a household to **defer** a higher value-based charge against the property, with the state taking an equity stake repaid on sale or death (Grade C, Resolution Foundation mechanism). This is the enabler that neutralises the "asset-rich, income-poor" objection - often pensioners - that sinks property-tax reform. It is carried qualitatively, **not** as a revenue line, and it is what makes Choice 2 politically survivable under any of its options.
- **Discretionary-levy powers** confirmed and extended: the visitor levy (~£0.40bn central, Grade B), the workplace parking levy (Nottingham ~£9m/yr, Grade A; ~£0.15bn central, Grade B), and the second-/empty-home premiums (~£0.10bn, Grade B). These raise money *where the activity or pressure is*, carry low equalisation risk, and have real track records - useful local-flexibility complements, **not** a substitute for fixing the tax base.
- **The fiscal-devolution gap the Devolution Bill left open.** The English Devolution and Community Empowerment Bill devolves *spending flexibility* but not real *tax-raising power* (Grade B). Closing that gap - genuine local control over a portion of the tax base - is a value choice within Choice 2, and the enabling powers above are drafted so it *can* be exercised, without pre-deciding that it should be.

## 2.3 The national / ring-fenced funding of demand-led duties

- **Primary provision to fund the demand-led statutory duties - adult social care, SEND, homelessness - nationally or through a hard ring-fence**, so they can no longer cannibalise discretionary local services. The proximate cause of the crisis is that a few demand-led duties consume budgets and crowd everything else out (Grade B); adult social care alone is roughly 42% of council service spend and a primary driver of s114 insolvency (Evidence Annex §1, inherited from the social-care product). **This funding mechanism is inherited from the adult-social-care product and the SEND entry, not re-derived here** (design decision D1) - see §7 and docs/adult-social-care/. The legislation creates the *vehicle* (national funding / statutory ring-fence); the *level and the who-pays split* are the social-care product's routed choices, not re-opened here.
- **The SEND statutory-override cliff-edge** must be legislated for explicitly: high-needs/SEND deficits currently held off-balance-sheet under the dedicated-schools-grant statutory override (currently extended) fall back onto councils' books when the override ends (Grade B for the mechanism; the national total is contested, Grade C). The deficit-resolution route (§6) must define how that accumulated liability is handled *before* the cliff arrives, not after.

## 2.4 The governance, audit and commercial-risk statute

- **Consolidates and hardens the live governance reforms** (§5): the May-2026 capital-risk powers (real-time borrowing/investment/debt monitoring with early-warning intervention, Grade B), Minimum Revenue Provision discipline (closing loopholes that let councils avoid prudent debt provision, Grade B), commercial-investment limits and Public Works Loan Board lending terms, the Local Audit Office (Grade B), strengthened standards and conduct rules, and the best-value intervention regime (Grade B). Most of this is in motion; the statute gives it coherence and puts the early-warning thresholds and intervention ladder on a transparent, rules-based footing.

## 2.5 The deficit-resolution and insolvency statute

- **A defined deficit-resolution route** replacing the improvised use of Exceptional Financial Support as a structural fix (§6). It sets out how an accumulated deficit is recognised, who bears it, and on what terms - with the **who-pays-for-past-failure value choice surfaced honestly** (local culprits and current residents / national taxpayers / written off), never dressed as a technical allocation. The statute defines the *machinery and the rules*; the *distributional answer* is routed to the public.

## 2.6 What is *not* legislated here

The three value choices carry their own decisions *after* the public decides, and the core works without pre-deciding any of them. The **allocation-of-functions** choice (Choice 1) is a framework for reasoning (§7 and the *delivery-vehicle* sub-study), not a statutory list of which services go where. **Which** revenue option is adopted (Choice 2) and **how high** the equalisation dial is set (Choice 3) are the public's to settle; the enabling powers (§2.1-2.2) are built so any answer can be implemented. None is on the critical path for the structural core (§8).

## 3. Multi-year, needs-based settlements

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This is the empirical heart of the funding reform, and the cleanest fix because the defect is unambiguous: councils have largely been funded through **single-year settlements, often confirmed only weeks before the financial year** (Grade A that the cycle is single-year). No competently-run organisation can plan

investment, manage reserves prudently or pursue invest-to-save on a horizon that short. The reform replaces it with a settlement that is multi-year and built on a formula anyone can read.

### 3.1 The multi-year cycle

- **A statutory 3-5 year settlement period**, with indicative allocations published for the whole period and confirmed annually within it - long enough to plan against, with enough in-period confirmation to absorb genuine shocks. It builds on Fair Funding Review 2.0's 2026-29 settlement, making that horizon the standing norm rather than a one-off.
- **A published needs-and-resources formula.** The formula that drives each council's allocation is published in full, with the per-council results and the winners and losers, *before* the period begins. FFR 2.0's new formula and business-rates reset already redistribute ~£2bn toward need - ~186 councils down (~£2.1bn) and ~161 up (Grade B); the reform's contribution is to make that *transparent and multi-year*, so the redistribution is a visible, contestable choice rather than an opaque annual surprise.

### 3.2 Why the multi-year horizon is the precondition for everything else

A multi-year settlement is not just an administrative nicety: it is the precondition for prudent reserves, for invest-to-save, and for the early-warning regime (§5) to mean anything. A council that does not know its funding beyond the current year cannot be fairly held to a medium-term financial strategy, and the audit and capital-risk regimes lose their footing. The multi-year cycle is therefore Gate 1 of the sequencing (§9) - the foundation the rest of the machinery stands on.

## 4. The equalisation engine

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How much to redistribute toward need is the routed value choice (Choice 3: autonomy vs equity). What is **not** a value choice is the *engine* - a transparent, formula-driven mechanism that computes, for each council, the gap between its assessed need and its assessable resources, and equalises across that gap. The engine is built; the **dial - how far to equalise - is the public's**.

### 4.1 The needs-minus-resources design

- **A Japan-LAT-style needs-minus-resources mechanism.** Japan's Local Allocation Tax gap-fills the difference between each authority's *standard fiscal need* and its *standard fiscal revenue* (Grade B, OECD fiscal-federalism) - the cleanest working example of a transparent, formula-driven equaliser, and the template for this engine. Each council's need and resource are computed from published indices; the engine equalises the gap to the degree the dial is set.
- **The model demonstrates the mechanism, not the final formula.** The costing model uses illustrative cohort indices (1.0 = national average): deprived (need 1.4, resource 0.6), average (1.0/1.0), affluent (need 0.7, resource 1.5), driving a notional ~£7.3bn transfer from affluent to deprived cohorts in the stylised run (Grade C, illustrative). These indices exist to show the mechanism - that deprived areas combine the **highest need with the weakest tax base** - not to replicate FFR 2.0's actual formula. The engine reproduces the *order of magnitude* of FFR 2.0's ~£2bn shift, not its precise coefficients.

### 4.2 The dial - and why the trade-off cannot be dodged

- **The strength of equalisation is the routed value choice (Choice 3).** A high dial pools resources strongly toward need (national equity); a low dial leaves more revenue where it is raised (local autonomy). The engine is the same at every setting; only the dial moves.

- **The load-bearing evidence that frames the choice honestly.** It is tempting to claim that letting councils keep more of their business-rates growth (a low dial) "grows the pie" and so dodges the trade-off. The IFS evidence refuses that escape: **business-rates retention widens council-to-council divergence with no measurable link to actual local economic growth** (Grade C for the council-level magnitude, but one of the most important findings in the whole evidence base). Retention rewards the existing tax base, not growth it caused - so it simultaneously *undercuts the growth case for autonomy* and *raises the equity cost of a low dial*. The autonomy-vs-equity choice is real and cannot be waved away; the engine surfaces it cleanly rather than burying it.

#### 4.3 The two guardrails - built into the engine, not part of the dial

- **The France cautionary tale: do not nationalise the revenue.** France abolished its main local residence tax (taxe d'habitation) and replaced it with central transfers (Grade B for the policy; the lesson is analytical) - severing the link between local taxation and local accountability and deepening central dependence. The engine is built so that equalisation **redistributes** a local tax base; it does **not** require abolishing the visible local tax and replacing it with grant. Whatever the dial, councils keep a visible, accountable local tax - this is a guardrail on the engine, not a setting of it.
- **The OECD outlier diagnosis sets the direction of travel.** The UK relies on ~90% property-based local taxation with the lowest sub-central tax autonomy among comparable OECD countries (Grade B) - the structural reason local government is fiscally fragile. The engine and the enabling tax-base powers (§2.2) are designed to make it *possible* to move off that outlier position; how far to move is part of Choices 2 and 3, not pre-decided here.

## 5. The governance, probity, audit and commercial-risk regime

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This is the most detailed part of the core, because it is where councils actually fail - not gradually through under-funding alone, but acutely through debt-for-yield, special-purpose vehicles escaping scrutiny, accumulated statutory liabilities and a collapsed audit system that caught none of it in time. The regime has three interlocking parts: rebuilt assurance, a graduated early-warning-to-intervention ladder, and hard commercial-risk limits. It builds directly on the live reforms (design decision D4) and hardens them into a coherent, rules-based whole.

### 5.1 Rebuilt audit assurance - the Local Audit Office

The assurance system that is meant to catch failures *before* they become s114 events collapsed: the proportion of English local bodies publishing audited accounts on time fell from around **97% to roughly 1%** at the trough (Grade A), after the Audit Commission was abolished in 2015 (Grade A) and responsibility was dispersed across a fragmented market with too few qualified firms. A backstop-date regime has since cleared the backlog largely by *disclaiming* opinions - which clears the queue without providing the assurance.

- **The Local Audit Office becomes the standing assurance backbone** (Grade B, live reform) - effectively rebuilding the central oversight lost in 2015. The reform makes the LAO the body that sets audit standards, oversees the market, and guarantees that on-time, *opinion-bearing* audits (not disclaimers) are restored as the norm.
- **Audit feeds the early-warning regime.** Audited accounts are the evidential base the capital-risk regime (§5.2) runs on; assurance is not an end in itself but the data that lets the early-warning ladder fire on real numbers rather than on rumour or on the council's own optimistic forecasts.

## 5.2 The early-warning-to-intervention ladder

The defect today is that intervention has tended to arrive *after* failure is visible - after the s114, after the commercial portfolio has collapsed. The reform turns the May-2026 capital-risk powers into the *front* of a graduated, transparent ladder.

1. **Real-time monitoring (the May-2026 powers).** Continuous monitoring of each council's borrowing, investment and debt against published thresholds, with an early-warning intervention trigger (Grade B). This is the direct response to the debt-for-yield pattern: Woking accumulated borrowings of roughly **£1.9bn** and Thurrock built a roughly **£1.5bn** investment portfolio that collapsed - both issued s114 notices (Grade B). The monitoring is designed to fire *while* a portfolio is being built, not after it fails.
2. **Graduated, evidenced escalation.** When thresholds are breached, escalation runs through defined steps - enhanced reporting, a statutory improvement plan, external review - *before* commissioners, so intervention is proportionate and rules-based, not a binary that only fires at collapse.
3. **Best-value intervention as the defined end of the ladder.** The statutory best-value regime - under which government appoints commissioners (used at Woking, Thurrock, Croydon, Birmingham, Nottingham and others, Grade B) - becomes the *evidenced, graduated* endpoint of the ladder, triggered on transparent thresholds rather than only after failure is undeniable.

## 5.3 Hard commercial-risk limits

The early-warning ladder detects; these limits *prevent*. They address the specific failure patterns the evidence names.

- **Commercial-investment limits.** Binding limits on borrowing to acquire commercial property or chase commercial yield disproportionate to a council's size and core purpose - the Woking/Thurrock pattern of small councils borrowing at scale to chase yield, with the downside falling on residents and the taxpayer.
- **Public Works Loan Board lending terms** aligned to those limits, so the cheap public-lending facility cannot be used to fund the very debt-for-yield strategies the limits exist to stop.
- **Minimum Revenue Provision discipline** (Grade B) - tightening the rules requiring councils to set aside revenue to repay debt, closing the loopholes that let some councils avoid prudent debt provision and so understate the true cost of their borrowing.
- **Special-purpose-vehicle transparency.** Council-owned companies and SPVs - the Croydon *Brick by Brick* pattern, where a vehicle took council loans, delivered below expectation and contributed to multiple s114 notices (Grade B) - are brought back inside the normal scrutiny and accounting line-of-sight. This is the same "distance without governance capability" failure the delivery-vehicle sub-study identifies as the root cause of hive-off failure; the limit here is its governance answer.
- **Strengthened standards and transparency.** Conduct rules and transparency requirements strengthened so that decisions of the kind the **Teesworks** independent review criticised cannot recur. *State Teesworks precisely:* the independent review found **no evidence of corruption, fraud or illegality, but did identify governance and transparency failings** (weak oversight, inadequate documentation, decisions that should have had more scrutiny) (Grade A). The reform answers the governance/transparency failings the review actually found - not a fraud finding it did not make.

## 6. The deficit-and-insolvency route - and the value choice it surfaces

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A defined route for a failing council is part of the core because the alternative - the current improvised use of Exceptional Financial Support - does not resolve failure, it defers it. **EFS is a sticking plaster:** capitalisation directions largely let councils *borrow, or treat asset sales as revenue*, to cover a recurring revenue gap (Grade B), converting a structural deficit into debt and depleted assets rather than closing it. The numbers show the wave: EFS recipients rose **8 (2023/24) → 19 (2024/25) → ~30 (2025/26)**, with **>£5bn of capitalisation directions in 2025/26** (Grade A/B). (Section 114 notices are a *different* count - eight councils, twelve notices, 2018-2023, Grade B - and are never added to the EFS figure.) Accumulated deficits are growing and partly off-balance-sheet (~£5bn illustrative, Grade C), with the SEND statutory-override deficit the largest single hidden liability and a cliff-edge when the override ends (Grade B for the mechanism).

### 6.1 The route, step by step

1. **Recognition.** An accumulated deficit is recognised on the books - including the SEND override liability brought back on-balance-sheet on a defined timetable *before* the override ends, so the cliff-edge is handled in advance, not as an acute shock.
2. **Stabilisation.** The early-warning ladder (§5.2) and, where needed, best-value intervention stabilise the council's operating position so the deficit stops growing - the precondition for resolving the *stock* of past failure rather than chasing a still-widening gap.
3. **Resolution on stated rules.** The deficit is resolved on rules set out *in advance* - how much is restructured, over what period, and **who bears it**. This is where the value choice is surfaced (§6.2). The route replaces ad-hoc capitalisation-direction borrowing with a transparent, rules-based settlement of the deficit.
4. **Return to normal funding.** Once resolved, the council returns to the standard multi-year settlement (§3) under the equalisation engine (§4) - with the structural causes (the tax base, the demand-led crowding-out) addressed by the rest of the core, so the council is not set up to fail again.

### 6.2 The moral-hazard value choice - surfaced, not decided

**Who pays for the cost of past failure is a genuine distributional value choice, and the Method routes it to the public - it must never be dressed as a technical allocation.** The deficit can fall on:

- **The local culprits and current residents** - those who chose or tolerated the leadership that failed. Fair to national taxpayers, but it punishes blameless current residents and can collapse services for them.
- **National taxpayers** - a bailout that protects services but **rewards failure**, and risks encouraging the next council to take the same risks expecting rescue (moral hazard).
- **Written off** - which clears the deficit but most directly creates moral hazard, signalling that risky strategies carry no ultimate cost.

Writing off deficits risks moral hazard; refusing to risks collapsing services for blameless residents. There is no technical answer that dissolves this - it is a choice about fairness, and the deficit-resolution statute (§2.5) is drafted to **expose** it (the route works under any answer) rather than to pre-decide it. The core machinery - recognition, stabilisation, return to normal funding - is the same whoever the public decides should bear the cost.

## 7. Where the demand-led duties are funded - inherited, not re-derived

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The proximate cause of the crisis is **demand-led crowding-out**: a few statutory, demand-led duties - adult social care, SEND, homelessness - consume council budgets and crowd out every discretionary service (Grade B). London boroughs alone recently reported overspends of roughly £180m (adult social care), £150m (children's social care) and £270m (homelessness) (Grade B/C, sector-reported). Adult social care alone is roughly 42% of council service spend and a primary driver of s114 insolvency.

- **The principle (the part this product owns):** the demand-led entitlements are funded **nationally or via a hard ring-fence** (§2.3), so they can no longer cannibalise discretionary local services. This is the structural fix without which multi-year settlements and equalisation cannot hold - a council whose statutory care bill grows faster than any plausible settlement will breach it regardless of how the settlement is built.
- **The funding mechanism (inherited, not re-opened):** *how* the demand-led duties are funded - the costed national/ring-fenced menu and the who-pays split - is **inherited from the adult-social-care product and the SEND entry** (design decision D1), not re-derived or re-opened here. The social-care product routes its own value choices to the public: who pays when care costs are ruinous (the funding menu - a dedicated care levy, an earmarked share of National Insurance, free personal care, or a genuine cap), and how good a service and how fast. See [docs/adult-social-care/](#) and [docs/adult-social-care/SocialCare\\_Public\\_Choices.md](#). This product *references and builds on* those decisions; it does not contradict or re-make them.
- **The allocation-of-functions framework (the part the sub-study supplies):** *which* services a council delivers directly, which it hands to an independent vehicle, and which are funded and standardised nationally is the allocation-of-functions choice (Choice 1). The through-line from the [delivery-vehicle sub-study](#) is decisive here: **structure is a weak lever; the operator and the governance are the strong ones** - so the question is less "national or local, direct or hived-off?" than "is this vehicle matched to this service, and are the three success conditions met (surpluses reinvested, a retained line of democratic or regulatory sight, governance competence)?" Demand-led, rights-bearing duties like statutory social care sit at the high-accountability end of that framework - which is *why* funding them nationally/ring-fenced is coherent with the framework, not a contradiction of local delivery. The framework reasons; it does not hand down a fixed list, and the allocation choice is routed (Choice 1).

## 8. Where the three value choices plug in - and why the core holds under any answer

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This document is the **empirical core**. Three genuine value choices, plus one surfaced question, are deliberately left out of it and routed to the public; the core is built so that it is the *same machinery* whatever the public decides.

- **Choice 1 - what councils are for, and how each service is delivered.** Mandatory vs discretionary; nationally funded/standardised vs locally raised/varied; directly delivered vs handed to an independent vehicle (the academy/hive-off question). The value trade-off is **local democratic accountability and responsiveness vs national equity and standardisation**. The core supplies the *framework* (§7 and the sub-study), not the answer. The settlement, equalisation and governance machinery work whatever the allocation.

- **Choice 2 - the revenue and tax base.** The costed menu (Evidence Annex §3), each option with its winners-and-losers map: revalue-and-reband (~£3.9bn central, Grade B), proportional property tax (~£5.0bn, Grade B), land value tax (~£3.0bn illustrative, Grade D), local income tax (~£4.0bn, Grade C), business-rates multiplier (~£2.0bn, Grade C), plus the discretionary levies and the deferral/equity-stake unlock. **The direction is structurally certain - low bands win, high bands lose under every value-based option** (Band H loses up to ~£7,799/yr under full proportional reform, Band A gains ~£593/yr; revalue-and-reband is gentler, Band H +£3,510, Band A -£267) - but the **magnitudes rest on 1991-based values (Grade C/D), and that data gap is the argument for revaluation, not a reason to avoid the analysis.** The enabling powers (§2.2) implement *any* option the public chooses; none is recommended.
- **Choice 3 - how far to equalise.** The dial on the needs-minus-resources engine (§4): a high dial pools toward need (national equity), a low dial leaves more where it is raised (local autonomy). The IFS retention finding frames it honestly - a low dial cannot be justified by claiming retention "grows the pie", because it does not. The engine is the same at every setting.
- **Surfaced within governance - who pays for past failure.** The deficit-bailout/moral-hazard question (§6.2): local culprits and current residents / national taxpayers / written off. Surfaced honestly inside the deficit-resolution route, never dressed as technical.

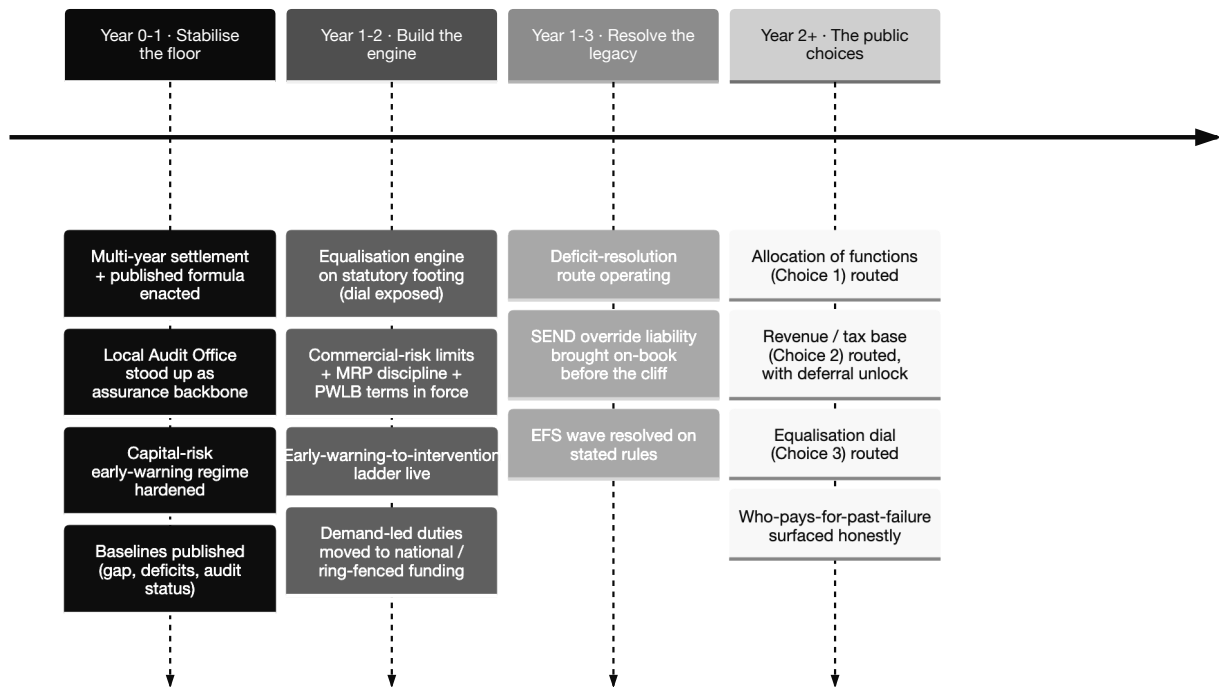
**Why the core holds under any answer.** The structural defects the core fixes are *empirical*, not value-laden: single-year settlements make planning impossible, a collapsed audit system catches no failures, debt-for-yield and unscrutinised SPVs sink councils, and EFS papers over a structural gap. None of those fixes depends on which tax option is chosen, how high the equalisation dial is set, how functions are allocated, or who is decided to pay for past failure:

- The **multi-year settlement and published formula** fund councils on a planning horizon whatever the tax base underneath them.
- The **equalisation engine** computes need-minus-resources and equalises to *whatever* dial the public sets - it is built, the dial is theirs.
- The **governance, audit and commercial-risk regime** holds any council to account regardless of how it raises revenue or delivers services.
- The **deficit-resolution route** recognises, stabilises and resolves a deficit on stated rules whoever the public decides should bear the cost.

So the public can answer all three choices either way, and surface the who-pays question honestly, and the reform core is the same robust machinery underneath. That is the point of designing it on the empirical defects: the substance does not wait on the most contested questions.

## 9. Sequencing, dependencies and the critical path

### Local-government-finance reform roadmap (relative years)



The sequencing rule mirrors the empirical/value split: **the structural core is built first and does not wait on the value choices**. The choices follow on their own track once the core is standing.

- **Gate 1 - stabilise the floor.** The multi-year settlement and published formula are enacted; the Local Audit Office is stood up as the standing assurance backbone; the capital-risk early-warning regime is hardened; baselines (the funding gap, accumulated deficits, audit status) are published. *Until councils can plan on a multi-year horizon and the accounts can be trusted, nothing else has a foundation.*
- **Gate 2 - build the engine and the guardrails.** The equalisation engine is put on a statutory footing with the dial exposed; commercial-risk limits, MRP discipline and PWLB terms are in force; the early-warning-to-intervention ladder is live; the demand-led duties are moved to national/ring-fenced funding. *This is the protection against the next debt-for-yield collapse and the structural fix for crowding-out.*
- **Gate 3 - resolve the legacy.** The deficit-resolution route operates; the SEND override liability is brought on-book before the cliff; the EFS wave is resolved on the stated rules. *This clears the stock of past failure so the reformed system is not set up to inherit it.*
- **Gate 4 - the public choices made.** Allocation of functions, the revenue/tax base (with the deferral unlock) and the equalisation dial are put to the public as neutral costed menus; the who-pays-for-past-failure question is surfaced honestly; whichever answers are chosen are legislated on their own track. *This gate is deliberately off the critical path for the core - the core funds councils, assures their accounts and resolves their deficits regardless.*

**Critical-path dependencies:** the multi-year settlement (Gate 1) blocks everything - the equalisation engine, the early-warning regime and any fair held-to-account standard all assume a planning horizon longer than a year. The Local Audit Office (Gate 1) must precede the early-warning ladder (Gate 2): the ladder fires on audited numbers, so without restored assurance it fires on unreliable data. The national/ring-

fenced funding of demand-led duties (Gate 2) must precede or accompany deficit resolution (Gate 3): resolving a deficit while the demand-led duties still cannibalise the budget would simply rebuild it. The three public choices are *off* the critical path and follow once the core is live.

## 10. The first hundred days

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A concrete list for the period immediately after the commitment:

1. **Enact (or confirm the timetable for) the multi-year settlement statute**, with the 3-5 year cycle and the published needs-and-resources formula on the face of the Act, building on the Fair Funding Review 2.0 2026-29 settlement.
2. **Stand up the Local Audit Office as the standing assurance backbone** and set a timetable to restore on-time, *opinion-bearing* audits (not disclaimers) as the norm - the data the rest of the regime runs on.
3. **Publish the baselines**: the funding gap (the ~£4.1bn 2026/27 anchor, Grade B, with the illustrative forward trajectory clearly labelled), accumulated deficits (~£5bn illustrative, Grade C), the EFS wave (8 → 19 → ~30, >£5bn directions, Grade A/B), the s114 record (kept separate), and per-council audit status.
4. **Harden the capital-risk early-warning regime** into the front of the graduated intervention ladder, with published thresholds.
5. **Bring the commercial-risk limits into force** - commercial-investment limits, PWLB terms aligned to them, MRP discipline, and SPV transparency.
6. **Put the equalisation engine on its statutory footing** with the dial exposed and the formula, allocations and winners/losers published before the settlement period.
7. **Legislate the national / ring-fenced funding of the demand-led duties**, inheriting the social-care and SEND funding mechanisms (not re-deriving them), and set the timetable to bring the SEND override liability on-book before the cliff.
8. **Pre-define and publish the deficit-resolution route in full** - recognition, stabilisation, resolution rules, return to normal funding - with the who-pays-for-past-failure question surfaced honestly as a routed value choice.
9. **Commission the independent evaluator** (§11) and publish the measures of success before any of the new machinery is judged.

## 11. Measures of success and the evaluator

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System-level, evidence-graded, and built so that no single number can be gamed - covering structural soundness, governance and assurance, and value to residents:

- **Structural soundness**: the funding gap trajectory against the ~£4.1bn 2026/27 anchor (Grade B, with the forward line clearly labelled illustrative); the number of councils on Exceptional Financial Support (the 8 → 19 → ~30 wave reversing, Grade A/B baseline); the number of s114 notices (kept as a separate count); accumulated deficits trending down, including the SEND override liability handled before the cliff (Grade B/C).
- **Settlement and planning**: the proportion of councils funded on a confirmed multi-year horizon; the formula, allocations and winners/losers published before each settlement period.

- **Governance and assurance:** the proportion of local bodies publishing on-time, *opinion-bearing* audits (the ~97% → ~1% collapse reversing, Grade A baseline; disclaimers do **not** count as assurance); early-warning triggers fired and resolved before reaching best-value intervention; commercial-investment and gearing within the limits.
- **Equalisation:** the realised needs-minus-resources transfer against the published dial (the order of magnitude of FFR 2.0's ~£2bn shift, Grade B baseline) - reported transparently so the public can see the dial they chose being delivered.
- **Value to residents:** discretionary services no longer being cannibalised by the demand-led duties (the crowding-out reversing); and, where a Choice 2 option is adopted, the realised distributional outcome reported against the menu's winners-and-losers map (with the revaluation data-gap caveat carried).

The value-choice *outcomes* (which tax option, how high the dial, how functions are allocated, who pays for past failure) are **not** success measures of this core - they are the public's choices, and the core is judged on structural soundness, governance and value to residents regardless of how they are answered.

**An independent evaluator**, resourced and reporting independently of MHCLG, HM Treasury and the councils, assesses the regime against these measures, with a statutory protected budget so the evidence base survives a spending review. Because government is mid-reform, the evaluation is **standing, not one-off**: it tracks the Fair Funding Review 2.0 settlement, the capital-risk-powers consultation outcome, the Local Audit Office stand-up and the English Devolution Bill, and reports as the regime beds in - the discipline of treating this as a living proposal (Method B8) that engages the actual state of play.

## 12. Failure modes and exit conditions

### 12.1 Risks and mitigations

Risk	Mitigation
The multi-year settlement is promised but quietly reverts to single-year confirmation under fiscal pressure	The 3-5 year cycle and published formula on the face of the Act, with indicative allocations for the whole period - not a line a future Chancellor can lift annually (§3).
A rebuilt audit system clears the backlog with disclaimers rather than real assurance - the status quo escape	The Local Audit Office held to <i>opinion-bearing</i> on-time audits as the success measure; disclaimers explicitly do not count (§5.1, §11).
The early-warning regime fires too late - after the debt-for-yield portfolio has collapsed	Real-time monitoring against published thresholds <i>while</i> portfolios are built, feeding a graduated ladder before commissioners (§5.2); commercial-investment limits prevent the strategy in the first place (§5.3).
A council-owned company or SPV escapes scrutiny (the Brick by Brick pattern)	SPV transparency brings vehicles back inside the normal accounting and scrutiny line-of-sight - the same "distance without governance" failure the sub-study identifies (§5.3).
Equalisation set quietly low and defended as "growth-friendly"	The IFS finding - retention widens divergence with no measurable growth link - published with the dial, so a low dial cannot hide behind a false growth claim (§4.2).
The visible local tax is abolished and replaced with central grant (the France error)	The engine <i>redistributes</i> a local tax base; it does not require abolishing the visible local tax - a built-in guardrail, not a setting (§4.3).
Demand-led duties keep cannibalising discretionary services even after settlement reform	National / ring-fenced funding of the demand-led duties (inherited from social care/SEND) moved in Gate 2, <i>before</i> deficit resolution, so the gap is not rebuilt (§7, §9).
The SEND override ends and dumps an accumulated deficit onto councils as an acute shock	The liability brought on-book on a defined timetable <i>before</i> the cliff, handled within the deficit-resolution route (§2.3, §6).
EFS continues as a structural fix - borrowing and asset sales papering over the gap	EFS replaced as a <i>fix</i> by a defined deficit-resolution route that resolves on stated rules and returns councils to normal funding (§6).
The cardinal error - a who-pays or who-wins choice presented as a technical necessity	Choices 1-3 routed to the public as neutral costed menus; the who-pays-for-past-failure question surfaced honestly; no option recommended; the core built to hold under any answer (§6.2, §8).
Teesworks-type governance/transparency failings recur	Strengthened standards and transparency answering the failings the independent review actually found - no corruption or illegality, but governance and transparency failings (§5.3).
The reform unwound or hollowed out by a later government	The multi-year cycle, the formula-publication duty, the LAO's standing remit and the evaluator's protected budget on the face

Risk	Mitigation
	of statute - not lines quietly reversible.

## 12.2 Exit and correction conditions

Named in advance, not left to political weather:

- **If a council reaches insolvency**, the deficit-resolution route is the *defined* response - recognition, stabilisation, resolution on the pre-set rules, return to normal funding - with who bears the cost a routed value choice, not an improvised bailout (§6). This is a controlled, rules-based outcome, not an exit from the regime.
- **If the public's answer to Choice 2 is "minimal change" (revalue-and-reband)**, the enabling powers deliver the gentler option; **if it is "radical" (proportional property tax)**, the same powers deliver that, with the deferral/equity-stake unlock active to protect the asset-rich/income-poor. Either way the settlement and equalisation machinery is unchanged.
- **If the public sets the equalisation dial low**, the engine delivers a low transfer (with the IFS finding on the record); **if high**, it delivers a high one. The engine stands at every setting.
- **If the public's answer to Choice 1 favours local variation or national standardisation**, the allocation framework reasons either way; the settlement, equalisation, governance and deficit machinery work whatever the allocation.
- **In every case the structural core stands alone**: a multi-year settlement on a published formula, a transparent equalisation engine, restored audit assurance, an early-warning-to-intervention ladder, hard commercial-risk limits, national/ring-fenced funding of the demand-led duties, and a defined deficit-resolution route all retain their value whatever the public decides about functions, revenue, equalisation and who pays for the past. That is what makes this a robust core rather than a bet on one contested answer.

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## Sources and companions

Evidence Annex (grades and full citations) · [delivery-vehicle sub-study](#) (the allocation-of-functions framework) · [costing model](#) and [results](#). The three value choices - what councils are for and how each service is delivered, the revenue/tax base, and how far to equalise - and the surfaced who-pays-for-past-failure question are presented as neutral costed menus and routed to the public; they are not decided here. The demand-led funding mechanism is inherited from [docs/adult-social-care/](#) and the SEND entry, not re-derived. Cross-references: Problem Register entry 1 (local government finance), entry 3 (adult social care - the inherited demand-led funding), entry 7 (water - the sibling "born into live reform" product and the natural-monopoly delivery-vehicle case), and entry 11 (state capacity - the "intelligent client" / client-side governance link in the commercial-risk and audit regimes). All figures inherit the Evidence Annex grades; the revaluation data gap (1991 values) and the two non-comparable council counts (s114 vs EFS) are carried throughout and never elided.