

Local Government Finance - Evidence Annex (graded source-of-truth)

The canonical, A-D graded evidence base behind Pragma's local-government-finance worked product - Register entry 1, "Local government finance" (Priority Score 29/35, the Register's highest). Every other artefact in this product (White Paper, Delivery Design, Public Summary, Public Choices, the delivery-vehicle sub-study, the infographic) cites this document. England unless noted: council tax, business rates and the funding settlement covered here are England-specific (Scotland, Wales and Northern Ireland run separate systems, and Wales has nine council-tax bands A-I on 2003 values - excluded). Figures gathered June 2026.

Evidence grades (what the A-D letters mean). Every factual claim in this document carries a letter grade describing how strong the evidence behind it is - so you can see at a glance which figures are solid and which are uncertain:

- **A** = robust / official: an audited account, an official statistic, or a fixed legal ratio. Treat as reliable.
- **B** = a strong official projection or a quantified estimate from a respected body (for example the Local Government Association, the National Audit Office, or the Institute for Fiscal Studies, or a large official dataset).
- **C** = a single estimate, a modelled figure, or an illustrative one (one source, a residual, a campaign figure, or an illustrative model used to show direction rather than measure it precisely).
- **D** = weak or absent: no agreed primary figure exists; an extreme-case, placeholder or advocacy estimate carried only to show a possible range.

Discipline note. The single most important guard in this document is the **revaluation data gap** (revaluation means re-assessing every property at its current value rather than its decades-old value). England's council tax still runs on **1991 property values** - there is no official up-to-date list of what homes are worth in each band, so there is *no measured answer* to "who would win and who would lose from a fair property tax." That absence is not a reason to duck the question; **it is itself the strongest argument for revaluation.** Throughout, the discipline is: settle factual questions (the funding gap, the collapse of the audit system, the failure patterns) on evidence; route the genuine value-judgement questions (how far to redistribute toward poorer areas, who pays for past failure, local freedom versus national fairness) honestly to the public.

Presenting a value choice - above all "who wins and who loses from property-tax reform" - as if it were a technical necessity is the cardinal error this document exists to prevent.

Two figures that must never be confused (read before using any council count). Two different council counts recur and mean different things:

- **Section 114 notices** - a section 114 notice is the formal declaration, under the Local Government Finance Act, that a council cannot balance its budget; it is the local-government equivalent of declaring bankruptcy. Eight councils issued twelve such notices between 2018 and 2023.
- **Exceptional Financial Support recipients** - "Exceptional Financial Support" is emergency permission from central government allowing a council to borrow money or sell off assets to plug its budget gap and stay solvent. The number receiving it rose 8 then 19 then roughly 30 across the years 2023/24 to 2025/26.

A council can receive Exceptional Financial Support *without* issuing a section 114 notice, and vice versa. Do not add the two counts together or treat them as the same group of councils. See section 1.

Provenance (where the figures come from). Every figure here traces to the source files held with this product: the master source list (`councilfin_costing/data/SOURCES.md`) and the graded data tables (`funding_gap.csv` , `revenue_options.csv` , `band_distribution.csv` , `equalisation.csv` , `levies.csv` , `anchors.csv`), the model's headline numbers (`councilfin_costing/outputs/results.md`), the delivery-vehicle evidence (`data_hiveoff/SOURCES.md`), and the diagnosis in the Problem Register, entry 1 (`problem-register.md`). Figures here match those files exactly.

1. The crisis - insolvency, support and accumulated deficits

The factual core: a recurring funding gap that the existing emergency-relief mechanism papers over rather than closes, on top of a growing pile of hidden and deferred deficits (a deficit is simply spending that exceeds income; "off-balance-sheet" means a debt that is kept out of the headline accounts so it is not immediately visible).

- **The 2026/27 local-government funding gap is about £4.1bn.** Grade **B** (Local Government Association and other sector estimates, via Problem Register entry 1; `funding_gap.csv` , `anchors.csv`). This is the headline gap the product is sized against; the costing carries it at £4.1bn give or take £0.6bn. (`anchors.csv` : `funding_gap_2026_bn`)
- **The forward trajectory is illustrative, not an official forecast.** The model projects the gap widening to about £5.5bn (2027/28) and about £6.9bn (2028/29) as demand-driven pressures grow - a cumulative total of about £16.5bn over the three years. **Grade C** (`funding_gap.csv` 2027/2028 rows; `results.md`). These are *not* official forecasts; they exist only to make the cumulative-gap line meaningful and must be labelled as illustrative wherever used.
- **Section 114 notices (the local-government bankruptcy signal) have surged from a near-zero baseline.** After almost none for two decades, **eight councils issued twelve section 114 notices between 2018 and 2023** (Problem Register entry 1; Grade **B**). A section 114 notice is the formal declaration that a council cannot balance its books - historically extraordinary, now recurrent.
- **Exceptional Financial Support has risen 8 then 19 then about 30 councils, with more than £5bn of "capitalisation directions" in 2025/26.** Grade **A/B** (GOV.UK Exceptional Financial Support 2025-26; `funding_gap.csv`). (A "capitalisation direction" is the formal permission that lets a council treat day-to-day spending, or money raised by selling assets, as if it were capital - in effect allowing it to borrow or sell its way through a budget gap.) The number of councils receiving Exceptional Financial Support rose from **8 (2023/24) to 19 (2024/25) to about 30 (2025/26)**. *Reconciliation note:* the Problem Register diagnosis cites **29** for 2025/26 and the costing data uses **about 30** with more than £5bn of capitalisation directions - the same wave of councils, rounded differently; cite "8 then 19 then about 30 (around thirty)" and the more-than-£5bn capitalisation total to stay consistent with the model, noting the Register's 29 is the same figure.
- **Exceptional Financial Support is a sticking plaster, not a fix.** Grade **B** (Problem Register entry 1; GOV.UK Exceptional Financial Support mechanism). Capitalisation directions largely *let councils borrow, or treat asset sales as income*, to cover a gap that recurs every year - turning a built-in, structural deficit into debt and sold-off assets rather than actually closing it. This is the reason the product treats the £4.1bn gap as structural (built into the system) rather than cyclical (a temporary dip).
- **Accumulated deficits are growing and partly hidden from the headline accounts.** Grade **C** (illustrative scale; `funding_gap.csv` `accumulated_deficit_bn`). The model carries about £5bn (2026) rising on the illustrative trajectory; the figures illustrate the rough *scale*, not audited totals.

- **The largest single hidden liability is the deficit on the schools budget for children with special educational needs.** Grade **B** (direction of travel; the legal arrangement is documented policy). Deficits on high-needs and special-educational-needs-and-disabilities (SEND) provision are kept **out of councils' headline accounts under a temporary legal exemption** (known as the dedicated-schools-grant statutory override - the dedicated schools grant is the central funding councils pass to schools). The exemption keeps being extended; when it finally ends, councils must bring the accumulated deficit back onto their books all at once - a cliff-edge that turns a deferred problem into an immediate one. The precise national total is disputed and changes with each extension (Grade **C** for any single total); the *direction and the mechanism* are solid (**B**).
- **The immediate cause is a handful of fast-growing legal duties squeezing out everything else.** Grade **B** (Problem Register entry 1). A few statutory, demand-driven duties - adult social care, support for children with special educational needs, and homelessness - swallow budgets and crowd out the discretionary services councils choose to provide. ("Statutory" means required by law; "demand-driven" means the cost rises automatically as more people qualify, so councils cannot simply cap it.) London boroughs alone recently reported overspends of roughly **£180m (adult social care), £150m (children's social care), £270m (homelessness)** (Problem Register entry 1; Grade **B/C**, sector-reported). The costed, ring-fenced (protected, dedicated) funding fix for these demand-driven entitlements is **taken from the separate adult-social-care product and the special-educational-needs entry, not re-worked here** (design decision D1) - see [docs/adult-social-care/SocialCare_Evidence_Annex.md](#) (adult social care is roughly 42% of council service spending and a primary driver of section 114 insolvency).

2. Why the system is structurally unsound

*The diagnosis: the failure here is a **distortion central government itself created** (in the Method's taxonomy of why markets fall short, this is category 10), not a classic market failure. Three design choices by central government - a frozen tax base, year-by-year funding, and a highly centralised structure - together make the system unsound by design. (The "tax base" is the pool of property values on which the tax is charged; a "settlement" is the annual package of central funding handed to councils.)*

- **Council tax still runs on 1991 property values - no revaluation in over 30 years.** Grade **A** (the absence of any revaluation is a documented fact; the Valuation Office Agency, the government body that values property for tax, holds no up-to-date value list). England has had **no revaluation of homes since 1 April 1991**. Every property's band reflects what it was worth in 1991, not today; because prices have moved very unevenly since then (London and the South-East rising far faster than much of the North), the tax is now badly out of step with what homes are actually worth. This is the root structural fault and the single strongest argument for revaluation (see section 3).

- **Council tax is regressive against property value, and it is rising.** Grade **A** (the fixed band ratios are set in law; council-tax levels from the Ministry of Housing, Communities and Local Government, 2025-26). ("Regressive" means it takes a bigger share from cheaper homes than from dearer ones.) The legally fixed band ratios run **Band A = 6/9 of a Band D bill ... Band H = 18/9** - so the most valuable Band H homes pay only **three times** what the cheapest Band A homes pay, even though they are worth many times more. The **average Band D bill is £2,280 (2025/26, including the extra charges councils add for police, fire and parish services)** (Ministry of Housing, Communities and Local Government, Grade **A**; `anchors.csv` `avg_band_d_gbp`, `band_distribution.csv`). Average bills by band, worked out from £2,280 multiplied by each band's legal ratio: A £1,520 · B £1,773 · C £2,027 · D £2,280 · E £2,787 · F £3,293 · G £3,800 · H £4,560 (Grade **A**, `band_distribution.csv`). This flat ratio (running only from 6/9 up to 18/9) is *why* council tax is regressive as a share of property value - a £400k home pays nowhere near eight times what a £50k home pays.
- **Funding is set one year at a time, not over several years.** Grade **A** (the funding cycle is documented policy). Councils have mostly been funded through **single-year settlements**, often confirmed only weeks before the financial year starts, making it almost impossible to plan ahead, to invest now to save later, or to manage reserves sensibly. The proposed fix (multi-year funding based on each area's needs) is the heart of pillar 4 and builds on the government's Fair Funding Review 2.0 - the official review reworking how council funding is shared out - and its 2026-29 settlement.
- **The structure concentrates financial power in the centre.** Grade **A** (diagnosis by the OECD, the club of mostly-rich democracies that compiles comparable international data - see section 4). Local government raises only a small, capped share of its own spending; most of its money arrives as central grant and redistributed business rates, on terms set in Whitehall. The English Devolution and Community Empowerment Bill hands councils more *freedom over how they spend* but **not real power to raise their own taxes** - so the gap in financial self-reliance that this annex documents remains open even after the Bill (design decision D4). Grade **B** (the Bill's provisions are documented; the "it ducks the tax base" reading is our own analysis).

3. The revenue options and their winners and losers

*The costed menu of options (none of them recommended), each with a map of who gains and who loses. The spread of homes across the bands that drives the winners-and-losers calculation rests on **1991-based values (Grade C/D)** - and that data gap **is the argument for revaluation**, not a reason to avoid the analysis. The winners-and-losers figures below are a **simplified, revenue-neutral reshare by band (Grade C)** - "revenue-neutral" meaning the total tax raised stays the same, only who pays it shifts - designed to show the direction of each option, not to forecast any one household's exact bill.*

The spread of homes across the bands (the input, and its honesty)

- **The share of homes in each band is solid; the values attached to them are the weak link.** Grade **A** for the shares (Valuation Office Agency, *Council Tax: stock of properties 2025*, about 25.7m homes): A 23.7% · B 21.0% · C 22.0% · D 15.5% · E 8.5% · F 4.3% · G 2.9% · H 0.6% (`band_distribution.csv`; the shares add up to about 98.5% before rounding, and the model adjusts them to total 100%). **The property values are Grade C** - the `avg_value_gbp` figures (A £30k ... G £240k) are **the mid-points of the 1991 band boundaries, indicative only**, and **Band H (£400k) is Grade D** (its 1991 boundary has no upper limit, so it is the most uncertain). They are good enough for the *relative ordering from A up to H* that the winners-and-losers sum needs, but **not** as today's actual values. **This data gap is the single strongest argument for revaluation, and it is stated openly here, never hidden.**

How much each option would raise nationally (before costs, £bn)

("Low / Central / High" are the bottom, middle and top of the plausible range. The terms used in the table are explained underneath it.)

Option	Low	Central	High	Grade	Basis
Revalue-and-reband	£0.0bn	£3.9bn	£6.0bn	B	A pure revaluation raises no extra money overall; the extra revenue comes from adding new top bands or making the existing top bands steeper. The Institute for Public Policy Research (a centre-left think tank), Nov 2025: raise bands F and G by 50% and band H by 100% to add £3.9bn (and put about £1bn of that back into cutting bills for bands A-D). The Institute for Fiscal Studies' revaluation analysis (Grade A) underpins how this works.
Proportional property tax	£1.6bn	£5.0bn	£8.4bn	B	A tax set as a flat percentage of a home's value instead of using bands. The Resolution Foundation (a living-standards think tank), 2023: a flat 0.5% charge adds £1.6bn; a steeper version (1% on most value, 2% on the highest-value portion, with regional allowances) adds £8.4bn. The Fairer Share campaign reaches similar figures. The headline winner/loser claims depend heavily on how each campaign sets its assumptions.
Land value tax	£0.0bn	£3.0bn	£6.0bn	D	A tax on the value of the land alone, ignoring the buildings on it. There is no credible UK national revenue estimate (the Mirrlees Review - a landmark independent review of the UK tax system - deliberately treats it as conditional on being made workable, and valuing land on its own remains an unsolved problem in the UK). The central and high figures are illustrative placeholders - flagged D .
Local income tax	£0.0bn	£4.0bn	£8.0bn	C	A local tax on income. The roughly £4bn here is illustrative - about half a penny (0.5p) on the basic rate of income tax. (His Majesty's Revenue and Customs' ready reckoner, the official estimator of what a tax change raises, puts 1p on the basic rate at about £8.25bn in a full year, so about 0.5p raises roughly £4bn.) The "4p" sometimes attached to this idea is the <i>cap</i> on a locally chosen rate proposed by Centre for Cities (an urban-economy think tank), not the rate behind this figure - 4p would raise far more, roughly £33bn. It is pro-cyclical (raises most when the economy is booming and least in a downturn) and raises least where need is highest - which argues for funding care nationally instead. Shows direction only.
Business-rates multiplier	£0.0bn	£2.0bn	£4.0bn	C	A local lever to adjust the business-rates charge, or to let councils keep more of what they raise, applied to the roughly £26bn pool of business rates (the tax on the rateable value of commercial property). The Institute for Fiscal Studies finds that letting councils keep more widens the gap between areas with no

Option	Low	Central	High	Grade	Basis
					measurable link to actual local growth (see section 4). Shows direction only.

(revenue_options.csv , results.md , anchors.csv business_rates_pool_bn)

- **Revalue-and-reband is the gold-standard step-by-step fix.** Grade **B** for the £3.9bn it would raise, with the **Institute for Fiscal Studies' revaluation mechanism at Grade A**. A pure revaluation raises no extra money overall but is fairer; the extra revenue comes from adding or steepening the top bands. This is the least-disruptive option that still corrects the 1991 distortion.
- **Proportional property tax is the best-measured radical option.** Grade **B**, with the clear warning that the **headline winner/loser claims depend on how each campaign sets its assumptions** (the Resolution Foundation and Fairer Share calibrate them differently). It replaces council tax (and possibly stamp duty, the tax paid when buying a home) with a charge set as a percentage of value, removing the jumps between bands - but it creates large winners and losers depending on where you live.
- **Land value tax has strong theory but no credible UK national revenue estimate.** Grade **D** by its nature. The Mirrlees Review backs the *principle* but deliberately makes it conditional on being made workable; valuing land on its own in the UK remains unsolved. The £3.0bn central and £6.0bn high figures are **illustrative placeholders, flagged D** - never present a land-value-tax figure as if it were measured.
- **Local income tax is workable to run but rises and falls with the economy and is weakest where need is greatest.** Grade **C**, direction only. A small charge on local incomes - here illustrated as about half a penny (0.5p) on the basic rate, which raises roughly £4bn on His Majesty's Revenue and Customs' ready reckoner (1p on the basic rate is worth about £8.25bn a year); it could be collected through the existing Pay As You Earn payroll system, as Scotland's version shows - raises most where incomes are high and least where need is high. It is **pro-cyclical** (strongest in good times, weakest in bad) **and raises least exactly where the most help is needed**. That is why it *requires* strong redistribution between areas and argues for **funding demand-driven care nationally** rather than from a local income tax. The "4p" sometimes attached to this option is Centre for Cities' proposed *cap* on a locally chosen rate, not a yield basis (4p would raise roughly £33bn); the historical precedent for a *full* local income tax replacing council tax is the Liberal Democrats' 2005 plan at a national average of 3.75p in the pound (Hansard, 10 February 2004 - the commonly cited "3.5p" cannot be verified from a primary source). (This is the option where the founder's local-income-tax idea was parked - carried honestly with its weaknesses, not promoted.)
- **Letting councils keep more business rates is a weak growth lever - the key Institute for Fiscal Studies finding.** Grade **C** for the £2.0bn figure; the underlying **Institute for Fiscal Studies finding is the load-bearing one: letting councils keep more of their business-rates growth widens the gap between richer and poorer areas, with no measurable link to actual local growth**. So the growth argument for it is weak while the cost in fairness between areas is real - this finding recurs in section 4 and is one of the two or three most important claims in the whole annex.

Winners and losers by band (change in £ per year versus today; simplified, revenue-neutral, Grade C)

Band	Revalue-and-reband	Proportional property tax	Land value tax
A	-£267 (winner)	-£593 (winner)	-£593 (winner)
B	-£158 (winner)	-£352 (winner)	-£352 (winner)
C	-£78 (winner)	-£173 (winner)	-£173 (winner)
D	+£59 (loser)	+£130 (loser)	+£130 (loser)
E	+£192 (loser)	+£426 (loser)	+£426 (loser)
F	+£465 (loser)	+£1,033 (loser)	+£1,033 (loser)
G	+£1,627 (loser)	+£3,616 (loser)	+£3,616 (loser)
H	+£3,510 (loser)	+£7,799 (loser)	+£7,799 (loser)

(results.md)

- **The direction is robust: cheaper homes win, dearer homes lose under every value-based option.** Grade **C** for the exact amounts (a simplified revenue-neutral reshare), but the **direction is certain by construction** - any tax that follows what homes are actually worth more closely than the 1991 bands do will shift the burden from cheaper to more valuable homes. Under full proportional reform, **Band H loses up to about +£7,799 a year** and Band A gains about £593 a year; revalue-and-reband is gentler (Band H +£3,510, Band A -£267).
- **Income- and business-based options show no change to council-tax bands - that is correct, not a mistake.** Grade **A** (it is simple arithmetic). Local income tax and the business-rates lever show **+£0 across all bands** because they are not charged on the property bands at all. The model is right to show no band-by-band shift for these; their effect falls on income and on businesses, not on home values.

(results.md)

- **A deferral option, with the state taking a stake in the home, removes the "asset-rich, cash-poor" objection.** Grade **C** (Resolution Foundation mechanism). The objection that usually sinks property-tax reform - that owners who are "asset-rich but income-poor" (often pensioners) cannot afford a higher value-based bill - is answered by letting them **put off paying, with the charge secured against the property and the state taking a share of its value** that is repaid when the home is sold or the owner dies. This is **not counted as revenue** (it is described in words, not in the costing) but it is the enabler that makes Choice 2 politically survivable. Present it as the thing that unlocks reform, not as money raised.

Optional local charges (easy wins that carry little fairness-between-areas risk)

These raise money where the activity or the pressure actually is, rather than off general income or wealth - so they carry little risk of unfairly favouring richer areas, and they have real track records.

Charge	National yield	Grade	Basis
Visitor levy (a small charge on overnight stays)	£0.40bn	B	Edinburgh about £40-50m a year (5% from 2026); Wales (£1.30 / 75p per night from 2027); in England the power for elected mayors is under consultation. If adopted nationally, low hundreds of millions of pounds.
Workplace parking levy (a charge on employer-provided parking spaces)	£0.15bn	B (Nottingham A)	Nottingham raises about £9m a year on its own (£500 per space, Grade A); wider take-up (modelling for Leeds and Glasgow) would give about £0.1-0.3bn nationally (the national figure is Grade C).
Second-home and empty-home premiums (extra council tax on second and long-empty homes)	£0.10bn	B	The second-home premium (up to +100%, England from April 2025) and the long-term-empty premium (up to +300%); a live policy already bringing in money (for example Wrexham about £217k). Modest and concentrated in particular areas.

([levies.csv](#) , [results.md](#))

- **These are real but small.** Grade **B** overall. The amounts (£0.4bn / £0.15bn / £0.1bn nationally) are **modest and concentrated in particular places** - useful extras that give councils a bit more financial flexibility without unfairly favouring richer areas, but **not** a substitute for fixing the tax base. The power to charge road users already exists but is described here in words rather than costed.

4. Equalisation (sharing money out toward the areas that need it most)

"Equalisation" means redistributing funding so that poorer areas, which have higher needs but a weaker local tax base, are not left short. How far to do this is a genuine value choice (local freedom versus fairness between areas), and the Method routes it to the public rather than deciding it. The evidence inputs: the current Fair Funding Review 2.0 (the official review reworking how council funding is shared out), the key Institute for Fiscal Studies finding on business rates, and three international examples (Japan as the design model, the OECD as the diagnosis, France as the cautionary tale).

- **Fair Funding Review 2.0 redistributes about £2bn toward areas of greater need.** Grade **B** (Institute for Fiscal Studies and the House of Commons Library; [anchors.csv](#) [ffr2_redistribution_bn](#)). The 2026-29 settlement's new needs-and-resources formula and business-rates reset shift **about £2bn toward need: roughly 186 councils lose (about £2.1bn in total) and roughly 161 gain**. The product **accepts what is sound in Fair Funding Review 2.0 and focuses on the gaps it leaves** (the untouched tax base, the gap in financial self-reliance, and a principled engine for sharing money out) - design decision D4. The model reproduces the rough *size* of this shift, not the official formula itself.
- **The model's redistribution engine works by subtracting each area's resources from its needs.** Grade **C** (illustrative). It uses index numbers where 1.0 is the national average: a deprived area (need 1.4, resources 0.6), an average area (1.0 and 1.0), and an affluent area (need 0.7, resources 1.5) - which drives a notional transfer of about £7.3bn from affluent to deprived areas in the simplified run ([equalisation.csv](#) , [results.md](#)). These index numbers are **Grade C illustrative** - they exist to demonstrate the *needs-minus-resources* idea (deprived areas combine the highest need with the weakest local tax base), not to copy the official formula.

- **The key Institute for Fiscal Studies finding: letting councils keep more business rates widens the gap between areas with NO measurable growth link.** Grade **C** for the council-by-council size, but this is **one of the most important claims in the annex**. The Institute for Fiscal Studies shows that letting councils keep a larger share of their business-rates growth **widens the gap between councils** (areas with a richer business base pull ahead) **with no measurable link to actual local economic growth** - in other words, it rewards the business base an area already has, not any growth it created. This both (a) undercuts the *growth* argument for the policy and (b) raises the *fairness* cost of weak redistribution - and it frames Choice 3 honestly: the local-freedom-versus-fairness trade-off cannot be dodged by claiming the policy "grows the pie."
- **Japan's Local Allocation Tax is the model for the needs-minus-resources design.** Grade **B** (OECD comparative work on how countries share tax power between national and local government). Japan's Local Allocation Tax fills the gap between each authority's *standard need* and its *standard revenue* - the cleanest working example of a transparent, formula-driven way of topping up areas according to need minus resources, and the template for the product's engine.
- **The OECD finds the UK an outlier in how little tax power sits locally.** Grade **B** (OECD). The UK relies on local taxes that are **about 90% property-based, and gives local government the least freedom to set its own taxes** of any comparable OECD country - the structural reason local government is financially fragile. This is the international corroboration of the "power concentrated in the centre" diagnosis in section 2.
- **France's abolition of its local residence tax is the cautionary tale.** Grade **B** (the abolition is documented policy; the lesson is our own analysis). France **abolished its main local residence tax (the tax d'habitation)** and replaced the lost revenue with grants from central government - the lesson being **do not replace a visible, accountable local tax with a central grant**, because doing so severs the link between local taxation and local accountability and deepens dependence on the centre. This is the explicit warning against "solving" the council-tax problem by simply moving the money to national level.

5. Governance, integrity, audit and commercial risk

This is its own pillar. The failure patterns are evidenced and named precisely (including the careful, non-accusatory wording on Teesworks); the collapse of the audit system is quantified; the fixes now under way are catalogued; and the "who pays for past failure" question is surfaced as a value choice, never dressed up as a technical one. ("Governance" means how an organisation is overseen and held to account; "probity"/integrity means honest and proper conduct with public money; "moral hazard", used below, is the risk that rescuing people from the consequences of bad decisions just encourages more bad decisions.)

The failure patterns (named precisely, and even-handedly)

- **Borrowing heavily to chase commercial returns - Woking about £1.9bn and Thurrock about £1.5bn.** Grade **B** (the debt sizes are widely reported from council accounts and section 114 documents; the precise totals shift as debts are restructured). Woking ran up borrowings of roughly **£1.9bn** (vastly out of proportion to its size) to fund commercial property and town-centre regeneration; Thurrock built a roughly **£1.5bn** investment portfolio (including solar-energy bonds) that collapsed - **both issued section 114 notices** (the formal "cannot balance the budget" declaration). The pattern: small councils borrowing at large scale to chase commercial returns, with the losses falling on residents and the taxpayer.

- **Arm's-length companies escaping scrutiny - Croydon's Brick by Brick.** Grade **B**. Croydon's council-owned housing-development company **Brick by Brick** is the textbook case of a special-purpose vehicle (a separate company a council sets up to carry out a specific activity at arm's length) - it took council loans, delivered less than promised, and contributed to Croydon's multiple section 114 notices. The lesson: such arm's-length companies can move significant risk and spending *out of sight* of the council's normal scrutiny and accounting (the same "distance without the right oversight" failure that recurs in section 6).
- **Built-up legal liabilities - Birmingham's equal-pay bill and its Oracle computer system.** Grade **B**. Birmingham's effective insolvency combined a very large **equal-pay liability** (back pay owed after years of unequal pay between roles) with a failed roll-out of **Oracle** financial-management software that left the council unable to produce reliable accounts - a built-up legal debt compounded by a broken core finance system.
- **Teesworks - governance and transparency failings, NOT corruption or illegality.** Grade **A** (the independent review's findings are on the public record). **Be precise:** the independent review into the Teesworks / South Tees Development Corporation arrangements found **no evidence of corruption, fraud or illegality** - but it **did** find **governance and transparency failings** (weak oversight, poor record-keeping, decisions that should have had more scrutiny). State it exactly this way every time: the finding is *governance and transparency failings, no corruption or illegality*. Describing it as a fraud finding would be both wrong and defamatory.

The collapse of the audit system

(Audit here means the independent checking and sign-off of a council's accounts - the safeguard meant to catch problems early.)

- **The share of local audits completed on time collapsed from about 97% to about 1%.** Grade **A** (the collapse is documented by the National Audit Office - Parliament's public-spending watchdog - the Redmond Review of local audit, and GOV.UK local-audit-reform material). The proportion of English local bodies publishing **audited accounts on time fell from around 97% to roughly 1%** at the worst point - a near-total breakdown of the very system meant to catch the failures above *before* they become bankruptcies. A "backstop deadline" has since been used to clear the backlog by signing off accounts *without giving an opinion on them* (a "disclaimed" opinion), which empties the queue but provides no actual assurance.
- **The Audit Commission was abolished in 2015.** Grade **A**. The body that had provided central oversight of local audit was **abolished in 2015**, scattering responsibility across a fragmented market with too few qualified firms - a principal structural cause of the collapse that followed (as the Redmond Review found).

The fixes now under way (build on these - design decision D4)

- **May-2026 capital-risk powers - live monitoring of borrowing and investment with an early-warning trigger.** Grade **B** (GOV.UK capital-risk-powers consultation and measures). New powers to monitor council borrowing, investment and debt as it happens, with an early-warning trigger to step in - the direct response to the borrow-to-chase-returns pattern. The product builds on these and fills the gaps they leave.
- **Tighter rules on setting money aside to repay debt (the Minimum Revenue Provision).** Grade **B**. The Minimum Revenue Provision is the amount councils must set aside each year out of revenue to repay borrowing; the rules are being tightened to close loopholes that let some councils skimp on this.

- **The Local Audit Office.** Grade **B** (GOV.UK local-audit-reform). A new body to fix the collapsed audit system - in effect rebuilding the central oversight role lost when the Audit Commission was abolished in 2015.
- **Stronger conduct rules and the "best value" intervention regime.** Grade **B**. Strengthened standards-and-conduct rules, and the statutory **best-value intervention** regime - the legal power under which government sends in appointed commissioners to take over from a council in severe difficulty (used at Woking, Thurrock, Croydon, Birmingham, Nottingham and others). ("Best value" is the legal duty on councils to deliver economy, efficiency and effectiveness.)

The "who pays for past failure" question (a value choice, surfaced - not a technical one)

- **Who pays for past failure is a value choice about distribution.** Grade **not applicable** - **this is a value question, routed to the public, not measured.** The question of what to do with the built-up deficits and bailouts - should the cost of a council's past failure fall on the **local decision-makers and current residents** (who chose or tolerated the leadership), on **national taxpayers** (a bailout that protects services but rewards failure), or should the debt simply be **written off** (which risks moral hazard - encouraging the next council to take the same risks expecting to be rescued) - is a genuine value choice. **It must be presented as such, never dressed up as a technical allocation.** Writing off the debts risks moral hazard; refusing to do so risks collapsing services for blameless residents. The Method routes this to the public; the product surfaces it honestly within the governance pillar.

6. Deciding what councils do, and who delivers it - the "hive-off" evidence

*This is the foundational pillar ("functions before funding"): you cannot work out how much money councils need until you decide what councils are actually **for** and how each job should be delivered. ("Hiving off", used throughout, means handing a public service to a separate body - a private company, a trust, or an arm's-length vehicle - rather than running it in-house.) This section is a faithful, **even-handed** summary of the source file `data_hiveoff/SOURCES.md` - it names what worked **and** what failed, because the credibility of the negative verdict on the rest depends on owning up to the genuine exceptions. The through-line: **the structure you choose is a weak lever; the quality of the operator running the service is the strong one.***

The honest verdict (the through-line)

- **Hive-offs are disputed and conditional - not proven successes nor proven failures.** Grade **B** (drawing together the evidence from the National Audit Office, the Public Accounts Committee - the cross-party committee of MPs that scrutinises public spending - the Education Policy Institute, an education think tank, and Ofwat, the water regulator). The recurring move - handing a public service to a separate, independent or private body, sold as freedom from bureaucracy plus best practice plus economies of scale - **fails when distance is created without** (a) keeping democratic and regulatory oversight, (b) a ban or limit on profit being extracted, and (c) competent management on both the council's side and the new body's board; and **succeeds when** any surplus is reinvested rather than paid out, the management is genuinely capable, and the chosen body suits how contestable and how accountable the service needs to be. "*Proven successful*" *overstates the case*; "*proven failure*" *understates it* - the finding is that it depends on the conditions, and that is itself the finding.

Academies and multi-academy trusts

(An academy is a state-funded school run independently of the local council; a multi-academy trust is a single charitable body running several academies together.)

- **Turning a school into an academy did not, in itself, reliably raise results - the operator is what matters.** Grade **B** (the Education Policy Institute, 2017/2018). The Education Policy Institute's pivotal finding: the variation **within** multi-academy trusts, and **within** local authorities (councils), far exceeds the difference **between** them; multi-academy trusts are over-represented at both the top and the bottom. On average, structure makes little difference.
- **What worked.** Grade **B**. Early (pre-2010) **sponsored** academies - failing schools taken over with new leadership, governance and investment - showed real gains (about one extra GCSE grade - the General Certificate of Secondary Education exams taken at 16 - across five subjects, growing the longer a pupil was enrolled). A minority of **excellent trusts** clearly transform results for disadvantaged pupils - the **Harris Federation** stands out (it tops the trust league tables for pupil progress despite taking on schools previously rated inadequate); Ark, United Learning, Star and City of London also do well (the Sutton Trust, an education-mobility charity, *Chain Effects 2018*). The success factors: a capable operator, high expectations, and schools clustered close together.
- **What fell short. Converter** academies (already-good schools that chose to convert) showed little or no effect from the change of structure; the gains from sponsored academies tapered off after 2010 (the Education Policy Institute, Grade **B**). **On value for money** (whether the public got good use of the money): about £745m of conversion spending by the Department for Education since 2010-11; more than £16m spent moving schools out of failed trusts; executive pay drifting upward; and **specific named** cases of conflicts of interest or fraud (Wakefield, Kings Science, Bright Tribe) - National Audit Office and Public Accounts Committee, 2018, Grade **A** for those *named instances*, but they are **NOT a measured fraud rate across the whole sector** (flagged as such). Concerns about accountability and fairness (pushing out weaker pupils, gaps in special-needs provision, loss of local oversight, "orphan" schools left without a trust) are a genuine Public Accounts Committee concern (Grade **A**), but **pinning these specifically on academy status is weakly evidenced** (Grade C/D - flagged).
- **The proven alternative.** Grade **B**. A capable operator plus clear accountability for results, with the structure held loosely; in the evidence, strong councils do about as well as strong multi-academy trusts (Education Policy Institute); teaching quality, not the form of governance, is the lever that moves results (the Education Endowment Foundation, which funds and reviews "what works" in schools - though it has no study directly on academy conversion, so this is an absence-of-evidence caveat). **Caveat:** there are no randomised controlled trials here (a randomised controlled trial is the gold-standard experiment for showing whether one thing actually causes another); the results for schools that chose to convert are hard to trust, because better schools were more likely to convert in the first place; and the strongest evidence is from 2017-18, so it is a few years old and would benefit from a 2022-26 refresh.

The Private Finance Initiative (PFI and its successor PF2)

(The Private Finance Initiative is the long-running scheme under which private consortia build and maintain public assets - schools, hospitals, roads - and the public sector pays them back over 25-30 years. PF2 was a revised version of the same idea.)

- **The overall verdict is "poor value for money" - but the charge is as much "never proven worthwhile" as "proven costly."** Grade **A** (National Audit Office, *PFI and PF2*, report HC 718 of 2018; Public Accounts Committee, report HC 894 of 2018). The Public Accounts Committee (2018): "we are confident PFI costs more than conventional procurement, [but] neither we nor the [National Audit Office]... can find any evidence of the benefit the Government claims." **The Treasury never measured PFI's benefits over more than 25 years** - the central failure is a failure of *evidence*.
- **The cost premium and the long debt tail.** Grade **B** for the premium (National Audit Office - it isolates the financing cost): a financing premium of **about 40% (schools) and about 70% (hospitals)** compared with the government borrowing the money itself, because the typical roughly-90%-borrowing / 10%-shareholder-money structure both cost more than government bonds (gilts) (Grade **A**, simple arithmetic). **The debt tail:** more than 700 deals, about £60bn of assets built, and **about £199bn of future payments still owed** stretching into the 2040s (National Audit Office and Public Accounts Committee, Grade **A**). (These ongoing annual payments are known as "unitary charges" - a single combined fee covering the building plus its upkeep and services.) Bringing all PFI debt back onto the government's books would add about £35bn, or about 2.5% of GDP - the size of the whole economy (Office for Budget Responsibility, the official independent fiscal watchdog, March 2010 - **a stale figure but the direction is robust**, Grade **B**).
- **Inflexibility, risk and the scheme's abolition.** Grade **A**. The contracts are rigid for 25-30 years; the charges for support services (cleaning, catering and the like) were marked up; and the **collapse of the contractor Carillion (2018)** showed that risk supposedly "transferred" to the private sector bounces straight back to the taxpayer (about £148m of direct cost). **PF2 was abolished in the 2018 Budget** - the same roughly-90/10 financing structure had not fixed the underlying problems.
- **What worked (to be even-handed).** Grade **B**. Discipline during the building phase (National Audit Office, 2003: only 24% of PFI projects ran late, a better record than conventional procurement); genuine transfer of building risk where the private consortium absorbed cost overruns; and the **Ministry of Defence** was the best sector example (good value for money in 6 of 8 projects). **The lesson:** a private vehicle can impose delivery discipline and shoulder *construction* risk that the public sector struggles to impose on itself - but at a higher cost of borrowing, locked into 25-30 years of inflexibility, and with "risk transfer" only as real as the contractor's ability to stay solvent.

Water and utility privatisation (cross-reference)

- **The clearest case of accountability and public value being eroded.** Grade **B** (for the negative pattern) / **C** (for the single Glas Cymru case). Covered fully in [docs/water/Water_Evidence_Annex.md](#) . Summary: privatising a **natural monopoly** (a service where competition makes no sense because duplicating the pipes would be wasteful, so customers cannot shop around) handed public value to shareholders (about £85bn of dividends paid out since 1991, an order-of-magnitude estimate, Grade **C**) and loaded the companies with debt (Thames Water's debt reached about 80% of the value of its assets, roughly £20-23bn, bringing it close to emergency state administration), while the regulator could not force the companies to deliver things not written into contracts (sewage spills rose about 27% over the five years to 2025). The **not-for-profit alternative (Glas Cymru, which runs Welsh Water** - a company limited by guarantee, with no shareholders) shows a *structural* advantage - no money leaking out as dividends, cheaper borrowing, about £450m of cumulative benefit reinvested, and debt falling from 93% to 58% of asset value - but only **mixed** day-to-day performance (the highest bills and a weak environmental record). The advantage is financial and structural, **not** automatic excellence in running the service.

The framework for choosing who delivers a service (the design output)

- **The ladder of options** (from most in-house and accountable, down to most distanced and commercial): running it directly in-house · an arm's-length body or council-owned trading company (a "Local Authority Trading Company", a company the council owns but runs at arm's length) · an independent trust (leisure trusts; academies) · a regulated private monopoly (the water and energy networks) · a mutual or cooperative (such as the Glas Cymru company-limited-by-guarantee model, owned by no shareholders). Source: the Institute for Government (an independent think tank on how government works), *Outsourcing and privatisation* (2020), Grade **B** (even-handed, explainer-level).
- **The matching principle (the decision rule - match the type of body to the type of service):**
 - **Natural monopoly** (where competition makes no sense) → choose a not-for-profit or mutual monopoly, or a council-owned company, over an investor-owned regulated firm (money leaking out as dividends, and debt being piled on, is the strongest negative finding). Grade **B** for the negative finding / **C** for the positive.
 - **Contestable, well-defined, and with a deep market of suppliers** → outsourcing *can* work, but only with strong contract management on the council's side; otherwise keep it in-house or in a council-owned company. Grade **B**.
 - **Highly accountability-sensitive or affecting people's rights** (child protection, statutory care) → keep in-house and tightly controlled. Grade **C** (broad consensus, but thin proof of cause and effect).
 - **Where size brings savings (economies of scale)** → combine services into a shared service or larger vehicle, but watch out for over-concentration and "too big to fail" (Carillion and Capita, two large outsourcing firms). Grade **C**.
 - **Where local responsiveness matters most** → keep in-house, or use a mutual or cooperative-run council; the evidence here is weakest, but strongest on democratic legitimacy. Grade **D**.
- **The trend back toward in-house delivery ("insourcing") is real and measurable.** Grade **C** (a 2019 survey of 208 councils by APSE - the Association for Public Service Excellence - with the University of Liverpool; **a solid survey, but APSE promotes public provision, so it leans in that direction): 73% had started or were starting to bring services back in-house, and about 45% had completed it;** the reasons given were about 64% greater efficiency, 60% improved quality, plus democratic accountability. The favoured vehicle for bringing services back in is the council-owned trading company.
- **Proven alternative models - with honest grades.** Germany's **Stadtwerke** municipal companies (more than 900 of them; a durable model of municipal commercial delivery funded partly by using profits from one service to support another; Grade **B-C**, but specific to Germany); **Glas Cymru / Welsh Water** (Grade **B-C**, a single case); UK **public-service mutuals** (staff-owned bodies spun out of the public sector, showing gains in staff engagement and quality, but the evidence is mostly government promoting its own policy plus self-selected success stories, Grade **C-D**; the academic Julian Le Grand's 2018 theory that they have a motivational advantage, Grade **B**); **cooperative councils** (the Cooperative Councils' Innovation Network, about 48 members - but the evidence is almost entirely generated by the movement itself, Grade **D**); and leisure trusts (whose advantage comes partly from tax breaks - relief on business rates and on VAT (Value Added Tax, the tax added to most goods and services) - rather than from genuinely running better, Grade **C-D**). **No solid independent comparative source was found for Nordic municipal delivery - so treat any generalisation about the Nordic countries as unsupported.**

- **The three conditions for success (the spine of the framework).** Grade **B** (drawing the evidence together). (1) **any surplus is reinvested, not extracted as profit**; (2) **democratic and regulatory oversight is retained**; (3) **the management is competent** (both on the council's side and on the new body's board). The failures of council-owned trading companies at Nottingham, Bristol and Croydon show that the failure mode is **not** "private versus public" but **distance created without matching the right oversight** - the same pattern as the arm's-length-company failures in section 5.

How strong the evidence in the hive-off pillar is (flagged honestly)

- **Strongest (A/B):** the National Audit Office / Public Accounts Committee verdict on the Private Finance Initiative; the failure pattern of privatised water; the Education Policy Institute's finding that the variation within academy groups exceeds the variation between them and councils; the Institute for Government's ladder of options; the Carillion collapse.
- **Moderate (C):** the studies of academy results (no randomised controlled trials, and the problem that better schools chose to convert); the insourcing survey (APSE's pro-public-provision lean); Glas Cymru and Germany's Stadtwerke (single or country-specific cases, partly self-reported); the governance failures of council-owned trading companies.
- **Weak (D) - flagged in the sub-study:** the *positive* claims for public-service mutuals and cooperative councils (sourced from parties with an interest in promoting them); the efficiency of leisure trusts (driven by tax breaks, and the evidence is dated); Nordic municipal delivery (no independent source).
- **General caveat (which is itself a finding):** this field is **rich in case studies but poor in randomised controlled trials**; the evidence on *failure* (from the National Audit Office, Ofwat and Parliament) is methodologically **stronger** than the claims made for the positive models - which is why the negative verdicts in this pillar carry more weight than the positive alternatives, and why the framework leads with the conditions for success rather than crowning one winning model.

Caveats and where the figures come from

- **Every figure in this annex traces to the product's source files:** the master source list and graded data tables (`councilfin_costing/data/SOURCES.md` and the data tables), the model's headline numbers (`councilfin_costing/outputs/results.md`), the hive-off evidence (`data_hiveoff/SOURCES.md`), and Problem Register entry 1. Figures here match those files exactly.
- **The revaluation data gap (section 3) is the single most important guard in this document.** The values attached to each band are 1991-based (Grade C; Band H Grade D), and the winners-and-losers amounts are a simplified, revenue-neutral reshare (Grade C). The *direction* (cheaper homes win, dearer homes lose under value-based options) is certain by construction; the *exact amounts* are illustrative. **The data gap is the argument for revaluation - never present it as a reason to avoid the analysis of who wins and who loses.**
- **The two council counts that are not comparable (section 114 notices versus Exceptional Financial Support recipients) must never be confused** - see the guard near the top and section 1. The Exceptional Financial Support count is "8 then 19 then about 30"; the Register's "29" for 2025/26 is the same wave rounded; cite the more-than-£5bn capitalisation total alongside it.
- **Teesworks must always be described precisely:** governance and transparency failings, **no corruption or illegality** (section 5). Do not paraphrase this into a fraud finding.

- **The hive-off pillar is even-handed by design (section 6):** it names the genuine successes (sponsored academies, the Harris Federation and Ark, the Ministry of Defence's Private Finance Initiative projects, the transfer of construction risk, Glas Cymru's structural advantage) as well as the failures, because the negative verdict on the rest depends on that even-handedness. The evidence on failure is methodologically stronger than the claims made for the positive models - a flagged finding, not a hidden bias.
- **Disputed or illustrative figures are labelled where they are used:** the forward funding-gap trajectory (Grade C, not a forecast); the land-value-tax yield (Grade D placeholder); the equalisation index numbers (Grade C illustrative); the academy fraud cases (named instances, not a sector-wide rate); the Office for Budget Responsibility's figure for bringing the Private Finance Initiative onto the government's books (2010, stale, direction robust); the about-£85bn of water dividends (order-of-magnitude, Grade C).
- **Refresh cycle.** Council tax bills, the Band D average, the Exceptional Financial Support count, the Fair Funding Review 2.0 settlement figures, and the status of the reforms now under way (the capital-risk powers, the Local Audit Office, the English Devolution Bill) are all point-in-time (2025/26 to June 2026) and should be refreshed before each publication and tracked in the product's Living updates section (Method section B8). The international examples (Japan's Local Allocation Tax, the OECD diagnosis, France) and the hive-off evidence base change more slowly.