Fixing council finances: the three choices that are yours to make

A plain-English guide to the decisions about how local councils in England are run and paid for - written so anyone can weigh them up, not just experts. Discussion draft, June 2026.

Your council is the part of government closest to you. It empties your bins, fixes your roads, runs the libraries and parks, looks after children at risk and older people who need care, and houses families who would otherwise be homeless. Most of us only notice it when something stops working - and right now, across the country, things are starting to stop working.

The way councils are funded is breaking down. Some councils have effectively gone bust. The money does not stretch to cover what councils are legally required to do, so everything else - the parks, the libraries, the road repairs, the youth clubs - gets cut to pay for it. And the tax that funds a big slice of all this is still worked out from what your house was worth in **1991**. None of this is sustainable, and almost everyone who looks at it closely agrees it has to change.

The harder question is *how*. Some of the answer is settled by evidence - there are fixes that make sense whoever is in charge. But the biggest questions are not technical at all. They are choices about what we want councils to do, who should pay, and how much we even things out between richer and poorer parts of the country. Those are choices for the public, not for officials to make behind closed doors and hand down as the only sensible option.

So this guide does three things. First, it sets out the **facts that are not really up for debate** - what the evidence has already settled, so you can choose on a true picture. Then it puts to you the **three real choices**: what councils should do and who should run it; how we raise the money; and how much we even things out between richer and poorer areas. We are not going to tell you the answer. We are going to give you the honest costs and consequences of each, and let you decide.

First, the facts that are settled

These are not opinions or choices. They are what the evidence shows, and every option below has to live with them.

- **Councils really are going bust - this is not scaremongering.** When a council cannot make its budget balance, its finance chief has to issue a formal notice that effectively says "we are out of money" and freezes most new spending. For two decades these were almost unheard of. Then, in just five years, eight councils were forced to issue twelve of them. On top of that, a growing wave of councils - around thirty in the latest year, up from eight two years earlier - have only stayed afloat by getting special government permission to borrow money or sell off buildings just to keep the lights on. That is not a one-off run of bad luck. It is a system that no longer adds up.
- **There is a roughly £4.1 billion hole in council budgets.** That is the gap, for the coming year, between what councils need to spend to meet their legal duties and the money they actually have. It is not money that has been wasted - it is the cost of services councils must by law provide, rising faster than their income. And the pattern is that it gets bigger each year, not smaller.

- **A handful of services councils must legally provide are eating the budget.** Councils have a legal duty to provide certain things no matter what: care for older and disabled adults, protection and support for vulnerable children, help for children with special educational needs and disabilities, and housing for homeless families. The cost of these has been rising relentlessly - adult social care alone now takes up a large share of everything a council spends. Because these are compulsory, when their costs rise, the money has to come from somewhere: so the parks, libraries, road repairs, bin collections and everything else get squeezed to pay for them. The visible decline in everyday local services is the direct result.
- **Council tax is still based on 1991 house prices.** Every home in England was put into a band - A at the bottom to H at the top - based on what it was worth in **1991**, and there has been no re-rating since. A house has never been re-banded to reflect what it is actually worth today. Because house prices have risen at wildly different rates in different places over thirty-five years, the tax is now badly out of line with real values. On top of that, the bands are squashed together: the most valuable homes pay only about three times what the cheapest homes pay, even though they can be worth twenty or thirty times as much. So the tax falls more heavily, as a share of a home's value, on cheaper homes than on expensive ones.
- **Some fixes make sense whatever else we decide.** A few repairs are not really in dispute - the evidence points the same way whoever is in charge:
    - **Tell councils their budget for several years at a time, not one year at a time.** For years, councils have been told how much money they will get only weeks before the year begins. You cannot run anything sensibly like that - you cannot plan, you cannot invest to save money later, you cannot keep a prudent rainy-day fund. A multi-year budget is the basic fix everyone agrees on.
    - **Get a proper grip on risky council borrowing.** Some councils borrowed enormous sums to gamble on commercial property and business ventures, far beyond their size, and it went badly wrong. One small council ran up borrowings of around **£1.9 billion** chasing commercial deals; another built a roughly **£1.5 billion** investment portfolio that collapsed - both went effectively bankrupt as a result. New rules to watch council borrowing in real time, with early warnings before it gets dangerous, are a sensible fix that does not depend on any of the choices below.
    - **Fix the broken system that is meant to check council accounts.** The independent auditing that is supposed to catch these problems early has all but collapsed: the share of councils getting their accounts signed off on time fell from around **97% to about 1%**. A system meant to be a smoke alarm stopped working just as the fires started. Rebuilding it - including a new national body to oversee it - is a fix almost everyone agrees on.

These settled fixes are the part the evidence can decide, and Pragma's full plan for them is set out separately. They are *not* what we are asking you to choose. What follows is.

Choice One: What should councils do, and who should run it?

Before you can sensibly decide how much money a council needs, you have to decide what a council is *for*. This is really three questions rolled into one, and each is a genuine choice, not a technical fact.

Which services must every council provide, and which are optional? Some services - care for vulnerable adults and children, school places, homelessness help - are compulsory everywhere, and most people would keep them that way. But for many others (the level of library service, parks, leisure centres, cultural events) there is a real choice about how much is guaranteed everywhere versus left to each area to decide for itself.

Which services are funded and run the same way across the whole country, and which are raised and varied locally? Should a service be paid for nationally and delivered to the same standard everywhere - so it does not matter which area you live in - or should each council raise its own money for it and set its own level, so local people get what they are willing to pay for? National funding gives you fairness and consistency; local funding gives you choice and responsiveness. There is no right answer - it depends on what you value more.

And should a service be run by the council itself, or handed to an independent body to run? For forty years, British governments have repeatedly reached for the same move: take a public service out of direct council or government hands and give it to an independent or private organisation to run - schools turned into academies, hospitals and schools built and run by private companies under long contracts, the water industry sold off. Each time it was sold with the same promises: free it from town-hall bureaucracy, bring in sharper management, and save money through scale.

Here is the honest evidence on whether that works - and it is neither the cheerleader's story nor the campaigner's. On the whole, handing services off **fell short on transparency, value for money and results** more often than it delivered them. Private companies running public services tend to be *less* open than the councils they replaced, borrow money more expensively than the government can, and too often take value out (as profit, as high pay, as costly borrowing) faster than any saving they make. When something goes wrong, the risk that was supposedly "transferred" to the private company lands straight back on the public - as it did when a big government contractor collapsed and the taxpayer had to keep its hospitals and schools running anyway.

But - and this is the even-handed part - it sometimes genuinely worked. A handful of academy school groups have turned around struggling schools in poorer areas and got real results for children who were being let down. The early academies, which took over *failing* schools with new leadership and fresh investment, made genuine improvements. And the Ministry of Defence got good value from several of its private-contract building projects. The lesson is not "public good, private bad". It is that **what matters is the quality of the people running a service and whether the public keeps a clear line of sight over it - not whether it is technically public or private.** A capable, well-watched organisation tends to do well in almost any form; a poorly-run, poorly-watched one does badly in almost any form. Hand-offs fail when distance is created without keeping a grip - not because "private" is automatically worse.

The value trade-off in this choice is between **local control and responsiveness** on one side and **national fairness and consistency** on the other. The more you fund and standardise nationally, the more you guarantee that everyone gets the same deal wherever they live - but the less say local people have over their own area. The more you leave to local choice, the more responsive and accountable services can be to the people who use them - but the more the deal you get depends on which side of a council boundary you happen to live on. Neither is right or wrong. Which you weight more heavily is a value judgement, and it is yours.

Choice Two: How do we raise the money?

If councils need more money - and the £4.1 billion hole says they do - where should it come from? There is a menu of options, and they are genuinely different in who pays and how fairly. Here they are in plain terms, with the honest yield (roughly how much each would raise a year) and the honest catch.

Re-rate council tax to today's house prices and rebalance the bands. Re-band every home to what it is actually worth now, and adjust the bands so the gap between cheap and expensive homes reflects reality rather than the squashed-up 1991 picture. On its own, simply re-rating raises no extra money - it just makes the tax fairer. The extra money (around **£3.9 billion a year**) comes from making the top bands pay more. This is the most modest, least disruptive fix that still corrects the 1991 problem.

Replace council tax with a straight proportional property tax. Instead of bands, charge everyone a simple percentage of what their home is actually worth - so a home worth twice as much pays twice as much tax. This could raise around **£5 billion a year** and gets rid of the band cliff-edges entirely. But it produces the biggest winners and losers (see below).

A land tax. Tax the value of the land a property sits on, rather than the buildings on it. Economists have long admired the idea in theory. But nobody has a reliable figure for what it would raise in the UK (a rough guess is around **£3 billion a year**), because valuing land separately from the buildings on it has never been properly worked out here. We include it honestly, but we will not pretend the numbers are solid - they are not.

A local income tax. Let councils raise part of their money from a small charge on local people's incomes, rather than only on property. This could raise around **£4 billion a year**. The catch is that it raises the most money in well-off areas where incomes are high, and the least in poorer areas where the need is greatest - exactly the wrong way round - so it would only work alongside strong measures to even things out between areas (which is Choice Three).

A local business-rates lever. Let councils raise or vary the tax that local businesses pay on their premises. This could raise around **£2 billion a year**. But, as Choice Three explains, letting councils keep more of their local business taxes tends to widen the gap between richer and poorer areas without actually boosting growth.

Plus some low-controversy local charges. These raise money where the activity or pressure actually is, so they cause far less argument:

- **A visitor levy** - a small charge per night on overnight stays in hotels and the like, as Edinburgh and Wales already do (around **£0.4 billion a year** if widely adopted).
- **A workplace-parking charge** - a charge on employers for staff parking spaces, as Nottingham has run for years (around **£0.15 billion a year**).
- **Higher bills on second homes and long-empty homes** - councils can already charge extra on these (around **£0.1 billion a year**).

Now the honest part about winners and losers. Any tax that tracks what homes are actually worth today, rather than their 1991 band, will shift the burden in a clear direction: **cheaper homes pay less, and more valuable homes pay more.** This is not an accident or a side-effect - it is the whole point of making the tax fairer, and it is structurally certain whichever value-based option you pick. Under the gentlest reform (re-rating and rebanding), a typical lower-band home pays a little less and the very top band pays around **£3,500 a year more**. Under the fullest reform (a straight proportional property tax), the gap is wider still: the cheapest homes pay around **£590 a year less**, while a top-band home could pay around **£7,800 a year more.** (For comparison, today's average bill for a middle, Band D home is about **£2,280 a year**.)

The income- and business-based options work differently: they do not change anyone's council tax band at all, because they are charged on income or on businesses, not on the value of your home.

One important protection runs alongside all of this. The objection that has sunk property-tax reform for decades is the "asset-rich, cash-poor" pensioner - someone who bought a now-valuable home long ago but lives on a modest income and genuinely could not pay a much bigger bill. The answer is to let such people **defer** the extra charge: instead of paying now, the amount is logged against the property and settled later, when the home is sold or passed on. Nobody is forced to sell the home they live in. This is what makes a fairer property tax workable rather than cruel.

So the choice is yours: how should we raise what councils need - from property (and if so, in which form), from income, from business, from local charges, or some mix - and how should the burden fall between cheaper and more valuable homes, and between richer and poorer households? Every option has winners and losers, and we have shown them honestly. Which trade-off is fairest is a value judgement, and it belongs to you.

Choice Three: How much do we even things out between richer and poorer areas?

Councils do not all start from the same place. A wealthy area has expensive homes and prosperous businesses, so it can raise a lot of its own money - and it often has *less* need, because its residents are on average healthier and better off. A deprived area is the opposite: it has the *most* need (more people needing care, more children at risk, more homelessness) but the *weakest* ability to raise money locally, because its homes and businesses are worth less. Left entirely to raise their own money, rich areas would have plenty and poor areas would have far too little.

So the country redistributes: it takes some money from richer areas and gives it to poorer ones, to bring funding closer to need. The question is **how much**. In our illustrative model, fully levelling the playing field would mean shifting around **£7.3 billion a year** from the most affluent areas to the most deprived ones. You could do all of that, none of it, or anything in between.

This is a genuine trade-off between **fairness across the country** and **local control**. The more you even things out, the more a child in a poor area gets the same chance as a child in a rich one - but the less a successful area gets to keep and enjoy the fruits of its own tax base. The more you let areas keep their own money, the more local control they have - but the wider the gap grows between the haves and the have-nots.

Here the evidence settles one point that is often dressed up as fact when it is not. The argument *for* letting areas keep more of their own tax growth is that it "rewards success" and encourages areas to grow their economies. It sounds compelling. But when this was actually tried - letting councils keep more of the growth in their local business taxes - the evidence shows it did **not** actually boost economic growth. What it did do was reward areas that already had a strong tax base, and **widen the gap between rich and poor areas.** So the "it grows the pie" case for keeping money local is weak; the cost in fairness is real. We say this plainly because the choice should be made on the truth, not on a comforting story.

So the choice is yours: how far should we even things out between richer and poorer areas - closer to full equality of funding-for-need, or closer to letting each area keep what it raises? That is a value judgement about how much we owe each other across the country, and it cannot be settled by claiming, falsely, that keeping money local makes everyone richer. It does not. The honest trade-off is fairness against local control, and where to strike it is for you to decide.

What we are *not* doing

We are not telling you what councils should do or who should run their services; we are not recommending how to raise the money; and we are not telling you how much to even things out between areas. That is deliberate. For more than thirty years these questions were ducked - no government dared re-rate council tax off its 1991 values, the fairness of who-pays was decided behind closed doors, and the rich-versus-poor-areas question was settled by formula without ever being put to the public. Our job is to give you the real costs and the honest consequences, and put the choice where it belongs: with you.

We are also not pretending any of this is painless. Fixing council finances costs real money, and that money has to come from somewhere - from a fairer property tax, from income, from business, or from how we share it out - there is no free version. We will never dress up a cost as a saving, or a value choice as a technical necessity. And where the evidence is genuinely uncertain - as it is for exactly *who* would win and lose from a fair property tax, because nobody has re-rated homes since 1991 - we say so plainly. That uncertainty is not a reason to avoid the question. It is the strongest argument for finally fixing the 1991 problem.

How you will get to decide

We will put these three choices to the public - clearly, with the real costs, and with the honest catches spelled out - on our own platform, so the decision is made in the open rather than for you. People who take part will be able to have their say and see how others weigh the same trade-offs. The detailed evidence behind every figure here is published in full alongside it, so anyone can check our working. *(The in-page voting itself is still being built - it is a separate part of Pragma's work - but the costed choices are published now so the debate can begin.)*

These are choices a generation of reform either ducked or settled behind closed doors. We think it is time they were put to the people who will live with the answer - and pay for it.

This is the plain-language companion to the Delivery Vehicles sub-study, the Evidence Annex and the costing model. The underlying figures have been checked against their original published sources (June 2026). Where a figure is uncertain or contested - above all who exactly wins and loses from property-tax reform, which depends on house values not re-rated since 1991 - that is said plainly here and recorded in full in the evidence annex.