Local government finance - White Paper

A proposal to rebuild the way England's councils are funded so the system holds together whoever runs it - and to put the three genuine value choices, what councils are for, how we raise the money, and how far we even things out between richer and poorer areas, honestly to the public.

Discussion draft · version 1.0 · June 2026. Prepared under *The Pragma Method* - an approach for turning long-unsolved problems into implementation-ready policy on graded evidence and across the political spectrum. It is presented for development and public deliberation, not as a finished government position: it **sets out options and the evidence for them, and does not advocate their adoption.** What councils should do, how the money to fund them should be raised, and how much the country should redistribute between richer and poorer areas are decisions for the public and Parliament. Because government is reforming council finance right now, this is a living proposal kept current as that reform moves - see Living updates.

How to read the evidence grades. Each factual claim below is graded for the strength of the evidence behind it: **A** robust / official (an audited account, an official statistic, or a statutory ratio) · **B** strong (a large official dataset, or a credible projection from a body such as the Institute for Fiscal Studies, the National Audit Office, or the Local Government Association) · **C** single estimate, modelled or illustrative (one source, a residual, a campaign figure, or an illustrative model index) · **D** weak or absent (no agreed primary figure; an extreme-case or placeholder estimate carried only to mark the edge of what is known). Every substantive claim carries a grade; full citations are in the Evidence Annex.

Two numbers that must never be confused, said once and held throughout. Two different counts of struggling councils recur, and they mean different things. The first is the formal *bankruptcy* signal a finance chief must issue when a council cannot balance its budget - **eight councils issued twelve of these between 2018 and 2023**. The second is the count of councils granted special permission to borrow or sell assets just to stay afloat - **rising from 8 to 19 to around 30 across 2023/24 to 2025/26**. A council can be in one group without being in the other. They are never added together, and they are never treated as the same set of councils.

Executive summary

Your council is the part of government closest to you. It cares for older and disabled adults, protects children at risk, houses families who would otherwise be homeless, repairs the roads, empties the bins and runs the libraries and parks. Across the country, that machine is breaking down - and the breakdown is structural, not a run of bad luck.

The facts that are not really in dispute. After almost none for two decades, **eight councils issued twelve formal bankruptcy notices between 2018 and 2023** (Grade B). A separate and growing wave - **around thirty councils in the latest year, up from eight two years earlier**, with **more than £5 billion of emergency permissions in 2025/26** - have stayed solvent only by borrowing or selling assets to cover everyday running costs (Grade A/B). There is a roughly **£4.1 billion hole** in council budgets for the coming year (Grade B), and on the current trajectory it widens. The tax that funds a large slice of all this is still worked out from what each home was worth in **1991** (Grade A) - there has been no re-rating in over thirty years. And a handful of services councils must by law provide - adult social care above all - are rising so fast they cannibalise everything discretionary, which is why the visible local services decline.

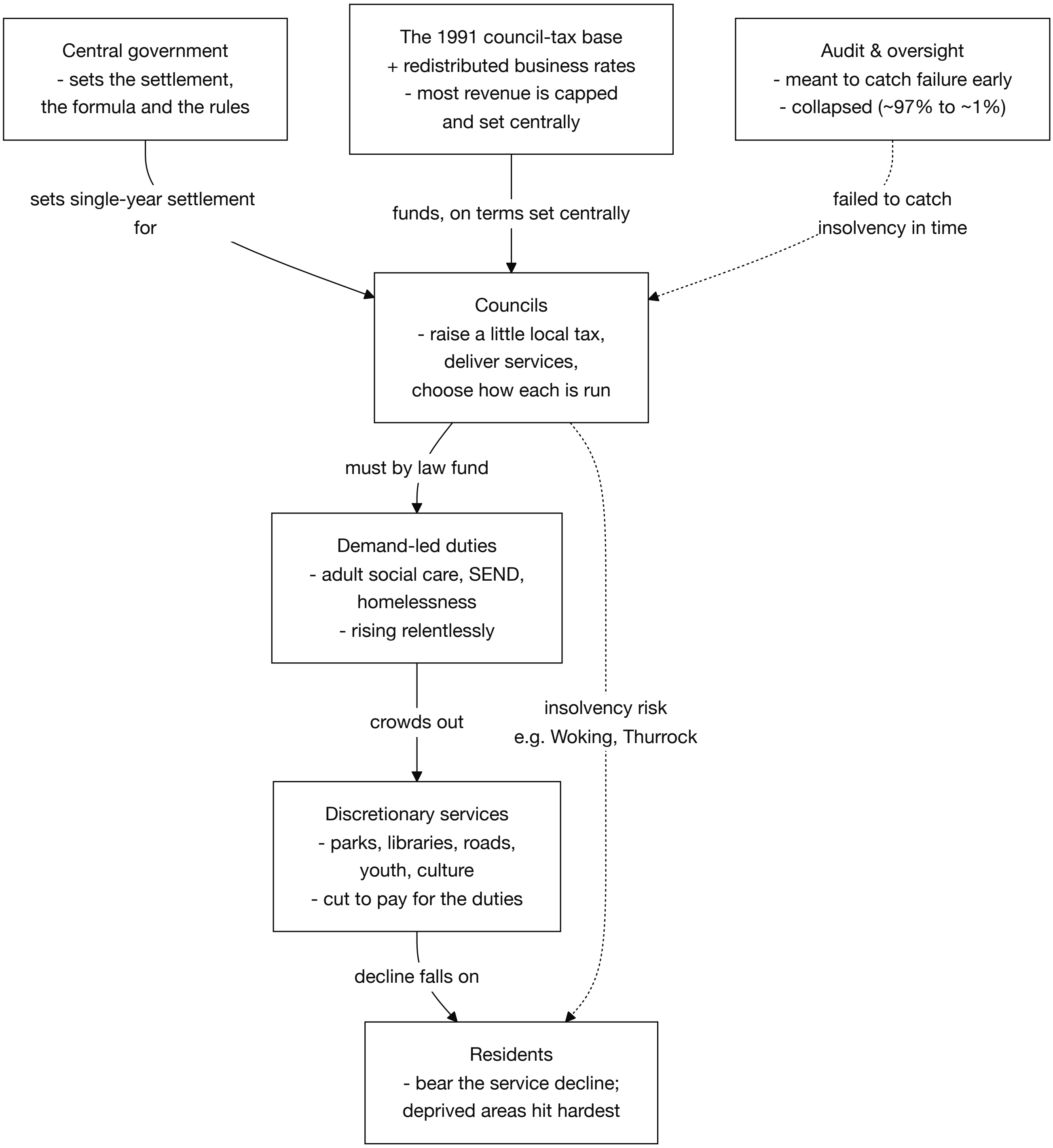
This is a problem the state has to solve, because the causes are choices central government made, not a market that misfired. There is no market that will provide child protection or a homelessness duty; these are public services by nature. The acute failures are a **frozen tax base** (1991 values), **single-year settlements** that make planning impossible, a **centralised funding architecture** that leaves councils raising little of their own money, the **demand-led duties** crowding out the rest, and a string of **governance and audit failures** that let councils gamble themselves into insolvency unseen.

The reform core - the machinery that should hold whoever runs councils and however the value questions are answered. Multi-year settlements on a published, readable formula, replacing the single-year scramble; a transparent engine that measures each council's need against the money it can raise and equalises the gap; a rebuilt audit system and a graduated early-warning regime with hard limits on the reckless commercial borrowing that sank councils like Woking and Thurrock; a defined route for resolving a failed council's deficit instead of papering over it with more borrowing; and national or ring-fenced funding of the demand-led duties so they stop eating the rest. None of this depends on the contested questions below, and all of it is designed directly on the evidence.

Three genuine choices, routed honestly to the public. *What councils are for, and who runs their services* - which are compulsory, which national, which delivered directly and which handed to an independent body. *How the money is raised* - a costed menu, each option shown with exactly who wins and who loses. *How far to even things out* between richer and poorer areas - the redistribution dial. A fourth, sharper question - *who should pay for the cost of councils that have already failed* - is surfaced honestly inside the governance regime, never dressed up as a technical allocation.

The headline numbers, carried honestly. The funding hole is about **£4.1 billion** for 2026/27 (Grade B). The revenue options each raise different amounts at very different levels of confidence - from re-rating and rebanding council tax (about **£3.9 billion** a year, Grade B) to a full proportional property tax (about **£5 billion**, Grade B), with a land tax and a local income tax carried honestly but with weak numbers (Grade D and C). Fully levelling funding to need would shift about **£7.3 billion** a year from the most affluent areas to the most deprived in our illustrative model (Grade C). And here is the heart of the matter: under *any* tax that tracks what homes are really worth today, **cheaper homes pay less and more valuable homes pay more** - the cheapest band gains a few hundred pounds a year, the most valuable could pay up to **£7,799 a year more** under full reform. That direction is structurally certain; the precise magnitudes rest on 1991 values and are illustrative.

That last point carries the discipline of the whole paper. The funding gap, the failure patterns, the audit collapse and the structural causes are **empirical questions**, settled here on evidence. **What councils should do, who should pay, and how much to equalise are value questions** - and the cardinal error this institute exists to avoid is presenting a value choice as a technical necessity. The single most important example is the one nobody has measured: because no home has been re-rated since 1991, 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 the strongest argument there is for finally fixing it. So those questions are routed to the public, with no option labelled "recommended". The rest of this paper sets out the problem, why it was never fixed, what councils are for and how their services should be delivered, the reform core, the three public choices, the honest costing, an adversarial three-perspective review, the measures of success, and the route to implementation.



1. The problem

Local government in England is funded through a machine with several moving parts: central government sets an annual spending settlement; a needs formula distributes grant; a pool of business rates is redistributed; an audit system is meant to assure the accounts; and an intervention regime sends in commissioners when a council fails. The failure is not that this machinery is missing. It is that it was built on foundations that no longer hold - and the cracks are now showing as councils going bust.

The facts that are not really in dispute:

- **Councils are going bust, and this is not scaremongering.** When a council cannot make its budget balance, its finance chief must issue a formal notice - in effect, "we are out of money" - that 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** (Grade B). Separately, a growing wave of councils have stayed afloat only by getting special government permission to borrow money or sell off buildings to cover running costs: **around thirty in the latest year, up from eight two years earlier, with more than £5 billion of such permissions granted in 2025/26** (Grade A/B). That is not isolated mismanagement. It is a system that no longer adds up.
- **There is a roughly £4.1 billion hole in council budgets for the coming year** (Grade B) - the gap between what councils must by law spend and the money they have. It is the headline figure this whole product is sized against. On the model's illustrative forward path the gap widens (to roughly £5.5 billion and then £6.9 billion in the following two years) as demand-led pressures grow - those forward figures are *not* official forecasts and are carried only to make the cumulative pressure visible (Grade C). The point that is robust is the *direction*: the gap is structural and grows, it does not close on its own.
- **Council tax is still based on 1991 house prices** (Grade A). Every home in England was placed in 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. Because prices have risen at wildly different rates in different places over thirty-five years, the tax is now badly out of line with what homes are actually worth. Worse, the bands are squashed together: the most valuable Band H homes pay only about **three times** the cheapest Band A homes, 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. (For reference, the average bill for a middle Band D home is about **£2,280 a year**, Grade A.)
- **A handful of services councils must legally provide are eating the budget** (Grade B). Councils have no choice about certain duties: care for older and disabled adults, protection of vulnerable children, support for children with special educational needs and disabilities, and housing for homeless families. The cost of these has risen relentlessly - adult social care alone is roughly **42% of council service spending** and a primary driver of insolvency (a figure inherited from Pragma's adult social care work, not re-derived here). Because these are compulsory, when their costs rise the money must come from somewhere: the parks, libraries, road repairs, bin collections and youth services get squeezed to pay for them. The visible decline in everyday local services is the direct result. London boroughs alone recently reported overspends of roughly **£180 million** on adult social care, **£150 million** on children's social care and **£270 million** on homelessness (Grade B/C).

- **Councils gambled, and some lost catastrophically - while the system meant to catch them was broken.** A pattern of small councils borrowing at enormous scale to chase commercial yield ended in insolvency. **Woking** ran up borrowings of roughly **£1.9 billion**, vastly disproportionate to its size, funding commercial property and town-centre regeneration; **Thurrock** built a roughly **£1.5 billion** investment portfolio, including solar bonds, that collapsed - **both issued bankruptcy notices** (Grade B). Others failed differently: **Croydon**'s council-owned housing company, *Brick by Brick*, took council loans and delivered below expectation, contributing to Croydon's repeated insolvencies (Grade B); **Birmingham** combined a very large equal-pay liability with a failed financial-systems implementation that left it unable to produce reliable accounts (Grade B). And the **Teesworks** regeneration arrangements drew an independent review that - to be precise - found **no evidence of corruption, fraud or illegality, but did identify governance and transparency failings**: weak oversight, inadequate documentation, and decisions that should have had more scrutiny (Grade A). That precise characterisation matters and is held to exactly throughout: governance and transparency failings, not a finding of wrongdoing.

  The safeguard that should have caught all of this had itself collapsed. The proportion of councils getting their accounts independently signed off on time fell from around **97% to roughly 1%** (Grade A) - a smoke alarm that stopped working just as the fires started - after the body that oversaw local audit was abolished in 2015 and responsibility was scattered across a market with too few qualified firms.

Why this is a problem the state must address. Local services are largely public and merit goods - there is no market that will provide child protection or a homelessness duty, and no private capital will step in to fund a structural revenue gap on terms that close it rather than defer it. The acute failures here are not a market misfiring; they are choices of central government - a frozen tax base, single-year settlements, a centralised architecture, and a collapsed assurance system. In the Method's terms this is **government-created distortion**, and it is labelled as such throughout rather than disguised as something the market was always going to get wrong. That honesty matters because it points at the fix: if the state created the distortion, the state can remove it.

2. Why it has not been fixed

The striking thing about local-government finance is that almost everyone who looks at it closely agrees it is broken, and yet it has gone unreformed for a generation. The reasons are not mysterious; they are a catalogue of harder choices repeatedly ducked.

- **Revaluation has visible losers, so no government has dared.** Re-rating homes off their 1991 values would, by design, mean some households paying more - and those losers are concentrated, identifiable and vocal, while the winners are diffuse and quiet. Every government since 1991 has judged the political cost too high and left the 1991 base in place (Grade A that no revaluation has happened). The result is that the single clearest structural fault has survived precisely *because* fixing it is honest about who pays more - which is exactly the value choice this paper insists on putting to the public rather than ducking again.
- **The response to crisis has been annual rescue, not structural repair.** Councils have largely been funded through **single-year settlements, often confirmed only weeks before the financial year begins** (Grade A). No competently run organisation can plan investment, manage prudent reserves or pursue invest-to-save on a horizon that short. Crisis has been met with one more year of emergency funding rather than a durable settlement.

- **One-off bailouts have replaced reform.** The emergency-permissions mechanism - letting a council borrow, or treat asset sales as revenue, to cover a recurring gap - is a sticking plaster (Grade B). It converts a structural deficit into debt and depleted assets rather than closing it. That is the analytical reason the £4.1 billion gap is structural, not cyclical: the relief mechanism papers over the gap, it does not remove its cause.
- **The audit system that should have raised the alarm collapsed.** With the on-time audit rate at roughly 1% (Grade A), the failures of the last few years built up unseen. A backstop regime has since cleared the backlog largely by *disclaiming* opinions - clearing the queue without actually providing the assurance, which is the status-quo escape rather than a fix.
- **The live reform devolves spending, not the power to tax.** Government is reforming local finance right now, and this paper builds on that. But the English Devolution and Community Empowerment Bill devolves *spending flexibility* - not real *tax-raising power* (Grade B). So the deepest structural problem the independent diagnosticians identify - that English local government raises only a small, capped share of its own spending and depends on central grant, the lowest local tax autonomy among comparable wealthy countries (Grade B) - remains open after the Bill. The reform ducks the tax base just as its predecessors did.

The pattern across all five is the same: the empirical fixes were known, but the choices with visible losers - revaluation, who pays, how much to redistribute, who carries the cost of past failure - were avoided. This paper's premise is that those choices cannot be dissolved by cleverness; they can only be made honestly, in the open, by the public who will live with them.

3. What councils are for, and how their services should be delivered

Before you can sensibly size a council's funding, you have to decide what a council is *for* - which services it must provide, which are paid for and standardised nationally, and which it should run itself rather than hand to an independent body to run. That last question - whether to "hive off" a public service to a separate vehicle - has been one of the most reached-for moves in British public administration for forty years, and it deserves an honest answer before any funding settlement is built on top of it. The full evidence is in the companion delivery-vehicle sub-study; the essential findings are here.

The recurring move, and its three promises. Again and again, a public service judged to be expensive or underperforming has been taken out of direct public hands and given to an independent or private vehicle - schools turned into academy trusts, hospitals and schools built and run by private consortia under long contracts, the water industry sold off. Each time the pitch was the same: free it from town-hall bureaucracy, bring in sharper management, and save money through scale.

The honest verdict - neither the cheerleader's nor the campaigner's. Assessed even-handedly across the three great examples, the move *sometimes worked and often fell short*, and which it did turns out to depend very little on whether the body was public or private. The clearest finding is this: **structure is a weak lever; the operator is the strong one** (Grade B, the synthesis of the audit-office, parliamentary and education-research evidence). A capable, well-governed body delivers well in almost any form; an incapable or poorly-watched one delivers badly in almost any form. What reliably goes wrong when a service is hived off is not "privatisation" as such - it is **distance created without matching governance**: an accountability gap opens, information goes dark, and value leaks out (as dividends, as a dearer cost of borrowing, or as executive pay) faster than the saving the move was meant to deliver.

The evidence is even-handed precisely because the genuine successes are named as plainly as the failures - and the negative verdict on the rest is only credible because they are:

- **Academy schools.** Converting a school to an academy did not, on its own, reliably raise results: the variation *within* academy trusts and *within* council areas far outweighs the difference *between* them (Grade B). But the early academies, which took over *failing* schools with new leadership and fresh investment, made genuine gains (around one GCSE grade across five subjects, Grade B); and a minority of trusts - the **Harris Federation** the standout - clearly transform outcomes for disadvantaged children (Grade B). What fell short: later voluntary conversions of already-good schools showed little effect at real cost (over £745 million on conversions, plus re-brokering failed trusts), and there were named cases of related-party dealing and fraud - though these are specific instances, **not** a measured sector-wide fraud rate, and must not be read as one (Grade A for the named instances).
- **The Private Finance Initiative.** The auditors' verdict is poor value for money - but the deeper charge is an *evidence* failure: across more than twenty-five years and hundreds of deals, the Treasury never quantified the benefits it claimed (Grade A). The financing premium ran roughly 40% for schools and 70% for hospitals over equivalent government borrowing, with a liability tail of around **£199 billion** of future charges into the 2040s (Grade A/B). Yet even here the even-handed half holds: PFI projects ran late far less often than conventional procurement, transferred real construction risk, and the Ministry of Defence got value for money in most projects examined (Grade B). The lesson is conditional, not absolute: a private vehicle *can* impose delivery discipline - at a cost-of-capital premium and decades of inflexibility, and only as far as the vehicle stays solvent (the collapse of the contractor Carillion showed "transferred" risk bouncing straight back to the taxpayer).
- **Water privatisation.** The clearest case of the accountability-and-value-erosion failure, because it hived off a **natural monopoly** - a service with no possible competition, so the discipline that is meant to justify private ownership simply does not exist. Selling the regional monopolies transferred public value to shareholders and loaded the companies with debt while the regulator could compel neither financial resilience nor clean rivers (Grade B for the pattern; covered fully in Pragma's sibling water work). The instructive contrast is the **not-for-profit** alternative (Welsh Water, a company with no shareholders): its advantage is *structural* - no dividend leakage, cheaper capital - but its operational record is only *mixed*, which is the even-handed point that keeps the model honest. Removing the extraction problem does not automatically buy operational excellence.

The framework this hands to the funding question. From the evidence comes not a recommended structure but a way of reasoning. There is a menu of delivery vehicles, running from a service run directly in-house, through council-owned arm's-length companies and independent trusts, to regulated private monopolies and member-owned mutuals. And there is a **matching principle**: choose the vehicle that gives the best combination of value *and* adequate accountability for the *kind* of service in question. A natural monopoly is best kept not-for-profit or municipal, not investor-owned. A service that can be precisely specified with genuine competition for the contract can be outsourced - but only with a capable client-side team to manage it. A rights-bearing service like statutory child protection or adult social care belongs in-house, held tightly. Underpinning all of it are **three conditions** that separated the hive-offs that worked from those that failed: surpluses reinvested rather than extracted; a retained line of democratic or regulatory sight; and genuinely competent governance. Where all three held, the move tended to deliver; where one or more failed, it did not - and the council-owned company failures at Nottingham, Bristol and Croydon prove the failure mode is governance competence, not the public-versus-private question.

None of this decides how any particular council service should be run. That allocation is a value choice - local accountability and responsiveness against national equity and standardisation - and it is routed to the public as the first of the three choices below. What the evidence supplies is the discipline for whoever decides: the structure will not save a bad operator, distance without governance is where hive-offs fail, and the proven alternatives are real but more weakly evidenced than the failures they would replace.

4. The reform core - the machinery that holds whoever runs councils

This is the part the evidence can largely settle: how to make a council-funding system structurally sound. It is designed directly on the graded evidence, it builds on the live reforms rather than starting over, and it is built so that it is the *same machinery* however the public answers the three value choices. The full operational detail - the legislation, the powers, the sequencing and the exit conditions - is in the Delivery Design. The core has five elements.

Multi-year settlements on a published formula. The cleanest fix, because the defect is unambiguous: councils funded one year at a time, often only weeks before the year starts, cannot plan, invest to save, or hold prudent reserves. The reform replaces this with a statutory **three-to-five-year settlement cycle**, with indicative allocations published for the whole period and confirmed annually within it, built on a **needs-and-resources formula published in full** - with the per-council results and the winners and losers visible before the period begins. This builds directly on the live Fair Funding Review 2.0 settlement (which already redistributes about £2 billion toward need across 2026-29, Grade B), giving it permanence and transparency. It is the foundation the rest of the machinery stands on: until councils can plan on a multi-year horizon and trust their own accounts, nothing else has a footing.

A transparent equalisation engine. *How much* to redistribute toward need is a value choice (the third choice below). 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 the money it can raise, and equalises across that gap. The cleanest working example is Japan's system, which gap-fills the difference between each authority's standard need and its standard revenue (Grade B). The engine is built; the *dial* - how far to equalise - is the public's. Two guardrails are built into the engine rather than left to the dial: it **redistributes** a local tax base, it does not abolish the visible local tax and replace it with central grant - the mistake France made with its local residence tax, which severed the link between local taxation and local accountability (Grade B); and it is designed to make it *possible* to move England off its position as an outlier in over-relying on property tax with the lowest local tax autonomy among comparable countries (Grade B), without pre-deciding how far to move.

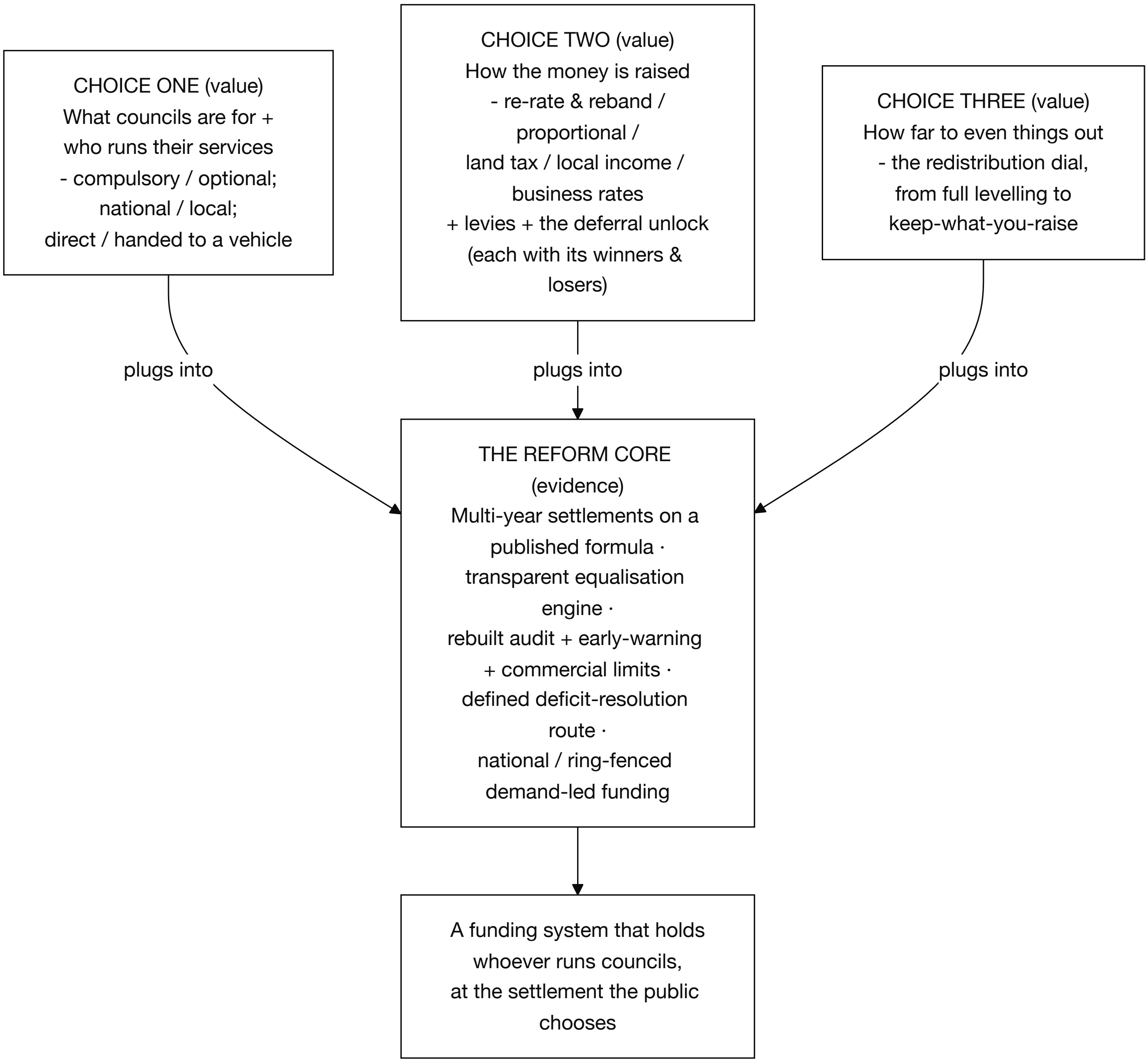
A rebuilt audit system and a graduated early-warning regime. This is the most detailed part of the core, because it is where councils actually fail - acutely, through reckless borrowing and unscrutinised companies, with a collapsed audit system catching none of it in time. Three interlocking parts: a **rebuilt audit assurance backbone** (the new Local Audit Office, held to delivering on-time, *opinion-bearing* audits - disclaimers do not count - effectively rebuilding the oversight lost in 2015); a **graduated early-warning-to-intervention ladder** that turns the May-2026 real-time monitoring of council borrowing and debt into the *front* of a transparent escalation path - enhanced reporting, an improvement plan, external review - running through to government-appointed commissioners only as the evidenced final step, rather than a binary that fires only after collapse; and **hard commercial-risk limits** that prevent the failures in the first place - binding limits on borrowing to chase commercial yield disproportionate to a council's size (the Woking/Thurrock pattern), tightened rules requiring councils to set aside revenue to repay debt, aligned public-lending terms, and transparency requirements that bring council-owned companies and special-purpose vehicles (the *Brick by Brick* pattern) back inside the normal accounting line of sight. Strengthened conduct and transparency rules answer the governance and transparency failings the Teesworks review actually found - not a finding of wrongdoing it did not make.

A defined route for resolving a failed council's deficit. The single thing the reform genuinely *adds*. The current improvised use of emergency permissions does not resolve failure - it defers it, converting a structural deficit into debt and depleted assets. The reform supplies a defined route: **recognise** the accumulated deficit on the books (including the special-educational-needs deficits currently held off-balance-sheet under a temporary statutory override, brought back on a defined timetable *before* that override ends and dumps them as an acute shock); **stabilise** the council's operating position so the deficit stops growing; **resolve** it on rules set out in advance - how much is restructured, over what period, and who bears it; and **return** the council to normal multi-year funding with the structural causes addressed so it is not set up to fail again. The rules are defined here; *who pays* is the value question surfaced below, not decided.

National or ring-fenced funding of the demand-led duties. The proximate cause of the crisis is that a few compulsory, demand-led duties - adult social care, special educational needs, homelessness - consume budgets and crowd out everything discretionary. The structural fix is to fund those duties **nationally or through a hard ring-fence** so they can no longer cannibalise local services - without which multi-year settlements and equalisation cannot hold, because a council whose statutory care bill outgrows any plausible settlement will breach it regardless. *How* those duties are funded - the costed menu and the who-pays split - is **inherited from Pragma's adult social care work and its work on special educational needs, not re-opened here**: that work routes its own value choices (who pays when care costs are ruinous, how good a service and how fast) to the public, and this product builds on those decisions rather than re-making them.

5. The three public choices

The core above is built to hold under any answer to the three questions below. They are routed to the public as neutral, costed menus, presented in full plain language in the Public Choices companion; no option is labelled "recommended". A fourth, sharper question - who pays for past failure - is surfaced honestly within the governance regime rather than presented as one of the three menus.



Choice One - what councils are for, and who runs their services

This is really three questions rolled into one, each a genuine choice, not a technical fact. *Which services must every council provide, and which are optional?* Some - care for vulnerable adults and children, school places, homelessness help - are compulsory everywhere; for many others (the level of library service, parks, leisure, culture) there is a real choice about how much is guaranteed everywhere versus left to each area. *Which services are funded and standardised nationally, and which are raised and varied locally?* National funding gives fairness and consistency wherever you live; local funding gives choice and responsiveness. *And should a service be run by the council itself, or handed to an independent body?* - the hive-off question, on which the honest, even-handed evidence of §3 is that **what matters is the quality of the operator and whether the public keeps a clear line of sight, not whether the body is technically public or private.**

The value trade-off in this choice is **local control and responsiveness** against **national fairness and consistency**. The more you fund and standardise nationally, the more 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 services can be - but the more the deal you get depends on which side of a council boundary you live. Neither is right or wrong; which you weight more heavily is a value judgement, and it is the public's.

Choice Two - how the money is raised

If councils need more money - and the £4.1 billion hole says they do - where should it come from? There is a genuine menu, each option different in who pays and how fairly, each carried with its honest yield and its 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, re-rating raises nothing - it just makes the tax fairer; the extra money (about **£3.9 billion a year**, Grade B, with the underlying revaluation mechanism the best-evidenced of any option) comes from making the top bands pay more. The most modest, least disruptive fix that still corrects the 1991 problem.
- **Replace council tax with a straight proportional property tax.** Charge a simple percentage of what a home is actually worth, so a home worth twice as much pays twice the tax - about **£5 billion a year** (Grade B), abolishing the band cliff-edges entirely, but producing the biggest winners and losers.
- **A land tax.** Tax the value of the land rather than the buildings on it. Long admired in theory, but **nobody has a reliable UK figure** for what it would raise (a rough guess is about **£3 billion a year**, carried honestly at **Grade D**) because separating land value from building value has never been worked out here. Included honestly; the numbers are not pretended to be solid.
- **A local income tax.** Let councils raise part of their money from a charge on local incomes - about **£4 billion a year** (Grade C, directional). The catch is structural: it raises most where incomes are high and least where need is greatest, exactly the wrong way round, so it works only alongside strong equalisation. (This is the option in which the founder's local-income-tax idea is carried - honestly, with its weakness named, not advocated.)
- **A local business-rates lever.** Let councils raise or vary the tax local businesses pay - about **£2 billion a year** (Grade C). But, as Choice Three explains, letting councils keep more of their business-rates growth tends to widen the gap between richer and poorer areas without boosting growth.
- **Plus some low-controversy local charges**, which raise money where the activity or pressure actually is and so cause far less argument: a **visitor levy** (a small per-night charge on overnight stays, as Edinburgh and Wales already run - about **£0.4 billion** if widely adopted, Grade B); a **workplace-parking charge** (a charge on employers for staff parking, as Nottingham has run for years at about £9 million a year on its own - about **£0.15 billion** nationally, Grade B); and **higher bills on second and long-empty homes** (about **£0.1 billion**, Grade B). These are useful complements, not a substitute for fixing the tax base.

The winners and losers, stated honestly. Any tax that tracks what homes are actually worth today, rather than their 1991 band, shifts the burden in one clear direction: **cheaper homes pay less, more valuable homes pay more.** This is not a side-effect - it is the whole point of making the tax fairer, and it is structurally *certain* whichever value-based option is chosen. The magnitudes below are a stylised, revenue-neutral illustration (Grade C) - they show the *direction* and the *relative* shape, not a forecast of any household's bill, because the underlying values are 1991-based:

Council-tax band	Re-rate and reband	Proportional property tax
A (cheapest)	**–£267** (pays less)	**–£593** (pays less)
B	–£158	–£352
C	–£78	–£173
D (middle)	+£59	+£130
E	+£192	+£426
F	+£465	+£1,033
G	+£1,627	+£3,616
H (most valuable)	**+£3,510** (pays more)	**+£7,799** (pays more)

Under the gentlest reform, the cheapest band pays about £267 a year less and the top band about £3,510 more; under full proportional reform the gap is wider - the cheapest band about £593 less, the top band up to **£7,799 more**. The income- and business-based options change nobody's council-tax band, because they are charged on income or business, not home value. **One protection runs alongside all of this:** the objection that has sunk property-tax reform for decades is the "asset-rich, cash-poor" owner - often a pensioner in a now-valuable home on a modest income who genuinely could not pay a bigger bill. The answer is to let such people **defer** the extra charge against the property, settled when the home is sold or passed on, with the state taking an equity stake (Grade C). Nobody is forced to sell the home they live in. This is the unlock that makes a fairer property tax workable rather than cruel - it is carried as an enabler, not as a revenue line.

So the choice is the public's: 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? Every option has winners and losers, shown honestly. Which trade-off is fairest is a value judgement.

Choice Three - how far to even things out between richer and poorer areas

Councils do not 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. A deprived area is the opposite: the *most* need (more people needing care, more children at risk, more homelessness) but the *weakest* ability to raise money locally. Left entirely to raise their own money, rich areas would have plenty and poor areas far too little. So the country redistributes - taking some money from richer areas to bring poorer ones closer to their 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 (Grade C). 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** - and 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 grows local economies. It sounds compelling. But when it was actually tried - letting councils keep more of their local business-rates growth - the evidence shows it did **not** boost economic growth; what it did was reward areas that already had a strong tax base and **widen the gap between rich and poor areas** (Grade C for the magnitude, but one of the most load-bearing findings in the whole evidence base). 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. The honest trade-off is fairness against local control, and where to strike it is for the public to decide - it cannot be settled by claiming, falsely, that keeping money local makes everyone richer.

6. The honest costing

This section is where honesty is proven. The full model, its parameters and graded data are published openly (see the costing model and its results); every figure here matches the Evidence Annex at the grade it records.

The funding gap: about £4.1 billion for 2026/27, Grade B. This is the anchor the product is sized against, carried with a tolerance. The forward path (widening to roughly £5.5 billion and £6.9 billion over the next two years, about £16.5 billion cumulatively) is **illustrative, not an official forecast, Grade C** - carried only to make the cumulative pressure visible and labelled as such wherever it appears.

The revenue options: each at its own level of confidence, never overclaimed. Re-rate-and-reband about **£3.9 billion** (Grade B, with the revaluation mechanism itself the best-evidenced); proportional property tax about **£5 billion** (Grade B, the best-quantified radical option, though its headline winner/loser claims are campaign-sensitive); land value tax about **£3 billion** (**Grade D** - an illustrative placeholder, because no credible UK national estimate exists; this is never presented as a measured figure); local income tax about **£4 billion** (Grade C, directional); a business-rates lever about **£2 billion** (Grade C). The discretionary levies - visitor levy **£0.4 billion**, workplace parking **£0.15 billion**, second/empty-home premiums **£0.1 billion** (Grade B overall) - are real but modest and concentrated, useful complements rather than a substitute for fixing the tax base.

The winners and losers: direction certain, magnitudes illustrative. The direction (low bands win, high bands lose under every value-based option) is structurally certain. The magnitudes in §5 are a stylised, revenue-neutral reshare at **Grade C**, resting on 1991-based band values (the values themselves Grade C, and Band H the most uncertain at Grade D). **This data gap is the single most important guard in the whole costing - and it is the argument for revaluation, never a reason to avoid the distributional analysis.** No government has published this analysis since 1991 precisely because the values are stale; the honest response is to fix the staleness, not to keep ducking the question.

The equalisation transfer: about £7.3 billion illustrative, Grade C. The figure comes from illustrative cohort indices (deprived areas combining the highest need with the weakest tax base, affluent areas the reverse) that demonstrate the *mechanism* - need minus resources - and reproduce the *order of magnitude* of the live reform's roughly £2 billion shift toward need. They are not a replication of the official formula and are not presented as one.

The discipline throughout: settle the empirical figures (the gap, the failure patterns, the audit collapse, the per-option mechanism) on evidence; carry the contested and illustrative figures (the forward gap trajectory, the land-tax and local-income-tax yields, the winners/losers magnitudes, the equalisation transfer) at the grade the annex records, with the basis explicit; and never present a who-pays or who-wins choice as technical. Nothing here is banked that cannot be shown, and where the evidence is weak it is graded as such.

7. Adversarial review - three perspectives and the strongest case against

This is the section a sceptical reader should check hardest, because revaluation, redistribution and the bailout of failed councils are where partisanship is fiercest - so the discipline here is scrupulous even-handedness. Each perspective is given its genuine reading of the contested questions, reporting where they agree (robust) and where they diverge (shown, not dropped). No perspective is allowed to win.

On the reform core (§4)

Fiscal-conservative reading. Broadly supportive: multi-year settlements are basic financial prudence; hard commercial-risk limits and a rebuilt audit system are exactly the discipline that should have stopped councils gambling public money on commercial property; and a defined deficit-resolution route that resolves failure on stated rules is preferable to open-ended bailout. Its caution: the early-warning regime must not become an excuse for central micromanagement of competent councils, and the demand-led funding fix must not become a blank cheque.

Social-democratic reading. Also broadly supportive: multi-year, formula-based settlements end the annual scramble that hits deprived councils hardest; national or ring-fenced funding of the demand-led duties protects the services the most vulnerable depend on; and transparency finally makes redistribution a visible, contestable choice. Its caution: better machinery is not enough if the tax base and the redistribution dial are left where they are - which is why it pushes hardest on Choices Two and Three.

Libertarian reading. More sceptical of any centralised machinery, but finds real value: clear, rules-based limits known in advance are preferable to discretionary intervention; bringing council-owned companies back inside the accounting line of sight respects the consequences of public risk-taking rather than hiding them; and a defined insolvency route is more honest than improvised rescue. Its caution: the commercial-risk limits and the centralised formula are genuine constraints on local autonomy, justified only because the current architecture already concentrates power centrally - and it would want local tax-raising power expanded in compensation.

Where the three agree on the core (robust): councils must be able to plan on a multi-year horizon; the accounts must be trustworthy and failures caught early; reckless commercial borrowing must be limited; a failed council's deficit must be resolved on stated rules rather than papered over; and the demand-led duties must stop cannibalising everything else. These are the load-bearing commitments all three can sign - which is what makes the core robust enough to build first, ahead of the contested choices.

On council-tax revaluation (Choice Two)

- *Fiscal-conservative:* uneasy about any reform that raises some bills, and wary of a new tax dressed as a "fairer" one - but recognises that a tax based on 1991 values is indefensible on its own terms, and that re-rate-and-reband is the least disruptive correction; values the deferral unlock as protection for asset-rich pensioners and the preservation of a visible local tax over its abolition.
- *Social-democratic:* sees revaluation as overdue fairness - the current squashed bands let the most valuable homes pay proportionately less, which is regressive - and leans toward the fuller proportional reform; its caution is that the transition must genuinely protect lower-income households who happen to live in higher-banded homes.

- *Libertarian:* accepts that an out-of-date tax is a poor tax and that correcting it is legitimate, but is wary of any move (especially a proportional or land tax) that increases the *total* tax take rather than merely re-rating; wants any reform revenue-neutral unless the public explicitly chooses otherwise, and values the deferral mechanism as a way to avoid forcing people from their homes.

Where they agree: the 1991 base is indefensible and the squashed bands are regressive against property value; the winners-and-losers question is real and must be shown, not hidden; and the deferral unlock is the right protection for the asset-rich, income-poor. **Where they genuinely disagree (the live value question):** how far to go (a gentle reband or a full proportional tax), and whether reform should raise the total take or merely redistribute it - disagreements that are real, reasonable and not resolvable by evidence, which is exactly why Choice Two is routed to the public.

On the equalisation dial (Choice Three)

- *Fiscal-conservative:* leans toward a lower dial and more local retention on principle - but cannot lean on the "retention grows the pie" argument, because the evidence shows it does not; falls back on autonomy and accountability as the real case for a lower dial, honestly stated.
- *Social-democratic:* leans toward a higher dial - equal funding for equal need across the country - and treats the retention finding as decisive evidence against weak equalisation; its caution is that very strong equalisation can blunt local incentives to manage well.
- *Libertarian:* prefers a lower dial as a matter of local self-determination, while accepting the guardrail that the visible local tax must not be abolished and replaced by central grant.

Where they agree: the retention-grows-growth claim is false and cannot be used to dodge the trade-off; the visible local tax must be redistributed, not abolished (the France warning). **Where they disagree (the live value question):** how far to equalise - a real argument about how much we owe each other across the country, settled by the public, not by formula behind closed doors.

On the hive-off / delivery-vehicle question (Choice One)

This is the question the reviewers find most surprising, because the evidence cuts across the usual lines:

- *Fiscal-conservative:* instinctively favours hiving services off for efficiency and innovation - but the evidence that **structure is a weak lever and the operator decisive**, and that the financing premium and value leakage often exceed the saving, tempers the instinct; lands on "outsource only where the service is specifiable, the market genuinely competitive, and the client-side team capable."
- *Social-democratic:* instinctively favours keeping services in public hands - but the evidence that the *best* academy trusts transform disadvantaged outcomes, and that council-owned companies failed at Nottingham, Bristol and Croydon, tempers the instinct; lands on "in-house is not automatically better; governance competence and retained accountability are what matter."
- *Libertarian:* favours private and independent delivery on principle - but accepts that a natural monopoly (water) offers no market discipline to justify investor ownership, and that "risk transfer" is only as real as the vehicle's solvency.

Where all three converge (robust, and genuinely cross-partisan): the public-versus-private question is less useful than "is this vehicle matched to this service, and are the three conditions - surpluses reinvested, a retained line of sight, competent governance - met?" That convergence is the clearest sign the hive-off evidence has been read even-handedly: each perspective starts from a different instinct and is moved by the evidence toward the same matching discipline, none of them getting the clean ideological win it came for. **Where they still disagree (the live value question):** the default lean - toward independent or toward in-house delivery - which is routed to the public as part of Choice One.

On who pays for past failure (surfaced within governance)

This is the sharpest disagreement, and it is a value question with no technical answer. A council's accumulated deficit can fall on the **local culprits and current residents** (fair to national taxpayers, but it punishes blameless residents and can collapse their services), on **national taxpayers** (a bailout that protects services but rewards failure and tempts the next council to take the same risks), or be **written off** (which clears the deficit but most directly creates that moral hazard). *Fiscal-conservative* readings lean against bailout and toward local responsibility, fearing moral hazard most; *social-democratic* readings lean toward protecting blameless residents' services, fearing service collapse most; *libertarian* readings lean toward owners and decision-makers bearing the consequences of their own risks. **Where they agree:** writing deficits off freely creates moral hazard, and there is no allocation that is purely technical. **Where they disagree:** which risk - moral hazard or service collapse for the blameless - is the worse one to accept. That is a choice about fairness, surfaced honestly inside the deficit-resolution route and never dressed as a technical allocation.

The strongest case against the whole proposal

Put as forcefully as a serious opponent would: *Government is already reforming local finance - the Fair Funding Review 2.0 redistributes toward need, the capital-risk powers are in force, a new audit office is being stood up - so a further proposal is at best redundant and at worst muddies a reform in flight. The reform core is just "better machinery", which is what was promised before and did not stop the failures; the winners-and-losers numbers rest on 1991 values nobody has updated, so the central revenue question cannot be costed honestly enough to put to a public vote; and routing revaluation, redistribution and bailout to the public is an abdication - voters cannot be expected to adjudicate a property-tax valuation dispute. Better to let the current reforms bed in and judge them on results.*

The answer is in the design, not a deflection. The proposal is **not** redundant: it concentrates precisely on what the live reforms leave untouched - the tax base frozen since 1991, the genuine fiscal-devolution gap the Devolution Bill ducked (devolving spending flexibility but not tax-raising power), the allocation-of-functions question no reform has answered, and a principled equalisation engine to sit under the new formula. "Better machinery failed before" is true and is precisely why the core specifies *binding* commercial-risk limits, an *opinion-bearing* audit standard (not the disclaimers the backstop regime has relied on), and a *defined* deficit route - rather than the monitoring that failed. The costing's honesty about the 1991 data gap is the point, not a weakness: the gap *is* the strongest argument for revaluation, and saying so plainly - rather than inventing a precise winners-and-losers forecast off stale values - is what lets the public choose on a true picture. And routing the choices to the public is not an abdication but the opposite of the cardinal error: the public are asked the *value* questions (what councils are for, who pays, how much to equalise) in plain language with the costed consequences shown, while the *technical* design is settled on evidence and is the same whatever they decide. What the case correctly establishes is that the country should not pre-commit to one contested answer on revaluation, redistribution or bailout on present evidence - which is exactly why those are public choices and the core is built to hold under any answer to them.

8. Measures of success

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 roughly £4.1 billion anchor (Grade B, with the forward line clearly labelled illustrative); the number of councils on emergency support (the 8 → 19 → ~30 wave reversing, Grade A/B baseline); the number of formal bankruptcy notices (kept as a *separate* count, never added to the emergency-support figure); accumulated deficits trending down, including the special-educational-needs liability handled *before* the override cliff arrives.
- **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 councils publishing on-time, *opinion-bearing* audits (the roughly 97% → 1% collapse reversing, Grade A baseline; disclaimers explicitly do **not** count); early-warning triggers fired and resolved *before* reaching commissioner intervention; commercial borrowing within the limits.
- **Equalisation:** the realised need-minus-resources transfer reported against the dial the public chose (the order of magnitude of the live reform's roughly £2 billion shift, Grade B baseline) - so the public can see the dial they set being delivered.
- **Value to residents:** discretionary services no longer being cannibalised by the demand-led duties (the crowding-out reversing); and, where a revenue option is adopted, the realised distributional outcome reported against the menu's winners-and-losers map, with the 1991-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 central government and the councils with a statutory protected budget, assesses the regime against these measures 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, the new audit office and the Devolution Bill, and reports as the regime beds in.

9. Implementation summary

The full operational detail - the legislation, the settlement and equalisation machinery, the governance/audit/commercial-risk regime, the deficit-resolution route step by step, the sequencing and critical path, the first hundred days, and the explicit exit conditions - is in the Delivery Design. In outline:

- **Legislation:** a multi-year-settlement and equalisation statute (building on the Fair Funding Review 2.0 settlement); revenue and tax-base enabling powers (a revaluation-and-reband power and the deferral/equity-stake power, drafted so *any* revenue option the public chooses can be implemented, and so the fiscal-devolution gap the Devolution Bill left open *can* be closed); primary provision to fund the demand-led duties nationally or via ring-fence (inheriting the social-care and special-educational-needs mechanisms, not re-deriving them); a governance, audit and commercial-risk statute consolidating and hardening the live reforms; and a deficit-resolution and insolvency statute. The three public choices carry their own legislation *after* the public decides - off the critical path for the core.

- **Sequencing:** stabilise the floor first (multi-year settlements and the rebuilt audit backbone - until councils can plan and the accounts can be trusted, nothing else has a foundation); then build the equalisation engine, the commercial-risk limits and the early-warning ladder, and move the demand-led duties to national/ring-fenced funding; then resolve the legacy (the deficit route, the special-educational-needs liability brought on-book before its cliff, the emergency-support wave resolved on stated rules); with the three public choices following on their own track once the core is standing.
- **Exit and correction conditions:** a council that reaches insolvency goes through the *defined* deficit-resolution route, not an improvised bailout; whatever the public decides on functions, revenue and equalisation, the settlement, equalisation, audit and deficit machinery transfers intact. The core stands alone under any answer - which is what makes it a robust core rather than a bet on one contested question.

10. Open questions

Honesty requires naming what is not yet settled:

- **The winners-and-losers magnitudes rest on 1991 values and are illustrative, not a forecast.** The *direction* (low bands win, high bands lose under value-based options) is structurally certain; the precise per-band figures are a stylised revenue-neutral reshare (Grade C, Band H Grade D). A real revaluation is what would replace illustration with measurement - which is the strongest argument for doing it, carried openly here rather than hidden.
- **Several revenue yields are weakly evidenced and are carried as such:** the land-value-tax yield has no credible UK national estimate (Grade D placeholder); the local-income-tax and business-rates yields are directional (Grade C); the equalisation transfer is illustrative (Grade C). None is presented as measured.
- **The demand-led funding mechanism is inherited, not re-opened.** *How* adult social care and special educational needs are funded - the costed menu and the who-pays split - is the social-care work's routed choice, referenced and built on here, not re-derived or re-made.
- **Legal structure is undecided** and is the founder's call; nothing here presumes charitable status, and the "present options, do not advocate" posture is what keeps that route open.
- **The value-question channel** - a Pragma-hosted deliberation platform with authenticated users able to weigh the three choices and see how others weigh them - is the intended route; its build timing is a dependency (publish the costed choices now, wire the voting later).

Living updates

Under the Pragma Method, a proposal is a living document: as government publishes reports, consultations and legislation, the institute publishes a short non-partisan note on how the proposal bears on them, and revises the proposal where the new evidence improves on its own. Every version is retained and each change recorded.

- **June 2026 (v1.0) - born into a live reform.** Unlike most areas the Register covers, local-government finance is being reformed right now. Four live reforms matter, and this proposal 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 £2 billion 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 audit system); and the **English Devolution and Community Empowerment Bill** (which devolves spending flexibility but not real tax-raising power). The discipline 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. Each of these will be assessed against this proposal as it moves, with any revisions recorded here.

Annexes and sources

- **Evidence Annex** - every claim above, with A-D grades and full citations; the contested and illustrative figures (the forward gap trajectory, the land-tax and local-income-tax yields, the winners/losers magnitudes, the equalisation transfer) are carried there with the basis attributed, and the 1991-data-gap guard and the two non-comparable council counts are held throughout.
- **Delivery Vehicles** - the even-handed hive-off assessment behind §3: the academy, PFI and water-privatisation evidence, the delivery-vehicle menu and matching principle, the three success conditions, and the proven alternatives at honest grades.
- **Delivery Design** - the implementation-ready detail behind §4 and §9: the legislation, the settlement and equalisation machinery, the governance/audit/commercial-risk regime, the deficit-resolution route, sequencing and exit conditions.
- **Public Choices** - the plain-language presentation of the settled facts and the three choices.
- **Costing model** and its **results** - the re-runnable appraisal behind §5 and §6.

Key sources (full list in the Evidence Annex): House of Commons Library (Why are local authorities going "bankrupt"?); Institute for Government (Performance Tracker and Outsourcing and privatisation); London Councils (the £4 billion funding-gap estimate); the Institute for Fiscal Studies (council-tax revaluation, the business-rates-retention finding, and the Fair Funding Review 2.0 impacts); the Resolution Foundation and Fairer Share (proportional property tax and the deferral unlock); the Mirrlees Review (land value tax); the OECD, the club of mostly-rich democracies (the international comparison showing the UK is an outlier, and the equalisation comparators - Japan and France); Centre for Cities (the local-income-tax basis); the National Audit Office and Public Accounts Committee (PFI, academies and the audit collapse); the Redmond Review (local audit); the Education Policy Institute and Sutton Trust (academies); GOV.UK (the Exceptional Financial Support data, the capital-risk powers, and local-audit reform); and the Teesworks independent review. 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" link in the audit and commercial-risk regime).