REFORM

BACK FROM THE BRINK

Radical ideas for sustainable local finances

Dr Simon Kaye
India Woodward
Giorgia Vittorino
Sean Eke

December 2024

ABOUT REFORM

Reform is established as the leading Westminster think tank for public service reform. We believe that the State has a fundamental role to play in enabling individuals, families, and communities to thrive. But our vision is one in which the State delivers only the services that it is best placed to deliver, within sound public finances, and where both decision-making and delivery is devolved to the most appropriate level. We are committed to driving systemic change that will deliver better outcomes for all.

We are determinedly independent and strictly non-party in our approach. This is reflected in our cross-party Advisory Board and our events programme which seeks to convene likeminded reformers from across the political spectrum.

Reform is a registered charity, the *Reform* Research Trust, charity no. 1103739.

ABOUT REIMAGINING THE STATE

After a decade of disruption, the country faces a moment of national reflection. For too long, Britain has been papering over the cracks in an outdated social and economic model, but while this may bring temporary respite, it doesn't fix the foundations. In 1942 Beveridge stated: "a revolutionary moment in the world's history is a time for revolutions, not for patching." 80 years on, and in the wake of a devastating national crisis, that statement once again rings true. Now is the time to fix Britain's foundations.

Reform's new programme, *Reimagining the State*, will put forward a bold new vision for the role and shape of the State. One that can create the conditions for strong, confident communities, dynamic, innovative markets, and transformative, sustainable public services.

Reimagining the Local State is one of the major work streams within this programme.

ABOUT REIMAGINING THE LOCAL STATE

This paper is part of the *Reimagining the Local State* work stream. English local and regional government stands at a turning point. There are signal opportunities for local innovation, close community engagement, and ambitious devolution of powers and responsibilities from the centre. There are also unprecedented challenges, driven by years of fiscal retrenchment and rocketing service demand. This programme will develop policy ideas for the future of devolution, the role of communities, and the structures, practices, and leadership of local government itself. This paper explores radical ideas to address the financial crisis that impedes the performance of the local state.

Reimagining the Local State Advisory Group

Reform is grateful to the expert members of the *Reimagining the Local State Advisory Group* who provide invaluable insight and advise on the programme. Their involvement does not imply endorsement of every argument or recommendation put forward.

Rt. Hon. Andy Burnham, Mayor of Greater Manchester

Professor Donna Hall CBE, ICS Transformation Advisor for NHS England and former Chief Executive Officer for Wigan Council

Professor Philip McCann, Chair of the Urban and Regional Economics at Alliance Manchester Business School

Dr Barry Quirk CBE, Former Chief Executive Officer of Kensington & Chelsea and Lewisham Councils

Angie Ridgwell, Chief Executive Officer, Hertfordshire County Council

Councillor Isobel Seccombe OBE, Leader of Warwickshire County Council

Laura Shoaf CBE, Chief Executive Officer of West Midlands Combined Authority

Nick Sinclair, Director of the Local Area Coordination Network for Community Catalysts

Ian Thomas CBE, Town Clerk and CEO of the City of London Corporation

Professor Tony Travers, Associate Dean, School of Public Policy at the London School of Economics

Rob Walsh, Chief Executive Officer of North East Lincolnshire Council

ACKNOWLEDGEMENTS

Reform would like to thank the *Reimagining the Local State Advisory Group* for providing advice over the course of the project. Thanks also to Isobel Conn and Rachael Powell, who supported the research process at the earliest stages of the project.

External reviewers

We would like to express our gratitude to Vicky Davis, Ian Miller and Rob Powell for their comments and feedback.

The arguments and any errors that remain are the authors' and the authors' alone.

Interviewees

We would like to thank all 17 interviewees for giving their time and candid insights to support this research paper. Their generous input should not be interpreted as endorsement or agreement with all of the arguments in this report. The list of interviewees is as follows:

- Hamida Ali, Head of Policy and Programmes, Future Governance Forum and former Leader, Croydon Council
- Alex Burfitt, Local Government Association
- Rachel Collins, Head of Housing, Dover District Council
- Mike Davis, Director, Finance, Housing and Community, Dover District Council
- Vicky Davis, Director, Local Government Value for Money, National Audit Office
- Paul Dossett, Head of Public Sector Assurance, Grant Thornton
- Ian Fytche, Chief Executive, North Kesteven District Council
- Janice Gillespie, Director, Finance and Investment, North East Combined Authority
- Nico Heslop, Director, Local Government Finance, Ministry of Housing, Communities and Local Government
- Bevis Ingram, Senior Advisor, Finance, Local Government Association
- Stephen Jones, Director, Core Cities UK
- Helen Lamb, Head of Finance, Dover District Council
- James Maker, Director, Policy and Communications, County Councils Network
- Ian Miller, Chief Executive, Wyre Forest District Council
- Michael Newbury, Director, Local Audit Code and Guidance, National Audit Office
- Professor Andy Pike, Local and Regional Development and Director, Centre for Urban and Regional Development Studies, University of Newcastle
- Tom Riordan, Second Permanent Secretary, Department of Health and Social Care and former Chief Executive, Leeds City Council

Table of contents

Recommendations

Recommendation 1: The New Burdens Doctrine should be rewritten so that councils are assured the resources to deliver any new or significantly altered duties. A readiness plan should be produced by the power-assuming local authority as part of wider-ranging Regional Plans, supported by the Office for Local Government (Oflog) and with input from relevant partners. This should note predicted costs, capacity constraints, and likely spending trade-offs before the new mandate is established, and entitle the power-assuming authority to temporarily delay assuming a new duty until it is satisfied by the central government response. If necessary, conflicts generated by this will be resolved by Oflog as a mediating entity.

Recommendation 2: An optional additional portion of local multi-year funding settlements, earmarked for use on the development and delivery of 'Prevention Projects' spanning at least the length of the settlement, should be available on request to local authorities. These should align with the strategic goals of the wider Regional Plans that are developed in collaboration across the whole local system. Prevention Projects must set out clear metrics for success that are agreed with central government, and demonstrate the ability to become self-financing through savings achieved within two rounds of multi-year settlements.

Recommendation 3: While rapidly developing proposals for an entirely new model for the delivery and financing of adult social care in England, central government should take immediate action to stabilise how the current system is funded. This should be through a combination of centrally and locally sourced funding, including re-allocation of part of the current NHS budget, and granting areas more autonomy to set their own council tax policies.

Recommendation 4: Combined authorities should work with constituent local authorities to pool budgets and expand local authority provision of residential care accommodation. These projects should make use of existing local assets and collaborate closely with private sector, third sector and community organisations to help offset costs.

Recommendation 5: The home-to-school transport service should become subject to means-testing, with service provision tapering off slowly to allow affected families to find ways to adjust to the change.

Recommendation 6: Annually update the Temporary Accommodation Subsidy so that it is calculated on the basis of the latest available Local Housing Allowance rates.

Recommendation 7: Institute a full-scale reboot of the national council tax system with national revaluation, a standard 10 per cent year-to-year variation power over the council tax precept to raise council tax without a referendum, and freedoms for councils to set the rate of the single person discount.

Recommendation 8: Government should replace business rates with a new Land Value Tax (LVT). As in Recommendation 7, councils should have the ability to vary the rates. Retention of up to 100 per cent of the proceeds should be normalised for the most established and institutionally 'mature' regional authorities.

Recommendation 9: Explicitly broaden the General Power of Competence to include permission to establish and collect new taxes (such as tourism taxes), with a collaboratively established threshold of anticipated revenues to determine whether these should be subject to consultation and approval by local referendum. The appropriate scale for operating these new taxes should be agreed as part of the regional planning process. When establishing new taxes, local and combined authorities may hypothecate them for the funding of specific local services, such as economic or local infrastructure development.

Recommendation 10: Starting with the most 'mature' combined authorities, a share of locally-raised income tax should be retained and used as part of the basis for single integrated funding settlements. The size of this share should not exceed two per cent, but otherwise may vary from place to place and should be agreed or amended as part of the iterative Regional Planning process within local systems and between local and central government. This change should be accompanied by robust equalisation mechanisms, developed in collaboration with HM Treasury, that allow places to benefit from decisions, but not by deepening inequalities both between and across regions.

Recommendation 11: Starting with the most 'mature' combined authorities, power should be granted to establish and implement Regional and/or Urban Wealth Funds, pooling many of the assets held by the local state within the jurisdiction into an investment fund that is competitively managed, with leaders drawn from the private sector. This will allow local systems to capitalise on assets and finance plans based on a new revenue stream, while maintaining local government ownership.

1. Introduction

Many parts of England's local government system are at a financial breaking point, burdened by escalating service demand, chronic underfunding and an overwhelmed framework of oversight and audit.

Worse, the exceptional overcentralisation of the English system means that local authorities lack the autonomy to take steps to address these challenges in a self-sufficient way by developing new revenue sources, incentivising local growth, altering the local tax ecosystem, or effectively leveraging valuable local assets. Instead, they are often reduced to, in the words of one senior local government officer interviewed for this work, "strip-mining" their reserves and assets to service the debts they have incurred or the bad investments that some have made in an attempt to diversify their revenue streams.

Local authorities are not just administrators of public services. They are crucial agents of social and economic stability within their communities. However, their ability to fulfil this role has been severely compromised by a confluence of factors: fragmented governance, inadequate fiscal autonomy, and a precipitous increase in demand for services such as adult social care, children's services, and homelessness prevention. Each of these pressures is exacerbated by the others, creating a vicious cycle where short-term interventions only serve to delay, rather than resolve, the inevitable crises.

An overall lack of predictable funding contributes to this feedback loop. Like many other parts of the State, local authorities have been forced into a reactive posture, responding to crises with short-term fixes rather than addressing the underlying structural issues that perpetuate these challenges. Instead of the longer-term work of preventing or diverting demand, they are unable to escape a cycle of tackling problems once they have become impossible to ignore and prohibitively expensive.

Part of the challenge is that current efforts to tackle this crisis are only designed to address one of its aspects or variables at a time. The new Government is putting forward a plan to shift to multi-year settlements, but without direct action to improve the scale of funding and address rocketing local statutory service demand, it will make little impact on the financial challenges being experienced by the local state.

This report seeks to confront the financial crisis facing local government by arguing that only a whole-system approach — one that comprehensively addresses the interconnected nature of the challenges at hand — can provide a sustainable path forward. It should be read in conjunction with *Reform's* recent paper on rebooting the system of local audit, *Accounting for failure*, which sets out the essential changes which will play a role in a whole system approach.[1] This whole system approach should mirror and interconnect with a new generation of whole system devolution: preparing whole jurisdictions with the capacity and capability to take on and proactively distribute powers at every scale of governance.[2]

---

[1] Sean Eke and Simon Kaye, *Accounting for failure: Rebuilding the local audit system*, 2024

[2] Simon Kaye, India Woodward, and Giorgia Vittorino, *What Powers Where? Achieving the 'Devolution Revolution'*, 2024.

1.1 The scale of the crisis

Analysis of the Medium Term Financial Strategies produced by all local authorities indicates a combined total deficit forecast across the sector of £9.6 billion by 2026-27. Only 14 out of the 317 councils in England are expecting to be able to balance their books in that year.[3]

While the Autumn 2024 Budget contained the promise of a more generous Local Government Financial Settlement, it also significantly increased payroll costs. While councils will be compensated to pay these payroll costs for direct employees, various service suppliers will ultimately pass some of these costs on to councils, leaving authorities with significant bills when they do not run many of their services 'in-house'.[4]

Since 2018 eight local authorities have issued eleven Section 114 notices — effective declarations of bankruptcy[5] — including Birmingham City Council, the largest local authority in Western Europe.[6] A survey in 2023 found that one in four councillors believe that it is "likely" their local authority will be bankrupt in the next five years,[7] while Local Government Association (LGA) analysis suggests that one in five councils are likely to need to issue a Section 114 notice under current conditions.[8]

Councils do not have to go bankrupt to cost central government a great deal of money. To some extent, further Section 114 notices have been avoided through the provision of Exceptional Financial Support (EFS) packages from central government, with 19 councils receiving EFS in the 2024-25 financial year.[9] Education authorities have been permitted to keep Special Educational Needs and Disabilities (SEND) deficits off balance sheet through a statutory override that is due to end in March 2026.

Borrowing-to-income ratios in some councils have reached very high levels. Spelthorne Council has borrowed nearly 87 times its annual income.[10] Some councils borrow to make risky investments and create new revenue sources: a response to the 18 per cent real-terms decline in councils' core spending power (26 per cent for councils in the most deprived places[11]) since 2010, coupled with inflation, high energy costs, and growing service demand.[12]

---

[3] Andy Pike and Jack Shaw, *Townscapes: mapping the gaps*. Bennett Institute for Public Policy, 2024. These Medium-Term Financial Strategy documents were produced prior to the Autumn 2024 Budget.
[4] Ministry of Housing, Communities & Local Government (MHCLG), *Local government finance policy statement 2025 to 2026*, 2024.
[5] Oscar Bentley, 'Why Do Councils Go Bust and What Happens When They Do?', *BBC News*, 5 March 2024.
[6] 'Statement Regarding Section 114 Notice', Webpage, 2023.
[7] Neil Merrick, 'Councils on Notice: Does a Section 114 Mean Bankruptcy for Local Government?', *LGiU*, 14 September 2023.
[8] 'Section 114 Fear for Almost 1 in 5 Council Leaders and Chief Executives after Cashless Autumn Statement', *Local Government Association*, 6 December 2023.
[9] Department for Levelling Up, Housing & Communities, *Exceptional Financial Support for Local Authorities for 2024-25*, 2024.
[10] The Chartered Institute of Public Finance and Accountancy (CIPFA), *Spelthorne Borough Council: Review of Debt/Investment Risk Profile* (CIPFA, 2023).
[11] Special Interest Group of Municipal Authorities (SIGOMA), *How much your council's funding has been cut (*SIGOMA, web page, 2024)
[12] Comptroller and Auditor General, *The Local Government Finance System in England: Overview and Challenges* (National Audit Office, 2021).

Figure 1: English councils with the highest borrowing to income ratios

Local authority	Total borrowing	Borrowing to income ratio
Spelthorne	£1.1bn	86.9
Woking	£2.0bn	62.0
Eastleigh	£522m	41.1
Runnymede	£643m	23.4
Worthing	£204m	14.4
Surrey Heath	£170m	13.7
Rushmoor	£120m	10.6
Cherwell	£188m	10.3
Uttlesford	£302m	10.0
Warrington	£1.8bn	9.9
Brentwood	£226m	9.7
Mole Valley	£103m	9.6

Source: Richard Partington, 'More English councils expected to fail owing billions, warns Moody's', The Guardian, 11 September 2023

The reduction in spending power has been acutely felt by councils serving more deprived communities, where spending per person often tended to be higher when resources were more readily available. There has been a fall in per person spending of 36 per cent for the most-deprived fifth of council areas between 2009-10 and 2017-18, compared to 22 per cent for the least-deprived fifth of council areas for the same period.[13] Over that period, real terms Spending cuts have ranged from 5 per cent in East Sussex to 69 per cent in Barking and Dagenham.[14]

This has led to a reduction in services, for example between 2009-10 and 2019-20 the miles covered by bus routes fell by 14 per cent and a third of England's libraries have closed.[15] An increase in demand — an ageing population and rising number of children in care — has also applied pressure on spending.

[13] Communities and Local Government, *Local Government Finance and the 2019 Spending Review*, 2019.
[14] Graham Atkins and Stuart Hoddinott, *Neighbourhood Services under Strain* (Institute for Government, 2022).
[15] Atkins and Hoddinott.

1.1.1 Government plans

Announcements in the 2024 Autumn Budget, and those trailed for the upcoming English Devolution White Paper, indicate an emphasis on targeted relief measures and an interest in realising potential savings from a programme of further local government reorganisation (consolidating two-tier areas and small unitaries into larger, and hopefully more efficient, councils). New funding includes a notable £1 billion for SEND and £600 million for adult social care. In a recent policy statement further targeted allocations were announced, such as a £600 million Recovery Grant and a £250 million Children's Social Care Prevention Grant.[16]

These statements have signalled an emphasis on future reallocation of existing funds rather than an immediate injection of significant new resources. The government plans to "redirect money to places and services that most need it," underscoring an intent to address structural inequities in funding through measures like repurposing grants and reforming the allocation process.[17] These steps reflect the stated aim of building a more targeted funding system from 2026 onwards — but they do not yet address the gap in the finances of local systems.

1.2 About this report

This report proposes a series of reforms designed to contribute to a more sustainable system. It advocates for reimagined local government that is better equipped to meet contemporary challenges through sustainable, long-term solutions. The key to this transformation lies in understanding and addressing three faces of the economic crisis: audit, monitoring and management (covered in *Accounting for failure*[18]); statutory service cost drivers; and funding and revenue streams.

By addressing these challenges simultaneously — and recognising the complex relationships that exist between them — the local state can move beyond crisis management to build resilient systems, capable of delivering better outcomes for communities across England.

Section two explores the key sources of service demand that local government must navigate, with recommendations to help staunch critical cost drivers for many parts of the sector. Section three is a high-level examination of the overall landscape of local government funding and revenue sources, presenting ways to make the most of available assets and radical routes for a shift in the autonomy of local taxation.

---

[16] Ministry of Housing, Communities & Local Government (MHCLG), *Local government finance policy statement 2025 to 2026*, 2024
[17] Ibid.
[18] Sean Eke and Simon Kaye, *Accounting for failure: rebuilding the local audit system* (Reform think tank, 2024)

2. The crisis in local services

The causes of service demand are complex, vary from place to place, and interact with one another. Distressed councils point to long-term austerity, service pressures, and high costs (exacerbated by inflation) as a key reason for high debt, use of reserves, cutting 'non-essential' services, and general financial strain. All of this was exacerbated by the COVID-19 pandemic as services struggled to keep up with the pent-up, changing, and newly discovered demand. Most services still see worse performance than pre-pandemic.[19]

Particular statutory service areas generate more pressure on local finances: adult social care, children's services, SEND provision and homelessness. Over the last decade, demand on local public services has increased significantly due to an ageing population with increasingly complex needs and the public's growing expectations of what the State is expected to provide.[20] While it is not within the scope of this paper to 'solve' these drivers of financial unsustainability, by considering these issues as part of a wider, multi-faceted crisis for the local state, a course of action does emerge.

Two overarching challenges govern the crisis in local statutory service provision: unfunded mandates and prevention paralysis. The duties held by councils have increased over time and have not been met by additional funding or means to generate funding, thus constraining local finances. By addressing these challenges, the state of local finances may be made resilient and sustainable.

2.1 Overarching challenges

For all statutory services provided by local government, the current funding model — which is characterised by fragmented, short-term funding pots and heavily constrained revenue-raising options — leads to a reactive system that is keyed for crisis management.

2.1.1 Unfunded mandates

The unaffordability of councils' statutory duties is now a major contributor to their financial unsustainability, as frequently commented on by interviewees. Since the early 2000s, local authorities' statutory duties have grown while central government funding has decreased in real terms. Given the constraints surrounding English local government's revenue-raising powers, this has led to councils having to divert funding into meeting the high demands on its statutory services.

[19] *The Precarious State of the State* (Institute for Government, 2024).
[20] National Centre for Social Research, 'Public Expectations of Government at Record High', 21 September 2023.

In this environment where councils are struggling to resource their obligatory duties, this leaves little to no room for a council to make improvements, test innovations, or grow. And “if finance does not follow function”, then national government is simply “decentralising problems”.[21] The existence of unfunded mandates is counterproductive to decentralisation, as the gap between political and fiscal decentralisation has a negative impact on economic growth.[22] This indicates that the impact of unfunded mandates is not simply a short-term issue: it also compromises the future sustainability of council finances. As one senior central government official said in an interview, “we’re asking local authorities to do these three hundred things and giving them tiny amounts of money to help”.

Local authorities are often best placed in terms of knowledge and proximity to address complex local needs but lack the resources to make best use of this advantage. In addition, as reflected by many of our interviewees, councils vary extensively in wealth, capacity and maturity. In previous publications it has been made clear that an effective performance framework will be required to assure central government that devolved functions are being delivered well by sufficiently mature and accountable local systems.[23] The counterpart to this is a functioning mechanism to ensure that local authorities are individually capable of taking on new responsibilities.

Therefore, any new responsibilities and duties delegated away from Whitehall to councils must be evaluated on a council-by-council basis to assess the readiness of a council to take on the new duty. A readiness plan, created collaboratively between the Ministry of Housing, Communities and Local Government (MHCLG) and the authority in question and mediated by the Office for Local Government (Oflog), should be drawn up to prepare the council operationally and financially to take on the new duty. In most circumstances, these readiness plans should not involve significant effort to produce, merely formalising the council’s readiness to assume powers and inform internal and inter-institutional planning processes. Only in cases where there is reason to doubt the council’s capacity will a more in-depth plan be required.

It is also important that there should be provisions recognising that in some situations — for example, fast-paced changes to council responsibilities in the face of a crisis — readiness planning and new burdens assessments will not be possible and should not impede the needs of emergency response.

The New Burdens Doctrine was agreed in 2010 and “requires all Whitehall departments to justify why new duties, powers, targets and other bureaucratic burdens should be placed on local authorities… [and] where the money will come from to pay for them”.[24] This was largely to prevent council tax rising endlessly to support new duties, with advice stating that the “key definition of a New Burden is a change that could lead to an increase in council tax” without additional funding.

---

[21] Andres Rodriguez-Ruiz and Miquel Vidal-Bover, ‘Unfunded Mandates and the Economic Impact of Decentralisation. When Finance Does Not Follow Function’, *Political Studies Association* 1, no. 25 (2022).
[22] Rodriguez-Ruiz and Vidal-Bover.
[23] Simon Kaye and Rachael Powell, *Devolve by Default: Decentralisation and a Redefined Whitehall*, 2024
[24] Department for Levelling Up, Housing & Communities, ‘New Burdens Doctrine: Guidance for Government Departments’, Web Page, 29 July 2022.

The sector generally views the New Burdens Doctrine as unreliable and often leads to disputes about adequacy of funding.[25] This is due to a lack of genuine consultation with local authorities, an absence of an independent assessor to settle disputes, and, as one interviewee pointed out, a lack of recognition that costs of a new burden may fluctuate.

In addition, an authority's capacity to deliver a service goes beyond questions of funding. Local government should also be supported to build the right capabilities over a reasonable timescale. This should be an essential part of a fully costed strategy for devolution, local priorities, and the distribution of powers and responsibilities across a region: a Regional Plan, organised by regional authorities and involving input from every tier of local government. These should set out how existing and prioritised responsibilities will be sustainably delivered by the local system — in collaboration with all relevant stakeholders, communities, and third sector organisations — and clarifying the overall resource needs from central government.[26]

Recommendation 1: The New Burdens Doctrine should be rewritten so that councils are assured the resources to deliver any new or significantly altered duties. A readiness plan should be produced by the power-assuming local authority as part of wider-ranging Regional Plans, supported by the Office for Local Government (Oflog) and with input from relevant partners. This should note predicted costs, capacity constraints, and likely spending trade-offs before the new mandate is established and entitle the power-assuming authority to temporarily delay assuming a new duty until it is satisfied by the central government response. If necessary, conflicts generated by this will be resolved by Oflog as a mediating entity.

2.1.2 Prevention paralysis

Local government funding is set up in a way that obstructs an authority's ability to plan long-term. It is often argued that the approach of multiple, centrally-held, and competitively allocated funding pots leads to wasted effort, inefficient time horizons, and a deepened tendency toward overcentralisation.[27] Notably, recent moves — including the promised establishment of single department-style settlements for some combined authorities, pilots in funding simplification for some councils, and an undertaking to bring in multi-year financial settlements — have been warmly welcomed by the sector.[28]

Even with multi-year settlements in place, there would remain a risk that local authorities will be strongly incentivised to plough most of their resources into high-demand areas of statutory service provision, and the overall pattern of underinvestment in public service reform and innovation to promote preventative practice will continue.

[25] Local Government Association, *Written Evidence from the Local Government Association* (UK Parliament, 2015).
[26] Kaye, Woodward, and Vittorino, *What Powers Where? Achieving the 'Devolution Revolution'*.
[27] Simon Kaye and Patrick King, *The Future of Levelling Up* (Reform, 2022).
[28] Prime Minister's Office, 10 Downing Street, *The King's Speech 2024: Background Briefing Notes*. ; HM Government, *Levelling Up White Paper*, 2022.

Rather than establishing another quasi-competitive bid-in funding pot for councils to apply to, the multi-year funding settlement itself should be designed in a way that rewards investment in preventative practice over the long-term.

For the most part, the new multi-year settlements should be non-ringfenced, enabling councils to take advantage of their specialist understanding of local needs in a flexible way. However, a set additional amount of settlement funding may be requested by individual councils specifically for seed-funding 'Prevention Projects' spanning at least the length of the settlement. These projects may be explicitly experimental in nature, and ultimately evaluated in terms of their performance in preventing measurable service demand. Savings achieved in this way should ultimately become the way that successful projects pay for themselves, with the expectation that this happens within the span of two multi-year settlements.

Prevention Projects could take many forms but will often be cross-cutting and holistic in design, reaching across different scales of governance and service areas as needed. The projects would be led by local authorities, in collaboration with local stakeholders and institutions.

Recommendation 2: An optional additional portion of local multi-year funding settlements, earmarked for use on the development and delivery of 'Prevention Projects' spanning at least the length of the settlement, should be available on request to local authorities. These should align with the strategic goals of the wider Regional Plans that are developed in collaboration across the whole local system. Prevention Projects must set out clear metrics for success that are agreed with central government, and demonstrate the ability to become self-financing through savings achieved within two rounds of multi-year settlements.

2.2 Changes to specific services

In addition to the strategic changes outlined above, a number of immediate changes to the core cost-drivers of statutory service provision may also be possible.

2.2.1 Adult social care

Adult social care refers to services that provide support to adults with disabilities and illnesses. Demographic pressures (ageing and multimorbidity), the increasing cost of care, and general financial strain in local government all place pressure on the system of social care. Increases in the National Living Wage have also had an impact on social care costs.[29]

The impact of this is readily seen. Absent or unsatisfactory care, workforce issues, delays in access, instability in the care market, and knock-on effects for the health service (for example, avoidable admissions and discharge delays).[30]

[29] David Foster, *Funding for Adult Social Care in England* (House of Commons Library, 2024).
[30] Foster.

Social care services are largely financed through local government tax revenue. The Adult Social Care precept introduced in 2016-17 allows councils to increase their council tax up to 2 per cent specifically to fund social care. However, as well as being insufficient in plugging the funding gap, additional taxation also raises less money in the deprived areas which tend to see higher demand.[31] The other source of funding is via central government grants, which are not sufficient to meet demand.[32]

In 2021, the then Government announced a cap on care costs packaged up with wider reforms on means testing and fairer fees.[33] This was backed with £5.3 billion, of which £1.7 billion was intended for wider reform to the sector. However, the funding allocated to social care reform was "progressively diverted into system delivery".[34]

With current funding in place, it is estimated that just to meet future demand, funding would need to be increased to £14.6 billion by 2032-33, and to cover costs and improve access it would need to rise to £18.4 billion.[35]

A foundational shift for the social care system is required. The Government has promised to work toward the establishment of a 'national care service', suggesting a timeframe of multiple parliamentary terms to set it up.[36] The actual measures implied by this change are unclear, and recent efforts to flesh out a new approach provide little policy detail about how the considerable additional spending commitments will ultimately be paid for.[37]

Previous *Reform* research has suggested the adoption of a prefunded social care solution, similar to the model used in some European countries.[38] Working-age individuals would contribute to a 'Later Life Care Fund', allowing pooled savings to grow and fund future care. This could reduce intergenerational wealth transfers, deliver better value for money, and ensure long-term financial sustainability. Establishing such a system would not be an immediate process, and would need to reflect the fact that care for working age people is consuming a growing share of the system's resources.

Reform will bring forward up-to-date proposals for a new model of social care, with the aim for lasting financial sustainability, in a subsequent paper. Until then, rapid action will be required to contain this critical cost driver for the sector. This should take the form of a funding boost.[39]

This financial injection could be funded through a variety of measures — or a combination of them — including, for example:

- Full use of the areas of additional financial autonomy set out in Section 3 of this report

[31] House of Commons Committee of Levelling Up, Housing and Communities, *Long-Term Funding of Adult Social Care*, HC 19 (London: The Stationery Office, 2022).
[32] Foster, *Funding for Adult Social Care in England*.
[33] *Next Steps to Put People at the Heart of Care* (Department of Health and Social Care, 2023).
[34] Camille Oung, 'What Has Happened to the Funding Earmarked for Social Care Reform?', *Nuffield Trust*, 24 July 2024.
[35] Giulia Boccarini et al., 'Adult Social Care Funding Pressures', Web Page, 25 September 2023.
[36] Prime Minister's Office, 10 Downing Street, *The King's Speech 2024: Background Briefing Notes*.
[37] Ben Cooper and Andrew Harrop, *Support Guaranteed: The Roadmap to a National Care Service* (Fabian Society, 2023).
[38] Danail Vasilev, *Social Care: A Prefunded Solution* (Reform, 2017).
[39] Foster, *Funding for Adult Social Care in England*.

- Redirecting up to £1 billion from the additional health system funding announced in the Autumn 2024 budget — representing less than 5 per cent of the £22 billion total — into the social care system
- Expanding the use of deferred payment agreements to ensure that older social care service users with significant illiquid assets contribute directly to funding the system[40]
- Permitting local authorities to apply an additional percentage point increase to local social care precepts
- Giving local authorities autonomy to vary the levels of council tax reductions and discounts available to pensioners in their area, for example by reducing the single person discount from 25 per cent to 20 per cent or allowing councils to vary the means-test threshold for pensioners in the same way that they can for reductions for working-age households
- Allowing local authorities to set their own rates for local fees and charges such as licensing or planning.

Each of these approaches would involve trade-offs. Deferred payment agreements could deter people from entering care when it is needed; variations to council tax discounts could disproportionately impact older residents who are less well off. Carving out money already allocated to the NHS could mean a slower reduction in waiting lists. Optional additional variation of the social care precept will contribute to disparities between different parts of the country.[41]

A multi-faceted approach, prioritising measures that strengthen local autonomy, would be the best way to minimise unintended consequences and incentivise an honest conversation between councils and residents about the hard choices entailed in properly funding essential social care services.

Recommendation 3: While rapidly developing proposals for an entirely new model for the delivery and financing of adult social care in England, central government should take immediate action to stabilise how the current system is funded. This should be through a combination of centrally and locally sourced funding, including re-allocation of part of the current NHS budget, and granting areas more autonomy to set their own council tax policies.

2.2.2 Children’s Services

Children’s services exist to support and protect vulnerable children and their families. Examples of services include play groups, supported accommodation, and adoption. The 2004 Children’s Act made local authorities responsible for the delivery of such services. There are multiple, complex factors contributing to the growth in service demand.[42]

[40] Vasilev, *Social Care: A Prefunded Solution*.
[41] Foster, *Funding for Adult Social Care in England*.
[42] Josh MacAllister, *The Independent Review of Children’s Social Care*, 2022.

The system is now geared towards crisis management as demonstrated by the shift in spending away from early intervention services, where investment has fallen by as much as 46 per cent over the last 12 years.[43]

The Department for Education recently allocated £200 million over two years in a long-term strategy to fix children's services — a fraction of the £2.6 billion called for by the Independent Review of Children's Social Care.[44]

One key reason for high costs in children's services is the failure of the residential care market to provide accessible, reasonably priced accommodation. Over the last decade reliance on private sector provision has grown and prices have risen, leading some local authorities to bring service provision back 'in house'.[45] The system also has low levels of resilience. Some large private providers carry high levels of debt, and the closure of even one provider could cause significant disruption for service users who would not have recourse to an alternative placement.

One solution would be for the regional tier to take strategic responsibility for pooling resources to establish new state-managed provision, working with constituent authorities to set up providers in areas where there are gaps in access. These might entail public-private partnerships to source the initial up-front investment that may be required to establish new providers. These new market entrants should help to drive costs down and create new options for service provision. At present, English regional authorities do not generally take on a role operating services in this way, but their larger jurisdictions would position them to deploy provision at a logical scale and to the benefit of constituent local authorities.

There would be upfront costs to establish new provision, and a regional approach would allow cost-pooling and effective use of existing assets across the jurisdiction. Given local authorities spend a weekly average of nearly £3,100 per child on residential care, and the costs and quantity of placements are rising, over the long-term increasing local provision to lower everyday costs is a path to sustainability.[46]

Recommendation 4: Combined authorities should work with constituent local authorities to pool budgets and expand local authority provision of residential care accommodation. These projects should make use of existing local assets and collaborate closely with private sector, third sector and community organisations to help offset costs.

[43] Jon Franklin, Jack Larkham, and Mariam Mansoor, *The Well-Worn Path: Children's Services Spending 2010-11 to 2021-22* (Pro Bono Economics, 2023).
[44] Department for Education, *Children's Social Care: Stable Homes, Built on Love: Government Consultation Response*, CP933, 2023.; MacAllister, *The Independent Review of Children's Social Care*.
[45] Franklin, Larkham, and Mansoor, *The Well-Worn Path: Children's Services Spending 2010-11 to 2021-22*.
[46] Kate Ogden and David Phillips, *How Have English Councils' Funding and Spending Changed? 2010 to 2024* (Institute for Fiscal Studies, 2024).

2.2.3 SEND provision

SEND provision is support for children and young people with SEND to access education. SEND demand and the ensuing cost is a key financial challenge for councils. Demand has increased over the last decade, partially driven by the SEND reforms in the Children and Families Act 2014 which increased the amount of support available to children and young people, and brought 20 to 25 year olds into the system. Between 2014-15 and 2023-24, 130 local authorities saw the number of Education, Health and Care Plans (EHCPs) double.[47] With insufficient special school places available — in part due to growing levels of pupil exclusions from mainstream schools — and the state school system not equipped to take on the increased demand there has been a shift to costly independent provision.[48]

This has also led to an uneven spread of provision, resulting in some families having to travel long distances to access services and local government required to take on the associated costs.[49] Education authorities spend an average of £9,800 per year per child needing transport support (with county and rural areas more affected).[50]

The impact of this is unmet or insufficiently met care, with some councils unable to deliver their statutory responsibility. Additional funding has been made available through the 'Delivering Better Value in SEND programme'[51] and the 'Safety Valve Intervention Programme'[52] (a scheme that keeps overspend off local authorities' balance sheets). While these have been important in managing the financial crunch, they do not address the underlying demand pressures which continue to mount. The 2014 act is ripe for revisitation.

One particular aspect of a council's statutory responsibilities in this area may be amenable to an immediate policy response, though doing so fairly would mean more incremental change to service usage. The home to school transport duty was introduced in 1944 and has changed little since. Means testing the eligibility of families for this kind of support is a necessary next step for the achievement of a financially sustainable service.[53] This change was highlighted repeatedly by those interviewed for this paper, with one interviewee stating that the statutory duty should be amended and another asserting that local government "would not be sustainable" without addressing this issue.

Recommendation 5: The home-to-school transport service should become subject to means-testing, with service provision tapering off slowly to allow affected families to find ways to adjust to the change.

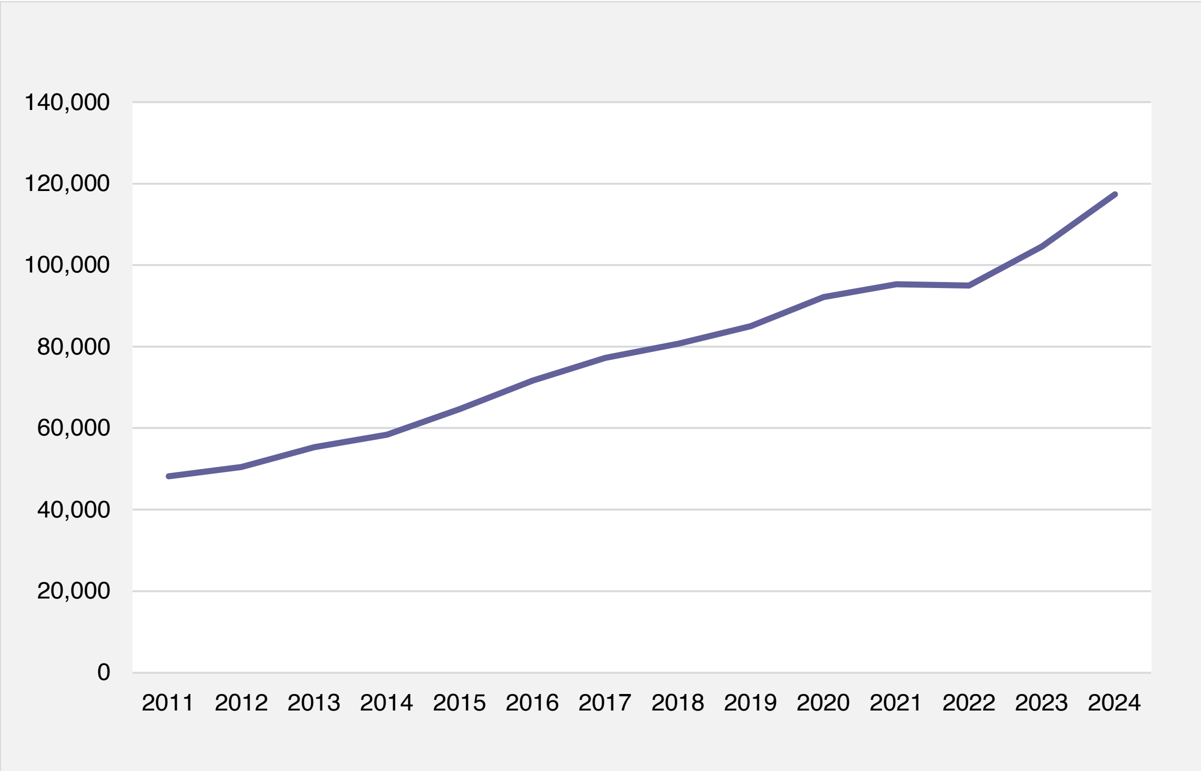
---

[47] *Towards an Effective and Financially Sustainable Approach to SEND in England* (isos partnership, 2024).
[48] Ibid.
[49] Hannah Sadik, 'Debate on the Importance of Good Quality Early Years Education Provision and Environments, Especially since the COVID-19 Pandemic', *Local Government Association*, 28 November 2023.
[50] *Towards an Effective and Financially Sustainable Approach to SEND in England*.
[51] Department for Education, 'Delivering Better Value in SEND Implementation Plans', 2023.
[52] Department for Education, 'Guidance on Our Intervention Work with Local Authorities', October 2022.
[53] Ibid.

2.2.4 Homelessness

In recent years, homelessness has increased in the UK, with the total number of households assessed as homeless more than doubling over ten years.[54] This is driven by insufficient supply of available and affordable housing, rising evictions from landlords, the cost-of-living crisis and poverty. In 2018, the Homelessness Reduction Act significantly expanded councils' legal duties in this area.[55] Their duties now encompass the prevention, relief, and provision of temporary accommodation for those that need it.[56]

Figure 2: Number of households in temporary accommodation



Source: Ministry of Housing, Communities and Local Government, 'Statutory Homelessness Live Tables', 2024

Council net spending on nightly temporary accommodation, driven by increasing demand and the growing cost of each placement, rose from £55 million in 2021 to £107 million in 2022, and rose by a further £50 million last year.[57] Some local authorities have specifically indicated that fulfilling this statutory duty could result in them issuing a Section 114.[58] As a result, councils can only afford to manage existing pressures rather than invest in prevention — reflected in

[54] Ministry of Housing, Communities and Local Government, *Tables on Homelessness: August 2024*, 2024.
[55] Matthew Oakley and Christina Bovill Rose, *Local Authority Spending on Homelessness* (WPI Economics, 2020).
[56] National Audit Office, *The Effectiveness of Government in Tackling Homelessness*, 2024.
[57] Department for Levelling Up, Housing & Communities, *Local Authority Revenue Expenditure and Financing England: 2021 to 2022*, 2022.
[58] National Audit Office, *The Effectiveness of Government in Tackling Homelessness*.

increased numbers of people presenting to services at crisis point.[59] In addition, there have been cases of competition between local authorities and the Home Office when bidding for temporary accommodation sites, further driving up prices.[60]

As with the other cost-driving statutory service areas discussed in this report, systemic reform — and a significant increase in the supply of affordable housing — will ultimately be required to achieve financially sustainable local government. Shorter-term relief may be achieved, however, by taking steps to update the way that the relevant subsidies are calculated.

Local authorities largely fund statutory homelessness duties through a combination of the Homelessness Prevention Grant, Housing Benefit Temporary Accommodation Subsidy (reimbursed by the Department for Work and Pensions) and Local Government Financial Settlements, on top of some smaller ringfenced pots. As the Temporary Accommodation Subsidy is based on Housing Benefit rules and the 2011 Local Housing Allowance rate, it has not kept up with rising costs, thus creating a significant funding gap. As a result, much of the Homelessness Prevention Grant is diverted to fund temporary accommodation to keep pace with demand and meet the statutory duty.

Recommendation 6: Annually update the Temporary Accommodation Subsidy so that it is calculated on the basis of the latest available Local Housing Allowance rates.

[59] Oakley and Bovill Rose, *Local Authority Spending on Homelessness*.
[60] National Audit Office, *The Effectiveness of Government in Tackling Homelessness*.

3. The crisis in local revenues

Despite widening devolution deals and an expansion of the powers offered to combined authorities, there has been minimal progress on expanding fiscal devolution or creating the conditions for innovative new routes to boost local revenues. England remains one of the most fiscally centralised countries in the OECD. Local government is severely constrained in its ability to raise revenue through levying new or altering existing taxes.[61]

As the value of central government grants to local government have declined as a proportion of local authority spending power, councils are increasingly dependent upon locally raised revenue sources, principally council tax and business rates retention, to fund service and revenue expenditure.[62]

The upshot of this is that local public services rely significantly on local property wealth.[63] Council tax — the main mechanism here — is regressive, outdated, mismatched to need, and in need of reform.[64]

While council tax is in practice a local tax, councils have very few freedoms to set local rates, and do not have the power to set the business rates multiplier. Excluding the Mayoral Precepts for council tax and the 100 per cent business rates retention piloted to some Combined Authorities — part of the 'trailblazer deals' — fiscal autonomy for local government to alter council tax and business rates is limited.[65] Most local authorities can only retain 50 per cent of business rates revenue — the remaining 50 per cent is returned to central government for re-allocation to equalise revenue between local authorities. And councils' ability to raise council tax is constrained by the Localism Act 2011, which requires local authorities to pass a referendum should they wish to increase council tax above the centrally set thresholds of 3 per cent and an additional 2 per cent for councils with social care responsibilities.[66]

Beyond this, there are limited powers for local authorities to levy new taxes or retain national taxes, a common feature in more decentralised OECD countries.[67] Whilst 11 per cent of taxes are collected locally on average across comparable (non-federal) OECD countries, only 5 per cent of tax was collected locally in the UK in 2021.[68]

This matters for the financial sustainability of local systems. Councils with greater flexibility to raise local taxes would have wider revenue bases, strengthening financial resilience as they can raise or introduce new taxes to generate additional revenue.[69] Comparative research has demonstrated the benefits to local government of having additional revenue streams under

61 LGA, *Fiscal Devolution: Adopting an International Approach*, 2020.
62 *Financial Distress in Local Authorities* (Levelling Up, Housing and Communities Committee, 2024).
63 RSA, *Commission on the Future of Local Government*, 2012.
64 *Financial Distress in Local Authorities*.
65 Ibid.
66 *Financial Distress in Local Authorities*.
67 LGA, *Fiscal Devolution: Adopting an International Approach*.
68 Anthony Breach, 'The Budget 2024 Should Commit to Fiscal Devolution', 4 March 2024.
69 Tasos Dr Kitsos, 'Fiscal Devolution: An Era of Opportunity', *City-REDI Policy Briefing Series*, January 2018.

their control.[70] Greater fiscal autonomy may incentivise efficiency by bringing decisions closer to people with 'skin in the game' and deep understanding of relevant local conditions, improving decision making on local public spending.[71]

Conversely, having too few sources of local taxation and revenue streams makes local service delivery dependant on central government funding and local property valuations.

This chapter will analyse potential reforms to the funding streams to local government across three categories. The first will consider opportunities for reforming the current systems of council tax and business rates. The second section will set out opportunities to devolve national taxation or levy new local taxes. The third section will assess opportunities for innovative practices such as the use of Regional or Urban Wealth Funds to capitalise on the assets held by local government.

3.1 Changes to existing local taxes

3.1.1 Council Tax

Whilst in principle a local tax, council tax is intrinsically shaped by the actions — and inactions — of central government. It is tied to deeply outdated valuations that make it regressive and uneven across different kinds of regions.[72] Local authorities cannot set council tax rates, bands or discounts, despite council tax contributing the largest proportion of council funding. The social care precept allows a 2 per cent variation for councils with the relevant responsibilities, but beyond this councils must call a local referendum to vary their tax regime any further, often restricting "local authorities from raising sufficient funding to meet specific changes in demand and cost inflation" as they are likely to have their proposal rejected by residents.[73] No such referendum has ever been successful.

In consultation with local citizens, and in line with a near-consensus in the recent policy literature,[74] councils should be given additional freedoms to raise or lower council tax, strengthening accountability and efficiency in public spending, as decisions over council tax will be associated with the performance of local services. As discussed in the previous section, greater autonomy to set rules on council tax and, for example, define the rate of the single person discount would play a critical role in securing the resources required to finance statutory services, particularly social care.

Recommendation 7: Institute a full-scale reboot of the national council tax system with national revaluation, a standard 10 per cent year-to-year variation power over the council tax precept to raise council tax without a referendum, and freedoms for councils to set the rate of the single person discount.

---

[70] *Raising the Capital: The Report of the London Finance Commission* (London Finance Commission, 2013).
[71] Kitsos, 'Fiscal Devolution: An Era of Opportunity'.
[72] *Financial Distress in Local Authorities*.
[73] Ibid.
[74] *Raising the Capital: The Report of the London Finance Commission.*; *Financing English Devolution* (Independent Commission on Local Government Finance, 2015).

3.1.2 Business rates

It is not surprising that the current Government has promised to reform, or even to replace, the current of business rates.[75] The current model discourages growth. It creates perverse incentives by taxing companies more if they make investments to increase the value of business property, disincentivising property development which would otherwise benefit local infrastructure and economic development.[76] Additionally, business rates have a disproportionate impact on small and medium-sized enterprises, preventing smaller businesses from growing by discouraging investments that would increase their business rates liabilities. The absence of a parallel, equivalent tax for the online retailers that compete with SMEs adds up to an effective penalty for 'bricks and mortar' businesses, even when factoring in the additional reliefs recently announced for SMEs.[77]

The Government's emerging plans for changes to Business Rates are incremental in nature and will be unlikely to significantly shift the financial sustainability of local government.[78] One ambitious and long-term policy shift would be to institute a Land Value Tax in place of the current regime of Business Rates.

This would be a significant logistical and administrative undertaking, requiring, for example, a comprehensive reassessment of land values across England via a new, robust, and regularly updated system. But by taxing the value of land itself, rather than the buildings or improvements placed upon that land, the penalty against investment and innovation that is particularly hard to afford for smaller-scale enterprises would be significantly reduced and new incentives would emerge for improvement and economic development.[79] This, in turn, would create long-run benefits for a sustainable local state.[80]

As well as encouraging investment, development, and economic activity, a Land Value Tax approach would help to ensure more efficient use of available land by reducing speculation and vacancy. Because land values are more stable than property values, long-term financial planning would be enhanced by the change too.

One of the key incentives to some current devolution projects in England is the potential for greater business rates retention. The current system sees 50 per cent of revenues taken as a national share that is then re-allocated as part of an equalisation process. While alternative equalisation systems would undoubtedly be required, the alignment of this local tax with the strategic efforts of combined authorities does establish desirable incentives.

Recommendation 8: Government should replace business rates with a new Land Value Tax (LVT). As in Recommendation 7, councils should have the ability to vary the rates. Retention of up to 100 per cent of the proceeds should be normalised for the most established and institutionally 'mature' regional authorities.

---

[75] Labour Party, 'Change: Labour Party Manifesto 2024', 2024.
[76] *The Taxation of Land and Property* (Institute for Fiscal Studies, 2022).
[77] *Reforming Business Rates: Fixing a Broken System* (Centre for Cities, 2020).
[78] Her Majesty's Treasury, *Transforming Business Rates*, 2024.
[79] *The Taxation of Land and Property*.
[80] Daran Sarma, 'It's Time for a Land Value Tax', *Institute of Economic Affairs*, 15 February 2016.

3.2 Taxation innovation

While wholesale reform of business rates and council tax will go some way to expand councils' autonomy, over-reliance on property taxation limits opportunities to widen the available tax base, and increasing council tax is not a long-term solution to fiscal sustainability given its reliance on consistent revaluations.

In the pursuit of sustainable local systems, Government should consider options for allowing local government to levy new local taxes and the apportioning, or devolving, of national tax shares locally.

In some places, English municipalities are already mirroring the greater autonomy enjoyed by cities across Europe to establish tax innovations that both provide revenues and help to target particular local priorities. The establishment of a quasi-tourism tax in Greater Manchester,[81] or the use of ULEZ and Congestion Charging in London to influence behaviours, both provide case studies.[82]

These smaller scale taxes can provide a lifeline to non-statutory aspects of the work of the local state which would otherwise be 'crowded out' by the obvious priority of funding increasingly costly statutory services. Nevertheless, the coordinating, planning, and investment efforts of (to take one area) economic development professionals in local government can make an important difference to the regeneration and prosperity of places.[83] Local authorities with sufficient autonomy would be able to experiment with setting up a funding model for these kinds of services that, ultimately, could facilitate far more economic activity than might be inhibited by a minor new tax or tariff.

This autonomy should come alongside a set of broader commitments associated with its use. First, the legitimacy and public support for new taxation should be put beyond doubt through an extensive consultation, stakeholder engagement, and/or referendum process. Second, the successful establishment of these new sources of revenue should ultimately be a way for dependence on central government funding allocations to be reduced.

Recommendation 9: Explicitly broaden the General Power of Competence to include permission to establish and collect new taxes (such as tourism taxes), with a collaboratively established threshold of anticipated revenues to determine whether these should be subject to consultation and approval by local referendum. The appropriate scale for operating these new taxes should be agreed as part of the regional planning process. When establishing new taxes, local and combined authorities may hypothecate them for the funding of specific local services, such as economic or local infrastructure development.

[81] Thomas Pope, Grant Dalton, and Maelyne Coggins, *How Can Devolution Deliver Regional Growth in England?* (Institute for Government, 2023).
[82] *Raising the Capital: The Report of the London Finance Commission*.
[83] Beatrice Makeig, 'Local Growth: Case Studies and Resources for Local Government', *LGiU*, 24 September 2024.

Beyond these smaller measures, there is also extensive policy debate surrounding the idea of devolving one or another aspect, or portion, of various nationally organised and collected taxes.[84] For example, a small percentage of locally-raised income taxes could be retained by local government.

One key benefit of a retained share of locally generated income tax revenue is that this would incentivise local government to invest in the conditions for economic activity and growth, since for the first time the whole local system would stand to benefit from a growth in average incomes and the increase of the local tax base.[85] This would also create a predictable, long-term funding stream for the activities of the local state.[86] Such an approach, though radical in England, would be considered ordinary in many other countries.[87]

Among the options for local tax assignment, income tax presents a strong case. It is relatively simple to apportion income tax because income data in local areas exists already, reducing the administrative burden on national government.[88] Income tax also provides a buoyant revenue stream, as revenue automatically grows with inflation and economic growth.[89] While devolving income tax will reduce the income allocated to national government, any devolution of income tax would ultimately allow a corresponding reduction in central government's funding allocations to the local system as central grants are replaced by locally raised taxation that shifts incentives.

While devolving NI, corporation tax, or VAT could yield high income rates, they are less strong contenders for devolution. NI contributions are used to fund national services, which makes NI less suitable for local devolution, and while corporation tax could be a significant lever for economic growth in local areas, it could also lead to tax competition between local areas as councils drive down rates to attract businesses — not necessarily undesirable, but a policy choice which should be taken consciously.[90]

The real world effects of a reserved share of locally raised income tax are difficult to model. Experimenting with such an approach could be piloted as a part of higher-tier devolution for the most 'mature' regional authorities in England, with central and local government closely monitoring the outcomes to help inform a more general policy. As these revenues are retained, a commensurate reduction in central transfers should be arranged.

All of these ideas entail important questions about how a more devolved and financially autonomous local state should be 'equalised' — redistributing revenues so as to minimise a situation where the most successful places outstrip, or even hollow-out, less prosperous

---

[84] Pope, Dalton, and Coggins, *How Can Devolution Deliver Regional Growth in England?*; *Raising the Capital: The Report of the London Finance Commission*.
[85] Local Government Association and WPI Economics, *Reforming Revenues: Options for the Future Financing for Local Government* (Local Government Association, 2022).
[86] Ibid.
[87] Pope, Dalton, and Coggins, *How Can Devolution Deliver Regional Growth in England?*
[88] Neil Amin Smith, Tom Harris, and David Phillips, 'Is a Local Income Tax the Best Way to Sustainability for Local Government?', *Institute for Fiscal Studies*, 21 March 2019.
[89] Neil Amin Smith, Tom Harris, and David Phillips, *Taking Control: Which Taxes Could Be Devolved to English Local Government* (Institute for Fiscal Studies, 2019).
[90] Greater London Authority, *Raising the Capital: The Report of the London Finance Commission* (London Finance Commission, 2013).

localities which by definition would be less likely to benefit from, for example, the retention of income tax.

Multiple interviewees emphasised the importance of such equalisation measures, with one reflecting that “a way to equalize out resource differences is a crucial part of the system. We need more local control over locally raised revenues, but it can’t just be that. Not when working to deliver national standards.”

Equalisation comes with trade-offs. Redistributing resources out of areas that have ‘done well’ in producing a high yield from income tax may disincentivise areas from investing in local growth policies. Government should aim for a balanced level of equalisation that allows all councils to deliver services to a specified level but allows well performing councils to retain additional income once this level has been achieved.

Another option to experiment with would be making combined and regional authorities responsible for internal redistribution between the areas within their jurisdiction, so success means sharing the proceeds of growth with near neighbours and strengthening the fabric of the region as a whole.

Recommendation 10: Starting with the most ‘mature’ combined authorities, a share of locally-raised income tax should be retained and used as part of the basis for single integrated funding settlements. The size of this share should not exceed two per cent, but otherwise may vary from place to place and should be agreed or amended as part of the iterative Regional Planning process within local systems and between local and central government. This change should be accompanied by robust equalisation mechanisms, developed in collaboration with HM Treasury, that allow places to benefit from decisions, but not by deepening inequalities both between and across regions.

3.3 Assets and investments

As well as tax-raising powers, there is great potential for local government to capitalise on the range of assets that it controls to generate income without raising taxes.[91] English local government holds significant financial assets. In 2019, non-financial assets were estimated to be worth almost £400 billion, around 18 per cent of GDP.[92] Historically, however, England has been poor at capitalising on these assets.

Mismanaged investment strategies — driven in part by a need for new revenue sources — is an underlying cause of the financial crisis for some councils**.** Following reductions in grant funding, many councils have engaged with capitalisation directions, fire-selling capital assets

[91] Jamie Driscoll, *Regional Wealth Generation: Focusing on Local Wealth Creation to Level up the North* (RSA, 2021).
[92] Josh Ryan-Collins, ‘Keeping Wealth Local’, *IPPR Progressive Review* 28, no. 3 (December 2021): 226–33.

and commercial investment programmes to address budget deficits, exposing councils to financial risk.[93]

Meanwhile, substantial errors have been made in pursuing commercialisation and capitalisation for revenue with poor oversight and limited commercial expertise in managing investment portfolios — leading to a spike in Section 114 notices.[94] Public sector asset management has utilised outdated accounting methods whereby assets have been undervalued at historic values or accounted for in cash terms. Were assets to be utilised commercially and valued using private sector accrual accounting, assets would be valued much higher, unlocking opportunities for investment.[95]

As one interviewee put it: "we as a state both nationally and locally are asset rich, and cash poor…our land and property assets are hugely valuable and deeply underutilised. One of the consequences of the austerity drive is, because it's not a statutory service, the skill and capability of asset management in local government has been deprioritised and actively discouraged."

Whilst many councils have managed investment programmes well, local government has not had the private sector skillset and risk management procedures to capitalise on the benefits of utilising assets for revenue.

One alternative model to capitalise on the value of assets and drive revenue without increasing taxes would be the use of urban or regional wealth funds, which apply private sector expertise and management tools to crowd in private investment for asset development. This would boost the value of assets while maintaining local government ownership to yield returns in revenue.[96]

National and local government can also apply stipulations on redevelopment to achieve social aims, such as redeveloping land to build new housing, whilst crowding in private sector investment for revenue.[97]

One example of this is in Copenhagen, where investment into new housing, schools, universities and hospitals was funded by the urban wealth fund (UWF) instead of central government grants or tax revenues.[98]

---

[93] Andy Pike, '"Councillors at the Casino"? Why It Is National Not Local Government Taking the Local Public Services Gamble', *UK in a Changing Europe*, 28 September 2023.
[94] Pike.
[95] UK Urban Futures Commission, *Unleashing the Potential of the UK's Cities* (Royal Society of Arts, 2023).
[96] Dag Detter and Stefan Fölster, *The Public Wealth of Cities* (La Fabrique de la Cité, 2018).
[97] Dag Detter, Stefan Fölster, and Josh Ryan-Collins, *Public Wealth Funds: Supporting Economic Recovery and Sustainable Growth* (UCL Institute for Innovation and Public Purpose, 2020).
[98] UK Urban Futures Commission, *Unleashing the Potential of the UK's Cities*.

Figure 3: The By & Havn UWF

The By & Havn UWF in Copenhagen is a privately run and publicly owned UWF. It is the largest in Europe and has successfully developed 100,000 new workspaces, a university, 33,000 housing units, parks and a local metro system.

The UWF was created with to boost the city's infrastructure without increasing local taxes. In 1992, the national government created the Ørestad Development Corporation and several privately run, publicly owned companies to regenerate the city centre and develop asset value, using generated revenues to fund local infrastructure. The UWF was mandated by law to deliver commercial gains and yield revenue to generate profit for the

Source: The Brookings Institution, 'The Copenhagen city and port development corporation', 2017.

The idea behind UWFs is two-fold: most councils do not capture the full value of their assets due to cash accounting, and many councils lack the private sector and commercial expertise to redevelop assets to maximise revenue. With professional private sector asset management expertise, UWFs can boost the value of the assets whilst retaining local government ownership.[99]

As one interviewee put it: "If you employed the management discipline of a private sector wealth management company and gave them the balance sheet that our local authorities have you could unlock huge potential."

UWFs could manage the commercial investment properties which local government bought during the 'commercialisation' agenda to encourage income generation.[100] By crowding in private investment, as has been done by London Continental Railways at Kings Cross, UWFs can drive regional growth and local economic development without relying on central government grant funding.[101]

Thus, UWF have potential to raise additional revenue for councils and promote financial independence and local economic growth without reliance on local taxes and national funding. They can achieve important social objectives by supporting the development of key local infrastructure without relying on taxes. By transferring assets into a UWF with the specific purpose of asset redevelopment they can contribute to a long-term regeneration plan.

[99] Ibid.
[100] S Folster, J. Ryan-Collins, and D Detter, *Public Wealth Funds: Supporting Economic Recovery and Sustainable Growth*, IIPP Policy Report (UCL Institute for Innovation and Public Purpose, 2020).
[101] Folster, Ryan-Collins, and Detter.

Figure 4: The MTR Corporation

The MTR Corporation in Hong Kong, established in 1975, is an UWF which runs the metro, subway and rail system in Hong Kong. The MTR owns rail infrastructure, local land and local real estate and the returns from the MTR have been used to fund infrastructure and local property developments. Unlike other state-owned transport systems the MTR is listed on the stock market, but the government is its main shareholder and the revenues pay a substantial dividend to the city.

Source: Aveline-Dubach, Natacha, Blandeau, Guillaume, 'The political economy of transit value capture: The changing business model of the MTRC in Hong Kong', 2019.

The first step to developing a UWF is to correctly value all assets held by local government to create a total portfolio that can attract private investment. Next, these assets should be transferred into a new fund, with a board and auditors appointed to ensure accountability. This fund should be owned by the relevant combined authority or regional authority but operationally independent, with its own distinct oversight structure.

Lastly, a business plan should be produced: built upon private sector knowledge and led by a fund manager hired from the private sector, to identify how best to develop each asset to deliver the greatest returns and incentivise further investment.

Recommendation 11: Starting with the most 'mature' combined authorities, power should be granted to establish and implement Regional and/or Urban Wealth Funds, pooling many of the assets held by the local state within the jurisdiction into an investment fund that is competitively managed, with leaders drawn from the private sector. This will allow local systems to capitalise on assets and finance plans based on a new revenue stream, while maintaining local government ownership.

4. Conclusion

The analysis presented in this report highlights the urgent need for action to build a more sustainable local finance system. The findings demonstrate that the current approach — characterised by fragmented governance, limited fiscal autonomy, and a reactive stance to growing service demands — is no longer viable. Without significant reform local authorities will continue to face escalating crises that undermine their ability to serve their communities effectively.

Research for this paper has underscored the challenging situation that the sector finds itself in. Local authorities have been compelled to take on expanded roles without commensurate resources, often leading to unsustainable service provision and a growing reliance on emergency funding. While some authorities have innovated in response to these pressures, risky ventures such as commercial investments have also sometimes backfired, exacerbating fiscal instability.

The case for reform is clear. There is an urgent need to stabilise key cost drivers, reimagine local government's role, and address the structural inadequacies in fiscal devolution and accountability. This would mean overhauling the audit system, finding new ways to leverage local assets, and identifying ways to increase local control over taxation. Without systemic change, councils risk not just financial collapse but the ongoing erosion of public trust in their ability to deliver essential services.

One of the central arguments of this report is the deeply interconnected nature of the challenges facing local government. The crises in local audit, service delivery, and funding are not isolated issues. They are part of a larger, systemic problem that requires a coordinated, whole-system response. Addressing these challenges in isolation, as has often been the case, only perpetuates the cycle of crisis management. In each area, this report makes clear that what is needed is a shift away from short-term fixes towards a more strategic, long-term approach that addresses the root causes of these crises and, importantly, enhances the autonomy of local systems to grow their economies and establish revenue streams for delivering on the priorities of residents and national government alike. To buy time to make these long-term shifts, ways must immediately be found to inject resources and staunch the biggest cost drivers.

The report's recommendations are designed to facilitate this shift. Key proposals include the reform of the local government funding model to ensure greater fiscal autonomy and sustainability, and the introduction of new incentives to help drive earlier intervention in service delivery and to reap the benefits of local growth.

By taking action in these areas, a new possibility emerges: a local government system that is not only sustainable, but capable of driving positive, diverse change for communities across England.

Bibliography

Amin Smith, Neil, Tom Harris, and David Phillips. 'Is a Local Income Tax the Best Way to Sustainability for Local Government?' *Institute for Fiscal Studies*, 21 March 2019.
———. *Taking Control: Which Taxes Could Be Devolved to English Local Government*. Institute for Fiscal Studies, 2019.
Atkins, Graham, and Stuart Hoddinott. *Neighbourhood Services under Strain*. Institute for Government, 2022.
Bentley, Oscar. 'Why Do Councils Go Bust and What Happens When They Do?' *BBC News*, 5 March 2024.
Betts, Clive. 'Findings from The Committee's Inquiry into the Office for Local Government', 24 May 2024.
Boccarini, Giulia, George Stevenson, Hiba Sameen, and Nihar Shembavnekar. 'Adult Social Care Funding Pressures'. Web Page, 25 September 2023.
Breach, Anthony. 'The Budget 2024 Should Commit to Fiscal Devolution', 4 March 2024.
Chartered Institute of Public Finance and Accountancy. 'Diploma in Public Financial Management, Reporting and Advanced Audit'. Web Page, n.d. Accessed 24 October 2024.
Communities and Local Government. *Local Government Finance and the 2019 Spending Review*, 2019.
Comptroller and Auditor General. *The Local Government Finance System in England: Overview and Challenges*. National Audit Office, 2021.
Cooper, Ben, and Andrew Harrop. *Support Guaranteed: The Roadmap to a National Care Service*. Fabian Society, 2023.
Deloitte. *Written Evidence Submitted by Deloitte*. Public Accounts Committee, 2023.
Department for Education. *Children's Social Care: Stable Homes, Built on Love: Government Consultation Response*. CP933, 2023.
———. 'Delivering Better Value in SEND Implementation Plans', 2023.
———. 'Government Delivering on 60,000 More Special Needs Places'. Press Release, March 2024.
———. 'Guidance on Our Intervention Work with Local Authorities', October 2022.
Department for Levelling Up, Housing & Communities. *Exceptional Financial Support for Local Authorities for 2024-25*, 2024.
———. *Local Authority Revenue Expenditure and Financing: 2022-23 Outturn, England - Third Release*, 2024.
———. *Local Authority Revenue Expenditure and Financing England: 2021 to 2022*, 2022.
———. 'New Burdens Doctrine: Guidance for Government Departments'. Web Page, 29 July 2022.
Detter, Dag, and Stefan Fölster. *The Public Wealth of Cities*. La Fabrique de la Cité, 2018.
Detter, Dag, Stefan Fölster, and Josh Ryan-Collins. *Public Wealth Funds: Supporting Economic Recovery and Sustainable Growth*. UCL Institute for Innovation and Public Purpose, 2020.
Driscoll, Jamie. *Regional Wealth Generation: Focusing on Local Wealth Creation to Level up the North*. RSA, 2021.
Financial Distress in Local Authorities. Levelling Up, Housing and Communities Committee, 2024.
Financial Reporting Council. *Financial Reporting Council: 3-Year Plan*, 2023.
———. 'Local Audit Workforce Strategy'. Web Page, 6 February 2024.
Financing English Devolution. Independent Commission on Local Government Finance, 2015.

Folster, S, J. Ryan-Collins, and D Detter. *Public Wealth Funds: Supporting Economic Recovery and Sustainable Growth*. IIPP Policy Report. UCL Institute for Innovation and Public Purpose, 2020.
Foster, David. *Funding for Adult Social Care in England*. House of Commons Library, 2024.
Franklin, Jon, Jack Larkham, and Mariam Mansoor. *The Well-Worn Path: Children's Services Spending 2010-11 to 2021-22*. Pro Bono Economics, 2023.
Greater London Authority. *Raising the Capital: The Report of the London Finance Commission*. London Finance Commission, 2013.
Her Majesty's Treasury. *Transforming Business Rates*, 2024.
HM Government. *Levelling Up White Paper*, 2022.
House of Commons Committee of Levelling Up, Housing and Communities. *Long-Term Funding of Adult Social Care*. HC 19. London: The Stationery Office, 2022.
Housing, Communities and Local Government Committee. *Financial Reporting and Audit in Local Authorities*, 2023.
———. 'Oral Evidence: Financial Reporting and Audit in Local Authorities, HC 1196'. Web Page, 17 July 2023.
Kaye, Simon, and Patrick King. *The Future of Levelling Up*. Reform, 2022.
Kaye, Simon, and Rachael Powell. *Devolve by Default: Decentralisation and a Redefined Whitehall*, 2024.
Kaye, Simon, India Woodward, and Giorgia Vittorino. *What Powers Where? Achieving the 'Devolution Revolution'*, 2024.
Kingman, John. *Independent Review of the Financial Reporting Council*. Department for Business and Trade, 2018.
Kitsos, Tasos Dr. 'Fiscal Devolution: An Era of Opportunity'. *City-REDI Policy Briefing Series*, January 2018.
Labour Party. 'Change: Labour Party Manifesto 2024', 2024.
LGA. *Fiscal Devolution: Adopting an International Approah*, 2020.
Local Government Association. 'Corporate Peer Chalelnge Reports'. Web Page, 2024.
———. *Must Know Guide: Working with Auditors*, 2024.
Local Government Association. 'Section 114 Fear for Almost 1 in 5 Council Leaders and Chief Executives after Cashless Autumn Statement'. 6 December 2023.
———. *Written Evidence from the Local Government Association*. UK Parliament, 2015.
Local Government Association and WPI Economics. *Reforming Revenues: Options for the Future Financing for Local Government*. Local Government Association, 2022.
MacAllister, Josh. *The Independent Review of Children's Social Care*, 2022.
Makeig, Beatrice. 'Local Growth: Case Studies and Resources for Local Government'. *LGiU*, 24 September 2024.
McMahon, Jim. 'Oflog: Review of Long-Term Role, and Short-Term Remit', 10 September 2024.
Merrick, Neil. 'Councils on Notice: Does a Section 114 Mean Bankruptcy for Local Government?' *LGiU*, 14 September 2023.
Ministry of Housing, Communities and Local Government. 'Eric Pickles to Disband Audit Commission in New Era of Town Hall Transparency'. Web Page, 13 August 2010.
———. 'Local Authority Financial Reporting and External Audit: Government Response to the Independent Review'. Web Page, 17 December 2020.
———. 'Local Authority Financial Reporting and External Audit: Spring Update'. Web Page, 19 May 2021.
———. 'Significant Measures to Tackle Worsening Backlog in Local Audit'. Web Page, 31 July 2024.
———. *Tables on Homelessness: August 2024*, 2024.
Ministry of Housing, Communities and Local Government, and Financial Reporting Council. *Memorandum of Understanding between the Financial Reporting Council and the Department for Levelling Up, Housing and Communities*, 2023.

National Audit Office. *Progress Update: Timeliness of Local Auditor Reporting on Local Government in England*, 2023.
———. *The Effectiveness of Government in Tackling Homelessness*, 2024.
———. *Understanding Central Government's Accounts*, 2014.
National Centre for Social Research. 'Public Expectations of Government at Record High', 21 September 2023.
Next Steps to Put People at the Heart of Care. Department of Health and Social Care, 2023.
Oakley, Matthew, and Christina Bovill Rose. *Local Authority Spending on Homelessness*. WPI Economics, 2020.
Office for Local Government. 'About Us'. Web Page, n.d.
Ogden, Kate, and David Phillips. *How Have English Councils' Funding and Spending Changed? 2010 to 2024*. Institute for Fiscal Studies, 2024.
Oung, Camille. 'What Has Happened to the Funding Earmarked for Social Care Reform?' *Nuffield Trust*, 24 July 2024.
Pike, Andy. '"Councillors at the Casino"? Why It Is National Not Local Government Taking the Local Public Services Gamble'. *UK in a Changing Europe*, 28 September 2023.
Pope, Thomas, Grant Dalton, and Maelyne Coggins. *How Can Devolution Deliver Regional Growth in England?* Institute for Government, 2023.
Prime Minister's Office, 10 Downing Street. *The King's Speech 2024: Background Briefing Notes*, 2024.
Public Accounts Committee. *Timeliness of Local Auditor Reporting*, 2023.
Public Sector Audit Appointments. *Annual Report and Accounts 2023/24*, 2024.
Raising the Capital: The Report of the London Finance Commission. London Finance Commission, 2013.
Redmond, Tony. *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*. Ministry of Housing, Communities and Local Government, 2020.
Reforming Business Rates: Fixing a Broken System. Centre for Cities, 2020.
Rodriguez-Ruiz, Andres, and Miquel Vidal-Bover. 'Unfunded Mandates and the Economic Impact of Decentralisation. When Finance Does Not Follow Function'. *Political Studies Association* 1, no. 25 (2022).
RSA. *Commission on the Future of Local Government*, 2012.
Ryan-Collins, Josh. 'Keeping Wealth Local'. *IPPR Progressive Review* 28, no. 3 (December 2021): 226–33. https://doi.org/10.1111/newe.12263.
Sadik, Hannah. 'Debate on the Importance of Good Quality Early Years Education Provision and Environments, Especially since the COVID-19 Pandemic'. *Local Government Association*, 28 November 2023.
Sarma, Daran. 'It's Time for a Land Value Tax'. *Institute of Economic Affairs*, 15 February 2016.
'Statement Regarding Section 114 Notice'. Webpage, 2023.
The Chartered Institute of Public Finance and Accountancy (CIPFA). *Spelthorne Borough Council: Review of Debt/Investment Risk Profile*. CIPFA, 2023.
The Precarious State of the State. Institute for Government, 2024.
The Taxation of Land and Property. Institute for Fiscal Studies, 2022.
Towards an Effective and Financially Sustainable Approach to SEND in England. isos partnership, 2024.
UK Urban Futures Commission. *Unleashing the Potential of the UK's Cities*. Royal Society of Arts, 2023.
Vasilev, Danail. *Social Care: A Prefunded Solution*. Reform, 2017.

REFORM

978-1-910850-70-1

@reformthinktank

@reformthinktank.bsky.social

www.reform.uk