

Housing, Communities and Local Government Committee

Oral evidence: The Funding and Sustainability of Local Government Finance, HC 514

Tuesday 11 February 2025

Ordered by the House of Commons to be published on 11 February 2025.

[Watch the meeting](#)

Members present: Florence Eshalomi (Chair); Lewis Cocking; Chris Curtis; Maya Ellis; Mr Will Forster; Naushabah Khan; Mr Gagan Mohindra; Joe Powell.

Public Accounts Committee Member present: Mr Clive Betts.

Questions 1 - 31

Witnesses

I: Professor Tony Travers, Director of LSE London and Associate Dean of the School of Public Policy, London School of Economics; Jonathan Carr-West, Chief Executive, Local Government Information Unit; Aileen Murphie, Honorary Professor, Durham University Business School; Professor Andy Pike, Henry Daysh Professor of Regional Development Studies, Centre for Urban and Regional Development Studies (CURDS), Newcastle University.

II: Charlotte Pickles, Director, Reform; David Phillips, Associate Director, Institute for Fiscal Studies; Stuart Hoddinott, Senior Researcher, Institute for Government.

Examination of witnesses

Witnesses: Professor Tony Travers, Jonathan Carr-West, Aileen Murphie and Professor Andy Pike.

Chair: Welcome to the Housing, Communities and Local Government Select Committee. I am Florence Eshalomi. Can I ask my Committee members to introduce themselves, please?

Chris Curtis: I am Chris Curtis, Labour MP for Milton Keynes North.

Naushabah Khan: I am Naushabah Khan, Labour MP for Gillingham and Rainham.

Maya Ellis: I am Maya Ellis, MP for Ribble Valley.



HOUSE OF COMMONS

Joe Powell: I am Joe Powell, MP for Kensington and Bayswater.

Mr Forster: I am Will Forster, MP for Woking.

Mr Betts: I am Clive Betts, MP for Sheffield South East. I am guesting as deputy Chair of the Public Accounts Committee.

Lewis Cocking: I am Lewis Cocking, MP for Broxbourne.

Mr Mohindra: I am Gagan Mohindra, Conservative MP for South West Hertfordshire.

Chair: Can I ask our guests to introduce themselves for the record, please?

Professor Pike: I am Andy Pike, the Henry Daysh professor of regional development studies in the Centre for Urban and Regional Development Studies at Newcastle University.

Aileen Murphie: I am Aileen Murphy, honorary professor at Durham University Business School and ex-National Audit Office.

Professor Travers: I am Tony Travers, a professor in the School of Public Policy at the London School of Economics.

Jonathan Carr-West: I am Jonathan Carr-West, chief executive of the Local Government Information Unit.

Q1 **Chair:** Good morning and welcome to the Committee today. It is fair to say that local government finance is always in the news. This is our first evidence session on the sustainability and funding of local government finance. It is a timely session, because tomorrow is the close of the consultation that the Government announced on reforming local government finance, so it will be interesting to see what comes forward on that.

I want to start with a question to our guests about everything that has been going on with the cost pressures and increases we have seen over the years, and the number of councils issuing section 114 notices. What do you feel has driven the increase in financial distress that we are seeing across local authorities of all political stripes?

Jonathan Carr-West: Over the last 15 years or so we have seen a perfect storm come together. Local government funding has been reduced. It varies across councils, but funding from central Government has gone down by approximately 40%. At the same time, the bit of that story that is less focused on is that councils have, therefore, become much more reliant on local income, whether that is council tax or retained business rates, and there has been, effectively, a transfer of financial and political risk to councils.

While we have seen their income reduce—councils' core spending power has gone down by approximately 20%—we have also seen a massive increase, in both demand and cost, in the key statutory services that they are required by law to provide. Notable is adult social care, which local



HOUSE OF COMMONS

authorities tell us is the biggest long-term pressure on their finance. Children's services are having, they tell us, the biggest short-term impact on their finances. Another is temporary accommodation.

In all these areas we have seen demand in terms of the number of kids with EHCPs, the number of people requiring special educational needs support, or the number of adults requiring domiciliary care. Demand has gone up, but so has cost. For example, the cost of children's residential care has almost doubled over the last nine years or so. These are really acute pressures, and we have got to a point where that circle cannot be squared any longer.

Professor Travers: I could not add very much to that excellent summary that Jonathan gave. The difficulty is not just the extent of the reduction in spending over time. In fairness to successive Governments, the last two or three years have seen a slight uptick in local government's core spending power, but the overall picture back to 2010 is of a reduction in spending by 10% to 15% in real terms, or by more than 20% in per capita spending, and it is the per capita issue that really drives this.

The challenge is that there is no apparent way out. Local authorities get annual funding settlements—or have in recent years—and trying to plan in a strategic way to manage spending down and more productively in these circumstances is very difficult. That has led councils, in a number of years, to build up reserves, paradoxically, because the more uncertain life is, the more they think it might get worse in the future and then build up reserves. It has not happened every year, but it happens in a number of years when uncertainty is greatest.

As Jonathan said—we are all going to agree on this one—this is a long position that has built up over 15 years now. Rationally, if you look at the picture looking forward from the Office for Budget Responsibility and other forecasters, given that we know the spending aggregates out to 2029-30, by the time you take out all the protected services—so the NHS, the state pension and so on—the pressure on unprotected services, which includes local government, continues to the end of this decade.

Aileen Murphie: I will not repeat what my colleagues have said. The other thing to note is that within the way that, say, grant funding is provided to local authorities, there have been changes that ramp up the pressure on individual authorities. For instance, there are far more grants now that come with quite onerous conditions and monitoring. You get fewer grants that are without some form of ringfence. The last Government in particular really liked competitive bidding, which, again, adds to that uncertainty for local authorities. They do not know what they are going to get or when, which makes planning very difficult.

That, combined with multiple short-term initiatives to stave off pressure on one service, such as the introduction of the adult social care grant, and then a little bit more for children's services, undermines good



HOUSE OF COMMONS

decision making and value for money in local government. You need to be able to plan and to think about capital funding in the long term to make sure that services are as efficient as they could be. That is what I would add to what colleagues have already said.

Professor Pike: It is difficult to say much more; those are all very good points. There are a couple of things to say. The first is that there are structural problems with the funding system, as has been pointed out. The big one in the jargon is unfunded mandates. Basically, we are asking local authorities to do things but not providing appropriate matching funding for them.

The sources of local income generation are very constrained, and very controlled centrally, so the scope for local authorities to fill the gaps when grant funding has been reduced becomes a real challenge. Local authorities' agency and their ability to respond to this through delivering savings or generating other income sources has been hampered by austerity reducing their capacity to think and do these things intelligently. Those structure and agency things are there.

It does beg the fundamental question, though, which should be addressed as part of this, of what we want local government to do and how we are going to fund it. Those basic issues are really central and integral to this. As Tony was saying, there is a long-standing debate. Is it just an agency of central Government that we want to deliver services for as low a cost as possible, or is it a genuinely democratic tier of government and the UK state that has a democratic position and tries to make decisions to match the needs and ambitions of local people across the country?

Q2 **Chair:** That is important. You will have noticed the funding settlement last week. The LGA has said that even with that increase, a number of councils will still struggle. You have all highlighted some changes. The Government have been very clear that they want to look at less bidding, removing some of the ringfencing, and multi-year settlements. Would that help? What more could the Government do to help to address the financial pressures going forward?

Professor Pike: It is very welcome. It has been a very busy period in the local government sector. It is a welcome focus on the problems within the sector more broadly. There is a whole accumulated history, if you like, of adaptations and tweaks. We have a hellishly complex local government funding system, which is almost byzantine in its degree of complexity, so any change is difficult, costly and uncertain. It is politically difficult as well in some regards. Some of the changes that have been brought in are very welcome, such as bringing back needs assessments and the consultation on the other technical issues—all the things that you mentioned.

The key thing is whether it moves it far and fast enough in the direction of real, fundamental overhaul, if you like, to try to fix these deep



structural problems that we have all highlighted this morning. Some inspiration can be taken from how other countries operate. We have done some excellent work at the LGIU on this. We can also look to things such as the European charter of local self-government, which has a whole set of principles that guide the way in which local government funding in other countries is organised around autonomy, greater tax-raising powers and lots of income-raising things, which I am sure we will come to in later questions.

Q3 Lewis Cocking: Can I ask a follow-up question about bidding? We have had lots of bidding pots that the last Government did. For example, my local authority of Broxbourne got levelling-up money. The Government then took a different approach with the UK shared prosperity fund, where each council got £1 million or thereabouts. I am not saying which is best, which is why I want your opinion on it.

If Government fund the whole project, you can really transform a town centre. You can do lots of things. You can transform lives. I cannot transform lives with £1 million. I am worried that if we move to a different model, where everyone gets the same level, some of that would just be wasted. I would be interested in your views on bidding wars versus everyone getting a little bit of money to do some tinkering that is not really enough to do the whole project. Does that make sense?

Mr Mohindra: That is a loaded question.

Professor Travers: There have always been ringfenced and specific grants. The police grant has, famously, long been a ringfenced grant. Aileen made the point earlier that what has been characteristic of recent years and what has happened, effectively, is that because of the constraints on general funding overall, Ministers in different Departments think, understandably, “We need to do something about potholes, so let’s have a potholes grant. Then we need to do something about something else, so let’s have a something else grant.” The levelling-up type of funds were doing something different again.

There is a perfectly respectable question to ask: in addition to the general funding that underpins council tax and local governments’ day-to-day spending, is there room for specific grants as well? The answer is yes, but they have to be very precise of purpose, predictable and, in a sense, short term—so the Government step in to regenerate a town centre, for example, and then step back out again.

In a sense, the problem we have seen is the proliferation of bidding rounds, which this Committee’s predecessor looked at in detail. Not only did it make it hard for local authorities to do all that bidding but, as we know from Public Accounts Committee reports, not all the money was paid out.

Q4 Chair: Would you say that some of that bidding overlooks the hidden deprivation in some areas as well, given that there will be winners and losers in some of the bidding pots?



HOUSE OF COMMONS

Aileen Murphie: The problem with competitive bidding, or any mode of giving out money from the centre, is that it is horses for courses. What is the problem that you are trying to solve? If it is about a specific development that you want to see in a few areas, a competition is a really good way of doing it, and there is a big lump of money.

The issue is that when you are trying to replace what should be baseline or needs-related funding with competitive bidding, you get to the point where that is the only way that areas that should receive funding—if you look at the needs assessment, which has not been updated since 2013-14—can get money, so they go for it.

Jonathan Carr-West: You also end up with central Government then very much defining the terms of what is needed. Ahead of the election, I interviewed 63 chief execs and leaders, and asked them all about this. One of the things they said is that even people who had done quite well out of that bid funding and got money from the levelling-up fund said, “It is not really how I want to be funded. Is it funding the thing that I would most want to do if I could? No, not necessarily. We are doing the things that match the funding stream, rather than the funding matching the things that we need to do.”

It gives you no ability to plan, because you do not know if you are going to get it again next year, so the predictability, as Tony said, is a huge problem and, as Aileen said, it also distorts the strategic priorities.

Q5 **Maya Ellis:** To build on that, is the way local government funding is allocated at the moment reflective of needs or of deprivation, and does it provide support according to need?

Professor Travers: No.

Aileen Murphie: That is partly because the needs assessment has not been updated since 2013-14, which is a long time ago now. Things like rises in deprivation, changes in population or changes in demographics—the number of working-age adults in particular areas who require adult social care funding now almost outweighs the effect that the ageing of the population is having—are not reflected in the needs formula, so the simple answer is no.

Jonathan Carr-West: To give an illustration of that, I spoke recently to a council chief exec who said, “We are spending £1.5 million a year here on supporting one individual with very complex needs, because they require round-the-clock care from a team of three people. As it happens, our funding is almost entirely drawn through council tax, as is our neighbouring authority’s. This person, as it happens, lives about two streets away from the boundary. If they lived three streets west, that bill would fall on a different authority. There is nothing in the way that we are funded that recognises that we have that cost and our neighbours do not.”



To go back to the Chair's question, the Government have committed to bringing in multi-year financial settlements, which 97% of councils that we surveyed said they wanted to see. They have committed to re-examining the needs formula. The question becomes, "That is all coming in next year. What happens in the meantime with that steady drumbeat of councils getting closer and closer to bankruptcy, and what happens after that in terms of more significant, long-term reform?"

Professor Travers: To add to these points, the difficulty is also that the grant system that depends on measurements of spending need, which needs to be brought up to date, and taxable capacity will change from year to year. After 12 or 13 years, if you bring in new measurements of need assessment into the grant, there will be substantial shifts in resources from place to place.

In a very tightly constrained system, where there is not going to be much money—let us not be naive about that—you are going to be taking money away from some councils to give it to others. That is the only way that that can happen, unless there is a sudden flooding of the system with a lot more money, which it would be naive to expect, so you end up with transitional arrangements that go on forever.

Q6 **Maya Ellis:** If changes are made around allocating more towards deprivation, what will be the challenges for more affluent areas?

Professor Travers: They will get less money, other things being equal.

Aileen Murphie: If they get less money, they will have to find money from elsewhere, so their council tax will go up, or they will rely more on fees and charges or locally generated income of one sort or another.

Q7 **Maya Ellis:** From the conversations that you have had—you mentioned speaking to chief execs—is there planning for that? What steps are those more affluent areas looking at taking to deliver that?

Jonathan Carr-West: There is some planning. We have already seen a whole bunch of councils requesting the capacity to put council tax up by more than the amount that they are allowed to now. The planning is relatively limited, though, because councils have already been pulling all the strings they have. They can put up fees and charges on everything from cremations to swimming pools, and they are already doing that year on year. They are already raising council tax. The vast majority of councils—nine out of 10—are raising council tax, and the vast majority of them by the absolute maximum that they can.

There are challenges here. Andy talked about some of the ways that people do it in other countries. Places that do this, frankly, better than we do have a much wider range of revenue options for councils, whether that is personal taxes, different forms of charges, or different forms of investment. The capacity that they have to prepare for that is really limited.



Q8 Naushabah Khan: I have a slightly different question. Does the panel have any views on whether local government reorganisation could help to address this? Could some of those areas where you have potential pockets of poverty that might be a bit hidden when you look at this be addressed through a reshaping of local government? Or would that create further challenges?

Professor Pike: This is a big, controversial topic. The big-picture agenda is like a Venn diagram. You have local government reorganisation, unitarisation and devolution, and then funding things. It is about trying to get those three things together to help to resolve some of these big issues. The question is whether, given that this is a huge agenda, you can do it in such a short time, but it arguably needs doing, particularly to address some of the funding questions.

The hope, based on, at best, mixed evidence, is that fewer, bigger authorities would get economies of scale and reduce the cost of service provision to try to address some of the financial challenges within the sector. It is difficult. With the overarching national focus on growth, it is about whether that local government reorganisation will try to get local authorities in a better position to be able to contribute to that national growth mission. That seems to be the overarching way in which this has been articulated.

Professor Travers: The question of where the most deprived areas end up after reorganisation is important. In some places, we are going to see counties broken up. You are going to have social welfare-type services that are currently in a county with a population of 1 million or 1.5 million broken down into two, three or four smaller authorities. I am not saying that this will happen, but it risks deprived areas being more concentrated, not less. It could go either way, and much depends on the pattern of local government that emerges from the structural change that is going on outside big cities across England.

Jonathan Carr-West: That is right. There are certainly counties in which the likely form of unitarisation will create some that are much wealthier than others and could exacerbate that problem. There are lots of reasons to reorganise local government; I am not sure that saving money is one of them. The evidence on that is relatively weak.

What is really important is Andy's point. The Government were really clear in the financial policy statement at the end of November that devolution, public service reform and finance reform all have to be seen as part of a single initiative, and that is right. The challenge is that it is not clear in practice that they are being done together. They are happening in different parts of Government and at different speeds. Louise Casey is going to tell us about social care reform in 2028. The finance reform is starting next year. Devolution is happening right now. How we tie these things together to ensure that they work as part of a single, coherent strategic plan remains a work in progress.



Chair: Those are some key thoughts that we will put to the Minister when he is before us.

Q9 **Naushabah Khan:** That probably leads into a bit of what I was going to ask next, which is around the cost pressures. You have alluded to a couple already, but what are the most significant cost pressures that local authorities are currently facing?

Aileen Murphie: One is adult social care, given the ageing of the population and the rise in the number of working-age adults who will need care for the rest of their lives. Every part of children's social care is rising—referrals, and so on—if you look at all the parts of the system.

There is the market failure in things like residential care placements, which was commented on in the McAlister review, and there is an issue with the sorts of individuals Jonathan cited—individual cases that are very expensive to support, particularly in children's social care.

Then there is the rise in households in temporary accommodation. The problem with that is that there is nowhere to discharge people from temporary accommodation to. We call it temporary, but if you look at the numbers, you see people or families in temporary accommodation for five or six years. In fact, the cost of homelessness itself, and the pressures around it, has made at least one local authority—Eastbourne district council—apply for exceptional financial support.

In addition to those three, there are all the background things such as inflation, the national living wage and employer's national insurance.

Q10 **Naushabah Khan:** To picking up on adult social care and SEN services, what has led to the quite drastic increase in recent years in terms of those provisions? Or is that something that has been ramping up for a number of years now and are we just reaching a bit of a pinch point?

Aileen Murphie: When I was at the National Audit Office, we produced a number of reports on adult social care that showed very clearly that the demographics were all against us, that the rise in cases was upward, and that the cost would follow. How would you stop the rise in the cost of adult social care? You need to think about preventive support much earlier on. We have people waiting a long time for assessment and for services, so once they come into the system, they are that much more dependent, so the amount of support they need is much greater. Then you get that interplay between a huge amount of domiciliary care or having somebody in residential care, which they are never going to come out of, effectively. There are a number of things happening here.

Professor Travers: I would add to Aileen's excellent list special educational need costs, which the Public Accounts Committee has reported could amount to deficits of £4.6 billion by March 2026. At the moment, councils are, effectively, holding these so-called negative reserves on their books, but something will have to be done about that as well, because it is an additional cost pressure on the authorities. It varies



HOUSE OF COMMONS

from place to place—some have lots of pressure and some much less—but, overall, it is a significant additional challenge.

Professor Pike: I was going to make the point that these are all important issues. We live in a very volatile, uncertain age. A lot of academic commentators describe it as a polycrisis. These are very volatile, uncertain and polarising times, if you like. A lot of those wider economic, social and environmental challenges are buffeting countries around the world.

Our funding system and the way that our local government finances are set up amplify and intensify a lot of those difficulties. Demographic ageing is not something unique to the UK, but it is about the way in which our system ratchets that up in its effect. Issues such as inflation that has come on the back of Brexit, the pandemic and the Ukraine war have buffeted countries in different ways and worked their way through the structures.

As was mentioned by colleagues earlier, these cost pressures are often very geographically concentrated in particular places, literally by virtue of the economic and demographic structures of certain places, and even due to the way in which they sometimes have almost national functions, if you like, that concentrate the demand for particular services.

Croydon was one of the local authorities that have issued several section 114 unbalanced budget notices. We have been doing a bit of work on this. One issue that Croydon has is being what it describes as the main point of entry for unaccompanied asylum-seeking children and young people. That is almost like a national function in the borough that is being hit by a massive increase in demand and the costs of provision. Geographical localisation of these things really begs that the system has a much more geographically sensitive way of dealing with these issues.

Q11 **Naushabah Khan:** Off the back of that, a couple of things have been mentioned, as well as suggestions that there are just things that we are perhaps not approaching in the right way as a country. What are some of the solutions to these funding models and how they are operating at the minute in local government? How could we alleviate that pressure if we were to do things slightly differently? What could that look like?

Jonathan Carr-West: It is easier to talk about adult social care. As Aileen said, we need to be intervening much earlier. Adult social care starts in midlife, so we need to be helping people to live healthily and independently, and to make financial provision for their care in the future. We need to be doing all of that far earlier. The trouble is that by the time people enter the care system, as Aileen said, it is often too late. They have greater needs and are making decisions under stress, and it is all very difficult, so we need that.

We need more preventive spend. We need to move towards more effective community healthcare. We talk a lot about the integration of



HOUSE OF COMMONS

health and social care, and people talk about a national care service, but we need to be careful. Yes, we need integration between social care and the health system, so that we get people out of hospital—too much of this, by the way, is taken up by a conversation about delayed discharge—but we should be thinking about how we stop people going into hospital in the first place, not how we get them out of it.

That means that social care needs to integrate with health, but also with planning, with housing, with street design, with leisure services, and with a whole bunch of stuff that local government is responsible for. We need to be thinking in a much more holistic way. We know how to do that with adults. As Aileen said, we understand fairly well why demand is growing in adult social care. It is much more complicated for children.

There are some proximate causes that we know about. EHCP is covering a larger age range. There are market failures. On average, a 23% profit is being taken out of children's residential care. There is also a much bigger picture of how we, as a society, are failing younger people. Why do we have a mental health crisis among children? Why do we have so many more kids needing support? I do not think we know the answers to that, and that is an urgent problem.

Professor Travers: On the prevention question, we all agree on that. It is interesting that if you look at the funding of public health since it was transferred back to local government, as compared with the NHS, there has been significantly more money spent on the NHS than public health. The prevention part is less well funded than the curing part, so what local and national Government's priorities are in that particular sphere of public endeavour is definitely something to look at.

The straight answer to your question is that, if we assume that there is not going to be lots more money, one thing that would help is predictability over time. As well as three-year settlements, a general sense that there is stability in public policy would mean the money that local government has could be used more productively. The question of the reorganisation on top of that is a separate issue for another hearing.

Q12 **Maya Ellis:** To build on that, in terms of those local ecosystems and that potential redistribution of responsibilities, is there anything else that is missing there? I am thinking about the type of talent that we attract to local government or to those kinds of services, for example. Where we do not have lots of money, what is stopping those collaborations? Certainly in my constituency, people often say that there is not that interaction and collaboration. Why does that work well in some places but not in others, in order to make the best use of the money that we have?

Aileen Murphie: It is a matter of history and geography, and sometimes, although it is probably not general, ancient enmities between different places, as you might say. It could also be due to the fact that it has simply never been done before.



When I was with the National Audit Office, and we would go out and look at a service that was doing innovative and new things, it very often depended entirely on one or two people being in particular jobs. If you want to roll something out nationally, and if you want everyone to do something, it has to be systemic. It has to be implemented properly, as opposed to that type of thing: "They are doing it really brilliantly. Oh no, X has left. What are we going to do now?"

Chair: We are going to move on swiftly and look at a key thing that I hear loud and clear from councils, which is raising revenue.

Q13 **Mr Mohindra:** We have heard one side of the equation about the cost pressures. The other side of that would be raising revenue. Many of us around this table are former councillors. Some are even current councillors. You alluded to this in the previous answers, where local leadership and local circumstances will dictate opportunities. How do we encourage that entrepreneurial flair without, effectively, turning that council's finances into a casino?

Professor Pike: This was a theme of a book that I wrote a couple of years back, called "Financialization and Local Statecraft", which tried to question whether, in fact, we had turned local government finance into councillors at the casino. We had a lot of very high-profile stories of reckless risk taking by ignorant councillors who did not know the problems and risks that they were taking on.

Chair: Not by any of these former councillors.

Professor Pike: No, indeed. We will perhaps come to Woking at some point later. What we did with that piece of work was to look across the piece. It is a very differentiated landscape. Only about 30 local authorities were really doing the vanguard stuff that was really risky, and the wheels came off there. There were probably 40% or so that the National Audit Office revealed with its commercial property study, which were less active. There was also a very long tail: more than half of the 317 local authorities were not doing any of this at all.

In answer to your question, trying to encourage entrepreneurialism and innovative approaches to these things is key—but, crucially, with the governance intact to ensure proper accountability, oversight, scrutiny and so forth. When you wade through, as we have done, for our sins, all the section 114 reports that have been published, much of it is about governance failure—so the lack of leadership or management, the lack of or weak compliance with existing standards and structures, and informalisation and non-minuted briefings. Nobody knew what was going on. There was a lack of transparency, and even illegality in some cases.

It is about having better use of the existing governance systems that guard against that, and then the exhortation for more innovation and entrepreneurial activity might sit on a more solid institutional foundation that would avoid some of the risks we have seen manifest. With Barnet the other day, we are now on nine section 114 notices since 2018.



HOUSE OF COMMONS

Jonathan Carr-West: We have done a big project with Northumbria University, looking at this in other countries. We call it embedded autonomy. Councils have autonomy and flexibility, and greater flex around revenue sources, but it is within a clear system of governance arrangements that provide accountability and so on.

We also need to be clear-sighted about this. From the centre, we are always saying, "We want them to be entrepreneurial, but we do not want any risk." We are going to have to make our minds up. There is a degree of risk in that, and it is about deciding and being clear, as a country, how far we want to allow that.

Professor Travers: Giving councils reasonable freedom to set fees and charges is a respectable way of allowing them some discretion as to raising money other than from the council tax. The difficulty with that, of course, is that some councils have a much greater capacity than others to raise money from fees and charges.

Beyond that, we have seen the arrival on the scene in recent years of new ways of adding to local revenue—for example, business improvement districts, where they have existed. At the margin, often in cities but not only in cities, they release substantial amounts of money for town centre management and things such as that, although they are not directly part of local government.

A debate of this kind also raises the question, controversial though it might be, which is being discussed here and there in local government, as to whether new taxes, such as tourism taxes, might be added to the range—not compulsorily, but where councils want to; it could not be more than that—with those new forms of revenue taking the pressure off council tax, which, as a separate issue, badly needs reform. Trying to put more and more weight on council tax is going to work only up to a point, so then the issue is whether there other ways of finding, at the margin, more money for local government that takes the pressure off the council tax.

Aileen Murphie: Adding to all that, when you look at what councils have done to create income streams, it is all about being clear as to the outcome that you are going for. Is it income in a commercial sense, or is it about regeneration or new house building, like Brick by Brick in the London borough of Croydon?

Where things go badly wrong are the governance failures, but also where no one is entirely sure what they are aiming at. If you add to that poor governance and a lack of information and transparency, you have a recipe for problems.

You need to be clear at the very start about what this entrepreneurial thing that you are going to do is about, and do proper sensitivity analysis. What if it takes twice as long to set up? What if it costs twice as



much? What if it brings in half as much as you think? Is it still a good wheeze? That would be what I would say on that.

Q14 **Mr Betts:** We have been quite enthusiastic about devolving powers to local government and, clearly, it is something that is going to continue, but we are still not really in the business, are we, of devolving the ability to raise money. Is that something across Government? Is it the Treasury behind the scenes? Politically, does no one have the radical initiative and the confidence to go and do it?

Professor Travers: Some of the answer lies in your question, if I may say so. Of course, the Treasury has long been cautious, under Governments of all parties, of letting go of taxation in general. It sees that as something for it to control and, unusually by international standards, local government spending, as funded out of taxation, falls within total managed expenditure. In the end, all of what local government does, apart from that funded from fees and charges, counts within the total national public expenditure.

The issue of new taxes, or giving local government a broader tax base, has eluded us all. We were talking outside before we came in. It is 50 years next year since the Layfield committee. That committee's report very clearly laid out the choice to be made between having a more locally free and autonomous system of local government, raising more of its money locally, possibly with a local income tax, or having local government as an agent of central Government, receiving whatever income the Government would give it at the time. We have tended to go down the second route, so the opportunities for radicalism are heavily constrained by the Treasury's unwillingness to let go.

Professor Pike: We have an ESRC project at the moment trying to identify incremental, moderate and more radical changes in this regard to try to fix some of these funding issues. There are clearly much-discussed incremental things such as revaluing council tax and going beyond 1991 property values, tweaking other bits of these wider local taxes such as tourism taxes, all the way through to assigning shares of national revenues such as stamp duty, income tax and all the rest of it. That is at the radical end of things. It could even be shifting the basis away, in terms of local taxes, from property to land, and having a land value tax. A lot of this stuff is already out there as ideas. This Committee has been looking at them for some time under your previous chairing, Clive.

The issue then becomes, as you were hinting at, the political will and the momentum to try to reconfigure the system to introduce and implement some of these things. As we were saying earlier, with a very complex, difficult, byzantine system, it is politically difficult and costly, and it is never going to be at the top of the Government's list of priorities.

Professor Travers: One brief thought that comes up under this discussion is that the relationship between council tax changes and spending changes is erratic at best. There is this idea of accountability



HOUSE OF COMMONS

driven by council tax payers or, indeed, business rate payers, given that their tax payments are really to central Government and then redistributed.

It is very easy for businesses to think that they are paying money to the council to be spent locally. We pay money to the council, through council tax, to be spent locally, but the relationship between those payments and what people receive, be they residents or businesses, is very weak. Spending can go up and council tax can go down. Council tax can go down and spending can go up. There is hardly any relationship.

Jonathan Carr-West: Of course, the pressures on adult and children's services mean that most councils are spending more and more. For most councils, that is two-thirds to three-quarters of their expenditure. More and more of their money is going on smaller and smaller parts of the population.

Q15 **Mr Betts:** What you are saying, then, is that tinkering with the system, which we are doing, is ultimately going to fail, so we have to do something fairly radical. I am probably putting words in your mouth.

Aileen Murphie: I do not know if it will fail. What we have seen over the past few years is tinkering and tweaking, accreting bits and changing things, and we have, more or less, kept the show on the road. The question is whether you want to carry on doing that or do something more radical, in which case it would need political decisions at the highest levels to be able to do that. They would have to be taxes that brought in quite a lot of money. A tourist tax is not going to cut it, when you look at the amount of money that comes in from council tax and business rates.

Jonathan Carr-West: It is, though, worth noting that most of the things that we put on the radical list are only radical here; in large parts of the world, they are business as usual.

Q16 **Joe Powell:** I have a quick follow-up for Tony. The accountability point is very interesting. If you were to fully devolve business rates and council tax, it comes back to the inequality point that we were talking about earlier, but that could, presumably, be a way of improving accountability.

Professor Travers: Having some sort of relationship between how the council's spending changes and what people pay in tax, not only at the local level but across the whole of Government, is an essential prerequisite of democracy and people understanding how their taxes affect spending. Recreating a relationship between spending and taxing at the local level is essential.

If you re-localise the business rate, it causes significant problems, particularly in London, because it is very unequally distributed. Westminster, where we are, has a tax base that is bigger than dozens of other authorities added together, so you would have to have some form of redistribution, but re-localising the business rate would, I suspect, help in increasing local autonomy.



Q17 **Chris Curtis:** If we accept Clive's point that it would be good to have some more of this and that the tinkering is not going to work, and if we also accept the premise that pigs will fly before the Treasury accepts the radical option, what is the middle ground? A tourist tax is not radical. Devolving powers to combined authorities to redo their council tax bands might be second on the list, the point about business rates being third. What are the next three or four things that might be something that you could convince the Treasury of.

Chair: One thing each, because we are short on time.

Aileen Murphie: Council taxes are in bands A to H. One council finance director said to me, "I do not mind council tax, but I want to use the whole alphabet." We need to look at tweaking the bandings and, as painful as it might be, a revaluation.

Professor Pike: There are things that they can do locally, such as community infrastructure levies and section 106-type things for developer contributions. There is some scope and innovation for things such as tax increment financing. Again, these are all out there and in use in various places.

The issue, as we have touched on, is that they work better in particular places than others. Where they do work, that is great—give the local authority scope to run with them—but you are going to have to then worry about the places where they are not going to work, which are typically areas with greater need and weaker tax bases, and those that need most redistribution. Getting those equalisation and redistribution mechanisms in line with the other innovations is the real challenge.

Jonathan Carr-West: In the end, you need assigned portions of national taxes, such as income tax or stamp duty. Whether that fits your criterion of something that the Treasury can be convinced of, I am not sure.

Professor Travers: My colleagues have said all the best things, but the Treasury probably needs to lighten up a bit, in the sense that local authorities, left to their own devices, would not only put council tax up, but some of them would cut it competitively. The evidence of the past is that some councils put it up and some put it down. As I say, there needs to be more debate in local elections about council tax levels. We thought that if councils set income tax, there would be a very high turnout in local elections. Allowing a bit more differentiation and, therefore, more argument at the local level about tax and spending levels would be something that the Treasury could do with effect.

Chair: Thank you very much. There were some really good, useful points that we will be milling over as we continue to discuss this. Thank you very much for appearing before the Committee this morning.



HOUSE OF COMMONS

Witnesses: Charlotte Pickles, David Phillips and Stuart Hoddinott.

Chair: Will our guests introduce themselves for the Committee?

David Phillips: My name is David Phillips. I am an associate director at the Institute for Fiscal Studies and I lead our work on devolved and local government finance.

Charlotte Pickles: I am Charlotte Pickles. I am a director at the Reform think-tank.

Stuart Hoddinott: I am Stuart Hoddinott. I am a senior researcher at the Institute for Government. I lead our work on local government finance, among other things.

Chair: Thank you for coming before the Committee this morning. This is our first evidence session looking at the funding and sustainability of local government finance. We have just had our first panel give us some thoughts and outline what the cost pressures are and where the key issues are. We had a lively discussion about raising revenue. We have a range of questions from Members to this second panel, and we will kick off with Lewis.

Q18 **Lewis Cocking:** I am going to talk about the national insurance increase on local government. Council tax can be raised by 2.99%, or a fiver if you are in the lowest quartile. Usually, over the last couple of years, inflation has been above what that brings into local councils. What will the impact of the new employer national insurance increase be on local councils?

David Phillips: I would make a couple of points here. The first is that it is clear that the Government have decided to compensate only for the direct costs of national insurance. That is not just within councils but across the public sector. There is compensation, effectively, aimed at covering the estimated costs of directly employed workers. There is some debate about whether it is covering even that, but what it means is that there is no additional funding to cover outsourced workers, for example in social care. On average, at the district level, some authorities would have outsourced elements of their refuse collection and so forth.

In the way that the Government allocated the funding to individual councils, they did not look at what they are spending on directly employed labour, but at their overall service spending. The allocation method is based not on what you are paying on your own labour, but on what your service spending is, the idea there being that they do not want to penalise councils that outsourced more, maybe to have cost savings or to do things differently. While the total amount going to local government is designed to compensate for directly employed staff, the allocation to individual councils is designed not to penalise those that outsourced more, or less, of their workforce. That is the first point that I would make on the allocation method.



HOUSE OF COMMONS

The second point is that, this year, when it comes to the amount of funding going to local government, it is important to look not just at council tax or even just what is in core spending power. Councils have quite a new major source of revenue called EPR, or extended producer responsibilities, which is the levy on the producers of packaging. Retailers have recently been complaining about this—you might have seen a director from Marks & Spencer complaining about this yesterday—but it will raise about £1.1 billion for councils in England to help to pay, basically, for the existing work they are doing on refuse collection, and so on and so forth.

The reason why I mention that is that if you look at what is in core spending power and include the compensation for national insurance, district councils are getting only about a 1.2% cash increase in their funding. That is way below inflation and will mean difficult choices. If you add in the extra income from EPR funding, it leads to an 8% increase in their total funding, so it really does change the picture substantially for shire district councils.

The last thing I would say is that, in the short term, I would expect the main impact of the higher national insurance to be on employers, but the OBR has said that in the long run, drawing on evidence, it would expect wage settlements over the next few years, in both the private and the public sector, to be lower than they otherwise would have been, so that a lot of this cost is shifted on to employees. That does not mean it is costless, of course, but that workers are bearing the cost of the national insurance increase, rather than councils. I would expect the impact of the national insurance increase on councils' finances to be greater in this first year or two. Over time, it will be the workers who will be bearing more of that cost.

Stuart Hoddinott: I agree with everything David said. As David alluded to, I would add that the compensation is for direct NICs cost to local authorities. There will be indirect costs that hit local authorities, because the NICs rise predominantly through higher fees from providers.

For adult social care, for example, the Nuffield Trust estimates that there are indirect costs of about £665 million to local authorities from the NICs rise, for which local authorities are not compensated. That will come in the form of higher fees. It will mean either reducing the amount of care that local authorities provide, or paying more for the same amount of care that they already provide. That will be replicated across all local authority services, but adult social care is one particularly large budget area for local authorities.

Charlotte Pickles: Briefly, as it has been covered very well, this could be seen as one of the examples of unfunded mandates, albeit a slightly indirect one, where you are applying a significant additional cost burden to local authorities. As was already pointed out, this is particularly in cases where they are providers rather than direct employees, which is



the vast majority of social care. That is one of the biggest pressures currently affecting local government finances. Of course, we have not mentioned the increase in the national living wage, which is a good thing as a policy, but that is exactly the sort of people this is also hitting. It is not just the NICs increase but a collection of things.

I am sure we will come on to this, and it was picked up in your previous panel, but some of the other things we have heard mentioned may also have impacts on growth. In thinking about the whole of the finance system for councils in the round, you cannot look at any one of these pots without thinking, "What are the implications for whether businesses want to invest there or want to expand and grow?" That then has huge implications for other revenues that councils are seeking to bring in.

Q19 Lewis Cocking: Are councils that have done well to keep their council tax low and keep money in residents' pockets being unfairly punished by still having to deal with all these cost increases while their council tax base is low?

Charlotte Pickles: There are always choices, politically, in local areas. If the choice is to keep council tax low, but that means that you cannot then fund your costs, or you are having to cut services as a result, that is a choice, which is what the whole process of democratic elections is supposed to expose.

There is a fundamental fairness question where we have councils that have become bankrupt and now been given permission to go well above the increases that are the general rule. Birmingham is being able to increase its council tax by 5.5% while, simultaneously, massively slashing services. As Tony mentioned in the previous panel, that has serious democratic and fairness implications. Ultimately, the only way you are going to create a stable, sustainable local government finance system is by being more radical, which I hope we come on to. Council tax, as has already been covered, does not really give you enough flex to be able to make decisions about the make-up of how you are raising funds and spending money.

Stuart Hoddinott: It is also worth saying that there has been more variation in the amount that local authorities raise council tax by. In the last few years, almost all local authorities have taken almost the entire referendum limit, and precepts where they can do. Almost all local authorities are now feeling the pressure, to the extent that even those that want to protect residents from having council tax increases are being forced to put through the maximum amount that they can in their council tax increases every year.

David Phillips: I would also say that, historically, a lot of the variation reflects decisions made at a local level. It is right that local areas bear the costs or gain the gains of what they do at a local level. Because the referendum limits constrain councils' ability to adjust their council tax over time if circumstances change, they can make it difficult for councils



HOUSE OF COMMONS

to respond to cost pressures that arise or, as we might see in the next few years, quite a big redistribution of funding when you update the funding system.

There is a strong case, particularly for those councils that set a historically low council tax and could lose out under a reformed funding system, and are, arguably, already finding it more difficult to deal with these rising costs, to give them more flexibility to respond to that by removing or substantially amending how the council tax referendum limits work.

That will not be popular at a local level, given that people have got used to paying low council tax but, ultimately, under a system of part-local financing, if you want to set a low council tax, you need to have lower spending. If you want to have higher spending, you need to have higher council tax. I would remove those limits, rather than compensate centrally for those councils that have chosen in the past to set a low council tax.

Q20 **Maya Ellis:** My constituency is Ribble Valley, in Lancashire. It is a very rural area, and it can take me about an hour to drive from one side to the other. That raises logistical issues for local services. What do you make of this year's settlement, particularly in light of the discontinuing of the rural services delivery grant? Do you feel it is fair?

Stuart Hoddinott: I agree with you that it is often much more expensive to deliver services in rural areas. On the rural service delivery grant specifically, if you look at the relative changes that those local authorities that have benefited from the rural service delivery grant for the last few years have had in their spending power since 2010, they have taken a hit since last year, but have done much better overall than other local authorities in more deprived urban parts of the country since 2010. Their average change in core spending power is about a 0.2% increase between 2010 and 2025-26, compared to about a minus 7.5% average for the rest of the country. They will be disappointed this year and might struggle to deliver some of those services but, overall, they have done better than other local authorities over a longer period.

David Phillips: I would not want to comment on the fairness of the issue, but I would say that what we saw during the 2010s was much bigger cuts for more deprived and typically more urban areas. The pattern started to change under the last Conservative Administration, under Boris Johnson and his successors, where, from about 2020 onwards, because increases came largely through grants and business rates, council tax barely kept pace with inflation during those years. Because a lot of it comes through grants, that benefited the more deprived areas, and we have seen, in its first finance settlement, Labour double down on that. As Stuart was saying, it undoes, partially but not fully, that pattern we saw back in the 2010s.



This comes to the real question that we are grappling with at the moment in local government finance reform. To some extent, fairness is in the eye of the beholder. You cannot have a fully objective assessment of what councils need and how much they can raise themselves. You need to make subjective judgments on what you think is an appropriate amount of services for different types of people and what is an appropriate amount of tax for different types of people to pay. While MHCLG can do a technical consultation and the development of a process, ultimately politicians need to decide what is fair.

Q21 **Maya Ellis:** To build on that question of what is appropriate, and again touching on rural areas, many rural councils face significantly higher costs for home-to-school transport. Could you talk a little bit about how that pressure could be better alleviated?

Charlotte Pickles: We have looked at home-to-school transport, particularly in the context of the SEND budgets, which is a huge pressure on local councils. That is not specifically in the rural context, but I totally understand your point. Obviously, the distances are far greater in rural communities.

At a minimum, we have argued that there should be means testing of this rather than a presumption that councils should just fund this service. I cannot speak specifically to the rural context, but we should also be looking at sharing transport. A lot of this is going on single kids going in taxis to school. We should be thinking more creatively about how we can make this system more affordable.

At a minimum, we think one way to reduce costs—this is something we have heard a lot from local government itself—is to means test that rather than having that assumption that councils pay for it, because they cannot afford it and it is not a fair model to have in place.

Q22 **Maya Ellis:** Just to stress-test that a bit, in rural areas the cost of home-to-school transport is around £93 per pupil, which is about 10 times the average in urban city areas. Following the logic, in a means-tested situation, there would be cases in rural areas where the funding would need to be much higher to support some of those services, where the logistics require it.

Charlotte Pickles: Yes. Clearly, you have to choose where you set your means test. Once you have set it, if you have longer journeys and much more spread-out schooling, you will clearly need to think about making sure there is additional funding going to areas where those costs will still remain high. Coming back to your original point about the fairness of the current settlement, we have all alluded to it, but to put it bluntly there is not enough money in the system. All of this is trade-offs; all of this is choices, ultimately.

At Reform, we are broadly supportive of the refocus towards deprivation. Because of the shift over the last few years, we think that is important.



Ultimately, unless we are willing to be more radical, think about the total money going in and the ability for local areas to raise revenues themselves, and start thinking a bit more about how you do that restructure in a more radical way, we are just going to keep having conversations about whether we should pit this area against this area, and that is never going to be fair.

Chair: I am going to move on to multi-year settlements.

Q23 Mr Forster: I am going to encourage you to continue on that “Let’s think radical” side of things. We are starting to move to a multi-year settlement. Most people agree that provides more certainty and, even if money is tight, that still helps. We can almost take that as given. What are the drawbacks? Unison has highlighted some concerns that a multi-year settlement without an increase is still a real problem. Does having a multi-year settlement lock in some of the problems we have with inadequate funding, particularly with the council tax base being based on early 1990s house values?

I will briefly mention unitarisation. How does multi-year settlement work when half of councils are going to change fundamentally over that time? Will those that are going through a reorganisation have to be taken out of that multi-year settlement? Or does that have to be reviewed throughout that time?

David Philips: The way I see multi-year settlements is that they cannot provide certainty, but they can provide clarity to local government. The reason I say they cannot provide certainty is that we do not know what is going to happen over the next three years. We do not know what is going to happen to inflation. If you set a cash amount for local government at the outset and say, “This is what you are going to get over the next three years,” in real terms, after inflation and cost pressures, that is probably less certain for councils than if you have some flexibility to respond to inflation.

The way to think about multi-year settlements is to say, “We are going to guarantee you a base amount, and then we will provide some clarity on how we will adjust that if circumstances change—if inflation is higher than expected or if demands are higher than expected and so on.” I see it as a way to provide clarity rather than certainty.

There is another aspect to this. There is a lot of debate about this, and councils tend not to be very keen on it, but it can be quite important. Over that multi-year period, you need to make some assumptions about what is going to happen to the populations of different areas using population projections and what different areas can raise through council tax over those years. If, for example, we hold population fixed and we hold council tax fixed, those areas that have faster population growth will tend to lose out and those areas that can raise less through council tax increases will lose out.



HOUSE OF COMMONS

Councils worry that this means you are putting a target on their population growth or on their council tax increases. That is not the case. When deciding how to allocate money between the NHS and councils, central Government will always say, "Councils can raise some through council tax." When you build in some assumption about what is going to happen to council tax when you allocate between councils, you are just making sure you are reflecting the fact that Surrey can raise a lot more from council tax increases going forward than Sunderland can, for example.

You mentioned unitarisation. My view here would be that these councils could still be in the core multi-year settlement. That will probably be required for spending control totals at MHCLG level. You also need to assess the trajectory of the expected cost savings from unitarisation. The Government have said they expect there to be cost savings in the longer run. The evidence is that you get less in terms of economies of scale cost savings, but you get more in terms of economies of scope. The fact that you can link up services together might improve services but does not necessarily save you much money.

If the Government expect savings of £500 million a year over the long run, that might not come in the short term. Maybe in the short term there is a cost, and then you start to save money. There perhaps might need to be a transition fund, if you like. In the short term, these areas could get some funding to support the move to unitarisation. In the longer term, perhaps in the next spending review, if their fixed costs are lower, some of that money can be redistributed to those areas that have not had that change in governance.

Charlotte Pickles: There are several drawbacks to it. I want to say up front that we are very pro. We think it will give greater clarity. Clearly, it is hugely beneficial for just general planning. We have already touched on the lack of preventive interventions; you cannot really do that if you are going year to year. It definitely has benefits.

What are the biggest risks? Clearly, you could solve the inflation question with some type of uprating mechanism, if Government wanted to do that. We do that in lots of other areas, including in benefits.

The new burdens mandate issues are the biggest challenge. How will that work in a multi-year settlement, if you have already done that and then the Government decide they want to change policy in an area or they want to do something differently? The extent to which central Government is going to behave in a way that matches having multi-year settlements is an issue.

There is also a question about whether you are going to allow greater revenue-raising flexibility in that. Clearly, the settlement is about the money that you are giving. I think it would be in the interest of the Treasury, despite the hesitance, to have more flexibility around revenue raising. If you said, "This is your budget, but we are also going to give



you more flexibility to raise revenue at a local level," you would have an ability to respond if something were to change within that multi-year settlement. Revenue raising becomes really important as the flipside of that coin.

The other thing that I would say very briefly is that this is where scale comes in as a really important factor. If you were to devolve and sit more of these budgets at a regional scale, you would be able to do equalisation and have greater flexibility across a region. You would probably have quite different types of areas that might need a response, but if you are sitting at a regional level, you have more flexibility to be able to respond to patches of difference, democratic shifts, deprivation or whatever it might be in an area. The problem is that, despite the current Government's ambitions, we sit very little at a regional level, so we do not have that scale to be able to respond.

Stuart Hoddinott: I completely agree with everything that everyone has said. We really welcome the move to multi-year settlements.

There is another thing that I would like to add. Multi-year settlements are beneficial as long as there is no cliff edge. The cliff edge is the point at which the problems emerge. Local authorities find it very difficult to commission services when your funding will run out in two months' time. It is not enough just to say, "We are going to have a multi-year settlement, and in another three years we will have another multi-year settlement." There needs to be some sort of rolling basis to that settlement as well to provide more clarity.

The inflation point is a really good one. The GPs contract from 2019 is a perfect example of a service that committed to cash-terms funding, which was then completely destroyed over the following five years.

In terms of this long-term settlement, I come back to the point about the quantum of funding. The funding for 2025-26 is higher than expected because of an expanded overall spending envelope from the Budget. Local government funding is unprotected beyond 2025-26. That implies real-terms cuts to grant funding of about 1.3% per year. After council tax increases, that will be about a 1.2% core spending power increase for every year between now and 2029-30. That total core spending power for local authorities is not going to increase enough, arguably, to meet some of the pressures that we have been discussing today. It will leave spending power about 2.5% lower in real terms in 2030 than in 2010.

It is not just about the certainty in the multi-year settlement. It is also about how much money local authorities can expect over that time.

Chair: We will move on to council tax. Which political party will take that by the horns?

Q24 **Chris Curtis:** I quite liked Will's introduction: be radical. We will go with that. Will the decision by the Government to allow certain local



HOUSE OF COMMONS

authorities to raise their thresholds for increasing council tax before triggering a referendum help these councils to close existing funding shortfalls? I will ask Charlotte first.

Charlotte Pickles: I imagine on the modelling side you will probably want to ask the IFS, but I can give you a general view. No, it is not going to be sufficient because the holes in local government finances are too big. As I mentioned earlier, there are particular councils where the funding is in such crisis that they have been given exceptions to those numbers and they are allowed to raise significantly higher.

Ultimately—you have already heard this—we need to do a full revaluation of council tax, not least because it is phenomenally regressive at the moment. If you want to make sure that people who are wealthy are paying more, you need to address the fact that the current council tax system does not work.

Q25 **Chris Curtis:** We will go to David for the modelling and then we will come back to revaluation.

David Philips: Actually, the IFS does work on revaluation so we can come on to that as well.

In terms of modelling, we have modelled how much it would raise for these councils. These exceptional rises would raise £45 million across the councils in question. It is notable that five of these areas—Birmingham, Trafford, Newham, Windsor and Maidenhead, and Bradford—had tax rates that started in the lowest quarter nationally. Somerset, on the other hand, exceeded the national average.

In answer to an earlier question, I mentioned that one effect of the referendum requirement is that councils that have historically set low council tax rates find it harder to respond to financial pressures. The fact that five of the six councils that have had to ask for additional flexibility are in the bottom quarter of council tax rates is indicative that the referendum limits are biting particularly for those councils that historically set low council tax. That adds to the calls to increase flexibility over council tax, particularly for those that have set historically low council tax rates.

Will we come to revaluation later?

Chris Curtis: No, go on—do revaluation.

David Philips: We looked at revaluation and the impacts in England back in 2020 for a major report. Clearly, revaluation is an important aspect of making council tax fit for purpose.

As it stands, properties are valued on the basis of 1991 values. The issue there is not that values have gone up so much across the country since then. What you could and should do is reset the thresholds to reflect that national rise in values. The issue is that different properties have seen



HOUSE OF COMMONS

such different increases in property values: up six or sevenfold in London and up three or fourfold in the north east of England, for example. Probably half of properties are effectively in the wrong band compared to if they were valued now, and nationally the same share are in each band as under the current system.

You can have properties that are now worth the same but face tax bills that are many hundreds of pounds different per year because they used to be worth different amounts 33 or 34 years ago when Gorbachev was President of the Soviet Union. It is a relic of the 20th century.

Chair: It is older than some of the Committee members.

David Philips: It is not older than me, unfortunately, but it may be older than some of the Committee members.

Revaluation is a necessary step. You could go further and you could reform council tax to reduce the regressivity of it. It is becoming a much higher share of value for low-value properties and so on. You could also pair it with wider reforms to the tax system. We currently have very high taxes if you sell a high-value property but very low taxes to live in a high-value property. That is not a very effective way of taxing property. It would make more sense to reduce stamp duty and to increase council tax. You would un-gum the housing market, boost the economy and increase fairness.

Council tax reform is an important thing, but it does not really address the fiscal sustainability of local government very much, at least in the short term. To get this through politically, you would need to have a revenue-neutral reform: it does not raise more and it does not raise less.

Chris Curtis: It would be easier to get it through if it was—

David Philips: Yes, if it was a revenue-cutting reform. If you revalued it, and then reduced the bills at the bottom and increased them at the top, going forward it might be easier to raise money at the margins. In the short term it would not really raise money; as you say, it might lose you money. In the longer term, it might make it a more fit-for-purpose tax from which you can raise more.

Q26 **Chris Curtis:** Stuart, broadly, everyone accepts that property prices from when Gorbachev was in charge are not a sensible way to do this and so we should change it. Do you have any views on how practically we might go about that without running into issues? Specifically, is it quite difficult to do at a national level? Could you give the power to do the revaluation to combined authorities, and if not, why not?

Stuart Hoddinott: It is an interesting set of questions. I do not have a good view on how best to do it. Combined authorities may be able to help with some of that trade-off. They can make decisions between different parts of their regions, choose local authorities and maybe help to smooth some of that political pressure.



On this topic more widely, it is interesting that the Government have given this power to six local authorities for this year. It is a real change in approach to the previous Government, which relied much more on capitalisation directions to support struggling local authorities. In fact, Somerset requested a council tax rise in 2023-24 and was rejected. It was given a capitalisation direction. We would argue that this is a much more effective approach to addressing financial distress in local authorities than capitalisation directions, which are generally one-off pots of money that are not well suited to addressing ongoing needs. The more general approach of more flexibility on council tax is welcome.

Chris Curtis: David, you shook your head.

David Philips: I shook my head because I do not think that having revaluation done by a local area or combined authority area would be consistent with having a national equalisation system. If you allow local areas and combined authorities to revalue properties, so that properties would be valued in one area on 2023 values, in another area on 2027 values and in another area on 2029 values, how do you then do a comparison of what they can effectively raise through council tax when you are working out how much grant funding to give them? That is a core element of how our system currently works. You need a common basis to assess their revenue-raising capacity. If different authorities have values based on different years, that is quite a difficult thing to do.

You might want to have revaluation done at a national level, but then allow combined authorities or local areas below combined authorities to then have more control over the structure of the tax. For a given valuation, different areas could decide whether they think higher-value properties should have more tax in the area than lower-value properties or perhaps how they distribute funding between different authorities. Perhaps in London it might be decided that—

Q27 **Chris Curtis:** There is a way through this. You do the revaluation so we know the numbers that local authorities could potentially raise. That solves the grant funding problem. You then allow combined authorities to make the decision on whether they adopt those or keep the old system.

David Philips: You could do that, yes, but you would then need to make sure you keep updating this revaluation nationally. One challenge could be that the VOA and councils would be operating two or multiple systems. You would have national values and bandings based on national systems and then you would also be operating a shadow system at local authority level. It adds complexity, but you potentially could do that.

Q28 **Mr Forster:** Thank you. We have all found it very useful. You have outlined that this is how you could do it, but you have also highlighted that there is almost no way to increase the overall budget to local councils by a revaluation, even with a transition arrangement.

I just want to pose a few questions. If London council tax should be a lot higher, you might be able to get to that over a five or 10-year period but



HOUSE OF COMMONS

not in one. What is your comment on transition?

If this was going to be delivered, surely you would want some pilot projects. You would want one council area to do a revaluation and the Government then to iron out the kinks before rolling it out nationally. Is that not desirable either?

David Philips: On the first point, you can do it on a revenue-raising basis. In Scotland, they did not revalue properties, but they did make some changes back in 2017 where they increased the effective tax rates on bands E to H. They did that with the aim of raising revenues. Effectively, councils kept the same band D rate and they were raising a bit more from properties in bands E to H. You can do that. The question is political will.

In Scotland, the narrative is very much, "We are raising more from higher earners and higher-value properties to raise more for public services." That was the narrative. In Wales, they have been going about it. When they went about it in 2005, it was, "We are just updating this to reflect the current situation. Some will win and some will lose, but on average it is revenue-neutral."

To some extent, it depends on the political narrative you are selling. If you want to sell it as revenue-raising, you need a narrative that it is about making higher-value properties pay more to help to improve public services. There is a choice there.

As I mentioned earlier, you perhaps would see a greater ability to raise revenues at the margin going forwards over that five to 10-year period. If, for example, you did not just revalue but also made it less regressive—so high-value properties paid more and low-value properties paid less—you would be less concerned about the impact of council tax increases on low-income pensioner households and so on because more of the burden would be on the higher-income households. Councils might feel more comfortable raising council tax if they did not feel it was being quite so heavily paid by the lower and middle-income households.

On the last part about piloting, we can see what Wales is doing as a pilot. Wales has done a lot of work already on the mechanics of revaluation. The VOA has produced updated values for Wales for April 2023. There is a lot that can be learned on the mechanics of how you do that. Wales also did it in 2005.

One of the issues in doing it for a single pilot authority is that nowadays how this would probably work is that, rather than sending people around in vans to look at properties, they would use statistical modelling techniques. They work much better when you have lots and lots of data.

Q29 **Joe Powell:** I want to have a quick discussion on business rates. How do you assess the current system, the problems within it and the changes that the Chancellor has announced?



HOUSE OF COMMONS

Charlotte Pickles: We are obviously pleased that they are looking at business rates. We do not think that what is in the consultation at the moment will make a fundamental difference.

The thing that we find most concerning about business rates is the disincentive to invest in property—so the growth impact of the current model. That is why we have proposed the replacement of business rates with a land value tax. You would have similar questions about doing the valuation. If you could do it with business rates, that may also let you later on apply it to replace council tax.

On the business rates point, a land value tax would have various benefits. It would stop penalising the small businesses, which tend to find business rates more difficult to pay than larger businesses. It would incentivise people to improve properties and invest in their businesses, which business rates currently penalise because then their rates will go up. It also helps with things such as tackling land speculation and land banking. You could zone it, if you were in a local area, to make decisions about how you want your land to be used, so that in rural communities you would not be saying, “The land value is so high because we expect commercial, not agriculture.”

Our view is that the business rates model is not fit for purpose, not least because it is doing the opposite of what you want, which is to incentivise business and growth in a local area. A land value tax would help to tackle that.

Stuart Hoddinott: I do not have anything to add to that.

David Philips: I would echo the calls for a land value tax. Many of the complexities that we have with the business rate system as it stands are because we recognise that it harms growth and incentives to invest in property, but we are complexifying that tax rather than tackling the fundamental issues. We should not be taxing buildings; we should be taxing the land that the buildings sit on.

The current Government’s proposals are clearly aimed at supporting high street operators, whether that is retailers, hospitality or leisure. Because the supply of property in this country is pretty inflexible when it comes to prices, we have a problem in terms of building and having building respond to price signals in the market.

What that means is that the actual economic incidence—who ultimately bears the burden—of things such as business rates tends to be, in the long run, less so the occupier and more so the landlord who is the landowner. In the longer term, I would expect the biggest beneficiaries of lower business rates in town centres and higher business rates out of town not to be town centre retailers but town centre landlords. Again, this is another issue where thinking about the tax more fundamentally, rather than trying to tweak the current system, might address these issues in a better way.



HOUSE OF COMMONS

I come back to the point that I mentioned about council tax. There is a real opportunity here for the Government, if they were ambitious, to say, "Let's fundamentally reform property tax. Stamp duty is gumming up the housing market and stopping people moving. Business rates are stopping firms from expanding their properties. Council tax is out of date and penalises low-value and low-income households. Let's reform the lot of this and end up with a much better system as a whole."

It was disappointing in the Budget that we did not see the start of a real tax strategy; we saw a piecemeal approach to tax reform.

Q30 Chair: That is good. On that note, both panels today have looked at some of the pressures. One pressure that we did not home in on enough is temporary accommodation. We have a situation where the 32 boroughs in London are spending £4 million a day just on temporary accommodation. We see a situation where some London boroughs are having to come forward to ask for exceptional funding support. If you really drill down on it, that is a form of borrowing. Again, this is adding to the pressures that councils are looking at.

I mentioned that the consultation on further reform tomorrow, in case anyone has not submitted—I am sure you all have. Do you feel the Government need to go further and faster with what they are proposing? As we have heard, is it really radical? I am looking at some of the things that Reform has been looking at, Charlotte.

Charlotte Pickles: Temporary accommodation is a huge burden. As we heard earlier, that can be for different reasons in different areas.

We have said two things. One of the things that the Government are doing, which we are hugely behind, is house building, particularly social housing. That is a massive issue. The difference in cost for the private rental market versus social housing or housing association is massive.

One of the things they should be doing immediately is addressing the temporary accommodation subsidy, which is tied to 2011 LHA rates—it pays 90% of that. That is the absolute definition of an unfunded mandate. You are requiring local areas to provide this thing but claw back only a portion of what the actual cost is. That is something you could do immediately. I say immediately; the Treasury would need to agree to it. It is something you could do very quickly, which would increase the cash flow to local areas in order to enable them genuinely to fund this accommodation.

Q31 Chair: In terms of the consultation on the reform of local government finance, what would you like to see overall? What have the Government missed out?

Charlotte Pickles: We are for simplicity and fairness. I can go on with the generic words that we are for. The problem is that it is not radical. It is all tweaking around the edges. If we keep doing that, as Aileen said before, we might be able to keep toddling over the line but we are not



HOUSE OF COMMONS

going to create a sustainable system. You can apply that across the board to most public services.

We would say, "It is great that you want to improve some of these areas, but you have to be willing to do a fundamental rethink." That has to include revenue raising. We have not touched on income tax and things like that.

The ambition in the White Paper for devolution in terms of structural stuff is beyond what we might have expected. That is great to see. At Reform, we do not think it goes far enough. We need to give greater decision-making powers and budgets to the regional level. We need to think about that regional level a bit more. The financial reforms are not matching in any way the ambition on the structural side.

Stuart Hoddinott: I agree with that. Radicalism would be great. One place where we would say there should be more radical thinking is in not looking at local authority budgets and spending in a silo or a vacuum. Local authority services, the demand for their services and their spending is directly influenced by services outside local authorities, such as the NHS, the criminal justice system or welfare spending. It makes much more sense to look at how money is spent in a place rather than how it is spent by local authorities and the NHS separately.

There is massive duplication between these services. A failure to invest in one place can lead to more demand arising in another, particularly in local authority budgets. I would recommend much more investigation and a willingness to think flexibly across budgets and services. We need to work out how best to invest to try to reduce demand across all services without just shoving acute demand from one part of the system to another.

David Philips: Overall, I welcome the Government's consultation. It is tackling issues that need to be tackled, such as the distribution of funding across councils, but it is really about relative funding.

It is asking, "How do I slice up the pie?", when we really need to be considering, particularly for sustainability, the size of the pie. Even if you are trying to work out how big a slice each one should get, knowing how big the pie is overall is important. If the pie is small and you need to focus on the needier cases, maybe relatively more needs to go to relatively deprived areas, for example. If your pie is bigger and you can cope with a wider range of services and address less needy cases, perhaps it does not need to be quite so targeted at the most deprived parts of the population.

Even within what the Government are trying to do, we need some sense of the overall size of the pie. What are our expectations of what local government is expected to deliver? How much will it cost to deliver? That part is missing from the Government's thinking at the moment. That is partly because the Treasury tends to think, "Here is the money that you



HOUSE OF COMMONS

have. Now divide it up,” rather than, “Here is what we are trying to achieve. This is how much it will cost. Now you divide it up.”

The last thing I would say is that we do not take a position on how radical the reform should be in terms of devolution, but it is important that what you do on the funding system aligns with what you are trying to achieve in terms of how services are delivered and how democracy is acted upon in this country. You cannot have a system that is very locally based where you are trying to achieve very national standards. You cannot have a system that is very centrally funded where you are trying to give local areas a lot of discretion to vary things.

It is important to see service delivery and the accountability of democracy alongside what you do in the finance system. A bit more of a link between the devolution paper and the finance paper would be something to look for as well. If you are very much interested, there is a 9,000-word submission from us on a wealth tax.

Chair: Thank you. That is the key question that we will be able to present to the Minister. It is good that both areas sit within Jim McMahon’s portfolio. Thank you very much for coming to the Select Committee this morning.