LGiU

Local Finance Taskforce

Finance Scorecard

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Introduction

Confidence in the local government finance system is low. Every year we survey council leaders, chief executives, cabinet members for finance and chief finance officers. In 2018, eight out of ten of them told us that the local government finance system in its current form was unsustainable.

Important changes are happening. Business Rate Retention and the Fairer Funding Review are significant steps towards reforming local government finance; but we believe that to achieve a sustainable system we need a much broader and more radical conversation post 2020.

We think that conversation needs to cover five key areas and a raft of ideas that all have pros and cons but which all need to be part of the discussion.

This scorecard is intended to kick start that conversation. In it we outline the key features of some of the ideas for local government finance reform which are out there but which are not currently on the table.

We describe what they are, their advantages and disadvantages, what sort of places they would benefit and where they have been tried.

Each idea has been given a score by the LGiU team based on their feasibility and their impact. Your score may be different and if so we'd love to hear from you. Over the rest of the summer and autumn the Local Finance Taskforce will be engaging with LGiU's 200 member councils and other stakeholders to refine and deepen this thinking so that we can present a solid set of recommendations coming directly from the sector.

Jonathan Carr-West
Chief Executive, LGiU

What are the options?

1. Business rates

Reforming business rates for the 21st century

- Full Business Rate Retention
- Allowing councils to set their own business rates
- Redesign of the business rate system

2. Council tax

Making council tax fit for the future

- Council tax revaluation
- Council tax rebanding
- Replacing council tax with Land Value Tax

3. Other local taxes

Expanding our conversation about local taxation

- Tourism tax
- Local income tax
- Local VAT
- Local sales tax

4. Division of responsibilities and funding

Rethinking the division of money and responsibility between central and local government

- Splitting funding for local services and needs-based duties
- Place-based budgets
- Health and social care integration
- Funding councils through general taxation

5. Innovative funding

Exploring new ways of allowing councils to access funds and invest in growth

- Municipal bonds
- Loosening the borrowing rules for councils
- Multi-year budgets
- Social Impact Bonds
- Allowing councils to keep the proceeds of right to buy sales

Full Business Rate Retention

Overview	Allowing councils to retain a larger share of their local business rate income, with a view to promoting financial self-sufficiency and incentivising local growth.
Pros	It has the potential to incentivise local growth and already has political backing and momentum.
Cons	It builds in long-term reliance on an outdated business rate system and, depending on the final balance between incentive and equalisation, councils could be at risk of financial failure.
Where would it work?	It would work in places with healthy local economy and a large business rate tax base which is spread across a range of industries and companies. Places with lower economic growth and a small business rate base may lose out, as well as places which are reliant on a single business for a large portion of their rates income.
Support and examples	As well as Government backing, many councils also support the idea in principle but the devil is in the detail.
Political feasibility	Already official Government policy.
Technical feasibility	This policy should be fairly straight forward to implement as the processes of collection and redistribution are already established. However, the biggest hurdle is deciding how much to redistribute between councils and how long the gap between resets should be; these decisions have a major impact on the effectiveness of the policy but remain hotly contested.
Verdict	It has the advantage of already being official government policy and being fairly well mapped out. However, in order to be successful there are big questions about how to get the balance right between incentivising growth and preventing financial failure. Ideally it would be accompanied by root and branch reform of the outdated business rate system - but this isn't firmly on the agenda yet.

SCORE **8**

Allowing councils to set their own business rates

Overview	Councils are able to reduce the business rate multiplier for their local businesses but cannot raise it (with the exception of combined authorities with a directly elected mayor). Giving councils further flexibility could allow them to respond to local economic conditions to promote growth and job creation.
Pros	Would allow councils the flexibility to respond to local economic conditions by adjusting the rates.
Cons	Possible race to the bottom as councils compete to lower their rates to attract businesses; on the other hand councils may feel pressure to raise the rate in order to cover council funding shortfalls.
Where would it work?	Likely to work best in regional groupings rather than individual councils, so that fluctuations can be balanced out and councils can work collaboratively on economic growth rather than competing. Could be particularly problematic for councils with poor local growth, who may feel compelled to dramatically lower their business rates in order to attract businesses, with a short-term knock on impact on the money available for services.
Support and examples	Councils are already allowed to reduce the business rate multiplier in their area, and combined authorities with directly elected mayors are also able to raise it, so local authorities already have some experience of this tool. Depending on the progress of devolution talks other areas could receive powers to raise the multiplier in the near future.
Political feasibility	This depends largely on the Government's appetite for fiscal devolution and the extent to which councils end up retaining their local business rates. It is unlikely that councils will be allowed further controls over the business rate multiplier unless councils keep the vast majority of their local business rate income otherwise councils could reduce their rates in the knowledge that they will make up the difference through an equalisation grant. It is also likely that councils would need to receive extra powers to promote local growth, in order to prevent an over-reliance on reducing the business rate multiplier.
Technical feasibility	There is already a precedent for allowing some areas more control over their business rate multiplier through legislation, so it would be relatively simple to implement. The hard part would be ensuring that it would work.
Verdict	As a standalone policy, it risks pushing councils into a race to the bottom in order to attract businesses; if councils are to be heavily reliant on business rate income to fund essential services this could be problematic. As part of a package of powers that allows councils to diversify their income and promote growth in different ways, it makes more sense – but of course this adds time and complexity.

SCORE **4**

Redesign of the business rate system

Overview	Many aspects of the current business rate system are outdated and there are widespread calls for reform. For instance physical retailers are losing out to online counterparts; and businesses often experience dramatic fluctuations in rates due to infrequent property revaluations resulting in lengthy appeals processes.
Pros	It could improve the fairness and transparency of the system for businesses and incentivise local growth by removing skewed incentives.
Cons	It is likely to be complicated to implement and hard to get all stakeholders to agree on the best course of action.
Where would it work?	It would work for all areas but would likely have a negative impact on some councils in the short term if the new system adjusted their business rate tax base downwards.
Support and examples	There is strong support for this proposal within the business community, particularly since the recent rate revaluation which retailers have blamed for the high street's woes. And in local government, two thirds of leaders and chief executives support the idea, according to LGiU's State of Local Government Finance survey 2018.
Political feasibility	Although there are few people who are attached to the current system, embarking on a wholesale reform may be politically difficult because it is high profile, contentious and would take up a lot of legislative time, hence politicians have typically been wary of committing to reform
Technical feasibility	It would require a wide-reaching consultation as there are many options to consider, then likely primary legislation.
Verdict	With councils set to become more reliant on their local business rate income to fund core services, it is crucial that councils are confident in the mechanism. There is near universal support for reform across the business sector but for many years their calls have fallen on deaf ears. But with business rate hikes blamed for recent high street failures it seems the Government may be starting to listen.

SCORE **9**

Council tax revaluation

Overview	Council tax levels are currently based on property prices as they were in 1991, meaning that the fluctuations in prices in the 27 intervening years are not accounted for. As a result, some households are paying much more or less than they would based on today's prices.
Pros	Ensuring that households across the country are paying a fair level of tax and rebalancing the council tax base between local authorities which have been collecting too little or too much.
Cons	Some households will end up paying much higher tax while some councils will see their council tax income significantly decline, so it is likely to experience some opposition.
Where would it work?	It would be positive for the system as a whole because it would ensure households and areas are paying and collecting a fare share but inevitably there will be some losers.
Support and examples	Most people support the idea in principle but recognise the difficulties. Half of leaders and chief executives support this idea, according to LGiU's State of Local Government Finance survey 2018. Wales went ahead with revaluation in 2005 but it has been firmly off the table in England.
Political feasibility	Every government since the introduction of council tax in 1993 has refused to take on this task and the longer it is left, the more politically difficult it is. In order to happen, the government would probably need to be strong-armed by councils, citizens and other stakeholders.
Technical feasibility	It would be a big undertaking for the Valuation Office Agency to revalue all residential properties, and if there is commitment to more frequent revaluations in the future, this would require ongoing extra resourcing.
Verdict	Although widely accepted that revaluation is overdue and necessary to ensure fairness, successive governments have shied away from seeing it through because it is so politically sensitive. And the longer it is left, the more difficult it becomes. But in order to guarantee confidence in this very visible and therefore unpopular tax we must commit to updating the valuations. This will probably require some sort of transitional arrangement to prevent dramatic rises in household payments and major income fluctuations for councils.

SCORE **6**

Council tax rebanding

Overview	Households are placed into a 'band' according to the value of their property which dictates how much council tax they pay. As property prices have changed significantly from the 1991 baseline, the top band now includes billionaire mansions as well as modest sized houses which pay the same amount of council tax – meaning some households are paying a much smaller proportion of their property value. Updating the ratios between these bands and/or adding new upper bands would improve the fairness of the system.
Pros	Those currently paying less than their share would have to contribute more to local services and councils would therefore benefit from increased council tax income.
Cons	Likely to be unpopular among residents in high value properties who would receive a larger tax bill.
Where would it work?	It would likely bring extra money to every authority but how much depends on the local housing stock and historical council tax rates.
Support and examples	At the same time as revaluing properties, in 2005 Wales introduced a new Band I to the top end of the market. The Scottish Government stated its commitment to abolishing council tax following a comprehensive review of the system in 2015 but has not carried this out yet. Instead, it passed legislation that increased the rates for bands E-H to address some of the concerns. The Resolution Foundation's Intergenerational Commission launched a paper earlier this year that proposed council tax rebanding among other options for property tax reform.
Political feasibility	Although it would likely need legislative time which is currently in short supply, the fact that council tax has been linked with the stagnation of the housing market (a major concern for this government) may make this a more attractive option than it has previously been. Perhaps even attractive enough to risk angering constituents who would be adversely affected.
Technical feasibility	Relatively simple but there would likely be fierce debate around the new band levels. There is already a blueprint for the process from Wales and Scotland.
Verdict	Council tax is inherently regressive but re-banding would be a relatively simple way of mitigating the worst of the distortion in the absence of revaluation (politically challenging) or full scale reform of property taxation. Some councils are already trying to get wealthier residents to pay their share through voluntary schemes but currently have no powers to enforce this.

SCORE **9**

Replacing council tax with Land Value Tax

Overview	Proposed as a replacement for both council tax and business rates, land value tax is based on the value of the underlying land rather than the property on top of it. It is seen as a more progressive tax and one that doesn't discourage investment in improving the property.
Pros	It has the potential to encourage housebuilding and investment in property improvements and would allow money spent on public infrastructure to be better re-captured through local taxation. It is also more progressive than existing property taxes so should be fairer and would be hard to evade as land is a very visible asset.
Cons	Some people have concerns that valuing underlying land at frequent intervals would be too difficult and costly; however others have put forward proposals to ease this pressure and many countries already successfully do so. Environmentalists also worry that there will be a stronger incentive to build on green spaces if conservation exclusions were not applied.
Where would it work?	It would have benefits for all areas but may be most valuable for urban areas where land is expensive and public infrastructure and services are expensive to provide.
Support and examples	Land Value Tax is used in many countries, including Australia, USA, Hong Kong, Singapore and Estonia, sometimes in conjunction with a separate property tax. There is support for this idea across the political spectrum, with right wing advocates (eg the Institute of Economic Affairs) claiming it would boost growth and reduce market distortion, and left wing advocates (eg Resolution Foundation) saying it would increase the fairness of the local tax system. Many economists see it as the 'perfect tax' because it doesn't interfere with behaviour and is hard to avoid.
Political feasibility	Previously seen as a blue sky idea, it appears to be gaining political traction now that the business rate and council tax systems are coming under more intense scrutiny. Although it is a major upheaval to the status quo, given that local government finance is in need of major reform land value tax may emerge as a viable option when compared with the complexity of fixing council tax and business rates.
Technical feasibility	There would be some legwork involved to set up the new land valuation methodologies and to pass new legislation, but we can learn from the experiences of other countries who have been through the same process.
Verdict	A wholesale overhaul involving new legislation and significant consultation would be needed, but given the increasing opposition to council tax and business rates it may soon be a viable option despite its challenges. Retaining some form of land-linked tax would also likely be popular as it is easy to collect and hard to evade. Although the proposal has supporters from across the political spectrum, it may meet resistance among the wealthier who could end up paying more as the system rebalances – hence it could be a political headache.

SCORE **6**

Tourism tax

Overview	Allowing councils to levy a discretionary tax on tourists would open up a new source of revenue for councils to fund services as well as tourism infrastructure
Pros	It would open up new options for councils in terms of raising income without levying more costs on their residents. It would also allow areas which attract many tourists to recoup some of the costs associated with their visits.
Cons	Cash-strapped councils may feel pressured to use these powers in order to raise extra money for services even if it would negatively affect their area's tourist economy. It may also be unpopular with businesses in the tourism industry.
Where would it work?	It would work best in areas that attract a lot of tourists
Support and examples	Many cities across the world operate tourist taxes, including Paris, Berlin and Rome, and people are familiar with the concept. There is support for this idea within those councils that would benefit from such powers; a quarter of leaders and chief executives said they would like these powers, according to the LGiU State of Local Government Finance survey 2018.
Political feasibility	There are already some noises in Westminster about giving some areas the power to levy a tourist tax; Birmingham may receive these powers to fund the 2022 Commonwealth Games and Bath has been lobbying for several years to be able to do the same.
Technical feasibility	All this would require is a small change in legislation; the rest of the implementation would be down to local areas.
Verdict	Already used effectively in many European cities, this new power would increase the options available for cash-strapped councils. Of course, it wouldn't work for every area and the hospitality industry is keen to point out that the UK already has one of Europe's highest levels of tourist VAT. But it could be relatively simple to implement and could unlock significant amounts of cash.

SCORE **8**

Local income tax

Overview	This could either be a fixed rate added to existing income tax and redistributed to local areas; or the rate could be locally set. Local income tax is often used alongside a property tax to balance the stability of property taxes with the fairness of income tax.
Pros	It would more closely link local taxation to people's ability to pay making it fairer, and would require minimal resources to run if we used the existing income tax collection system.
Cons	Without the ability to set the rate locally, councils would lose some of their financial flexibility leading to an erosion of local democratic accountability and further centralisation of governance.
Where would it work?	It would benefit citizens by ensuring they were paying the taxes they could afford. Councils with a high-earning population paying low council tax could also start collecting more from households that can afford it.
Support and examples	Works successfully in places such as Finland, Denmark and Sweden which are much more financially decentralised. Scotland also planned to implement a local income tax but found it too complicated to allow councils to set different rates; without this ability the main effect would only be to further centralise council funding.
Political feasibility	This idea has been floated by the Lib Dems, Labour and the SNP at various points but there has been little recent discussion of local income tax. In order to be effective it would need to be coupled with further fiscal devolution and as it stands the devolution project has lost a lot of steam.
Technical feasibility	It would be relatively simple to collect as there are already established income tax collection processes, but if areas could alter their local rate it could get more complicated to administer and may have unintended macro-economic effects.
Verdict	For local income tax to work in England, it would need to form part of a wider programme of fiscal devolution.

SCORE **3**

Local VAT

Overview	To complement business rates, offering councils a slice of their area's VAT take could help to incentivise local growth. Going a step further, local/devolved areas could be given the power to set their own VAT rate; this is currently illegal under EU law but could be an option post-Brexit.
Pros	Councils would be able to keep some of the proceeds of local growth in their area that are not captured by business rates, namely the sales made locally by businesses located elsewhere.
Cons	If councils were able to set their own VAT rate the system could become complicated to administer and for businesses to comply with, and may have unintended effects on the national economy.
Where would it work?	It would work well for areas where there is plenty of economic activity but few businesses with a local physical presence. If councils were able to set their own VAT rate in theory they would also be able to stimulate the local economy by competing on VAT rates; some areas would do better than others under such a system.
Support and examples	Across the world VAT is usually administered at the national level and often accounts for a large proportion of the state's budget. As a result this concept is not well developed and we would be wise to ask why it hasn't been adopted elsewhere.
Political feasibility	Likely to be unpopular within central government because the Treasury relies heavily on VAT intake for its core spending; they probably wouldn't want to start giving it away.
Technical feasibility	It would be fairly straight forward to start giving a slice of VAT back to local areas but with a fully localised VAT regime it could get extremely complicated.
Verdict	A local slice of VAT would be relatively easy to administer through existing systems and would allow local growth to more accurately capture modern types of economic activity than the current business rate system. However, a reformed business rate system would hopefully do this on its own.

SCORE **5**

Local sales tax

Overview	Allowing councils to levy an additional sales tax in their area to capture the proceeds of growth.
Pros	Councils would be able to keep some of the proceeds of local growth in their area that are not captured by business rates, namely the sales made locally by businesses located elsewhere.
Cons	It may be complicated for businesses to comply with, has typically had high evasion rates compared with VAT, and can introduce unintended incentives.
Where would it work?	It would work well for areas where there is plenty of economic activity but few businesses with a local physical presence.
Support and examples	Sales taxes have been replaced with VAT in most countries (aside from the US) because VAT is much easier to administer and helps to prevent businesses gaming the system. The idea of a local sales tax has not been widely discussed so it is unclear how much support it would command.
Political feasibility	As part of further fiscal devolution, giving local areas the power to levy a sales tax could be feasible but given that the devolution project has slowed down it could be a difficult sell.
Technical feasibility	It is an under-developed idea so there would need to be extensive consultation and exploration of its potential impact, plus the required legislation.
Verdict	In addition to the existing VAT system it could work in the UK, perhaps for specific projects (as with business rates in combined authorities). However, given that sales tax has been rejected by most countries due to its flaws it may be wise to treat the idea with caution and also to consider how it would interact with the existing VAT regime.

SCORE **3**

Splitting funding for local services and needs-based duties

Overview	“Local” services such as waste collection, libraries, leisure etc where the council can control level of provision are funded on a self sufficient basis by local income (council tax, charges etc), while major statutory services such as social care and children’s services are funded centrally through a redesigned needs formula.
Pros	It would shield those services that protect and support vulnerable people from fluctuations in local income, while freeing up local funding for more general local services which are currently sidelined by the cost pressures of social care.
Cons	It would be a backwards step in terms of local accountability as councils would become reliant on central government for a significant portion of their budget. Also, separating the services in this way may discourage integrated service delivery across council departments and lead to worse outcomes.
Where would it work?	It would likely have significant benefits for upper tier councils (i.e. those with responsibility for social care and children’s services).
Support and examples	A few years ago this would have seemed like a step in the wrong direction, but given the rapidly growing crisis in social care combined with the severe financial strain experienced by many councils, this option may now be more attractive to those trying to protect vulnerable people in a challenging environment.
Political feasibility	This could be one of the simpler solutions to the current funding situation, because it would relieve the pressure on the failing council tax and business rate systems without the need for full reform, and would be able to build upon existing funding formulae and grants. Therefore it may garner political support.
Technical feasibility	The Revenue Support Grant formula already calculates relative local need so it would be quite easy to repurpose the formula for a new system of grants. The challenge may be in enforcing the inevitable ringfencing of funding as councils currently deliver services in an integrated way.
Verdict	A radical streamlining of the current system, it would make it clearer for councils and citizens who pays for what. Councils would be clearly accountable for the efficiency of “local” services” while funding of core statutory provision would be de-risked and would be needs-based in a consistent way across the country. This would be relatively straightforward to implement from where we are now but would depend on a solid consensus behind the needs formula. However, local government might feel it remained too dependent on central government largesse and there would inevitably be debate about which services were nationally and locally funded.

SCORE **7**

Place-based budgets

Overview	Having a single budget for public services across an area.
Pros	This would allow us to realise the savings of investment in prevention and enable genuinely joined up commissioning and multi-agency work.
Cons	It would be a major upheaval of not only local government, but health, education, social security and police services and therefore would be challenging to implement.
Where would it work?	Implemented well, joined up services would be beneficial for all places in terms of efficiency, local accountability and outcomes.
Support and examples	The idea has been floated by many stakeholders, including the LGA, Localis and the Joseph Rowntree Foundation, and has even been tentatively piloted in some places in the past with the support of the Treasury and DCLG.
Political feasibility	Despite commanding broad support, the policy has stalled, partly due to the introduction of the devolution project and partly due to the complexity of the task. Looking ahead though, there does appear to be renewed appetite for a wider national conversation about how we deliver public services in the context of NHS and social care funding issues so place-based budgets may soon be back on the table.
Technical feasibility	It would be a hugely complex task to fully implement a single place-based budget, so it is likely that any rollout would be limited in scope and piloted extensively. Not a quick solution, but potentially an effective longterm strategy.
Verdict	Previous pilots of Total Place and Community Budgets demonstrate the potential of this approach to drive efficiency and improved outcomes. However they also show that unless key government departments like DoH and DWP fully buy in, that potential remains limited. Doing this at scale requires massive political capital and inevitably brings in questions about the right spatial level and underlying governance.

SCORE **6**

Health and social care integration

Overview	Health and social care integration is one of the "holy grails" of contemporary public policy. Both systems are under serious strain and their remits overlap significantly, but they operate mostly independently which is confusing for patients and often inefficient.
Pros	It is seen as a way of achieving better and more joined-up outcomes for users but also as a way of bringing additional resources into social care by alleviating pressure within the NHS.
Cons	Social care is run by local councils, accountable to their residents; health is delivered by non-political agencies accountable to the Treasury. They manage their budgets very differently and have very different organisational cultures, processes, targets and often geographical boundaries. Bringing these services together is difficult.
Where would it work?	It should have benefits across the board.
Support and examples	Health and social care integration was a major component of the devolution deals in mayoral combined authorities and Greater Manchester Combined Authority has been given the power to implement this policy. As more combined authorities are established, it is conceivable that more areas begin integrating these services.
Political feasibility	There is support for this idea but the legislative time required has been lacking. However, as the health and social care crisis deepens politicians may approach this idea with renewed vigour.
Technical feasibility	The major obstacle is harmonising the two systems, particularly across geographical boundaries. There will be lessons to learn from Manchester's experiences which should help inform the process.
Verdict	There have been moves towards integration of health and social care both in "structural" ways through integrated budgets in Greater Manchester and less formally through collaborative commissioning between CCGs and LAs. It remains unclear however whether this approach can ever be fully realised while social care and health are separate services and although combining them is increasingly discussed it remains a formidable political and logistical obstacle.

SCORE **8**

Funding councils through general taxation

Overview	Funding local government predominantly from central government grants, i.e. reverting to something similar to Revenue Support Grant and a funding formula.
Pros	Simpler and more predictable funding which provides security for essential services and helps with forward planning.
Cons	Local government would be the service delivery arm of central government and would relinquish much of their local discretion.
Where would it work?	Areas which are struggling with high need and a low tax base would benefit the most from this system, as they would be able to reliably cover the costs of supporting their vulnerable residents.
Support and examples	Local government has been funded in a similar way in recent years so people are familiar with how it works. The UK is one of the most centralised countries so there are few examples from elsewhere of such a top-down funding system for local government.
Political feasibility	This wouldn't be the ideal option for either central government, looking to reduce the deficit, or local authorities, who had been promised further devolved powers. The government has also committed to further business rate retention so, as it stands, there is little appetite to move in the opposite direction. But it remains a back-up option.
Technical feasibility	Relatively easy as the system is already in place with Revenue Support Grant.
Verdict	This would have the benefit of simplifying a very complicated system and giving councils more financial security, as well as potentially ensuring that there is enough money to fund local services. However, this would be a significant step back in the progress made in devolution and removes much local democratic accountability and the incentive for councils to support local growth. It could work in a system where funding for certain services is guaranteed by government, while the others are funded through local means.

SCORE **5**

Municipal bonds

Overview	Municipal Bond Agencies have operated successfully across Europe and in Japan and New Zealand. They allow local authorities to issue bonds to capital markets and bring in finance at lower cost than other forms of debt.
Pros	Allows local authorities to borrow money at lower rates than the Public Works Loans Board.
Cons	Remains relatively untested in the UK context and requires development of a new market and a stable and predictable funding context for local government.
Where would it work?	Requires councils to be highly creditworthy so will only benefit large councils with stable funding looking to undertake large scale capital projects linked clearly to economic growth.
Support and examples	Kommunivest, the Swedish Municipal Bonds Agency, was established in the late 1980s. It has grown its membership, increased the creditworthiness of Swedish Municipalities and bought significant funding into Swedish local government over an extended period of time. In the UK, the LGA has supported the establishment of a UK Municipal Bonds Agency Plc which launched in 2014.
Political feasibility	The UK Municipal Bond Agency enjoys support from the LGA and the government.
Technical feasibility	Municipal Bond Agencies present a lot of technical challenges, notably establishing the right borrowing framework.
Verdict	The UK Municipal Bonds Agency Plc was established in 2014 to introduce this form of financing to the UK. However, it remains in fairly early stage development and progress towards a first "proof of concept" bond issue has been slower than planned.

SCORE **4**

Loosening the borrowing rules for councils

Overview	Councils are subject to a Prudential Code against which they set borrowing limits. They also have a nationally set cap on the amount of money they can borrow against Housing Revenue to build new homes (this is tighter than it would be under the Prudential Code).
Pros	Unlocking significant new investment for housing, infrastructure and services.
Cons	Risks of exposure to any future financial crash as well as localised exposure due to poor investment decisions.
Where would it work?	Most areas would benefit from raising or abolishing the HRA cap, allowing them to speed up house-building. Even if councils decide not to use the extra flexibility, it would be useful to have it as an option.
Support and examples	There is broad support for abolishing the HRA cap, including from the LGA and the Treasury Committee. Support for loosening general borrowing rules is less certain as the Prudential Code already allows a degree of discretion.
Political feasibility	Given the government's preoccupation with housing and its support within the sector, abolishing the HRA cap is likely to be seen as a political 'quick win' – easing council funding pressures while increasing housebuilding.
Technical feasibility	Relatively simple change to the rules which can be approved by the Chancellor, as seen in 2017 when Hammond decided to increase the cap for certain high need areas.
Verdict	Councils in areas of high housing pressure have recently been allowed to apply for an increase in the borrowing cap against the Housing Revenue Account (HRA). However the LGA and others have consistently argued that the HRA borrowing cap should be abolished entirely arguing that this could unlock billions of pounds of investment in housing without flaunting the Prudential Code that governs other borrowing. While this only addresses one area of local government policy, it is a vital and and there's a developing consensus on this issue, so it seems an area where there is potential to persuade government to action

SCORE 9

Multi-year budgets

Overview	Councils operate single year, zero sum budgets which must be balanced. This has advantages in terms of sound financial management but it's not always conducive to medium/long term planning or investing to save. In 2016 the government allowed councils to bid for four year financial settlements on the basis of efficiency plans. Whilst allowing a greater degree of long term planning, these settlements were still subject to annual review/confirmation and didn't obviate the need for annual budgets.
Pros	Allows more strategic planning and encourages a focus on long term outcomes.
Cons	Takes budgeting out of alignment with the political cycle. Creates more risk around forecasting.
Where would it work?	Multi year budgeting could work for all councils.
Support and examples	Multi year budgets or medium term expenditure frameworks (MTEFS) are recommended by the World Bank and International Monetary Fund and are used in 120 countries including, The Netherlands, Finland and Germany where they were introduced back in 1969.
Political feasibility	Government has shown some willingness to look at multi year settlements but remains reluctant to let go of the control that annual settlements and budgets give it.
Technical feasibility	Multi-year settlements are not themselves technically difficult, the challenge will be to align them with the funding system.
Verdict	Allowing genuine multi year budgeting could have significant advantages in terms of giving councils the ability to act strategically but would require a complete overhaul of the way local government finance is currently allocated.

SCORE **8**

Social Impact Bonds

Overview	Social Impact Bonds (SIBs) are a way of financing public services in which funding comes from third party investors who make a return if performance targets are achieved.
Pros	Unlocks new money for innovation so the council is not out of pocket in the short term. Encourages organisations outside the public sector to test new approaches to solving local government challenges.
Cons	Can be hard to initiate and manage without outside help, as the financial arrangements can be complex.
Where would it work?	Anywhere that wants to trial new approaches to public service delivery but lacks the capital to do so.
Support and examples	SIBs have been set up across a several public sector services by Social Finance, including within the Ministry of Justice, Department for Work and Pensions and Essex County Council. Although it is a relatively new concept councils can learn from the experiences of current programmes to de-risk their own attempts.
Political feasibility	Doesn’t require any new legislation or regulation: councils are already able to participate. However, central government could provide further support by investing in these programmes themselves and sharing best practice across departments.
Technical feasibility	Social Impact Bonds can be complicated to set up and it may be difficult to find willing third party investors but there are organisations who specialise in supporting councils through the process.
Verdict	The first UK Social Impact Bond was issued by Social Finance Ltd in 2010. There are now nearly 100 social impact bonds in 19 countries with £300m of investment. SIBs have proven an effective way of bringing impact investment and philanthropic capital into public service innovation but arguably the difficulty of linking outcomes to financial returns has inhibited large scale institutional investment.

SCORE 6

Allow councils to keep proceeds of right to buy sales

Overview	As it stands, councils fund the building of council housing and when it gets sold off two thirds of the cash goes to the Treasury so they don't recoup the building costs. As a result, councils are losing both money and housing stock.
Pros	If councils were allowed to keep the proceeds of the right to buy sales, it would help close the loop and enable councils to reinvest in more council housing to replace that which is being sold off. Councils are now placing many social tenants in the private rented sector which is often more expensive and less secure.
Cons	Much of the council housing stock has already been sold off so this change may come too late to make a significant difference.
Where would it work?	It would work for areas which are seeing their council housing stock being rapidly sold off through right to buy.
Support and examples	There is broad support for this idea within local government, with the LGA campaigning for right to buy reform and three quarters of leaders and chief executives pledging their support, according the LGiU's State of Local Government Finance Survey 2018. Outside local government, there has been less discussion.
Political feasibility	Likely to be very unpopular with the Treasury who currently keep the majority of this cash, but could become a necessary concession in the government's bid in increase housebuilding and reduce homelessness.
Technical feasibility	A simple change, but the difficulty would be in dealing with the resultant shortfall in Treasury income.
Verdict	The LGA has estimated that under the current scheme only a third of councils will be able to replace every house bought under right to buy. They have called for councils to retain 100% of right to buy receipts. This would provide a boost to house building a represent a massive relocalisation of revenue from Whitehall to local areas.

SCORE **8**

About the Local Finance Taskforce

Local authorities are in a precarious financial situation. With a Government preoccupied with Brexit, the creaking NHS and the housing crisis, the urgent questions about future council resourcing remain unanswered.

Business rate retention policy has been scaled back and delayed, the fair funding review and social care green paper are long overdue, and all the while Revenue Support Grant is still on course to disappear by 2020.

Councils are facing a cliff-edge and need answers now. 2018 must be the year this happens.

LGiU is leading the **Local Finance Taskforce**, working with senior local government representatives and sector experts to raise the profile of these issues to a wider audience and force the Government to provide much-needed policy clarity.

Find out more about this work at lgiu.org.uk/policy-theme/local-finance-taskforce

About LGiU

LGiU is the largest independent local authority membership organisation in the country. We provide unrivalled practical support to our member councils and an uncompromising advocacy for local government and services that are designed and delivered in the communities that need them.

We are a not-for-profit membership organisation and think tank. We work for local authorities and with local authorities helping them to serve their citizens more effectively. We provide the information and support that officers and councillors need everyday. We work with our members to turn the best new innovative ideas into the real solutions needed to provide sustainable services in the future.

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LGiU
the local democracy think tank

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