Why Are Cities Going Bankrupt?
Professor Martin Daunton
Thursday 24 April 2025

It is often said that cities – and more generally local authorities - are becoming bankrupt, most notoriously Birmingham City Council in September 2023.

Legally, they are not bankrupt: chief financial officers issue Section 114 notices that their forecast income does not cover forecast spending; they are required to take action and not make new commitments. There have been a number of such notices since 2018. Several councils have said they are likely to issue Section 114 notices. Even if not so far issued, local government is facing serious financial pressures.

Why?

Local government has a major role in **social care for adults and children** which is up to 60 percent of the budget. Costs are rising from a growing and ageing population, demand for adult and children's social care – more children in care, and costs for private provision high. Problem of special educational needs: in March, *Guardian* survey of 108 councils found chronic underfunding for growing needs: 60-70 councils at risk of effective bankruptcy as a result of crisis in SEND. Deficit in SEND likely to be £5bn in 2026 which so far kept off balance sheet by an 'override'. Ends in March 2026 when back on books and threatens insolvency. Councils are trying to ration access which led to more cases to tribunals. Result is cut in spending on road repairs – hence the state of potholes, and huge backlog in maintenance.

Failure of central government to provide funding – about half comes from the central government through grants and redistribution of business rates. Paul Johnson: local councils 'are supplicants, dependent on the whims and funding arrangements set in Whitehall'. These funding arrangements are short term so difficult to plan.

Of course, central funding is needed to ensure poorer areas with greater challenges are able to provide decent services – but reduced central government support of around 40 per cent in years of austerity after 2010 hit poorer areas.

Between 2010 and 2020, spending cuts per person in most deprived decile of council areas averaged 31 per cent; in least deprived decile, 16 per cent. There is still redistribution – but much less than in the past; and relies on out-of-date formulae and data from as long ago as the 2001 census, despite large changes in distribution of elderly between councils. Paul Johnson thinks this 'nothing short of scandalous… This is quite simply a fundamental failure of governance, a failure which slowly, insidiously undermines any rational basis for funding local government and inevitably leads to disillusion, disempowerment, and disengagement'.

Become **more reliant on own resources from council tax**. This council tax is regressive: smaller properties pay proportionally more than larger properties; and poorer areas more than richer. Areas with lower deprivation have more valuable property that raises more revenue – and conversely, areas with high deprivation have less valuable property. Results in gross inequities in local taxation – the system of local government taxation is inadequate and unfair.

A **cap on increases in council tax** since 2012, unless hold a local referendum. For local authorities with responsibility for social care (county and unitary) set at 5 per cent in 2025/6 (2 per cent for adult social care and 3 per cent for general spending); in district councils, 3 per cent.

Pressure to find resources from elsewhere. District councils raise money from car parking, culture and leisure services, planning and trade waste – in some cases over half their income from these sources.

Also turn to borrowing and commercial development: Luton owns the airport; Portsmouth bought a banana export company; some bought shopping centres (which was not good business sense),or built up property portfolios outside their area (rather than their own social housing stock). This approach could go badly wrong: Thurrock Council lent to a solar energy and to a business lender – both bankrupt. Risk of Incompetence: a report on Woking in May 2023 found it had borrowed £1.9bn on a net budget of £24m, financing costs of £62m a year: 'The council's historic investment and borrowing decisions are disproportionate to its ability to manage complex commercial activity and the council lacks the commercial skills and capacity to identify a longer-term strategy to resolve its commercial arrangements.' Tried to generate income from commercial schemes to pay for social regeneration – but spent before revenue arrived, complex funding model. But wrong to reduce to a record of mismanagement by both Conservative and Labour controlled councils – many have shown resilience in difficult circumstances.

Overall result is serious: see percentage change in real terms on core spending power. Local government has the deepest cuts in government spending – spending per person fell by almost a quarter 2009/10 to 2019/20; even more for housing, transport, planning, culture/leisure which cut by 40 per cent or more per person.

How have we ended up in this state of straitened finances and decaying services? A world away from the powerful 'municipal gospel' once associated with Birmingham and Joseph Chamberlain – the civic pride of municipal gas and water, or the art gallery and new university. What has gone so badly wrong – and what can be done?

Rates and the Edwardian crisis of urban finance

Local authorities in Victorian England relied on finance from a property tax – the rates – paid by occupiers according to the rateable value of the house, based on the annual rent, less an allowance for maintenance etc.

Rates were collected by different bodies for different purposes:

Town councils, boards of health (often the same) for roads, cleaning, public health; even for libraries if supported by a majority of ratepayers – rejected in Islington on four occasions between 1855 and 1897. The franchise was one vote for each ratepayer above a defined value which could be manipulated to create a narrow or wide electorate. In 1852, the proportion of voters to men over the age of 20 ranged from 11.4 percent to 52.3 percent; in 1884 from 33.0 to 86.7 per cent, which affected the willingness to spend. Highest spending where franchise was narrow and dominated by elite, and where widest and elite and workers joined (as in Chamberlain's Birmingham). Lowest spending in middling franchise which was dominated by small traders.

New poor law of 1834: owners of property up to £50 had one vote, with an additional vote for each £25 to a maximum of six votes; if used poor law, lost the vote. Designed to prevent potential users of the poor law from taking control. This use of multiple votes was abolished in 1894.

School Boards after 1870 – again, one ratepayer per vote.

There were problems with this system of rates:

- Difficult to collect from working class tenants on short, weekly tenancies: a house might have many residents over the year, so how to collect?
- Relied on compounding: the owner collected the rates in the weekly rent and paid it as a lump sum to the local authority, in return for a generous allowance.

Threatened by Second Reform Act of 1867 which extended the franchise to many working men: the Conservative government felt that direct payment of rates was necessary to create a sense of responsibility, otherwise they might vote for expensive policies without realising.

  - As one commentator put it, 'the political rights of the working classes were gained at the expense of their social comfort'. Difficult for working men to budget a lump sum from small income.
  - increased costs of collection – in Birmingham, meant number paying rose from 16,000 to 54,000, and also summonses for non-payment – 25,000 summonses in October 1867.

Compounding was restored in 1869 on houses up to a set value. A survey of 1897 found that compounding was used in 123 of 160 boroughs – in 26 the allowance was 50 per cent.

By the late 1890s, compounding was under pressure: the costs of local government were rising for better infrastructure, welfare services, but the rate base was lagging – many suburbs were outside the boundaries of cities.

Between 1878/9 and 1883/4, the rateable value of England and Wales increased by 9.3 per cent; income from rates rose by 14.4 per cent.

This pressure on tax base meant local authorities cut compounding allowances which hit the profits of house landlords. Take one example: Southwark council in London reduced the allowance from 25 to 15 per cent in 1898 and tried a further cut in 1901 which failed.

There was also a return to demands for direct payment of rates to enforce the economy. The Royal Commission on Local Taxation, 1901 said that 'those who have the right to vote for the election … of local authorities entrusted with the raising and expenditure of money derived from rates, should pay rates directly … in order that they may appreciate directly the effect of economic or extravagant administration'. Even so, admitted that a change was not practical.

Incidence of rates was unfair:

- regressive: rent was a higher proportion of the spending of poorer families than middle class. Royal Commission on Local Taxation report of 1901: spending on a house as a 'measure of taxable capacity operates with special unfairness on the wage earning and lower middle classes, inasmuch as the proportion which is borne by the expenditure on house accommodation to the total income is much greater in their case than in that of the wealthier classes'.
- hit some businesses more than others. Businesses with large premises paid more than those without. For example, owners of shops in Liverpool paid more than rich shipowners who had only a modest office, with much of their capital in ships at sea or merchandise in warehouses. As the Liverpool Land and House Owners Association pointed out in 1877, roads were used to carry goods to ships in the docks, and policemen protected the merchandise; sailors and dockers supported by the poor law when unemployed. Shipowners and merchants benefited from spending without contributing in proportion. The Royal Commission Report of 1901 thought there was lack of concern for ability to bear the burden of taxation – 'there is no reason why the owners of rateable property should be singled out for taxation to the exclusion of owners of other property'.

The result was political mobilisation of ratepayers – especially small property owners. The Liverpool house owners pointed out that the council was dominated by shipowners and merchants who undertook expensive schemes without paying.

The rate in the pound rose rapidly at the turn of the century – a study of the London borough of West Ham found that the rise was from 5s 8d in the pound in 1888 to 10s 8d in 1905 – but the average weekly rent was the same at both dates. Unsurprisingly, house landlords were aggrieved. In 1905, a government report found that rates were 16.4 percent of the combined rents and rates of working-class houses in London; in 1900, rose to 20.3 per cent. Profitability of housing was squeezed,

How to escape from these problems of the rates?

- Some authorities had income from assets – the docks in Liverpool, the racecourse in Doncaster. A major reason for taking profitable gas companies into municipal ownership, such as by Joseph Chamberlain in Birmingham. Ownership was associated with rapid population growth which put pressure on revenue, and lack of extensive estates as an alternative income source.
- Borrow: cheap loans from the Public Works Loan Board, and councils started to issue bonds on the security of the rates for large scale investment.
- Grants in aid from the central government in 1868, 3.8 per cent of total local government expenditure; by 1890/1 rose to 14.2 per cent. Shifted from grants for specific services, linked to expenditure, to assigned revenues – various licences to sell alcohol or keep dogs, and a share of probate duty. This approach failed: revenue would not rise in line with needs. An inflexible and limited source of central government revenue was not a solution for an inflexible and limited local taxation.

- Ratepayers' associations urged separation between local and national services – Liverpool Land and House Owners Association argued in1898 that education and poor relief were semi-national services to be paid from central taxation; local taxes should pay for street lighting, wash-houses, libraries. And they suggested that the local tax should be widened to include a local income tax to catch all forms of property. The RC Report of 1901 rejected this approach – semi-national services should remain in the hands of local authorities.

Costs were rising for public health, education, and the poor law as it became less about deterrence and more about hospitals, old people homes, orphans. These services could hardly be on the basis of less eligibility as expected in 1834.

Conservatives appointed a Royal Commission on the Poor Laws in 1901 to find a solution, but it was divided with the majority advocating a return to 'less eligibility' and individual responsibility. By time reported in 1909, things had moved on. There was a deep divide between Conservatives and Liberals on how to solve social problems.

Chamberlain aimed to solve social problems of unemployment and poverty by tariff reform or imperial preference – that is import duties on goods from outside the empire. He argued it would lead to higher employment and wages and would provide revenue for pensions.

Liberals won the election in 1906 and needed an alternative. They adopted a three-fold strategy:

Retain free trade which was central to its mobilisation in 1906.

Moral reform – remove structural impediments that prevented people from taking personal responsibility. The ideology of New Liberalism was given political expression by Winston Churchill:

> I do not want to see impaired the vigour of competition, but we can do much to mitigate the consequences of failure. We want to draw a line below which we will not allow persons to live and labour, yet above which they may compete with all the strength of their manhood. We want to have free competition upwards; we decline to allow free competition to run downwards. We do not want to pull down the structure of science and civilisation but to spread a net over the abyss.

Meant new policies that removed the costs of unemployment and old age from local authorities – old age pensions in 1908 funded by central taxation, and health and unemployment insurance in 1911 from employer and employee contributions.

Alternative forms of taxation in the 1909 budget – revised income tax so progressive, plus land question. Claimed that tariff reform was a device to tax food, support aristocratic landowners. Instead, claimed that the value of land was rising as a result of the efforts of active producers of wealth in towns – the industrialists and house builders who were being obliged to pay higher prices for land and higher rates.

Land taxation popularised by Henry George, *Progress and Poverty,* 1879. Taken up by Liberals. WH Dawson's book title captures the argument – *The Unearned Increment or Reaping without Sowing*. The site of London, he estimated, had a value of £250,000 as agricultural land by a developed value of £300m – the active energy of Londoners increased the value of land, the owners had 'complete passivity; landowners gained at the expense of other groups of society. The solution was clear:

> The well-being of the working-classes in particular – like the interests of society in general - require (1) that the unearned value of land – that value which is created by the operation of purely social causes – shall be diverted from its present channel in which a way that the community as a whole shall share in it; and also (2) that the incidence of local taxation shall be so modified that the owners of the land upon which towns are built shall bear a considerable share of the parochial expenditure which tends to maintain and increase the value of the land.

This was also a way of countering Labour: not capital v labour, but producers versus passive. See top hats and cloth caps versus ermine robes in the cartoon.

Lloyd George's original plan for the People's budget of 1909 proposed two taxes on land:

- 20 per cent tax on increases in land values – the unearned increment - when it changed hands.
- tax on capital land values.

In the event, tax on capital land values was dropped, and replaced by a tax on the capital value of undeveloped land to force it into use.

The policy was defended by Churchill. In his view, wide diffusion of property to 'vast numbers of persons who are holders of interest-bearing, profit-bearing, rent-earning property' provided 'the essential stability of modern States', but it was also necessary to attack the monopoly power of land which was fundamentally different. It 'is by far the greatest of monopolies; it is a perpetual monopoly; and it is the mother of all other forms of monopoly'. It led to unearned wealth that imposed costs on enterprising members of society. Churchill denied that the same argument applied to other processes such as an increase in the value of stocks or railways, or the sale of a painting, for the unearned increment in land 'arises from a wholly sterile process, from the mere withholding of a commodity which is needed by the community'. Landowners were operating 'in restraint of trade and in conflict with the general interest', unlike higher share values or railway profits that were 'part of a natural and healthy process, by which the economic plant of the world is nourished'. By contrast, landowners gained from public investments in trams, roads, water and gas to which they did not contribute, and their high price hit the profits of industrialists and the wages of workers. This burden was a more serious threat than foreign tariffs, for 'every form of enterprise, every step-in material progress, is only undertaken after the land monopolist has skimmed the cream off for himself'.

Lloyd George then went further in the budget of 1914 to change the entire basis of local taxation – abolish the rates and replace it with a national land value tax and a local rate on land. It was a disaster:

- difficult to comply a valuation of land with war – abandoned in 1920.
- allowed Conservatives to present it as an attack on all property – not producers versus parasites, but property v radical attacks.

The major reform of rates had not happened – instead, shifted expensive services from local government to the centre by OAPs and social insurance where revenues could be increased more easily through a modern income tax.

The next major attempt at reform did not end well: the poll tax.

Land tax to poll tax

What happens between the wars?

Rates continued without major reform.

The Liberal solution of **land value taxation came to nothing**. It did continue to have support from Labour: land tax introduced in 1931 but repealed in 1934; LCC drafted a bill for taxation of site values in 1938 but nothing came of it. Also aimed to further move costs of unemployment to central taxation; and extend profits of municipal trading.

Continued problem of poor law. Reforms before the First World War created pensions and insurance alongside the poor law, without abolishing it. Post-war unemployment meant more calls on the poor law – and with universal manhood suffrage poor law boards could be controlled by working-class beneficiaries and adopt a more generous attitude. Solution was to abandon separate Boards of Guardians and bring them within the local authority which would lead to greater control over spending as part of a wider authority. In 1934, it was handed to the central government.

Response of Churchill, now Conservative Chancellor of the Exchequer, to depression of industry: **remove rates on industry**. It would be compensation overvalued sterling after the return to gold in 1925 which helped financiers. Rates were paid regardless of profitability, not reflecting ability to pay – and were highest where unemployment was most severe. Bankers and merchants did not have large, fixed factories so it was equitable to remove burden on productive industry. Churchill:

> 'The imposition of rates upon productive plants is double taxation. It is an invidious impost which falls with increasing strength as the instruments become bulkier and afford employment to large numbers of manual workers and is a contributory factor to the disastrous unemployment which has now become chronic'.

It was not a credible solution to the depression. Opposed by Neville Chamberlain – like his father, a former Lord Mayor of Birmingham - who thought it would undermine the motivation for business to serve on councils which would be left to workers. Certainly, weakened finances still further.

Complemented by a **new system of central government grants**. Grants in aid were for a defined percentage of what authorities spent – central government concerned in 1926 that some authorities were extravagant; react by a shift to fixed or block grants. This was Neville Chamberlain's approach: set a minimum standard for authority to meet, then pay a grant by need – stop some areas adopting extravagant programmes at the expense of the central government; and allow poor areas to come up to the minimum. paid on a formula according to need.

After the Second World War, reform of local government finance was not high on Labour's agenda.

There was a **return to land taxation** – 1947 development charge of 100 per cent on increase in site values. Abolished by the Conservative government – did nothing to solve local government finance.

Tinkering with block grants. In 1949 Labour introduced an Exchequer equalisation grant to give authorities sources equivalent to the national average rateable value per head, adjusted by population profile. Aimed to provide more equitable resources across the country. Replaced in 1959 by Conservatives rate deficiency grant – unfortunately hit Conservative areas.

Turned to consider reform shortly before the election of 1964 – Keith Joseph appointed a committee which reported to Labour.

- It found rates were regressive and inequitable.
- Considered alternatives: tax on site values, payrolls, tax on energy, poll tax, local income tax, sales tax. All had difficulties poll tax too regressive; other taxes hit industry and upset regional policy, how to impose a local income tax by place of residence rather than employment; local sales tax be avoided by driving to another town – and so on. One official even said we should not waste any good tax on local authorities.
- Seemed a case for keeping rates, despite their obvious failings.

Labour in 1966 looked to shifting costs to central taxation, and granting a rate rebate to poorer ratepayers; and another reform of grants.

Also, reappearance of the land question: Land Commission to purchase land for development with a betterment levy of 45 to 50 per cent so still some incentive to develop, unlike in 1948. Repealed in 1970.

Royal Commission on Local Government report in 1969 – remit was to consider structure of local government, not to reform the tax system which would be needed. New authorities created with no change in their revenue [note the repeat in 2025].

Labour returned to the issue in 1974 – set up a committee. The majority report said that a 'vital local democracy' needed more taxation and proposed a local income tax. This got nowhere and the status quo continued.

Action was finally taken by the Thatcher government,

Initially, the rate system continued, with spasmodic and half-hearted discussion of reform.

Then the poll tax or – to give it its official title – the **Community Charge**. It was flat rate, regardless of income, paid by individuals and not on the house.

Why was this disastrous policy adopted, after so many other solutions had failed?

Concern over 'extravagance' of local authorities, many of which remained in Labour or even Militant control. Much of the cost of local 'extravagance' would fall on the central government – Thatcher was trying to reduce public spending.

Initial attempts to deal with this issue:

- block grants ended in 1980 and were replaced by expenditure targets for each local authority; concerned with unit cost of providing a service rather than formulae to calculate need.
- 1982 additional powers to withhold grants if exceeded spending limit.
- 1984 rate capping – removed autonomy to set taxes.
- continued removal of powers – this had a long history with the Unemployment Assistance Board in 1934, NHS 1948 – now right to buy council housing reduced stock and virtually ended new construction. This approach continued with the shift of polytechnics from local authorities to new universities, and many schools from LEAs to academies.

Difficulty of revaluation of rateable values: disrupted by war: handed to Inland revenue in 1948, only finalised details in 1956. Feared political backlash if revalued from previous valuations– so only to revalue houses at 1939 levels. Issue of revaluation continued to be politically difficult – delayed in 1974 at time of inflation; and a sense that local authorities were not well run or efficient. Also, clear that rates were in any case not equitable.

In 1985 opposition to reform ended. Problems arose in Scotland: revaluation there coincided with rising house prices, deindustrialisation, cuts in central government grants. Domestic rates rose by 21 per cent in 1985 – most councils were run by Labour and in conflict with Tories in London.

Concern of repeat in England when revaluation was implemented there – Labour councils threatened legal challenges to rate capping and were refusing to set rates.

The system was descending into chaos. A new approach was needed.

Poll tax had been considered earlier and rejected as regressive and difficult to administer. But took on life of its own in Conservative think-tanks as a way of rolling back the state, containing Labour local authorities which were using rates as a weapon against the centre. Thatcher saw a way of creating prudent, responsible electors and local government.

A strong motivation was the view we noted in 1867: the need for voters to realise the impact of spending. If everybody paid the same, they would not vote for expensive policies that were paid by others. It was a means of imposing fiscal responsibility.

Kenneth Baker, a leading Cabinet member, pointed out that there were 40m electors in Britain; 18m received rate demands; 4m had rebates so only 14m actually paid local taxes – even fewer in inner city areas controlled by Labour. Meant little incentive to control spending – vision of ideologues in town halls raising rates, rather than realising the serious social problems of inner cities.

To Nicholas Ridley, a poll tax was ‘a logical step towards greater local authority freedom: it should allow us to stand much further back from local government because the electors will stand much closer’.

The proposals took on its own momentum in a mood of radical innovation that rejected traditional worries–

- Cabinet largely removed from discussion, and the change was pressed by a small group of enthusiasts.
- The Treasury had other concerns, the Department of the Environment being hostile to local governments which it saw as out of control.
- Advice was woeful – lack of consideration of other countries – no OECD country had a flat rate tax.
- Labour was not effective in parliament – concerned to distance itself from Militant. A major change was made with inadequate discussion.

Adopted in Scotland in 1989, England and Wales 1990. The ideology of advocates now collided with reality.

Poll tax was regressive, seen as deeply unfair: image of a widow living alone paying the same as a household with several wage earners next door; or rich bankers in a mansion paying the same as a poorly paid manual worker in a terraced house.

It stood as a symbol of other changes made by the government – attack on unions, rising inequality.

Led to disturbances, to refusal to pay, issue of 250,00 warrants in Glasgow, and contributed to the downfall of Mrs Thatcher.

Response was the **council tax** of 1993.

New rhetoric in place of prudent taxpaying voter: the local resident as a consider of services, by contracting out and privatising services.

Went back to rates: based on property values, not a charge on individuals. Properties were valued and placed in bands A to H (the top) – this top band was properties worth more than £320,000 in 1991, all of which paid the same.

Only slightly better than poll tax. It was a regressive tax: properties in band H are worth at least eight times those in band A, but top band paid only three times the bottom band. This is more regressive than the rates.

In real terms the council tax for expensive properties in central London are still lower than rates in the late

1980s.

Back to where we started the lecture – current problems of local government finance, and cities going bankrupt.

SOLUTIONS

How to deal with current issues.

The current government has embarked on a restructuring of local government with unitary authorities and elected mayors, and calls for devolution.

Might well be necessary – but avoids the main issue of how to fund local government. The difficult problem is being avoided in preference for reorganisation in the vague hope that it will produce efficiency savings. This is not sufficient.

The situation is dire.

Properties not revalued since 1991. Low value houses are overtaxed and high value under-taxed which become more serious over time as house values rise faster in London and south-east. Paul Johnson of IFS: 'It is the only tax I can think of that is designed to be deliberately regressive'. …What you pay bears increasingly little relationship to the actual value of your house. Those living in houses worth a million bounds and more pay much less tax as a fraction of their houses' value than do those living in the cheapest houses. It's rather like charging VAT at a lower rate on Bentleys than on Fords'.

Need to address the highly regressive nature of council tax that overtaxes less valuable properties and undertaxed expensive properties. Paul Johnson: reform is 'a complete no-brainer. The numbers have become ridiculous'. Based on 1991 values, house prices in London and the south-east have grown at twice the rate of north-east. Amount paid on a property worth £75,000 is three times that on a house worth £450,000; for poorest docile, the tax is around 100 per cent of tax home pay; 2 per cent on top decile. A typical Band D property in Workington pays twice as much as in Wandsworth; a three-bed semi in Blackpool pays more than Buckingham Palace. See figures in SLIDE.

What could be done?

Mansion tax proposed by LibDems - Conference in 2012 called for 1 per cent tax on the value of a residential property in excess of £2 million 'as a first step towards wealth taxation designed to reduce inequality'. At this stage in coalition with Conservatives from 2010 to 2015 – ruled out by Conservative Chancellor.

LibDems then backed away from the idea under Nick Clegg – said in 2014 that he went off the idea, big time. 'The more I looked at it, the more I thought, "That's very crude". It leads to eye-watering amounts of tax being paid. What we should do is go with the grain of the council tax system and apply bands to higher properties.'

Adopted by Labour at its conference in 2014 but they also backed off after defeat in 2015 – Andy Burnham thought it played on the politics of envy.

LibDem manifesto of 2024 said it would support local government 'and review the burdens and costs that councils have shouldered as a result of Conservative Government policies'. Not entirely clear how.

Could at least **revalue property and add a new top band** as Clegg suggested – but this has not been done. But politicians are too scared – change would hit the better off and older generations more likely to live in expensive property.

Proposal of *Tax by* Design, the report of James Mirrlees on the tax system: replace council tax and stamp duty with a **tax proportional to the current value of domestic property**, in place of regressive council tax. Argues that housing should be taxed like other consumption – but does not pay VAT. Should tax the annual consumption as a substitute. Reform council tax by up-to-date valuation rather than 1991; proportional to values rather than regressive and banded; and replace stamp duty. See slide from IFS.

This case has been taken up by *Fairer Share*: replace council tax with a proportional property tax which has cross party endorsement. A fixed flat percentage of property value; not paid by tenants but owners who are more able to pay; and reduce collection charges. Means a revaluation at once, and then annually.

They calculated that for England, 18m households would pay less tax. It would mean that 75 percent of households would be better off; 8.7m removed from payment as shifted to landlords. Part would go to the central government in place of stamp duty. Only raise the same amount as council tax, but fairer, and reduce regional and income divides.

Return to **land value taxation** advocated by *Financial Times* which pointed out after the last general election that Rachel Reeves had the best chance since Lloyd George. Calls for an annual tax on the value of land.

- Land is fixed: unlike capital cannot be produced.
- permanent where capital is temporary.
- immobile unlike capital which can move.
- When land values rise, a firm has less capital to invest.
- low interest makes capital cheaper; but also drives up land prices as credit flows into real estate. – allow economic rent.

Mirrlees report proposed LVT in place only of business rates: not tax business buildings (taxed in profits of the business). Tax land values which do not gain through effort of the owner, pure rent.

For domestic property, tax both building and property in the proportionate tax.

John Muellbauer advocates a Green Land Value Tax. Start with revaluation and shift to a proportional property tax with a green discount for energy efficiency. At the next revaluation, separate land values from building values, and over time increase land relative to building. He points out that separate taxation of land and house has been done in Germany, parts of Pennsylvania and Australia.

Muellbauer also calls for better **land value capture**. Entails repealing the Land Value Compensation Act, 1961 which pays landowners 'hope value' for land acquired for a new town. Hope value is what undeveloped land would receive if it were sold on the open market with prospect of planning permission. He calls for reform to allow local authorities to capture part of the uplift. In Germany, local authorities fix land values at the level prior to permission which allows public bodies to secure land for infrastructure at a lower price and capture planning gain – in Britain, not done so well through section 106. Can learn from experience elsewhere.

Conclusion

Two attempted reforms failed – Lloyd George's land tax and Thatcher's poll tax. A third attempt might seem foolhardy, but the current council tax is insupportable, and local government is in financial crisis.

I suggest:

need to decide at outset **what is national and what is local**, as discussed around 1900. There has been an ad hoc shift in the boundary: does it make sense to move social care? Local governments could then concentrate on environmental services, planning, leisure, and transport.

Need to think about **tax system as a whole**, and not just local taxes. Mirrlees *Tax by Design* is a complete package of reform to create a neutral and simpler tax system. Failure to do this leads to more confusion e.g. over National Insurance contributions, different taxation of capital and income. To reform social care, that needs a rethink of national taxation. Current government is lacking in this wider vision – only happens occasionally, as with Gladstone; Lloyd George; and Howe and Thatcher.

At the very least, we need to replace council tax by a **proportional tax** which is fairer and help regional rebalance.

Much to be said for a **land value tax plus land value capture** which help with housing.

There is no lack of ideas – what is lacking is a politician with the vision of Gladstone, Lloyd George or Thatcher with the willingness to act. Change is bound to annoy some people – what has happened recently is that alienated people anyway with incoherent policies. If to alienate, do it with a purpose.

Further Reading

Fairer Share: The Proportional Property Tax Manifesto.

Torsten Bell, *Great Britain? How We Get Our Future Back*, London, 2024.

David Butler, Andrew Adonis and Tony Travers, *Failure in British Government: The Politics of the Poll Tax* Oxford, 1994.

Martin Daunton, *House and Home in the Victorian City: Working-Class Housing, 1850-1914*, London, 1983.

Martin Daunton, *Trusting Leviathan: The Politics of Taxation in Britain, 1799-1914*, Ca bridge 2001, chapter 9.

Martin Daunton, *Just Taxes: The Politics of Taxation in Britain, 1914-1979,* Cambridge, 2002.

Martin Daunton, 'Taxation and representation in the Victorian city', in *State and Market in Victorian Britain: War, Welfare and Capitalism* Woodbridge, 2008.

E P Hennock, *Fit and Proper Persons: Ideal and Reality in Nineteenth Century Urban Government*, London, 1973.

House of Commons, Housing, Communities and Local Government Committee, Land Value Capture, 10th Report of Session 2017-19, HC 766, 13 Sept. 2018.

Paul Johnson, *Follow the Money: How Much Does Britain Cost?* London, 2023.

John Muellbauer, 'Why we need a green land value tax and how to design it', in Sean Dougherty and Hyun-A Kim, eds., *Bricks, Taxes and Spending: Solutions for Housing Equity Across Levels of Government*, OECD, Paris, 2023.

OECD/Lincoln Institute of Land POlicy, *Global Compendium of Land Value Capture Policies* Paris, 2022.

Josh Ryan-Collins, Toby Lloyd and Laurie Macfarlane, *Rethinking the Economics of Land and Housing*, London, 2017.