There is no logical reason to pay for social care with local property taxes

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The strategy to localise business rates reflects the government's drive to connect local government better to its local economy. I support this drive. Too many councils in England have adopted a parochial approach to their role and have conducted themselves in isolation from the wider economies in which they are situated.

More generally, local government fails to achieve its broader purposes if it focuses only on securing cost-effective public services. Councils must also focus on improving the productive effectiveness of their local economy. A focus on services will boost overall quality of life locally. A complementary focus on the wider economy will help to boost the quality of life-chances locally. That is why linking councils' spend directly to the local revenues raised from council tax and business rates is a laudable aim.

The trouble with laudable aims is that they often crash on the rocks of harsh realities. In this instance the rocks are 1) the economic realities of local economies and 2) local government's functional service responsibilities.

The abolition of the uniform business rate multiplier, used to calculate the rates businesses should pay based on their value, is welcome. It will allow councils to offer discounts or charge more for investments, and to address the weaknesses in their economies.

This builds on existing practice. London has 37 business improvement districts that recycle small additions to local business income so as to support investment that will improve the market conditions for local businesses. Large businesses in London with a rateable value of over £55,000, or who pay more than £28,000 per year, pay an additional 2p in the £1 to finance £4.1bn of the £15.9bn being spent on the Crossrail development.

Over the next five years it is crucial that businesses contribute to their local economies through more focused business rates. That's because the Treasury anticipates that aggregate corporation tax will actually reduce over the period to just 1.9% of GDP. Unlike corporation tax, business rates are difficult to avoid paying.

Here's an example. Just off Oxford Street in London, a new development is underway in Rathbone Square. The 420,000ft^2 development comprises 142 flats, 24,000ft^2 of retail space and 230,000ft^2 of office space, all of the latter of which has been taken for the new London HQ of Facebook.

This will cost Facebook £16.9m per year in rent and they will have to pay Westminster City Council about £4m a year in business rates. The company paid less than £5,000 to the Treasury in corporation tax last year on annual sales of £105m. In short, it is easier to collect taxes from businesses on their use of property, than it is on their reported profitability.

The other harsh reality is that England contains incredible variety in its economic geography. Middlesbrough has a similar sized population to St Albans: about 140,000. Middlesbrough collects £42m in business rates; St Albans collects £63m. Middlesbrough is a unitary, in one of the ten most deprived local authority areas in England; St Albans is a district, in one of the ten least deprived areas. It is right that they should each focus on supporting business growth and improving their local economies but how can their vastly different service responsibilities be funded in the same way?

The issue as to whether local government should be funded entirely from property taxes was discussed at the LGC Summit. Clay Pearson, a city manager from Texas, explained how his council got none of its revenues from state or federal government. However, only 21% of its revenues come from property taxes, because local government in the US has many and varied sources of revenue. These varied revenue streams enable US local government to be resilient to the inevitable external economic shocks.

In virtually every other advanced nation, social care services are not the responsibility of local government. The quality standards and levels of assurance required to deliver social care requires reliability in service provision and predictability of financing. There is no intellectually respectable argument for financing child protection and adult social care from localised property taxes and yet that is where we are headed.

This is a consequence of a series of unconnected decisions. Whitehall now seems alert to this issue. There is a clear need to take the fiscal devolution agenda forward to boost the productive potential of England's second-tier cities and the large counties, but there is also a critical need to produce stable financing for acute services to those small numbers of people (about 2,000 in every population of 100,000) that require society's support and intensive help.

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